

Bank Supervision Department

Annual Report 2010

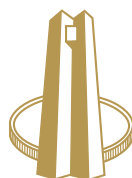


South African Reserve Bank

90th
Anniversary

Bank Supervision Department

Annual Report 2010



South African Reserve Bank

90th
Anniversary

Mission

To promote the soundness of the domestic banking system and to minimise systemic risk through the effective and efficient application of international regulatory and supervisory standards.

Business philosophy

Market principles inform all our 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 supervisory approach and our objective is to add value. 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 Bank Supervision Department and all other key players is regarded as essential and is built up through regular open communication. In our endeavours to foster a stable banking sector, we contribute to creating the foundation for sustainable growth in the economy.

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Some observations post the height of the global financial crisis

The scenario post the height of the global financial crisis remains fairly fragile, with various global sovereign and banking systems still in the midst of attempting to deal with many serious issues resulting in the perpetuation of a level of uncertainty to which most participants in the financial sector are not accustomed.

One observation that seems to carry some degree of certainty, however, is that of Richard H Clarida, Executive Vice President, Global Strategic Adviser, Pacific Investment Management Company (PIMCO), who talks about the so-called new normal. The following are a few thoughts that he put forward during 2010 in this regard:

Rules of thumb and historical correlations will likely prove to be irrelevant or misleading guides to portfolio positioning. The unthinkable has become thinkable. There is likely to be frequent flips between “risk on” and “risk off” days with repositioning likely to be more frequent and fluctuations in risk appetite being more frequent with leverage being discouraged.

William H Goss, Managing Director of PIMCO notes: “We overdid a good thing and now the financial reaper is at the door, scythe and financial bill in one hand, with the other knocking on door after door of previously unsuspecting households and sovereigns to initiate a ‘standard of living’ death sentence”. He further states that “there is a lack of global aggregate demand or perhaps an inability or unwillingness to finance it. Slow growth in the developed world, insufficiently high levels of consumption in the emerging world and seemingly low total returns on investment portfolios – bonds and stocks – lie ahead.”

Mark Gilbert of Bloomberg noted in June 2010 that the new normal turns out to be a world where scenarios move from impossible to inevitable without even pausing at improbable.

Similarly, the International Monetary Fund (IMF) notes in two of its Staff Position Note (SPN) papers on 18 May 2010 (SPN/10/08) and 3 October 2010 (SPN/10/15) that fundamental changes are required going forward.

SPN/10/08 (“The Making of Good Supervision: Learning to Say ‘NO’”) notes that, unlike in the period of the “good times”, good supervision should be intrusive (i.e., supervision is premised on an intimate knowledge of the supervised entity); sceptical (supervisors must question, even in good times, the industry’s direction or action); proactive (supervisors cannot act only after operations have gone off the rails); comprehensive (supervisors must be constantly vigilant about happenings on the edge of the regulatory perimeter to identify emerging risks that may have systemic portents and draw the proper implications for the institutions they supervise); adaptive (supervisors must be in a constant learning mode – new products, new services and new risks must be understood and responded to appropriately); and conclusive (supervisors must follow through conclusively on matters that are identified as these issues progress through the supervisory process). The note goes on to observe:

To achieve these elements, the “ability” to supervise, which requires appropriate resources, authority, organization and constructive working relationships with other agencies must be complemented by the “will” to act. Supervisors must be willing and empowered to take timely and effective action, to intrude on decision-making, to question common wisdom, and to take unpopular decisions. Developing this “will to act” is a more difficult task and requires that supervisors have a clear and unambiguous mandate, operational independence coupled with accountability, skilled staff, and a relationship with industry that avoids “regulatory capture”. These essential elements of good supervision need to be given as much attention as the regulatory reforms that are being contemplated at both national and international levels. Indeed, only if supervision is strengthened can we hope to effectively deliver on the challenging – but crucial – regulatory reform agenda. For this to happen, society must stand with supervisors as they play their role as naysayers in times of exuberance.



SPN/10/15 (“Shaping the New Financial System”) notes that financial systems and transactions became distorted along several dimensions, that is, the financial system grew highly complex, opaque, over-leveraged and heavily interconnected; liquidity risk was higher than recognised; large complex institutions enjoyed the benefits of being “too important to fail” and financial intermediation has increasingly shifted to the shadow banking sector. It further notes that, looking ahead, financial regulatory policies should aim to ensure

- financial intermediation that delivers products better geared to satisfy the needs of households and firms;
- a better-governed and more transparent financial system – in terms of corporate structures, instruments, and markets;
- institutions endowed with higher, better quality, and globally consistent capital and liquidity buffers that weigh systemic risk appropriately and discourage procyclical lending behaviour;
- institutions – even systemically important ones – that can be resolved in an effective and timely way, and with minimum cost to the taxpayer;
- a financial system that is competitive and allows for ease of entry and exit; and
- a better understanding and oversight of risks in the non-bank financial sector and greater transparency about the risks that institutions are taking and the protections they are receiving as a result – extending the regulatory perimeter to include all systemically important institutions, markets and instruments.

When all of the above is taken into account, it is abundantly apparent that all stakeholders should recognise the shift from the exuberance that existed in the period of the run-up to the global financial crisis. South Africa is not disconnected nor decoupled from the rest of the world and shareholders, together with all other stakeholders, should factor in these observations when calculating their demands and expectations of the banking sector in the future.



Contents

Chapter 1: Registrar of Banks' review	1
1.1 Introduction.....	1
1.2 High-level overview of the banking sector	1
1.3 Interaction with the International Monetary Fund during 2010	3
1.4 Developments with regard to banks' compliance with remuneration standards issued by the Financial Stability Board and the Basel Committee on Banking Supervision	9
1.5 Key international regulatory developments, recommendations and focus areas, and the Bank Supervision Department's response thereto	10
1.6 Financial Stability Institute: High-level meeting for African banking supervisors.....	17
1.7 Participation in international regulatory or supervisory forums.....	19
1.8 Participation in domestic regulatory or supervisory forums	23
1.9 Regional co-operation	25
1.10 Supervisory colleges.....	27
1.11 Skills development.....	29
1.12 Compliance with anti-money laundering and the combating of the financing of terrorism standards.....	36
1.13 Issues to receive particular attention during 2011.....	41
1.14 Expression of gratitude	41
 Chapter 2: Promoting the soundness of the banking system: Overview of supervisory activities	 43
2.1 Introduction.....	43
2.2 Flavour-of-the-year topics covered during 2010	43
2.3 Credit risk	46
2.4 Market risk.....	51
2.5 Operational risk.....	54
2.6 Pillar 2: Capital management	59
2.7 Pillar 3: Disclosure.....	61
2.8 Stress testing	63
 Chapter 3: Developments relating to banking legislation.....	 69
3.1 Introduction.....	69
3.2 The Banks Act, 1990 and Regulations relating to Banks	69
3.3 Initiatives monitored and developments considered by the Department.....	69
3.4 Proposed amendments to the Banks Act, 1990.....	71
3.5 Illegal deposit-taking	76
3.6 Update on co-operative banks.....	80
3.7 Update on Postbank	81



Chapter 4: Banking-sector overview	82
4.1 Introduction.....	82
4.2 Structural features of the banking sector.....	82
4.3 Balance sheet.....	85
4.4 Off-balance-sheet activities.....	95
4.5 Profitability	96
4.6 Capital adequacy	100
4.7 Liquidity risk.....	103
4.8 Credit risk	106
4.9 Market risk	116

Appendices

1. Organisational structure of the Bank Supervision Department	122
2. Registered banks, mutual banks and local branches of foreign banks as at 31 December 2010.....	123
3. Name changes and cancellation of registration of banks and branches of foreign banks during the period 1 January 2010 to 31 December 2010	125
4. Registered controlling companies as at 31 December 2010	126
5. Foreign banks with approved local representative offices	127
6. Selected information on South African banks.....	129
7. Circulars and guidance notes sent to banking institutions during 2010	159
8. Exemptions and exclusions from the application of the Banks Act, 1990	160
9. Approval of applications in terms of section 52 of the Banks Act, 1990 (Act No. 94 of 1990), for local banking groups to acquire or establish foreign interests for the period 1 January 2010 to 31 December 2010	161
10. Memoranda of understanding concluded between the Bank Supervision Department of the South African Reserve Bank and foreign supervisors as at 31 December 2010	163

Abbreviations	165
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Glossary	166
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Chapter 1: Registrar of Banks' review

1.1 Introduction

In many respects, global financial and banking systems stabilised during 2010 and most jurisdictions seem to be on the road to recovery, albeit not at levels similar to those prior to the global financial crisis, but rather at levels depicted by many as the “new normal”. Although the South African banking sector was not impacted by global events of the past few years to the same extent as many of its international counterparts, the spillover effects of the crisis, coupled with the cyclical downturn in the domestic economy, did impact the operating environment of the sector negatively. This was evidenced by a very moderate recovery in growth in total banking-sector assets, and in loans and advances in particular during 2010 against a backdrop of subdued economic activity and a weak property market in South Africa. Also, the banking sector's cost-to-income ratio continued to deteriorate during 2010 and the level of impaired advances remained stubbornly high, improving only slightly to 5,8 per cent of gross loans and advances at the end of December 2010 (December 2009: 5,9 per cent). Notwithstanding this difficult operating environment, banks still managed to remain profitable during 2010 with an average return on equity ratio of 15 per cent. The banking sector also remained capitalised at levels well above the minimum regulatory capital requirement throughout the year under review.

moderate recovery
in growth in total
banking-sector assets

From a regulatory framework perspective, global regulatory and supervisory standard-setting bodies such as the Group of Twenty Finance Ministers and Central Bank Governors (G-20), the Financial Stability Board (FSB) and the Basel Committee on Banking Supervision (the Basel Committee) continued to develop and put in place the reform agenda, which was crystallised at the G-20 summit held in Pittsburgh, United States (US), in 2009. The Basel Committee's bank-specific reforms, commonly referred to as “Basel III”, focus on making banks and financial systems more resilient to future periods of stress, and include the further strengthening of existing requirements in terms of the *International Convergence of Capital Measurement and Capital Standards: A Revised Framework* issued in June 2006 (Basel II) and the introduction of new global standards in respect of, among other things, minimum regulatory capital requirements, a leverage ratio, and liquidity risk management and monitoring. The Bank Supervision Department (the Department) of the South African Reserve Bank (the Bank) commenced a formal process to amend the regulatory framework in accordance with the latest internationally agreed regulatory and supervisory best practices and standards, and the Department, as a member of the Basel Committee, will continue to be actively involved in future developments and reforms, thereby promoting the safety and soundness of the domestic banking system and supporting long-term economic growth.

Basel Committee's
bank-specific reforms

Specific topics covered in this chapter include the Department's interaction with the International Monetary Fund (IMF) during 2010; developments with regard to banks' compliance with remuneration standards issued by the FSB and the Basel Committee, and key international regulatory developments, recommendations and focus areas; and the Department's response thereto. Furthermore, an overview is provided of the Bank for International Settlements' (BIS) Financial Stability Institute's (FSI) high-level meeting for African banking supervisors held in 2010; the Department's participation in international and domestic regulatory and supervisory forums; supervisory colleges attended; and regional co-operation during 2010. Finally, a high-level overview is provided of skills development-related issues; and the Department's oversight role in respect of compliance by banks with anti-money laundering (AML) and the combating of the financing of terrorism (CFT) standards is discussed.

1.2 High-level overview of the banking sector

1.2.1 Key banking-sector trends

As at the end of December 2010, 30 banking institutions reported data to the Department (excluding 2 mutual banks, but including 1 institution conducting banking business in terms of

30 banking institutions
reported data to
the Department



an exemption from the provisions of the Banks Act, 1990 (Act No. 94 of 1990) (the Banks Act, 1990), namely Ithala Limited) and 41 international banks with authorised representative offices in South Africa.

Of the nominal value of the total South African banking sector's shares in issue at the end of December 2010, foreign shareholders held 42,6 per cent, domestic shareholders 29,9 per cent and minority shareholders 27,5 per cent.

Total banking-sector assets amounted to R3 126 billion at the end of December 2010 (December 2009: R2 967 billion), representing a moderate year-on-year increase of 5,3 per cent. The four largest banks in South Africa contributed 84,6 per cent to the balance-sheet size of the total banking sector, a level similar to that recorded in 2009. Gross loans and advances, which represented, on average, 74 per cent of banking-sector assets during 2010, increased marginally by 2,5 per cent to R2 314 billion at the end of December 2010, mainly due to modest growth in homeloans and higher overnight and interbank call loan balances.

Homeloans and term loans, accounting for 35,3 per cent and 15,3 per cent respectively of gross loans and advances, remained the single largest components of gross loans and advances at the end of December 2010. Other loans, leasing and instalment debtors, and commercial mortgages represented 11 per cent, 10,5 per cent and 9,8 per cent respectively of gross loans and advances.

The composition of banking-sector liabilities, which comprised predominantly deposits (on average representing 85,8 per cent of liabilities during 2010), remained largely unchanged when compared with 2009. Banking-sector deposits on average comprised primarily fixed and notice deposits (28,4 per cent), current accounts (17,6 per cent), negotiable certificates of deposit (17,4 per cent) and call deposits (16,9 per cent) during 2010.

Corporate and retail customers were the main source of banking-sector deposits throughout 2010, and accounted for an average of 43,3 per cent and 21,3 per cent respectively of total deposits. Deposits from banks represented, on average, 13,1 per cent of banking-sector deposits in 2010. Other sources of deposits included deposits from securities firms (averaging 7,4 per cent), the public sector and local authorities (averaging 7,0 per cent), and sovereigns (averaging 3,7 per cent) during 2010.

Off-balance-sheet items expressed as a percentage of total assets increased to 27,4 per cent in December 2010, up from 13,8 per cent in January 2010, mainly due to a change in regulatory reporting of off-balance-sheet items to include the banking sector's revocable facilities.

The banking sector remained adequately capitalised at 14,9 per cent at the end of December 2010, improving from 14,1 per cent a year earlier, mainly because of an increase in primary qualifying capital and reserve funds. The sector's Tier 1 capital-adequacy ratio was 11,8 per cent as at the end of December 2010, compared with 11,1 per cent in December 2009.

The financial leverage multiple¹ of the banking sector continued to decline during 2010, amounting to 14,7 times at the end of December 2010 compared with 15,7 times in December 2009. This improvement was attributable to a higher rate of growth in equity relative to the rate of growth in total assets.

Banks remained profitable during 2010. The sector's operating profit increased year-on-year by 6,4 per cent as at December 2010. Total banking-sector return on equity was 14,7 per cent, and the return on assets approximately 1 per cent as at December 2010, utilising a 12-month moving average as a basis for calculation. Staff expenses remained the single largest cost component and accounted for 53,8 per cent of the banking sector's total operating expenses during 2010. The 12-month moving average cost-to-income ratio of the sector deteriorated during 2010 and was 56,4 per cent at the end of December 2010 compared to 51,1 per cent as at December 2009.

Statutory liquid assets held by banks during 2010 on average exceeded those required throughout 2010. The average liquid assets held by the banking sector expressed as a percentage of liquid assets required to be held increased to 174,8 per cent at the end of December 2010 (December 2009: 144,8 per cent).

1 The financial leverage multiple is calculated by dividing total assets by total equity attributable to equity holders.



banking-sector
assets amounted
to R3 126 billion

corporate and
retail customers
were the main
source of banking-
sector deposits

the banking sector
remained adequately
capitalised

banks remained
profitable during 2010

statutory liquid
assets held by
banks exceeded
those required
throughout 2010

The difficult economic conditions experienced during 2009 prevailed in 2010 and contributed to very modest loan growth being experienced by the banking sector. Banks continued to focus on proactive credit risk management processes, including in-depth reviews of industries and clients, stricter lending criteria and management of highly indebted consumers. Impaired advances expressed as a percentage of gross loans and advances decreased to 5,8 per cent at the end of December 2010 from 5,9 per cent in December 2009. The sector increased specific impairments covering impaired advances to 32,6 per cent in December 2010, compared with 29,6 per cent as at December 2009.

modest loan growth experienced by the banking sector

increased specific impairments

1.2.2 Concentration in the South African banking system

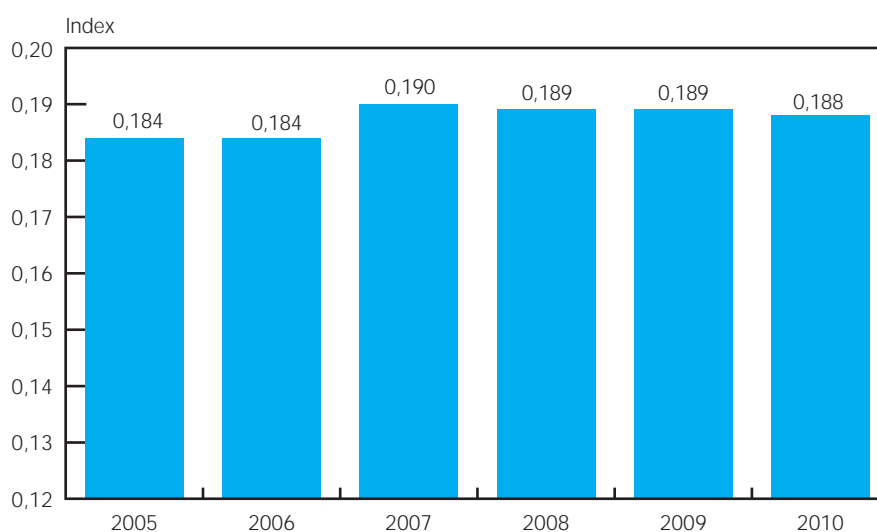
The Herfindahl–Hirschman Index (H-index) is a commonly accepted measure of market concentration in a banking system. The index is calculated by squaring the market share, in terms of total assets, of each bank in the system and subsequently summing the squares.

An H-index below 0,1 indicates that there is no concentration in an industry, while an H-index between 0,1 and 0,18 is an indication of moderate concentration. However, an H-index above 0,18 indicates a high level of concentration.

Figure 1.1 indicates the level of concentration in the South African banking sector, measured using the H-index. The index amounted to 0,188 at the end of December 2010 compared with 0,189 at the end of December 2009. The high index is attributable to the concentration of banking-sector assets among the four largest banks, which accounted for 84,6 per cent of total assets

four largest banks accounted for 84,6 per cent of total assets

Figure 1.1 Herfindahl–Hirschman Index for the South African banking system (2005–2010)



1.3 Interaction with the International Monetary Fund during 2010

1.3.1 Introduction

The IMF conducted a detailed assessment of the Department's compliance with the 25 Basel Core Principles for Effective Banking Supervision (Core Principles) in March 2010.² The related reports based on the review, namely "South Africa: Detailed assessment of compliance with

² Refer to the Basel Committee on Banking Supervision paper titled "Core principles methodology" issued in October 2006 (<http://www.bis.org/publ/bcbs130.htm>).



Basel Core Principles for Effective Banking Supervision (IMF Country Report no. 10/353)" (Country Report) and "South Africa: Report on the observance of standards and codes on banking supervision, insurance supervision and securities' regulation (IMF Country Report No. 10/352)" (ROSC) were issued on 8 December 2010.

In addition to the detailed assessment reports referred to above, the IMF also held annual bilateral discussions, in terms of Article IV of the IMF Articles of Agreement, with appropriate South African officials during May 2010. The "Staff Report for the 2010 Article IV Consultation" (Staff Report) was completed on 21 September 2010. A Public Information Notice (PIN) (No. 10/132) that summarises the views of the IMF's Executive Board as expressed during its discussion of the Staff Report concluded the 2010 Article IV Consultation. All these reports are available on the IMF's website.³

1.3.2 Assessment of compliance with the Basel Core Principles for Effective Banking Supervision

The assessors concluded that banking supervision in South Africa had been effective and had contributed towards reducing the impact of the global financial crisis on the domestic financial sector. They commended the Department on its early adoption and full implementation on 1 January 2008 of Basel II in an emerging-market environment. The assessors believed the overall implementation of the Basel II advanced approaches to be rigorous and comprehensive. They noted that the systemic risk add-on and the implementation of idiosyncratic capital buffers contributed to the strength and stability of the banking system.

The gradings attributed to the assessment are the following:

1. Fully compliant
2. Largely compliant
3. Materially non-compliant
4. Non-compliant.

The detailed assessment found that of the 30 component parts of the Core Principles the Department was fully compliant with 20, largely compliant (LC) with 7 and materially non-compliant (MNC) with 3. There were no non-compliant ratings. The three areas of the regulatory and supervisory framework rated as materially non-compliant by the assessment and that required improvement were the following:

- i. Comprehensive related-party information: The Department does not obtain comprehensive information on a regular basis on banks' aggregate exposures to related parties nor on individual related-party exposures.
- ii. Country and transfer risk: A specific regulation dealing with country and transfer risk should be drafted. Although the exposures are considered relatively small, the Department does not have a consolidated view of banks' individual country and transfer risks. Prudential returns should be expanded to include information on country and transfer risk exposures, and on related-party lending.
- iii. Strengthening of the Registrar's remedial powers: The Registrar of Banks' (the Registrar) remedial powers to address problems in banks should be strengthened. At present, the Registrar cannot appoint a curator at a bank in his sole capacity, and there are limitations on his authority to cancel or suspend a bank's licence. These constraints limit the Registrar's ability to act decisively in the case of emerging problems at a bank.

A detailed discussion of the findings relating to the LC and MNC principles is presented in Table 1.1.

³ <http://www.imf.org> .



Table 1.1: Summary of compliance with Core Principles graded as largely compliant and materially non-compliant

No.	Principle [*]	Grading ^{***}	IMF comments on finding	Department's comments on finding
1.	CP 1(3): Legal framework EC 2: The law empowers the supervisor to set prudential rules (without changing laws). The supervisor consults publicly and in a timely way on proposed changes, as appropriate.	LC	It is not the Registrar but the Minister of Finance who is responsible for setting prudential regulations. Prescribed prudential returns and instructions for their completion are included in the regulations issued by the Minister. The Registrar's formal role in this respect is limited to issuing circulars with guidelines regarding the application and interpretation of the provisions of the Banks Act, 1990 (BA section 6(4)). In practice, however, it is the Registrar who takes the initiative for changes to regulations and who prepares the drafts that are issued for consultation.	The Department's role is to administer laws and regulations, not to issue laws and regulations. The issuance of laws and regulations is the duty of an elected official (such as the Minister who is a member of Parliament). In practice, however, it is the Registrar who takes the initiative for changes to regulations and who prepares the drafts that are issued for consultation.
2.	CP 1.4: Legal powers EC 3: When, in a supervisor's judgement, a bank is not complying with laws or regulations, or it is or is likely to be engaged in unsafe or unsound practices, the supervisor has the power to <ul style="list-style-type: none"> take (and/or require a bank to take) prompt remedial action; and impose a range of sanctions (including the revocation of the banking licence). 	LC	In order to ensure that the Registrar's ability to act decisively when banks encounter serious difficulties will not be hampered, the Minister's role in supervisory remedial actions and the required consent of the bank's chief executive officer (CEO) or chairperson for the appointment of a curator needs to be reconsidered.	The Department undertakes to study the IMF comments to consider possible implications.
3.	CP 5: Major acquisitions EC 1: Laws or regulations clearly define what types and amounts (absolute and/or in relation to a bank's capital) of acquisitions and investments need prior supervisory approval. EC 2: Laws or regulations provide criteria by which to judge individual proposals.	LC	<p>The Banks Act and the Regulations relating to Banks</p> <ul style="list-style-type: none"> do not define the amounts (absolute or in relation to a bank's capital) of investments by a bank in a subsidiary that need prior supervisory approval; do not specify the criteria that the Registrar uses for approving or disapproving proposed investments in subsidiaries and joint ventures, although to some extent they are implicit in the information that has to be submitted with an application for permission for acquisitions or investments (regulation 56); and departmental circulars do not clearly indicate in which instances notification after the investment or acquisition is sufficient. Apparently, all acquisitions and investments, no matter how small, require the Registrar's prior approval. <p>The efficiency of the Department's use of resources might be increased, and the burden that supervision puts on the banks might be reduced by exempting investments and acquisitions under a certain threshold from prior approval.</p>	The Department undertakes to study the IMF comments regarding notification for investments or acquisitions to consider possible implications.



Table 1.1: Summary of compliance with Core Principles graded as largely compliant and materially non-compliant (continued)

No.	Principle*	Grading**	IMF comments on finding	Department's comments on finding
4.	CP 6: Capital adequacy EC 7: Where the supervisor permits banks to use internal assessments of risk as inputs to the calculation of regulatory capital, such assessments must adhere to rigorous qualifying standards and be subject to the approval of the supervisor. If banks do not continue to meet these qualifying standards on an ongoing basis, the supervisor may revoke its approval of the internal assessments.	LC	There is no explicit power for the Registrar to revoke the use of the advanced approaches for credit or market risk. Although the accreditation conditions point out that banks need the Registrar's prior written approval and banks are continually required to meet the advanced model user conditions, an explicit revocation power should be added to the regulation, similar to regulation 33(6) on operational risk.	The Department undertakes to address this matter in the revisions to the Regulations relating to Banks.
5.	CP 9: Problem assets, provisions and reserves Supervisors must be satisfied that banks establish and adhere to adequate policies and processes for managing problem assets and evaluating the adequacy of provisions and reserves.	LC	The Department relies, as part of its supervisory approach, on the International Financial Reporting Standards (IFRSs) provisions as audited by the external auditors and the outcomes of the external auditors' report under regulation 46(4). It is recommended that more specific qualitative guidance on the Department's requirements be provided to the external auditors and/or the banks to ensure that all the essential criteria of this Core Principle are addressed. This applies in particular to areas such as the periodical assessment of the value of risk mitigants, the periodic review of problem assets, the adequacy of organisational resources for identification, the oversight and collection of problem assets, and timely and appropriate information to the Board of Directors (the Board) on the condition of the asset portfolio. The Department should also clarify its expectations with regard to forward-looking provisioning for prudential purposes with banks and/or external auditors. More explicitly, a general allowance for credit impairment is not a clearly defined concept under IFRSs and part of it may be included in Tier 2 capital.	The Department undertakes to study the IMF comments to consider practical implementation.
6.	CP 11: Exposures to related parties In order to prevent abuses arising from exposures (both on- and off-balance sheet) to related parties and to address conflict of interest, supervisors must have in place requirements that banks extend exposures to related companies and individuals on an arm's length basis; these exposures are effectively monitored; appropriate steps are taken to control or mitigate the risks; and write-offs of such exposures are made according to standard policies and processes.	MNC	The Department does not obtain comprehensive information on banks' aggregate exposures to related parties on a regular basis. It is currently considering the inclusion of related party exposures as a separate reportable item on form BA 600 (consolidated return that already includes reporting of group large exposures). The Department also does not obtain regular information on individual related party exposures, which makes it doubtful whether it would be able to use its authority to instruct a bank to deduct such exposures from its capital effectively.	The Department undertakes to address this matter in the revisions to the Regulations relating to Banks.

Table 1.1: Summary of compliance with Core Principles graded as largely compliant and materially non-compliant (continued)

No.	Principle [*]	Grading ^{***}	IMF comments on finding	Department's comments on finding
6.	CP 11: Exposures to related parties (continued)		<p>The Department does not as yet require that transactions with related parties and the write-off of related party exposures exceeding specified amounts or otherwise that pose special risk be subject to prior approval by the bank's Board. However, it is currently in the process of proposing amendments to regulation 36(15) to include these requirements, as well as a requirement that persons benefiting from a particular exposure shall not be responsible for managing that exposure. In addition, there is no specific requirement for banks to have policies and processes to identify individual exposures to related parties.</p> <p>Prior Board approval is not yet required for a bank's transactions with related parties in excess of specified amounts. An amendment to regulation 36 incorporating such a requirement is under preparation.</p>	The Department undertakes to address this matter in the revisions to the Regulations relating to Banks.
7.	CP 12: Country and transfer risks Supervisors must be satisfied that banks have adequate policies and processes for identifying, measuring, monitoring and controlling country risk and transfer risk in their international lending and investment activities, and for maintaining adequate provisions and reserves against such risks.	MNC	<p>A regulation specifically dealing with country and transfer risk should be promulgated since these are material risks to some of the banks.</p> <p>The granularity of regional exposures on form BA 210 should be increased so that the Department is in a position to monitor country and transfer risk on an ongoing basis.</p>	<p>The Department undertakes to study the IMF comments to consider practical implementation.</p> <p>The Department undertakes to address this matter in the revisions to the Regulations relating to Banks.</p>
8.	CP 15: Operational risk Supervisors must be satisfied that banks have in place risk management policies and processes to identify, assess, monitor and control/mitigate operational risk. These policies and processes should be commensurate with the size and complexity of the bank.	LC	<p>It is recommended that the Department prioritise information technology (IT) capacity building within its specialist risk areas in order to enable it to assess fully and adequately all aspects of banks' operational risk management and thus to reduce reliance on the work carried out by external auditors on IT systems as part of their certification of the annual accounts.</p> <p>Board awareness for business continuity was raised in 2006, but the Department should clarify its requirements into a regulation so that supervisory expectations are clear.</p>	<p>The Department undertakes to study the IMF comments to consider practical implementation.</p> <p>The Department is awaiting the finalisation of the Basel Committee's paper titled "Sound Practices for the Management and Supervision of Operational Risk". Adoption of this paper into the operational risk framework should address this finding.</p>





Table 1.1: Summary of compliance with Core Principles graded as largely compliant and materially non-compliant (continued)

No.	Principle *	Grading **	IMF comments on finding	Department's comments on finding
9.	CP 21: Supervisory reporting EC 1: The supervisor has the power to require banks to submit information, on both a solo and a consolidated basis, on their financial condition, performance and risks at regular intervals. These reports provide information on such matters as on- and off-balance-sheet assets and liabilities, profit and loss, capital adequacy, liquidity, large exposures, asset concentrations (including by economic sector, geography and currency), asset quality, loan loss provisioning, related party transactions, interest rate risk and market risk.	LC	Although the range of periodic prudential returns is fairly wide, some essential information is not reported to the Department on a regular basis. This includes related party lending (refer to Principle 11) and country and transfer risk (refer to Principle 12).	Refer to the Department's comments in items 6 and 7.
10.	CP 23: Supervisors' corrective and remedial powers EC 3: The supervisor has an appropriate range of supervisory tools available for use when, in the supervisor's judgement, a bank is not complying with laws, regulations or supervisory decisions, or is engaged in unsafe or unsound practices, or when the interests of depositors are otherwise threatened. These tools include the ability to require a bank to take prompt remedial action and to impose penalties. In practice the range of tools is applied in accordance with the gravity of a situation. EC 4: The supervisor has available a broad range of possible measures to address such scenarios as described in EC 3 above and provides clear prudential objectives or sets out the actions to be taken, which may include restricting the current activities of the bank, withholding approval of new activities or acquisitions, restricting or suspending payments to shareholders or share repurchases, restricting asset transfers, barring individuals from banking, replacing or restricting the powers of managers, Board directors or controlling owners, facilitating a takeover by, or merger with, a healthier institution, providing for the interim management of the bank, and revoking or recommending the revocation of the banking licence.	MNC	The severe limitations on the Registrar's authority to cancel or suspend a bank's licence or to restrict a bank's activities (sections 23–26 of the Banks Act, 1990), in particular the delay of at least 30 days between the announcement of such measures to a bank and their actual application, call his ability to use these supervisory powers decisively, expeditiously and effectively seriously into question. The same comment applies to the Registrar's inability to appoint a curator without the consent of the CEO or the chairperson of the Board of the bank concerned.	The Department undertakes to study the IMF comments to consider practical implementation.

* To assess compliance with a core principle (CP), the Basel Committee methodology proposes a set of essential and additional assessment criteria for each core principle. The essential criteria (EC) are the only elements on which to gauge full compliance with a core principle. The additional criteria (AC) are suggested best practices for which countries that have advanced banks should aim (refer to the Basel Committee document titled Core principles methodology issued in October 2006 for further information).

** Grading scales: LC = largely compliant; MNC = materially non-compliant

1.3.3 Staff Report for the 2010 Article IV Consultation

1.3.3.1 General observations

The PIN states that the banking system had withstood the global economic crisis without major problems and had benefited from a strong supervisory framework. There was no need for public support and capital-adequacy ratios had remained above their regulatory minima throughout the crisis period. It was also observed that private-sector credit growth had turned negative following growth of around 20 per cent during the period 2005–08. It noted that there had been pronounced increases in impaired loans and advances in the banking sector with a resultant decrease in banks' profitability.

1.3.3.2 Overview of key findings

Details of the key banking-sector risks identified in the Staff Report, in addition to the above-mentioned general observations, are provided below.

- i. The IMF stated that the banking sector had remained essentially sound, although its activity had been affected by the recession. Banks remained profitable despite the increase in impaired loans to 6 per cent of gross loans and advances in January 2010 from 2 per cent two years earlier. The IMF noted that no public support was extended during the recession and capital-adequacy ratios had remained above their regulatory minima throughout the crisis period. This, in part, reflected the banking sector's moderate exposure to foreign risk and the proactive approach pursued by regulators (e.g., the Department spearheaded the early adoption of Basel II, concluded in 2008, with capitalisation requirements above those recommended by the Basel Committee). The report stated that the rise in idle capacity and the sizeable job losses resulted in a contraction in credit extended to the private sector in 2010.
- ii. It was noted that South Africa had a strong bank supervisory framework. The follow-up of the 2009 Financial Sector Assessment Program (FSAP) update recommendations identified ongoing actions by the bank and non-bank regulators to exchange information on a regular basis. These actions included regular supervisory meetings between the Financial Services Board and the Department to discuss matters relevant to the three largest banking and insurance groups. The IMF noted that there were plans to host a College of Supervisors from those African countries in which South African banks had a presence. In this regard, the Department is reviewing a paper published by the Basel Committee in October 2010, titled "Good Practice Principles on Supervisory Colleges",⁴ with a view to hosting the College of Supervisors from selected African countries in the course of 2011. The Staff Report also explained that the Department had been developing a framework for the analysis of macroprudential risks, as well as reviews of liquidity risk and liquidity simulation exercises involving the country's major banks.

banking sector's activity affected by the recession

development of a framework for the analysis of macro-prudential risks

1.4 Developments with regard to banks' compliance with remuneration standards issued by the Financial Stability Board and the Basel Committee on Banking Supervision

Compensation practices at large financial institutions are regarded as one of the factors that contributed to the financial crisis that began in 2007. In April 2008 the Financial Stability Forum, later renamed the 'Financial Stability Board', recommended that regulators and supervisors work with market participants to mitigate the risks arising from remuneration policies. In late 2008 the FSB formed a Compensation Workstream Group with a mandate to draft sound practice principles for large financial institutions.

In April 2009 the FSB issued Principles for Sound Compensation Practices as part of a call by the G-20 at the Pittsburgh Summit to set global standards as part of pay structure reforms.

Principles for Sound Compensation Practices

⁴ <http://www.bis.org/publ/bcbs177.htm>.



self-assessment questionnaire on the status of implementation of principles and standards issued by the FSB

In July 2009 the Basel Committee issued various enhancements to the Basel II framework (as discussed in more detail in section 1.5 of this report). Among other things, the enhancements contained supplementary Pillar 2 guidance pertaining to the supervisory review process. The Basel Committee refers to the Principles for Sound Compensation Practices in the supplementary Pillar 2 guidance (paragraphs 84 to 94).

As part of the Department's mission to promote the soundness of the banking system and to minimise systemic risk through the effective and efficient application of international regulatory and supervisory standards, it included in its flavour-of-the-year topics for meetings with banks' boards during 2008 a discussion on the involvement of the board remuneration subcommittee in the banks' incentive schemes.

As a follow-up to the above-mentioned discussions held with banks' boards, and in order to establish the level of compliance by banks with the principles and standards issued by the FSB in 2009, the Department requested banks to complete a self-assessment questionnaire in 2010 on the status of implementation of the principles and standards issued by the FSB. The self-assessment questionnaire required banks to indicate the current status of compliance with the principles and standards, and to disclose the actions that were planned to ensure full compliance within a reasonable period.

The results of the self-assessment indicated that banks in South Africa were duly cognisant of the importance of implementing the above-mentioned principles and standards, and had made progress towards their implementation. However, from a supervisory perspective, more work needs to be done to ensure full compliance, and it is the intention of the Department to focus on this aspect as part of the 2011 supervisory review and evaluation process (SREP).

1.5 Key international regulatory developments, recommendations and focus areas, and the Bank Supervision Department's response thereto

1.5.1 Introduction

Since the commencement of the sub-prime and financial market crisis in 2007 and the subsequent worldwide economic crisis, various international standard-setting bodies such as the G-20 Forum, the FSB and the Basel Committee have announced comprehensive initiatives and strategies, and have issued various new or amended requirements or standards in respect of a wide range of key focus areas to comprehensively address the fundamental weaknesses revealed by the international financial market and economic crisis.

In its Annual Reports of 2007, 2008 and 2009, the Department reported fully on matters such as the background to, and causes of, the crisis, and the identified weaknesses that required specific attention or correction. For example, as reported extensively in the Department's 2009 Annual Report, in July 2009 the Basel Committee issued three documents that materially impacted on the regulation and supervision of banks and banking groups, namely

- i. "Enhancements to the Basel II Framework";
- ii. "Revisions to the Basel II Market Risk Framework"; and
- iii. "Guidelines for Computing Capital for Incremental Risk in the Trading Book".

Originally, these amended internationally agreed requirements were scheduled for implementation on 1 January 2011. However, on 18 June 2010 the Basel Committee agreed and announced certain adjustments to the requirements originally issued during July 2009, including a revised co-ordinated implementation date of not later than 31 December 2011 for all elements of the July 2009 package.

the Basel Committee issued three documents that materially impacted regulation and supervision



1.5.2 Enhancements to the Basel II framework

As previously reported, the documents that deal with the enhancements to the Basel II framework include the following:

- Requirements to strengthen the treatment of certain securitisations in Pillar 1 of the Basel II framework, which deals with minimum capital requirements.
- Higher risk weights for resecuritisation exposures, often being referred to as 'collateralised debt obligations' (CDOs) of asset-backed securities (ABS), to reflect the risk inherent in these products better.
- Changes to the credit conversion factor for short-term liquidity facilities granted to certain off-balance-sheet conduits.
- Requirements for banks to conduct more rigorous credit analyses of externally rated securitisation exposures.
- Supplemental guidance under Pillar 2 of the Basel II framework, which deals with the supervisory review process. This guidance addresses the flaws in risk management practices revealed by the crisis and raises the standards for
 - bank-wide governance and risk management;
 - capturing the risk of off-balance-sheet exposures and securitisation activities;
 - managing risk concentrations; and
 - providing incentives for banks to manage risk and returns better over the long term.

The supplemental guidance under Pillar 2 of the Basel II framework also incorporates the Principles for Sound Compensation Practices, originally issued by the FSB in April 2009.

- Enhancements to Pillar 3 of the Basel II framework, which deals with market discipline or public disclosure, to strengthen disclosure requirements for securitisations, off-balance-sheet exposures and trading activities.

The additional disclosure requirements will help to reduce market uncertainties regarding, among other things, the strength of banks' balance sheets related to capital market activities.

enhancements to the
Basel II framework

additional disclosure
requirements

1.5.2.1 Enhancement of the capital framework for market risk

Since the financial market crisis began in mid-2007, many of the losses that had occurred were related to positions held in the banks' trading books. A main contributing factor was that the current capital framework for market risk, based on the 1996 Amendment to the Capital Accord to incorporate market risk, does not capture all the key risks.

In response, the Basel Committee supplemented the current value-at-risk- (VaR) based trading book framework with an incremental risk capital (IRC) requirement, which includes default risk and migration risk, for unsecuritised credit products.

For securitised products, the capital requirements of the banking book will apply with the limited exception for certain so-called correlation trading activities, where banks may be allowed, subject to the prior written approval of the Registrar and strict qualitative minimum requirements that include stress-testing requirements, to calculate a comprehensive risk capital requirement. These measures are intended to reduce the incentive for regulatory arbitrage by banks between the banking book and the trading book.

measures will reduce
the incentive for
regulatory arbitrage

(a) Stressed value-at-risk requirement

An additional response to the crisis was the introduction of a stressed VaR (sVaR) requirement. Losses in most banks' trading books during the financial crisis have been significantly higher than the minimum capital requirements under the Pillar 1 market risk rules. Therefore, the amended framework now requires banks to calculate an sVaR requirement, taking into account a one-year observation period relating to significant losses, which has to be calculated in addition to the VaR requirement based on the most recent one-year observation period. The additional sVaR requirement will also help to reduce the procyclicality of the minimum capital requirements for market risk.



changes address a number of perceived shortcomings in the current VaR framework

(b) Incremental risk capital requirement

The IRC requirement is intended to complement additional standards being applied to the VaR model framework. The changes address a number of perceived shortcomings in the current VaR framework and are incremental to the risks captured by the VaR-based calculations. Foremost is that the current VaR framework fails to adequately address credit risk underlying certain traded instruments. VaR calculations are typically based on a 99 per cent confidence interval. By contrast, the IRC represents an estimate of the default and migration risks of unsecuritised credit products over a one-year capital horizon at a 99,9 per cent confidence level, taking into account the liquidity horizons of individual positions or sets of positions. No specific approach for capturing the incremental risks is prescribed by the Basel Committee and consequently banks are expected to develop their own models to calculate the IRC for the relevant positions. Such models may be applied for regulatory capital determination with prior approval of the Registrar. Banks that do not capture the incremental default risks through an internally developed approach must use the specific risk capital charges under the standardised measurement method.

The document issued by the Basel Committee in July 2009 provides guidelines to specify the positions and risks to be covered by the incremental risk capital charge. It also contains guidance for the Department on how to evaluate banks' IRC models.

1.5.3 Strengthening global capital and liquidity standards to promote a more resilient banking sector

In its 2009 *Annual Report* the Department reported that, at its 8–9 December 2009 meeting, the Basel Committee approved for consultation a package of proposals to strengthen global capital and liquidity regulations further with a view to promoting a more resilient banking sector.

Along with the measures taken by the Basel Committee in July 2009 to strengthen the Basel II framework, additional proposals announced on 17 December 2009 contributed to the Basel Committee's comprehensive response to addressing the lessons of the crisis in what has subsequently been termed the Basel III framework.

The Basel Committee, and international regulatory and supervisory authorities, including the Department, are mindful of the need to introduce the aforementioned measures, intended to raise the resilience of the banking sector over the longer term, while avoiding negative effects on banks' lending activities that could impair the economic recovery. In this regard, the Basel Committee initiated a comprehensive impact assessment of the capital and liquidity standards proposed in the December 2009 consultative documents.

At its 10 January 2010 meeting, the Group of Central Bank Governors and Heads of Supervision (GHOS) – the oversight body of the Basel Committee – welcomed the substantial progress made by the Basel Committee in translating the GHOS's September 2009 agreements into a concrete package of measures, as elaborated in the Basel Committee's 17 December 2009 *Consultative Proposals for Strengthening the Resilience of the Banking Sector and the International Framework for Liquidity Risk Measurement, Standards and Monitoring*, and requested the Basel Committee to deliver a fully calibrated and finalised package of reforms by the end of 2010.

On 16 March 2010 the Basel Committee issued for consultation a set of principles for enhancing sound corporate governance practices in banks and banking groups. These principles address fundamental deficiencies in bank corporate governance that became apparent during the financial crisis, and include matters related to the following:

- The role of the board, which includes approving and overseeing the implementation of the bank's risk strategy, based on the bank's long-term financial interests and safety
- The board's qualifications, such as that it should have adequate knowledge and experience relevant to each of the material financial activities the bank intends to pursue, to enable effective governance and oversight of the bank

measures intended to raise the resilience of the banking sector

principles for enhancing sound corporate governance practices



- The importance of an independent risk management function, including a chief risk officer or equivalent with sufficient authority, stature, independence, resources and access to the board
- The need to identify, monitor and manage risks on an ongoing basis, based on the bank or banking group's risk management systems, and internal control infrastructure, appropriate for its external risk landscape and risk profile
- The board's active oversight of the compensation system's design and operation, including careful alignment of employee compensation with prudent risk-taking, consistent with the FSB's principles. These aforementioned principles also stress the importance of the board and senior management having a clear knowledge and understanding of the bank or banking group's operational structure and risks, which include risks arising from special-purpose entities or related structures.

principles stress the importance of boards having a clear understanding of banking groups' operational structures

The need for sound corporate governance improvements has also been observed in other financial sectors.

Subsequently, the Basel Committee concluded its work in this regard and on 4 October 2010 issued a set of principles for enhancing sound corporate governance practices at banking organisations.

On 18 March 2010 the Basel Committee issued its final *Report and Recommendations of the Cross-border Bank Resolution Group*. Based on the lessons learnt from the crisis, the report sets out ten recommendations that fall into the following three main categories:

i. Strengthening national resolution powers and their cross-border implementation

National authorities need to have powers to intervene sufficiently early, and to ensure the continuity of critical functions in banks and banking groups. The report recommends that national authorities seek convergence of national resolution tools and measures to promote the co-ordinated resolution of banks active in multiple jurisdictions.

convergence of national resolution tools and measures

The Basel Committee also recommends that supervisors work closely with their foreign counterparts and resolution authorities concerned to understand the way in which complex group structures and operations could be resolved in a crisis. One of the main lessons learnt from the crisis was that the enormous complexity of some corporate structures makes resolutions difficult, costly and unpredictable. If an institution's group structure is too complex to permit an orderly and cost-effective resolution, national authorities should consider imposing regulatory incentives, through capital or other prudential requirements, to encourage simplification of the structure.

ii. Bank-specific contingency planning

Banks, as well as key home and host authorities, should develop practical and credible plans to promote resiliency in periods of severe financial distress and to facilitate a rapid resolution should that be necessary. The plans should ensure access to relevant information in a crisis and assist the authorities' evaluation of resolution options.

The report recommends that systemically important cross-border banks and banking groups provide a plan to preserve the institution or group as a going concern, promote the resilience of key functions, or facilitate a rapid resolution or wind-down should that prove necessary.

plan to preserve the institution or group as a going concern

iii. Reducing contagion

Risk mitigation through mechanisms such as netting arrangements, collateralisation practices and the use of regulated central counterparties should be strengthened to limit the market impact of a bank failure. Recognising the wide diversity of national legal and resolution frameworks, the Basel Committee's report represents an internationally agreed set of recommendations for improving resolution.

recognising the wide diversity of national legal and resolution frameworks



On 26 July 2010 the GHOS reached broad agreement on the overall design of the Basel Committee's capital and liquidity reform package (Basel III framework). In particular, this includes the definition of capital, the treatment of counterparty credit risk, the leverage ratio and the global liquidity standard.

In reaching its broad agreement, the GHOS considered the comments received during public consultation on the Basel Committee's proposed reforms published in December 2009. The GHOS also took account of the results of the Quantitative Impact Study (QIS), the assessment of the economic impact over the period of transition, and the long-run economic benefits and costs.

On 18 August 2010 the FSB and Basel Committee published reports prepared as input into the calibration of the new bank capital and liquidity standards, and to inform the transition arrangements for implementation of the new standards.

The Basel Committee's assessment of the long-term economic impact finds that there are clear net long-term economic benefits to increasing the minimum capital and liquidity requirements from their current levels in order to raise the safety and soundness of the global banking system. The benefits of higher capital and liquidity requirements accrue from reducing the probability of financial crises and the output losses associated with such crises. The benefits substantially exceed the potential output costs for a range of higher capital and liquidity requirements.

Subsequently, the FSB and Basel Committee concluded their assessment of the macroeconomic impact of the transition to the new bank capital and liquidity standards, and published their final report on 17 December 2010.

On 12 September 2010, following its meeting in Basel, the GHOS announced a substantial strengthening of existing capital requirements and the introduction of global liquidity standards. Among other things, the strengthening of the existing capital requirements entails the following:

- An increase in the minimum common equity requirement, from 2 per cent to 4,5 per cent.
- A capital conservation buffer of 2,5 per cent to withstand future periods of stress, bringing the total common equity requirements to 7 per cent. The capital conservation buffer of 2,5 per cent, which is above the specified regulatory minimum requirement, should be met with common equity after the application of specified deductions. The purpose of the conservation buffer is to ensure that banks maintain a buffer of capital that can be used to absorb losses during periods of financial and economic stress. While banks will be allowed to draw on the buffer during such periods of stress, the closer their regulatory capital ratios approach the specified minimum requirement, the greater the constraints on discretionary distributions such as dividend payments, share buybacks and bonuses will be.

The aforementioned two requirements reinforce the stronger definition of capital agreed on by the GHOS in July 2010, and the higher capital requirements for trading, derivative, securitisation and resecuritisation activities to be implemented on 1 January 2012.

- An increase in the Tier 1 or primary capital requirement, which includes common equity and other qualifying financial instruments based on stricter criteria, from 4 per cent to 6 per cent.
- A countercyclical buffer within a range of 0 per cent to 2,5 per cent of common equity or other fully loss-absorbing capital. This capital requirement will be implemented according to national circumstances. The purpose of the countercyclical buffer is to achieve the broader macroprudential goal of protecting the banking sector from periods of excess aggregate credit growth. For any given country, this buffer will only be in effect when there is excess credit growth that would result in a system-wide build-up of risk. The countercyclical buffer, when in effect, would be introduced as an extension of the conservation buffer range.

Based on the aforesaid, and for ease of reference, a comparison between the Basel II capital framework and the newly released Basel III capital framework is set out in Table 1.2.

reports prepared as input into the calibration of the new bank capital and liquidity standards

buffer of capital that can be used to absorb losses during periods of financial stress

countercyclical buffer introduced as an extension of the conservation buffer



Table 1.2: Baseline capital structure*

Description	Basel II (per cent)	Basel III (per cent)
1. Statutory minimum required capital and reserve funds		
Core Tier 1 or common equity	2 (50% of total Tier 1) Before deductions	4,5 After deductions
Other elements or instruments qualifying as Tier 1 capital (non-core Tier 1)	2 Residual	1,5 Residual
Total Tier 1 or primary capital	4 (50% of total Pillar 1 minimum)	6
Tier 2 or secondary capital	4 (50% of total Pillar 1 minimum)	2 Residual
Total Pillar 1 required capital and reserve funds	8	8
<i>Plus:</i> Pillar 2(a) for systemic risk	Not specified	Not specified
<i>Plus:</i> Pillar 2(b) for idiosyncratic risk	Not specified	Not specified
Statutory minimum required capital and reserve funds	8	8
2. <i>Plus:</i> additional conservation buffer		
– for periods of stress (to be met with core Tier 1 capital that may be drawn during periods of stress)	–	2,5
3. <i>Plus:</i> further add-on: countercyclical buffer		
– for credit growth (national discretion: to be determined from time to time during credit cycles)	–	0 to 2,5
4. Aggregate impact: specified elements of “1” plus “2”		
Core Tier 1 or common equity after deductions	–	7 (4,5% plus 2,5%)
Total Tier 1 or primary capital after deductions	–	8,5% (6% plus 2,5%)
Total Pillar 1 after deductions	–	10,5% (8% plus 2,5%)

* Unless specifically stated otherwise, all percentages indicated in the table relate to the required amount of qualifying capital and reserve funds expressed as a percentage of the reporting entity's prescribed or specified risk-weighted exposure

The aforementioned capital requirements will be supplemented by a non-risk-based leverage ratio that will serve as a backstop to the risk-based measures. For the past few years, as part of its supervisory framework, the Department had already calculated and monitored banks' leverage multiples and ratios to monitor the potential build-up of risk.

The GHOS also agreed on transitional arrangements for the implementation of the new Basel III standards. The transitional arrangements will help to ensure that the global banking sector can meet the higher capital standards through reasonable earnings retention and capital raising, while still supporting lending to the economy. In this regard, internationally, the implementation of specific requirements related to the strengthening of existing capital requirements and the global liquidity standards will be phased in during predefined periods that will commence on 1 January 2013.

On 22 September 2010, as part of his opening remarks at the 16th International Conference of Banking Supervisors (ICBS) held in Singapore, Mr Nout Wellink, Chairperson of the Basel Committee and President of De Nederlandsche Bank, provided an overview of the international

capital requirements
supplemented by
a non-risk-based
leverage ratio



background to, and height of, the international financial crisis that required specific international reforms to be undertaken. He confirmed that the required reforms included the following:

- A comprehensive review of various international regulatory and supervisory standards
- Bank-specific reforms related to matters such as a stronger and more robust definition of capital and improved risk coverage of capital requirements, higher levels of required capital and reserve funds, the introduction of specific capital buffers and a supplemental leverage ratio, and the introduction of internationally agreed minimum liquidity standards, as part of the new Basel III framework
- Guidance for supervisors on important bank-specific initiatives, such as stress testing, valuation, corporate governance, compensation, supervisory colleges, and high-level principles for financial instruments accounting
- Broader macroprudential measures to strengthen the resilience of the entire banking system, and to address matters such as procyclicality, specified capital buffers, the role of “going concern” and “gone concern” capital instruments, interconnectedness and the perception that some banks are too big to fail.

On 19 October 2010 the Basel Committee issued a report to the G-20 that elaborated on the measures taken by the committee and its governing body, the GHOS, to respond comprehensively to the lessons learnt from the global financial and economic crisis, and to strengthen the resilience of banks and the global banking system. Among other things, the Basel Committee Report to the G-20 detailed the key elements of the committee's reform programme and the ongoing work to strengthen the resilience of banks and the global banking system, including matters related to the following:

- *Microprudential measures:* The cornerstone of the Basel Committee's reforms is stronger capital and liquidity regulation. But, at the same time, it is critical that the reforms regarding stronger capital and liquidity be accompanied by improvements in supervision, risk management and governance, and greater transparency and disclosure. Specific matters addressed as part of the micro-prudential measures include
 - capital and, in particular, the quality and level of the capital base, the increased risk coverage of the amended capital framework, the decision to raise the level of required capital and reserve funds and matters related to leverage;
 - liquidity and, in particular, the introduction of global minimum liquidity standards and a common set of monitoring metrics to assist supervisors in identifying and analysing liquidity trends;
 - matters related to corporate governance, risk management and supervision; and
 - matters related to public disclosure.
- *Macroprudential measures:* While stronger individual banks will lead to a stronger banking system, a bank-specific approach only will not be adequate to promote financial stability sufficiently. Broader measures to address, among other things, procyclicality and the strengthening of the resilience of the entire banking system are equally important. Specific matters addressed as part of the macroprudential measures include
 - procyclicality and, in particular, requirements related to capital buffers, and matters related to provisioning and fair value measurement; and
 - systemic risk and interconnectedness, including matters related to contingent capital and cross-border bank resolution.
- *The implementation of the reform measures:* An integral component of the Basel Committee's standard-setting activities is to consider the potential impact of its proposed standards carefully. In this regard, the Basel Committee's report to the G-20 also covers the work undertaken by the committee to assess the impact of the reforms, and details the transitional arrangements. Specific matters addressed as part of the implementation and reform measures include
 - an impact assessment and, in particular, matters related to the earlier comprehensive QIS undertaken to assess the impact of the reform package and the earlier macroeconomic impact assessment; and
 - the transitional arrangements for the implementation of the new standards and requirements.
- *Future work:* The Basel Committee continues to work on a range of initiatives that are important to the resilience of banks and banking groups, including timely and full

ongoing work to strengthen the resilience of banks and the global banking system

specific matters addressed as part of the implementation and reform measures



implementation and rigorous supervisory follow-up. Specific areas addressed as part of future work to be undertaken include matters related to a fundamental review of the trading book, ratings and securitisations, systemically important banks, contingent capital, large exposures, cross-border bank resolution and a review of the Core Principles.

On 16 December 2010 the Basel Committee issued the Basel III rules text, which presents the details of global regulatory standards on bank capital adequacy and liquidity agreed to by the GHOS, and endorsed by the G-20 leaders at their November 2010 Seoul summit.

The Basel Committee has put in place processes to ensure the rigorous and consistent global implementation of the updated Basel III framework. The standards will be phased in gradually so that the global banking sector can move to the higher capital and liquidity standards while supporting lending to the economy. Both the liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR) will be subject to an observation period and will include a review clause to address any unintended consequences.

processes to ensure the rigorous and consistent global implementation of the Basel III framework

As a member of the Basel Committee, the Department has been, and will continue to be, actively involved in developing reforms that not only promote the safety and soundness of the banking system, but also continue to support long-term economic growth.

In order to ensure that the regulatory framework for banks and banking groups remains relevant and current, the Department commenced a formal process to amend the regulatory framework in accordance with the latest internationally agreed regulatory and supervisory best practices and standards, as described in further detail in Chapter 3.

1.6 Financial Stability Institute: High-level meeting for African banking supervisors

The FSI of the BIS and the Department jointly hosted a high-level meeting in Cape Town, South Africa, on 28 and 29 January 2010. The meeting focused primarily on the work undertaken by the Basel Committee and the FSB following the crisis, lessons learnt from the crisis, liquidity risk management and cross-border supervision. The attendees included Mr Nout Wellink and Ms Gill Marcus, Governor of the Bank. Mr Josef Tošovský, Chairperson of the FSI, chaired the proceedings.

the meeting focused primarily on work undertaken by the Basel Committee and the FSB

Mr Tošovský's introductory remarks covered matters such as strengthening the capital framework, and proposed liquidity and leverage ratios. Mr Errol Kruger, Head of the Department and the South African Registrar of Banks, advised that the crisis offered regulators the opportunity to reassess the adequacy of regulatory and supervisory frameworks. Mr Kruger stated that it was essential for regulators globally to take appropriate steps to strengthen their respective regulatory frameworks. However, regulators should guard against overreaction, which could result in unintended negative consequences in their respective jurisdictions.

Mr Wellink provided a high-level overview of the impact of the crisis. He stated that the social contract between banks and society in general had been impaired as a result of the crisis. Banks had to be structured such that they were better able to absorb losses, he added. It was also stated that the quality of banks' Tier 1 capital had to be improved and that more attention had to be paid to leverage ratios, liquidity risk management and the compensation schemes of banks.

Ms Marcus discussed Africa in the context of global adjustments. She commented that the additional regulatory requirements could not guarantee that no banks would fail in future. Therefore, in developing and implementing additional regulatory requirements, the focus should be on creating a more robust financial system and avoiding an implosion of the system as a result of implementing over-restrictive requirements. She added that the Basel Committee should be aware of the impact of its current and future standards on African countries. She concluded by saying that regulators and other stakeholders should focus on restoring confidence in and strengthening the financial system, rather than castigating banks.



an overview of the FSB's seven current priorities

the role of fair value measurement during and post the global financial crisis

Mr Rudi Bonte, member of the Management Committee: Bank Supervision, Banking, Finance and Insurance Commission, Belgium, discussed the reduction of procyclicality of capital regulation. The measures for such reduction included more stringent risk coverage of the capital framework; raising the quality, consistency and transparency of Tier 1 capital; the introduction of a leverage ratio; and the introduction of countercyclical capital buffers.

Mr Daniel Zuberbühler, Vice Chairperson of the Swiss Financial Market Supervisory Authority, addressed the Swiss approach to the design of a leverage measure and a risk-based approach for banks. His talk focused on additional regulatory requirements introduced following the advent of the crisis, and concentrated on capital-adequacy and leverage ratio requirements for Swiss banks.

Mr Nigel Jenkinson, Adviser to the FSB, discussed the FSB's work on the assessment of vulnerabilities affecting financial systems. He also provided an overview of the seven current priorities of the FSB, which were as follows: (i) banks' capital and liquidity; (ii) compensation practices of financial institutions; (iii) over-the-counter (OTC) derivative markets; (iv) accounting standards; (v) crisis management; (vi) systemically important financial institutions; and (vii) overall implementation of issued standards.

Messrs Kruger, Geoffrey Mortlock (Senior Manager: Policy, Australian Prudential Regulation Authority) and Bradley Fried (then Chief Executive Officer: Investec Bank plc, United Kingdom (UK)) discussed liquidity risk with the emphasis on supervisory expectations versus daily management. Discussions covered the importance of liquidity risk management, the introduction of a global liquidity standard and the management of liquidity in times of crises.

Messrs Bonte, Mortlock and Paul Smith (then Group Chief Risk Officer, Standard Bank Group Limited) covered cross-border regulatory co-operation. Discussions included the management of global systemic risk, requirements for effective cross-border supervision, and enhancement of cross-border supervision and supervisory colleges.

Ms Sylvie Mathérat (Director of Financial Stability, Bank of France), Mr Gregg Tanzer (Secretary General of the International Organization of Securities Commissions) and Dr Hennie van Greuning (Independent Director of FirstRand Bank Limited) shared their views on the subject of "Valuation of Financial Instruments: International Financial Reporting Standards Versus Prudential Regulation". Discussions covered the role of fair value measurement during and post the global financial crisis, the scope of fair value measurement, and a comparison between fair value measurement and prudential regulatory requirements.

Mr Zuberbühler addressed the supervision of systemically important financial institutions. He covered the contentious subject of "Too-big-to-fail Institutions, Compensation Policies, Challenges in Cross-Border Wealth Management and the Key Role of Political Support". The topic of Mr Tanzer's paper was "Incentive Structures for Bankers: The Issue of Bonus Payments", while Ms Mathérat and Mr Yandraduth Googoolye, First Deputy Governor, Bank of Mauritius, spoke on "The Macroprudential Approach to Regulation and Supervision".

The final session included African banking supervisors who provided an overview of the current activities of supervisors in the region. Mr David Scott, Advisor: Financial Sector Operations and Policy, World Bank, discussed "Stress Testing and Simulation Exercises" and Mr Andres Portilla, Deputy Director: Regulatory Affairs, Institute of International Finance (IIF), addressed an IIF report on "Reforms in the Financial Services Industry: Strengthening Practices for a More Stable System".



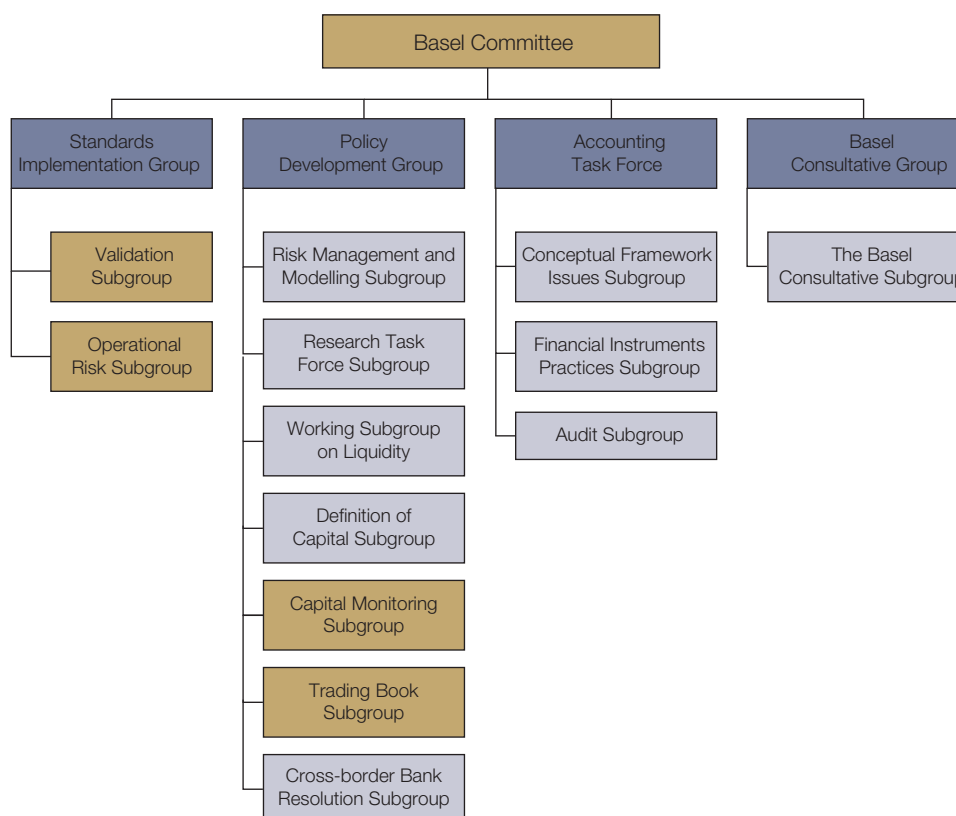
1.7 Participation in international regulatory or supervisory forums

1.7.1 Introduction

In order to keep abreast of international regulatory and supervisory developments, the Department participates in, and contributes to, various international forums. These include the G-20, the FSB and the Basel Committee and its subgroups. The Basel Committee, in particular, provides a forum for regular co-operation between member countries on banking supervisory matters, thereby enhancing their understanding of key supervisory issues and improving the quality of banking supervision across the globe. The Basel Committee is arguably best known for its international standards on capital adequacy (including Basel II and, more recently, Basel III) and the Core Principles. South Africa became a member of the Basel Committee in June 2009 and has since then continued to participate in various technical subgroups of the Basel Committee. The Basel Committee's work is organised under four main subcommittees,⁵ as depicted in Figure 1.2 below. The Department's representation is reflected in gold.

the Basel Committee's work is organised under four main subcommittees

Figure 1.2 Basel Committee on Banking Supervision: Structure of working groups



1.7.2 Standards Implementation Group: Validation Subgroup

The Standards Implementation Group Validation Subgroup (SIGV) explores issues related to the validation of systems used to generate the ratings and parameters that serve as inputs into the internal ratings-based (IRB) approaches to credit risk.

⁵ <http://www.bis.org/bcbs/>.



bank practices relating to the application of the maturity input to the risk-weighted assets formula

The Department is represented on the SIGV and during 2010 the SIGV held four meetings. Among other things, the discussions at these meetings focused on the following key items:

- The validation practices of IRB estimates among banks
- Banks' stress-testing programmes and the way in which they should be assessed during on-site visits. Different supervisors shared their experiences on ways to approach stress testing on-site visits and the common findings from such on-site reviews
- Issues encountered by supervisors when assessing loss-given-default (LGD) and exposure-at-default (EAD) estimates
- The main regulatory challenges when assessing banks' economic capital models. The common findings from such visits were also shared among supervisors.

In 2010 the SIGV initiated a project among its members to research acceptable supervisory and bank practices relating to the application of the maturity input to the risk-weighted assets (RWAs) formula for corporate, bank and sovereign exposures for banks that adopted the advanced IRB (AIRB) approach to calculate their minimum required capital and reserve funds relating to credit risk. A subgroup of the SIGV, consisting of representatives of South Africa, Australia and the UK, examined the maturity input.

The research on maturity was specifically initiated as a result of the supervisory work and guidance documents previously issued by regulators that had focused mainly on other IRB parameters such as probability of default (PD), LGD and EAD. Banks had also concentrated much of their Basel II implementation efforts on the other IRB parameters. The research addressed two issues, that is, which maturity date should be used and a review of the maturity dates allowed by various supervisory bodies as input into the RWAs formula for exposure under the AIRB, that is, the maturity date of the drawings or the maturity date when the facility expires. A questionnaire was circulated in July 2010 to 22 countries represented at SIGV meetings, to solicit their interpretation of the maturity directives contained in paragraphs 318 to 324 of the Basel II text. Views from those countries that had not yet reached an interpretation on the subject, or had not yet implemented Basel II, were also requested. Furthermore, countries were required to provide the working group with current bank practices on the maturity input.

The initial results of the research were presented at the SIGV meeting held in Rio de Janeiro in October 2010. A report on the findings was also tabled at the first SIGV meeting of 2011 for agreement by members on the content, after which the results would be escalated to the Standards Implementation Group (SIG) for notification and recommendation of further work if required.

The SIG has also requested the SIGV to commence a research project with a view to understanding the effects of the recent economic crisis on LGD estimates and it is anticipated that this proposed LGD project would be discussed in detail at upcoming SIGV meetings.

1.7.3 Standards Implementation Group: Operational Risk Subgroup

The Standards Implementation Group: Operational Risk Subgroup (SIGOR) is a permanent working group of the SIG that focuses on operational risk implementation issues, particularly the implementation of advanced measurement approaches (AMA) for operational risk. The Department is an active member of SIGOR which met three times during 2010.

The principal focus of SIGOR is the practical challenges associated with the successful development, implementation and maintenance of an operational risk framework that addresses the requirements and expectations of the Basel Committee's AMA with regard to the calculation of capital requirements in respect of operational risk. Subgroup members share identified operational risk implementation issues within their respective jurisdictions and actively participate in developing resolution plans.

SIGOR focuses on operational risk implementation issues



Another important element of SIGOR's mandate is to facilitate the resolution of issues associated with the cross-border supervision of international banking groups, especially in relation to operational risk.

1.7.3.1 Key focus areas of the Standards Implementation Group: Operational Risk Subgroup

The following were two key focus areas of SIGOR during 2010:

i. Recognition of insurance mitigation in advanced measurement approaches

SIGOR concluded work with supervisors, banks, insurance brokers and insurance providers to clarify its expectations with regard to the recognition of insurance mitigation in the AMA. The Basel Committee issued a final document in October 2010, titled "The Risk-Mitigating Impact of Insurance in Operational Risk Modelling". The paper discusses the potential benefits and shortcomings of banks' use of insurance to mitigate operational risk. The regulatory capital framework permits banks, subject to certain criteria and limitations, to use insurance to mitigate the operational risk capital charge under the AMA. The implementation of this provision has raised some challenges and technical questions. In response, the report clarifies supervisory expectations on the range of industry AMA practices, while promoting increased convergence in operational risk management.

potential benefits and shortcomings of banks' use of insurance to mitigate operational risk

The paper raises a number of key considerations and complexities in the recognition of insurance mitigation in AMAs, including concerns surrounding the quantification of a capital reduction for insurance. Particular emphasis is placed on the extent to which operational risk can be identified and transferred outside a bank through the use of insurance and the extent to which other risks (e.g., strategic, reputational and counterparty) are created as a result.

The intention of the paper is not to dispute or discourage enhancements in the use of insurance within an operational risk management framework. However, the use of insurance raises concerns that it might be relied upon as a replacement for risk management and potentially as a replacement for capital. The Department invited selected South African banks, already on AMA or targeting AMA, to participate in the informal consultative process.

ii. Performance of the current practices for calculating operational risk capital charge

SIGOR originated a work stream to review the calibration of the operational risk capital charge. Enhanced operational risk data availability enables SIGOR to study the manner in which the current practices employed for calculating the operational risk capital charge have performed since the operational risk framework's introduction in 2004. This work includes reviews of the manner in which operational risk losses and operational risk capital charges have evolved over the years. These reviews are expected to shed light on the ability of the current regulatory frameworks, that is, the basic indicator approach (BIA), the standardised approach (TSA) and the AMA, to capture the level and trend of operational risk at both the levels of individual banks and the industry as a whole. SIGOR also intends to review the relative performance of the simpler approaches of the BIA and TSA with respect to the AMA, including whether incentives exist to encourage banks to move along the spectrum of available approaches as they develop more sophisticated operational risk systems and practices.

reviews of the manner in which operational risk losses and operational risk capital charges have evolved over the years

1.7.4 Policy Development Group: Capital Monitoring Subgroup

The Basel Committee established the Capital Monitoring Subgroup (CMG) to monitor the level and cyclicity of minimum required capital (MRC) produced under the Basel II framework effectively. The CMG collects and analyses data from banks that have adopted one of the IRB approaches to credit risk and reports the results of its analysis to the Basel Committee every six months. The analysis covers areas such as MRC, capital ratios and buffers, RWAs, portfolio-level exposures,

CMG collects and analyses data



risk parameters and transitional floors. The CMG also shares experiences in monitoring capital requirements and the levels of capital on a national basis.

At present data from 95 banks across 14 countries are collected and analysed for inclusion in the CMG report submitted to the Basel Committee. These data are submitted by national supervisors via standard reporting templates based on information received from the respective banks in their jurisdictions.

The Department has participated in the CMG since its inception in 2008, and collates the required data from the relevant BA returns for the large IRB banks in South Africa before submitting them to the CMG on a confidential basis. The CMG met twice during 2010.

1.7.5 Policy Development Group: Trading Book Group

The primary objective of the Basel Committee's Policy Development Group (PDG) is to identify and review emerging supervisory issues and, where appropriate, to propose and develop policies to promote a sound banking system and high supervisory standards. The Trading Book Group (TBG), a technical subgroup of the PDG, focuses primarily on performing a fundamental review of the trading-book capital framework. South Africa was among the selected nations invited to participate in the activities of the group which held six meetings during 2010.

Two publications, namely *Revisions to the Basel II Market Risk Framework and Guidelines for Computing Capital for Incremental Risk in the Trading Book* emanated from the group's work in 2009. In the course of 2010 the group debated and introduced refinements to these documents to address issues related to stress testing of the correlation trading portfolio and a substantial list of interpretive matters. The group also contributed to the debates of other task teams in the Basel Committee, including the definition of capital, credit valuation adjustments for counterparty credit risk, the Accounting Task Force's research on valuation uncertainty, and the Working Group on Liquidity's assessment of market liquidity.

Work on the TBG's fundamental review of trading activities progressed with the development of a framework for assessing proposals to alter the market risk framework. Factors that would have to be addressed by a fundamental review were agreed on and documented comprehensively. TBG members made a number of rudimentary submissions on alternative approaches to reformulating rules for market risk and debate proceeded on the basic tenets of each suggestion. A substantial review of literature was undertaken by the Research Task Force on behalf of the TBG that provided guidance on the sophistication of banks' risk measurement practices.

1.7.6 Quantitative Impact Study Working Group

The Basel Committee established the QIS Working Group to assess the impact of amendments to the Basel II framework such as "Revisions to the Basel II Market Risk Framework", "Guidelines for Computing Capital for Incremental Risk in the Trading Book", "Enhancements to the Basel II Framework", "Strengthening the Resilience of the Banking Sector" and the "International Framework for Liquidity Risk Measurement, Standards and Monitoring".

The QIS Working Group co-ordinates the data collection exercises to assess the impact assessment across all participating countries, and provides reporting templates and instruction guidelines.

The Department again participated in this group during 2010 when a comprehensive QIS was conducted to assess the possible impact of the new Basel III framework originally proposed in December 2009. A total of 263 banks from 23 countries participated in the QIS and the Basel Committee published the detailed results in December 2010.

In South Africa a total of 7 banks participated in the exercise and data were compiled by the banks themselves and then submitted by the Department to the QIS Working Group on a confidential basis.

a fundamental review
of the trading-book
capital framework

data collection
exercises to assess
the impact across all
participating countries



The Department will continue to participate in these studies during 2011 where further studies will be conducted to monitor the impact of the new Basel III framework released in December 2010.

1.8 Participation in domestic regulatory or supervisory forums

1.8.1 Over-the-Counter Derivative Working Group

Following the G-20's Pittsburgh Summit in September 2009, the leaders called for the implementation of a number of reforms for financial markets globally. Among these were specific initiatives that the OTC derivatives industry and its regulators were required to undertake in order to improve transparency in the derivatives markets, mitigate systemic risk and protect against market abuse.

In response to this requirement, the Financial Services Board of South Africa commissioned a report on the status of the South African OTC derivatives market and on considerations that required cognisance when implementing the G-20 programme. A working group was established to draft the report with representatives of both commercial and regulatory bodies within the South African financial markets community. A senior representative of the Department was co-opted onto the working group to provide perspective on the OTC derivative activities of banks and the controls imposed on them through the Banks Act regulations. OTC contracts dominate banks' activities in which derivatives are involved.

report on the status of the South African OTC derivatives market

The principal notions proposed by the G-20 were that

- all standardised OTC derivatives contracts should be traded on exchanges or electronic trading platforms, where appropriate;
- all standardised OTC derivatives contracts should be cleared through central counterparties by the end of 2012 at the latest;
- non-centrally cleared contracts should be subject to higher capital requirements; and
- OTC derivative contracts should be recorded on trade repositories.

The working group concluded its work by issuing a report which is in the domain of the Financial Services Board. The report proposes several specific and alternative recommendations to strengthen the current regulatory framework of the South African OTC derivatives markets, with an emphasis on the G-20 measures.

1.8.2 Structural Funding and Liquidity Risk Task Team

Under the direction of the South African Minister of Finance, a financial cross-sectoral task team was established in 2010 and commissioned to consider issues relating to the lack of retail savings, the disintermediation of banks due to the increase in money-market funds and the disparate regulatory treatment of banks and money-market funds. Liquidity risk limitations on banks introduced through the LCR and NSFR detailed in the liquidity framework imposed by the Basel Committee were also to be examined.

The Department is represented on both the task team's Steering Committee and its Technical Committee. Other interest groups represented on these committees include the National Treasury (NT), the Financial Services Board, the Banking Association of South Africa (BASA), the Association for Savings and Investment SA (ASISA), and invited domestic banks and asset management firms.

the Department is represented on both the task team's Steering Committee and its Technical Committee

Work of the Technical Committee has been assigned to several work streams whose ambit of investigation includes the structural funding profile of the South African financial sector, the distribution of savings between different products, regulatory asymmetries, the business models of financial institutions as they pertain to structural funding and liquidity risk management, and the management of liquidity risk in banks as affected by the LCR specified in the Basel Committee



document *Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring*, dated December 2010.

In 2011 the Department will continue to participate in these forums and contribute towards the ongoing efforts of the various work streams.

1.8.3 Financial Sector Contingency Forum

The Financial Sector Contingency Forum (FSCF) was established after the events of 11 September 2001 to facilitate cross-sectoral co-operation in identifying risk to the stability of the financial sector and to mitigate such risk. In November 2009 the FSCF was restructured, and its various subcommittees and working groups were consolidated into two subcommittees, namely the Operational Risk Subcommittee (ORS) and the Financial Risk Subcommittee (FRS). The membership of the ORS includes representation from the banking industry. The ORS is continuing with its efforts to monitor and mitigate systemic operational risk. The membership of the FRS includes the Bank and the NT.

The FRS focuses on the identification and mitigation of financial risks and planning for a pure financial crisis. Since a crisis triggered by an operational disruption can easily mutate into a financial crisis and vice versa, cross-representation between the subcommittees ensures that efforts remain synchronised without unnecessary duplication. The FRS also engaged the services of an international consultant and reviewed the existing crisis management plan. Recommendations from the review included the expansion of the existing plan beyond the banking sector to the broader financial markets. A key element of the crisis management plan is to facilitate a quick but informed assessment of the likely impact of a shock. A working group was established to develop a framework for such an assessment, which included the NT, the Bank, the Financial Services Board and Strate (the licensed Central Securities Depository (CSD) for the electronic settlement of financial instruments in South Africa).

1.8.4 Solvency assessment and management: Insurance Groups Task Group

The Financial Services Board is in the process of developing a revised prudential regulatory regime for South African short- and long-term insurers, which will be based on the Solvency II regime being implemented by European insurers and reinsurers. It will be called the 'solvency assessment and management' (SAM) regime and its objective is to ensure that insurance regulation in South Africa complies with international best practice. The planned implementation date of the SAM regime is January 2014.

The primary purpose of the new regulatory framework is to improve the protection of policyholders and beneficiaries. Other objectives of the new framework are to

- align the capital requirements of insurers with their underlying risks;
- develop a proportionate, risk-based approach to the supervision of insurers with appropriate treatment both for small insurance companies and large, cross-border insurance groups;
- provide incentives to insurers to adopt more sophisticated risk monitoring and risk management tools; and
- help to maintain overall financial stability.

The Financial Services Board is developing the SAM regime in consultation with industry participants and other key stakeholders. Various task groups were formed to help with its development.

The Department was invited, together with industry participants and other key stakeholders, to join the SAM Insurance Groups Task Group. This provided participants with the opportunity to be part of the process from its inception and enabled all stakeholders to keep abreast of developments pertaining to the requirements of Solvency II and insurance group supervision. The Department's recent experience with the implementation of Basel II enabled it to share the lessons learnt and provide input on group supervision.

identification and mitigation of financial risks and financial crisis planning

improve the protection of policyholders and beneficiaries



1.8.5 Consolidated supervision quarterly supervisory meetings with the Financial Services Board

Sharing of information between regulators is of paramount importance and improves effective supervision of financial groups. Accordingly, in the latter part of 2009 the Department and the Financial Services Board started a process of holding quarterly supervisory meetings between the supervisory teams responsible for the South African financial conglomerate groups with significant investments in banking, insurance and securities. The meetings facilitate the sharing of relevant, appropriate and timely information. The objectives of such meetings are to

- enhance supervisory information sharing between the supervisory bodies in an effort to eliminate any gaps that might exist in the supervision of conglomerate groups;
- discuss issues that may pose a risk to the financial stability of each banking group;
- identify any regulatory arbitrage that might exist; and
- foster close working relations between the supervisory teams responsible for each conglomerate group.

The financial groups that were identified were those where the Department or the Financial Services Board was responsible for consolidated supervision in the capacity as lead supervisor. Each financial group is discussed in detail during the separate meetings.

The Department and the Financial Services Board developed and agreed on a standard agenda that covers various quantitative and qualitative issues such as corporate governance, management structures, risk management, compliance, control environment and regulatory concerns, group structures, and systemic and contagion risk.

The meetings have led to the Department and Financial Services Board gaining a better understanding of the respective institutions' supervisory frameworks and the risks that banking, insurance and securities groups are facing, and have also created a platform to

- discuss material issues of mutual interest and concern;
- communicate emerging issues and developments of a material and potentially adverse nature;
- establish and maintain contact between the two offices; and
- establish a climate of co-operation and trust.

The process outlined above has significantly contributed to a heightened awareness and more effective application of consolidated supervision of conglomerate groups in South Africa.

meetings facilitate the sharing of relevant, appropriate and timely information

more effective application of consolidated supervision

1.9 Regional co-operation

1.9.1 Southern African Development Community Sub-committee of Banking Supervisors

The Department maintained its participation on the Southern African Development Community (SADC) Sub-committee of Banking Supervisors (SSBS) during the year under review. The Seychelles joined the SADC group, which brings the membership of the group to 14 countries. The following key focus areas for the SADC region continued to be addressed:

- The effective implementation of the Core Principles
- Training of supervisors and the effective implementation and ongoing enhancement of risk-based supervision
- The effective implementation and ongoing review of AML and CFT measures
- Implementation of International Accounting Standards (IASs)
- Harmonisation of banking supervision and legal and regulatory reforms.

The following training initiatives identified by the SADC during 2009 were successfully completed during 2010:

- The IMF assisted with the training of two financial soundness indicator courses held in Mauritius and Tunisia respectively
- The FSI assisted with a risk-based supervision course in Mauritius.

key focus areas for the SADC region



A working group of the SSBS was established in 2010 to draft central banking model law, which was completed at the end of December 2010. Member countries will debate the document further in 2011.

Some member countries have made limited progress with regard to compliance with the Core Principles. The Department distributed a self-assessment template to all member countries but only a few countries have completed the exercise; the main constraint identified being the lack of dedicated resources.

SADC was relatively unscathed by the international financial crisis but the second-round effects of the crisis affected the economies of these countries. Major international regulatory reforms initiated by the Basel Committee, and the issuance of a global regulatory framework for more resilient banks and banking systems (Basel III) issued in December 2010, will have an impact on SADC countries. A training intervention on regulatory reforms, assisted by the FSI, will be held in 2011.

1.9.2 Macroeconomic and Financial Management Institute of Eastern and Southern Africa: Regional Workshop on Consolidated Supervision

the workshop covered most of the important aspects of consolidated supervision

A representative of the Department was requested to make a presentation at a five-day workshop hosted by the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) in Windhoek, Namibia, during September 2010. The workshop was attended by 31 participants from all the MEFMI member countries and covered most of the important aspects of consolidated supervision.

Member states of the MEFMI include Angola, Botswana, Kenya, Malawi, Mozambique, Swaziland, Lesotho, Zimbabwe, Namibia, Tanzania, Rwanda, Zambia and Uganda.

The objective of the workshop was to provide participants with a comprehensive view of the consolidated supervision framework, including accounting consolidation and the supervision of large domestic and cross-border financial groups.

The topics covered by the Department's representative included the following:

- Capital adequacy on a conglomerate-wide basis
- Practical exercise: Assessing capital adequacy in financial conglomerates
- Regulatory framework for financial conglomerates
- Cross-sector and cross-border co-operation and information sharing.

Active participation in all the discussions led to the success of the workshop. Workshops of this nature will contribute to the implementation of consolidated supervision by MEFMI member countries in the region. MEFMI expressed its sincere appreciation to the Department for its involvement in, and support of, the above-mentioned programme.

1.9.3 Professional attachment of an official from the Central Bank of Zimbabwe

practical experience in analysing banking groups on a consolidated basis

In the latter part of 2010 the Department received a request from MEFMI for a representative of the Central Bank of Zimbabwe to be attached to the Department to gain practical experience in analysing banking groups on a consolidated basis. An intensive two-week programme was prepared covering all the aspects related to consolidated supervision.

The representative concerned, who is also a MEFMI graduate fellow, was experienced in consolidated supervision. Before being assigned to the Department he had prepared a technical paper, in partial fulfilment of the MEFMI Fellowship Programme, called: "Recommendations



on the Practical Implementation of Consolidated Supervision in MEFMI Countries”. The paper discusses some of the practical challenges involved in the supervision of a conglomerate, mixed-activity group or banking group. It also contains recommendations on ways in which MEFMI country supervisors could oversee such banks on a consolidated basis in accordance with international best practice.

The Department viewed its involvement in accommodating the representative as an opportunity to assist in promoting consolidated supervision in the region and, in turn, he experienced the training provided by the Department as invaluable.

1.9.4 Professional attachment of an official from the Central Bank of Kenya

Through its support for the development of appropriate regulatory practices, the IMF requested assistance from the Department with the implementation of regulations for market risk in Kenya. In 2009 the IMF arranged a mission to the Central Bank of Kenya (CBK) structured around a workshop for members of staff of the Bank Supervision Department of the CBK, which was attended by a member of the Department in the capacity of presenter or subject expert. In order to sustain the momentum and relationship, a follow-up mission took place in South Africa.

the Department provided assistance with the implementation of regulations for market risk in Kenya

During January 2010 a senior manager in the on-site supervision team from the CBK was seconded to the Department for a two-week period. The objectives of the secondment included both interactive refinement of the proposed regulations for market risk and training in market risk supervision, of which the CBK had previously had no experience.

Training took the form of regular analysis of banks’ market risk returns, theoretical instruction in market risk and its origins, and participation in two quarterly on-site market risk meetings with banks. The visit also included an overview of the Department’s mission, operations, structure and principles, which provided a perspective on the supervision of market risk as conducted by the Department. While the secondment proved fruitful for the CBK, the Department regards the strengthening of an ongoing relationship with regulators on the continent as a vital outcome.

1.10 Supervisory colleges

1.10.1 Introduction

The G-20 raised the importance of supervisory colleges in supporting the effective supervisory oversight of international banking groups in the aftermath of the global financial market crisis and, in this regard, the Basel Committee issued a paper titled “Good Practice Principles on Supervisory Colleges” in October 2010⁶ which expands on principles previously published by the committee. The paper outlines good practices in colleges and provides some enhanced principles that could be used as a basis for further improving the operation of supervisory colleges. The Department regards supervisory colleges as an important component of the effective supervision of large, systemically important banks in South Africa and internationally active banking groups, and is of the opinion that they assist both home and host supervisors in the performance of their supervisory duties in respect of such groups. The Department uses supervisory colleges at a domestic and international level as a key tool in its supervisory review and assessment processes. In this regard, and similar to previous years, the Department held regular meetings with the Financial Services Board to discuss the cross-sectoral operations of the large systemically important banks in South Africa and it is planning a supervisory college, at international level, in respect of one of the largest internationally active South African banks. Furthermore, in 2010 the Department was invited to participate at two supervisory colleges arranged by international regulatory bodies, as detailed in the sections that follow.

supervisory colleges regarded as an important component of effective supervision of systemically important banks

6 <http://www.bis.org/publ/bcbs177.htm>.



1.10.2 Hongkong Shanghai Banking Corporation Limited and HSBC Group Asia Regional College of Supervisors (Hong Kong)

The UK's Financial Services Authority (FSA) and the Hong Kong Monetary Authority (HKMA), in their roles as consolidated supervisors for the Hongkong Shanghai Banking Corporation Limited (HSBC) Group and HSBC respectively, invited departmental representatives to attend the HSBC Asia Regional College of Supervisors at the offices of HKMA in Hong Kong from 5 to 6 July 2010.

One of the principal aims of this college was to facilitate discussion between participants so as to build a deeper common understanding of the risk assessments undertaken by various supervisory authorities.

The HKMA and the FSA presented their supervisory assessment of HSBC, the HSBC regional strategy and key supervisory issues. They provided information on group and regional strategy. Thereafter, representatives of Australia, China, Indonesia, Malaysia and Singapore, where the HSBC group has material operations, also presented their assessment of HSBC's activities for which they are responsible.

This very successful college contributed to a better understanding between supervisors of the extent of supervision in their respective jurisdictions, the risks the HSBC group is facing and the type of business that is conducted in the different jurisdictions. Host supervisors have specific knowledge of the banking conditions in their jurisdictions that is invaluable to a home supervisor's overall supervisory assessment of a banking group.

1.10.3 College of Supervisors Bank of China (Beijing, China)

The Department participated in a Bank of China (BOC) supervisory college that had been arranged and hosted by the China Banking Regulatory Commission (CBRC) in Beijing from 9 to 10 September 2010. Representatives of 22 countries in which the BOC has operations attended the college.

Delegates were welcomed to the college by Mr Liu Mingkang, Chairperson of CBRC, and the college then commenced with a presentation by the CBRC Vice Chairperson, Mr Jiang Dingzhi. He sketched the People's Republic of China's macroeconomic situation and developments in the banking industry, and in China's banking supervision and regulatory system.

As regards the macroeconomy, he highlighted the rapid, but stable, economic growth with the gross domestic product (GDP) growth rate being 11,1 per cent for the first six months of 2010, while the consumer price index and producer price index were at levels of 2,9 per cent and 6,4 per cent respectively. As regards developments in the banking industry, he highlighted the following improvements in banking-sector statistics that had occurred following banking reforms that had been introduced in 2003:

- The sector average capital-adequacy ratios had improved from 2,1 per cent in 2003 to 11,3 per cent in 2009, while non-performing loans expressed as a percentage of outstanding loans had reduced from 16,8 per cent in 2003 to 1,8 per cent in 2009.
- The sector had produced an average return on assets of 1,1 per cent in 2009.
- Total banking-sector assets as at June 2010 stood at 87,2 trillion yuan, equating to R98,5 trillion at the then prevailing exchange rate.

As regards bank regulation, he advised that the CBRC, which had been established in 2003, followed global best practice in supervision. It had introduced regulatory requirements, focused on sound corporate governance and was enhancing co-operation domestically and

college contributed to a better understanding of the extent of supervision



internationally with other regulators. It was also implementing macroprudential supervision. Mr Yang Jiakai, the CBRC's Director-General of Banking Supervision Department 1, gave a presentation covering the following topics:

- The supervisory framework of BOC
- Institutional overview of BOC
- BOC's risk assessment
- Regulatory practice in respect of BOC.

He started by explaining the supervisory framework applied to BOC at head office, local and group levels. He proceeded to explain that BOC was the fourth largest bank in China, and that of all the Chinese banks it had the broadest network of overseas operations and the most diversified business operations. Domestically, BOC had 10 024 branches serving 1,45 million corporate clients and 125 million individual customers.

With respect to BOC's risk assessment, he commented on its capital, provisions, asset quality and liquidity ratios. He gave a detailed explanation of the CBRC supervisory indicators, namely dealing with capital adequacy, risk concentration, provisioning coverage, asset quality, affiliated institutions, liquidity and swindle prevention and control (called 'CARPALS'). He also explained the objectives of CBRC's supervisory philosophy applied to BOC that included protecting depositors and consumers, maintaining market confidence, increasing public knowledge about modern financial products, reducing bank-related crimes and improving skills in the conduct of risk-based supervision.

detailed explanation
of the CBRC
supervisory indicators

Mr Xiao Gang, the BOC Chairperson, gave a brief overview of BOC, which had 10 996 branches and a staff complement of 261 470 globally, setting out details of its business units, history since its founding in 1912, corporate governance, risk management framework and its historical financial performance.

Brief presentations were then made by the attending host regulators on the branch and subsidiary operations operating in their jurisdictions, encompassing a brief overview of activities covered by each operation, its size and financial performance, risk assessment, and supervisory interactions that had taken place.

The college concluded with a discussion of the mechanisms and suggestions for future CBRC supervisory colleges.

1.11 Skills development

1.11.1 Introduction

The Department spent R1 086 515,00 on the training of approximately 103 staff members during 2010. The training interventions covered technical and behavioural competencies, and consisted of seminars, workshops and courses. Similar to the previous year, the main purpose of the training interventions during 2010 was to ensure that staff members

- could implement sound supervisory standards and practices;
- were equipped with sector-specific knowledge and skills;
- were kept updated on the latest information on market products, practices and techniques;
- could perform their supervisory tasks efficiently and effectively; and
- continually enhance their personal and "softer" skills.

the Department spent
R1 086 515,00
on training

1.11.2 Key training interventions

Tables 1.3 and 1.4 list the training interventions staff members attended during the review period. A brief description of the important training interventions is also furnished.



Table 1.3 Key local training interventions

Training intervention	Date
Induction programmes (for new staff)	13–14 January 2010 23 February 2010 21 April 2010 8 June 2010
Foundation courses (for new staff)	15–19 January 2010 24–26 February 2010 22–26 April 2010 9–10 June 2010
South African Institute of Chartered Accountant update seminars	4 February 2010 11 February 2010 17 March 2010 30 April 2010 10 May 2010 2 August 2010 27 August 2010 11–12 October 2010 18 November 2010 22 November 2010
Futures, options and structured products updates seminar	20–21 January 2010
Basel Core Principles workshops	17, 18, 19, 22 February 2010 11–12 March 2010 16–18 March 2010
Analysis workshops	1 March 2010 21 May 2010 7 September 2010 5 November 2010
Operational risk presentation	5 March 2010
Notarial practice course	19–20 April 2010
Event architecture course	9–10 June 2010
Counterparty and credit risk seminar	2–3 August 2010
Basel III presentation	6 August 2010
Corporate governance seminar	13 August 2010
Internal audit conference	16–18 August 2010
Gartner symposium	30 August – 1 September 2010
Time series econometrics course	14 September 2010
Introduction to derivatives course	21–22 October 2010
Financial stability seminar	8–12 November 2011
Monitoring economic indicators course	15–19 November 2010
Asset and liability management simulation seminar	24–26 November 2010
Compliance Institute monitoring course	8–9 December 2010
Visual Basic course	13–14 April 2010
Stepping into leadership course	4–6 August 2010
Information security awareness presentation	11 August 2010
Senior manager development programme	6–10 September 2010
Seven habits of highly effective office professionals seminar	12–14 September 2010
Development of leadership and team skills	14–17 September 2010
Presentation skills course	22 September 2010
Situational leadership course	5 October 2010



Table 1.4 Key international training interventions

Training intervention	Date
Financial Stability Institute international accounting and auditing for banks seminar (Basel, Switzerland)	16–18 February 2010
Financial soundness indicators course (Tunis, Tunisia)	15–26 March 2010
New York Federal Reserve Bank supervision course (New York, US)	10–14 May 2010
World Bank overview of financial-sector issues and analysis seminar (Washington, US)	17–21 May 2010
Workshop on systemic risk and financial regulations (Basel, Switzerland)	18–26 May 2010
Monetary Authority of Singapore (MAS) banking supervision training programme (Singapore)	29 May – 4 June 2010
World Bank/US Federal Reserve/International Monetary Fund 10th annual seminar (Washington, US)	2–4 June 2010
FSI 27th international banking supervision seminar (Beatenberg, Switzerland)	8–13 August 2010
DFID Course on financial soundness indicators (Port Louis, Mauritius)	23–25 August 2010
Seminar on corporate governance reforms (Basel, Switzerland)	11–13 October 2010
Liquidity risk management course (London, UK)	8–12 November 2010

1.11.3 Local training interventions

1.11.3.1 Foundation courses

The Department continued to present a foundation course to all graduate staff members who joined the Department and four courses were presented in 2010. During the year, the foundation course was reviewed. Based on the findings, an enhanced orientation and training programme was developed which consists of four core modules:

- i. Basic induction course
- ii. Foundation course
- iii. Intermediate course
- iv. Advanced course.

The orientation and training programme, developed in conjunction with the South African Reserve Bank College (SARB College), will commence in 2011.

The Department also makes use of FSI Connect, an online information and learning resource for global banking supervisors.

an online information and learning resource for global banking supervisors

1.11.3.2 Basel Core Principles for Effective Banking Supervision workshops

Four three-day workshops were held to familiarise staff members with the Core Principles and their application by the Department. The following areas were covered:

- The background to the Core Principles
- The objectives and content of the Core Principles
- Cross-referencing the Core Principles to the Banks Act, 1990 and the Regulations relating to Banks
- Cross-referencing the Core Principles to the Department's SREP Manual
- The Department's compliance with the Core Principles.

1.11.3.3 Analysis workshops

During the year under review, four one-day workshops on the analyses of the trend graphs produced from the data submitted by banks in terms of the Regulations relating to Banks were held. The key aspects covered during the workshop included the following:



- The purpose and interpretation of the trend graphs
- The actual or potential impact of the economy on the operations of banks and their risk management practices
- Matters of concern highlighted by the trend graphs.

1.11.3.4 Programme for the Development of Leadership and Team Skills

During September 2010, the Programme for the Development of Leadership and Team Skills (POLs) was presented at Stellenbosch University Business School Executive Development Limited. Candidates from the Department attended the four-day contact session held in Bellville, Western Cape. The course took the form of presentations by facilitators, various syndicate and class discussions, self-study and post-programme application of learning, and was aimed at providing attendants with the opportunity to develop knowledge of, and insight into, individuals' behaviour and the functioning of effective task-orientated working groups and intergroup activities in the workplace, which would ultimately add to the core business process of an organisation.

effective task-orientated working groups

1.11.3.5 Seminar on financial stability

In November 2010 various representatives of the Department attended a seminar on financial stability that was hosted by the SARB College and presented by Dr Dale Gray from the IMF.

A wide range of topics that impacted on the Department's work was covered during the seminar, including lessons from the financial and economic crisis, and various matters related to the following:

- The interrelationships between financial stability, monetary policy and fiscal and debt policy
- Macroprudential policy, instruments and frameworks
- Systemic risk models
- Financial, corporate and sovereign risk analysis
- Stress testing
- Volatility
- Transmission of risk during distress
- Financial instruments, including credit derivative instruments
- Interest rates, yield curves and credit spreads
- Options and option pricing
- Equity values
- Default risk
- Leverage
- Risk-adjusted balance sheets and contingent claims analysis
- Extracting market prices and information
- Ratio analysis.

1.11.4 International training interventions

1.11.4.1 Monetary Authority of Singapore Banking Supervisors Training Programme

Two representatives of the Department were afforded the opportunity to attend the Monetary Authority of Singapore (MAS) Banking Supervisors Training Programme, held in Singapore from 31 May to 4 June 2010. The programme was developed in response to requests from various central banks and regulatory agencies, and consisted of supervisory training modules that MAS had developed for the training of its staff.

The training programme participants included supervisors from China, Malaysia, Bahrain, Brunei Darussalam, Cambodia, India, Indonesia, Kazakhstan, Kuwait, Laos, Mauritius, Nepal, Philippines, Qatar, Saudi Arabia, Singapore, Sri Lanka and Thailand.

supervisory training modules developed by MAS



The following key topics were covered during the training:

- Introduction to MAS and the Singapore financial services sector
- Objectives and principles in financial supervision
- MAS financial and macro-surveillance
- Mapping of the Core Principles
- Overview of the banking regulatory framework
- Capital-adequacy framework for Singapore-incorporated banks
- Singapore Banking Act and notices
- AML and CFT
- Corporate governance
- Integrated supervision
- MAS framework for the impact and risk assessment of financial institutions
- Risk-focused supervision
- Credit derivatives
- Securitisation and CDOs
- Causes and impact of the sub-prime crisis and lessons for regulators
- Case studies on Barings Bank, Allied Irish Bank, National Australia Bank and Daiwa Bank.

The programme afforded the Department's representatives the opportunity not only to receive training, but also to network with, and learn from, supervisors of the various countries represented. Furthermore, it offered them the opportunity to gain a better understanding of the functioning of the MAS, which differs in many instances from the South African model.

The most significant differences were embedded in economic policy and mandate. The interest rate mechanism is not used to manage inflation in Singapore. Most goods and services in Singapore are imported and, as a result, inflation was seen as an external factor. Consequently, Singapore focused on maintaining a strong exchange rate to offset the effects of any external inflation.

The other major difference was found in the mandate of the supervisory authority. South Africa has a supervisory authority with the sole mandate over banks, whereas insurance entities and other related financial services companies are supervised by other financial services supervisory authorities. Singapore, conversely, has adopted an integrated supervisory approach. As regards banking supervisory methodologies, it was apparent that South Africa was on a par with the MAS.

difference in
the mandate of
supervisory authority

1.11.4.2 Specialised course in bank supervision (New York, United States)

In May 2010 a representative of the Department attended a specialised course in bank supervision, which was hosted by the Federal Reserve Bank of New York. The topics covered broadly encompassed banking supervision as a whole, including the following:

- Lessons learnt from the financial crisis
- Risk-based supervision
- Guidance for an effective AML programme
- Internal controls
- External and internal audit
- Stress testing and scenario analysis
- Supervision of large complex banking groups
- Corporate governance.

The presenters were examiners and specialists from the Federal Reserve Bank of New York. The course was attended by participants from more than 40 different countries. Such intervention provides invaluable input into the benchmarking of the bank supervision practices applied by the Department.

1.11.4.3 Financial Stability Institute seminar on international accounting and auditing for banks (Basel, Switzerland)

The FSI hosted a seminar on international accounting and auditing for banks and the recent financial crisis in Basel from 16 to 18 February 2010. The seminar was attended by

50 participants from 45 countries. Presenters included representatives of the International Accounting Standards Board (IASB), the International Auditing and Assurance Standards Board (IAASB), global banking organisations, the FSB and other supervisory bodies. A selection of the topics discussed during the seminar included the following:

- The role of accounting and auditing in the global financial crisis, and recommendations for reform
- The replacement of IAS 39: Financial instruments – Recognition and measurement
- An overview of IFRS 9: Financial instruments – Classification and measurement of financial assets
- The IASB exposure drafts relating to amortised cost, impairment and fair value measurement
- A banker's perspective on expected loss accounting in practice
- A summary of the financial statement presentation project.

1.11.4.4 Overview of financial-sector issues and analysis conference (Washington, United States)

The World Bank invited the Department to nominate a representative to attend a conference: "Overview of Financial-Sector Issues and Analysis: The Financial Sector after the 2007–08 Crisis" held from 17 to 21 May 2010. The presenters were from international financial institutions, the Basel Committee, regulatory authorities and the private sector. The key topics covered included the following:

- Origins and reach of the financial crisis
- Policy lessons from the crisis
- Risk management in banks after the crisis
- The future of financial regulation
- Crisis management
- Stress testing in banks
- Bank-resolution frameworks
- Capital market developments after the crisis
- Access to finance and microfinance.

1.11.4.5 Financial soundness indicators course (Tunisia and Mauritius)

In March and August 2010 the IMF organised courses on financial soundness indicators in Tunisia and Mauritius respectively. These courses, presented by the IMF's Statistics Department, were intended for central bank officials and supervisory agencies for the financial sector who are involved in the collection, compilation and analysis of financial soundness indicators.

The financial soundness indicators are analytical tools that were developed by the IMF, together with the international community, with a view to supporting macroprudential analysis, and assessing the strengths and vulnerabilities of financial systems. It is incumbent on IMF member countries to compile, monitor and submit the indicators to the IMF regularly.

The courses covered concepts and definitions, data sources, and fundamental aspects of the methodology such as coverage, aggregation, consolidation and valuation for the compilation of financial soundness indicators, as contained in the *FSI Compilation Guide*. Participants were introduced to a new financial soundness indicator template for use in the regular reporting of financial soundness indicator data and metadata to the IMF, and were afforded an opportunity to take part in the practical compilation of the financial soundness indicators using the *FSI Compilation Guide* as a reference tool. Apart from this, participants also received an opportunity to interact and share their country's experiences on the compilation and dissemination of financial soundness indicators.

The following outcomes were observed at the end of the courses:

- *Financial soundness indicator concepts and definitions*: Increased level of comprehension of the financial soundness indicators and their importance for financial-sector surveillance.
- *Compilation of financial soundness indicators*: More insight was gained into data requirements, aggregation and consolidation basis for successful financial soundness indicator compilation.

analytical tools to support macroprudential analysis



- *Financial soundness indicator template*: Practical exercises enhanced the level of understanding of the format and structure of the template in which the compiled data are submitted to the IMF.
- *Financial soundness indicator Compilation Guide*: increased level of understanding and usefulness of the guide in the compilation process.

1.11.4.6 Seminar on Corporate Governance Reforms (Basel, Switzerland)

The FSI invited a representative of the Department to participate in its seminar on “Corporate Governance Reforms” held in Basel from 11 to 13 October 2010.

Presenters at the seminar included senior executives, advisers or representatives of the following organisations:

- FSI of the BIS
- Organisation for Economic Co-operation and Development (OECD)
- FSB
- Basel Committee
- Leading regulatory and supervisory authorities
- Large international banks
- Institutional investors
- Auditors of banks.

Various matters related to corporate governance were presented and discussed during the seminar, including the following:

- The global financial crisis: Supervisory lessons on corporate governance and the future of financial regulation
- Emerging sound corporate governance practices in response to the crisis
- The Basel Committee's Revised Principles for Strengthening Corporate Governance
- Enhancing the role of the board: The South African Reserve Bank experience
- The approved persons regime: Significant influence function review in the UK
- A roundtable discussion: Sharing experiences on enhancing the role of boards and senior management in banks
- Standard setters work on compensation principles and standards
- Strengthening governance and remuneration practices: Example from Switzerland
- A roundtable discussion: Sharing experiences on improving compensation practices, effectively aligning incentives and promoting sounder banking practices
- The investors' perspective on corporate governance
- The role of internal audit in promoting sound corporate governance: Barclays Bank perspective
- The compliance function in banks: Deutsche Bank experience
- The governance of risk management: Banco Santander work
- External audit work and banking supervisory expectations
- A roundtable discussion: Sharing experiences on promoting sounder practices on auditing, compliance and the governance of risk management at banks.

various matters related to corporate governance were presented and discussed

1.11.4.7 Liquidity risk management course (London)

In November 2010 a representative of the Department attended a liquidity risk management course that was presented by Euromoney Financial Training in the UK. The intensive course was structured to provide participants with practical skills and knowledge with regard to the measurement and management of liquidity risk. The training course was specifically aimed at professionals involved in areas such as risk management, auditing and supervision. The course content was highly relevant in view of the increased focus by international regulatory and standard-setting bodies such as the Basel Committee and the G-20 on setting liquidity risk standards at a global level. The training course covered the following key topics:

- An introduction to the different types and sources of liquidity risk
- A high-level overview of the financial crisis during the period 2007 to 2009 and the key lessons learnt
- The building blocks of pricing liquidity risk measurement, such as cash-flow analysis, behavioural adjustments, market risk adjustments and credit risk adjustments

practical skills and knowledge with regard to the measurement and management of liquidity risk



- Liquidity risk metrics, with a focus on various product cases such as securitisation products, derivatives and deposits
- The measurement of liquid assets, also linking central bank collateral eligibility
- Liquidity risk stress testing (based on relevant case studies), covering issues such as firm-specific and systemic stress tests and the challenges related to stress testing
- Liquidity pricing, with a specific focus on the fundamentals of a funds-transfer-pricing system and how to align business incentives with the liquidity risk tolerance of a firm
- Liquidity contingency planning
- The impact of liquidity risk on banks' ratings
- Liquidity risk standards issued by international regulatory and standard-setting bodies.

1.12 Compliance with anti-money laundering and the combating of the financing of terrorism standards

1.12.1 Introduction

The Department strives to maintain an effective compliance framework and operational capacity to oversee compliance by banks with AML and CFT standards. In order to achieve this objective, the Department co-operates with the Financial Intelligence Centre (FIC) by communicating all FIC guidance notes, circulars and other pronouncements to all banks. In addition, the two regulatory bodies also meet periodically to discuss matters of mutual interest and/or concern with regard to banks' compliance with AML and CFT standards.

1.12.2 Issuance of Public Compliance Communications

1.12.2.1 Public Compliance Communications No. 1 (PCC 01): Establishment of the Public Compliance Series

The FIC launched a new communication platform – a Public Compliance Communication (PCC) series – on 22 February 2010. The purpose of the PCC is to facilitate a better understanding of the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001) (FICA) by all businesses, including accountable institutions; and to address some of the complex questions arising from the administration of FICA and its subordinate legislation. The main purpose of the PCC series is to provide guidance under section 4(c) of FICA on the FIC's interpretation of the relevant legislation. This form of guidance will have the same legal status as the guidance notes that have been, and will continue to be, issued by the FIC.

The PCC series does not replace any of the existing communication platforms such as guidance notes, circulars, frequently asked questions and/or regular meetings with stakeholders. Rather, it will serve as an additional platform to address contentious issues that arise around the interpretation of FICA.

1.12.2.2 Public Compliance Communications No. 2 (PCC 02): Period of Record Keeping of Matters Reported to the Financial Intelligence Centre

The objective of PCC 02 is to provide the FIC's view on a reasonable period that records of matters reported to the FIC under section 29 of FICA must be kept. Given that the investigation and prosecution of a FICA-related crime could take in excess of five years, the FIC recommends that records relating to matters reported to the FIC should be kept for at least five years from the date of filing the suspicious transaction report, where possible.

compliance framework and operational capacity to oversee compliance with AML and CFT standards

PCC series serve as additional platform to address contentious issues around the interpretation of FICA



1.12.2.3 Public Compliance Communications No. 3 (PCC 03): Identification and Verification Matters Relating to Account Opening Procedures for Asylum Seekers and Refugees

The objective of PCC 03 is to clarify the identification and verification requirements relating to asylum seekers and refugees in terms of account opening procedures; and to provide guidance to accountable institutions in meeting their identification and verification obligations in terms of section 21 of FICA and the Money Laundering and Terror Financing Control Regulations to FICA (FICA Regulations).

The FIC indicated that the refugee identity document, which contains a 13-digit barcoded identity number, meets the requirements of an identifying document for the purposes of regulation 3 of the FICA Regulations (information concerning South African citizens and residents). The FIC also regarded the United Nations Certified Travel Document passport as an acceptable form of identification.

Since refugees are given the status of residents and are in possession of a refugee identity document that can be dealt with in the same way as a South African identity document is dealt with, the identity of such individuals should be established and verified in terms of regulations 3 and 4 of the FICA Regulations (verification of information concerning South-African citizens and residents).

Accountable institutions were reminded that the refugee identity document was temporary in nature, that is, it was only valid for two years, whereafter it was subject to renewal. Accountable institutions were encouraged to ensure that appropriate internal controls were in place to monitor such accounts to ensure that upon expiry of the two-year period, the accounts were suspended or frozen to prevent any further transactions from taking place on the accounts pending the renewal of such identity documents.

ensure appropriate
internal controls

1.12.2.4 Public Compliance Communications No. 3A (PCC 03A): Supplementary Information Applicable to PCC 03 – Identification and Verification of Refugees and Asylum Seekers

PCC 03A is an addendum to, and forms part of, PCC 03, and should be read in conjunction with PCC 03. PCC 03A provides an interim measure intended to assist accountable institutions in instances where an official identification document is not available and the circumstances under which reliance on the sections 22 and 24 permits issued to asylum seekers and refugees, in terms of the Refugees Act, 1998 (Act No. 130 of 1998), would be permissible as alternative forms of identification. It guides accountable institutions on how to review the processes used to establish or conclude business relationships and transactions with asylum seekers and refugees.

business relationships
and transactions
with asylum seekers
and refugees

1.12.2.5 Public Compliance Communications No. 4 (PCC 04): Obligations Arising from the Financial Intelligence Centre Act Pertaining to the Voluntary Disclosure Programme

The Minister announced a Voluntary Disclosure Programme (VDP) in February 2010. The VDP was implemented through the promulgation of the VDP and Taxation Laws Second Amendment Act, 2010, and of regulation 24 of the Exchange Control Regulations, 1961. The objective of the VDP is to provide a window of opportunity, from November 2010 to October 2011, to disclose and pay undeclared tax liabilities at a reduced interest charge and without penalties, and to disclose exchange control violations without fear of liability arising from past non-compliance.

In an effort to pre-empt uncertainty regarding the relationship between the VDP and the role of professional advisers in promoting the objectives of the VDP, on the one hand, and the obligations flowing from FICA, on the other, the FIC deemed it necessary to issue PCC 04



formally to express its views on the application of FICA in relation to the VDP, and to make known its expectations of persons who assist clients with benefiting from the VDP.

1.12.2.6 Public Compliance Communications No. 5 (PCC 05): Registration of Accountable and Reporting Institutions with the Financial Intelligence Centre

The objective of PCC 05 is to provide guidance to accountable and reporting institutions on how to register correctly with the FIC as required by section 43B of FICA, as amended.

1.12.2.6.1 Registration requirements in terms of the Financial Intelligence Centre Act

Section 43B of FICA, which became effective on 1 December 2010, requires all accountable and reporting institutions as listed in Schedules 1 and 3 respectively to register with the FIC within the prescribed period and in the prescribed manner.

1.12.2.6.2 Registration of branches

Where the accountable or reporting institution is required to register its branches, it is important to note that reporting to the FIC could still be centralised, but all reports should be filed using the login credentials of the branch of the firm involved. All the branches of a banking group should be in a position to provide advice and administrative services to their clients. Each individual branch is therefore not required to register on its own. Banks that house other accountable institutions in the same legal entity have to ensure that all these different accountable institutions have registered separately.

1.12.3 Key guidance notes issued by the Financial Intelligence Centre during 2010

1.12.3.1 Guidance Note 4: Implementation of Revised and New Reporting Streams and Registration System of the Financial Intelligence Centre

The FIC informed all accountable institutions, reporting institutions and any other persons as described in section 29 of FICA of measures it planned to take to improve its systems to combat money laundering and the financing of terrorism in the Republic of South Africa. The FIC provided general guidance on the implementation of revised and new reporting streams, and the registration system of the FIC.

The FIC intended to introduce revised and improved Suspicious Transaction Report (STR) and Terrorist Property Report (TPR) forms in terms of FICA. According to the FIC, both these forms would enhance the way in which it captured and analysed the information generated by the various financial institutions and other businesses.

1.12.3.2 Guidance Note 5: Cash Threshold Reporting

The FIC also prepared Guidance Note 5 to assist accountable institutions and reporting institutions in meeting their reporting obligations in terms of FICA. The guidance note provides general guidance on the obligations of accountable institutions in terms of section 28 of FICA. More specifically, the guidance note explains reporting timelines, how reports have to be sent to the FIC, what information has to be included in these reports and how to use the electronic reporting mechanism.

Cash threshold reporting (CTR) will provide the FIC with a mechanism to monitor and report proactively on cash transactions that may be linked to money-laundering activities so that potential proceeds of crime are identified and investigated in a timely manner. The FIC has

general guidance on
the implementation
of revised and new
reporting streams

mechanism to monitor
and report proactively
on cash transactions
linked to money-
laundering activities



implemented CTR as part of its mandate to identify the proceeds of crime and to combat criminal money being laundered into the South African economy. CTR requires accountable and reporting institutions to report any transactions amounting to R25 000 or more to the FIC.

CTR obligations will apply to, among others, dealers in Krugerrands; financial and other institutions such as banks, insurers and dealers in foreign exchange; financial advisers; and estate agents. To facilitate the CTR reporting process, the FIC introduced a range of electronic reporting mechanisms, including an Internet-based reporting system using login credentials.

1.12.4 Amendments to the Financial Intelligence Centre Act

The amendments to FICA made during 2010 not only broaden the functions of the FIC, but also materially broaden the functions of various other supervisory bodies, including the Department, to ensure greater AML and CFT compliance in South Africa. Furthermore, they strengthen the ability of the FIC to detect and prevent illicit monies from being laundered through the country's financial system.

The amendments to FICA afford the FIC and other supervisory bodies a number of administrative measures to ensure compliance with the requirements of FICA, and to deal proactively and reactively with failure to comply with FICA. These measures include the

- ability to conduct inspections by supervisory bodies or the FIC;
- authority to impose administrative sanctions, such as monetary penalties; and
- establishment of an appeal board for those who wish to challenge decisions made by the FIC or other supervisory bodies concerned.

The amended FICA (which came into effect on 1 December 2010) also requires all accountable and reporting institutions to register with the FIC from 1 December 2010 to 1 March 2011. The main objective of this requirement is to ensure that the FIC is aware of the number of institutions that fall within the ambit of FICA. It also provides the FIC with additional information regarding these institutions, such as their type of business activities and physical address.

Amendments to FICA that are directly relevant to the Department include the following:

- Increased supervision and enforcement responsibility
- Provision for the issuance of directives to accountable institutions
- Appointment of inspectors to assist with supervision and enforcement
- Imposition of administrative sanctions for non-compliance
- Provision for an appeals process and the establishment of an appeal board
- Provision for applications to court.

1.12.5 Meeting of the Counter Money Laundering Advisory Council

The Counter Money Laundering Advisory Council (CMLAC) held a meeting of all institutions nominated as supervisory bodies in Schedule II of FICA on 22 September 2010. The CMLAC is a body that was established in terms of section 18 of FICA to

- at the Minister's request or at its own initiative, advise the Minister on
 - policies and best practices to identify the proceeds of unlawful activities and to combat money-laundering activities; and
 - the exercise by the Minister of the powers entrusted to the Minister in terms of FICA;
- advise the FIC on its performance of its functions; and
- act as a forum in which the FIC, associations representing categories of accountable institutions, organs of state and supervisory bodies can consult one another.

The FIC informed the meeting that it intended to enter into bilateral memorandums of understanding (MoUs) with each supervisory body concerned as provided for in the amendments to FICA.

administrative measures to ensure compliance with the requirements of FICA

amendments to FICA directly relevant to the Department



1.12.6 Amnesty granted to Zimbabweans and the implications thereof for banks

The special dispensation granted Zimbabweans who crossed into South Africa the right to live, work, attend educational facilities and to access basic health care in the country for a period of six months ended on 31 December 2010. The Minister of the South African Department of Home Affairs (DHA) invited all Zimbabwean immigrants to apply for identification documents and register their status in the country before the dispensation expired. The process was aimed at ensuring that Zimbabweans complied with South African immigration laws. Two hundred and forty (240) DHA officials, deployed in 46 regional offices across the country, facilitated the process. In terms of the amnesty extended to Zimbabweans, all fraudulent South African identity documents had to be handed back at the various DHA regional offices.

concerns regarding the amnesty extended by the DHA

At a meeting held in October 2010 between the FIC and the Department, certain concerns regarding the amnesty extended by the DHA were highlighted, including the fact that whereas the purpose of the amnesty was to help Zimbabweans, the closing date of 31 December 2010 seemed unrealistic for the DHA to complete the planned conversion process. In addition, a significant constituency of Zimbabweans with false documents had built up their entire existence around their false identities. Consequently, bank accounts, property and motor vehicles financed by banks, pensions and insurance policies with insurance companies, and so forth could all have been based on false identification information.

The Department was invited to consider these issues since banks and the FIC were expected to react to bank clients coming forward and declaring their true identities as part of FICA customer due diligence (CDD) processes. This continues to be a focus area for the Department.

1.12.7 Money laundering and terrorist financing: High-risk jurisdictions

jurisdictions divided into four categories

In February 2010 the Financial Action Task Force (FATF) issued a public statement on a list of jurisdictions with high levels of AML/CFT risks or threats and a lack of effective AML/CFT frameworks. In terms of the FATF's list, jurisdictions are divided into four categories based on certain criteria. The four categories are as follows:

- i. Category 1 includes all jurisdictions subject to the FATF and who call on its members and other jurisdictions to apply countermeasures to protect the international financial system from the ongoing and substantial AML/CFT risks emanating from the jurisdiction.
- ii. Category 2 includes all jurisdictions with strategic AML/CFT deficiencies that have not committed to an action plan developed with the FATF to address key deficiencies as of February 2010. The FATF calls on its members to consider the risks arising from the deficiencies associated with such jurisdictions.
- iii. Category 3 includes all jurisdictions previously publicly identified by the FATF as having strategic AML/CFT deficiencies, which remain to be addressed as of February 2010.
- iv. Category 4 includes all jurisdictions that have strategic AML/CFT deficiencies for which they have developed an action plan with the FATF and that have provided a written high-level political commitment to addressing the identified deficiencies.

application of countermeasures to listed jurisdictions

The FATF's issuing of this public statement is regarded as an important step towards reducing the vulnerability of the international financial system to money laundering and terrorist financing. While, under international law, the FATF's public statement carries with it no formal sanction, in reality, a jurisdiction placed on the FATF list often finds itself under intense international pressure to improve its system. The FATF also has at its disposal the ability to call on its members and members of regional bodies to apply countermeasures to listed jurisdictions.

The FATF reaffirmed its call on members and urged all jurisdictions to advise their financial institutions to give special attention to business relationships and transactions with Iran, including Iranian companies and financial institutions. In addition to enhanced scrutiny, the FATF reaffirmed its 25 February 2009 call on its members and urged all jurisdictions to apply effective



countermeasures to protect their financial sectors from AML/CFT risks emanating from Iran. The FATF urged jurisdictions to protect their banks against correspondent relationships being used to bypass or evade countermeasures and risk mitigation practices, and to take into account AML/CFT risks when considering requests by Iranian financial institutions to open branches and subsidiaries in their jurisdiction.

1.13 Issues to receive particular attention during 2011

In addition to fulfilling its normal supervisory and regulatory tasks, the Department will focus specifically on the following issues during 2011:

- Continued participation in, and contribution at, the various international forums responsible for ongoing supervisory and regulatory developments to strengthen the resilience of the banking sector further
- Ongoing review and amendment of the regulatory framework in accordance with the latest internationally agreed regulatory, supervisory and market best practices and standards
- Further enhancement and refinement of the Department's supervisory review and evaluation processes to align them with developments emanating from the IMF, the Basel Committee, the FSB, the G-20 and the GHOS, with particular focus on the macroprudential supervisory framework and processes
- Development of appropriate frameworks and processes to discharge expanded supervisory responsibilities flowing from legislative developments such as amendments to FICA and the Companies Act, 2008
- Participation in the Basel Committee's additional comprehensive quantitative impact assessment of the new global funding liquidity risk measurement, standards and monitoring, and ongoing assessment of the progress made by banks to align liquidity risk measurement, standards and monitoring with the new Basel III standard
- Performance of thematic reviews focusing on equity risk in the banking book and risk and remuneration disclosure
- Ongoing focused reviews of banks making use of advanced approaches to calculate credit risk, market risk and operational risk capital requirements
- Continued monitoring of banks' compliance with AML and CFT legislative requirements
- Continued investigation of illegal deposit-taking by unregistered institutions and persons, and participation in consumer education initiatives
- Ongoing training of staff to meet the challenges of the changing regulatory and supervisory landscape.

1.14 Expression of gratitude

I wish to express my appreciation to the Minister of Finance, Mr Pravin Gordhan, for his input on requests in terms of statutory requirements. To the Governor of the Bank, Ms Gill Marcus, and Senior Deputy Governor Dr Xolile Guma: thank you for your ongoing co-operation, guidance and support during 2010. A word of thanks also goes to my colleagues with whom I serve on the Governors' Executive Committee of the Bank.

During 2010 the Department worked in close co-operation with various individuals and organisations, locally and abroad. These include, to name but a few, the senior executives of banking institutions; the BASA; the Standing Committee for the Revision of the Banks Act, 1990; the Chief Executive of the Financial Services Board and his staff; the Basel Committee; the FSI; central bankers and bank supervisors, both in southern Africa and elsewhere in the world; and staff of other departments of the Bank.

My sincere appreciation goes to the staff members of the Department, for their continued efforts and willingness to often go beyond the call of duty to meet the challenges and demands of an ever-changing supervisory and regulatory landscape.

Finally, after eight years as Registrar of Banks and Head of the Bank Supervision Department of the South African Reserve Bank (the Bank) I will be handing over the baton and will be retiring as from 31 July 2011. I wish to record that my term as Registrar has been one of the most intellectually stimulating and enjoyable periods of my 34-year career at the Bank, to whom I shall always be indebted for providing me with such an exciting and rewarding opportunity.

The period was notably characterised by the exceptionally high quality of people with whom I had the privilege of interacting. The absolute highlight of my career is two-fold. On the one hand, to know that together with the team of superb banking supervisors in my department, we all contributed to making a difference to the lives of South Africans insofar as they, unlike so many people in other countries, did not have to contend with the fear of potentially losing their savings during the worst global financial crisis since the Great Depression that the world has recently experienced. South Africa's banking system remained safe, stable and sound throughout this period. On the other hand, during my term of office neither the central bank nor National Treasury was called upon, either to provide any bank with financial assistance or to assist with the winding up of any bank. I leave both the Department and the bank supervision function in good shape, and am confident that my successor, ably supported by the team of smart, dedicated and well-trained existing banking supervisors, will be in a position to take the function to new levels of excellence and professionalism in the face of whatever new and unknown challenges may arise.

Errol M Kruger
Registrar of Banks



Chapter 2: Promoting the soundness of the banking system: Overview of supervisory activities

2.1 Introduction

In its 2007 Annual Report the Department provided a detailed overview of its supervisory review process, which has been refined on an ongoing basis during the past two years to align it with international best practice and to facilitate the effective supervision of the South African banking sector.

In this chapter, details of the flavour-of-the-year topics covered during 2010 are provided and the key supervisory activities of the Department relating to the Pillar 1 risk areas, namely credit risk, market risk and operational risk are discussed. The Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) reviews and Pillar 3 disclosure assessments performed during the period under review are also discussed. Finally, an overview is provided of a common scenario stress-testing exercise that was performed by the Department.

2.2 Flavour-of-the-year topics covered during 2010

Each year the Department identifies certain key topics related to the effective functioning of banks that are then reviewed during the annual meetings held with the board and/or board subcommittees of banks. In 2010 the following two topics were identified:

- i. The functioning of the Audit Committees, and the Board Risk and Capital Committees of banks
- ii. The management and board oversight of the risks posed and the controls instigated to mitigate the risks posed by diversified banking groups.

2.2.1 The functioning of Audit Committees, and Board Risk and Capital Committees of banks

The Department conducted a review of the functioning of two key board subcommittees of South African banks during the year under review. In terms of sections 64 and 64A of the Banks Act, 1990, all South African banks are required to establish an Audit Committee, and a Risk and Capital Management Committee. The aforementioned sections also prescribe the composition and duties of these committees.

2.2.1.1 Functioning of Audit Committees

The functioning of the Audit Committees was reviewed with reference to the following three categories:

- i *Frequency of meetings and attendance of committee members:* Banks' Audit Committees held meetings at least four times during the financial year, with one bank having held seven Audit Committee meetings. Generally, all committee members had not missed more than one meeting during the financial year under review, while more than 80 per cent of committee members had attended all meetings.
- ii *Items discussed and decisions made:* The items on the agendas of banks' Audit Committee meetings were found to be relevant and sufficiently detailed, with important decisions having been made by these committees. The items discussed included the following:
 - Review and recommendation for approval of annual financial statements
 - Approval of external auditors

key topics related to the effective functioning of banks

functioning of Audit Committees reviewed



some bank-specific items remained unresolved

- Updating of Audit Committee charters
- Review and approval of internal audit charters
- Discussion of audit and compliance reports
- Discussion of key bank, industry and accounting developments
- Review of regulatory interactions and outstanding regulatory requirements.

- iii *Significant outstanding items:* Banks' Audit Committees were found to have finalised key items on their agendas in the previous financial year. However, some bank-specific items remained unresolved, such as tax treatment of certain structured transactions; independent review of internal audit functions; review of non-core business operations; and continuous enhancement of internal controls.

2.2.1.2 Functioning of Board Risk and Capital Management Committees

The functioning of Board Risk and Capital Management Committees was reviewed with reference to the following four categories:

- i. *Frequency of meetings and committee members' attendance:* It was found that banks' Risk and Capital Management Committees met at least four times during the financial year. The range of meetings held was quite varied across banks, in particular where smaller banks were compared to larger and more complex banks. Additional meetings mainly resulted from the more advanced risk frameworks prevalent in larger banks. Similar to the findings in respect of audit committees, all committee members were found not to have missed more than one meeting during the financial year under review, while more than 80 per cent of committee members attended all meetings. In instances where an exception to the aforementioned was noted, committee chairpersons advised that they had been provided with valid reasons for members not being able to attend.
- ii. *Items discussed and decisions made:* Risk and Capital Management Committees focused on a broad range of risk-related matters including, but not limited to,
- a. enterprise-wide risk management frameworks;
 - b. balance sheet and capital management;
 - c. risk reports and dashboards in respect of key risks facing banks;
 - d. key risk parameters and risk appetite;
 - e. review and approval of internal capital-adequacy assessment processes; and
 - f. review and approval of significant risk models employed by banks.

Furthermore, these committees spent significant amounts of time on ongoing development and training.

- iii. *Significant outstanding items and focus areas during 2010:* Outstanding matters and focus areas during 2010 were relatively diverse, and the most significant of these included credit impairments; capital management and planning; implications of legislative changes; Basel III-related developments; liquidity risk management; risk appetite; and volatility of earnings.
- iv. *Compliance with section 64A of the Banks Act, 1990:* The Department also assessed the methodologies and practices employed by banks' Risk and Capital Management Committees to ensure compliance with section 64A of the Banks Act, 1990. Banks benchmarked their methodologies and practices against each of the requirements of section 64A, thereby evidencing their level of compliance, which the Department found to be high.

Section 64A(2)(d) requires banks to conduct an annual formal risk assessment and banks were found to be generally compliant with this requirement. However, the formalisation of the process was found to be an outstanding issue in certain banks.

The Department required banks to address all items where they were found not to be fully compliant with the requirements of section 64A. These matters will be followed up during the Department's 2011 supervisory cycle.

2.2.1.3 Conclusion

The Department found the Audit Committees, and Risk and Capital Management Committees to be operating adequately which, in turn, contributed to the overall sound corporate governance

more advanced risk frameworks prevalent in larger banks

ongoing development and training

formalisation of process still outstanding



in South African banks. Notwithstanding these findings, the Department will remain vigilant in its ongoing assessment of banks' corporate governance practices.

2.2.2 Management and board oversight of the risks posed, and the controls instigated to mitigate the risks posed by diversified banking groups

The board is one of the key role players in the supervisory process, and accepts ultimate responsibility for the risk profile of a bank and banking group. The Department therefore regarded it essential to conduct, as part of its 2010 supervisory programme, meetings with the boards of banks to assess their management and oversight of the risks posed, and controls instigated to mitigate the risks posed by their diversified banking groups.

Institutions were required to address relevant aspects pertaining to the said topic during the Department's meeting with the boards of banks.

Diversified banking groups conduct part of their business through subsidiaries and affiliates and, consequently, are exposed to potential, and sometimes significant, risks outside those of their normal banking operations. Diversified banking groups could therefore incur substantial losses stemming from entities elsewhere in the group and the size of the losses could be substantial. Recent global experiences had also highlighted the importance of consolidated oversight by management and the boards of diversified banking groups. The board and management of a diversified banking group therefore need to evaluate the strength of the entire group, taking into account all the risks that may affect it, regardless of whether these risks are carried on the balance sheet of the bank or those of related entities.

diversified banking groups could incur substantial losses

The effectiveness of boards' oversight of the aforementioned was reviewed with reference to the following six categories:

- i. Overall group structure
 - The composition of the overall group structure split between banking, insurance and other activities
 - The major operating entities within the group.
- ii. Governance
 - Governance structures existing at various levels within the group, such as the board, Audit Committee, Risk, Capital and Compliance Committee, and Remuneration Committee
 - The organisational structure of the group focusing on the key roles and responsibilities for line management of the group and major operating entities within the group
 - The extent to which specialist knowledge exists within the board of the group that is commensurate with the complexity and nature of risks undertaken by the group
 - The process followed by the board to apprise itself of material issues within the group entities
 - Materiality levels within the group.
- iii. Risk appetite and risk tolerance
 - The diversified banking group's risk appetite statement and tolerance levels, and the extent to which the risk appetite statement and tolerance levels are incorporated into other major group operating entities
 - Examples evidencing the extent to which risk appetite and tolerance levels have been breached due to exposures outside the bank.
- iv. Risk framework
 - The establishment of an enterprise-wide risk management framework within the group
 - The implementation of an integrated risk measurement and management framework for credit, market, operational and other risks
 - The organisational structure of the group focusing on the key roles and responsibilities for risk management of the group and major operating entities within the group
 - Future enhancements to be made to the group risk management framework.



exercise focused the attention of boards on the spread of activities being undertaken across groups

- v. Risk assessment
 - The aggregation of risk exposures and the subsequent reporting to the board
 - Examples of the extent to which other risk exposures originating from outside the bank have been highlighted to the board and the actions taken
 - The contribution to group net income before taxation by each of the major entities within the group.
- vi. Information technology
 - The adequacy of the IT to facilitate the production of adequate, reliable and timely management information at group and at major operating entity levels
 - Identified enhancements to be made to the group IT infrastructure.

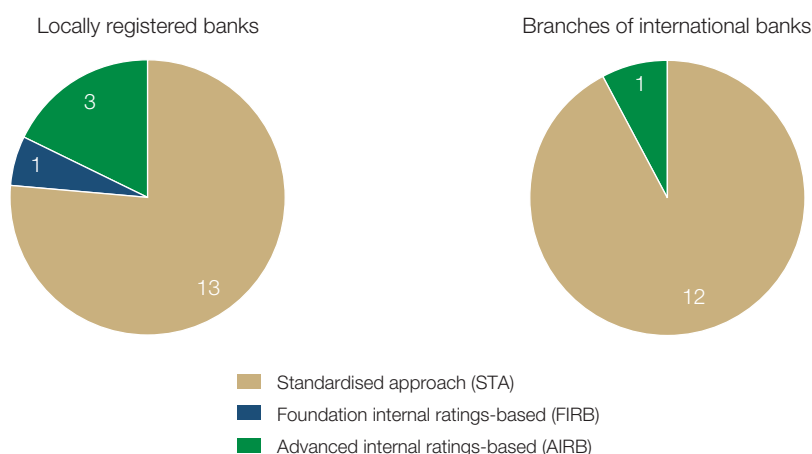
The exercise proved to be useful in focusing the attention of boards on the spread of activities being undertaken across groups. In general, boards appeared to have a grasp on the larger group activities but were somewhat unsighted on the precipitation of a myriad of smaller group interests or entities and on geographic (global) spread. Accordingly, some boards have agreed to devote quality and quantity time during 2011 to gaining a better understanding of all levels of group activity from a complexity, necessity, risk and geographic (global) spread perspective. Attempts will be made to streamline and downsize structures where appropriate.

2.3 Credit risk

2.3.1 Introduction

Banks in South Africa can select from a menu of approaches to calculate their minimum required regulatory capital relating to credit risk for Pillar 1. These approaches include the standardised approach (STA), which also incorporates a simplified standardised approach, and two models-based approaches (MBAs). The MBAs comprise the foundation internal ratings-based approach (FIRB), in terms of which certain model parameters are specified by regulation, and the AIRB in which banks model the parameters. The proportion of banks registered in South Africa using the aforementioned approaches is depicted in Figure 2.1.

Figure 2.1 Reporting methods approved by the Registrar of Banks



the Department continued to perform both compliance-based and prudential supervision of banks

During the year under review, the Department continued to perform both compliance-based and prudential supervision of banks, specifically focusing on banks' credit risk profiles and portfolios that were, and continue to be, impacted by adverse market conditions and strained economic activity. The work carried out covered the following:

- Quantitative analysis of regulatory reporting
- Review of self-assessment templates submitted by banks



- Focused reviews of banks' compliance with requirements for use of the IRB approach for the calculation of minimum required regulatory capital relating to credit risk for Pillar 1
- Processing of applications submitted by banks for the implementation of new or revised models and rating systems
- Focused reviews of banks' compliance with requirements for use of the STA for the calculation of minimum required regulatory capital relating to credit risk for Pillar 1
- Reviews of long-form reports by auditors relating to details in models used by banks with approval to use the FIRB or AIRB approaches
- Assessment of the suitability of rating agencies to provide ratings as a measure of the creditworthiness of banks' assets.

2.3.2 Quantitative analysis of regulatory reporting

In the course of the Department's ongoing analysis of bank data and its risk-based supervisory interactions with banks, it became evident that banks had applied differing interpretations to some key aspects of the credit risk regulations. This resulted in inconsistencies that negatively affected trend and peer-group analyses. Some of these issues were reported in the Department's 2009 Annual Report, with specific reference to the credit risk survey that was conducted. However, additional issues arose in 2010.

During 2010, the Department focused significant supervisory resources on addressing reporting inaccuracies, interpretive matters and other areas where banks required specific guidance. The Department held numerous technical discussions with banks and with their external auditors in the form of workshops and meetings of the Credit Risk Business Forum.

These deliberations, together with feedback received from the World Bank and IMF delegation, culminated in the formulation of policy on the preferred reporting on some line items, risk weights and other technical matters. The resulting refinements have been published in the form of Banks Act circulars and directives, and have been included in the proposed amendments to the Regulations relating to Banks.

banks applied differing interpretations to some key aspects of credit risk regulations

2.3.3 Review of self-assessment templates submitted by banks

Banks that have acquired approval from the Registrar to report credit risk according to one of the IRB approaches are continually assessed to determine their level of compliance with the Regulations relating to Banks.

The IRB banks are required to complete and submit a self-assessment based on the Regulations relating to Banks on an annual basis. The primary purpose is for both the bank and the Department to become aware of areas of non-compliance, and to ensure that the necessary steps are taken to address weaknesses identified.

During 2010, four domestic banks and one branch of an international bank submitted self-assessment templates on their compliance with the credit risk regulations, based on data for December 2009. The submissions were assessed and reviewed to identify gaps and exceptions as defined in the 2008 Annual Report (pages 23 and 24). The gaps and exceptions are addressed as part of the Department's ongoing supervisory process.

IRB banks completed self-assessments based on the Regulations

2.3.4 Identified gaps

Some banks did not complete all the required sections in the self-assessment template.

2.3.5 Identified exceptions

The following common exceptions were identified:

- *Scope of documentation:* Rating systems design and operational details for some banks are not properly documented



- *Retrospective reallocation requirement:* Processes for obtaining and updating relevant and material information on borrower financial conditions and facility characteristics to support internal credit risk measurement and management processes still require improvement in some banks
- *Board and senior management responsibilities:* The monitoring and reporting of rating systems to the board and senior management require improvement in some banks
- *Annual review of risk ratings:* Some of the banks did not conduct the required annual review of assigned borrower and facility ratings
- *Requirements specific to PD, LGD and EAD estimates:* Several banks still lack sufficient data history required to estimate internal risk parameters.

2.3.6 Revision of self-assessment templates

For the 2011 submission of the self-assessment templates (based on December 2010 data), the Department compared the self-assessment templates with those of other regulators and their processes. Consequently, the following changes were made:

- The number of schedules was reduced from five to three
- Additional information was required on Schedule 1: Risk rating system summary.

2.3.7 Focused reviews of IRB requirements for credit risk

A number of focused on-site credit risk reviews were carried out during 2010 that spanned selected retail and wholesale portfolios. The purpose of the on-site reviews was, among other things, to determine whether the credit risk management practices of banks were sound, whether the models remained fit for purpose and that adequate levels of capital were held for credit risk. The Department continued to follow a risk-based approach in selecting portfolios to be reviewed, and focused on the following:

- Model governance processes, specifically relating to prescribed annual validation and board oversight
- Composition of selected portfolios, lending strategy and risk appetite (with specific reference to documentary evidence of its existence and use)
- Review of management information reports used for credit risk management
- Review of rating system outputs including stability tests, backtesting results and other ongoing monitoring and validation results.

2.3.8 Key findings

- *Governance of model validation:* In certain banks the process for escalating issues to the designated committee or board required improvement. The Department regards effective board oversight of the approval of all material aspects of a bank's rating and risk estimation processes essential for good corporate governance. Consequently, the qualifying criteria in the Regulations relating to Banks for the designated committee were amended to stipulate that the designated committee should be a subcommittee of the board. This amendment has been incorporated in the proposed Amended Regulations relating to Banks.
- *Annual validation of models:* It is the Department's view that appropriate processes and clearly documented policies are fundamental to effective IRB implementation. Most of the banks with IRB approval have revised their validation frameworks to incorporate additional qualitative and quantitative aspects. Certain banks had not managed to conduct the prescribed annual validation on all their portfolios. However, action plans existed to remove the backlog during 2011. Banks were reminded that removing the backlog should not come at the expense of the depth and quality of the independent reviews, annual validations or the ongoing monitoring of the rating systems. Even though significant progress regarding documentation standards was evident, the Department expects banks to remain focused on improving the processes surrounding validation.
- *Backtesting:* As stated in the 2009 Annual Report, one of the issues identified to receive particular attention during 2010 was backtesting of credit risk models. In the assessment of the banks' backtesting frameworks and methodologies, the Department ascertained that banks had performed limited out-of-time backtesting on the rating system parameters. Given the importance of backtesting, this will remain a focus area for 2011.

risk-based approach followed to select portfolios

qualifying criteria for designated committee amended

banks to remain focused on improving the processes surrounding validation



- *Level of compliance in terms of IRB requirements:* The Department assessed the level of compliance with the minimum IRB requirements during on-site visits. The following instances of non-compliance were noted and will receive specific attention during 2011, in order to monitor progress and ensure full compliance:
 - Deviation from the strict application of the firm-size adjustment in accordance with the provisions of the Regulations relating to Banks, that is, the application of the formula to adjust the corporate risk-weight formula for exposures to small and medium enterprise (SME) borrowers
 - Incorrect classification and, in certain instances, a failure to report specialised lending portfolios, especially the reporting of high-volatility commercial real-estate exposures
 - Use of models to calculate expected loss and minimum required capital and reserve funds without obtaining prior written approval from the Department
 - Outdated reviews of assigned borrower and facility ratings, that is, ratings assignments that were older than one year.
- *Data quality:* Banks continually strive to improve data quality. For most of them a data governance framework existed with dedicated data management teams. Significant progress was evident in the form of initiatives implemented to address issues highlighted during data quality reviews and/or internal audits of data quality.

instances of non-compliance were noted

2.3.9 Processing of applications by banks to implement new or revised models and rating systems

As regards the lifecycle of credit risk models, the Department anticipated that most banks would focus on refining and redeveloping their rating systems roughly two years after the implementation of Basel II in South Africa. During 2010, this transpired, with a significant number of applications reaching the Department for approval to use revised rating systems to calculate the minimum regulatory capital requirement for credit risk.

revised rating systems to calculate the minimum regulatory capital requirement for credit risk

Significant rating system changes in many cases resulted in a decrease in the regulatory capital requirement. The reasons for rating system changes included the following:

- *Philosophy redesign:* As the performance of models deteriorated, the need for redevelopment increased.
- *Development of own downturn LGD estimates:* As downturn data was not readily available to banks when models were first implemented, the Department allowed banks to use a proxy for downturn LGD estimation, commonly referred to as the 'Federal Reserve formula', but encouraged banks to derive their own estimates of downturn LGD. During 2010, banks used the data collected during the recent downturn to estimate their own downturn LGD.
- *Recalibrations using downturn data:* Banks' data history tended to be biased towards benign periods of the cycle, and several recalibrations led to increased capital requirements with the addition of downturn data.
- *Removal of conservatism:* Banks continued to lower the conservatism that originally characterised their models, using data collected during the downturn period as motivation that their models no longer required additional conservatism.
- *Migration of portfolios from FIRB and STA to AIRB:* Banks migrated smaller portfolios from FIRB and STA approaches to the AIRB approach as they built up sufficient data history and/or expertise in creating rating systems.

As reported in the 2009 Annual Report, the Department follows a formal approval process to review material internal model changes or developments that fall outside the scope of the original approval granted for use of an IRB approach prior to implementation (based on the banks' communication policy with the Department). Some of the applications for approval of materially changed models were declined. In certain instances approval for using credit risk models was based on, among other things, the following conditions:

- Additional capital requirements in terms of regulation 38(4) of the Regulations relating to Banks, so-called Pillar 2b criteria
- Requirements for independent validation and the implementation of monitoring processes within a prescribed period.



2.3.10 Focused reviews of banks' compliance with requirements for use of the STA for the calculation of minimum required regulatory capital relating to credit risk for Pillar 1

It was reported in the 2008 Annual Report that the Department's Review Team had commenced with a project that entailed a review of the implementation by banks of STA for the computation of regulatory capital in respect of credit and counterparty exposures. This project was continued during 2010 and will be completed in 2011.

The reviews were risk-based and focused on assessing the degree of compliance by each bank with the requirements of the Regulations relating to Banks. In particular, the reviews assessed the correctness of the risk weights applied by banks in the calculation of their minimum required capital and reserve funds relating to credit risk, and the reasonableness of the credit risk classifications used. Where credit risk mitigation was taken into account, an evaluation was done of the eligibility of the credit-risk mitigation instruments, the methodology employed and compliance with the credit-risk mitigation policy. The same criteria were applied in the review of all banks but the methodology was adapted to allow for the size of the bank and the processes implemented.

Most of the banks have been reviewed and the conclusion reached is that they have been diligent in their implementation of STA and have, generally, complied with the requirements of the Regulations relating to Banks. There was no common thread in the findings, although some aspects of the STA, for example, the use of the international credit risk rating scales; credit policies not incorporating the criteria for risk mitigation set out in the Regulations relating to Banks; intangible assets not being deducted from capital and reserves; and the incorrect treatment of derivative and securities financing transactions were prevalent.

The findings of the reviews were communicated to the senior management of the banks concerned and their concurrence with, and a commitment to, rectifying the identified issues were obtained. The rectification of the issues was followed up in the course of the supervisory process and most issues have been resolved.

2.3.11 Long-form reviews

As a result of South Africa's implementation of Basel II and the consequential amendments to the Regulations relating to Banks, which provided the Registrar with the option to permit banks to use the IRB approaches for credit risk, external auditors were confronted with increased reporting duties relating to banks' use of internal credit models for regulatory capital purposes. This resulted in the external auditors and the Department commencing discussions on the scope of work required from the external auditors as far as it related to banks' IRB credit models and external auditors' reporting duties to the Registrar.

In addition to the aforementioned, new requirements in auditing standards and the level of assurance to be provided by external auditors made it necessary for banks' external auditors to assess and revisit the levels of assurance to be provided to the Registrar on the directives in the Regulations relating to Banks as far as they related to IRB credit risk models.

Discussions on the reporting duties of external auditors and the type of assurance to be provided on IRB credit risk models used, began as far back as 2007. After several months of discussions, the Department and the external auditors agreed on the level of assurance to be provided by the external auditors of banks to the Registrar, the attestation procedures necessary to assess banks' compliance with the applicable directives in the Regulations relating to Banks, and the format for reporting findings to the Department. These specific reviews on banks' IRB internal credit models are commonly referred to as 'long-form reviews'.

The first cycle of long-form reviews commenced in 2009 with the external auditors reporting their findings to the Department when reviews on specific models were completed. The external

reviews assessed the correctness of risk weights applied by banks

increased reporting duties relating to banks' use of internal credit models



auditors requested that, for the first cycle of long-form reviews, the reviews concentrate on the same or similar asset classes in the IRB banks. The Department directed the auditors initially to address all highly significant or material asset classes in the scope of the long-form reviews, namely those portfolios that covered the following:

- Residential mortgage exposures
- Commercial property finance exposures
- Corporate exposures, including SME corporate and specialised lending exposures.

The ultimate aim of the long-form reviews was to report on the accuracy and completeness of banks' calculation of the following IRB parameter estimates:

- PD estimates
- LGD estimates, including adjustments
- EAD estimates
- Risk-weighted exposure amounts
- Amount of required capital and reserve funds relating to credit risk
- Related amounts of capital impairments
- Amounts of expected losses.

Reports emanating from the initial long-form reviews for the IRB banks were submitted to the Department during 2010 and the findings were discussed with the banks. Consequently, the Department requested banks for which deficiencies were evident to provide and commit to action plans to address outstanding weaknesses.

2.3.12 Developments in respect of rating agencies

International bodies such as the Basel Committee and the FSB have raised concerns about the over-reliance of banking regulators and banking legislation on the use of external ratings issued by approved rating agencies. Such concerns were evident in the Basel Committee's October 2010 press release, which indicated a need for a review of the use of rating agency ratings, specifically in the securitisation capital framework. This view was echoed by the FSB in its October 2010 publication titled *Principles for Reducing Reliance on Credit Rating Agency Ratings*. The ultimate aim of these international bodies is for banking regulators to become less reliant on the use of external ratings in banking legislation.

The Department decided not to take any immediate action on the use of eligible rating agencies and external ratings in its regulatory framework, beyond the existing levels of scrutiny and interactions with these agencies until such time that the Basel Committee has issued a formal framework or a formal stance on the future use of rating agency ratings in banks' regulatory capital calculations.

2.4 Market risk

2.4.1 Introduction

The year 2010 reflected evidence that a global recovery had begun after the financial crisis, albeit on an uneven basis. Consistent with other emerging-market economies, the South African markets showed signs of recovery. Nevertheless, levels of market risk in South African banks continued to follow the reduction in volatility that was present in the secondary markets for the most part of 2010.

2.4.2 Market risk regulatory reporting methods

The Regulations relating to Banks include two alternative reporting methods for market risk, namely the

- i. models-based internal models approach (IMA); and
- ii. standardised approach.

long-form reviews to report on the accuracy and completeness of banks' calculation of IRB parameter estimates

concerns about over-reliance on the use of external ratings

reduction in volatility in secondary markets



Under approved circumstances, banks are also permitted to apply a combination of standardised and models-based reporting. As at the end of 2010 five of the thirty banks with market risk had permission to report according to the IMA.

2.4.3 Market risk reviews and key findings

Market risk reviews conducted in 2010 by the Department concentrated on banks with approval to use IMA for regulatory reporting. The Department received one application for use of the IMA. The application and approval processes were similar to those conducted in the previous years. The approval process included usage of a questionnaire, off-site analysis of the bank's information submission and an on-site review. The applicant was granted approval to adopt the IMA for the period beginning 1 January 2011.

The Department continues to conduct annual and quarterly reviews of the trading activities of IMA banks to assess their suitability to continue using the IMA. These reviews focused on changes in the sources of risk facing banks and their reaction in the form of changes to strategy, products, systems, structure, risk limits and capital. The recent performance of trading income generation and effectiveness of risk controls are also examined. The reviews complemented the data already received by the Department in the form of regulatory returns and other prudential requirements of IMA banks, such as monthly submissions of backtesting and stress-testing results. A total of 18 on-site meetings in the form of IMA annual reviews, new application and quarterly reviews were conducted during the 2010 calendar year.

The operational issues that resulted in poor performance of the VaR model at certain banks in the previous year were resolved, and the multiplication factor used to prescribe the amount of capital a bank is required to hold was lowered for the affected banks. The trading operations of many banks struggled to meet revenue targets during the year due to lower market activity and reduced volatility experienced for most of the 2010 calendar year, with the exception of the last quarter.

Banks' exposures to equities that are generally held for investment purposes are included in the banking book for accounting purposes. From a regulatory perspective, they receive capital treatment that is independent of the market risk charge, and is more punitive, with the risk weighting ranging between 100 and 400 per cent. Fifteen banks reported exposures of this nature in the course of 2010. Capital charges under these regulations contributed to approximately 4,99 per cent of banks' total capital requirements. For supervisory purposes, equity risk is overseen alongside market risk. Capital held for market risk made up about 2,25 per cent of the total capital requirement for the banking sector during the year.

2.4.4 Thematic review on liquidity risk management

In terms of the supervisory programme and the methodologies employed for the achievement thereof, the Department initiated a thematic review that addressed aspects pertaining to sections 79(1)(c) and 79(2) of the Banks Act, 1990, and regulation 26(13) of the Regulations relating to Banks. According to section 79 of the Banks Act, 1990, a bank shall not issue negotiable certificates of deposit (NCDs), promissory notes (PNs) or instruments of a similar character in excess of a percentage as specified in the Regulations relating to Banks. The objective of the review was to establish whether banks issued these instruments and whether they complied fully with the aforementioned regulation.

A questionnaire addressing the above-mentioned requirements was submitted to banks for completion. Information requested by the Department via the questionnaire was complemented with information obtained from regulatory returns for off-site analysis purposes. In addition, external auditors were required to attest to the accuracy of the information contained in the responses to the questionnaire to ensure that all the information was presented correctly and completely in all material respects.

market risk reviews
concentrated on
IMA banks

market risk capital made
up about 2,25 per
cent of the total
capital requirement



The results of the review were used to obtain a better understanding of the reporting on the regulatory returns and to formulate possible amendments to the Regulations relating to Banks.

Generally, banks in South Africa either directly or indirectly address the relevant matters associated with the issuance by a bank of the above-mentioned instruments. However, the study revealed that banks should pay additional attention to ensuring that policies and processes are developed to enhance monitoring and control and, ultimately, the liquidity risk emanating from the issuance of such instruments. The Department acknowledges that the South African financial sector faces structural funding challenges which may affect the way in which banks fund their businesses. Banks are encouraged to pursue appropriate combinations of funding strategies taking cognisance of the term 'structure' and concentration risks associated with stressed circumstances.

Further work in this area will continue during 2011 in the form of a review that will be conducted by external auditors against particular criteria. The additional work will only be conducted for specific banks.

2.4.5 Participation in liquidity risk simulations

During 2010, the Department participated in liquidity risk simulation exercises at banks, which were facilitated by an independent external party. As is common knowledge, the recent international financial turmoil has proved that the importance of proper liquidity risk management within a formalised risk framework, commensurate with the nature and scale of business conducted by banks, has been underestimated. Representatives of the Department fulfilled the role of observers during these exercises.

The simulation exercises were based on a range of bank-specific balance-sheet and liquidity crisis simulation exercises, customised to meet banks' unique situations and the respective balance-sheet and crisis management teams' learning objectives. The aim was also, among other things, to allow participating banks to further enhance their resilience to liquidity stress in real-life scenarios, and to identify weaknesses and flaws in liquidity contingency plans. Although planning and preparedness are extremely important, testing under stress scenarios is arguably the most important component of a bank's liquidity contingency planning.

It became clear that the real-life scenarios not only challenged experienced crisis and liquidity management teams, but also effectively tested their respective liquidity risk and crisis management plans. A secondary advantage of the simulation exercises related to the opportunity for banks' executive teams to review their own crisis management actions under liquidity stress scenarios, and to ascertain whether key staff members understood the crisis risk management processes and their respective roles. It was, from the Department's perspective, interesting to observe how these teams co-ordinated with one another, and gave the management teams a sense of their banks' overall control and communication challenges. Furthermore, crisis management teams had the opportunity to learn how to test their own crisis and liquidity stress management processes, and how to operate effectively with one another under challenging circumstances.

From the outset, the liquidity simulation exercises were extremely useful since they focused on testing key liquidity management components, such as banks' risk strategies and profiles; the nature of business and asset types; funding strategies; the measurement and modelling of maturities; stress testing; and the availability of liquidity buffers, to name but a few. Furthermore, the exercises also focused on concentration risks, the quality and availability of management information, skills in the treasury and balance-sheet management functions, cost and revenue optimisation, and liquidity contingency planning.

Participants reported that they found the said simulation exercises extremely useful, that, they highlighted areas in which they could improve, and that they demonstrated the need for robust and conservative liquidity risk management planning. In conclusion, the Department is of the opinion that liquidity risk simulation exercises are extremely valuable and useful, and that they facilitate the enhancement of banks' respective liquidity risk management frameworks.

the South African financial sector faces structural funding challenges

proper liquidity risk management has been underestimated

crisis management teams test crisis and liquidity stress management processes

liquidity risk simulation exercises extremely valuable



banking-sector
exposure to PIIGS
not significant

certain banks used
inappropriate reporting
methodologies

policies and
processes should
be commensurate
with the size and
complexity of the bank

2.4.6 Review of exposure to Portugal, Ireland, Italy, Greece and Spain

The fear that the sovereign debt crisis in Europe, which affected Portugal, Ireland, Italy, Greece and Spain (PIIGS), would negatively impact the South African banking sector resulted in the Department reviewing South African banks' exposures to PIIGS in all asset classes. The results of the analysis of exposures provided no evidence to suggest that the banking-sector exposure to PIIGS was significant or warranted concern.

2.4.7 Review of reporting methodologies for equity risk in the banking book

During 2010, a review of the reporting methodologies utilised for reporting equity risk in the banking book on form BA 340 was conducted. Regulation 31 of the Regulations relating to Banks allows various methodologies to be adopted. The methodology used by a bank is required to be appropriate to the nature of its business and the complexity of its operations. The Department's off-site industry-wide analysis revealed that certain banks were using inappropriate reporting methodologies, given the nature and complexity of their business operations. The relevant banks were requested to change their reporting methodologies to those that were more appropriate, given their own circumstances. This resulted in the affected banks being required to allocate increased capital for equity risk in the banking book.

2.5 Operational risk

2.5.1 Introduction

Operational risk is inherent in all banking products, services and activities, and the effective management of operational risk has always been a fundamental element of banks' risk management programmes. As a result, sound operational risk management is a reflection of the effectiveness of the board and bank's management in administering its portfolio of products, services and activities. Effective operational risk response is not only about proactively reducing the downsides associated therewith, but also about seizing the opportunities for innovation and growth that may arise.

Similar to natural and human-induced disasters, most people largely ignore operational risk until it happens. Operational risk has to be minimised, whereas credit and market risk is normally *optimised*. Operational risk is the risk of loss resulting from failed or inadequate processes, people, systems and external events. Accordingly, the Department continued to promote and enhance the effectiveness of operational risk management at banks and banking groups since it contributes to enhancing the soundness of the banking system.

In line with the Department's supervisory review programme, a risk-based approach has been applied to the review of banks' operational risk. The Department recognises the principle of proportionality; in other words, the nature and extent of the operations and exposure of a bank or controlling company that will influence the nature, timing and extent of operational risk management within a bank or banking group. The bank and controlling company should have in place risk management policies and processes to identify, assess, monitor and control or mitigate operational risk. These policies and processes should be commensurate with the size and complexity of the bank and controlling company.

The work performed during the year can be summarised in the following categories:

- Focused operational risk reviews
- Processing of new applications
- Involvement in drafting operational risk consultative papers issued by the Basel Committee.



2.5.2 Focused operational risk reviews

A number of focused operational risk reviews were carried out during the year. The purpose of the reviews was, among other things, to determine whether banks had in place risk management policies and procedures to identify, assess, monitor and control or mitigate operational risk, and if banks that were using one of the four approaches for calculating operational risk capital, namely the AMA, TSA, the alternative standardised approach (ASA) or the BIA are meeting the qualifying criteria, and qualitative and quantitative standards.

The reviews were conducted in line with the risk-based supervision approach and the principle of proportionality as discussed earlier. A high-level example of the most prominent topics addressed during 2010 is as follows:

- Review of the management information reports or “dashboards” used for operational risk management on a group consolidated, bank, major subsidiary and material business unit level.
- Update and review of outsourcing and business continuity.
- Review of the alignment of the group strategy with the operational risk appetite statement.
- AMA banks and the AMA applicant were requested to demonstrate the use of the operational risk management framework and the operational risk measurement system.
- Findings of banks’ internal audit regarding scenarios.
- Discussion of internal and external audit reports issued during the banks’ 2009/10 financial year related to operational risk management.

The main findings from reviews are as follows:

2.5.2.1 Quality of the operational risk management information reports

The Department encouraged banks (refer to the *Annual Report 2009 Bank Supervision Department*: pages 55–56) to improve the qualitative characteristics (i.e., reliability, relevance, comparability and understandability) of the operational risk management reports on a consolidated, subsidiary and business unit level. Qualitative characteristics are those attributes that make the information provided in operational risk management reports useful. If comprehensive and useful information does not exist, managers may not be aware of the true operational risk condition of their bank and key governance players may be misled.

The scope of operational risk is broad and the base of operational risk management is wide. Operational risk should therefore not be viewed in isolation. A sound practice for senior management to follow is to ensure that staff responsible for managing operational risk co-ordinate and communicate effectively with staff members responsible for managing credit, and market and other risks, and with those in the bank who are responsible for the procurement of external services such as insurance risk transfer and outsourcing arrangements. Failure to do so could result in significant gaps or overlaps in a bank’s overall risk management programme. The operational risk management function should be able to consolidate detailed information at business unit or divisional level in a meaningful way for senior managers to assess and then determine what action to take.

During 2010, banks made good progress towards improving the quality of operational risk reporting.

2.5.2.2 Outsourcing and business continuity

The Department was satisfied with the overall work completed by banks relating to outsourcing, business continuity planning and disaster recovery planning. In a limited number of isolated cases, the Department noted instances where no disaster recovery facilities were in place for certain subcomponent parts of a business unit and where the test simulations were not satisfactory. These banks were requested to supply the Department with a progress report, including timelines, to finalise all issues in the business units related to disaster recovery.

focused operational
risk reviews

operational risk
should not be
viewed in isolation

2.5.2.3 Alignment of the group strategy with the operational risk appetite statement

Operational “risk appetite” is a high-level determination of the types of risk a bank is willing to accept, taking into account the risk/return attributes. Risk appetite is associated with strategy, such as the decision to enter the payments and settlements business. Operational “risk tolerance” is a more specific determination of the type or amount of risk a bank is willing to accept in relation to a business strategy, such as the payment activities, types, or products the bank is willing to entertain. Risk appetite and tolerance statements may be combined.

The discussions held between the banks and the Department did not focus on the differences between the tolerance and the appetite for operational risk. In order to stimulate discussion around the operational risk appetite statement (ORAS), banks were requested to demonstrate and/or explain the following:

- How did the board (or a board subcommittee) monitor adherence to ORAS
- Clear and measurable triggers form part of the ORAS or operational risk tolerance that results in remedial action
- ORAS considers all relevant risks, including risk aversion, the current financial situation, the business environment and the group’s corporate culture and strategic direction.

Since operational risk is evolving, the setting and reviewing of ORAS is not as yet a well-established practice. More time, development and maturity of banks’ operational risk management frameworks will be required to set and embed operational risk appetite.

2.5.2.4 The demonstration of the use of the operational risk management framework and operational risk measurement system

An AMA banking group is required to develop an operational risk management framework (ORMF) that enables management to manage and measure operational risk effectively. The ORMF consists of operational risk organisational and governance structures, policies, procedures and processes, and systems a bank uses in identifying, assessing, measuring, monitoring, controlling and mitigating operational risk. A banking group’s operational risk measurement system (ORMS) consists of the systems and data used to measure operational risk in order to estimate operational risk regulatory capital.

The level at which the broader ORMF processes and practices have been embedded at all organisational levels across a bank is referred to as ‘embeddedness’. The embeddedness assessment is based on the supervisory review of management’s judgement and decision-making, and is broader than a “point-in-time” assessment. Clearly, when it is used in decision-making over a sustained period, it can add to a demonstration of the level of embeddedness, and the concept should not be regarded as a one-off, single-point-in-time test. The requirement is ongoing and a bank will need to ensure that its ability to demonstrate embeddedness is not adversely impacted by change, for example, in staff, products, processes or environment.

A bank must meet the use and embeddedness requirement at the time of the initial AMA assessment, and on an ongoing business-as-usual basis. In the business-as-usual context, it is expected that the ORMF will be updated regularly, and evolve as more experience in the management and quantification of operational risk is gained.

The Department was satisfied that AMA banks’ business entity or unit heads and responsible staff had a working knowledge of the ORMS methodology (i.e., it was not regarded as a “black box”) and ORMF.

more development and maturity of operational risk management frameworks required

embeddedness assessment of management’s judgement and decision-making



2.5.2.5 Banks' internal audit findings regarding scenarios

The Department requested the AMA banks' Internal Audit Departments to include in their audit programmes for 2010 an audit of the design and operating effectiveness of scenario policies and procedures. The Department required that this audit include the documentation of the scenario elicitation process, the completeness of the scenario results and the transparency of the underlying processes used. The results of the audits were discussed with the banks involved.

As a result of the internal audit reports, the Department required banks to strengthen the

- attendance of scenario workshops and enhance the governance over the approval of scenarios; and
- challenge of scenarios, where scenario severities were decreased without substantiating documentation or were in conflict with the current control environment.

2.5.2.6 Discussion of internal and external audit reports

The board of directors of a bank should ensure that the bank's operational risk framework is subject to effective independent review by audit. Audit coverage should be adequate to verify independently that the bank's operational risk framework has been implemented as intended and is functioning effectively. The Department included the following during the focused operational risk reviews:

- Discussion of group internal audit reports issued during the banks' 2009/10 financial year related to operational risk management. Not only operational risk-specific audits were included in the discussions, but also audits where operational risk-related issues were the cause of unsatisfactory opinions.
- Discussion of issues raised by the banks' external auditors in reports to management during the interim and year-end audit that are related to operational risk.

The discussions contributed to the information-gathering process and supervisory review and evaluation process.

2.5.3 Addressing shortcomings or weaknesses and implementing improvements

For the limited number of cases where the Department was not satisfied with the level, status, sophistication or practical application of operational risk management, the banks concerned were requested to address shortcomings or weaknesses and implement improvements. These banks provided the Department with feedback on a regular basis and the Department is comfortable with the progress made.

2.5.4 The processing of new applications

The Department received one application from a banking group to adopt a more appropriate and sophisticated approach to calculate the operational risk exposure and regulatory capital. The application was in respect of AMA. The application and approval processes were similar to those followed in the previous years (please refer to the *Annual Report Bank Supervision Department 2007*: pages 33, 34). The applicant banking group was granted approval to adopt the mentioned approach.

2.5.5 Status of banks per operational risk approach

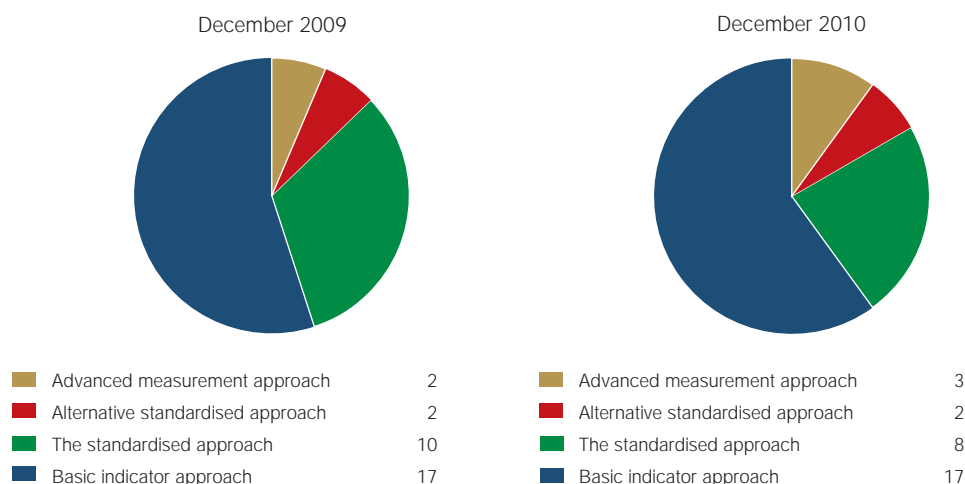
As at the end of 2010, the number of banks that was using the respective approaches for operational risk was as follows:

audit coverage
should be adequate

application to adopt
a more sophisticated
approach to calculate
operational risk
exposure and
regulatory capital



Figure 2.2 Number of banks per operational risk approach



The difference in the number of banks-per-capital approach between 2010 and 2009 is attributable to the one bank moving from TSA to AMA and another, namely Imperial Bank Limited, being deregistered in 2010.

2.5.6 Operational risk consultative papers issued by the Basel Committee

The Department continually monitors developments with regard to operational risk. In this regard the Basel Committee issued two consultative documents on operational risk in December 2010, namely “Sound Practices for the Management and Supervision of Operational Risk” and “Operational Risk: Supervisory Guidelines for the Advanced Measurement Approaches”.

“Sound Practices for the Management and Supervision of Operational Risk”⁷ updates the Basel Committee’s 2003 paper on this topic. The updated version highlights the evolution of operational risk management since 2003, and is based on best industry practice and supervisory experience. The Basel Committee anticipated that industry sound practice would continue to evolve, and banks and supervisors have expanded their knowledge and experience in implementing operational risk management frameworks. A range of practice reviews covering governance, data and modelling issues, loss data collection exercises, and QISs have also contributed to industry and supervisory knowledge, and the emergence of sound industry practice. The principles outlined in the paper are discussed in the context of three overarching themes: (i) governance, (ii) risk management and (iii) disclosure.

The Basel Committee also issued for consultation a paper titled “Operational Risk: Supervisory Guidelines for the Advanced Measurement Approaches”.⁸ The regulatory capital-adequacy framework envisages that, over time, the operational risk discipline would continue to mature and converge towards a narrower band of effective risk management and measurement practices. The guidance seeks to achieve this better by setting out supervisory guidelines. Consistent with SIGOR’s mandate, this paper identifies supervisory guidelines associated with the development and maintenance of key internal governance, data and modelling frameworks underlying an AMA. Because operational risk is an emerging discipline, this paper is intended to be an evergreen document and, as further issues are identified and expectations for convergence towards a narrower range of appropriate practices are developed, they too will be added to the document. This paper does not reduce or supersede the discretion of national supervisors to act in a manner that is consistent with their particular regulatory approaches. Rather, the

⁷ Available at <http://www.bis.org/publ/bcbs183.htm>.

⁸ Available at <http://www.bis.org/publ/bcbs184.htm>.



publication of this paper is intended to facilitate a convergence of practice by banks and national supervisors. Furthermore, while the status of banks accredited to use an AMA framework will not be affected by the observations and conclusions of this paper, some AMA banks may need to amend their practices to reflect the paper's contents.

The aforementioned two proposals are also likely to have an impact on the current regulatory and supervisory framework in South Africa, particularly relating to operational risk management. Furthermore, as a member of the Basel Committee, South Africa would be expected to adopt the proposals once they have been finalised.

South African banks were invited to respond to these proposals, highlighting any practical difficulties foreseen or potential effects on both themselves and the general banking sector that would require some consideration from the Basel Committee.

2.5.7 Conclusion

Although the Department is satisfied with the management of operational risk from a sectoral perspective, there is room for improvement. Banks were, yet again, encouraged to monitor the ongoing move of operational risk towards the act of managing risk rather than merely keeping score. Because operational risk management is evolving and the business environment is constantly changing, management should ensure that operational risk policies, processes and systems remain sufficiently robust. Improvements in operational risk management will depend on the degree to which operational risk managers' concerns are considered, and the willingness of senior management to act promptly and appropriately on their warnings. A constant challenge for management is to validate that sufficient assurance can be placed on the design and operating effectiveness of the operational risk framework, policies, procedures and internal controls to identify, assess, monitor and control or mitigate operational risk to which the entity is exposed.

banks encouraged to move operational risk towards the act of managing risk rather than merely keeping score

2.6 Pillar 2: Capital management

2.6.1 Introduction

As stated in the Department's 2009 Annual Report, the focus areas of the ICAAP reviews for 2009 were on the five largest banks. Furthermore, future work would focus on the following during 2010:

- Finalisation of ICAAP reviews of smaller banks
- Commencement of ICAAP reviews of branches of foreign institutions.

The general consensus on the small banks' ICAAPs is that, in most of the cases, risk management processes are in place, but their articulation in the ICAAP document is poor. Pertinent risk areas for smaller banks operating in niche areas of expertise that require more attention include concentration risk, interest rate risk in the banking book and business risk. As regards larger banks, ICAAPs are constantly improved upon and refined. Credit risk remained the most significant risk area for larger banks.

2.6.2 Overview of the analysis of unsecured retail loans in the South African industry and the level of capital to be held by banks that adopt different approaches to measure credit risk

During 2009–10, the Department conducted ICAAP on-site reviews at banks whose main business is that of granting unsecured finance in the retail market. These banks did not have sufficient internal data to enable the comparison between the IRB approach and STA. The

the Department conducted ICAAP on-site reviews at banks



comparison was necessary in order to assess the sufficiency of capital held by banks that apply STA in this particular market segment.

Subsequent to the ICAAP on-site reviews, the Department conducted an industry analysis of banks that had adopted the IRB approach in South Africa. The analysis included unsecured retail loans, less than R30 000, including loans where the maximum National Credit Act (NCA) interest rates were charged. The aforementioned industry analysis showed that the amount of capital held by IRB banks was significantly more than the amount held by banks on the STA, with similar portfolios. Furthermore, in order to ensure level playing fields, these data would be used to determine the individual capital requirements for banks on STA in the same niche market.

Based on the review of the aforementioned unsecured lending books of three large IRB banks, it was evident that the three banks that applied the IRB approach held 3,13 times more required RWAs than banks that had adopted STA.

It should be noted that the above-mentioned study only attempted to ascertain the sufficiency of capital requirements relating to credit risk, and excluded other risk areas such as operational risk, business risk and concentration risk.

2.6.3 Capital floors

Directive 9/2009 issued in terms of section 6(6) of the Banks Act, 1990 requires banks to be subject to capital floors in their first four years of implementing IRB approaches for credit or the AMA for operational risk. Capital floors were put in place in order to ensure that large amounts of capital were not released when banks adopted more advanced approaches in respect of credit risk and operational risk.

In respect of banks that had adopted the IRB approach since 1 January 2008, the capital floor requirement was based on 95 per cent of the Basel I figure. Since 1 January 2010 the requirement has been reduced to 90 per cent.

The Department monitored the capital floor reporting by banks during the year under review and in certain instances requested the external auditors to review the accuracy of capital floor calculations. Three banks were required to hold more capital during various reporting periods in 2010, in order to comply with capital floor requirements.

2.6.4 Participation in the Basel Committee (Basel III) Quantitative Impact Study

As a member of the Basel Committee, South Africa participated in the comprehensive quantitative impact assessment. A total of seven locally registered South African banks were requested to take part in the assessment. The selected banks and their dedicated employees were instrumental in ensuring South Africa's successful participation in the aforementioned exercise.

Participating banks first submitted data on 30 April 2010, whereafter the Basel Committee required that they submit additional data. All South African banks submitted the required data on time; the deadline for the submission of completed templates containing additional data to this Office was 23 September 2010. Notwithstanding the tight deadlines, all participating bank submissions and corrections were made on time.

It was of the utmost importance that the Department received accurate data from participating banks for onward transmission to the Basel Committee. Therefore, the following actions were taken:

- South African banks participating in the impact assessment were requested to comment on the accuracy of the proposed templates and instruction document, before the final documents were released by the Basel Committee.
- In order to ensure that banks understood what was required and to clarify interpretational issues on the templates, the Department collated questions from participating banks and provided responses to those questions. On 18 March 2010 a workshop was held with all participating banks to clarify and discuss interpretational issues.

- Meetings were held with participating banks, where the preliminary results of their submissions were discussed and so too final corrections, where necessary, before the data were sent to the Basel Committee in May 2010.
- The Basel Committee's list of frequently asked questions was released to participating banks, as and when it was updated. The extensive question-and-answer documents ensured that the submission templates were completed in a uniform manner, thereby facilitating comparison between global banks.
- The Department and members of the various working groups of the Basel Committee received the data.

The data collected in comprehensive quantitative impact assessments were used by the Basel Committee to determine the final calibration of the new Basel III requirements. The impact assessment also gauged what the impact of the Basel III rules would be on participating banks and participating countries.

The final outcome of the work done by the QIS Working Group, the PDG and the Basel Committee was the Basel III rules that were subsequently published by the Basel Committee in 2010, together with a public report on the data collected.⁹

2.6.5 Overview of Basel Committee press releases or papers relating to capital, and the Department's comments

The Basel Committee issued the following consultative documents and requested comments thereon:

- "Strengthening the Resilience of the Banking Sector (December 2009)"
- "Countercyclical Capital Buffer Proposal (July 2010)"
- "Basel Committee Proposal to Ensure the Loss Absorbency of Regulatory Capital at the Point of Non-Viability (August 2010)"
- "Capitalisation of Bank Exposures to Central Counterparties (December 2010)".

The aforementioned consultative documents contained proposed regulatory capital-adequacy rules that would impact on the current regulatory and supervisory framework in South Africa. Furthermore, as a member of the Basel Committee, South Africa would be expected to implement the proposals once they have been finalised.

It was therefore necessary and important for the South African banking sector to respond to these proposals, highlighting the potential effects on both themselves and the industry, and setting out practical aspects to be considered with respect to their implementation. In this regard, the Department facilitated a sector response to the Basel Committee.

2.7 Pillar 3: Disclosure

2.7.1 Introduction

Following the FSB's release of a document titled "Thematic Review on Risk Disclosures by Market Participants" in June 2010, the Department provided input by means of a review template on the thematic review of the implementation by FSB member jurisdictions of the risk disclosure recommendations of the April 2008 FSB *Report on Enhancing Market and Institutional Resilience*.

The review template was structured around the three recommendations contained in the above-mentioned FSB 2008 report.

Basel Committee to determine the final calibration of Basel III requirements

South Africa to implement proposals once they have been finalised

⁹ Available at: <http://www.bis.org/list/basel3/index.htm>.



Part 1 on recommendation III.1 of the April 2008 report enquired about supervisory dialogue with firms involved in leading-practice risk disclosures to the public, and the extent to which these firms had made the identified disclosures in 2008 and subsequent periods.

Part 2 on recommendation III.2 was based on industry efforts to identify the principles for useful risk disclosures, or to identify any specific additional recommended disclosures, going forward.

Part 3 on recommendation III.3 questioned the steps taken or planned by supervisors to implement the Basel II Pillar 3 disclosure enhancements recommended by the Basel Committee in July 2009 by the end of 2010.

2.7.2 Overview of the process of assessing disclosure

The process followed in assessing the Pillar 3 disclosure of banks comprised the following steps:

- Step 1:* The Department reviewed banks' disclosures as published on their websites and as part of their annual reports.
- Step 2:* The disclosures were benchmarked against the requirements of regulation 43 of the Regulations relating to Banks.
- Step 3:* The Department provided feedback on the banks' disclosures during structured meetings, and gaps identified with regard to these disclosures were highlighted.
- Step 4:* A letter summarising all the findings was sent to each bank for its comments on the overall assessment and feedback on the steps it intended to implement in order to ensure full compliance with the disclosure requirements.
- Step 5:* The banks' responses were analysed, and their compliance with the requirements was followed up in future disclosures to determine whether the specific identified gaps and/or areas of non-compliance had since been rectified.

The Pillar 3 disclosure reviews focused on large banks and some of the medium-sized banks in South Africa. A disclosure template was developed and used for the aforementioned benchmarking exercise. The key objective of the Pillar 3 reviews performed by the Department was to assist banks in complying with all the disclosure requirements that were applicable to them by identifying gaps and making appropriate recommendations.

2.7.3 Key findings

The Department noted a marked improvement in the level of public disclosure by banks since the January 2008 Basel II implementation date. All the banks reviewed during 2010 were found to be taking appropriate steps to move towards full compliance with the requirements of regulation 43 of the Regulations relating to Banks. However, the Department identified the following common disclosure weaknesses:

- Most of the banks did not disclose the differences between the manner in which the entities within the group were consolidated for accounting and for regulatory purposes.
- Bank capital requirements for all the different risk areas were not disclosed in the required format; RWAs instead of capital requirements were disclosed.
- With regard to credit risk the following was noted:
 - The non-disclosure of banks' average amount of gross exposure during the reporting period, which amount should be calculated on a daily average basis
 - In the case of disclosure of the maturity breakdown of the bank's credit portfolio, which should be based on the residual contractual maturity of the said exposures, it was found that in most cases banks were not disclosing the information for each major type of credit exposure
 - In the case of historical information, it was found that banks that had adopted the IRB approach for measurement of credit risk did not disclose quantitative information relating to historical results on the amount of actual losses (i.e., amounts written off and specific

disclosure template was developed and used for benchmarking exercise

the Department identified common disclosure weaknesses



provisions raised) in respect of the period preceding the current financial year, including sufficiently detailed information in respect of

- the extent to which the loss amounts differed from the past experience and the factors that impacted on the bank's loss experience; and
 - a comparison between the bank's risk estimates and actual outcome over a sufficiently long period to assess the bank's internal rating processes with reasons for any material differences
- With respect to market risk, some banks did not disclose the cumulative amount of gains or losses they had realised from the sale or liquidation of positions held in the bank's banking book during the current reporting period.

2.8 Stress testing

2.8.1 Introduction

'Stress testing', as defined by the BIS, is a risk management technique that is used to evaluate the potential effects of a specific event and/or movement in a set of financial variables on an institution's financial condition. As financial resources fall and as requirements for these resources are likely to rise in times of stress, stress testing is a key tool used by regulators for understanding the appropriate level of resources required to ensure that banks remain solvent and liquid during difficult times. From a supervisory perspective, it is of paramount importance that the Department objectively establishes that South African banks are capitalised adequately. In this regard, the capital buffer, as confirmed in the stress-testing approach, forms a major element.

It is necessary for banks and other financial institutions to hold sufficient capital and liquidity buffers to protect themselves against severe unexpected events. Shareholders, investors and depositors need to be confident that the banking system will not become distressed to the point of failure, whatever the future state of the economy. Stress testing is an important input to the capital-adequacy assessment process and decisions concerning the adequacy of capital buffers.

stress testing is an important input

2.8.2 Overview of common scenario stress-testing exercise

Performing stress testing based on common scenarios is one of the principles for sound stress testing as outlined by the BIS. During 2010, the Department performed a common scenario stress-testing exercise on the South African banking system. A common scenario exercise requires all participating entities to apply the same scenarios, whereas the banks may perform internal stress-testing exercises using bespoke scenarios.

The overall objective of the exercise was to identify and assess the vulnerabilities of the South African banking system under different plausible stressed macroeconomic scenarios. Each participating bank independently applied the set of common macroeconomic scenarios provided by the Department, and the Department collated and compared the results. The results were measured in terms of the impact of the scenarios on the capital-adequacy and liquidity profile of the banking system.

banks independently applied the set of common macroeconomic scenarios

Participating banks' results were aggregated to provide a view of the total banking industry's vulnerabilities. Since factors such as size, complexity, business models and risk profile are built into the results of each bank, the aggregate results presented in this report cannot be directly linked to individual banks. Since the participating banks, being the five largest banks, represent approximately 90 per cent of the South African banking sector, the results of the stress-testing exercise can be interpreted as being representative of the total banking sector.

2.8.3 Process followed

The exercise targeted the macroeconomic effects at the South African banking group level, excluding insurance entities, and as alluded to above, the scope was limited to the five largest South African banks representing the majority of the balance-sheet size of the banking system.



Workshops were held with participating banks in order to ensure that there was consistency in translating the scenarios to internal risk parameters. Using internal risk models and granular portfolio data, banks generated financial results reflecting the impact of the stress scenarios.

The exercise was conducted with the assumption that the regulatory environment would remain unchanged, since the Basel Committee was still finalising Basel III reforms. Performing the exercise with the assumption that the Basel III reforms are effective may yield different results.

The stress scenarios were orientated to elicit the effects of stress on credit risk, market risk, counterparty credit risk, interest-rate risk in the banking book (IRRBB) and liquidity risk. Credit risk and IRRBB were stressed via macroeconomic scenarios, whereas the balance of the risk types was stressed using event type scenarios.

2.8.4 Development of scenarios

The scenarios were developed in two phases. In the first phase, workshops focused on developing a list of financial variables for each scenario. Thirteen variables were selected for the three macroeconomic scenarios; twenty-six event scenarios were developed for market and counterparty credit risk, and two event scenarios for liquidity risk. During the second phase, the Department, in consultation with other departments in the Bank, quantified each variable for the different scenarios, with a view to creating economically consistent scenarios.

The first scenario generated was the base case scenario, an expectation of how the economy may evolve over the three years (from 2010 to 2012) from the start of the exercise. This scenario is required to measure the impact of the stressed scenarios from the base case. The base case is characterised by a slow return to normal growth, inflation close to the upper target band and moderate interest rates.

In scenario 1 there is a mild decline in GDP growth, and inflation is above the upper target band due to the larger-than-expected second-round effects of electricity price increases, interest rates increase and property price growth slows. However, owing to the short duration of the stress, limited policy intervention is required in 2011–12.

Scenario 2 is characterised by a rapid decline in output due to an escalation of the global debt crisis. However, owing to the lower base in 2009, the average over 2010 remains positive. Interest rate spreads widen (mostly due to the lack of confidence in the global financial system), causing an increasing interest rate environment. This, coupled with the limited ability of South Africa's major trading partners to implement expansionary fiscal and monetary policy, slows the domestic recovery.

The scenarios for market and counterparty credit risk broadly address the effects of shocks in interest rates; the price of equity, currency and commodities; counterparty risk; and issuer failure.

2.8.5 Results of the common scenario stress-testing exercise

2.8.5.1 Credit risk

Table 2.1 illustrates the effects of the three scenarios on loans and advances. Lower levels of loans and advances result under the more severe scenarios. Growth declines for both stressed scenarios in year 2 (2011), by 1 per cent for scenario 1 and 12 per cent for scenario 2.

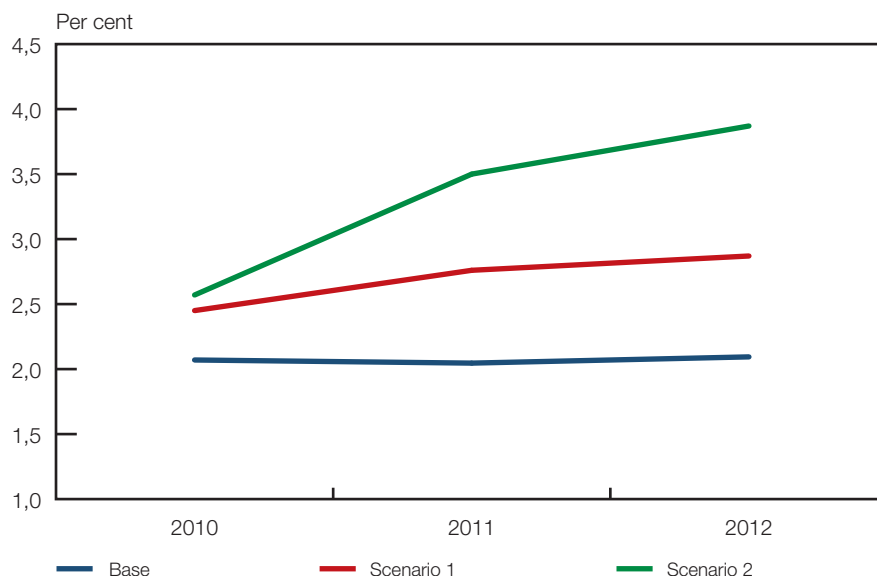
Table 2.1 Loans and advances over time for all scenarios

	Base		Scenario 1		Scenario 2	
	Loans and advances	Growth (per cent)	Loans and advances	Growth (per cent)	Loans and advances	Growth (per cent)
2010.....	2,837		2,743		2,656	
2011.....	3,155	11	2,703	-1	2,332	-12
2012.....	3,491	11	2,903	4	2,418	6



Figure 2.3 illustrates the impairment ratio, that is, total impairments as a percentage of gross loans and advances, for each scenario over time. The impairment ratio remains virtually unchanged for the base case, increasing slightly from 2,07 per cent to 2,09 per cent. The impact of the deteriorated macroeconomic conditions on the credit risk exposures can be observed by the increase in the impairment ratio for scenario 2 from 2,58 to 3,88 per cent in 2012, almost double the ratio for the base case.

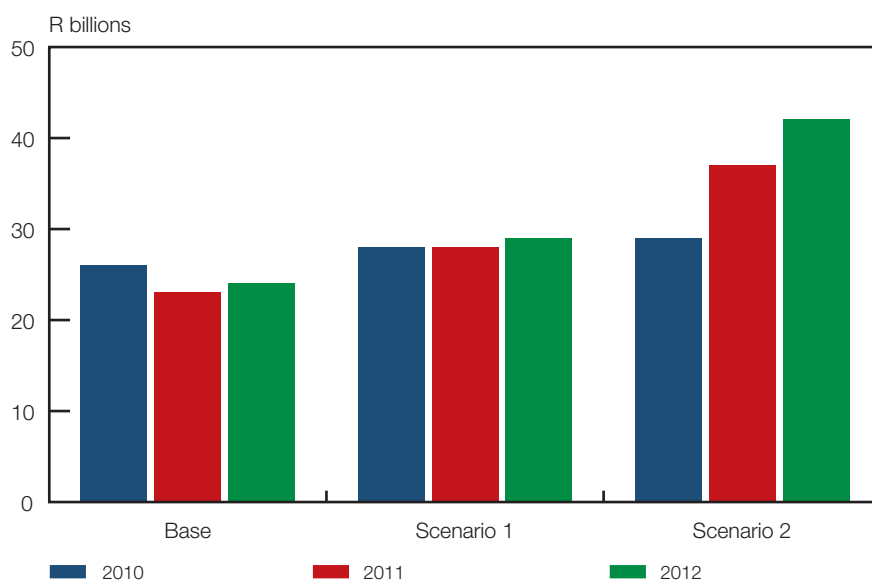
Figure 2.3 Impairments as a percentage of loans and advances



The rand amount of the credit losses for each scenario is depicted in Figure 2.4. Only the credit losses for scenario 2 exhibited substantial change, increasing from R30 billion in 2010 to R42 billion in 2012.

credit losses for scenario 2 increased

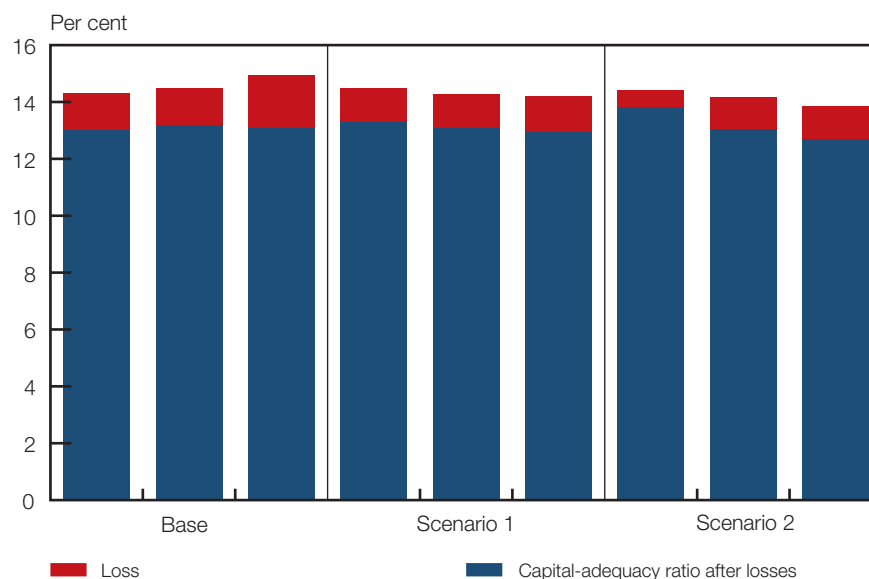
Figure 2.4 Credit losses



2.8.5.2 Market and counterparty credit risk

The market and counterparty credit risk scenarios that led to a loss for the industry were aggregated and assumed to realise in 2010. This aggregated loss was subtracted from the available capital and is depicted as the red data series in Figure 2.5.

Figure 2.5 Capital-adequacy ratio after subtraction of losses



Such a simultaneous occurrence of multiple stress events occurring is highly unlikely. However, the banking system remained adequately capitalised.

2.8.5.3 Liquidity risk

Liquidity risk was assessed via the LCR, which measures the ratio of available high-quality liquid assets to the net cash outflows expected over a 30-day period of system-wide stress, and the aggregation assumed that the cash outflows were to parties outside the banking sector. Two different liquid asset stress scenario definitions were used: (i) baseline narrow and (ii) baseline broad. The difference between the scenarios is the inclusion of bonds in the broad scenario. The results of the exercise are illustrated in Table 2.2.

Table 2.2 Liquidity coverage ratio

	Baseline narrow	Baseline broad
Total liquid assets (R billions)	172	174
Net cash outflows (R billions).....	367	367
Liquidity coverage ratio (per cent).....	46,8	47,4

The ratios are similar under both scenarios, as the broad definition includes only an additional R2 billion of liquid assets. These ratios fail to meet the target of 100 per cent.

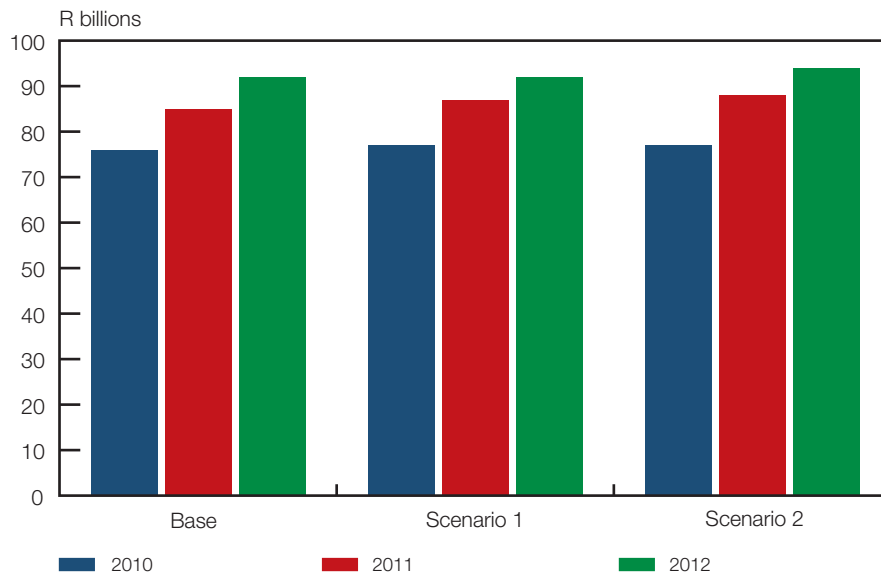
2.8.5.4 Profitability and capital adequacy

The net interest income increase for all the scenarios over time, offsetting to some degree the credit losses discussed in section 2.8.5.1, is illustrated in Figure 2.6.

two different liquid asset stress scenario definitions were used

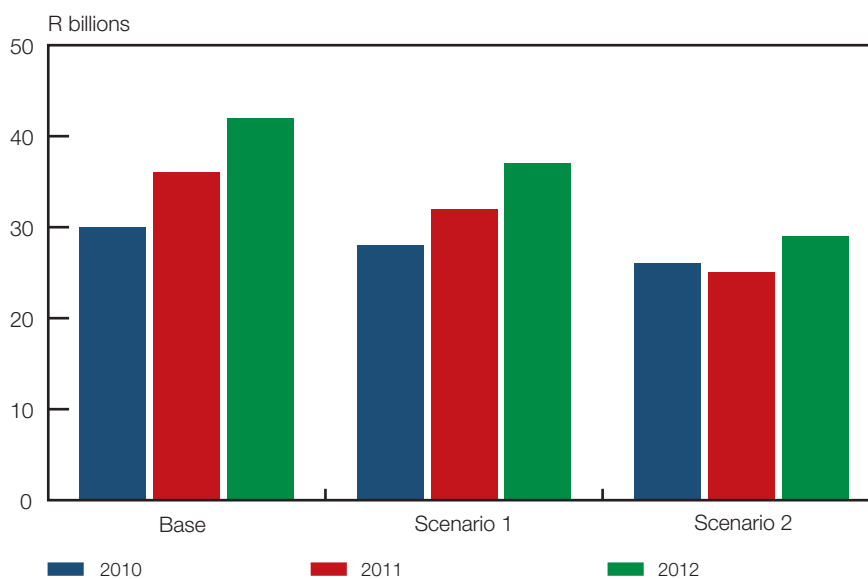


Figure 2.6 Net interest income



The impact of the macroeconomic scenarios on profitability is shown in Figure 2.7. The profitability under the stress scenarios is lower than that for the base case. However, the system remains profitable across all years.

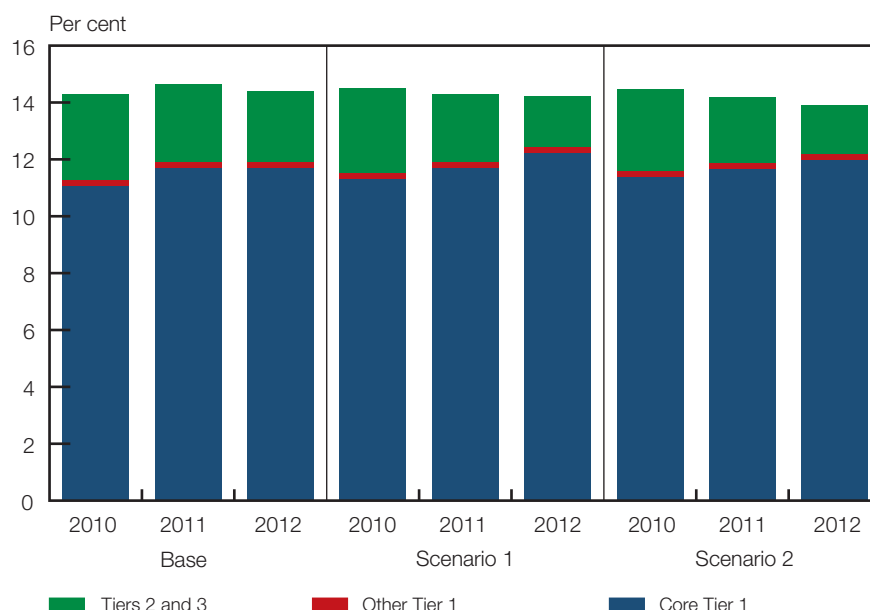
Figure 2.7 Impact of macroeconomic scenarios on profitability



The banks remained adequately capitalised throughout the three-year period of the forecast period, including under the stress scenarios (refer to Figure 2.8).

banks remained
adequately
capitalised

Figure 2.8 Capital composition



2.8.6 Conclusion

The required capital emanating from the common scenario stress exercise remains remarkably stable for credit risk and, with subdued demand for credit, capital requirements remain stable. Despite a substantial increase in credit risk losses in scenarios 1 and 2, these losses remained within manageable levels.

The impact of the market risk events is limited. Even including the full set of events, at the worst possible date, the impact on the capital adequacy is manageable, with banks maintaining a healthy capital buffer against a stable capital base.

For IRRBB the impact of these scenarios is positive, as it offsets the credit losses associated with the increased interest rates.

The liquidity risk results show that as a banking system, cash outflows to the extent of the definition of the LCR would leave the South African banking system with a large shortage of liquidity. These results, however, do not consider the expected increased liquid assets as the banking system prepares itself for the implementation of the liquidity risk reforms.

Overall, the capital adequacy of the banking system remained strong in all these scenarios, both from an aggregate perspective, and a composition and quality perspective. It is important to state that the impact of the implementation of the Basel III changes is not reflected in these stress results and that the results might be different once these Basel III reforms have been implemented.

losses remained within manageable levels



Chapter 3: Developments relating to banking legislation

3.1 Introduction

A key responsibility of the 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 reflect local and international market developments, and to comply with the applicable international regulatory and supervisory standards and best practices. Therefore, the Department reviews the banking legislation, that is, the Banks Act, 1990, the Mutual Banks Act, 1993 (Act No. 124 of 1993), the regulations issued in respect thereof and other pieces of related banking legislation on an ongoing basis, and makes recommendations to the Minister to effect the necessary amendments thereto.

This chapter provides some insight into the key initiatives monitored and developments considered by the Department, and the proposed amendments to the Banks Act, 1990 and the Regulations relating to Banks, and the timing thereof. In addition, information relating to illegal deposit-taking, and developments with regard to the Companies Act, 2008 (Act No. 71 of 2008) (New Companies Act) and the Postbank are provided.

3.2 The Banks Act, 1990 and Regulations relating to Banks

The Banks Act, 1990 and Regulations relating to Banks were last comprehensively amended on 1 January 2008, in the main, to comply with the principles and requirements contained in the Basel II framework issued by the Basel Committee. Since then, the Department has been monitoring, among others, the developments relating to G-20 discussions, and the press releases, publications and directives issued by the Basel Committee and the FSB, on the one hand, and developments relating to the new Companies Act; the *King Report on Governance for South Africa* and *King Code of Governance Principles* (King III); and court decisions, on the other, in order to identify possible areas that would necessitate amendments to the Banks Act, 1990 and/or the Regulations relating to Banks.

Finality has not yet been reached on a number of initiatives and developments monitored by the Department. However, where requirements have been finalised and issued by international standard-setting bodies such as the Basel Committee, or in instances where sufficient certainty or clarity has been obtained, the Department formulated further proposed amendments to the Banks Act, 1990 and the Regulations relating to Banks.

various requirements
finalised and issued by
international standard-
setting bodies

3.3 Initiatives monitored and developments considered by the Department

3.3.1 Core Principles for Effective Banking Supervision

During October 2006, the Basel Committee issued a revised version of its Core Principles. Subsequently, the Department thoroughly assessed its compliance with the revised Core Principles, and identified some gaps in the legal framework and supervisory process, most of which have been addressed, while some are in the process of being addressed.

3.3.2 Assessments by international bodies

In 2008 the Department was subjected to, or involved in, a number of international assessments:

- A voluntary pilot project launched jointly by the IMF and World Bank to assess the Department's implementation of Basel II



- A scheduled FSAP by the World Bank and the IMF
- A scheduled assessment of South Africa's compliance with AML/CFT recommendations of FATF.

During 2009–10, the Department was subjected to an Article IV Consultation with the World Bank and the IMF in order to assess its compliance with the Core Principles that were updated and issued by the Basel Committee in October 2006. A ROSC was issued in 2010 in this regard.

Although the reports pertaining to the above-mentioned assessments have been favourable in general, there are some areas of the legal framework that need attention or refinement to comply fully with the stated standards and requirements.

3.3.3 International developments related to the global financial crisis

Following the secondary effects of the global financial and economic crisis, which included the worldwide securitisation markets, the Department commissioned the audit, tax and advisory firm KPMG to conduct an investigation into securitisation schemes operated by banks in South Africa. The final report issued by KPMG suggested certain improvements to the existing legal framework that would be considered by the Department to identify those areas where amendments to the existing framework were required.

During 2010, the Department also participated in various working groups established by the NT in order to comment on, or implement proposals issued by, the G-20 working groups that were established to deal with the causes and effects of the global financial and economic crises. Although the G-20 working groups are considering a large number of issues, not all matters have been finalised. Thus far, the Department has not identified any issue that would necessitate an amendment to the Banks Act, 1990 in this regard, although various amendments to the Regulations relating to Banks have been identified.

At a meeting of the Standing Committee for the Revision of the Banks Act, 1990 (Standing Committee) held on 26 April 2010, a proposed first draft of the Banks Amendment Bill, 2010 was approved to be published for public comment. The comments that were received were considered and incorporated where they were found to be necessary or appropriate. Draft 2 of the Banks Amendment Bill, 2010 was tabled and approved subject to certain amendments at a meeting of the Standing Committee held on 9 July 2010. Draft 2 was then published for comment and the Department only received a few comments. Some comments were incorporated into Draft 3 of the Banks Amendment Bill, 2010 that was then tabled at a meeting of the Standing Committee held on 14 September 2010.

Subsequently, the Department received further representations from certain banks that are under consideration. The Department is also considering further amendments to the Banks Act, 1990. The date for the implementation of the new Companies Act, 2008 is, however, crucial before the Banks Amendment Bill, 2010 can be submitted to the Minister and, in turn, for him to initiate the parliamentary process.

Nevertheless, based on the internationally agreed amended requirements, best practices and standards issued by international standard-setting bodies such as the G-20, FSB and the Basel Committee, as discussed in further detail in Chapters 1 and 2 of this report, and in accordance with the mission of the Department to promote the soundness of the banking system and to minimise systemic risk through the effective and efficient application of international regulatory and supervisory standards, and in order to ensure that the regulatory framework for banks and banking groups remains relevant and current, the Department commenced a formal process to amend the Regulations relating to Banks.

Furthermore, since the introduction on 1 January 2008 of the amended Regulations relating to Banks that incorporated, among other things, the requirements of the internationally agreed Basel II framework, the Department took various internal policy decisions in respect of specific matters that also needed to be incorporated into the Regulations relating to Banks, and identified areas in these Regulations relating to Banks that required correction or further clarification.

KPMG commissioned to conduct an investigation into securitisation schemes

formal process to amend the Regulations relating to Banks



In this regard, on 15 March 2010, 30 June 2010 and 17 December 2010 the Department respectively issued for comment Drafts 1, 2 and 3 of the proposed amended Regulations relating to Banks. The background to, and the details of, the aforementioned respective draft regulations were presented to, and considered and discussed by, the Standing Committee at its respective meetings indicated above during 2010.

It is envisaged that the proposed amended Regulations relating to Banks will be finalised and presented to the Standing Committee for final consideration and approval during the third quarter of 2011, whereafter it will be submitted to the Minister for final consideration and approval. In accordance with an international agreement regarding the implementation of specified amended requirements issued by the Basel Committee during July 2009, the amended Regulations relating to Banks will be implemented in South Africa on 1 January 2012. The latest draft version of proposed amendments to the Regulations relating to Banks is available at [www.resbank.co.za/Regulation and supervision/Bank Supervision/Banking legislation](http://www.resbank.co.za/Regulation%20and%20supervision/Bank%20Supervision/Banking%20legislation).

the amended Regulations to be implemented in South Africa on 1 January 2012

In accordance with internationally agreed transitional arrangements, the implementation of further requirements related to the strengthening of capital requirements and the introduction of global liquidity standards, as set out in the Basel III documentation published by the Basel Committee on 16 December 2010, and discussed in further detail in Chapters 1 and 2 of this report, will be phased in during predefined periods, which will commence on 1 January 2013.

3.3.4 Companies Act, 2008 (Act No. 71 of 2008)

The New Companies Act was promulgated in April 2009 but is set to become effective only during the second quarter of 2011.

Owing to the fact that banks are also public companies, the provisions of the New Companies Act have a profound effect on banks and some of the provisions of the Banks Act, 1990. The provisions of the New Companies Act have been incorporated into the Banks Amendment Bill, 2010 where applicable and/or appropriate.

the New Companies Act has a profound effect on banks

3.3.5 Current directives, circulars and guidance notes

This Department is currently considering the inclusion of relevant provisions contained in previously issued directives, circulars and guidance notes into either the Banks Amendment Bill, 2010 or the proposed amended Regulations relating to Banks.

3.4 Proposed amendments to the Banks Act, 1990

The proposed amendments set out below are the provisions as set out in Draft 2 of the Banks Amendment Bill 2010. Draft 3 of the Banks Amendment Bill, 2010 is being further refined and will be resubmitted to the Standing Committee before being published for comment during 2011.

Draft 3 of the Banks Amendment Bill, 2010 is being further refined

Definitions (section 1(1))

Inserting a definition of the Basel Committee on Banking Supervision.

Inserting the definition of 'Commission' contained in the New Companies Act and the consequent substitution of the word 'Registrar of Companies' with 'Commission' wherever such term appears in the Banks Act, 1990, being section 15(3); section 51(2)(c); section 54(8) and (8A); section 56(1) and (4); section 57(3); and section 65(1)(b), (c) and (d).

Amending the reference in the definition of 'Companies Act' to (Act No. 71 of 2008).

Replacing the reference to the Co-operatives Act, 1981 (Act No. 91 of 1981) with the Co-operatives Act, 2005 (Act No. 14 of 2005).

Inserting a definition of 'control' with reference to section 2(2) of the New Companies Act.

Amending the definition of 'director' to be in line with the New Companies Act as this definition may cast the regulatory net wider, and increase the ability of the Registrar to regulate directors of banks and controlling companies.

Deleting the words "as contemplated in paragraphs (a), (b) or (c) of the definition of 'controlling company'" from the definition of "domestic shareholder". These sections have not existed in the 1973 Companies Act for quite some time and do not appear in the New Companies Act.

Substituting the words "sections 286 and 288" in the definition of "financial statements" with the words "section 30", which is the analogous section in the New Companies Act.

Substituting the words "section 1(4)" in the definition of 'holding company' with a reference to section 1, being the analogous section in the New Companies Act.

Replacing the reference to the Co-operatives Act, 1981 (Act No. 91 of 1981) with the Co-operatives Act, 2005 (Act No. 14 of 2005) in the definition of 'liquid assets'.

Inserting a definition of 'public company' as defined in the New Companies Act.

Deleting the definition of 'Registrar of Companies' as it has become obsolete.

Replacing the reference to the *Government Gazette* as No. 30627 of 1 January 2008 in the definition of 'Regulations relating to branches'.

Substituting the words "section 1(3)" with a reference to section 1, being the analogous section in the New Companies Act.

Amending section 1(1A) paragraph (b)(iii) of the Banks Act, 1990 to refer to the Companies Act 61 of 1973. In terms of item 9(1) of schedule 5 of the New Companies Act, section 421(1) (and Chapter XIV) of the 1973 Companies Act shall continue to apply with respect to the winding-up and liquidation of companies in terms of the New Companies Act until such time as the Minister, by notice in the *Government Gazette*, has determined otherwise. In this regard, reference will need to be made to the 1973 Companies Act and section 424 shall be identified as being a section of the 1973 Companies Act.

Amending the Banks Act, 1990 by the substitution for the words "memorandum of association and articles of association" of the words "memorandum of incorporation", wherever such term appears being section 15(3); section 16(2)(b)(i); section 17(1)(c); section 18(2); section 32(1)(b); section 44(2)(c); section 56(heading) section 56(1)(a); section 56(4); section 56(5)(a); section 57(heading) section 57(1); section 57(3); section 79(3); section 86(2)(a) and (b); and section 87(1). These amendments are made to ensure that obsolete terminology is not used in the Banks Act, 1990.

Exclusions from application of Act (section 2)

The references to "Public Investment Commissioners" and the "Public Investment Commissioners Act, 1984" are to be amended to the "Public Investment Corporations Act, 2004 (Act No. 23 of 2004)".

Annual report by Registrar (section 10)

It is proposed that the wording of subsection (2) of section 10 be amended in order to state the provision in plain language.

Granting and refusal of application for authorization (section 13)

It is proposed that similar requirements relating to the foreign consolidating supervisor be inserted when a foreign institution applies for registration as a bank as is currently required of a consolidating supervisor when a foreign institution applies for the registration as a branch.



Use of the name bank (Section 22)

It is proposed that the provisions of this section also be made applicable to representative offices.

Cancellation or suspension of registration by the Registrar (Section 23)

It is proposed that a clause be inserted to make provision for a material contravention and conviction of FICA to be a cause for the suspension or cancellation of the registration of a bank.

Cancellation of registration at request of the bank (section 27)

It is proposed that the provision specifies a 75 per cent requirement for the passing of a special resolution.

Cancellation of registration upon winding-up (section 28)

The reference to section 419(1) of the 1973 Companies Act needs to be replaced with section 82(1) being the analogous reference in the New Companies Act.

Publication of information relating to banks, controlling companies, eligible institutions and representative offices of foreign institutions and the keeping of records by the Registrar (section 30)

This section needs to be amended to make reference to the concept of a “merger” as introduced in the New Companies Act and to replace the reference to Chapter XII of the 1973 Companies Act with the analogous reference in the New Companies Act, being Chapter 5.

Registration of shares in name of nominees (section 38)

The reference to the Unit Trust Control Act, 1981 is to be replaced with the Collective Investment Schemes Control Act, 2002 and the reference to the Stock Exchanges Control Act, 1985 is to be replaced with the Securities Services Act, 2004.

Application for registration as controlling company (section 43)

Since there is no definition of ‘controlling company’ in either the 1973 Companies Act or in the New Companies Act the cross-reference needs to be deleted.

Cancellation of registration at request of controlling company (section 47)

It is proposed that the provision specifies a 75 per cent requirement for the passing of a special resolution.

Application of Companies Act to banks and controlling companies (section 51)

Section 51 of the Banks Act, 1990 amends certain provisions of the 1973 Companies Act relating to the details of directors that need to be displayed on the correspondence of banks. However, there is no analogous section in the New Companies Act and should thus be deleted.

Subsidiaries, branch offices, other interests and representative offices of banks and controlling companies (section 52)

Section 52 of the Banks Act, 1990 provides that banks and controlling companies require the Registrar’s prior written approval, among others things, when acquiring an interest in any business undertaking outside the Republic of South Africa. Since the provision has a wide application, and banks and controlling companies have experienced some difficulty in conducting certain businesses abroad, it is recommended that the Registrar be afforded the power to issue a directive to specify under which circumstances a mere notification of a transaction would suffice.

Compromises, amalgamations, arrangements and other affected transactions (section 54)

The New Companies Act does not provide for “compromises” and hence the term needs to be deleted from the heading, as well as from the body of section 54.



Section 54(1)(a) needs to be amended to make reference to the concept of a “merger” as introduced by the New Companies Act.

The reference to Chapter XVA of the 1973 Companies Act needs to be replaced with the reference to the analogous chapter of the New Companies Act being Chapter 5.

Reconstruction within group of companies (section 55)

The reference in section 55(a) to section 288(1) of the 1973 Companies Act needs to be replaced with the reference to the analogous section of the New Companies Act, being section 30.

Alteration of memorandum of association or articles of association (section 56)

The references in section 56(1) of the Banks Act, 1990 to sections 44, 55, 56 or 62 of the 1973 Companies Act need to be replaced with the reference to the analogous section of the New Companies Act, namely section 16.

Alteration of memorandum of association or articles of association in accordance with direction of the Registrar (section 57)

The reference in section 57 of the Banks Act, 1990 to section 179 of the 1973 Companies Act needs to be replaced with the reference to the analogous section of the New Companies Act, namely section 61(7).

Information regarding directors and officers (section 58)

The reference in section 58 of the Banks Act, 1990 to section 215 of the 1973 Companies Act needs to be replaced with the reference to the analogous section of the New Companies Act, namely section 24(3)(b).

Directors and officers of a bank or controlling company (section 60)

Include references to section 77 of the New Companies Act relating to the liability of directors.

In terms of item 9(1) of schedule 5 of the New Companies Act, section 419 (and Chapter XIV) of the 1973 Companies Act shall continue to apply with respect to the winding-up and liquidation of companies in terms of the New Companies Act until such time as the Minister, by notice in the *Government Gazette*, has determined otherwise. In this regard, reference will need to be made to the 1973 Companies Act and section 424 shall be identified as being a section of the 1973 Companies Act.

Subsection (5)(c) of the Banks Act, 1990 is to be amended to provide for the already existing practice whereby the period of 20 working days is stayed when a form BA 020 is received that is either incomplete or that contains material errors.

It is proposed that a provision be inserted to provide that banks may have positions of or refer to employees as directors only when such persons have been appointed as a director in terms of section 66 of the 1973 Companies Act.

Appointment of auditor (section 61)

The reference to Chapter X of the 1973 Companies Act in section 61 of the Banks Act, 1990 needs to be replaced with the reference to the analogous chapter of the New Companies Act, namely Chapter 3.

The reference to “Public Accountants’ and Auditors’ Board” in section 61 of the Banks Act, 1990 is to be replaced with “Independent Regulatory Board for Auditors”.

Appointment of auditor by the Registrar (section 62)

The reference in section 62 of the Banks Act, 1990 to sections 269(4) and 271(1) of the 1973 Companies Act need to be replaced with the reference to the analogous sections of the New Companies Act, namely sections 90 and 91.

Functions of auditors in relation to Registrar (section 63)

The reference to “Public Accountants’ and Auditors’ Board” in section 63 of the Banks Act, 1990 is to be replaced with “Independent Regulatory Board for Auditors”.



Audit Committee (section 64)

The amendments to section 64 of the Banks Act, 1990 effectively combine the requirements in the New Companies Act and the Banks Act, 1990 in one comprehensive clause.

Owing to a number of processes and requirements applicable to the appointment of members to the Audit Committee by banks and controlling companies, the period of 40 days is inadequate. It is proposed that the period be increased to 90 days.

Remuneration Committee (section 64C)

It is proposed that a Remuneration Committee be prescribed by the Banks Act, 1990 for banks and controlling companies, and that its composition and functions be prescribed by inserting a new section 64C into the Banks Act, 1990.

Forwarding of certain notices, reports, returns and financial statements to the Registrar (section 65)

The references to sections of the 1973 Companies Act are to be replaced with references to the analogous sections of the New Companies Act.

Special provisions relating to winding-up or judicial management (section 68)

The section does not deal with judicial management, and hence the wording should be removed from the heading of the section.

Section 346 of the 1973 Companies Act has been replaced altogether (except to the extent necessary to give full effect to the provisions of Part G of Chapter 2).

It is suggested that section 68 of the Banks Act, 1990 be amended to provide for any application, resolution and all accompanying papers for any winding-up of a company which is a bank need to be lodged with the Registrar prior to such any winding-up order being made.

Section 357 of the 1973 Companies Act continues to apply and thus section 68(3)(b) should be amended to make reference to the fact that this is a section in the 1973 Companies Act.

Section 349 of the 1973 Companies Act has been deleted in its entirety and should be replaced with a reference to the analogous provision in the New Companies Act, being section 80.

The reference to section 419 in section 68(5)(b) of the Banks Act, 1990 must be replaced with a reference to the analogous section in the New Companies Act, being section 82(1).

Appointment of a curator for a bank (section 69)

The reference in section 69(2C)(b) of the Banks Act, 1990 to section 228 of the 1973 Companies Act needs to be replaced with the reference to the analogous section of the New Companies Act, namely section 112.

The reference in section 69(3)(f) of the Banks Act, 1990 to section 199 of the 1973 Companies Act needs to be replaced with the reference to the analogous section of the New Companies Act, namely section 65.

Shares, debentures, negotiable certificates of deposit, share warrants and promissory notes or similar instruments (section 79)

Section 79(1)(a) of the Banks Act, 1990 indicates that banks may not issue shares of no par value or convert shares into shares of no par value. The New Companies Act, in section 35, actually does away with the concept of par value shares (except when it comes to banks that are specifically carved out from the ambit of section 35). The reference in section 79(1)(a) of the Banks Act, 1990 should be replaced with the analogous section in the New Companies Act, namely section 35 (containing the reference to par value shares) and section 36 (referring to the authorisation and reclassification of shares).

The New Companies Act makes no reference to share warrants and thus section 79(1)(d) should be deleted.

Section 79(3) of the Banks Act, 1990 makes it clear that there shall be no differentiation in any of the ordinary shares of a bank and then refers to section 195(1) of the 1973 Companies Act. There is no analogous provision in the New Companies Act, hence it is proposed that section 79(3) be amended to incorporate the provisions of section 195(1) of the 1973 Companies Act.

Management and control of repayment of money unlawfully obtained (Section 84)

In terms of item 9(1) of schedule 5 of the New Companies Act, section 419 (and Chapter XIV) of the 1973 Companies Act shall continue to apply with respect to the winding-up and liquidation of companies in terms of the New Companies Act until such time as the Minister, by notice in the *Government Gazette*, has determined otherwise. In this regard reference will need to be made to the 1973 Companies Act.

Limitation of liability (section 88)

It is proposed that the term “other officer” be extended expressly to include “the inspectors and managers” mentioned above.

3.5 Illegal deposit-taking

The Department is primarily responsible for the regulation and supervision of registered banks in the Republic of South Africa. The Department neither registers nor supervises any other investment scheme. The Banks Act, 1990, however, provides that no person may conduct the “business of a bank” unless such a person is a public company and registered as a bank.

The “business of a bank” is defined in the Banks Act, 1990 and can be described as the soliciting or advertising for, or the acceptance of deposits from the general public as a regular feature of the business in question. There are a number of exclusions and exemptions to the above-mentioned definition.

One of the exemptions that was issued by the Registrar with the approval of the Minister under paragraph (cc) of the definition of “the business of a bank” in section 1 of the Banks Act, 1990 is the so-called Commercial Paper Notice that was published as Notice No. 2172 in *Government Gazette* No. 16167 on 14 December 1994 (CP Notice).

The issue of commercial paper (including debentures) by companies is legal, *provided* the issuer fully complies with the conditions stated in the CP Notice. When an issuer does not comply with one or more of the conditions of the CP Notice, the issue of debentures could constitute illegal deposit-taking in terms of the provisions of the Banks Act, 1990.

A deposit is comprehensively defined in the Banks Act, 1990, but can simply be described as an amount of money paid by one person to another person subject to an agreement in terms of which an equal amount or any part thereof will be repaid on demand, on a specified or unspecified date or in circumstances agreed upon. There are also a number of specified exceptions to the above-mentioned general definition.

Because of the legal principle of *commixtio* and the legal nature of money, when one person hands over an amount of money to another, such money (physical notes and coin) generally becomes the property of the person receiving the money, which becomes part of his or her estate. When in such a case the receptor steals the money or becomes insolvent, the transferor of such money is left in a very precarious position in that he or she is left with an unsecured concurrent claim.

This is one of the reasons why deposit-taking, that is, the conducting of the business of a bank, is such a perilous business and why banks are regulated to the degree that they are. If the taking of deposits from the general public is a precarious business for banks despite their regulation

the issue of debentures could constitute illegal deposit-taking



and ongoing supervision, it is progressively fraught with risk when deposits are taken from the general public by unregulated and unsupervised persons and entities.

The Department is afforded certain powers in terms of sections 81 to 84 of the Banks Act, 1990 to control the activities of unregistered persons. These activities are, however, confined to illegal deposit-taking only. The above-mentioned provisions provide, among other things, that the Registrar may do the following in respect of unregistered persons that are suspected of taking deposits from the general public in contravention of the Banks Act, 1990:

- Apply to court for an order prohibiting anticipated or actual schemes involved in illegal deposit-taking
- Extract information from unregistered persons
- Inspect the affairs of an unregistered person (inspectors are appointed by the Governor or a Deputy Governor of the Bank in terms of the provisions of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) (SARB Act))
- Direct such a person to repay such money if the Registrar is satisfied that a person has illegally taken deposits from the general public
- Appoint a manager to manage and control the repayment of the money unlawfully obtained.

The Department understands the rationale for the above-mentioned powers to be the following:

- Banks are subjected to stringent regulation and meticulous supervision in exchange for the right to accept deposits from the general public. It is unfair and untenable to allow unregistered persons not subjected to the same regulation and meticulous supervision to compete with banks in an unfettered manner. Depositors are easily misled into thinking that such institutions are subject to the same stringent regulation and meticulous supervision as banks. They are therefore unwittingly risking their investment funds while labouring under the mistaken belief that the repayment of their funds and their returns are “guaranteed”. The regulation of banks described above is a costly but necessary exercise in the public interest and incurred at the public’s expense. The unregulated person, however, has the advantage of freedom brought about by non-regulation and therefore competes with the regulated person unfairly. The Department is therefore empowered to take action against unregistered persons in order to prevent unfair competition with registered banks.
- Notwithstanding the fact that the taking of deposits from the general public by an unregistered person is a criminal offence, such schemes are more often than not characterised by an element of fraud, 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 a secondary illegal, harmful and/or fraudulent “banking” system from developing, it is necessary for the Department to have and enforce the above-mentioned powers.
- Another purpose of the above-mentioned powers is to contribute to depositor or investor protection.

Since the Department neither registers nor supervises unregistered persons, it is generally not aware of such schemes unless it is informed thereof by members of the public. The Department therefore only reacts to complaints received from the general public that contain sufficient details and documentary evidence to justify the Department invoking its powers in terms of the Banks Act, 1990.

During the year under review, the Department received a number of complaints, with supporting documentary evidence, pertaining to certain business activities conducted by a number of institutions. In the cases where the Department had reason to suspect that such institutions were accepting deposits from the general public as a regular feature of their business without being registered as a bank, it invoked its powers in terms of the Banks Act, 1990.

Experience has shown that when an institution conducts its business in contravention of the Banks Act, 1990, there is a reasonable likelihood that such an institution might also be contravening other legislation. The Department has therefore, as a rule, forwarded relevant information to other regulatory bodies such as the Financial Services Board, South African Revenue Service (SARS) and the Department of Trade and Industry (dti) for further investigation in terms of legislation under the administration of those bodies.

powers to control
the activities of
unregistered persons

depositors are
easily misled

schemes characterised
by an element of fraud

the Department
received a number
of complaints



When it is found that the business conducted by a person and/or institution does not constitute illegal deposit-taking, the Department does not have the legal power to investigate such a person and/or institution. The Department will, for instance, not involve itself in, among others, the following cases:

- When a person has committed fraud or theft in the operation of a scheme. These crimes are handed over to, and dealt with by, the South African Police Service
- When a person has been sequestered or an institution has been liquidated, the provisions of the Insolvency Act, 1936 take precedence over the provisions of the Banks Act, 1990, and it becomes a matter for the courts and the appointed trustee or liquidator to deal with
- When a person or institution is operating a scheme involving money-laundering, the matter is referred to, and dealt with by, the FIC.

During 2010, staff members of the Department were subpoenaed in a number of cases that had been under its inspection to provide evidence in court proceedings relating to the prosecution of persons that had allegedly contravened the Banks Act, 1990.

A case in point is the criminal trial of the operators of the Krion investment scheme that was investigated by the Department during 2001–02. The criminal trial of the alleged originator of the Krion scheme, Marietjie Prinsloo, and six other accused was held in the Pretoria High Court before Ms Justice Cynthia Pretorius and two assessors in the course of 2010. The charges ranged from racketeering to money laundering; fraud; theft; and contravening legislation relating to banks, companies, close corporations and income tax.

On 14 October 2010, almost eight years after their arrest, Marietjie Prinsloo and members of her family, whose R1,5 billion investment scheme left thousands of investors penniless, were sentenced. Marietjie Prinsloo was sentenced to an effective 25 years' imprisonment. Prinsloo's former husband, Burt Prinsloo, daughter Yolanda Lemstra, and niece, Izabel Engelbrecht, were each sentenced to an effective 12 years' imprisonment. Yolanda's husband, Gerrit Lemstra, was sentenced to an effective 15 years' imprisonment, while Prinsloo's son, Cobus Pelser, received a 5-year jail sentence. Izabel's husband, Hendrik Engelbrecht, was given a suspended sentence on two charges.

The Department compiled a five-year review of schemes investigated from January 2006 to December 2010 (refer to Table 3.1). During this period members of the general public invested approximately R14,4 billion in illegal deposit-taking schemes that were investigated by the Department, at an associated cost, as at the date of this report, of approximately R105 million in the form of payments to appointed inspectors and managers. These associated costs will further escalate pending finalisation of the investigations pertaining to the number of current schemes as reflected in Table 3.1 below. The Department received 78 new complaints relating to illegal deposit-taking schemes during the five years under review. A total of 94 schemes were investigated and 68 schemes were finalised.

Table 3.1: Inspections relating to illegal deposit-taking schemes

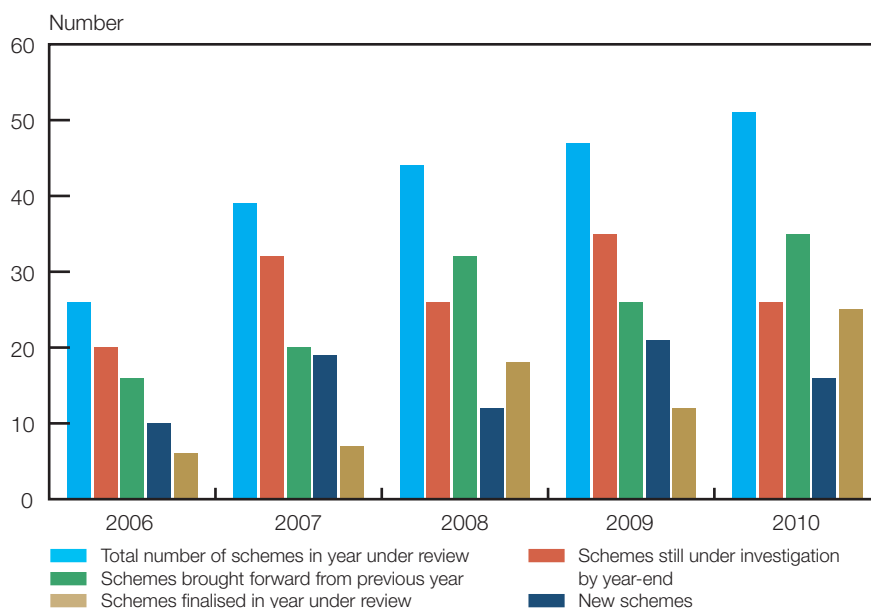
Year	Schemes brought forward from previous years	New schemes	Total number of schemes in year under review	Schemes still under investigation at year end	Schemes finalised in year under review
2006.....	16	10	26	20	6
2007.....	20	19	39	32	7
2008.....	32	12	44	26	18
2009.....	26	21	47	35	12
2010.....	35	16	51	26	25

During 2010, 16 new investigations, together with 35 investigations carried over from previous years, were undertaken. Of the total of 51 investigations, 25 had been completed and 26 still remained under investigation as at 31 December 2010.

a five-year review of schemes investigated



Figure 3.1 Inspection of illegal deposit-taking schemes



It is evident from Figure 3.1 that the total number of schemes investigated by the Department has been increasing steadily over the five-year period under review. On the one hand, it could indicate an increase in the prominence of such schemes or, on the other, an increase in the reporting of such schemes to the Department; or it could be a combination of both. One of the issues in this regard remains the timely reporting of such schemes to the Department. Schemes are usually reported only once there has been a default, meaning that such schemes had been in operation for some time involving a large number of investors and their funds, before they are brought to the Department's attention. An added challenge in this regard is that once these schemes have been reported to the Department and investigators are appointed, it takes a further period to establish the true nature of the business and the possible contravention of the Banks Act, 1990 due to the complexities of the scheme at hand. The investigation into the affairs of Sharemax Investments (Pty) Limited (Sharemax) is a case in point.

schemes investigated increased steadily

Sharemax is a private company that has operated countrywide as a facilitator or promoter in the unlisted property investment industry since 1999. Sharemax has successfully promoted property projects of more than R4 billion with about 30 000 investors investing in Sharemax's property projects. Sharemax focuses on suburban shopping centres in which individuals invest and are part owners of such commercial property. Each project or syndication is housed in a separately registered company which, in the majority of cases, acquires a shopping centre. The directors of Sharemax also become the directors of the newly established company. Members of the public are invited by means of a registered prospectus to invest in the company by means of a less than 1 cent share in the company, coupled with a R999 999,99 debenture. Investors are promised approximately 10 per cent annual return, payable monthly (depending on the product). The monthly returns are funded by the rental income generated by the leases of premises in the shopping centre.

The investigation found that Sharemax currently serviced more than 30 property syndications. The majority of the property syndications was established by purchasing an existing shopping centre by means of funds raised from the public, in essence, by means of debentures. By agreement, Sharemax would be entitled to a portion of the initial investment and a monthly administration fee. Two property syndications were, however, established by purchasing land for property development. These syndications are Zambezi Shopping Centre and The Villa Shopping Centre, both in the Pretoria area.

Apart from the complexities of the scheme operated by Sharemax, the Department and the appointed inspectors were confronted by legal issues raised by the attorneys of Sharemax in

newly established boards afforded an opportunity to construct a resolution plan

a number of instances. This had an impact on the speed with which the investigation could be completed. The Department obtained a legal opinion from senior counsel which confirmed its initial view that the funding model of Sharemax did not comply fully with the conditions prescribed by the CP Notice. Hence, the Department consulted with the CEO of Sharemax and the company attorney to discuss the opinion. Thereafter, the Department was satisfied that the funding model of Sharemax was in contravention of the CP Notice and was tantamount to illegal deposit-taking. The Department then invoked its powers in terms of section 83 of the Banks Act, 1990, and directed Sharemax and all the property syndication companies under its management to repay the funds illegally obtained. The Department also appointed inspectors as managers to manage the repayment process.

It was evident from the outset that the directive to repay could not be immediately adhered to. Owing to the fact that each property syndication was housed in a separate company that had a fixed property as an asset, the Department instructed the managers to investigate options to resolve the matter without having to resort to liquidation of all the companies. Various options were considered and a number of offers to purchase some of the property syndication companies were received, but were not followed through by the prospective purchasers.

Sharemax then decided to restructure its board of directors and to appoint three independent directors to its board and the boards of all the property syndication companies. Sharemax retained two executive directors on these boards. The Department afforded the newly established boards an opportunity to construct a resolution plan in respect of each property syndication company in an attempt to resolve the matter at hand. These plans should be forthcoming in 2011.

3.6 Update on co-operative banks

The establishment of the Co-operative Banks Development Agency (CBDA) in terms of section 54 of the Co-operative Banks Act, 2007 (Act No. 40 of 2007) (Co-operatives Banks Act), brought about the twin regulatory and supervisory units comprising the Bank and the CBDA. The Bank established the Co-operative Banking Supervision Unit (CBSU) and the CBDA a supervision unit. Their immediate tasks included overseeing the processes of, among other things, the drafting of regulations in terms of section 86 of the Act, the drafting of the rules required in terms of sections 46(1) read with 57(1) of the Act and the registration of applicants seeking to register as co-operative banks.

Following the passing of the Regulations relating to Co-operative Banks, which were signed into law on 1 July 2009 by the Minister of Finance, the Co-operative Banks Act, 1990 combined rules were approved by the Minister on 5 January 2010 and published in *Government Gazette* No. 32860 dated 12 January 2010 under the heading, "Co-operative Banks Act Supervisors' Rules".

During 2010, a total of 16 applications had been received to register co-operative banks, of which 4 are eligible to be regulated by the Bank. As at 31 December 2010 only 1 of these applications had been formally approved. It should be noted that the CBDA Supervisor has the authority to exercise the powers and perform the functions conferred in terms of the Act in respect of primary co-operative banks that hold deposits of R1 million to R20 million with at least 200 members, while primary co-operative banks that hold more than R20 million in deposits, as well as secondary and tertiary co-operatives banks, are supervised by the Bank Supervisor of Co-operative Banks.

Further developments in the co-operative banking environment were the new appointments and reappointments of members of the board of the CBDA following the expiry of the term of office at the end of July 2010 of board members, who were appointed on 15 August 2008. A statement from the Cabinet meeting of 15 September 2010 confirmed the appointments of Ms O Matshane and Mr P Koch as new members of the board for a period of three years with effect from 1 October 2010. In addition, the following were reappointed as members of the board: Mr S Ndwandwe (Chairperson), Adv E J Kuzwayo (Deputy Chairperson), Ms D Hamilton; Mr K Mahuma; Mr V Satgar and Mr J Theron.

16 applications had been received to register co-operative banks



3.7 Update on Postbank

The Department of Communications introduced the South African Postbank Bill into Parliament for the first time in November 2009. After a lengthy consultation process, the South African Postbank Limited Act, 2010 (Act No. 9 of 2010) (Postbank Act) was passed by Parliament and the President assented to it on 1 December 2010 and it was published in *Government Gazette* No. 33835 of 3 December 2010.

The *White Paper on Postal Policy* of 14 May 1998, envisaged that the Bank would exercise supervisory control over the activities of the Postbank in terms of the provisions of the Banks Act, 1990. One of the key steps that had to be taken in achieving this goal was the corporatisation of the Postbank as a public company with the ultimate aim of registering and operating as a bank.

Up until the passing of the Postbank Act, the Postbank owed its existence to sections 51(1), (3) and (4), 52, 53, 55 and 58 of the Postal Services Act, 1998 (Act No. 124 of 1998), and had been operating under an exclusion notice provided for in terms of section 2(vii) of the Banks Act, 1990.

The Postbank Act provides for the incorporation of the Postbank, a Division of the South African Post Office, and for the transfer of the enterprise of that division to the Postbank Company.

In view of the provisions of the Postbank Act, Postbank is required to apply to the Department for registration as a bank in terms of the provisions of the Banks Act, 1990. In the event that the Postbank satisfies the requirements, it will fall under the Banks Act, 1990 regulatory regime. Until such time, however, the status quo of the Postbank will remain and it will continue to fulfil the functions it currently performs.

Postbank required to apply to the Department for registration as a bank

Chapter 4: Banking-sector overview

4.1 Introduction

This chapter provides an overview of financial and risk information, compiled by means of the aggregation of data submitted during 2010 from individual South African-registered banks, including domestic branches of international banks (offshore branches and subsidiaries of South African banks are excluded). Information mostly represents aggregated solo bank information, except where indicated that it represents consolidated banking groups (refer to sections 4.3.4 and 4.6.2 for consolidated banking group information). Section 4.2.3 on the global presence of South African banks includes the banks' offshore subsidiaries, branches and representative offices (Figure 4.2). Furthermore, it should be noted that information presented on credit risk does not in all instances represent aggregated total banks data but rather the aggregated amount representing groupings of banks that adopted certain approaches to calculate minimum capital requirements.

Information in this chapter is presented for 2008, 2009 and 2010, except in areas where smoothed ratios are calculated (12-month moving averages), in which instances these ratios are provided for 2009 and 2010.

South African banking-sector information is dominated by the four largest banks, which contributed 84,6 per cent to the balance-sheet size of the total banking sector at the end of December 2010. Appendix 2 provides the balance-sheet sizes of all individual banks, and Appendix 6 provides additional financial and risk information tables.

4.2 Structural features of the banking sector

4.2.1 Banking entities registered in South Africa

The number of entities that have been registered or licensed with the Department since 2001 is presented in Table 4.1. During 2010, the number of banks reduced from 18 to 17 due to a transaction whereby the assets and liabilities of Imperial Bank Limited (Imperial) were sold and transferred to Nedbank Limited. The registration of Imperial was cancelled with effect from 1 October 2010.

The number of branches of foreign banks remained at 13 at the end of 2010. During the year, ABN AMRO Bank NV, Johannesburg Branch, was acquired by The Royal Bank of Scotland NV and its name was changed to The Royal Bank of Scotland NV South Africa Branch. Furthermore, the number of representative offices declined from 42 in December 2009 to 41 in December 2010. Refer to Appendices 2, 3, 4, 5 and 8 for further information regarding the entities registered or licensed with the Office of the Registrar of Banks at the end of 2010.

Table 4.1 South African banking sector: Number of entities registered or licensed

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Banks*.....	41	30	22	20	19	19	19	19	18	17
Mutual banks.....	2	2	2	2	2	2	2	2	2	2
Branches of international banks in the Republic of South Africa.....	15	14	15	15	15	14	14	14	13	13
Representative offices.....	56	52	44	43	47	43	46	43	42	41
Controlling companies.....	37	27	19	16	15	15	15	15	15	15
Banks under curatorship	1	1	1	0	0	0	0	0	0	0
Banks in receivership.....	0	2	2	0	0	0	0	0	0	0
Banks in final liquidation	1	1	1	2	2	2	2	2	2	2

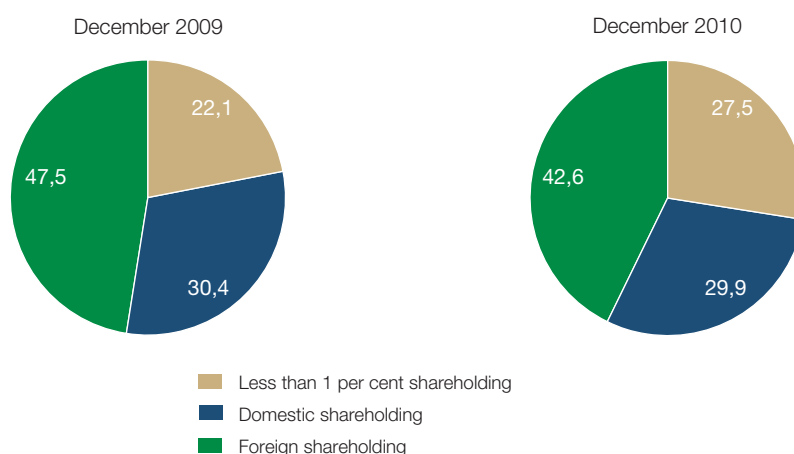
* Includes active banks and banks exempted by the Registrar of Banks (with effect from 1 July 1996) in terms of the Supervision of Financial Institutions Rationalisation Act, 1996 (Act No. 32 of 1996) and section 1(cc) of the Banks Act, 1990



4.2.2 Shareholding structure

The shareholding structure of South African banks is set out in Figure 4.1. Foreign shareholders held 42,6 per cent of the nominal value of the South African banking sector's shares in issue at the end of December 2010; lower than the 47,5 per cent recorded at the end of December 2009. The foreign shareholding of 55,5 per cent in Absa Bank Limited, one of the largest banks registered in South Africa, contributes significantly to the high percentage of banking-sector shares held by foreign shareholders. Domestic shareholders accounted for 29,9 per cent and minority shareholders 27,5 per cent of the nominal value of banking-sector shares in issue at the end of December 2010 (December 2009: 30,4 per cent and 22,1 per cent respectively).

Figure 4.1 Shareholding structure of the South African banking sector (nominal value of shares) (per cent)



4.2.3 Approval of local and foreign expansions by South African banking groups

The Core Principles prescribe that banking supervisors should have the power to review major acquisitions or investments (including the establishment of cross-border operations) by a bank or a bank controlling company against prescribed criteria. This review should confirm that corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision. Section 52 of the Banks Act, 1990 requires that banking groups obtain the prior written approval of the Registrar to establish or acquire any subsidiary, cross-border branch, representative office or any undertaking that has its registered office or principal place of business outside South Africa. Table 4.2 reflects the number of applications that has been approved by the Department since 2001. The vast majority of applications processed by the Department are submitted by the five largest banking groups.

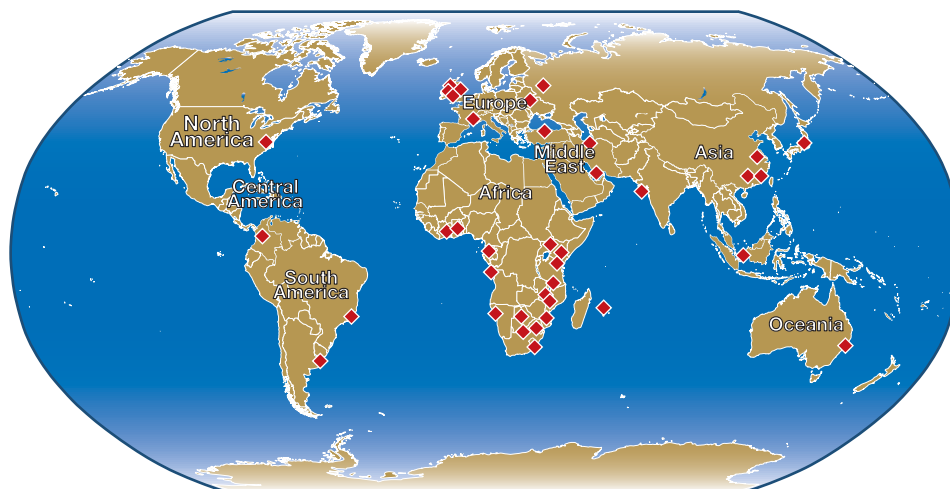
Table 4.2 South African banking sector: Number of approvals for local and international expansions granted in terms of section 52 of the Banks Act, 1990

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Local	72	47	28	16	29	16	12	15	10	16
Foreign	44	43	31	20	17	8	25	19	26	22
Total	116	90	59	36	46	24	37	34	36	38

4.2.4 Banking-sector global presence

Figure 4.2 provides the global representation of South African banking groups in respect of banking branches, subsidiaries and representative offices.

Figure 4.2 Global presence of South African banks

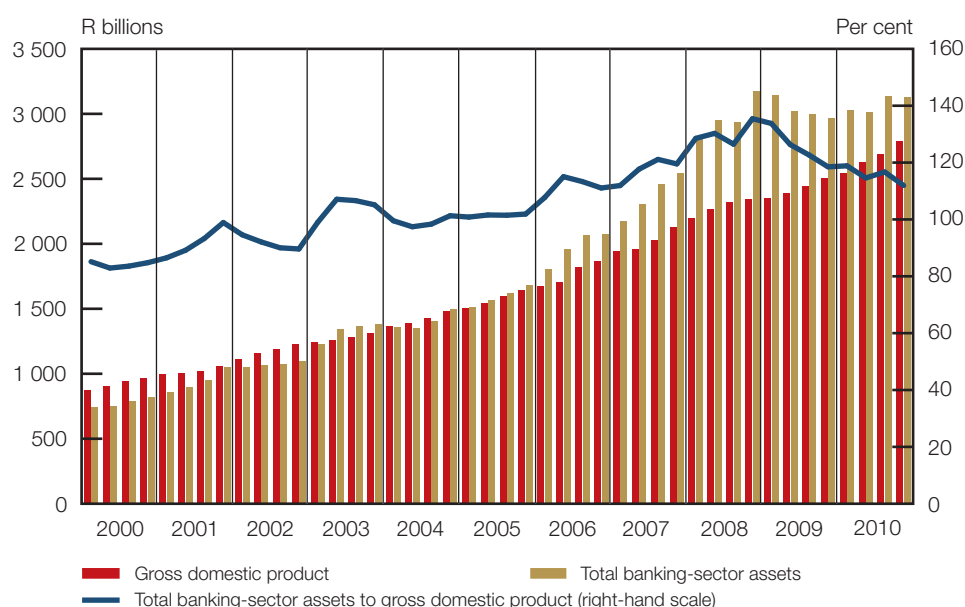


4.2.5 Banking-sector assets to gross domestic product

banking-sector assets increased marginally and amounted to R3 126 billion

Figure 4.3 depicts the balance-sheet size of the banking sector relative to that of the GDP.¹⁰ The banking-sector balance-sheet size peaked at R3 207 billion in January 2009, mainly due to a substantial increase in the nominal value of derivative financial instruments in October 2008. During 2010, banking-sector assets increased marginally and amounted to R3 126 billion at the end of December 2010 (111,9 per cent of GDP). Total assets grew year on year by 5,3 per cent during 2010, mainly due to a 3,8 per cent increase in homeloans and an increase in government securities held by the banking sector (refer to Figure 4.4).

Figure 4.3 Total banking-sector assets to gross domestic product



¹⁰ 'Gross domestic product' refers to the gross domestic product at market prices, as published in the South African Reserve Bank *Quarterly Bulletin*, reference code NRI 6006L, March 2011, p. S-108.

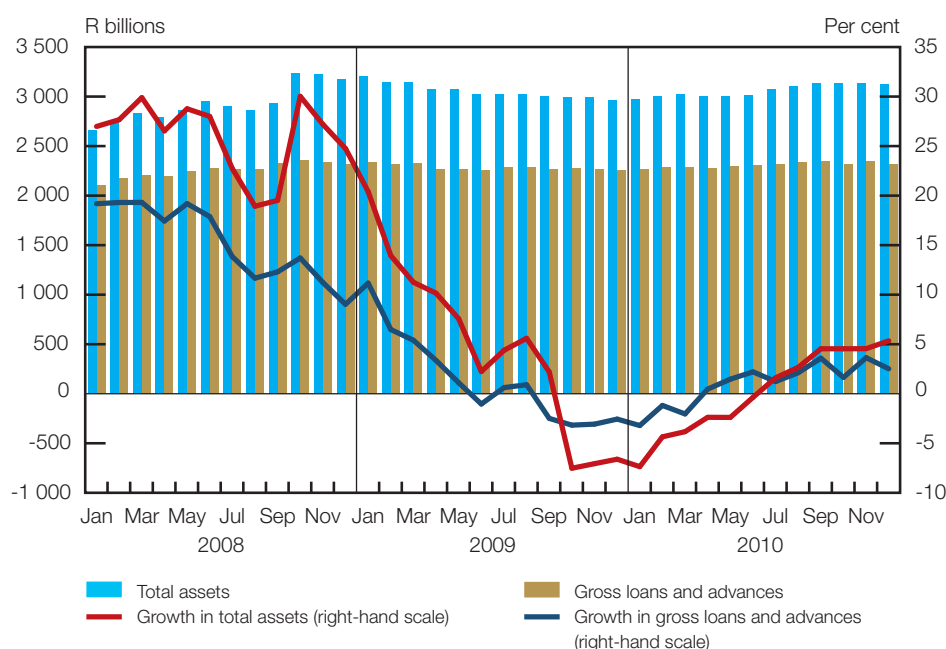


4.3 Balance sheet

4.3.1 Assets

Figure 4.4 depicts the growth in banking-sector assets, and gross loans and advances from January 2008 to December 2010. There was a moderate improvement in the growth of total assets during 2010 compared to a considerable decline during 2009 at the height of the international financial crisis.

Figure 4.4 Total banking-sector assets, gross loans and advances, and their respective growth rates (year on year)



The improvement occurred within the second half of 2010, following a period of decline during the first six months of the year. Year-on-year growth in banking-sector assets at the end of December 2010 was 5,3 per cent, increasing from R2 967 billion in December 2009 to R3 126 billion in December 2010. The growth in assets during the third and fourth quarters of 2010 was mainly due to the modest recovery in gross loans and advances growth¹¹ and an increase in the holding of government securities. The recovery in gross loans and advances was largely due to modest growth in homeloans and other assets. Gross loans and advances increased by 2,5 per cent to R2 314 billion at the end of December 2010 (December 2009: R2 257 billion). The growth in gross loans and advances remained low during 2010 due to restrained customer demand and banks' lower-risk appetite.

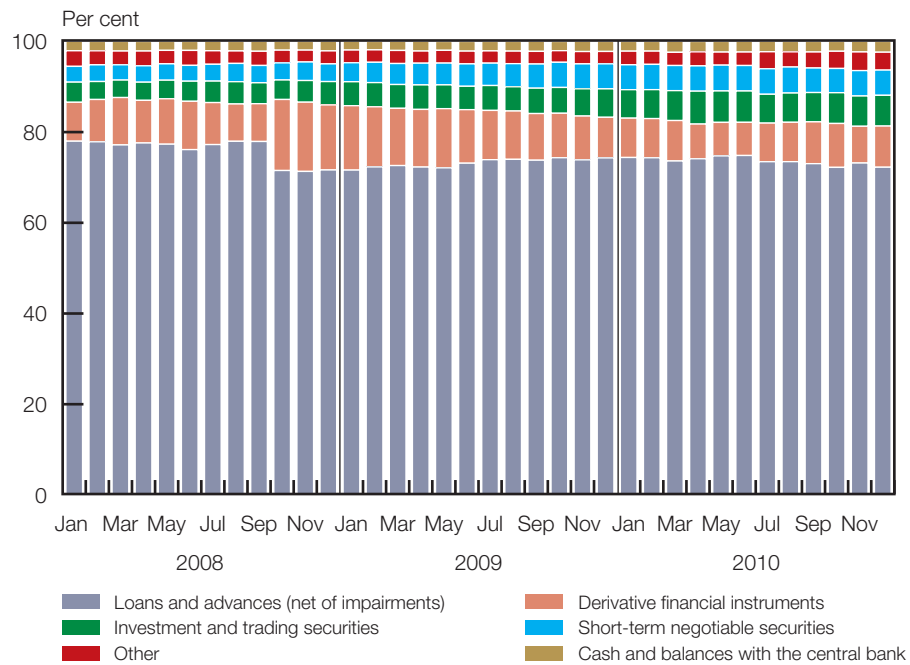
As portrayed in Figure 4.5, loans and advances represented, on average, 74 per cent of banking-sector total assets during 2010 (2009: 73 per cent), followed by derivative financial instruments averaging 8,5 per cent (2009: 11,5 per cent). The year-on-year decline in derivative financial instruments was less pronounced compared with the previous year. The aforementioned increase in government securities is mainly due to the banking sector's preparations for the increased liquidity requirements to be implemented as part of Basel III¹² and due to the subdued lending environment experienced during 2010. By the end of December 2010, derivative financial instruments increased by 6,9 per cent to R284 billion (December 2009: R266 billion). The slight recovery in derivative financial instruments is attributable to mark-to-market adjustments on foreign-exchange and interest rate trades. Investment and trading securities and short-term negotiable securities increased their average contribution from 5,5 per cent and 5 per cent respectively in 2009 to 6,7 per cent and 5,6 per cent in 2010.

¹¹ Refer to Figure 4.7

¹² Refer to Figure 4.37.

gross loans and advances increased by 2,5 per cent

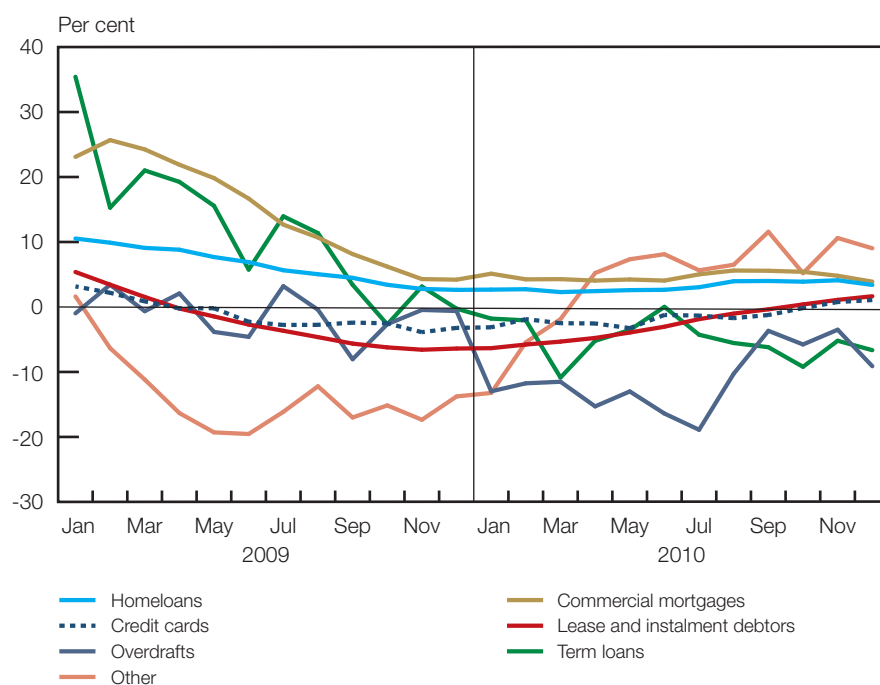
Figure 4.5 Composition of total assets



homeloans and commercial mortgages grew modestly

Figure 4.6 provides a detailed analysis of the growth rates of the different asset classes within loans and advances. Homeloans and commercial mortgages grew modestly yet continuously throughout the year, increasing, on average, by 3,6 per cent and 5,1 per cent respectively. Homeloans and commercial mortgages amounted respectively to R817 billion and R278 billion at the end of December 2010 (December 2009: R787 billion and R218 billion). The growth rate of other loans accelerated during the second quarter of 2010, remaining above 5 per cent for the second half of 2010. The main drivers of the growth in other assets were interbank call loan balances and higher overnight balances. Other loans amounted to R518 billion at the end of December 2010 (December 2009: R474 billion). Credit cards, and lease and instalment debtors increased year on year by 1,5 per cent and 2,1 per cent respectively, and amounted to R57 billion and R242 billion respectively at the end of December 2010 (December 2009: R57 billion and R242 billion respectively at the end of December 2009:

Figure 4.6 Growth rates of selected asset classes within loans and advances (year on year)



R56 billion and R238 billion respectively). Overdrafts and term loans amounted to R97 billion and R355 billion respectively at the end of December 2010 (December 2009: R107 billion and R378 billion respectively).

Figure 4.7 shows that the composition of gross loans and advances remained largely unchanged from December 2009 to December 2010. Homeloans and term loans remained the major constituents of gross loans and advances, accounting for 35,3 per cent and 15,3 per cent respectively at the end of December 2010 (December 2009: 34,9 per cent and 16,8 per cent respectively).

homeloans and term loans remained the major constituents of gross loans and advances

Figure 4.7 Composition of gross loans and advances (per cent)

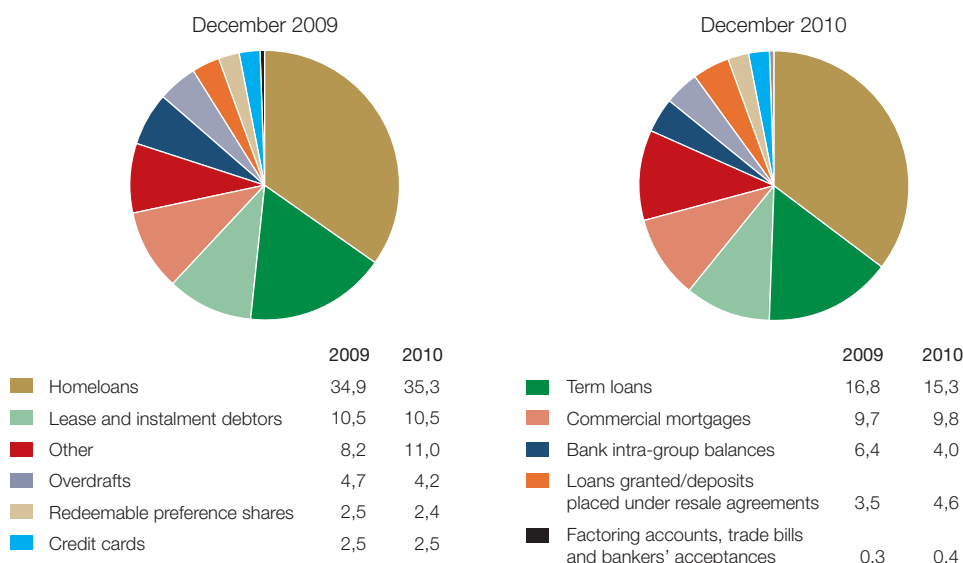
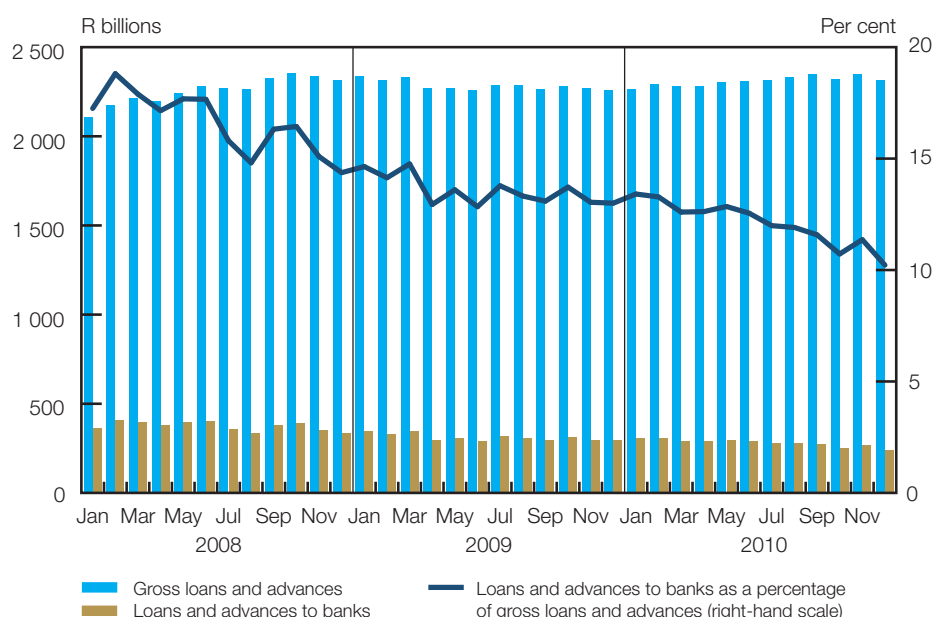


Figure 4.8 indicates that loans and advances to banks decreased by 19,4 per cent (year on year) to R236 billion at the end of December 2010 (December 2009: R293 billion). Expressed as a percentage of gross loans and advances, the ratio of loans to banks decreased during 2010 to 10,2 per cent at the end of December 2010 (December 2009: 13 per cent).

loans and advances to banks decreased

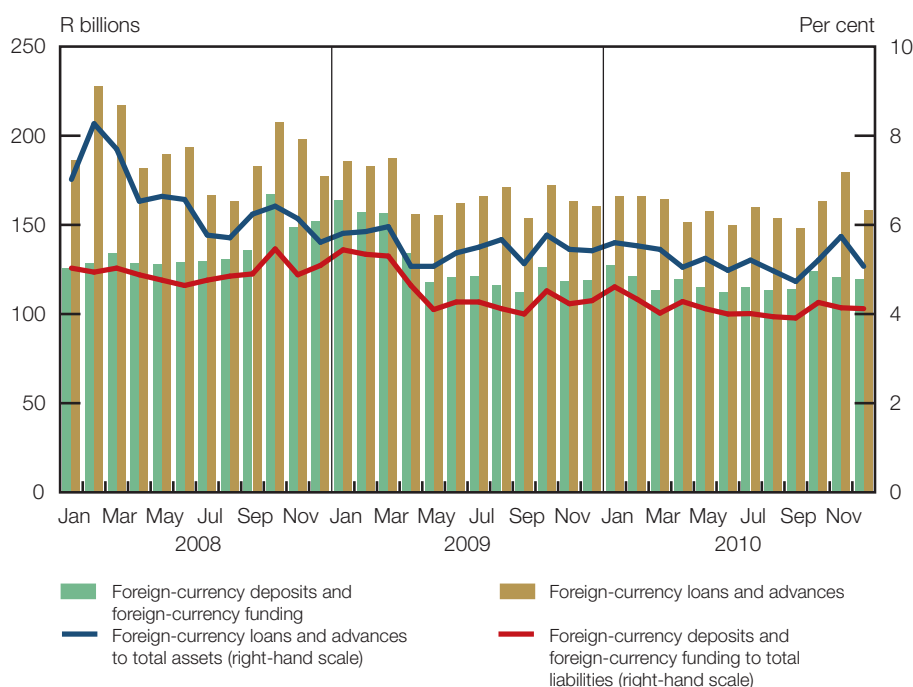
Figure 4.8 Loans and advances to banks



low dependency on foreign funding and foreign advances

Figure 4.9 depicts foreign-currency loans and advances, and foreign-currency deposits and funding since January 2008. Foreign-currency loans and advances amounted to R158 billion at the end of December 2010 (December 2009: R161 billion). Expressed as a percentage of total assets, the ratio of foreign-currency loans and advances decreased slightly during the second and third quarter of 2010 but then increased in the fourth quarter of 2010, peaking at 5,7 per cent in November 2010. The ratio of foreign-currency deposits and funding to total liabilities fluctuated between 3,9 per cent and 4,6 per cent during 2010. The ratios reflect the low dependency South African banks have on foreign funding and foreign advances. Furthermore, Figure 4.9 indicates that foreign-currency loans and advances exceeded foreign-currency funding received throughout 2010. Foreign-currency deposits and funding amounted to approximately R119 billion at the end of December 2009 and at the end of December 2010.

Figure 4.9 Foreign-currency loans and advances (as a percentage of total assets) and the total of foreign-currency deposits and foreign-currency funding (as a percentage of total liabilities)



banking-book assets constituted 85,2 per cent of total banking-sector assets

Figure 4.10 on page 89 depicts the split in total banking-sector assets between banking-book and trading-book assets. As at December 2010, banking-book assets constituted 85,2 per cent, and trading-book assets 14,8 per cent of total banking-sector assets (December 2009: 85,9 and 14,1 per cent respectively).

4.3.2 Liabilities

The composition of banking-sector liabilities is depicted in Figure 4.11. Deposits continued to comprise the majority of banking-sector liabilities, accounting for approximately 85,8 per cent of banking-sector liabilities throughout 2010 (2009: 82,9 per cent on average).¹³ Derivative financial instruments and other trading liabilities comprised approximately 9,1 per cent of banking-sector liabilities during 2010 (2009: 12,7 per cent on average). Term debt instruments and other liabilities each represented less than 5 per cent of banking-sector liabilities throughout 2010.¹⁴

¹³ A detailed composition of deposits is shown in Figure 4.14.

¹⁴ Refer to Figure 4.13 for further detail on term debt instruments.



Figure 4.10 Banking-book versus trading-book assets (as a percentage of total assets)

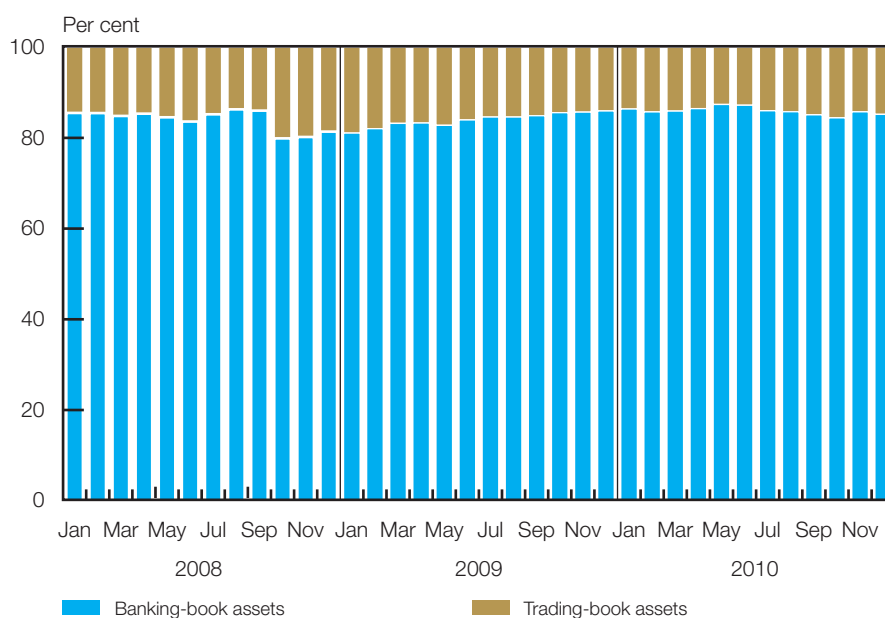


Figure 4.11 Composition of liabilities

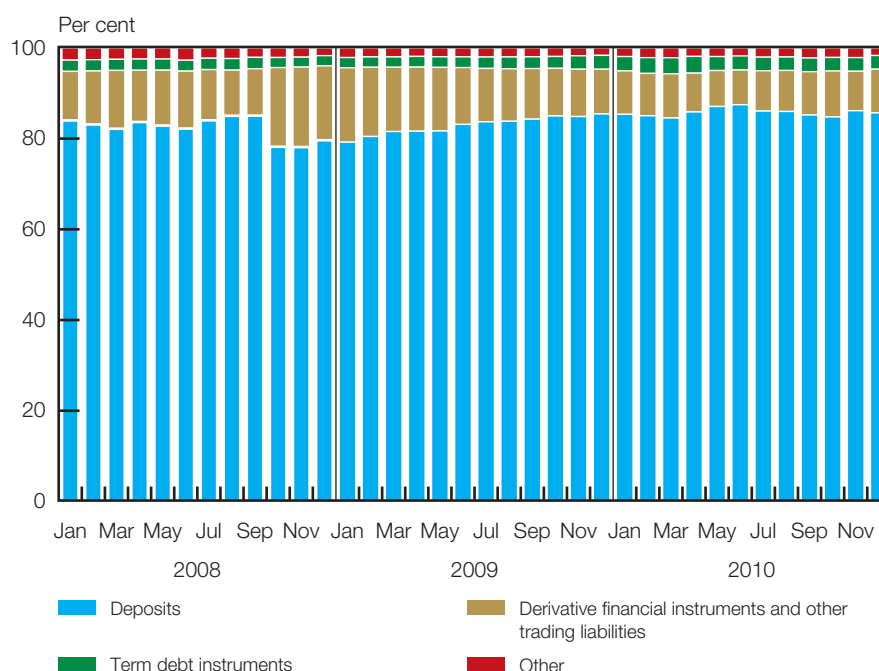


Figure 4.12 shows the asset and liability position in derivative financial instruments relative to equity attributable to equity holders. The decrease in the respective ratios during the period 2009 to 2010 is mainly due to the increase in equity attributable to equity holders. There was a slight increase in both ratios during the second half of 2010, largely due to a slowdown in the rate of the year-on-year decline in derivative financial instruments. Notwithstanding the aforesaid increase, the asset and liability positions were fairly matched throughout 2010, with the net mismatch between the ratios averaging 7,9 per cent (2009: 7,0 per cent).

As depicted in Figure 4.13, term debt amounted to R87,7 billion at the end of December 2010 (December 2009: R84,7 billion). During 2010, 64,0 per cent of term debt instruments qualified as regulatory capital compared to 73,8 per cent during 2009.

64,0 per cent of term debt instruments qualified as regulatory capital

Figure 4.12 Asset and liability position in derivative financial instruments
(as a percentage of equity attributable to equity holders)

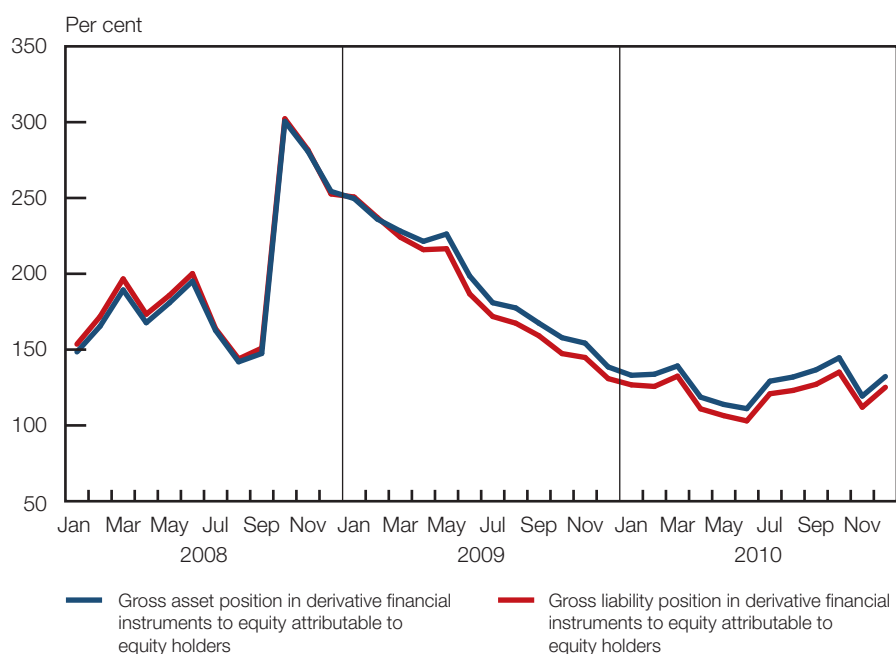


Figure 4.13 Term debt instruments qualifying as regulatory capital
(as a percentage of total term debt instruments)

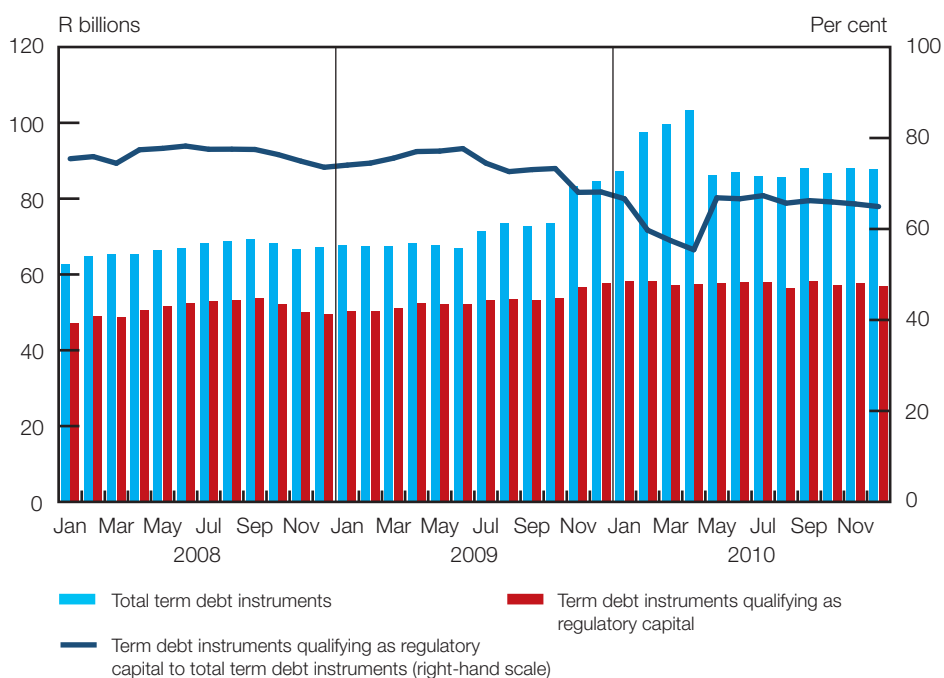
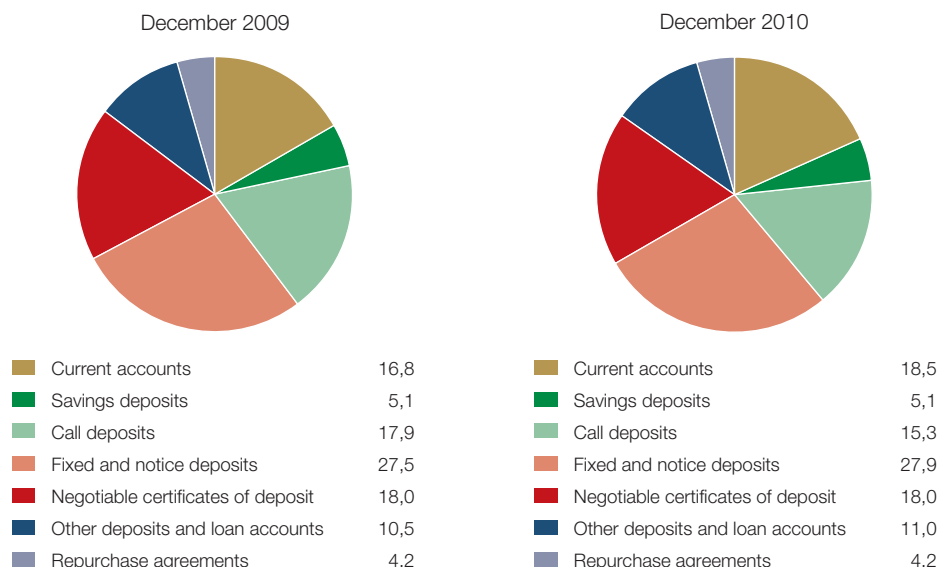


Figure 4.14 shows the composition of banking-sector deposits. The composition of banking-sector deposits remained relatively stable during the first three quarters of 2010 but changed in the fourth quarter of 2010 due to a R61 billion increase in NCDs, coupled with a R70 billion decline in call deposits at the end of October 2010. This change in composition was due to the change in the reporting of floating rate notes by one of the large banks. Fixed and notice deposits remained a large component of banking-sector deposits, on average representing 28,4 per cent of total deposits during 2010 (2009: 26,1 per cent).

composition of banking-sector deposits remained relatively stable



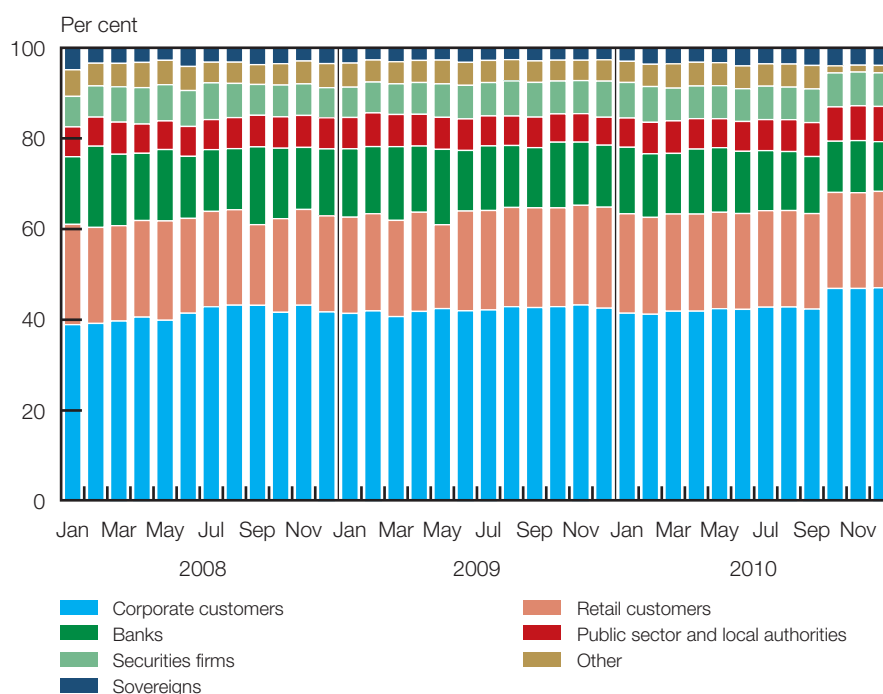
Figure 4.14 Composition of deposits (per cent)



Corporate and retail customers, as illustrated in Figure 4.15, were the main sources of banking-sector deposits throughout 2010, and comprised an average of 43,3 per cent and 21,3 per cent of total deposits respectively (2009: an average of 42,2 per cent and 21,5 per cent respectively). Deposits from corporate customers increased by R107 billion and deposits from other customers decreased by R90 billion at the end of October 2010, mainly due to the aforementioned change in the reporting of floating rate notes by one of the large banks. Deposits from banks constituted, on average, 13,1 per cent of banking-sector deposits in 2010 compared with 14,5 per cent in 2009. Apart from the aforementioned sources, the banking sector also received deposits from securities firms, public sector and local authorities, sovereigns, and other sources, averaging 7,4 per cent, 7,0 per cent, 3,7 per cent and 4,2 per cent respectively of total deposits during 2010.

corporate customers comprised 43,3 per cent of banking-sector deposits

Figure 4.15 Sources of total deposits (as a percentage of total deposits)



4.3.3 Equity

The composition of total equity is outlined in Figure 4.16. Total equity primarily comprised retained earnings and share capital throughout 2010, accounting for 91,7 per cent of total equity at the end of December 2010 (December 2009: 91,1 per cent). Total equity increased by 11,5 per cent (year on year) to R221,1 billion at the end of December 2010 (December 2009: R198,3 billion) mainly due to an increase in share capital and retained earnings. Share capital increased by R5,8 billion from August 2010 to R97,1 billion at the end of September 2010 mainly due to an increase in share premium. Retained earnings increased from R92,9 billion at the end of December 2009 to R105,9 billion at the end of December 2010. Other reserves and preference shareholders' equity constituted 5,4 per cent and 2,9 per cent respectively of total equity at the end of December 2010 (December 2009: 5,4 per cent and 2,9 per cent respectively).

Figure 4.16 Composition of total equity

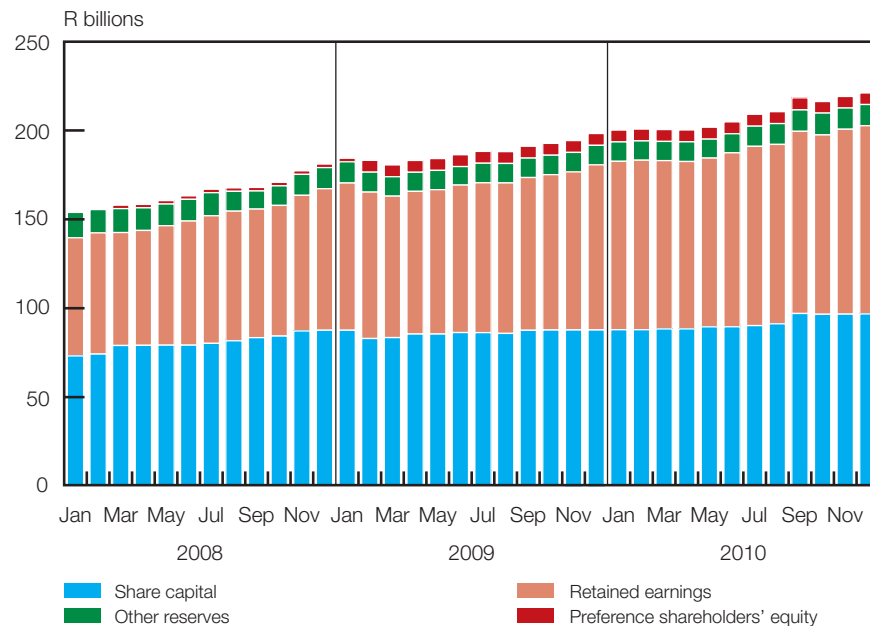
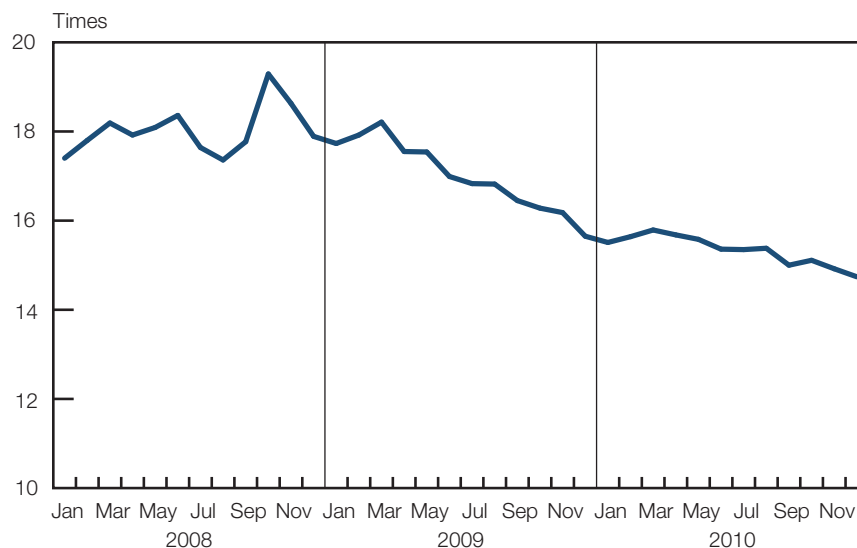


Figure 4.17 portrays the financial leverage multiple for the banking sector and is calculated by dividing total assets by total equity attributable to equity holders. The financial leverage multiple continued to decline during 2010, amounting to 14,7 times at the end of December 2010

Figure 4.17 Financial leverage multiple



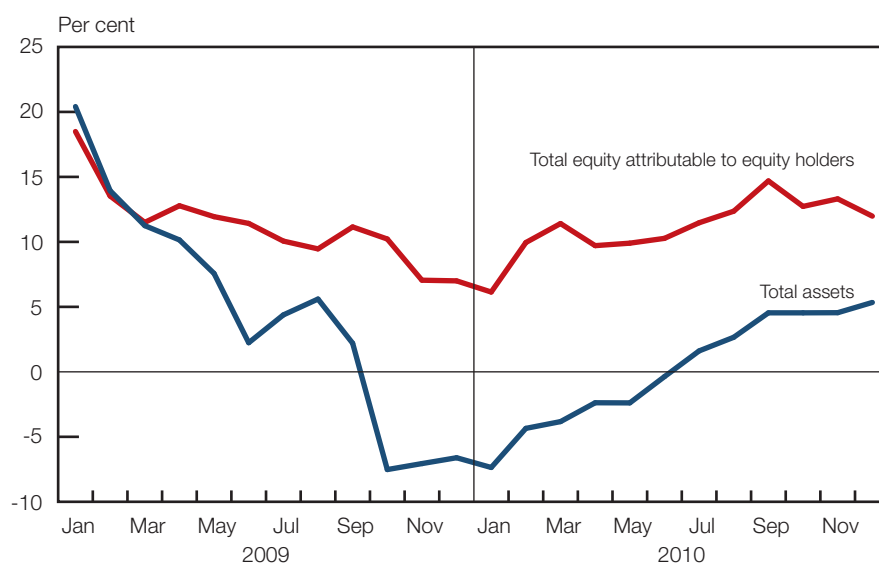
share capital increased by R5,8 billion

financial leverage multiple continued to decline

(December 2009: 15,7 times). This decrease in leveraging is attributable to the higher rate of growth in equity attributable to equity holders relative to the rate of growth in total assets. Equity attributable to equity holders grew by 11,5 per cent (year on year) compared to 5,3 per cent (year on year) growth in total assets as at December 2010, as shown in Figure 4.18.

equity attributable to equity holders grew by 11,5 per cent

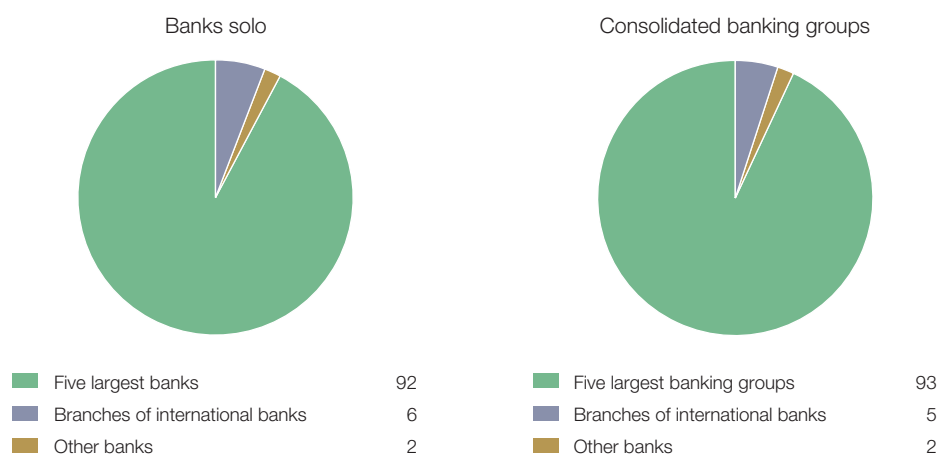
Figure 4.18 Growth rates of total assets and equity attributable to equity holders (year on year)



4.3.4 Balance-sheet information on the total consolidated banking groups

Consolidated banking groups¹⁵ assets grew by 3,3 per cent to R3 914 billion at the end of December 2010 (December 2009: R3 790 billion), which was slightly less than the 5,3 per cent growth in banking-sector assets in respect of banks solo.¹⁶ The composition of total

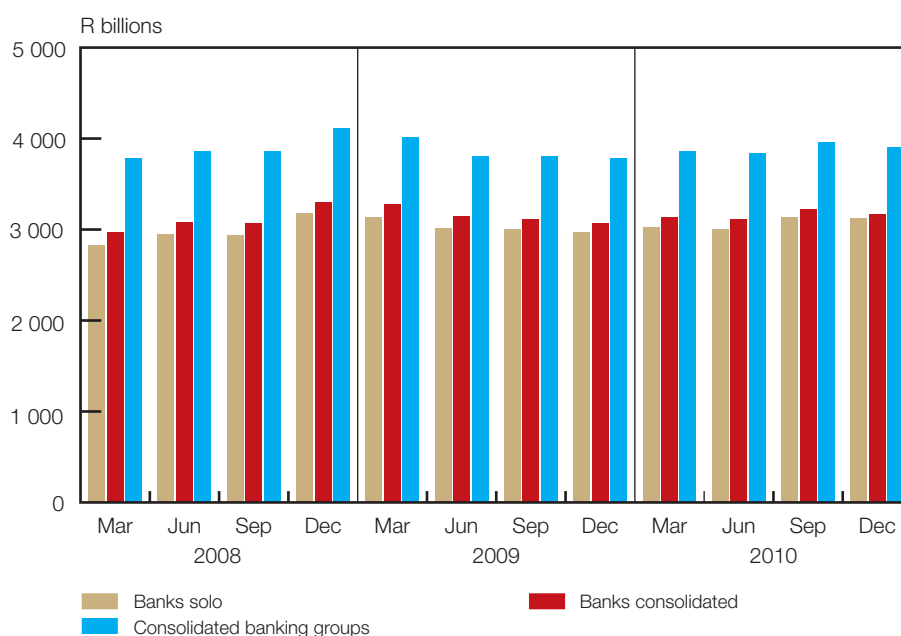
Figure 4.19 Composition of total banking-sector assets in respect of the five largest banks, branches of international banks and other banks (per cent)



¹⁵ 'Consolidated banking groups' includes the aggregate of registered bank controlling companies, registered banks incorporated in South Africa (that do not have registered controlling companies) and all local branches of international banks.

¹⁶ 'Banks solo' includes the aggregate of banks incorporated in South Africa (excluding their foreign branches, subsidiaries and associates) and all local branches of international banks.

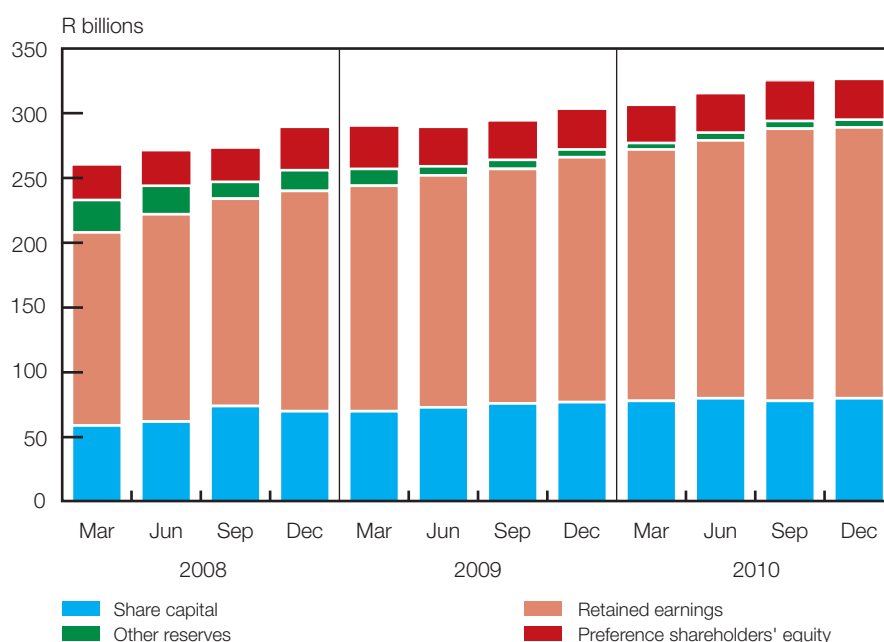
Figure 4.20 Banking-sector assets for banks solo, banks consolidated and consolidated banking groups



banking-sector assets in respect of banks solo was largely similar to that of consolidated banking groups as at December 2010, with the majority of banking-sector assets being held by the five largest banking groups (refer to Figure 4.19). Figure 4.20 reflects total banking-sector assets aggregated for banks solo (excluding their foreign branches), banks consolidated¹⁷ (including their foreign branches) and consolidated banking groups.

Figure 4.21 reflects the composition of total equity for consolidated banking groups, comprised mainly of share capital, retained earnings, other reserves and preference share capital. The total equity of consolidated banking groups increased by 7 per cent from R303 billion at the end of

Figure 4.21 Composition of total equity for consolidated banking groups



¹⁷ Banks consolidated' includes the aggregate of banks incorporated in South Africa together with their foreign branches, subsidiaries and associates, as well all local branches of international banks.



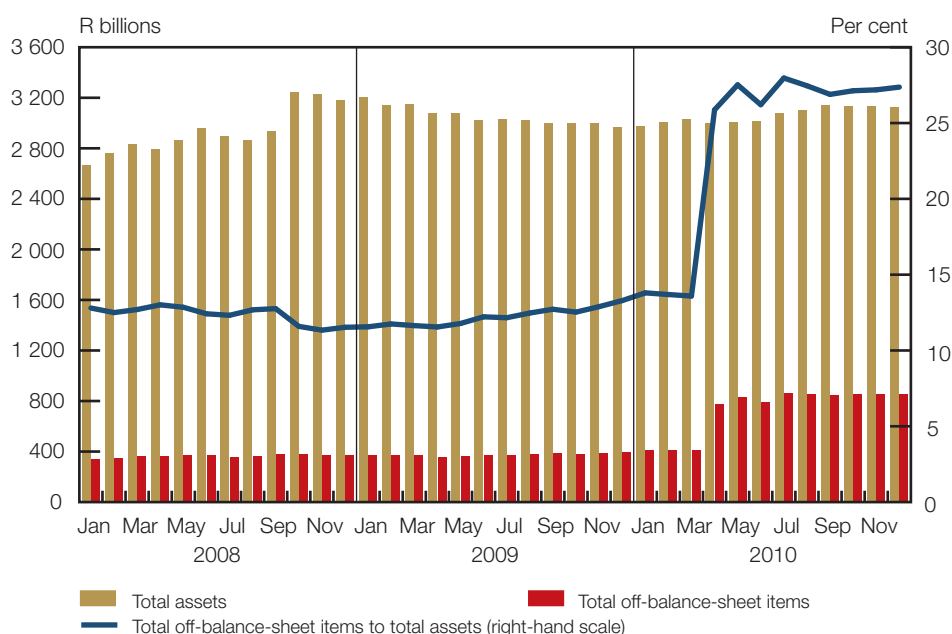
December 2009 to R324 billion at the end of December 2010, due to growth in share capital and retained earnings. Retained earnings represented 63,8 per cent of total equity at the end of December 2010, amounting to R207 billion (December 2009: 62,3 per cent or R189 billion).

4.4 Off-balance-sheet activities

Figure 4.22 shows a comparison between total assets and total off-balance-sheet items, including the ratio of off-balance-sheet items to total assets. The ratio of off-balance-sheet items to total assets increased considerably from 13,8 per cent in January 2010 to 25,9 per cent at the end of April 2010, and remained above 25 per cent for the remainder of the year. The increase in the ratio was due to a change in regulatory reporting of off-balance-sheet items to include the banking sector's revocable facilities, which resulted in an 88,9 per cent increase from March to April 2010. Off-balance-sheet items amounted to R856 billion at the end of December 2010 (December 2009: R394 billion).

ratio of off-balance-sheet items to total assets increased

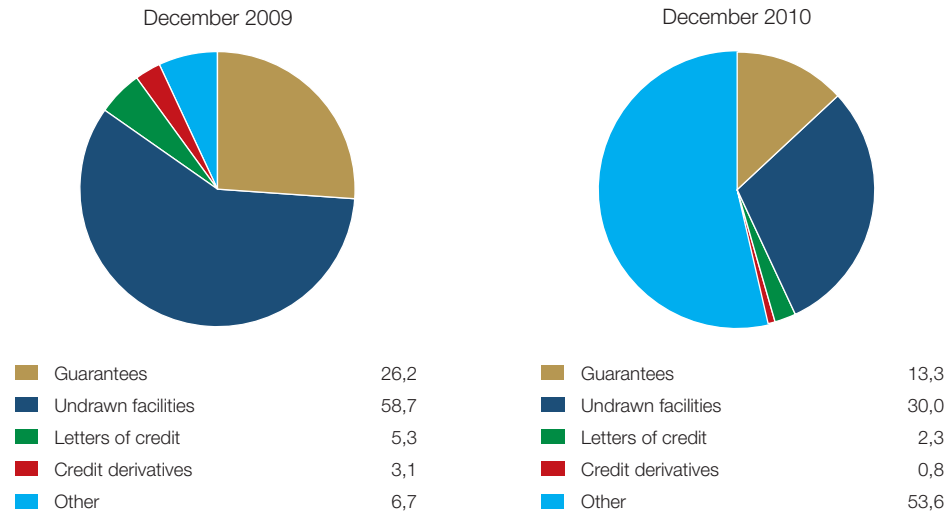
Figure 4.22 Total off-balance-sheet items to total assets



The composition of off-balance-sheet items, as portrayed in Figure 4.23, changed materially when comparing December 2010 to December 2009. There was a substantial increase in other off-balance-sheet items during 2010 due to the aforementioned change in the reporting of revocable facilities.



Figure 4.23 Composition of total off-balance-sheet items (per cent)



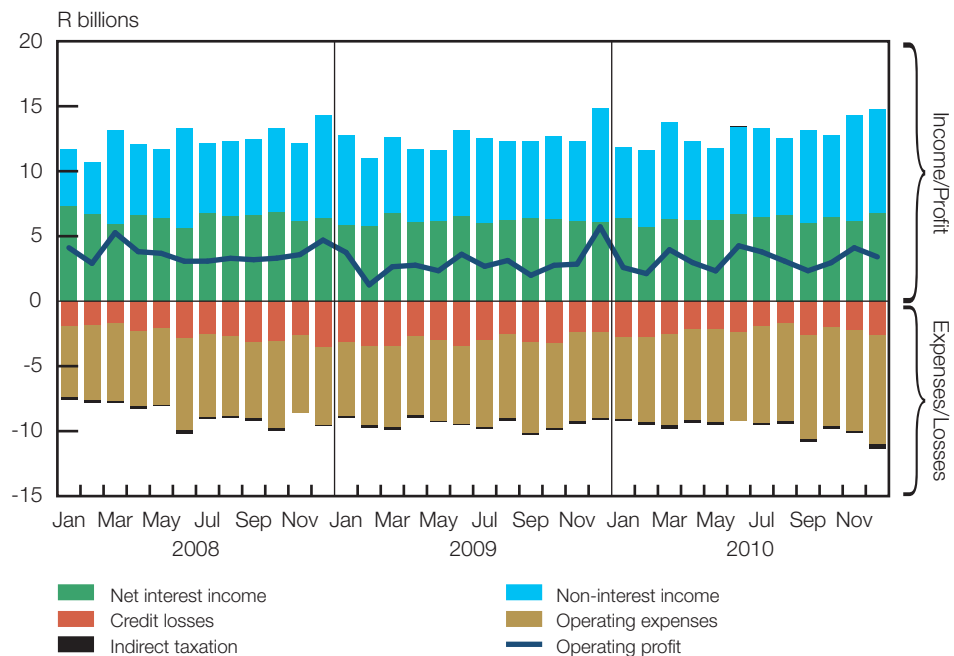
4.5 Profitability

credit losses decreased by R8 billion

The banking sector's operating profit increased by 6,4 per cent (year on year) to R37,9 billion for the year ending December 2010 (December 2009: R35,5 billion). The increase in operating profit was mainly due to increases in both net interest and non-interest income, and a decrease in credit losses. Credit losses decreased by R8 billion to R27,5 billion for the year ending December 2010 (December 2009: R35,5 billion). Credit losses averaged R2,3 billion per month during 2010 compared with almost R3 billion per month during 2009, indicating a slight recovery in the credit risk environment.¹⁸ Operating expenses increased by R11,1 billion to R87,7 billion for the year ending December 2010 (December 2009: R76,6 billion). The increase in operating expenses was mainly due to an increase of R6,3 billion in staff expenses during 2010.

A detailed monthly breakdown of the income statement is illustrated in Figure 4.24.

Figure 4.24 Composition of the income statement (unsmoothed)



¹⁸ Refer to section 4.8.

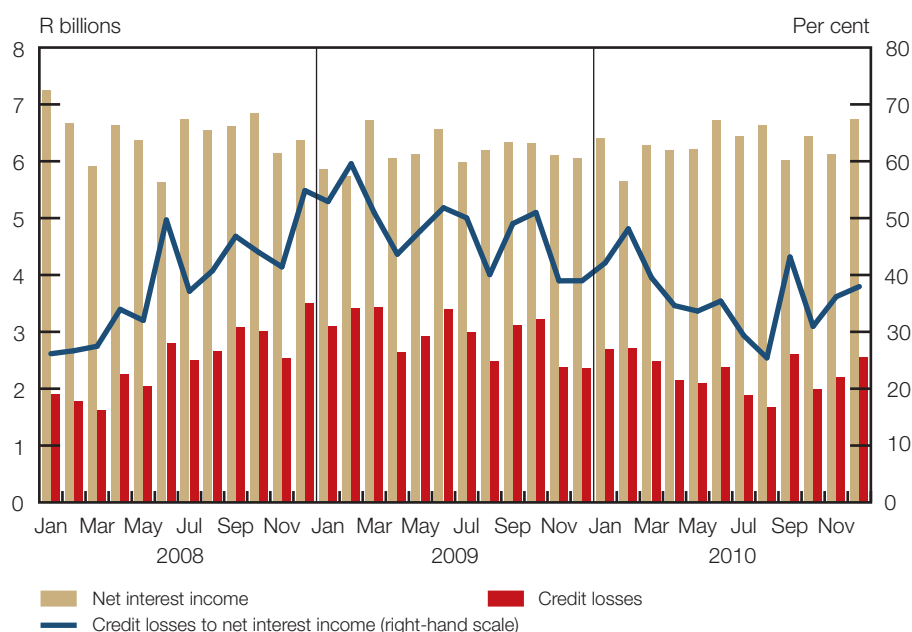


Gross operating income (i.e., sum of net interest income and net non-interest income) increased by R5,8 billion to R155,6 billion for the year ending December 2010 (December 2009: R149,7 billion). Net interest and non-interest income increased to R75,9 billion and R79,7 billion respectively for the year ending December 2010 (December 2009: R74,1 billion and R75,6 billion respectively). The increase in non-interest revenue relates to an increase in net fee and commission income, coupled with fair value adjustments, while the increase in net interest income was mainly due to a decline in interest expense on term deposits, current accounts and NCDs.

net interest and non-interest income increased

Figure 4.25 depicts credit losses as a percentage of net interest income earned on a month-to-month basis since January 2008. The ratio declined from a peak of almost 60 per cent at the end of February 2009 to 38,0 per cent at the end of December 2010. The average ratio during 2010 reduced to 36,2 per cent (2009: 47,9 per cent) mainly due to the aforementioned decline in credit losses during 2010.

Figure 4.25 Credit losses to net interest income (unsmoothed)



The composition of gross operating income as reflected in Figure 4.26, remained largely unchanged between 2009 and 2010. Gross operating income primarily comprised net interest income, and net fee and commission income, which accounted for 48,8 per cent and 34,2 per cent respectively during 2010 (2009: 49,5 per cent and 33,9 per cent respectively). As shown in Figure 4.27, approximately 94 per cent of gross operating income was derived from banking-book transactions during 2010 (2009: 93,8 per cent).

gross operating income remained largely unchanged



Figure 4.26 Composition of gross operating income (per cent)

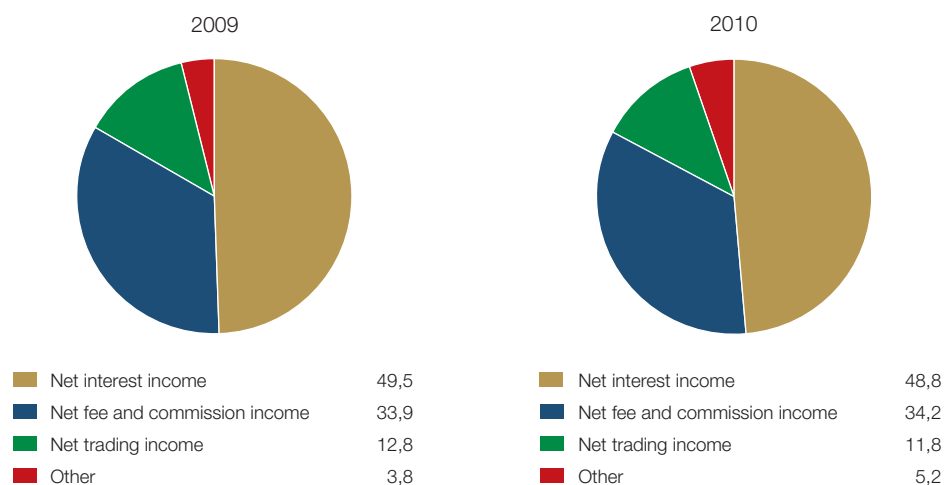
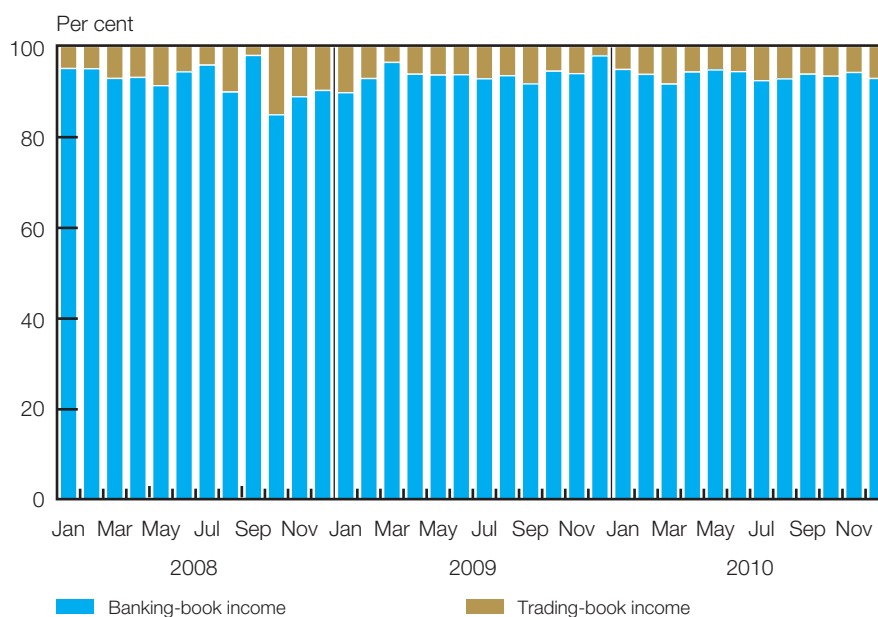


Figure 4.27 Banking-book income versus trading-book income (unsmoothed) (as a percentage of gross operating income)



staff expenses accounted for 53,8 per cent of banking sector operating expenses

The composition of operating expenses is depicted in Figure 4.28. Staff expenses represented more than half of the banking sector's operating expenses and accounted for 53,8 per cent during 2010 (2009: 53,4 per cent).

The net interest income ratio, portrayed in Figure 4.29, averaged 3,4 per cent during 2010 (2009: 3,4 per cent). The ratio of interest and similar income to interest-earning assets decreased during the first half of 2010, averaging 9,5 per cent, and remained stable at an average of 8,9 per cent during the second half of the year. The 12-month moving average ratio amounted to 8,8 per cent in December 2010 (December 2009: 10,4 per cent). Expressed as a percentage of funding liabilities, interest expenses and similar charges amounted to 5,4 per cent in December 2010 (December 2009: 7,0 per cent 12-month moving average). This ratio mirrored the trend in the ratio of interest and similar income to interest-earning assets throughout 2010. During 2010 the Bank's Monetary Policy Committee reduced the repurchase rate by 150 basis points.



Figure 4.28 Composition of operating expenses (per cent)

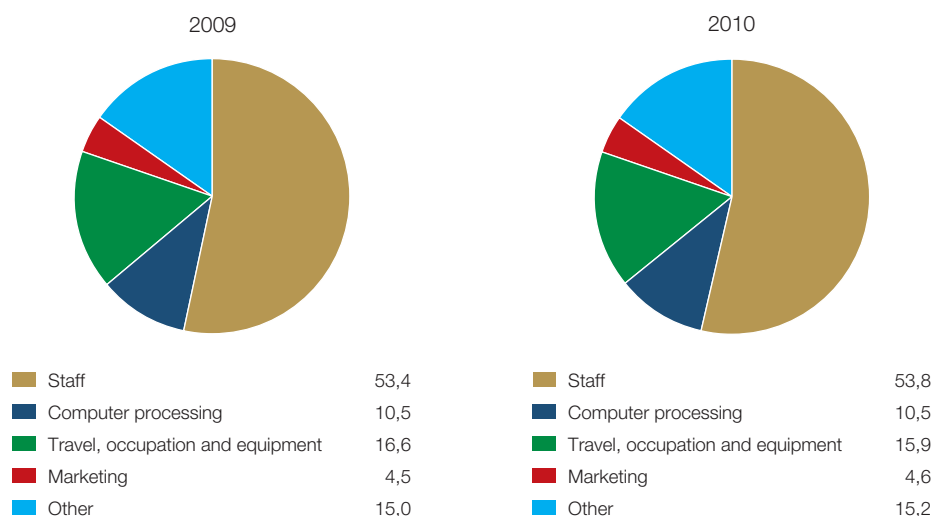


Figure 4.29 Net interest income ratio (smoothed, i.e., 12-month moving average)

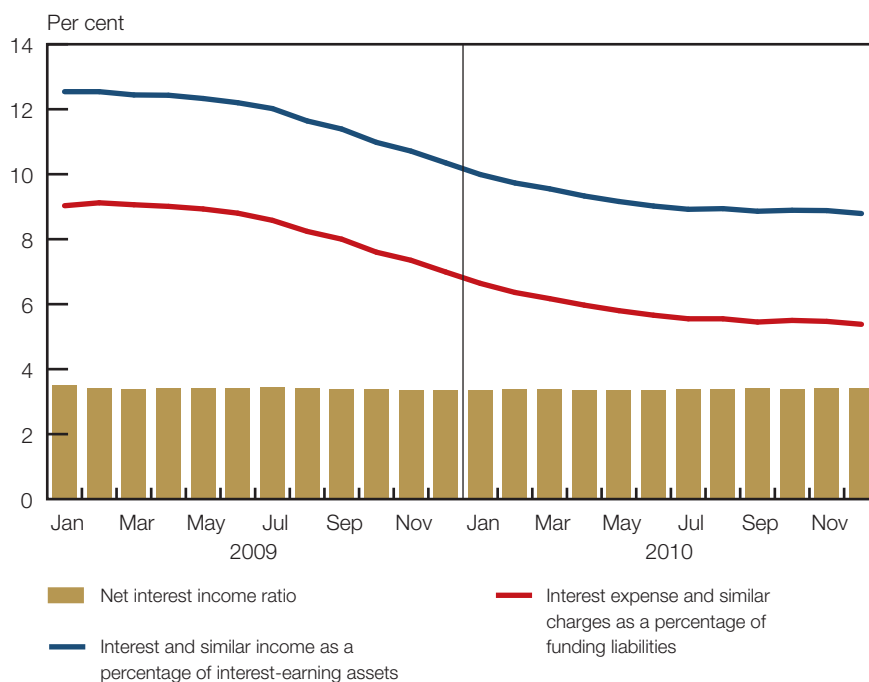
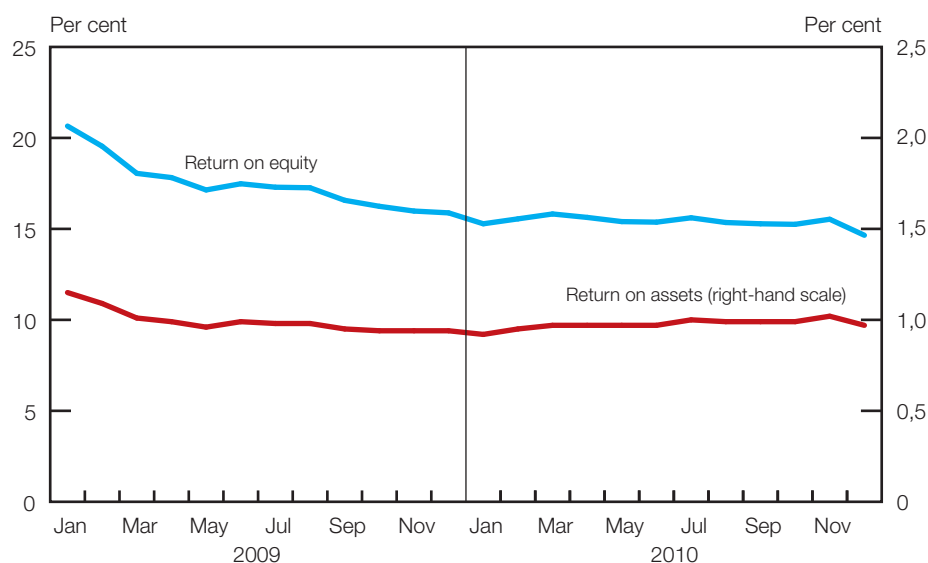


Figure 4.30 depicts the 12-month moving average return on equity (ROE) and return on assets (ROA) for the banking sector. The ROE amounted to 14,7 per cent in December 2010 (December 2009: 15,9 per cent). The ROA remained at approximately 1 per cent throughout 2010 (2009: 0,99 per cent). ROE and ROA dropped slightly in December 2010 due to a decline in operating profit, mainly as a result of increased staff expenses.

ROA remained at approximately 1 per cent

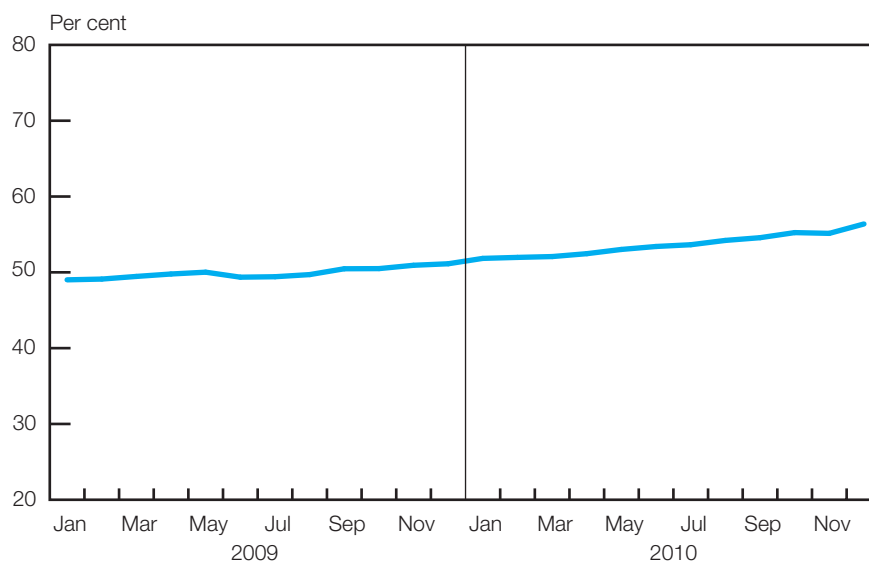
Figure 4.30 Profitability ratios (smoothed, i.e., 12-month moving average)



cost-to-income ratio deteriorated steadily during 2010

The 12-month moving average cost-to-income ratio, as shown in Figure 4.31, deteriorated steadily during 2010, ending the year at 56,4 per cent (December 2009: 51,1 per cent). The increase in the ratio during 2010 is mainly attributable to the higher growth rate of operating expenses relative to that of gross operating income.

Figure 4.31 Cost-to-income ratio (smoothed, i.e., 12-month moving average)



4.6 Capital adequacy

The minimum required CARs applicable to all banks registered in South Africa has been 7,0 per cent in respect of the Tier 1 ratio and 9,5 per cent for the total CAR, as calculated for banks on a solo and a consolidated banking group basis. In addition, the Registrar may require banks (and banking groups), as part of the supervisory review and evaluation process in terms of Pillar 2, to maintain CARs above these minimum requirement levels based on systemic risk and banks' idiosyncratic risk assessments.

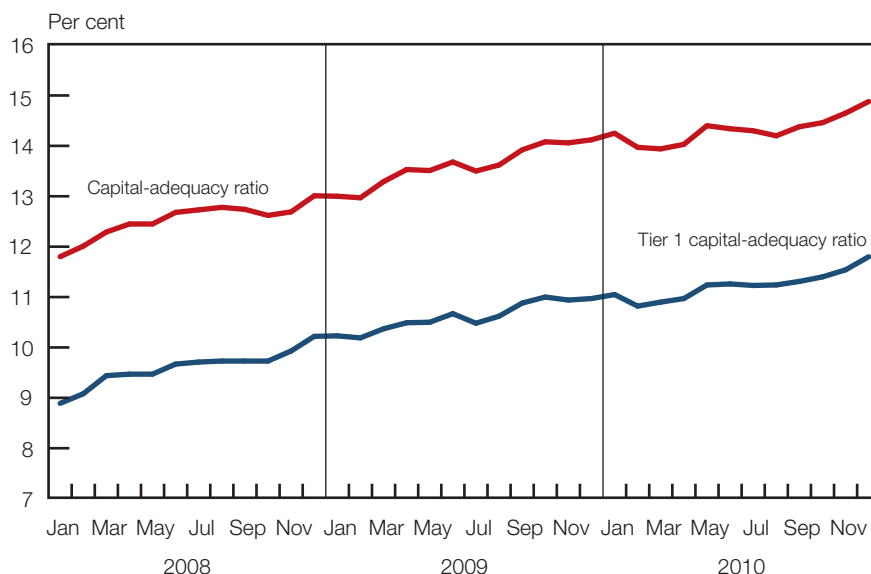


4.6.1 Capital adequacy for banks solo

Figure 4.32 depicts the total banking-sector CAR and the Tier 1 CAR for banks solo. The total CAR improved to 14,9 per cent at the end of December 2010 (December 2009: 14,1 per cent). The improvement in the ratio is due to the 12,7 per cent year-on-year increase in primary qualifying capital and reserve funds. The Tier 1 CAR improved to 11,8 per cent at the end of December 2010 (December 2009: 11,1 per cent). Banks' operations in South Africa remained adequately capitalised.

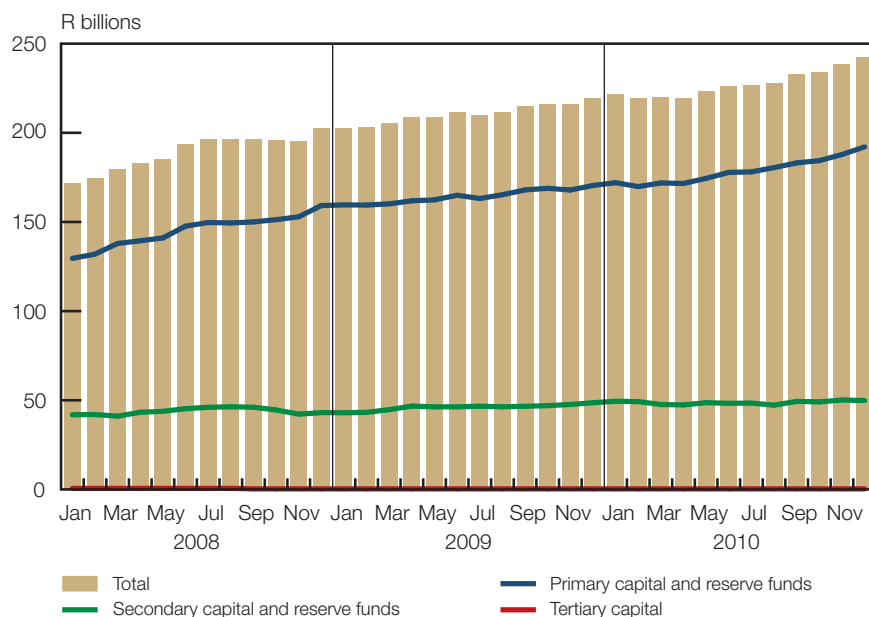
Tier 1 CAR improved to 11,8 per cent

Figure 4.32 Capital-adequacy ratios (solo)



The composition of qualifying regulatory capital and reserve funds on a solo basis is reflected in Figure 4.33. Total qualifying regulatory capital and reserve funds increased by R22,9 billion during 2010, mainly as a result of an increase in primary qualifying capital and reserve funds. The increases in primary qualifying capital across the banks are indicative of the build-up of surplus capital given the Basel III focus on common equity Tier 1 capital. Primary qualifying

Figure 4.33 Composition of qualifying regulatory capital and reserve funds (solo)

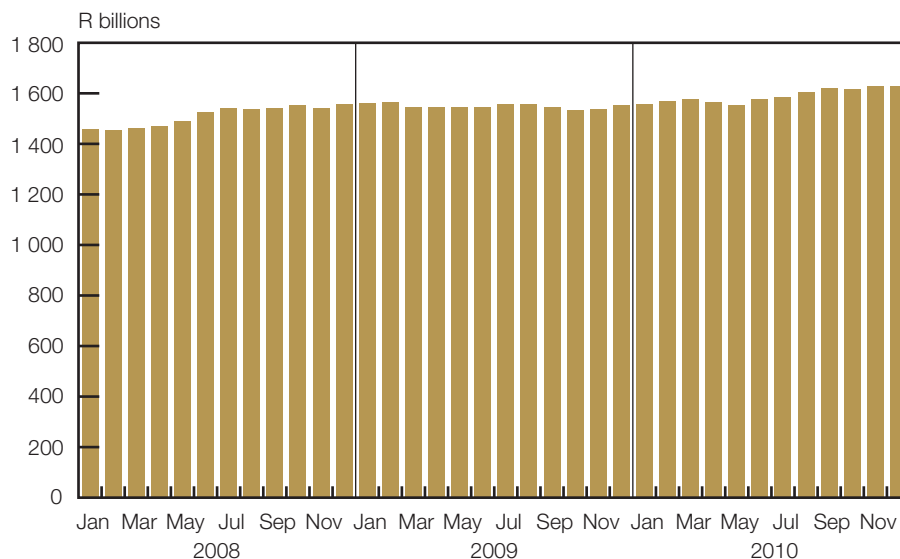


secondary capital and reserve funds remained stable

capital and reserve funds amounted to R192,1 billion at the end of December 2010 (December 2009: R170,5 billion). The total qualifying regulatory capital and reserve funds amounted to R242,3 billion at the end of December 2010 (December 2009: R219,4 billion). Secondary capital and reserve funds remained stable during 2010 and amounted to R49,9 billion at the end of December 2010 (December 2009: R48,6 billion). Tertiary capital amounted to R300 million throughout 2010 and 2009.

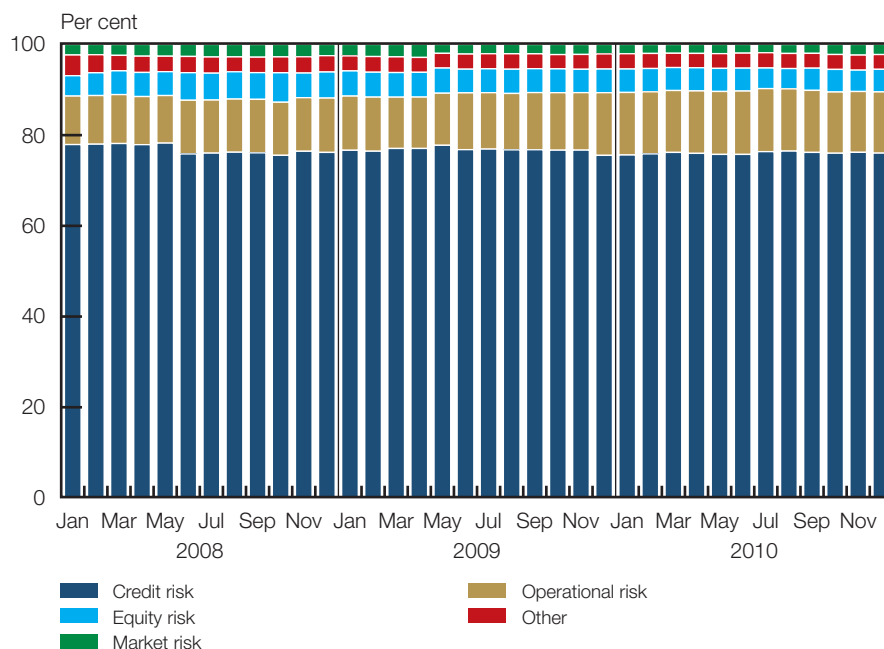
Figure 4.34 illustrates the 4,7 per cent growth in the banking sector's total risk-weighted exposure during 2010 which amounted to R1 628 billion at the end of December 2010 (December 2009: R1 554 billion). The increase was mainly due to the growth in credit risk-weighted exposures, which constitute the majority of the total risk-weighted exposure of the sector.

Figure 4.34 Total risk-weighted exposure (solo)



The composition of the regulatory capital requirement per major risk category for banks solo, as shown in Figure 4.35, remained fairly stable during 2010. The majority of the regulatory

Figure 4.35 Composition of total regulatory capital requirement (solo)



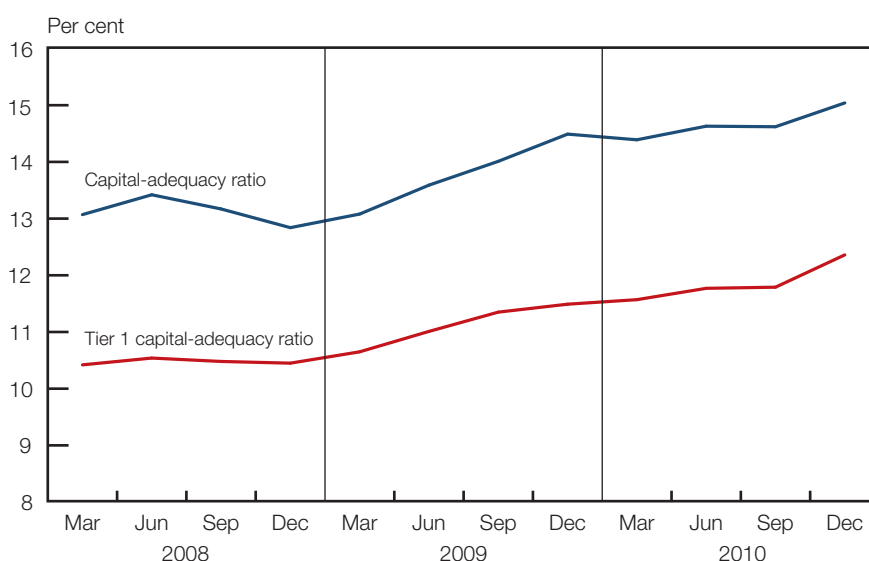
capital requirement during 2010 related to credit risk, amounting to 76,0 per cent at the end of December 2010 (December 2009: 75,5 per cent), followed by operational risk, which accounted for 13,5 per cent of the total regulatory capital requirement at the end of December 2010 (December 2009: 13,8 per cent). The equity risk in the banking book, market risk and other risk categories each constituted less than 5 per cent of the total regulatory capital requirement at the end of December 2010.

4.6.2 Capital adequacy for total consolidated banking groups

The CARs for the banking sector on a consolidated basis is shown in Figure 4.36. The total banking-sector consolidated CAR increased to 14,9 per cent at the end of December 2010 (December 2009: 14,5 per cent). At the end of December 2010, the consolidated Tier 1 CAR was 12,0 per cent (December 2009: 11,5 per cent).

total banking-sector consolidated CAR increased to 14,9 per cent

Figure 4.36 Capital-adequacy ratios (consolidated banking groups)

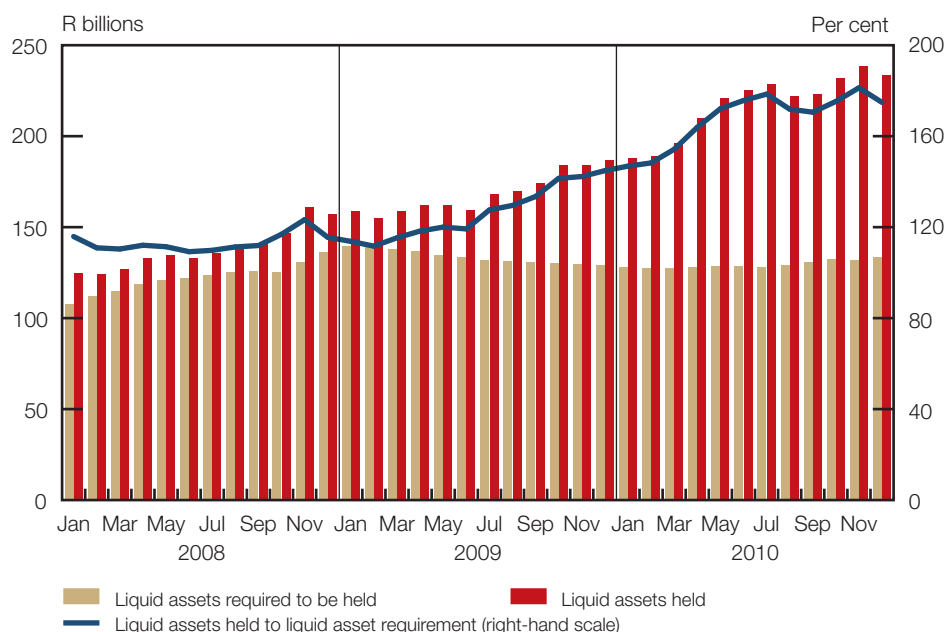


4.7 Liquidity risk

Figure 4.37 illustrates the average liquid assets held as a percentage of liquid assets required to be held since January 2008. Liquid assets held exceeded liquid assets required throughout 2010, recording year-on-year growth of 25,2 per cent at the end of December 2010. Liquid assets held peaked at R239 billion in November, declining to R234 billion at the end of December 2010 (December 2009: R187 billion). The banking sector holds liquid assets in excess of the statutory requirement as part of its liquidity risk management. The ratio of liquid assets held as a percentage of liquid assets required increased to 174,8 per cent at the end of December 2010 (December 2009: 144,8 per cent).

liquid assets in excess of the statutory requirement

Figure 4.37 Statutory liquid assets (actual versus required)



39 per cent of total contractual liabilities classified as maturing the next day

Figure 4.38 illustrates that, as at the end of December 2010, 39 per cent of total contractual liabilities were classified as maturing the next day (December 2009: 36,2 per cent). This is significantly higher in comparison to the 3,9 per cent “business-as-usual” liabilities classified as maturing the next day (refer to Figure 4.39). This significant difference in the two ratios is due to the “business-as-usual” assumptions that take into consideration the historical behaviour of funding or deposits on maturity or roll-over dates, notwithstanding the contractual arrangements pertaining to such funding or deposits.

Figure 4.38 Contractual maturity of liabilities (as a percentage of total liabilities)

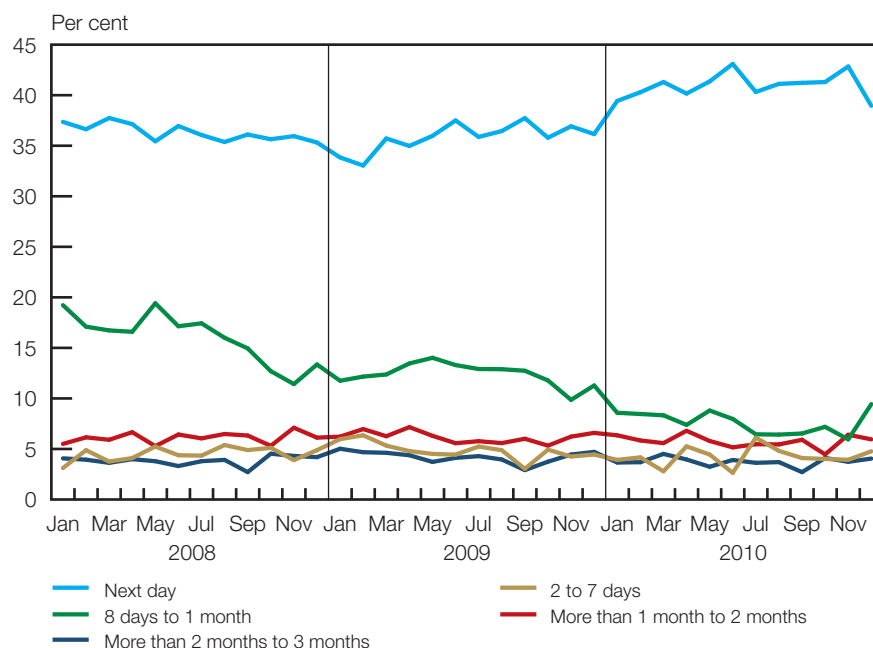
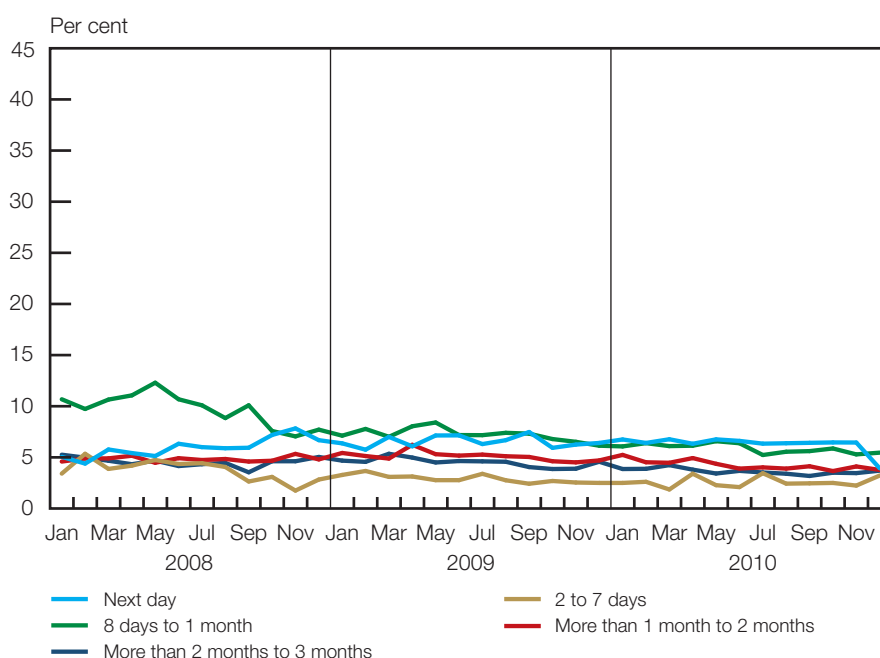


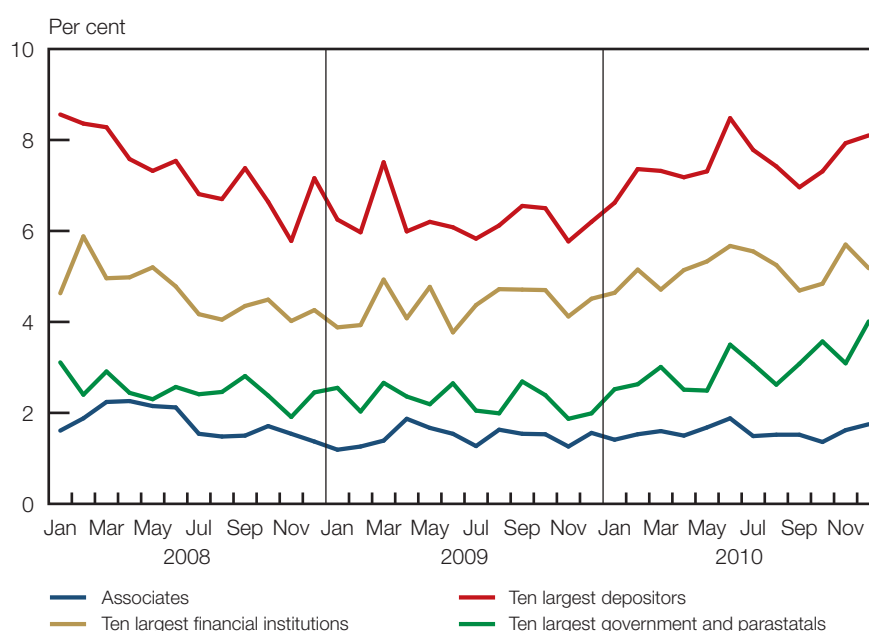
Figure 4.39 “Business-as-usual” maturity of liabilities (as a percentage of total liabilities)



The banks' short-term deposit funding¹⁹ from different categories of depositors is presented in Figure 4.40. The average amount of funding (as a percentage of total liabilities) received from the ten largest depositors increased to 7,5 per cent (2009 average: 6,2 per cent). The ten largest financial institutions supplied, on average, 5,2 per cent of total liabilities, with government and parastatals and associates supplying, on average, 3 per cent and 1,6 per cent respectively (averages for 2009: 4,4 per cent, 2,3 per cent and 1,5 per cent respectively).

ten largest depositors increased to 7,5 per cent of total liabilities

Figure 4.40 Concentration of short-term deposit funding (as a percentage of total liabilities)



¹⁹ Short-term funding has a duration of one month or less.

4.8 Credit risk

Banks continued to operate in tough economic conditions and further debt needed to be written down during 2010. Loan growth was modest against subdued levels of economic activity. However, some banks started to see signs of recovery in certain retail portfolios during the last quarter of 2010.

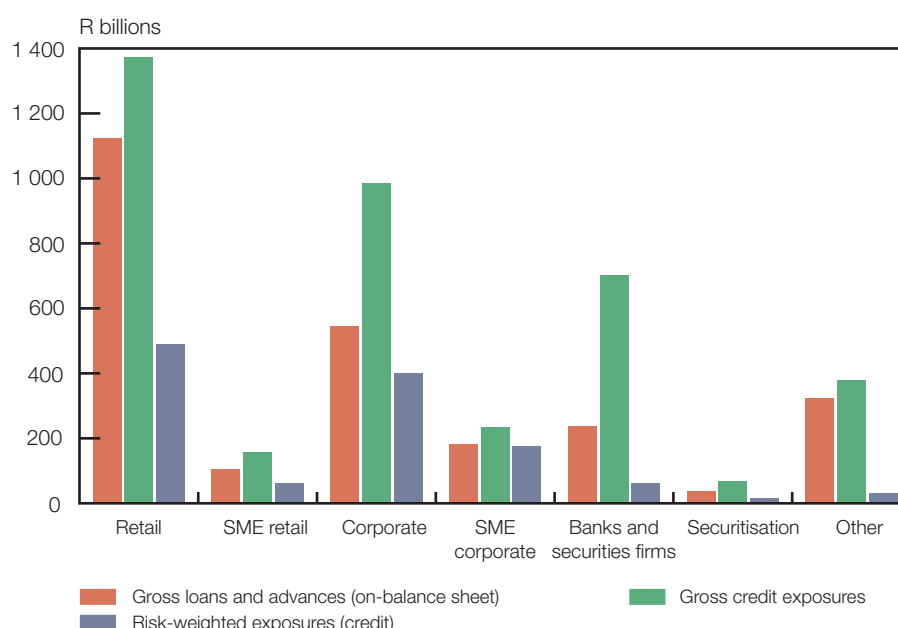
During 2010, banks maintained their focus on proactive credit risk management processes, including in-depth reviews of industries and clients, stricter lending criteria and management of highly indebted consumers. A number of larger banks consequently revised and recalibrated existing credit risk models to take into account actual experiences during the recent financial downturn.

Following discussions between the banking industry and the NCR, the banking industry implemented a conditional temporary moratorium on enforcement action against certain customers under debt review who were making partial payments. The impact of the moratorium will be monitored in the year to come.

Figure 4.41 provides a more granular breakdown in respect of gross loans and advances, gross credit exposures, and risk-weighted exposures per asset class as at December 2010. The difference between gross credit exposures, and gross loans and advances (on-balance sheet) reflects off-balance-sheet credit exposures, repurchase or resale agreements, and derivative financial instruments in the various asset classes. The difference between gross credit exposures and risk-weighted exposures reflects the application of the risk weightings applied to a bank's total credit exposures in each asset class. At the end of December 2010 the

- banks and securities firms category constituted the highest ratio of credit risk exposure to off-balance-sheet items;
- highest risk-weighting percentage related to the SME corporate asset class in terms of both gross credit exposure and gross loans and advances; and
- exposures to the other asset class (which consists mainly of public-sector entities, local government and municipalities, and sovereign counterparties) had the lowest credit risk-weightings compared to their respective gross credit exposures.

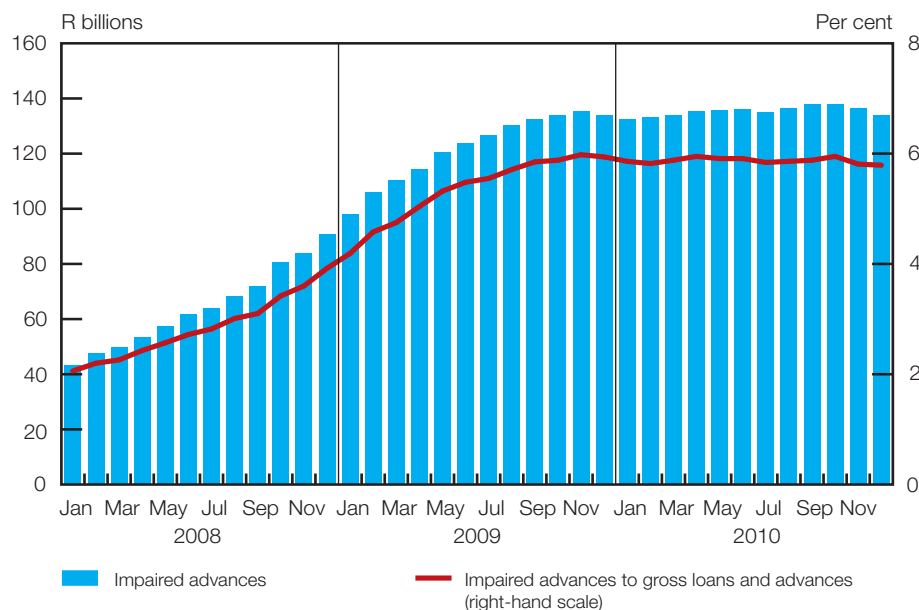
Figure 4.41 Gross credit exposures and risk-weighted exposures per asset class



4.8.1 Total impaired advances

The ratio of impaired advances to gross loans and advances, a key indicator of credit risk in the banking sector, remained largely unchanged at an average of 5,9 per cent during 2010 and amounted to 5,8 per cent as at December 2010 (December 2009: 5,9 per cent) (refer to Figure 4.42). Generally, movements in impaired advances during 2010 were mirrored by corresponding movements in gross loans and advances. From January 2010, impaired advances continued to grow slowly, peaking at R138 billion (5,95 per cent) during October 2010 and declining to R134 billion in December 2010 (December 2009: R134 billion). The high levels of impaired advances continue to be an active focus area for the banking sector.

Figure 4.42 Impaired advances to gross loans and advances

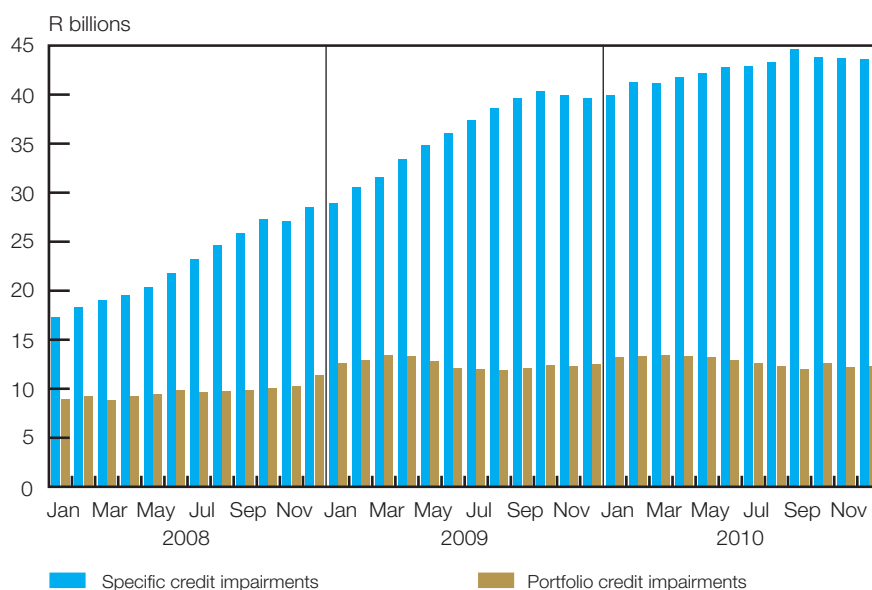


4.8.2 Credit impairments

Credit impairments continued to increase during 2010, albeit at a lower rate than during the previous two years (refer to Figure 4.43). Specific credit impairments grew year on year by

credit impairments continued to increase during 2010

Figure 4.43 Specific and portfolio credit impairments

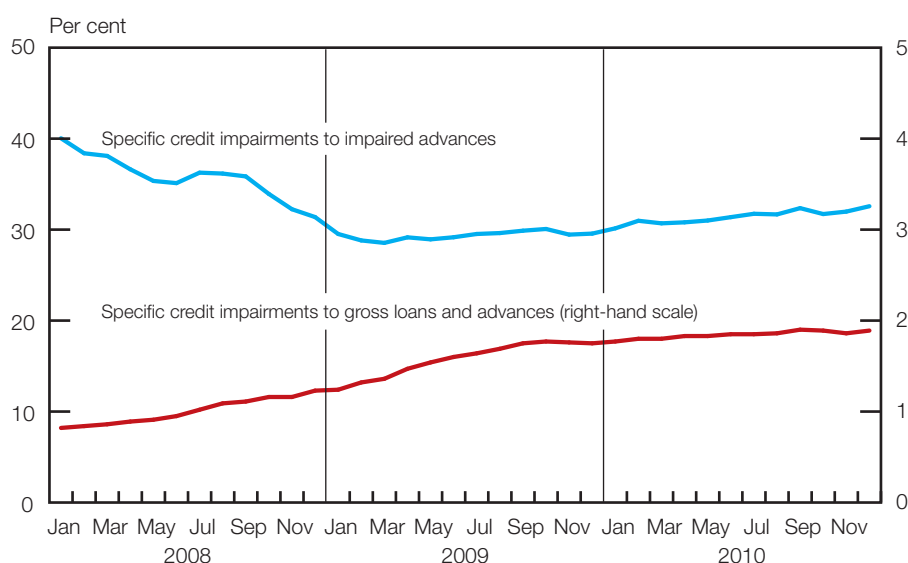


specific credit
impairments increased
marginally

10,1 per cent at the end of December 2010 (December 2009: 39,0 per cent), reaching a peak of R44,6 billion in September 2010 and declining to R43,6 billion at the end of December 2010 (December 2009: R39,6 billion). Portfolio credit impairments declined year on year by 1,5 per cent (2009: growth of 9,4 per cent). Banks reallocated portfolio credit impairments to specific credit impairments as increased stress in terms of specific customers became evident. The average monthly growth rate in total credit impairments during 2010 slowed to 0,6 per cent from an average monthly growth rate of 2,3 per cent during 2009.

Specific credit impairments as a percentage of impaired advances, and as a percentage of gross loans and advances is illustrated in Figure 4.44. Both ratios reflect steady, yet low, growth during 2010. Specific credit impairments as a percentage of impaired advances increased by 300 basis points to 32,6 per cent at the end of December 2010 (December 2009: 29,6 per cent). Banks increased specific impairments specifically for residential mortgage advances mainly because the recovery in the property market and house prices was lower than expected. Specific credit impairments as a percentage of gross loans and advances increased marginally to 1,89 per cent at the end of December 2010 (December 2009: 1,75 per cent), mainly due to the growth rate of specific impairments exceeding the rate of growth in gross loans and advances.

Figure 4.44 Specific credit impairment ratios

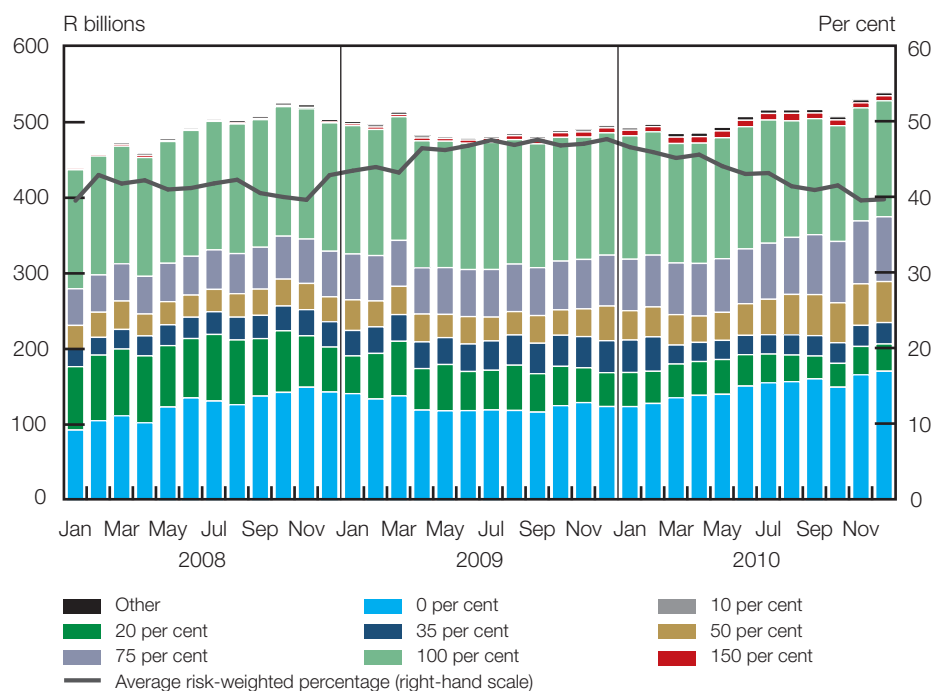


4.8.3 The standardised approach banks

The STA banks represented 17,8 per cent of the total banking sector's gross credit exposure at the end of December 2010 (December 2009: 16,1 per cent). The average risk-weighted percentage declined continually during 2010, from a peak of 47,7 per cent in December 2009 to 39,7 per cent in December 2010 (refer to Figure 4.45). This was mainly due to the reporting of revocable commitments, to which a zero per cent credit conversion factor is applied and due to increased liquid asset holdings, which are risk-weighted at zero per cent. Revocable commitments are obligations of the reporting bank that may be cancelled at the discretion of the bank without prior notice or that provide for automatic cancellation due to deterioration in the creditworthiness of the obligor.



Figure 4.45 Risk-weighting distribution of credit exposures under the standardised approach



4.8.4 Classification of credit risk exposures under the standardised approach

Classified credit risk exposures are reported quarterly as either “standard”, “special mention”, “sub-standard”, “doubtful” or “loss”. There was a steady increase in credit exposures classified as “loss” during the year, as illustrated in Figure 4.46. Credit exposures classified as “loss” are considered to be uncollectable once collection efforts, such as the institution of legal proceedings, have been unsuccessful.

a steady increase in credit exposures classified as “loss”

Figure 4.46 Classification of credit risk exposures under the standardised approach

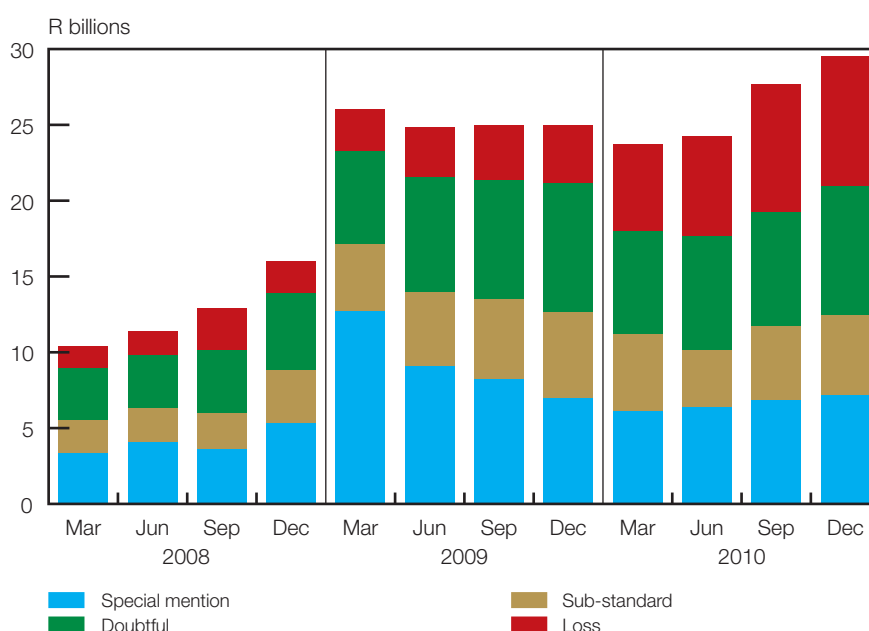
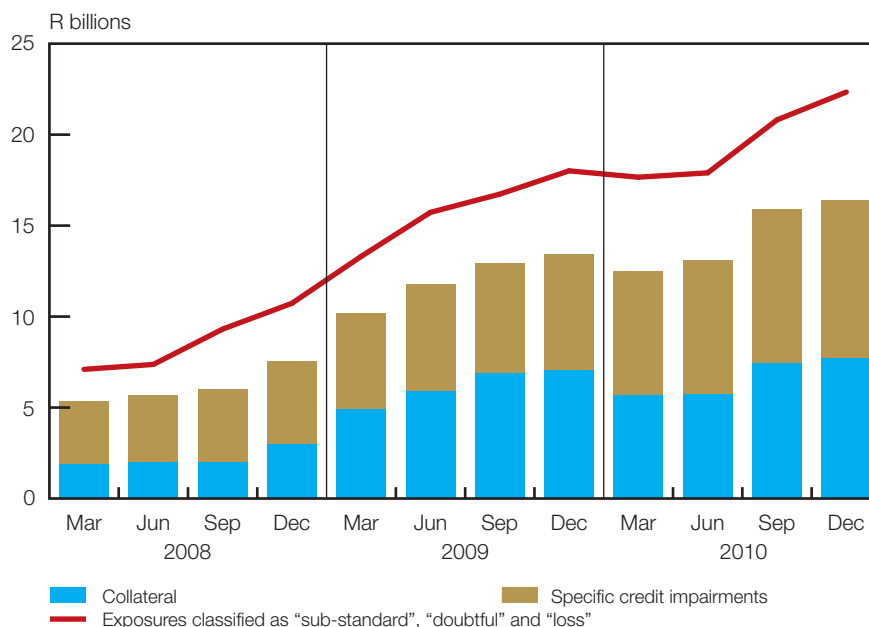


Figure 4.47 gives an indication of the exposures classified as “substandard”, “doubtful” or “loss” measured against specific credit impairments raised and collateral held. The “gap” or shortfall between the classified exposures and the related collateral and specific credit impairments can be attributed to, among other things, unsecured lending. The Registrar may require banks with significant unsecured lending portfolios to adhere to higher minimum CARs. Although there was a significant increase in the classified categories during 2010 (as shown in Figure 4.46), the “gap” as a percentage of the classified exposures remained largely unchanged at 26,6 per cent as at December 2010 (December 2009: 25,5 per cent).

Figure 4.47 Exposures classified as “sub-standard”, “doubtful” and “loss” measured against specific credit impairments and collateral



4.8.5 Internal ratings-based banks

Box 4.1 Calculation of expected loss for internal ratings-based banks

As set out in the Basel Committee document, “An Explanatory Note on the Basel II IRB Risk Weight Functions”, issued in July 2005, banks can estimate expected losses based on three key drivers:

- Probability of default (PD) per rating grade, which gives the average percentage of obligors that default in this rating grade in the course of one year.
- Exposure at default (EAD), which gives an estimate of the amount outstanding (drawn amounts plus likely future draw-downs of yet undrawn lines) in case the borrower defaults.
- Loss given default (LGD), which gives the percentage of exposure the bank might lose should the borrower default.

The expected loss is calculated as follows:

$$EL = PD * EAD * LGD$$

These risk drivers are converted into risk weights and regulatory capital requirements by means of risk weight formulas specified by the Basel Committee and incorporated accordingly into the Regulations relating to Banks.

Banks that utilised the IRB approach for calculating minimum capital requirements for credit risk represented 82,2 per cent of the total banking sector’s gross credit exposure at the end of December 2010 (December 2009: 83,9 per cent). Table 4.3 provides a summary of the key risk drivers of credit risk, as primary inputs to the capital calculation reported by IRB banks. Total EAD comprises credit exposures reported in standard PD bands, specialised lending (which

exposures were mapped into standardised rating categories) and securitisation exposures. The majority of IRB credit exposures are reported in standard PD bands. Of these, total retail and total corporate form the main components.

Table 4.3 Key credit risk indicators reported by internal ratings-based banks

	Dec 2008	Dec 2009	Dec 2010
Total exposure at default (R billions).....	2 578	2 597	2 611
Exposure at default analysed by PD band (R billions)	2 578	2 533	2 547
Average probability of default (per cent)	5,8	7,4	6,9
Of which:			
– Retail	10,0	12,4	11,5
– Corporate	2,5	3,6	3,8
Average loss given default (per cent)	27,8	28,4	28,7
Of which:			
– Retail	24,6	24,2	25,7
– Corporate	34,9	34,4	33,6
Expected loss as a percentage of exposure at default (per cent)	1,6	2,0	2,0
Risk-weighted exposure as a percentage of exposure at default (per cent)	35,0	35,0	37,0
Advances in default as a percentage of exposure at default (per cent)	3,1	4,7	4,7

Against the backdrop of subdued economic growth and credit demand, total EAD increased by less than 1 per cent to R2,611 billion at the end of December 2010 (2009: 0,7 per cent). The average PD for all categories, excluding specialised lending and securitisation, reduced to 6,9 per cent at the end of December 2010 (December 2009: 7,4 per cent) due to a slight recovery in retail exposures, specifically residential mortgages. Recovery in corporate exposures has lagged retail exposures, and underlying stress is still prevalent in those portfolios.

Banks updated their internal models with downturn data from the past year and, as a result, reported slight increases in total LGDs of 28,7 per cent at the end of December 2010 (December 2009: 28,4 per cent), driven by the increase in LGDs reported for the retail portfolios.

Since all key risk drivers remained largely unchanged during 2010, total expected loss also remained stable. However, the mix between retail and corporate exposures changed, with a decreased contribution from retail exposures and an increased contribution from corporate exposures. Defaulted advances appeared to be stable at 4,7 per cent at the end of December 2010 (December 2009: 4,7 per cent).

As with STA banks, IRB banks continued to refine credit risk frameworks, and specifically model inputs, which resulted in increased average risk weight percentages.

Figures 4.48 and 4.49 show the total retail and corporate distributions of EAD in standard PD bands, and gives an indication of PD migration and credit quality from 2008. The lower PD bands of 0 per cent to 8,611 per cent would generally include higher-quality credit exposures. As the credit quality (or credit rating) of the exposures decrease, the exposures migrate towards the higher PD bands (i.e., towards 100 per cent). “In default” generally comprises credit exposures that are overdue for more than 90 days or which display certain weaknesses, as defined in regulation 65 of the Regulations relating to Banks.

recovery in corporate exposures has lagged retail exposures



Figure 4.48 Distribution of retail exposures at default in standard probability of default bands

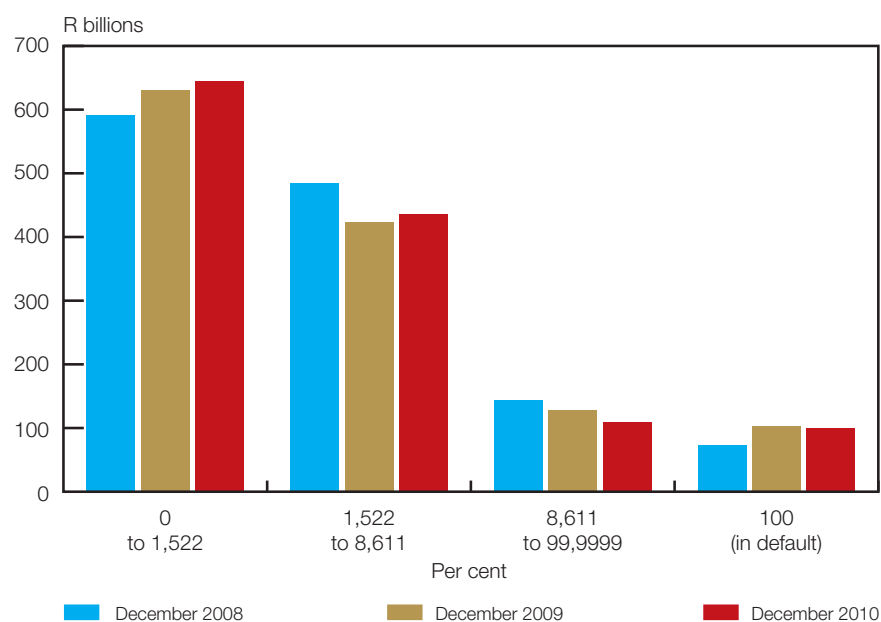
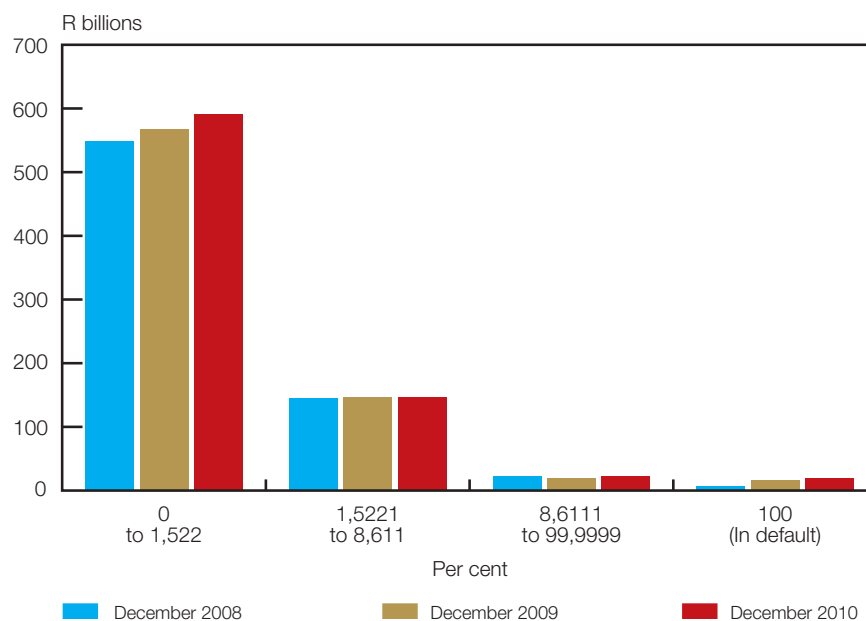


Figure 4.49 Distribution of corporate exposures at default in probability of default ranges



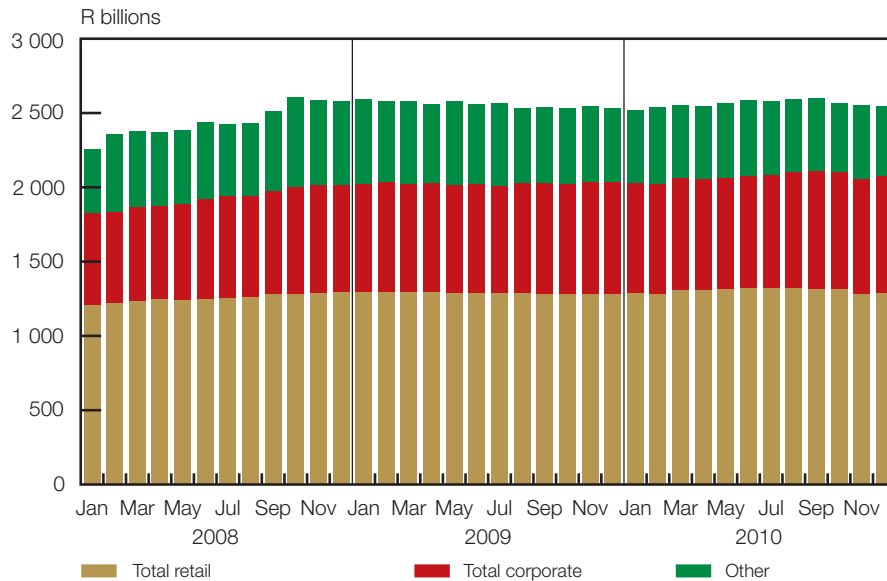
4.8.6 Exposure at default

Figure 4.50 presents credit exposure (i.e., EAD) per standard PD bands, classified per asset category, since January 2008. Total gross credit exposure for IRB banks increased by 0,6 per cent to R2 547 billion at the end of December 2010 (December 2009: R2 533 billion). Both the corporate and retail asset categories reflected slight year-on-year increases, which were offset by a 3,9 per cent decline in the other asset category. The composition of total credit exposures remained largely unchanged, with retail credit exposures constituting 50,7 per cent (December 2009: 50,7 per cent), corporate credit exposures constituting 30,7 per cent (December 2009: 29,7 per cent) and other credit exposures constituting 18,6 per cent (December 2009: 19,6 per cent).

the composition of total credit exposures remained largely unchanged



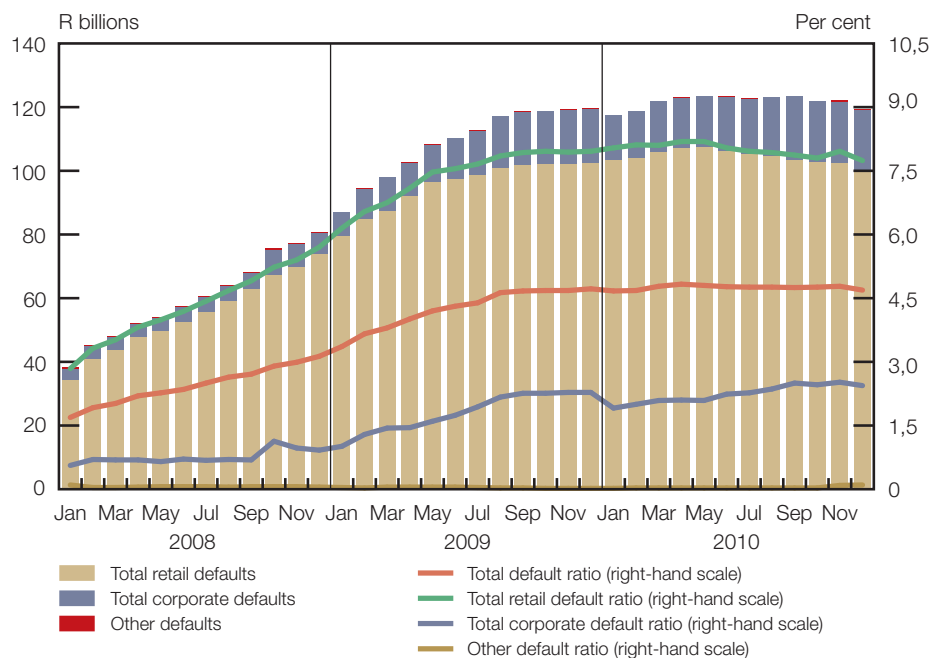
Figure 4.50 Total exposure at default



Total default exposures continued to grow in the first half of 2010, peaking at R123,4 billion in May 2010 (refer to Figure 4.51). During the second half of the year, growth in defaults tapered off, with the defaults declining during the last quarter of 2010 to R119,4 billion at the end of December 2010 (December 2009: R119,6 billion). The decline in total defaults was largely due to a 2,4 per cent decline in retail defaults, following the effect of the reducing interest rate cycle on credit consumers, and proactive credit risk management by the banking sector. The retail default exposures accounted for 83,6 per cent of the total default exposures (December 2009: 85,5 per cent), amounting to R99,9 billion at the end of December 2010 (December 2009: R102,3 billion). Total corporate default exposures (which include corporate, specialised lending, SME corporate and purchased receivables from corporations) increased to almost 16 per cent of total defaults (December 2009: 14,4 per cent) and amounted to R19,1 billion at the end of December 2010 (December 2009: R17,2 billion). Defaults accounted for 4,7 per cent of total credit exposures at the end of December 2010 (December 2009: 4,7 per cent). The decline in the total retail default ratio to 7,7 per cent (December 2009: 8,0 per cent) was largely offset by the growth in the corporate default ratio to 2,4 per cent (December 2009: 2,3 per cent).

retail default exposures accounted for 83,6 per cent of total default exposures

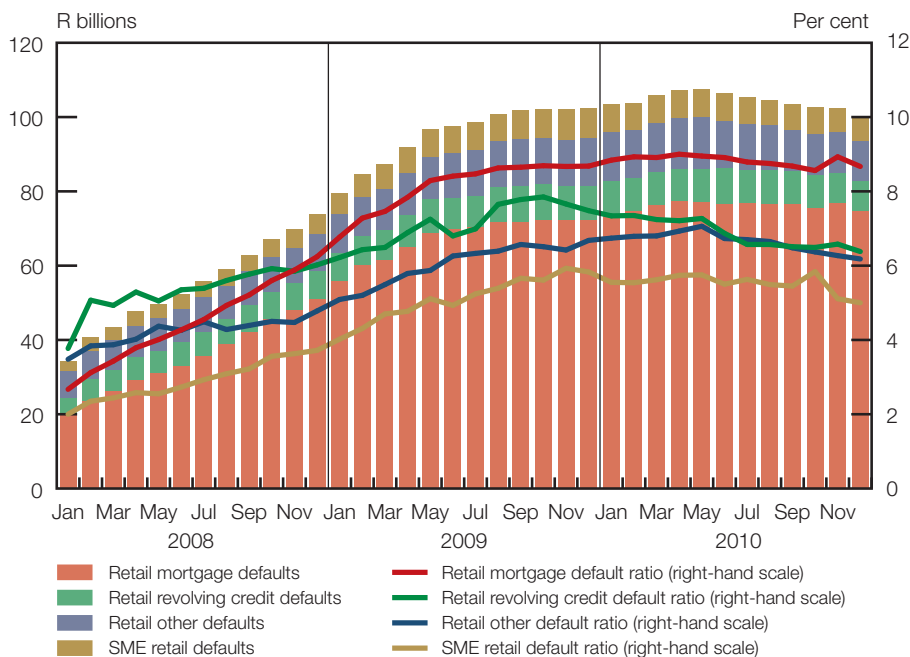
Figure 4.51 Total default exposure and default ratio per asset class



retail mortgage
default ratio generally
flat during 2010

A breakdown of retail defaults and default ratios into the four retail asset categories from 2008 is provided in Figure 4.52. Retail mortgage defaults continued to constitute the majority of retail defaults, amounting to R74,6 billion at the end of December 2010 (December 2009: R72,4 billion). The retail mortgage default ratio was generally flat during 2010. The retail other defaults (including vehicle and asset finance), retail revolving credit defaults (including credit cards) and SME retail defaults declined year on year by 16,2 per cent, 10,7 per cent and 19,4 per cent respectively.

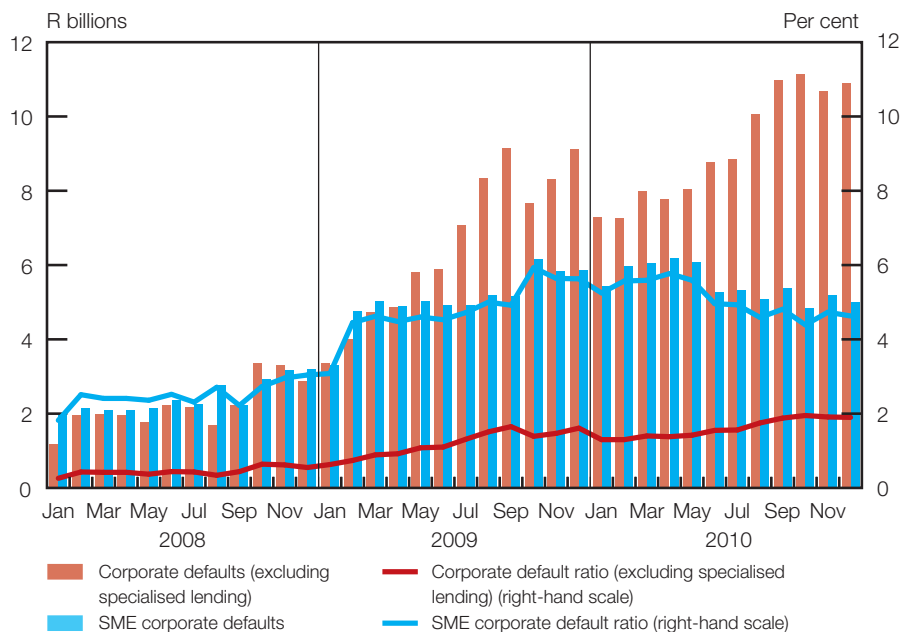
Figure 4.52 Composition of retail default exposures and their respective default ratios



20 per cent year-
on-year growth in
corporate defaults

Although corporate defaults (excluding specialised lending, SME corporate and purchased receivables from corporations) accounted for less than 10 per cent of total defaults, the almost 20 per cent year-on-year growth recorded at the end of December 2010 is indicative of the

Figure 4.53 Composition of corporate default exposures (excluding specialised lending) and small and medium corporate enterprises' default exposures, and their respective default ratios



continued stress in credit exposures reported in this asset class (refer to Figure 4.53). SME corporate defaults decreased by 14,5 per cent during 2010, mainly as a result of banks writing off debt.

4.8.7 Credit concentration risk: Sectoral and geographic distribution of credit exposures

The breakdown of credit exposures according to the sectors and geographic areas is depicted in Tables 4.4 and 4.5 respectively. As at the end of December 2010, private household, and finance and insurance amounted to 35,2 per cent and 24,8 per cent respectively of the banking sector's total credit exposures, representing the majority of the sector's credit exposure (December 2009: 39,2 per cent and 22,6 per cent respectively). Advances to other, real estate, and community and personal services categories contributed 6,8 per cent, 6,4 per cent and 5,2 per cent respectively at the end of December 2010 (December 2009: 6,2 per cent, 5,5 per cent and 4,8 per cent respectively). The remaining sectors of the economy each amounted to less than 5 per cent of the total banking sector's credit exposures.

Table 4.5 shows that 89,4 per cent of the banking sector's credit exposure is concentrated in South Africa, followed by Europe and North America, representing 7,6 per cent and 1,7 per cent respectively at the end of December 2010 (December 2009: 90,6 per cent, 7,1 per cent and 1,3 per cent respectively).

the banking sector's credit exposure is concentrated in South Africa

Table 4.4 Sectoral distribution of credit exposures (as a percentage of total credit exposure)

	Dec 2008*	Dec 2009*	Dec 2010*
Agriculture	1,21	1,61	1,72
Mining	2,70	3,19	2,93
Manufacturing	4,42	3,67	4,09
Electricity	0,71	0,69	0,91
Construction.....	1,28	1,30	1,22
Wholesale and retail trade	3,60	3,83	3,86
Transport and communication	2,36	2,88	3,58
Finance and insurance	25,36	22,58	24,82
Real estate	4,83	5,46	6,41
Business services.....	5,67	4,65	3,35
Community and personal services.....	4,15	4,81	5,16
Private households	36,46	39,16	35,15
Other	7,25	6,17	6,80
Total	100,00	100,00	100,00

* Differences may occur due to rounding

Table 4.5 Geographic distribution of credit exposures (as a percentage of total credit exposure)

	Dec 2008*	Dec 2009*	Dec 2010*
South Africa.....	89,06	90,63	89,35
Other African countries.....	0,51	0,50	0,53
Europe	8,35	7,06	7,57
Asia	0,16	0,31	0,56
North America.....	1,61	1,27	1,72
South America.....	0,11	0,11	0,20
Other	0,21	0,12	0,08
Total	100,00	100,00	100,00

* Differences may occur due to rounding



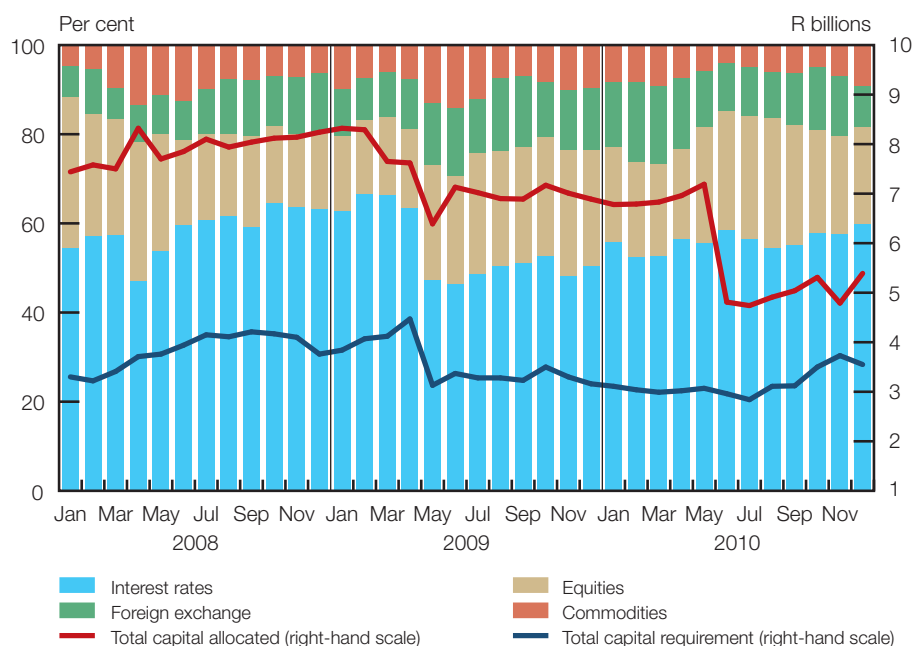
4.9 Market risk

4.9.1 Regulatory capital requirement in respect of market risk

total capital allocated for market risk decreased

Illustrated in Figure 4.54 is the composition of the market risk regulatory capital requirement. While the total capital allocated for market risk decreased from R6,8 billion at the end of January 2010 to R5,4 billion at the end of December 2010 (December 2009: R6,9 billion), the total capital requirement for market risk increased from R3,1 billion at the end of January 2010 to R3,6 billion at the end of December 2010 (December 2009: R3,2 billion). The total capital allocated for market risk decreased from R7,2 billion at the end of May 2010 to R4,8 billion at the end of June 2010, as a result of a bank aligning its regulatory reporting to the way it managed its capital internally.

Figure 4.54 Composition of regulatory capital requirement in respect of market risk



The capital requirement in respect of interest rate instruments remained the biggest contributor to the composition of total market risk capital requirements during 2010 and amounted to 59,7 per cent at the end of December 2010 (December 2009: 50,4 per cent). The market risk capital requirement in respect of equity positions amounted to 21,8 per cent at the end of December 2010 (December 2009: 26,1 per cent). Market risk capital requirements in respect of foreign-exchange instruments decreased from 14,5 per cent at the end of January 2010 to 9,2 per cent at the end of December 2010 (December 2009: 13,6 per cent). Commodities risk contributed 9,3 per cent to the total capital requirement at the end of December 2010 (December 2009: 9,6 per cent)

4.9.2 Derivative instruments

increase in interest rate derivative contracts turnover

The composition of monthly turnover in derivative contracts is illustrated in Figure 4.55. The turnover is calculated by aggregating the gross notional values of all derivative purchases and sales that occurred during a specific month. The turnover in derivative instruments remained above R4,8 trillion during 2010 and reached a peak of R7,8 trillion in November 2010 as a result of the increase in turnover of interest rate derivative contracts. At the end of December 2010 the turnover in derivative instruments amounted to R5,2 trillion (December 2009: R4,3 trillion).

Foreign-exchange and interest rate derivative contracts constituted a large portion of derivative turnover activities during 2010 and at the end of December 2010 amounted to R3,1 trillion (December 2009: R2,8 trillion) and R1,6 trillion (December 2009: R1,1 trillion) respectively.



Figure 4.55 Composition of monthly turnover in derivative contracts (gross notional value)

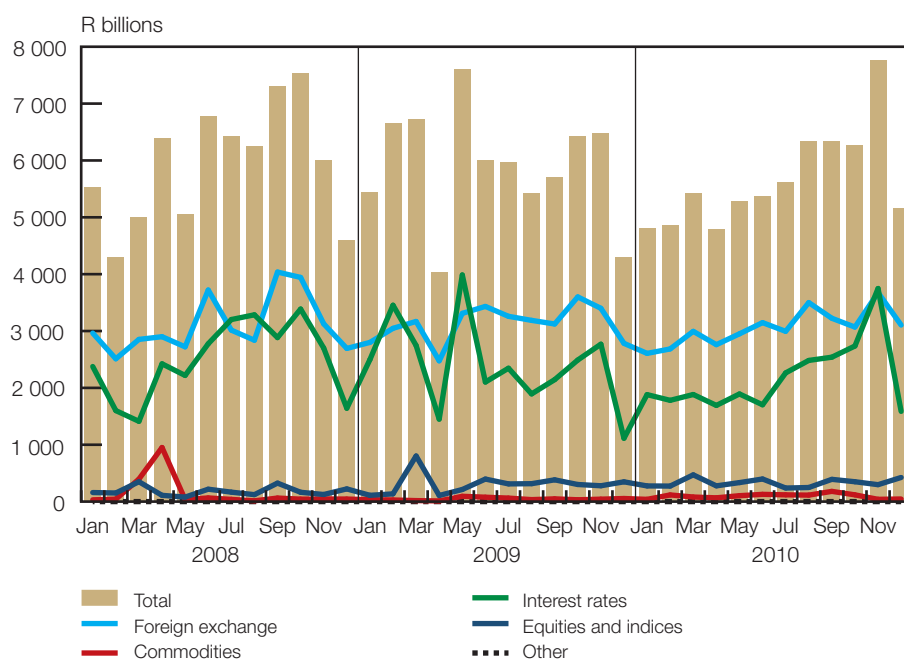
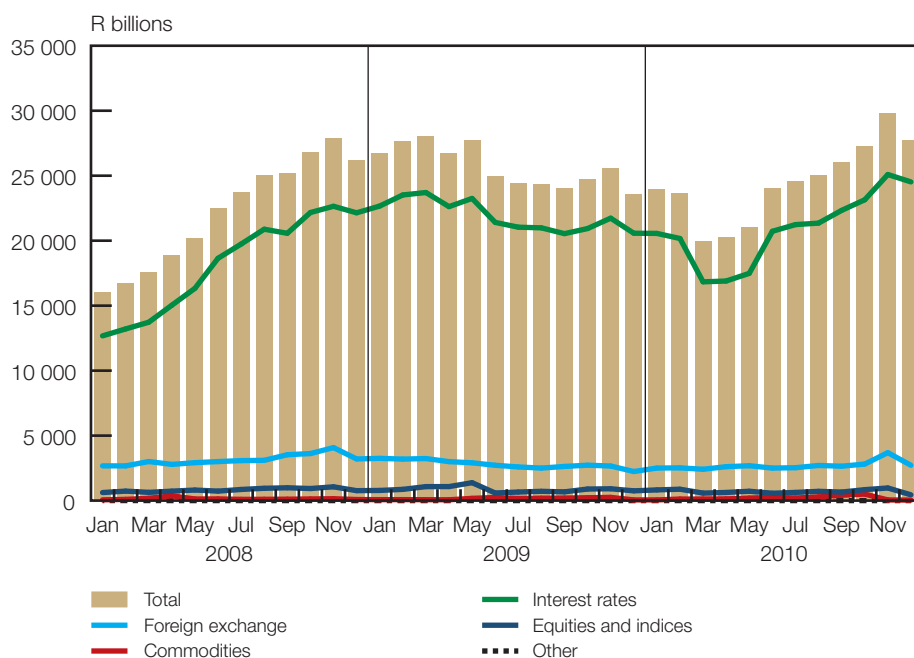


Figure 4.56 depicts the composition and total gross notional value of all unexpired derivative contracts since January 2008. The total gross notional value of unexpired contracts decreased from R23,9 trillion at the end of January 2010 to R19,9 trillion at the end of March 2010. From June, the gross notional value of unexpired derivative contracts grew significantly, peaking at almost R30,0 trillion at the end of November, before declining marginally to R27,7 trillion at the end of December 2010. Unexpired interest rate derivative contracts represented the majority of the total unexpired derivative contracts throughout 2010, and amounted to R24,5 trillion (88,5 per cent) at the end of December 2010 (December 2009: R20,5 trillion or 87,1 per cent).

interest rate derivative contracts represented the majority of total unexpired derivative contracts

Figure 4.56 Composition of unexpired derivative contracts at month-end (gross notional value)



OTC-traded, unexpired derivative transactions represented 98,3 per cent of the total unexpired derivative contracts

Figures 4.57 and 4.58 present a breakdown of total unexpired derivative contracts at month-end, as shown in Figure 4.56, into exchange-traded unexpired derivative contracts and OTC-traded, unexpired derivative contracts. OTC-traded, unexpired derivative transactions represented 98,3 per cent of the total unexpired derivative contracts at the end of December 2010 (December 2009: 95,6 per cent). Interest rate derivative contracts contributed 89,7 per cent of the total unexpired OTC-traded derivative contracts at the end of December 2010 (December 2009: 89,6 per cent).

Figure 4.57 Composition of unexpired derivative contracts at month-end: Exchange traded (gross notional value)

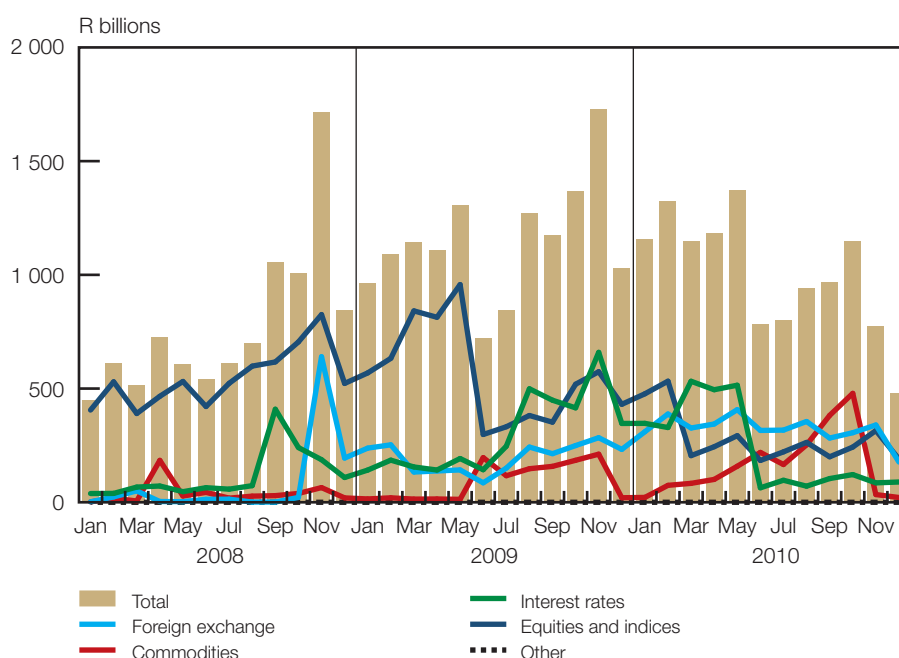
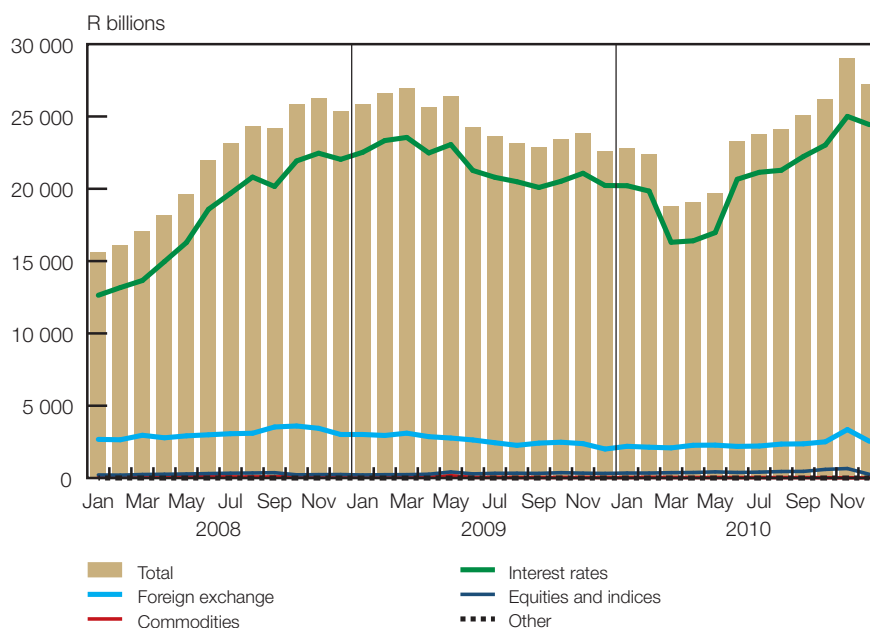


Figure 4.58 Composition of unexpired derivative contracts at month-end: Over-the-counter traded (gross notional value)



4.9.3 Currency risk

The aggregated effective net open foreign-currency position (FX NOP) is presented in Figure 4.59. The aggregated effective FX NOP is calculated by the netting of foreign-currency assets, foreign-currency liabilities, commitments to purchase foreign currency and commitments to sell foreign currency. The aggregated effective FX NOP remained within the regulatory limit of 10 per cent of qualifying regulatory capital and reserve funds throughout 2010. The aggregated effective FX NOP expressed as a percentage of qualifying regulatory capital and reserve funds amounted to 0,3 per cent at the end of December 2010 (December 2009: 0,6 per cent). The aggregated effective FX NOP was negative for the most part of 2010, as a result of the decrease in commitments to purchase foreign currency.

the aggregated effective FX NOP remained within the regulatory limit

Figure 4.59 Aggregated effective net open foreign-currency position (as a percentage of qualifying regulatory capital)

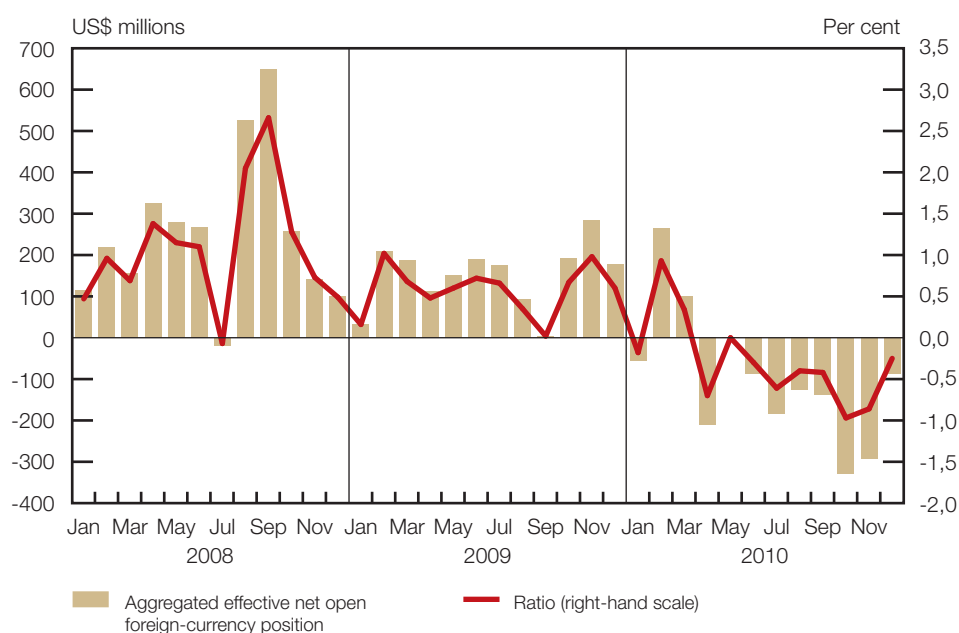
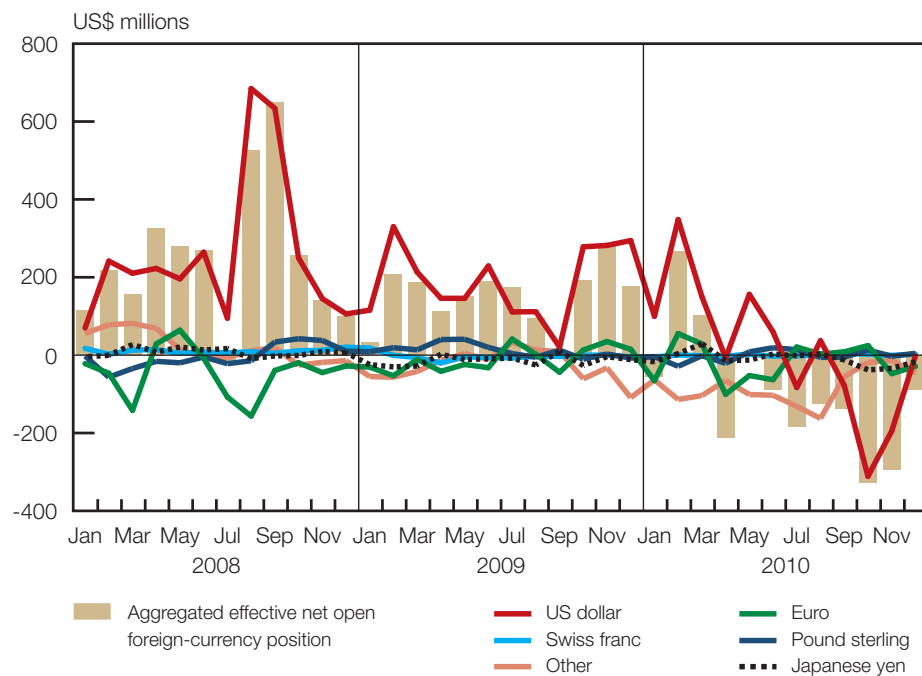


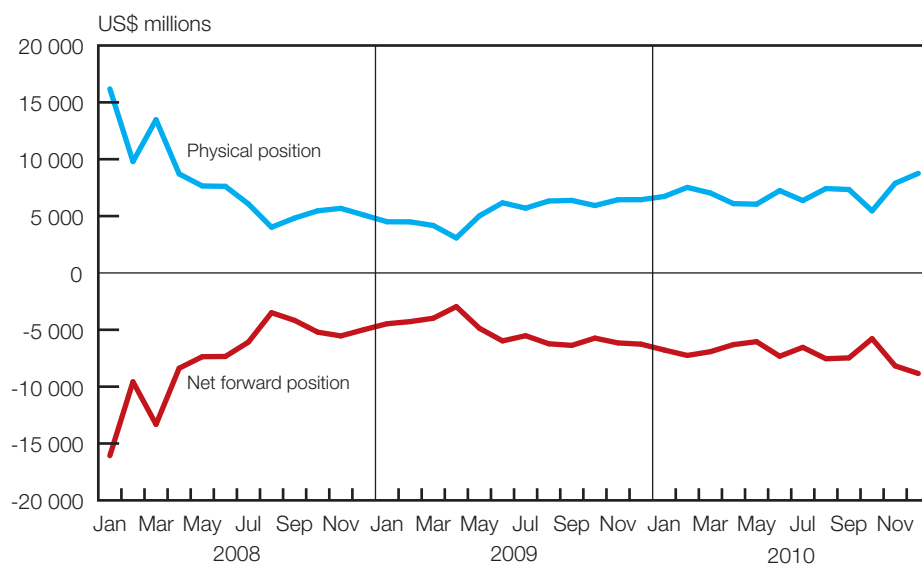
Figure 4.60 indicates the contributions of each currency to the aggregated effective FX NOP. The US dollar dominated the positions and remained the main constituent to the fluctuations during 2010.

Figure 4.60 Aggregated effective net open foreign-currency position per currency



The physical position is the difference between foreign-currency assets and foreign-currency liabilities, while the net forward position is the difference between commitments to sell foreign currency and commitments to purchase foreign currency. The physical position increased from US\$6,7 billion at the end of January 2010 to US\$8,8 billion at the end of December 2010 (December 2009: US\$6,4 billion). The net forward position increased from US\$6,8 billion at the end of January 2010 to US\$8,8 billion at the end of December 2010 (December 2009: US\$6,3 billion) as illustrated in Figure 4.61.

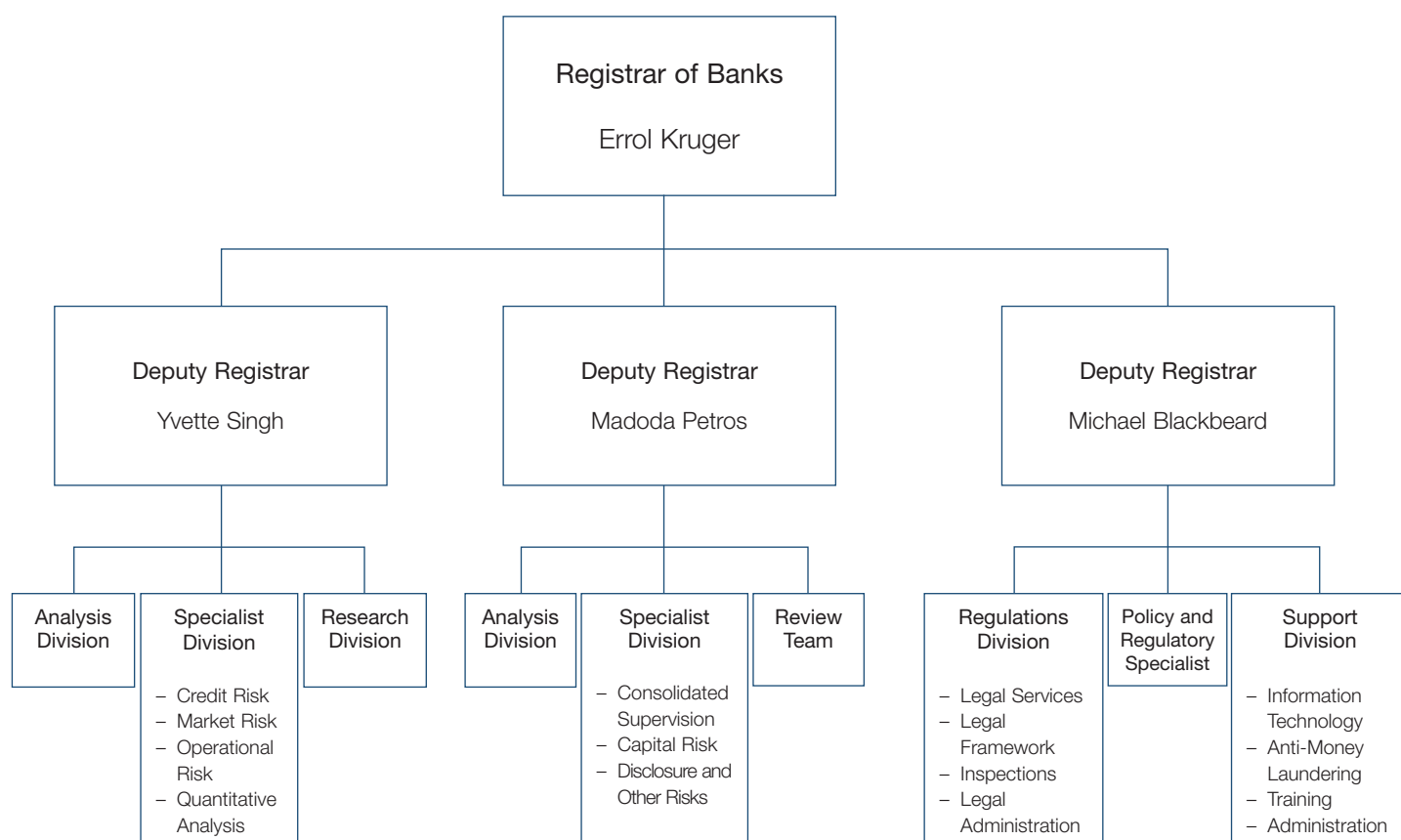
Figure 4.61 Position in foreign-currency instruments



Appendices

Appendix 1

Organisational structure of the Bank Supervision Department



Total staff complement, vacancies and employment equity numbers

	31 December 2009	31 December 2010
Total job register (permanent positions).....	109	112
Total employed	101	103
Total vacancies	8	9
Employment equity: Race (target group – per cent)		
General management	39	36
Other staff.....	64	62
Employment equity: Gender (target group – per cent)		
General management	39	38
Other staff.....	69	74

Appendix 2

Registered banks, mutual banks and local branches of foreign banks as at 31 December 2010

Registered banks

Institution	Address	Total assets at 31 December		Annual growth (per cent)
		2009 (R millions)	2010 (R millions)	
1 Absa Bank Limited	P O Box 7735, Johannesburg, 2000	649 142	670 623	3,31
2 African Bank Limited	Private Bag X170, Halfway House, 1685	24 191	37 977	56,98
3 Albaraka Bank Limited	P O Box 4395, Durban, 4000	2 366	2 820	19,19
4 Bidvest Bank Limited	P O Box 185, Johannesburg, 2000	1 726	2 500	44,83
5 Capitec Bank Limited	P O Box 12451, Die Boord, Stellenbosch, 7613	8 620	12 911	49,78
6 FirstRand Bank Limited	P O Box 650149, Benmore, 2010	548 333	616 912	12,51
7 Grindrod Bank Limited	P O Box 3211, Durban, 4000	2 119	2 473	16,72
8 Habib Overseas Bank Limited	P O Box 62369, Marshalltown, 2107	751	797	6,13
9 HBZ Bank Limited	P O Box 1536, Wandsbeck, 3631	1 957	2 467	26,05
10 Investec Bank Limited	P O Box 785700, Sandton, 2146	181 663	216 665	19,27
11 Mercantile Bank Limited	P O Box 782699, Sandton, 2146	5 829	6 263	7,45
12 Nedbank Limited	P O Box 1144, Johannesburg, 2000	509 739	549 878	7,87
13 Sasfin Bank Limited	P O Box 95104, Grant Park, 2051	1 524	1 970	29,25
14 UBank Limited (formerly known as Teba Bank Limited)	Private Bag X101, Sunninghill, 2157	3 365	3 584	6,50
15 The South African Bank of Athens Limited	P O Box 7781, Johannesburg, 2000	1 258	1 245	-1,06
16 The Standard Bank of South Africa Limited	P O Box 7725, Johannesburg, 2000	803 088	808 292	0,65

Appendix 2

Registered banks, mutual banks and local branches of foreign banks as at 31 December 2010 (continued)

Registered mutual banks

Institution	Address	Total assets at 31 December		Annual growth (per cent)
		2009 (R millions)	2010 (R millions)	
1 GBS Mutual Bank	P O Box 114, Grahamstown, 6140	758	780	2,98
2 VBS Mutual Bank	P O Box 3618, Makhado, 0920	242	252	4,18

Registered local branches of foreign banks

Institution	Address	Total assets at 31 December		Annual growth (per cent)
		2009 (R millions)	2010 (R millions)	
1 Bank of Baroda	Premises No.14, 2nd floor, Sandton City Twin Towers, (East Wing), Sandton, 2196	415	475	14,51
2 Bank of China Limited Johannesburg Branch (trading as Bank of China Johannesburg Branch)	P O Box 782616, Sandton, 2146	4 599	5 008	8,90
3 Bank of Taiwan South Africa Branch	P O Box 1999, Parklands, 2121	645	913	41,50
4 Calyon (trading as Calyon Corporate and Investment Bank)	P O Box 527, Melrose Arch, 2076	15 804	20 981	32,76
5 China Construction Bank Corporation – Johannesburg Branch	Private Bag X10007, Sandton, 2146	5 174	6 895	33,26
6 Citibank NA	P O Box 1800, Saxonwold, 2132	43 583	44 274	1,58
7 Deutsche Bank AG	Private Bag X9933, Sandton, 2146	30 088	38 000	26,30
8 JPMorgan Chase Bank, NA (Johannesburg Branch)	Private Bag X9936, Sandton, 2146	23 201	29 123	25,52
9 Société Générale	P O Box 6872, Johannesburg, 2000	9 205	7 858	-14,63
10 Standard Chartered Bank (Johannesburg Branch)	P O Box 782080, Sandton, 2146	14 418	16 087	11,57
11 State Bank of India	P O Box 2538, Saxonwold, 2132	1 801	2 070	14,97
12 The Hongkong and Shanghai Banking Corporation Limited	Private Bag X785434, Sandton, 2146	11 007	14 450	31,28
13 The Royal Bank of Scotland NV (formerly known as ABN AMRO Bank NV)	P O Box 78769, Sandton, 2146	5 328	337	-93,68



Appendix 2

Registered banks, mutual banks and local branches of foreign banks as at 31 December 2010 (continued)

Banks under curatorship

Institution	Curator	Date of order
1	None	

Banks in final liquidation

Institution	Liquidator	Date of order
1	Islamic Bank Limited	Mr A D Wilkens of Deloitte & Touche
2	Regal Treasury Private Bank Limited	Mr T A P du Plessis of D&N Trust and Mr J Pema of Sekela Antrust (Pty) Limited

Appendix 3

Name changes and cancellation of registration of banks and branches of foreign banks during the period 1 January 2010 to 31 December 2010

Name changes

Previous name	New name	Date of change
1	ABN AMRO Bank NV	The Royal Bank of Scotland NV
2	Teba Bank Limited	UBank Limited

Cancellation of registration

Institution	Date of order
1	Imperial Bank Limited

Appendix 4

Registered controlling companies as at 31 December 2010

Institution	Address
1 Absa Group Limited	P O Box 7735, Johannesburg, 2000
2 African Bank Investments Limited	Private Bag X170, Halfway House, 1685
3 Bidvest Bank Holdings Limited	P O Box 185, Johannesburg, 2000
4 Capitec Bank Holdings Limited	P O Box 12451, Die Boord, Stellenbosch, 7613
5 FirstRand Limited	P O Box 650149, Benmore, 2010
6 Grindrod Financial Holdings Limited	P O Box 3211, Durban, 4000
7 Investec Limited	P O Box 785700, Sandton, 2146
8 Mercantile Bank Holdings Limited	P O Box 782699, Sandton, 2146
9 Nedbank Group Limited	P O Box 1144, Johannesburg, 2000
10 Sasfin Holdings Limited	P O Box 95104, Grant Park, 2051
11 Standard Bank Group Limited	P O Box 7725, Johannesburg, 2000
12 Teba Bank Controlling Company Limited	Private Bag X101, Sunninghill, 2157

The following institutions are deemed to be controlling companies in terms of section 42 of the Banks Act, 1990:

1 Albaraka Banking Group (in respect of Albaraka Bank Limited)	P O Box 1882, Manama, Kingdom of Bahrain
2 National Bank of Greece (in respect of The South African Bank of Athens Limited)	86 Eolou Street, Athens TT 121, Greece
3 Pitcairn's Finance (in respect of Habib Overseas Bank Limited)	121, Avenue de la Faiencerie, L-1511 Luxemburg, RCS Luxemburg, B nr 33-106

Appendix 5

Foreign banks with approved local representative offices

Institution	Address
1 AfrAsia Bank Limited	P O Box 1440, Randparkridge, 2156
2 Banco Africano de Investimentos	Citibank Building, 3rd floor, 145 West Street, 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 Santander Totta SA	P O Box 309, Bruma, 2026
6 Bank Leumi Le-Israel BM	Private Bag X41, Saxonwold, 2132
7 Bank of Cyprus Group	P O Box 652176, Benmore, 2010
8 Bank of India	P O Box 653589, Benmore, 2010
9 BNP Paribas Johannesburg	P O Box 52897, Saxonwold, 2132
10 Barclays Bank plc	P O Box 1542, Saxonwold, 2132
11 Barclays Private Clients International Limited	P O Box 1542, Saxonwold, 2132
12 Commerzbank AG Johannesburg	5 Keys Avenue, Rosebank, 2195
13 Credit Suisse AG	Private Bag X9911, Sandton, 2146
14 Credit Suisse Securities (Europe) Limited	Private Bag X9911, Sandton, 2146
15 Ecobank	4th floor, Sandown Valley Crescent, Sandton, 2196
16 Export-Import Bank of India	Sandton City Twin Towers, 2nd floor, (East Wing), Sandton, 2146
17 Fairbairn Private Bank (Isle of Man) Limited	P O Box 787549, Sandton, 2146
18 Fairbairn Private Bank (Jersey) Limited	P O Box 787549, Sandton, 2146
19 First Bank of Nigeria	P O Box 784796, Sandton, 2146
20 First City Monument Bank plc	P O Box 78553, Sandton, 2146
21 Hellenic Bank Public Company Limited	P O Box 783392, Sandton, 2146
22 HSBC Bank International Limited	Private Bag X785434, Sandton, 2146
23 Icici Bank Limited	P O Box 78261, Sandton, 2146
24 KFW IpeX-Bank GMBH	P O Box 2402, Saxonwold, 2132
25 Lloyds TSB Offshore Limited	Private Bank X25, Northlands, 2116
26 Millenium BCP	P O Box 273, Bruma, 2026
27 Natixis Southern Africa Representative Office	Postnet Suite 352, Private Bag X1, Melrose Arch, 2076
28 National Bank of Egypt	P O Box 55402, Northlands, 2116
29 Royal Bank of Scotland International Limited	5 Merchant Place, 9 Fredman Drive, Sandton, 2196
30 Société Générale Representative Office for Southern Africa	P O Box 2805, Saxonwold, 2132
31 Sumitomo Mitsui Banking Corporation	Building Four, 1st floor, Commerce Square, 39 Rivonia Road, Sandhurst, Sandton, 2196
32 The Bank of New York, Mellon	Postnet Suite 100, Private Bag X43, Sunninghill, 2157



Appendix 5

Foreign banks with approved local representative offices (continued)

Institution	Address
33 The Bank of Tokyo-Mitsubishi, UFJ Limited	P O Box 78519, Sandton, 2146
34 The Mauritius Commercial Bank Limited	P O Box 3009, Parklands, 2121
35 The Representative Office for Southern and Eastern Africa of the Export-Import Bank of China	Postnet Suite 158, Private Bag X91-BE, Benmore, 2010
36 UBS AG	P O Box 652863, Benmore, 2010
37 Unicredit Bank AG	P O Box 1483, Parklands, 2121
38 Union Bank of Nigeria plc	P O Box 653125, Benmore, 2010
39 Vnesheconombank	P O Box 413742, Craighall, 2024
40 Wells Fargo Bank NA	P O Box 3091, Saxonwold, 2132
41 Zenith Bank plc	P O Box 782652, Sandton, 2146

Report on representative offices

1. Introduction

The Regulations relating to Representative Offices of Foreign Banking Institutions (the RO Regulations), issued under Government Notice No. 1370, in *Government Gazette* No. 22939 dated 13 December 2001, seek to ensure continuous oversight by the Department of the activities of representative offices of foreign banking institutions operating within the Republic of South Africa.

As at 31 December 2010 there were 41 representative offices (ROs) operating in South Africa, emanating from 19 countries.

2. Change in status of ROs during 2010

2.1 During the year under review the following ROs were deregistered:

- i. Fortis Bank (Nederland) NV
- ii. JSCB IMEX Bank
- iii. Banco Privado Portugues

2.2 During the year under review the following new ROs were registered:

- iv. First City Monument Bank plc
- v. Banco Africano de Investimentos

2.3 During the year under review the following ROs changed their names:

- vi. Bayerische Hype und Vereinsbank AG changed its name to Unicredit Bank
- vii. Wachovia Bank NA changed its name to Wells Fargo Bank NA

3. Supervisory approach

In order to fulfil the Department's responsibilities in terms of the RO Regulations it follows the following supervisory approach:

- Regular interaction with the chief representative officers of the respective ROs
- On-site visits at the ROs
- Analysis of returns submitted by the ROs in terms of the RO Regulations and follow-up of any issues identified
- Analysis of the internal control reports submitted by the ROs on an annual basis in terms of Banks Act Circular 3/2004.

Appendix 6

Selected information on South African banks

Table	Page
1 Composition of total assets (R millions).....	130
2 Composition of loans and advances to customers (R millions).....	131
3 Composition of other loans (R millions)	132
4 Composition of total liabilities (R millions)	133
5 Composition of selected liabilities (R millions).....	134
6 Sources of deposits (R millions)	136
7 Composition of total equity (R millions)	137
8 Composition of off-balance-sheet items (R millions)	138
9 Composition of the income statement (R millions).....	139
10 Composition of interest and similar income (R millions)	140
11 Composition of interest expense and similar charges (R millions).....	142
12 Profitability ratios (12-month moving average) (per cent)	144
13 Composition of gross operating income (R millions).....	145
14 Composition of gross operating expenses (R millions)	146
15 Composition of qualifying capital and reserve funds (R millions).....	147
16 Composition of risk-weighted exposure (R millions)	148
17 Contractual maturity of liabilities (composition) (R millions)	149
18 “Business-as-usual” maturity of liabilities (composition) (R millions)	150
19 Concentration of short-term funding (composition) (R millions).....	151
20 Analysis of credit risk	152
21 Internal ratings-based banks: Composition of total credit exposure – Exposure at default (R millions)	153
22 Internal ratings-based banks: Composition of total retail credit exposure – Exposure at default (R millions)	155
23 Turnover in derivative contracts (R millions).....	157
24 Effective net open foreign-currency position (US\$ millions).....	158

General note

Owing to the rounding off of figures, the sum of the separate items will sometimes differ from the total shown.

Table 1
Composition of total assets (R millions)

	Cash and balances with the central bank	Short-term negotiable securities	Loans and advances to customers	Investment and trading securities	Derivative financial instruments	Other assets	Total assets
2008: January	55 351	92 549	2 076 991	118 280	228 497	91 495	2 663 163
February	57 345	101 472	2 147 428	109 250	257 215	85 260	2 757 970
March	60 244	95 199	2 181 815	108 985	295 407	85 693	2 827 343
April	59 135	101 139	2 165 794	111 712	262 444	90 569	2 790 793
May	56 660	103 142	2 212 037	117 026	286 693	85 004	2 860 562
June	58 740	102 995	2 249 718	130 972	314 633	97 597	2 954 655
July	60 145	107 409	2 238 573	137 166	268 339	86 301	2 897 933
August	60 259	115 336	2 229 424	140 328	235 292	78 662	2 859 301
September	64 218	112 031	2 287 747	135 288	244 678	91 768	2 935 730
October	63 156	122 146	2 317 724	139 279	507 322	90 584	3 240 211
November	62 320	131 882	2 300 563	154 045	492 131	84 287	3 225 228
December	66 929	124 031	2 276 371	163 730	455 474	90 735	3 177 270
2009: January	61 417	134 361	2 296 704	169 336	455 189	89 654	3 206 661
February	58 765	140 668	2 272 686	167 440	416 785	86 205	3 142 549
March	63 325	145 592	2 284 151	165 011	396 922	90 559	3 145 560
April	65 669	147 094	2 222 197	166 032	390 717	82 321	3 074 030
May	60 357	147 749	2 219 244	161 216	401 641	86 852	3 077 059
June	64 779	149 221	2 209 475	155 690	356 820	84 788	3 020 773
July	63 398	149 195	2 236 154	166 082	328 473	81 685	3 024 987
August	64 865	153 975	2 234 131	161 131	321 992	83 320	3 019 414
September	66 219	159 784	2 214 190	167 583	308 777	83 684	3 000 237
October	61 037	166 406	2 227 957	170 584	293 744	76 772	2 996 500
November	67 688	164 725	2 214 449	179 832	289 429	81 402	2 997 525
December	65 839	163 824	2 205 150	186 009	265 513	81 073	2 967 408
2010: January	64 295	163 080	2 210 100	186 489	257 510	89 091	2 970 565
February	64 612	167 565	2 234 466	191 829	259 599	87 667	3 005 738
March	73 068	167 662	2 227 331	199 207	269 837	87 926	3 025 031
April	69 137	167 348	2 224 357	217 664	229 704	92 697	3 000 907
May	70 770	170 908	2 245 152	208 002	222 069	86 581	3 003 482
June	70 971	169 103	2 252 163	207 920	220 057	89 236	3 009 450
July	70 591	172 901	2 258 369	195 525	261 440	114 901	3 073 727
August	71 744	177 909	2 277 778	199 983	268 922	103 506	3 099 842
September	73 462	169 593	2 290 781	202 612	289 116	110 785	3 136 349
October	68 439	167 584	2 262 255	212 412	303 323	118 619	3 132 632
November	73 264	175 340	2 293 353	209 232	253 759	128 880	3 133 828
December	74 688	173 776	2 258 418	212 041	283 774	123 222	3 125 919



Table 2

Composition of loans and advances to customers (R millions)

	Homeloans	Commercial mortgages	Credit cards	Lease and instalment debtors	Overdrafts	Term loans	Other	Less: Credit impairments	Loans and advances to customers
2008: January	693 453	168 060	55 950	238 860	122 070	284 469	540 322	26 194	2 076 990
February.....	701 629	167 289	56 689	241 891	118 362	330 047	559 139	27 618	2 147 428
March.....	709 506	170 069	56 452	244 240	119 641	332 840	576 990	27 922	2 181 816
April.....	711 686	173 857	57 381	246 708	115 949	314 382	574 671	28 840	2 165 794
May.....	719 939	177 401	57 584	248 273	116 654	328 805	593 150	29 770	2 212 036
June.....	726 158	182 022	57 504	249 523	122 590	344 314	599 070	31 461	2 249 720
July	735 082	187 999	57 613	250 342	113 581	327 505	599 127	32 675	2 238 574
August	741 140	192 049	58 060	251 043	111 679	341 892	567 796	34 235	2 229 424
September	746 452	196 865	58 041	252 679	116 653	356 019	596 712	35 675	2 287 746
October.....	755 991	201 239	58 085	253 644	110 587	383 799	591 722	37 342	2 317 725
November	761 424	206 711	57 967	253 628	107 168	368 515	582 662	37 512	2 300 563
December	763 503	208 588	57 345	252 725	106 860	377 853	549 246	39 750	2 276 370
2009: January	766 458	206 874	57 719	251 702	120 876	385 238	549 155	41 318	2 296 704
February.....	770 993	210 251	57 925	250 197	122 407	380 491	523 714	43 291	2 272 687
March.....	776 894	211 317	57 170	249 005	119 352	402 757	512 521	44 866	2 284 150
April.....	777 334	211 910	57 493	247 122	118 831	374 902	480 813	46 206	2 222 199
May.....	778 148	212 583	57 713	245 657	112 649	381 305	478 651	47 460	2 219 246
June.....	779 262	213 136	56 428	243 785	117 457	365 515	481 927	48 036	2 209 474
July	779 636	212 585	56 253	242 207	117 680	374 537	502 440	49 184	2 236 154
August	781 539	213 375	56 701	240 432	111 653	382 178	498 472	50 218	2 234 132
September	782 944	213 695	56 881	239 471	107 749	369 609	495 205	51 363	2 214 191
October.....	784 901	214 565	56 864	238 900	108 109	375 030	502 048	52 461	2 227 956
November	785 698	216 419	55 953	237 979	107 116	381 650	481 507	51 873	2 214 449
December	786 715	218 202	55 736	237 594	106 637	378 438	473 618	51 790	2 205 150
2010: January	790 065	218 316	56 151	236 771	105 191	379 925	476 522	52 842	2 210 099
February.....	795 188	220 057	57 082	236 751	108 025	374 231	497 371	54 239	2 234 466
March.....	797 896	221 233	55 978	236 749	105 610	359 028	505 045	54 206	2 227 333
April.....	799 466	221 389	56 266	236 359	100 651	356 909	507 951	54 634	2 224 357
May.....	801 476	222 447	56 068	237 008	98 008	369 348	515 764	54 966	2 245 153
June.....	803 026	222 662	55 963	237 366	98 198	367 104	523 041	55 198	2 252 162
July	806 518	224 125	55 735	238 660	95 443	360 071	532 827	55 011	2 258 368
August	815 664	226 220	55 960	238 953	100 645	362 518	532 902	55 085	2 277 777
September	817 490	226 467	56 407	239 598	104 240	348 243	554 532	56 195	2 290 782
October.....	818 651	227 046	56 999	240 816	102 311	342 035	530 204	55 807	2 262 255
November	821 200	227 685	56 605	241 541	103 806	363 357	534 562	55 403	2 293 353
December	816 630	227 617	56 559	242 498	97 354	354 820	518 315	55 374	2 258 419

Table 3
Composition of other loans (R millions)

	Loans granted/ deposits placed under resale agreements	Redeemable preference shares	Trade, other bills and bankers' acceptances	Factoring accounts	Bank intra-group balances	Other	Total
2008: January	94 926	50 389	4 055	1 905	147 264	241 783	540 322
February	96 592	49 794	5 047	2 106	157 394	248 204	559 137
March	99 907	49 520	4 680	2 558	150 776	269 549	576 990
April	91 780	48 228	5 515	2 345	158 168	268 636	574 672
May	115 780	47 975	5 847	2 525	155 548	265 475	593 150
June	110 469	47 855	5 552	2 365	154 534	278 295	599 070
July	114 711	50 813	5 204	2 357	163 453	262 590	599 128
August	99 204	51 885	5 835	2 688	173 696	234 488	567 796
September	113 871	56 315	6 652	2 625	177 090	240 158	596 711
October	98 671	56 062	8 464	2 588	195 866	230 072	591 723
November	96 040	56 112	7 809	2 745	200 870	219 087	582 663
December	92 705	55 617	4 937	2 453	172 351	221 184	549 247
2009: January	99 296	56 201	4 439	2 165	180 364	206 690	549 155
February	85 813	55 421	4 245	2 274	178 474	197 487	523 714
March	85 229	54 072	3 427	2 533	168 701	198 560	512 522
April	76 082	54 575	2 943	2 228	154 385	190 600	480 813
May	81 081	54 697	2 955	2 150	145 198	192 570	478 651
June	86 129	54 793	3 877	1 974	143 936	191 219	481 928
July	90 624	55 884	3 808	1 827	149 872	200 425	502 440
August	93 775	57 014	3 470	3 732	150 732	189 749	498 472
September	88 852	56 841	3 537	3 806	149 479	192 689	495 204
October	87 093	57 632	3 302	4 293	161 360	188 367	502 047
November	79 009	57 346	3 328	4 064	142 852	194 909	481 508
December	79 833	57 126	3 796	3 689	144 506	184 669	473 619
2010: January	77 357	56 386	3 809	3 753	142 119	193 097	476 521
February	81 488	57 203	3 705	3 635	143 058	208 283	497 372
March	82 827	56 548	3 009	4 648	159 114	198 899	505 045
April	87 809	57 022	3 358	4 003	148 851	206 909	507 952
May	97 438	55 374	4 014	4 076	146 004	208 857	515 763
June	104 507	58 430	4 039	4 252	144 468	207 345	523 041
July	92 657	58 124	3 888	4 865	142 277	231 016	532 827
August	97 565	57 598	4 177	4 702	143 361	225 499	532 902
September	95 631	57 537	3 987	5 402	146 234	245 742	554 533
October	91 527	56 817	3 801	5 881	98 062	274 116	530 204
November	98 935	59 640	3 731	5 627	90 624	276 006	534 563
December	106 650	54 820	3 564	5 867	92 251	255 163	518 315



Table 4
Composition of total liabilities (R millions)

	Deposits, current accounts and other creditors	Derivative financial instruments and other trading liabilities	Term debt instruments	Other	Total liabilities
2008: January	2 107 501	271 429	62 535	67 341	2 508 806
February.....	2 162 887	307 009	64 650	67 480	2 602 026
March.....	2 193 368	343 321	65 414	67 280	2 669 383
April.....	2 202 310	300 433	65 346	64 292	2 632 381
May.....	2 237 372	329 862	66 400	66 386	2 700 020
June.....	2 294 885	353 658	66 896	76 014	2 791 453
July	2 294 840	305 509	68 230	62 444	2 731 023
August	2 288 782	271 171	68 716	62 931	2 691 600
September	2 354 406	286 599	69 201	57 578	2 767 784
October.....	2 400 292	535 948	68 129	65 019	3 069 388
November	2 381 293	537 723	66 611	62 315	3 047 942
December	2 386 135	491 610	67 234	51 194	2 996 173
2009: January	2 393 828	496 338	67 784	64 352	3 022 302
February.....	2 381 514	451 698	67 355	58 806	2 959 373
March.....	2 418 152	420 015	67 491	59 291	2 964 949
April.....	2 359 798	408 546	68 085	54 481	2 890 910
May.....	2 362 834	405 539	67 626	56 877	2 892 876
June.....	2 356 363	355 167	67 006	55 905	2 834 441
July	2 374 389	333 934	71 449	57 002	2 836 774
August	2 373 195	327 755	73 525	56 853	2 831 328
September	2 367 922	313 159	72 626	55 436	2 809 143
October.....	2 382 842	294 389	73 387	53 157	2 803 775
November	2 378 999	292 087	83 206	48 951	2 803 243
December	2 365 632	273 162	84 647	45 686	2 769 127
2010: January	2 364 634	265 766	87 273	52 696	2 770 369
February.....	2 385 232	261 812	97 612	60 340	2 804 996
March.....	2 387 796	275 475	99 583	61 684	2 824 538
April.....	2 404 840	239 639	103 282	52 887	2 800 648
May.....	2 439 812	222 144	86 260	53 473	2 801 689
June.....	2 453 163	214 943	86 871	49 644	2 804 621
July	2 465 611	254 606	85 837	58 586	2 864 640
August	2 484 129	261 190	85 695	58 271	2 889 285
September	2 486 198	278 913	87 969	64 931	2 918 011
October.....	2 472 115	296 112	86 729	61 411	2 916 367
November	2 510 993	253 345	87 971	62 418	2 914 727
December	2 488 159	280 120	87 739	48 818	2 904 836

Table 5
Composition of selected liabilities (R millions)

Deposits, current accounts and other creditors								
	Current accounts	Savings deposits	Call deposits	Fixed and notice deposits	Negotiable certificates of deposit	Other deposits and loan accounts	Deposits received under repurchase agreements	Total
2008: January	403 392	92 143	466 876	532 943	336 958	183 063	92 125	2 107 500
February.....	394 030	95 665	480 425	543 838	332 739	226 123	90 066	2 162 886
March.....	412 327	90 528	497 515	552 053	331 356	215 288	94 301	2 193 368
April.....	394 048	93 797	496 298	542 206	338 500	243 525	93 936	2 202 310
May.....	385 498	96 126	498 758	570 946	342 263	235 986	107 795	2 237 372
June.....	422 604	99 007	504 109	547 412	337 707	268 002	116 045	2 294 886
July	389 808	102 220	507 844	577 172	355 545	243 745	118 505	2 294 839
August	396 443	103 011	496 508	580 708	364 813	230 653	116 645	2 288 781
September	400 249	104 951	520 366	583 818	367 728	235 633	141 660	2 354 405
October.....	402 097	109 511	554 337	607 770	371 137	236 168	119 272	2 400 292
November	394 616	112 578	537 879	612 018	392 175	223 207	108 820	2 381 293
December	414 813	113 226	525 465	593 339	387 492	242 831	108 970	2 386 136
2009: January	388 627	112 110	518 452	605 983	414 460	253 285	100 911	2 393 828
February.....	380 625	113 793	506 585	596 527	434 029	246 435	103 520	2 381 514
March.....	402 013	114 984	516 611	606 064	427 675	237 683	113 121	2 418 151
April.....	385 683	116 553	524 898	594 592	427 414	216 969	93 688	2 359 797
May.....	380 088	117 107	545 073	595 448	412 119	217 545	95 454	2 362 834
June.....	403 025	117 578	531 844	564 944	409 339	226 809	102 825	2 356 364
July	398 592	118 969	519 554	593 136	403 483	224 465	116 189	2 374 388
August	397 305	118 436	435 603	677 092	405 017	223 290	116 451	2 373 194
September	394 829	117 367	424 320	666 361	410 865	234 481	119 699	2 367 922
October.....	395 598	118 457	427 620	655 181	417 358	248 233	120 395	2 382 842
November	400 285	120 482	432 234	644 402	416 540	250 542	114 514	2 378 999
December	397 831	120 250	424 498	648 978	426 487	247 618	99 971	2 365 633
2010: January	391 826	118 055	425 304	647 910	435 143	252 777	93 618	2 364 633
February.....	407 676	118 013	418 717	660 187	427 044	260 939	92 656	2 385 232
March.....	420 873	116 465	416 378	668 275	419 895	250 765	95 144	2 387 795
April.....	414 598	119 492	427 816	685 142	414 297	246 480	97 016	2 404 841
May.....	414 102	119 659	431 735	693 501	409 668	269 631	101 515	2 439 811
June.....	446 336	121 305	420 319	693 257	401 908	264 324	105 715	2 453 164
July	431 991	122 298	423 119	727 064	405 554	266 878	88 707	2 465 611
August	430 671	122 160	433 813	731 231	417 159	265 075	84 021	2 484 130
September	449 427	123 399	435 511	721 638	409 833	259 958	86 433	2 486 199
October.....	447 127	123 885	365 983	698 798	470 634	274 469	91 219	2 472 115
November	465 809	126 954	388 799	702 407	454 708	273 868	98 448	2 510 993
December	460 885	126 937	381 764	693 578	446 811	274 785	103 399	2 488 159



Table 5
Composition of selected liabilities (R millions) (continued)

	Derivative financial instruments and other trading liabilities			Term debt instruments		
	Derivative financial instruments	Other trading liabilities	Total	Qualifying as capital	Other	Total
2008: January	236 348	35 081	271 429	47 175	15 360	62 535
February.....	267 106	39 903	307 009	49 073	15 577	64 650
March.....	306 772	36 548	343 321	48 691	16 722	65 414
April.....	271 194	29 239	300 433	50 588	14 759	65 346
May.....	294 579	35 284	329 862	51 605	14 795	66 400
June.....	322 745	30 913	353 658	52 333	14 564	66 896
July	270 214	35 295	305 509	52 890	15 340	68 230
August	238 479	32 691	271 171	53 284	15 432	68 716
September	250 511	36 088	286 599	53 620	15 581	69 201
October.....	510 233	25 715	535 948	52 024	16 105	68 129
November	493 832	43 891	537 723	49 886	16 724	66 611
December	452 499	39 110	491 610	49 456	17 778	67 234
2009: January	457 031	39 307	496 338	50 187	17 597	67 784
February.....	418 659	33 039	451 698	50 169	17 186	67 355
March.....	389 925	30 090	420 015	51 001	16 489	67 491
April.....	381 003	27 543	408 546	52 437	15 649	68 085
May.....	384 409	21 131	405 539	52 156	15 470	67 626
June.....	335 567	19 600	355 167	52 041	14 965	67 006
July	312 005	21 929	333 934	53 211	18 238	71 449
August	303 716	24 039	327 755	53 386	20 139	73 525
September	293 517	19 642	313 159	53 050	19 576	72 626
October.....	274 214	20 175	294 389	53 787	19 600	73 387
November	271 666	20 420	292 087	56 620	26 586	83 206
December	250 783	22 379	273 162	57 663	26 984	84 647
2010: January	245 325	20 441	265 766	58 163	29 111	87 273
February.....	243 971	17 841	261 812	58 305	39 307	97 612
March.....	256 771	18 704	275 475	57 199	42 383	99 583
April.....	214 764	24 875	239 639	57 249	46 033	103 282
May.....	207 675	14 469	222 144	57 667	28 593	86 260
June.....	204 041	10 902	214 943	57 887	28 984	86 871
July	244 637	9 969	254 606	57 790	28 047	85 837
August	250 860	10 329	261 190	56 275	29 419	85 695
September	268 881	10 032	278 913	58 265	29 704	87 969
October.....	283 478	12 634	296 112	57 180	29 549	86 729
November	238 144	15 202	253 345	57 615	30 355	87 971
December	268 566	11 554	280 120	56 957	30 781	87 739

Table 6
Sources of deposits (R millions)

	Sovereigns including central banks	Public- sector entities	Local authorities	Banks	Securities firms	Corporate customers	Retail customers	Other	Total
2008: January	103 632	105 552	33 587	315 476	142 316	823 706	467 965	123 925	2 116 159
February	74 673	98 534	40 791	388 925	149 528	851 174	459 835	108 512	2 171 972
March	76 489	114 984	41 106	347 020	171 834	875 138	463 434	113 797	2 203 802
April	72 093	106 901	35 919	328 061	177 761	898 195	471 396	122 986	2 213 312
May	63 072	108 365	33 620	353 939	179 726	897 109	492 673	120 695	2 249 199
June	95 635	117 406	34 532	315 342	182 462	955 218	482 000	122 307	2 304 902
July	74 483	113 168	39 384	313 746	186 566	987 845	484 285	104 745	2 304 222
August	73 467	122 306	34 373	308 569	172 603	989 690	482 093	107 227	2 290 328
September	88 134	132 152	31 829	403 855	160 087	1 016 953	419 014	102 939	2 354 963
October	85 070	135 259	31 349	373 562	168 628	1 002 003	496 838	113 419	2 406 128
November	70 278	135 201	32 609	325 732	165 680	1 028 809	502 886	120 097	2 381 292
December	83 814	133 404	30 333	352 445	158 469	995 501	505 419	126 750	2 386 135
2009: January	81 569	136 646	28 712	361 032	159 880	991 088	507 750	127 152	2 393 829
February	64 904	137 699	39 142	352 466	162 011	999 204	510 365	115 858	2 381 649
March	75 242	136 702	34 668	393 155	163 486	984 217	512 917	117 764	2 418 151
April	66 809	133 669	31 498	344 592	165 374	987 247	515 764	114 846	2 359 799
May	65 114	136 109	30 593	392 800	174 270	1 003 234	436 853	123 860	2 362 833
June	76 427	135 845	27 846	314 869	174 689	988 949	518 442	119 296	2 356 363
July	66 979	125 472	31 478	338 133	174 643	1 001 083	520 645	115 955	2 374 388
August	62 796	125 867	28 337	324 213	183 424	1 017 741	519 304	111 514	2 373 196
September	69 421	131 758	27 630	314 210	181 064	1 010 881	520 697	112 261	2 367 922
October	66 162	123 347	25 263	345 048	172 628	1 021 994	518 904	109 497	2 382 843
November	66 460	122 830	26 499	331 381	173 320	1 028 884	522 805	106 821	2 379 000
December	63 466	120 027	25 639	323 412	188 328	1 006 607	526 758	111 394	2 365 631
2010: January	71 597	128 100	24 338	346 833	185 493	979 881	518 299	110 093	2 364 634
February	87 663	140 994	24 535	334 364	188 255	982 864	509 391	117 166	2 385 232
March	85 036	140 590	30 674	319 315	172 489	999 998	511 744	127 950	2 387 796
April	77 447	133 477	27 944	344 707	173 054	1 007 492	514 896	125 823	2 404 840
May	81 002	130 647	25 054	347 600	177 892	1 035 516	518 442	123 659	2 439 812
June	99 183	141 313	20 102	336 513	176 910	1 037 427	518 347	123 368	2 453 163
July	88 252	142 774	25 842	326 409	181 738	1 054 563	524 652	121 380	2 465 610
August	89 818	148 284	26 106	323 205	178 484	1 063 338	528 499	126 396	2 484 130
September	98 004	162 905	22 977	312 689	184 358	1 052 865	523 566	128 835	2 486 199
October	99 473	165 495	21 628	279 068	184 941	1 159 385	523 435	38 690	2 472 115
November	97 124	165 164	27 368	288 471	186 789	1 177 727	530 126	38 224	2 510 993
December	97 493	164 826	28 241	273 048	184 168	1 170 387	528 880	41 116	2 488 159



Table 7
Composition of total equity (R millions)

	Share capital	Retained earnings	Other reserves	Preference shareholders' equity	Total equity
2008: January	73 183	66 451	14 269	453	154 357
February.....	74 210	68 180	13 101	453	155 944
March.....	79 050	63 505	13 461	1 944	157 960
April.....	79 145	64 608	12 717	1 944	158 413
May.....	79 221	67 192	12 186	1 944	160 543
June.....	79 225	69 814	12 219	1 944	163 202
July	80 235	71 756	12 977	1 944	166 912
August	81 690	72 900	11 169	1 944	167 702
September	83 456	72 306	10 181	2 004	167 947
October.....	84 352	73 482	10 985	2 004	170 823
November	87 207	76 289	11 787	2 004	177 287
December	87 617	79 605	11 871	2 004	181 097
2009: January	87 608	82 820	11 927	2 004	184 359
February.....	82 967	82 348	11 212	6 648	183 175
March.....	83 495	79 559	10 910	6 648	180 611
April.....	85 481	80 254	10 738	6 648	183 120
May.....	85 481	81 214	10 838	6 648	184 180
June.....	86 319	82 957	10 402	6 648	186 325
July	86 282	84 274	11 010	6 648	188 213
August	85 842	84 634	10 962	6 648	188 086
September	87 592	85 926	10 928	6 648	191 094
October.....	87 740	87 393	10 943	6 648	192 725
November	87 760	88 908	10 966	6 648	194 282
December	87 764	92 895	10 975	6 648	198 281
2010: January	87 910	94 718	10 918	6 648	200 194
February.....	87 910	95 347	10 837	6 648	200 742
March.....	88 360	94 670	10 789	6 674	200 494
April.....	88 370	94 164	11 071	6 674	200 279
May.....	89 529	94 936	10 638	6 691	201 793
June.....	89 568	97 839	10 731	6 691	204 829
July	90 243	100 820	11 335	6 691	209 088
August	91 243	100 904	11 718	6 691	210 556
September	97 046	102 452	12 044	6 796	218 339
October.....	96 603	100 882	12 282	6 498	216 265
November	96 675	103 997	11 930	6 498	219 101
December	96 803	105 863	11 922	6 498	221 085

Table 8
Composition of off-balance-sheet items (R millions)

	Guarantees on behalf of clients	Letters of credit	Committed undrawn facilities	Credit derivative instruments	Other	Total
2008: January	103 223	20 655	182 713	11 764	22 473	340 828
February	102 518	21 181	186 340	12 106	22 706	344 851
March	104 915	21 829	196 950	12 096	23 354	359 144
April	106 697	22 070	199 072	12 578	22 738	363 155
May	103 795	22 886	201 239	12 537	27 253	367 710
June	110 633	24 889	193 761	10 532	27 151	366 966
July	105 005	25 309	186 453	12 542	27 585	356 894
August	111 463	25 801	185 309	14 206	25 736	362 515
September	115 955	28 003	194 665	14 623	21 236	374 482
October	116 029	31 204	194 152	15 510	18 494	375 389
November	112 360	27 007	192 357	15 507	18 479	365 710
December	107 879	25 112	194 820	18 281	20 293	366 385
2009: January	109 084	22 765	196 255	19 509	23 033	370 646
February	110 413	22 896	196 702	16 709	22 434	369 154
March	112 463	22 234	195 233	14 933	21 403	366 266
April	106 042	20 487	187 699	15 783	25 091	355 102
May	105 850	20 020	195 164	16 127	25 318	362 479
June	102 664	19 438	205 688	13 480	27 968	369 238
July	101 485	21 219	206 934	11 921	26 306	367 865
August	103 470	21 438	211 536	12 960	27 043	376 447
September	103 284	22 621	214 059	12 915	28 630	381 509
October	104 831	21 862	206 613	12 545	29 688	375 539
November	107 123	22 348	216 623	13 214	27 080	386 388
December	103 267	20 853	231 399	12 386	26 480	394 385
2010: January	108 846	20 577	243 170	12 355	24 888	409 836
February	109 731	21 018	243 533	12 324	24 806	411 412
March	112 510	20 997	240 464	12 028	24 997	410 996
April	118 746	22 249	254 873	11 118	369 298	776 284
May	118 091	23 140	251 036	11 555	422 822	826 644
June	119 392	23 507	210 364	11 354	424 253	788 870
July	116 763	22 725	245 093	6 038	469 224	859 843
August	116 688	20 770	248 884	4 886	459 939	851 167
September	112 895	20 283	246 478	5 201	458 425	843 282
October	113 168	19 595	250 744	4 818	461 490	849 815
November	112 141	20 934	251 050	7 957	460 045	852 127
December	114 400	19 269	256 553	7 149	458 270	855 641



Table 9
Composition of the income statement (R millions)

	Income		Expenses			Operating profit/(loss)
	Net interest income	Non-interest income	Credit losses	Operating expenses	Indirect taxation	
2008: January	7 264	4 414	1 900	5 484	180	4 114
February.....	6 670	4 032	1 780	5 786	226	2 910
March.....	5 913	7 233	1 624	6 018	234	5 270
April.....	6 633	5 452	2 252	5 815	206	3 812
May.....	6 370	5 351	2 039	5 931	73	3 678
June.....	5 636	7 636	2 799	7 102	300	3 071
July	6 740	5 403	2 503	6 373	187	3 080
August	6 555	5 758	2 672	6 123	213	3 305
September	6 607	5 822	3 092	5 919	229	3 189
October.....	6 848	6 408	3 012	6 756	176	3 312
November	6 138	6 012	2 542	6 054	-23	3 577
December	6 383	7 927	3 501	5 996	109	4 704
2009: January	5 862	6 880	3 102	5 768	122	3 750
February.....	5 744	5 257	3 421	6 088	238	1 254
March.....	6 726	5 853	3 426	6 271	228	2 654
April.....	6 064	5 647	2 647	6 111	184	2 769
May.....	6 125	5 527	2 927	6 254	129	2 342
June.....	6 560	6 548	3 399	6 029	72	3 608
July	5 987	6 544	2 995	6 661	193	2 682
August	6 202	6 091	2 484	6 525	156	3 128
September	6 343	5 937	3 110	6 995	181	1 994
October.....	6 319	6 367	3 222	6 495	205	2 764
November	6 113	6 169	2 382	6 789	260	2 851
December	6 050	8 812	2 359	6 566	216	5 721
2010: January	6 410	5 390	2 701	6 344	167	2 588
February.....	5 646	5 979	2 716	6 605	183	2 121
March.....	6 284	7 495	2 485	7 071	266	3 957
April.....	6 203	6 110	2 147	6 991	207	2 968
May.....	6 205	5 615	2 088	7 188	216	2 328
June.....	6 719	6 691	2 379	6 781	-10	4 260
July	6 435	6 898	1 888	7 442	215	3 788
August	6 626	5 899	1 684	7 518	253	3 070
September	6 021	7 098	2 599	7 997	178	2 345
October.....	6 450	6 337	1 997	7 592	241	2 957
November	6 118	8 156	2 213	7 721	228	4 112
December	6 740	8 030	2 558	8 449	357	3 406

Table 10

Composition of interest and similar income (R millions)

	Short-term negotiable securities	Homeloans	Commercial mortgages	Credit cards	Lease and instalment debtors	Overdrafts	Term loans	Other	Government and other dated securities	Less: Interest income on trading assets allocated to trading revenue	Interest and similar income
2008: January	912	7 774	1 790	908	2 745	1 363	2 925	4 948	681	1 794	22 253
February	868	6 976	1 710	964	2 662	1 122	2 523	5 237	419	526	21 956
March	999	7 549	1 846	911	2 983	1 338	2 756	3 968	621	835	22 136
April	929	7 527	1 900	902	2 983	1 289	2 363	4 691	608	396	22 796
May	932	8 026	2 011	979	3 114	1 350	2 720	4 463	602	763	23 435
June	1 187	7 869	2 020	939	3 076	653	3 588	5 098	246	1 099	23 576
July	1 297	8 379	2 226	974	3 177	1 317	4 507	3 570	1 832	869	26 410
August	1 257	8 488	2 275	1 003	3 154	1 371	3 652	4 761	903	1 213	25 650
September	1 192	8 274	2 194	946	3 098	2 141	3 666	3 870	861	454	25 788
October	1 153	8 570	2 420	986	3 212	1 348	4 060	3 995	242	1 543	24 443
November	1 280	8 105	2 323	956	3 060	1 546	4 618	3 845	1 989	736	26 986
December	1 789	8 777	2 477	954	3 175	778	4 858	2 728	2 377	520	27 393
2009: January	1 375	8 459	2 374	971	3 142	1 411	3 790	4 073	147	654	25 087
February	1 335	7 089	2 063	903	2 756	1 244	2 938	3 890	-372	641	21 205
March	1 307	7 773	2 189	889	2 932	1 571	3 668	3 007	860	660	23 536
April	888	7 055	2 072	834	2 693	1 368	3 340	2 921	892	696	21 369
May	1 178	6 710	2 003	796	2 607	1 101	3 029	3 116	601	235	20 904
June	786	6 217	1 897	778	2 397	1 369	2 830	3 252	455	668	19 313
July	436	6 114	1 862	766	2 431	1 093	3 031	1 502	866	336	17 766
August	1 073	5 900	1 796	766	2 355	1 046	3 171	3 330	996	484	19 949
September	844	5 605	1 748	729	2 235	1 082	2 645	776	525	457	15 733
October	1 164	5 860	1 785	727	2 317	1 108	2 975	1 810	326	488	17 584
November	741	5 644	1 759	726	2 269	1 082	2 886	2 284	967	365	17 994
December	1 008	5 919	1 838	725	2 314	1 600	2 482	2 280	668	379	18 455



Table 10

Composition of interest and similar income (R millions) (continued)

	Short-term negotiable securities	Homeloans	Commercial mortgages	Credit cards	Lease and instalment debtors	Overdrafts	Term loans	Other	Government and other dated securities	Less: Interest income on trading assets allocated to trading revenue	Interest and similar income
2010: January	986	5 845	1 859	727	2 291	1 237	2 878	2 515	549	438	18 449
February.....	815	5 277	1 693	664	2 136	969	2 791	1 870	894	447	16 662
March.....	1 281	5 814	1 817	715	2 246	637	3 027	2 156	983	512	18 165
April.....	1 024	5 406	1 759	679	2 169	1 258	2 662	2 142	963	520	17 542
May	1 004	5 622	1 756	699	2 238	990	2 618	2 944	560	473	17 958
June.....	954	5 510	1 737	668	2 175	1 091	2 845	2 487	442	505	17 405
July	1 036	5 736	1 800	681	2 285	1 011	3 138	2 053	1 264	443	18 562
August	1 200	5 699	1 776	684	2 158	1 061	3 126	2 190	1 278	690	18 481
September	1 055	5 414	1 570	670	2 142	889	2 743	2 381	649	330	17 183
October.....	1 048	5 552	1 687	684	2 146	1 114	1 925	3 003	919	479	17 600
November	961	5 228	1 610	673	2 095	881	2 345	2 742	92	350	16 277
December	969	5 048	1 122	648	2 205	980	2 941	1 697	1 092	397	16 305



Table 11

Composition of interest expense and similar changes (R millions)

	Current accounts	Savings deposits	Term and other deposits	Negotiable certificates of deposit	Other deposits and loans	Other liabilities	Term debt instruments	Less: Interest expense on trading liabilities allocated to trading revenue	Interest expense and similar charges
2008: January	3 020	441	7 221	3 033	1 755	154	465	1 100	14 989
February.....	3 027	435	7 796	2 668	1 980	481	341	1 442	15 286
March.....	3 285	482	7 778	3 049	2 943	538	476	2 328	16 223
April.....	2 562	497	7 842	2 792	3 776	11	423	1 740	16 163
May.....	3 324	540	7 956	3 054	-370	425	608	-1 529	17 066
June.....	3 568	562	8 540	3 662	1 903	179	476	951	17 939
July	3 322	618	9 122	4 044	1 359	546	1 341	681	19 671
August	3 213	640	9 031	3 981	2 639	383	546	1 338	19 095
September	2 516	635	9 321	3 729	2 311	398	943	673	19 180
October.....	3 472	674	9 175	3 912	959	275	620	1 491	17 596
November	3 289	673	9 260	4 333	2 545	489	1 209	951	20 847
December	3 297	700	9 460	4 813	1 798	589	1 201	849	21 009
2009: January	3 386	692	11 706	1 599	1 966	154	463	742	19 224
February.....	2 544	581	4 508	6 667	1 620	135	203	797	15 461
March.....	2 672	613	8 196	4 135	1 400	166	458	831	16 809
April.....	2 459	414	7 691	3 571	1 705	19	668	1 224	15 303
May.....	2 228	514	7 258	3 696	1 374	-8	581	862	14 781
June.....	1 824	420	6 025	3 036	1 160	502	431	644	12 754
July	1 895	440	6 052	2 737	1 134	-16	659	1 122	11 779
August	1 853	423	6 101	3 080	1 137	-27	724	-456	13 747
September	1 706	371	5 314	2 655	943	268	432	2 299	9 390
October.....	1 757	434	5 421	2 703	892	-3	666	604	11 266
November	1 736	391	5 355	2 752	1 512	-61	638	442	11 881
December	1 734	386	5 565	3 313	2 079	53	652	1 377	12 405



Table 11

Composition of interest expense and similar charges (R millions) (continued)

	Current accounts	Savings deposits	Term and other deposits	Negotiable certificates of deposit	Other deposits and loans	Other liabilities	Term debt instruments	Less: Interest expense on trading liabilities allocated to trading revenue	Interest expense and similar charges
2010: January	1 753	399	5 390	3 004	1 030	213	697	446	12 040
February.....	1 612	359	4 970	2 695	925	-38	804	312	11 015
March.....	1 473	382	6 105	3 076	887	139	984	1 167	11 879
April.....	1 897	351	4 764	3 028	1 294	-315	815	495	11 339
May.....	1 718	369	5 339	2 581	1 747	502	118	621	11 753
June.....	1 635	368	5 173	2 318	314	823	617	562	10 686
July	1 710	360	5 614	2 403	1 574	334	805	672	12 128
August	1 700	374	5 970	2 634	903	103	773	601	11 856
September	1 567	337	5 325	2 483	880	146	550	126	11 162
October.....	1 566	343	3 513	4 498	612	560	595	538	11 149
November	1 486	322	4 291	2 590	903	571	539	543	10 159
December	1 398	309	4 821	2 679	428	-454	647	263	9 565

Table 12

Profitability ratios (12-month moving average) (per cent)

	Return on equity	Return on assets	Cost-to-income ratio	Net interest income to assets	Non-interest revenue to assets	Operating expenses to assets	Interest and similar income to interest-earning assets	Interest expense and similar charges to funding liabilities	Net interest income ratio*
2009: January	20,65	1,15	49,01	3,24	2,48	2,47	12,54	9,12	3,42
February	19,54	1,09	49,11	3,18	2,50	2,46	12,44	9,06	3,38
March	18,05	1,01	49,46	3,20	2,43	2,44	12,43	9,01	3,42
April	17,82	0,99	49,78	3,16	2,42	2,43	12,33	8,93	3,40
May	17,14	0,96	50,02	3,15	2,41	2,43	12,20	8,80	3,40
June	17,48	0,99	49,36	3,19	2,37	2,39	12,02	8,58	3,44
July	17,29	0,98	49,42	3,15	2,40	2,39	11,64	8,24	3,40
August	17,26	0,98	49,70	3,13	2,40	2,40	11,39	8,00	3,39
September	16,57	0,95	50,47	3,12	2,40	2,43	10,98	7,60	3,38
October	16,24	0,94	50,49	3,10	2,41	2,43	10,71	7,35	3,36
November	15,98	0,94	50,93	3,11	2,43	2,47	10,35	6,99	3,37
December	15,88	0,94	51,13	3,10	2,47	2,50	9,99	6,64	3,35
2010: January	15,28	0,92	51,84	3,13	2,44	2,54	9,73	6,36	3,38
February	15,55	0,95	51,97	3,12	2,47	2,57	9,55	6,17	3,38
March	15,82	0,97	52,08	3,11	2,54	2,60	9,33	5,97	3,36
April	15,63	0,97	52,46	3,11	2,56	2,64	9,16	5,80	3,37
May	15,40	0,97	53,02	3,11	2,57	2,67	9,02	5,66	3,37
June	15,37	0,97	53,41	3,11	2,57	2,70	8,92	5,55	3,37
July	15,61	1,00	53,64	3,12	2,58	2,72	8,94	5,55	3,40
August	15,35	0,99	54,21	3,13	2,57	2,75	8,86	5,45	3,41
September	15,28	0,99	54,57	3,11	2,60	2,77	8,89	5,50	3,40
October	15,25	0,99	55,24	3,11	2,59	2,80	8,88	5,47	3,41
November	15,53	1,02	55,14	3,10	2,64	2,82	8,79	5,38	3,41
December	14,65	0,97	56,38	3,13	2,60	2,87	8,68	5,25	3,43

* 'Interest and similar income to interest-earning assets' less 'interest expense and similar charges to funding liabilities'

Table 13
Composition of gross operating income (R millions)

	Net interest income	Net fee and commission income	Net trading income	Other	Gross operating income
2008: January	7 264	3 325	806	283	11 678
February.....	6 670	3 447	544	41	10 702
March.....	5 913	3 960	1 116	2 157	13 146
April.....	6 633	3 677	1 359	415	12 084
May.....	6 370	3 835	2 243	-727	11 721
June.....	5 636	3 921	1 832	1 883	13 272
July	6 740	3 912	-285	1 776	12 143
August	6 555	3 759	1 198	800	12 312
September	6 607	3 851	1 317	654	12 429
October.....	6 848	4 191	1 796	421	13 256
November	6 138	3 960	1 225	827	12 150
December	6 383	4 915	835	2 177	14 310
2009: January	5 862	3 834	2 793	254	12 743
February.....	5 744	3 661	1 867	-271	11 001
March.....	6 726	4 458	1 270	125	12 579
April.....	6 064	3 970	1 210	467	11 711
May.....	6 125	3 970	1 510	47	11 652
June.....	6 560	4 191	1 324	1 032	13 107
July	5 987	4 095	1 543	906	12 531
August	6 202	4 068	1 335	688	12 293
September	6 343	4 108	1 657	173	12 281
October.....	6 319	4 455	1 269	643	12 686
November	6 113	4 309	1 094	766	12 282
December	6 050	5 590	2 309	913	14 862
2010: January	6 410	4 059	1 211	120	11 800
February.....	5 646	3 945	1 303	731	11 625
March.....	6 284	4 596	2 116	783	13 779
April.....	6 203	4 173	1 311	626	12 313
May.....	6 205	4 309	1 336	-31	11 819
June.....	6 719	4 542	1 082	1 068	13 411
July	6 435	4 380	1 522	996	13 333
August	6 626	4 352	1 812	-265	12 525
September	6 021	4 384	1 971	743	13 119
October.....	6 450	4 407	1 627	303	12 787
November	6 118	4 788	1 646	1 722	14 274
December	6 740	5 278	1 484	1 268	14 770

Table 14
Composition of gross operating expenses (R millions)

	Staff	Computer processing	Travel, occupation and equipment	Marketing	Other	Operating expenses
2008: January	3 018	586	928	200	752	5 484
February.....	3 367	582	947	265	625	5 786
March.....	3 339	596	960	299	824	6 018
April.....	3 302	598	952	281	683	5 816
May.....	2 984	641	1 062	304	939	5 930
June.....	3 731	576	1 079	321	1 395	7 102
July	3 405	630	1 057	285	996	6 373
August	3 491	609	949	318	756	6 123
September	3 345	597	983	267	727	5 919
October.....	3 394	718	1 066	350	1 229	6 757
November	3 357	715	977	256	749	6 054
December	3 146	817	1 136	314	584	5 997
2009: January	3 075	666	1 017	206	805	5 769
February.....	3 117	674	1 135	212	950	6 088
March.....	3 489	638	1 030	287	828	6 272
April.....	3 260	630	1 030	288	903	6 111
May.....	3 326	677	1 054	249	949	6 255
June.....	3 123	671	1 017	292	925	6 028
July	3 648	649	1 033	274	1 056	6 660
August	3 578	592	1 064	267	1 025	6 526
September	3 837	676	1 001	338	1 143	6 995
October.....	3 572	692	1 057	266	908	6 495
November	3 602	703	1 059	391	1 036	6 791
December	3 265	751	1 185	393	971	6 565
2010: January	3 431	668	1 024	248	973	6 344
February.....	3 581	885	1 056	333	750	6 605
March.....	3 913	337	1 187	375	1 259	7 071
April.....	3 868	683	1 093	187	1 160	6 991
May.....	3 830	687	1 238	280	1 152	7 187
June.....	3 590	641	1 104	320	1 128	6 783
July	4 057	710	1 137	306	1 232	7 442
August	4 131	626	1 168	333	1 260	7 518
September	4 287	670	1 169	392	1 479	7 997
October.....	4 178	606	1 193	329	1 287	7 593
November	4 155	1 912	1 369	400	-114	7 722
December	4 178	820	1 240	486	1 727	8 451



Table 15**Composition of qualifying capital and reserve funds (R millions)**

	Primary capital and reserve funds	Secondary capital and reserve funds	Tertiary capital and reserve funds	Total
2008: January	129 567	41 849	593	172 009
February.....	131 958	42 024	585	174 567
March.....	137 939	41 083	600	179 622
April.....	139 442	43 262	600	183 304
May.....	141 031	43 793	600	185 424
June.....	147 639	45 284	600	193 523
July	149 690	46 047	600	196 337
August	149 425	46 345	600	196 370
September	150 018	46 103	300	196 421
October.....	151 281	44 564	300	196 145
November	152 915	42 224	300	195 439
December	159 187	43 062	300	202 549
2009: January	159 583	43 006	300	202 889
February.....	159 482	43 214	300	202 996
March.....	160 146	44 742	300	205 188
April.....	161 859	46 729	300	208 888
May.....	162 376	46 304	300	208 980
June.....	164 987	46 308	300	211 595
July	163 145	46 701	300	210 146
August	165 273	46 316	300	211 889
September	167 966	46 630	300	214 896
October.....	168 872	46 978	300	216 150
November	167 919	47 644	300	215 863
December	170 448	48 621	300	219 369
2010: January	172 031	49 455	300	221 786
February.....	169 838	49 247	300	219 385
March.....	171 886	47 622	300	219 808
April.....	171 580	47 399	300	219 279
May.....	174 445	48 639	300	223 384
June.....	177 790	48 276	300	226 366
July	178 088	48 427	300	226 815
August	180 478	47 240	300	228 018
September	183 116	49 366	300	232 782
October.....	184 393	49 086	300	233 779
November	187 825	50 158	300	238 283
December	192 112	49 851	300	242 263

Table 16
Composition of risk-weighted exposure (R millions)

	Credit risk	Operational risk	Market risk	Equity risk	Other risk	Total
2008: January	1 135 536	155 751	33 967	65 428	66 673	1 457 355
February.....	1 133 947	156 069	33 062	72 952	57 813	1 453 843
March.....	1 141 948	157 675	35 074	76 624	49 854	1 461 175
April.....	1 146 779	156 214	38 070	78 215	52 827	1 472 105
May.....	1 165 054	156 265	38 716	78 361	50 741	1 489 137
June.....	1 157 734	180 679	40 533	92 732	54 668	1 526 346
July	1 172 225	180 619	42 691	91 240	55 005	1 541 780
August	1 171 208	180 061	42 268	92 460	50 433	1 536 430
September	1 173 119	181 963	43 221	90 752	52 641	1 541 696
October.....	1 174 214	181 814	42 727	101 012	54 474	1 554 241
November	1 177 490	182 067	42 085	83 571	55 234	1 540 447
December	1 186 524	186 572	38 585	89 501	56 063	1 557 245
2009: January	1 196 153	186 526	39 416	86 629	51 583	1 560 307
February.....	1 196 138	186 675	41 776	85 969	54 131	1 564 689
March.....	1 190 077	174 746	42 289	83 922	53 382	1 544 416
April.....	1 189 328	174 826	44 376	84 256	50 621	1 543 407
May.....	1 202 983	177 525	30 458	85 923	50 062	1 546 951
June.....	1 187 618	193 580	32 825	80 738	51 701	1 546 462
July	1 197 684	193 787	32 029	81 859	51 792	1 557 151
August	1 194 450	193 606	32 144	83 029	52 999	1 556 228
September	1 185 547	194 610	31 765	81 370	50 697	1 543 989
October.....	1 177 208	194 651	34 397	80 590	48 327	1 535 173
November	1 177 679	194 673	33 834	79 126	50 274	1 535 586
December	1 173 883	214 685	32 431	80 996	51 946	1 553 941
2010: January	1 177 262	214 718	31 943	80 520	52 441	1 556 884
February.....	1 191 117	214 980	31 141	80 706	52 124	1 570 068
March.....	1 200 900	215 232	30 634	79 812	49 706	1 576 284
April.....	1 187 924	215 323	30 926	79 825	49 439	1 563 437
May.....	1 175 388	215 416	31 477	78 937	50 450	1 551 668
June.....	1 195 809	220 476	30 375	79 641	52 269	1 578 570
July	1 211 183	220 395	29 131	71 989	53 418	1 586 116
August	1 227 949	220 472	31 852	71 813	53 460	1 605 546
September	1 233 270	221 355	31 987	79 200	52 850	1 618 662
October.....	1 228 989	218 272	35 854	80 570	53 182	1 616 867
November	1 239 888	218 202	38 290	76 684	53 944	1 627 008
December	1 237 580	219 681	36 443	81 035	53 014	1 627 753



Table 17
Contractual maturity of liabilities (composition) (R millions)

	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months	More than 2 months to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year	Non-contractual
2008: January	937 297	78 114	482 555	137 949	101 986	145 863	235 866	386 840	200 573
February.....	953 043	126 855	445 076	160 094	102 603	168 779	246 280	433 631	203 428
March.....	1 007 395	100 489	446 701	157 667	97 012	175 691	271 128	477 615	194 066
April.....	977 706	107 995	436 630	175 401	105 036	177 256	265 393	461 641	191 061
May.....	956 786	141 611	524 200	142 539	102 260	169 047	258 554	481 469	191 314
June.....	1 031 389	122 172	478 412	179 472	92 409	155 964	301 079	502 587	193 214
July	984 805	118 611	476 104	165 339	103 436	161 355	313 725	468 624	195 593
August	951 924	145 068	430 747	174 375	105 441	173 804	301 379	463 938	191 428
September ..	999 536	135 477	413 774	175 240	74 919	221 202	292 737	450 371	188 167
October.....	1 094 059	156 746	389 661	163 002	139 056	234 554	324 003	558 051	192 425
November ...	1 095 712	118 827	348 011	216 351	131 250	229 163	311 916	571 876	197 720
December ...	1 058 155	146 136	400 159	183 328	125 584	212 444	265 625	592 269	201 452
2009: January	1 022 619	180 318	355 108	188 074	151 577	253 626	253 368	600 202	203 303
February.....	977 899	187 827	359 968	206 304	138 355	245 659	261 547	568 135	202 213
March.....	1 058 980	158 144	366 739	185 599	136 928	209 608	271 143	563 819	204 690
April.....	1 011 186	138 590	389 124	207 064	126 625	185 768	281 667	547 007	199 116
May.....	1 040 622	130 350	405 670	182 385	107 539	199 800	295 341	512 045	205 587
June.....	1 062 884	125 833	377 091	157 827	116 800	178 449	334 243	485 857	199 929
July	1 017 442	148 630	366 161	163 554	121 801	175 646	352 462	494 576	204 160
August	1 031 887	138 154	365 088	158 039	112 248	178 614	354 224	496 900	203 408
September ..	1 059 772	85 285	357 766	168 789	81 857	231 998	336 692	491 885	206 937
October.....	1 003 357	138 301	330 399	149 367	104 879	241 542	340 193	499 602	210 461
November ...	1 034 822	119 176	276 325	174 332	124 673	237 904	322 070	505 897	222 861
December ...	1 000 981	123 111	312 382	182 570	130 369	229 433	280 490	504 027	224 099
2010: January	1 092 416	108 612	237 677	175 928	101 517	235 148	277 732	522 418	239 749
February.....	1 130 204	117 019	237 385	163 727	103 520	233 459	282 087	520 230	239 780
March.....	1 166 433	78 736	235 173	157 581	127 380	215 722	292 867	528 060	244 514
April.....	1 124 864	147 305	206 732	190 343	110 906	206 032	292 377	505 276	239 319
May.....	1 158 827	124 601	246 558	162 090	90 887	203 644	302 357	494 613	241 694
June.....	1 208 446	73 970	223 528	144 739	109 561	186 290	328 943	509 964	248 129
July	1 154 940	175 228	184 853	156 793	103 844	191 284	328 263	549 305	250 463
August	1 188 185	138 936	185 613	157 486	106 956	195 274	324 569	566 046	257 499
September ..	1 202 724	119 596	190 489	172 425	79 080	235 472	313 410	586 739	251 911
October.....	1 204 393	117 078	209 684	129 968	119 725	237 771	304 629	564 788	259 570
November ...	1 248 611	114 524	173 448	186 812	108 658	237 801	281 665	537 909	260 038
December ...	1 131 322	138 545	274 127	172 828	117 556	229 328	257 485	559 732	259 131

Table 18

“Business-as-usual” maturity of liabilities (composition) (R millions)

	Next day	2 to 7 days	8 days to 1 month	More than 1 month to 2 months	More than 2 months to 3 months	More than 3 months to 6 months	More than 6 months to 1 year	More than 1 year	Non-contractual
2008: January	126 764	85 439	268 004	115 114	132 017	262 273	391 205	1 046 678	206 714
February.....	114 257	139 156	253 248	127 157	129 240	255 285	366 592	1 174 978	222 517
March.....	154 042	103 371	284 223	130 670	124 531	269 085	375 440	1 198 369	208 690
April.....	142 567	110 421	291 112	135 703	113 911	282 652	367 062	1 184 843	214 209
May.....	138 581	128 014	332 102	120 706	126 405	294 897	374 232	1 184 906	210 955
June.....	176 696	121 355	298 110	137 269	115 978	288 592	416 476	1 231 615	212 856
July	163 944	121 082	275 663	129 392	118 145	272 518	428 099	1 214 151	216 801
August	158 575	109 294	237 969	130 393	119 933	281 103	422 081	1 237 141	212 940
September ..	164 512	72 989	279 140	127 143	97 944	312 265	411 859	1 263 520	209 719
October.....	220 593	94 752	232 696	143 380	141 669	317 261	437 936	1 387 171	224 711
November ...	238 698	53 362	214 856	162 876	140 688	293 530	443 779	1 394 922	226 836
December ...	200 122	84 909	231 113	143 835	151 129	292 076	418 201	1 397 079	225 544
2009: January	192 615	99 044	215 268	164 037	141 409	310 325	403 733	1 396 354	228 467
February.....	170 156	108 687	230 250	151 803	135 022	312 670	411 219	1 359 869	226 729
March.....	207 574	91 724	207 728	144 720	158 578	298 370	418 318	1 368 846	213 433
April.....	175 695	90 588	232 540	179 964	143 905	286 179	421 838	1 300 087	212 851
May.....	206 552	80 027	243 386	153 472	130 233	289 036	428 706	1 273 580	220 759
June.....	202 554	78 447	203 468	146 532	131 460	273 360	408 715	1 330 070	222 584
July	178 741	96 097	203 395	149 424	130 635	273 325	413 722	1 336 435	226 657
August	189 081	78 268	209 587	144 764	129 339	269 482	418 926	1 339 278	225 311
September ..	210 255	67 956	205 560	141 661	113 817	289 111	412 960	1 320 206	227 373
October.....	166 378	75 421	190 237	129 523	108 154	255 516	389 409	1 395 589	276 510
November ...	175 268	71 327	182 725	126 416	109 106	260 940	373 058	1 411 196	280 236
December ...	177 539	69 334	170 093	130 204	126 601	263 022	352 190	1 371 649	279 722
2010: January	187 100	69 395	168 234	145 133	107 011	260 630	349 959	1 394 649	279 135
February.....	179 841	73 310	179 241	126 685	108 896	255 053	338 442	1 463 653	276 921
March.....	191 121	52 484	172 254	126 350	119 628	246 892	346 978	1 460 235	284 720
April.....	177 183	95 114	172 078	138 008	106 433	242 425	337 273	1 453 068	276 503
May.....	189 442	63 881	184 384	122 522	95 795	227 384	348 916	1 492 916	278 385
June.....	185 279	58 648	178 901	109 504	103 282	212 096	352 673	1 521 151	286 586
July	181 488	98 784	149 742	115 046	100 761	210 427	364 595	1 551 527	294 865
August	184 241	70 097	160 444	112 706	98 377	203 673	370 513	1 604 245	291 689
September ..	187 452	71 778	163 723	120 626	92 712	219 201	376 211	1 603 991	291 394
October.....	188 518	72 887	171 274	106 733	102 195	226 876	374 692	1 526 984	348 971
November ...	188 140	65 416	154 313	119 739	100 792	238 875	369 697	1 531 327	353 501
December ...	114 256	93 537	158 485	109 466	107 537	245 073	362 718	1 549 734	365 296



Table 19
Concentration of short-term funding (composition) (R millions)

	Deposit funding received from:			
	Associates	Ten largest depositors	Ten largest financial institutions	Ten largest government and parastatals
2008: January	40 418	214 789	116 153	78 001
February.....	48 962	217 500	153 090	62 502
March.....	59 782	220 938	132 318	77 617
April.....	59 516	199 425	131 049	64 134
May.....	58 037	197 532	140 383	62 143
June.....	59 239	210 451	133 371	71 665
July	42 051	185 887	113 951	65 881
August	39 702	180 326	108 890	66 178
September	41 408	204 159	120 495	77 729
October.....	52 453	203 750	137 770	73 029
November	46 886	176 150	122 529	58 081
December	41 047	214 453	127 514	73 327
2009: January	35 961	188 780	117 289	76 926
February.....	37 229	176 723	116 351	60 130
March.....	41 140	222 707	146 100	78 763
April.....	54 060	173 067	117 869	68 174
May.....	48 274	179 367	138 066	63 257
June.....	43 560	172 417	106 983	75 135
July	36 057	165 278	123 928	58 271
August	46 287	173 180	133 743	56 415
September	43 373	184 060	132 384	75 586
October.....	42 851	182 234	131 881	67 148
November	35 314	161 631	115 577	52 486
December	43 067	171 647	124 823	55 025
2010: January	39 184	183 421	128 678	69 804
February.....	42 891	206 331	144 408	73 698
March.....	45 138	206 772	132 995	85 032
April.....	41 924	201 062	144 024	70 369
May.....	46 963	204 899	149 419	69 821
June.....	52 782	237 808	159 046	98 222
July	42 617	222 834	158 948	88 032
August	44 018	214 276	151 825	75 812
September	44 411	203 188	136 958	89 779
October.....	39 786	213 076	141 163	104 001
November	47 307	231 082	166 028	89 921
December	50 700	235 182	150 489	116 446

Table 20
Analysis of credit risk

	Impaired advances (R millions)	Gross loans and advances (R millions)	Specific credit impairments (R millions)	Impaired advances as a percentage of gross loans and advances (per cent)	Specific credit impairments as a percentage of gross loans and advances (per cent)	Specific credit impairments as a percentage of impaired advances (per cent)
2008: January	43 234	2 103 185	17 309	2,06	0,82	40,04
February.....	47 761	2 175 046	18 337	2,20	0,84	38,39
March.....	50 042	2 209 737	19 068	2,26	0,86	38,10
April.....	53 374	2 194 634	19 550	2,43	0,89	36,63
May.....	57 536	2 241 807	20 339	2,57	0,91	35,35
June.....	61 980	2 281 179	21 761	2,72	0,95	35,11
July	63 941	2 271 249	23 188	2,82	1,02	36,26
August	68 205	2 263 659	24 666	3,01	1,09	36,16
September	72 090	2 323 422	25 845	3,10	1,11	35,85
October.....	80 516	2 355 066	27 313	3,42	1,16	33,92
November	84 127	2 338 075	27 124	3,60	1,16	32,24
December	90 827	2 316 121	28 499	3,92	1,23	31,38
2009: January	97 972	2 338 023	28 923	4,19	1,24	29,52
February.....	106 141	2 315 977	30 579	4,58	1,32	28,81
March.....	110 594	2 329 016	31 569	4,75	1,36	28,54
April.....	114 429	2 268 403	33 361	5,04	1,47	29,15
May.....	120 484	2 266 704	34 851	5,32	1,54	28,93
June.....	123 768	2 257 511	36 096	5,48	1,60	29,16
July	126 747	2 285 338	37 418	5,55	1,64	29,52
August	130 351	2 284 349	38 611	5,71	1,69	29,62
September	132 466	2 265 553	39 579	5,85	1,75	29,88
October.....	134 125	2 280 418	40 337	5,88	1,77	30,07
November	135 490	2 266 321	39 901	5,98	1,76	29,45
December	133 974	2 256 940	39 609	5,94	1,75	29,56
2010: January	132 648	2 262 941	39 984	5,86	1,77	30,14
February.....	133 304	2 288 705	41 279	5,82	1,80	30,97
March.....	134 173	2 281 537	41 178	5,88	1,80	30,69
April.....	135 553	2 278 991	41 752	5,95	1,83	30,80
May.....	135 984	2 300 119	42 153	5,91	1,83	31,00
June.....	136 312	2 307 361	42 758	5,91	1,85	31,37
July	135 033	2 313 380	42 866	5,84	1,85	31,74
August	136 657	2 332 863	43 279	5,86	1,86	31,67
September	137 944	2 346 977	44 638	5,88	1,90	32,36
October.....	138 011	2 318 062	43 757	5,95	1,89	31,71
November	136 549	2 348 756	43 664	5,81	1,86	31,98
December	133 933	2 313 792	43 622	5,79	1,89	32,57



Table 21

Internal ratings-based banks: Composition of total credit exposure – Exposure at default (R millions)

	Retail			Corporate			Other			Total credit exposure		
	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)
2008: January	1 210 415	34 362	2,84	614 248	3 411	0,56	432 503	450	0,10	2 257 166	38 223	1,69
February	1 224 174	40 659	3,32	607 358	4 275	0,70	525 262	215	0,04	2 356 794	45 149	1,92
March	1 235 880	43 492	3,52	631 734	4 345	0,69	508 189	186	0,04	2 375 803	48 023	2,02
April	1 246 772	47 668	3,82	625 146	4 296	0,69	501 829	252	0,05	2 373 747	52 216	2,20
May	1 243 081	49 648	3,99	642 592	4 152	0,65	496 399	294	0,06	2 382 072	54 094	2,27
June	1 249 791	52 346	4,19	669 328	4 775	0,71	521 841	308	0,06	2 440 960	57 429	2,35
July	1 256 039	55 676	4,43	679 854	4 652	0,68	490 873	294	0,06	2 426 766	60 622	2,50
August	1 262 599	59 046	4,68	676 940	4 734	0,70	490 249	265	0,05	2 429 788	64 045	2,64
September	1 280 534	62 873	4,91	689 616	4 792	0,69	542 507	327	0,06	2 512 657	67 992	2,71
October	1 282 627	67 138	5,23	714 996	8 049	1,13	609 263	352	0,06	2 606 886	75 539	2,90
November	1 291 447	69 770	5,40	724 710	7 047	0,97	567 708	319	0,06	2 583 865	77 136	2,99
December	1 293 278	73 776	5,70	723 529	6 691	0,92	561 445	304	0,05	2 578 252	80 771	3,13
2009: January	1 293 528	79 527	6,15	724 446	7 293	1,01	573 735	244	0,04	2 591 709	87 064	3,36
February	1 295 749	84 730	6,54	735 182	9 490	1,29	546 764	180	0,03	2 577 695	94 400	3,66
March	1 293 994	87 364	6,75	728 516	10 492	1,44	558 232	271	0,05	2 580 742	98 127	3,80
April	1 295 270	91 892	7,09	727 602	10 566	1,45	537 229	280	0,05	2 560 101	102 728	4,01
May	1 292 054	96 548	7,47	726 597	11 596	1,60	560 973	265	0,05	2 579 624	108 409	4,20
June	1 289 896	97 390	7,55	727 131	12 639	1,74	542 103	270	0,05	2 559 130	110 299	4,31
July	1 286 524	98 487	7,66	723 627	14 009	1,94	557 719	247	0,04	2 567 870	112 743	4,39
August	1 286 074	100 934	7,85	739 762	16 016	2,17	505 050	164	0,03	2 530 886	117 114	4,63
September	1 282 635	101 755	7,93	740 353	16 729	2,26	514 742	137	0,03	2 537 730	118 621	4,67
October	1 282 687	102 038	7,96	735 857	16 610	2,26	517 239	127	0,02	2 535 783	118 775	4,68
November	1 283 674	101 985	7,94	750 998	17 118	2,28	512 386	120	0,02	2 547 058	119 223	4,68
December	1 284 660	102 319	7,96	752 418	17 170	2,28	495 570	123	0,02	2 532 648	119 612	4,72

Table 21

Internal ratings-based banks: Composition of total credit exposure – Exposure at default (R millions) (continued)

	Retail			Corporate			Other			Total credit exposure		
	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)
2010: January	1 285 421	103 321	8,04	740 944	14 134	1,91	492 365	119	0,02	2 518 730	117 574	4,67
February.....	1 280 786	103 859	8,11	739 567	14 803	2,00	519 713	164	0,03	2 540 066	118 826	4,68
March.....	1 306 990	105 898	8,10	753 739	15 762	2,09	489 248	158	0,03	2 549 977	121 818	4,78
April.....	1 308 840	107 229	8,19	744 418	15 610	2,10	495 691	147	0,03	2 548 949	122 986	4,82
May	1 312 769	107 530	8,19	752 576	15 740	2,09	504 144	147	0,03	2 569 489	123 417	4,80
June.....	1 321 026	106 256	8,04	755 960	16 909	2,24	507 020	129	0,03	2 584 006	123 294	4,77
July	1 322 657	105 327	7,96	757 616	17 229	2,27	498 593	139	0,03	2 578 866	122 695	4,76
August	1 319 096	104 599	7,93	783 650	18 464	2,36	487 611	148	0,03	2 590 357	123 211	4,76
September	1 314 087	103 364	7,87	793 986	19 877	2,50	489 077	150	0,03	2 597 150	123 391	4,75
October.....	1 315 245	102 606	7,80	782 134	19 240	2,46	467 440	142	0,03	2 564 819	121 988	4,76
November	1 283 999	102 266	7,96	768 881	19 376	2,52	502 688	464	0,09	2 555 568	122 106	4,78
December	1 290 465	99 897	7,74	780 854	19 055	2,44	476 031	487	0,10	2 547 350	119 439	4,69



Table 22

Internal ratings-based banks: Composition of total retail credit exposure – Exposure at default (R millions)

	Retail mortgages			Revolving credit			Retail other			SME retail			Total retail credit exposure		
	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)
2008: January	743 802	19 846	2,67	118 143	4 454	3,77	208 046	7 248	3,48	140 424	2 814	2,00	1 210 415	34 362	2,84
February	756 378	23 565	3,12	114 602	5 806	5,07	200 259	7 694	3,84	152 935	3 594	2,35	1 224 174	40 659	3,32
March	762 833	26 145	3,43	116 767	5 756	4,93	202 899	7 844	3,87	153 381	3 747	2,44	1 235 880	43 492	3,52
April	769 013	29 183	3,79	118 118	6 252	5,29	204 598	8 232	4,02	155 043	4 001	2,58	1 246 772	47 668	3,82
May	773 015	31 018	4,01	118 673	5 993	5,05	201 977	8 828	4,37	149 416	3 809	2,55	1 243 081	49 648	3,99
June	775 969	33 114	4,27	120 812	6 461	5,35	204 336	8 711	4,26	148 674	4 060	2,73	1 249 791	52 346	4,19
July	781 005	35 559	4,55	122 241	6 592	5,39	205 327	9 211	4,49	147 466	4 314	2,93	1 256 039	55 676	4,43
August	787 040	38 838	4,93	121 973	6 835	5,60	206 487	8 834	4,28	147 099	4 539	3,09	1 262 599	59 046	4,68
September	809 524	42 169	5,21	121 573	7 010	5,77	208 567	9 160	4,39	140 870	4 534	3,22	1 280 534	62 873	4,91
October	814 856	45 666	5,60	122 245	7 240	5,92	206 439	9 283	4,50	139 087	4 949	3,56	1 282 627	67 138	5,23
November	818 119	48 095	5,88	123 860	7 250	5,85	207 088	9 262	4,47	142 380	5 163	3,63	1 291 447	69 770	5,40
December	819 422	51 127	6,24	123 506	7 435	6,02	206 360	9 856	4,78	143 990	5 358	3,72	1 293 278	73 776	5,70
2009: January	823 281	55 750	6,77	123 633	7 684	6,22	201 955	10 279	5,09	144 659	5 814	4,02	1 293 528	79 527	6,15
February	825 736	60 083	7,28	122 391	7 870	6,43	200 634	10 437	5,20	146 988	6 340	4,31	1 295 749	84 730	6,54
March	824 190	61 498	7,46	123 976	8 040	6,49	199 834	10 966	5,49	145 994	6 860	4,70	1 293 994	87 364	6,75
April	830 121	65 075	7,84	123 276	8 488	6,89	197 685	11 454	5,79	144 188	6 875	4,77	1 295 270	91 892	7,09
May	829 423	68 769	8,29	123 272	8 941	7,25	196 393	11 532	5,87	142 966	7 306	5,11	1 292 054	96 548	7,47
June	829 885	69 816	8,41	122 523	8 335	6,80	195 668	12 242	6,26	141 820	6 997	4,93	1 289 896	97 390	7,55
July	829 647	70 296	8,47	122 059	8 530	6,99	194 605	12 315	6,33	140 213	7 346	5,24	1 286 524	98 487	7,66
August	830 353	71 667	8,63	122 280	9 358	7,65	193 964	12 388	6,39	139 477	7 521	5,39	1 286 074	100 934	7,85
September	830 144	71 780	8,65	122 337	9 519	7,78	193 632	12 729	6,57	136 522	7 727	5,66	1 282 635	101 755	7,93
October	830 912	72 225	8,69	122 404	9 606	7,85	192 594	12 534	6,51	136 777	7 673	5,61	1 282 687	102 038	7,96
November	832 568	72 183	8,67	121 461	9 308	7,66	192 317	12 349	6,42	137 328	8 145	5,93	1 283 674	101 985	7,94
December	833 700	72 390	8,68	121 167	9 064	7,48	192 679	12 870	6,68	137 114	7 995	5,83	1 284 660	102 319	7,96

Table 22

Internal ratings-based banks: Composition of total retail credit exposure – Exposure at default (R millions) (continued)

	Retail mortgages			Revolving credit			Retail other			SME retail			Total retail credit exposure		
	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)	Total exposure	Default	Default ratio (per cent)
2010: January	834 994	73 855	8,84	121 205	8 893	7,34	193 445	13 035	6,74	135 777	7 538	5,55	1 285 421	103 321	8,04
February	835 655	74 662	8,93	119 152	8 752	7,35	191 713	13 009	6,79	134 266	7 436	5,54	1 280 786	103 859	8,11
March	857 645	76 383	8,91	120 494	8 719	7,24	195 613	13 302	6,80	133 238	7 494	5,62	1 306 990	105 898	8,10
April	859 149	77 309	9,00	121 122	8 732	7,21	195 280	13 539	6,93	133 289	7 649	5,74	1 308 840	107 229	8,19
May	862 583	77 237	8,95	120 781	8 779	7,27	196 275	13 864	7,06	133 130	7 650	5,75	1 312 769	107 530	8,19
June	860 800	76 721	8,91	137 473	9 444	6,87	189 576	12 763	6,73	133 177	7 328	5,50	1 321 026	106 256	8,04
July	873 339	76 805	8,79	136 185	8 951	6,57	181 269	12 147	6,70	131 864	7 424	5,63	1 322 657	105 327	7,96
August	875 746	76 650	8,75	136 926	8 994	6,57	184 031	12 237	6,65	122 393	6 718	5,49	1 319 096	104 599	7,93
September	883 133	76 694	8,68	135 919	8 852	6,51	169 190	10 959	6,48	125 845	6 859	5,45	1 314 087	103 364	7,87
October	883 930	75 636	8,56	135 020	8 757	6,49	170 847	10 883	6,37	125 448	7 330	5,84	1 315 245	102 606	7,80
November	859 774	76 753	8,93	124 383	8 179	6,58	173 194	10 864	6,27	126 648	6 470	5,11	1 283 999	102 266	7,96
December	860 234	74 574	8,67	126 713	8 087	6,38	174 517	10 783	6,18	129 001	6 453	5,00	1 290 465	99 897	7,74



Table 23
Turnover in derivative contracts (R millions)

	Interest rate contracts	Foreign- exchange contracts	Equity and indices	Commodities	Other	Total
2008: January	2 375 777	2 963 525	159 099	31 229	0	5 529 630
February.....	1 600 462	2 511 147	151 402	42 747	0	4 305 758
March.....	1 411 726	2 852 877	349 336	395 856	0	5 009 795
April.....	2 423 336	2 900 230	110 058	951 477	0	6 385 101
May.....	2 218 492	2 721 892	78 983	36 248	6	5 055 621
June.....	2 775 913	3 721 087	218 234	64 586	6	6 779 826
July	3 202 101	3 015 297	166 201	39 276	6	6 422 881
August	3 285 111	2 838 070	121 895	13 628	6	6 258 710
September	2 884 335	4 036 946	325 170	62 505	0	7 308 956
October.....	3 386 828	3 942 806	163 910	43 246	0	7 536 790
November	2 700 391	3 126 682	124 755	46 036	0	5 997 864
December	1 641 915	2 693 662	223 253	44 772	0	4 603 602
2009: January	2 497 180	2 799 491	110 481	34 196	0	5 441 348
February.....	3 453 779	3 047 383	135 862	28 773	0	6 665 797
March.....	2 746 045	3 168 625	802 074	17 606	0	6 734 350
April.....	1 450 428	2 475 823	107 477	11 078	15	4 044 821
May.....	3 986 003	3 310 685	212 703	93 674	0	7 603 065
June.....	2 102 300	3 432 714	396 416	77 195	0	6 008 625
July	2 346 090	3 258 520	311 235	61 745	0	5 977 590
August	1 893 724	3 187 376	315 013	34 860	0	5 430 973
September	2 144 980	3 123 440	382 897	48 411	0	5 699 728
October.....	2 490 072	3 600 014	300 604	32 232	0	6 422 922
November	2 768 693	3 399 497	278 397	42 879	0	6 489 466
December	1 113 634	2 782 712	347 758	54 379	0	4 298 483
2010: January	1 881 922	2 606 768	275 623	39 730	0	4 804 043
February.....	1 780 949	2 684 843	272 905	117 249	0	4 855 946
March.....	1 883 661	2 994 448	470 415	80 529	0	5 429 053
April.....	1 691 643	2 759 922	276 713	66 563	0	4 794 841
May.....	1 893 164	2 950 667	334 192	104 071	0	5 282 094
June.....	1 702 489	3 147 690	397 687	127 561	0	5 375 427
July	2 263 487	2 994 471	238 671	118 895	0	5 615 524
August	2 482 884	3 500 161	247 732	113 909	0	6 344 686
September	2 539 810	3 224 186	391 533	180 006	0	6 335 535
October.....	2 736 265	3 069 319	349 253	118 663	0	6 273 500
November	3 747 914	3 676 266	297 507	40 119	0	7 761 806
December	1 586 718	3 104 766	424 226	45 884	0	5 161 594

Table 24

Effective net open foreign-currency position (US\$ millions)

	Total foreign-currency assets	Total foreign-currency liabilities	Net spot position	Commitments to purchase foreign currency	Commitments to sell foreign currency	Mismatched forward commitments	Effective net open foreign-currency position
2008: January	36 540	20 357	16 183	305 256	321 324	-16 068	115
February.....	28 710	18 916	9 794	270 533	280 108	-9 575	219
March.....	32 951	19 477	13 474	289 346	302 664	-13 318	156
April.....	29 023	20 315	8 708	281 622	290 004	-8 382	326
May.....	27 474	19 827	7 647	286 914	294 281	-7 367	280
June.....	27 426	19 810	7 616	289 964	297 312	-7 348	268
July	25 916	19 854	6 062	285 158	291 238	-6 080	-18
August	24 535	20 516	4 019	294 417	297 912	-3 495	524
September	24 649	19 825	4 824	301 997	306 172	-4 175	649
October.....	26 955	21 489	5 466	315 138	320 347	-5 209	257
November	27 599	21 920	5 679	326 974	332 510	-5 536	143
December	26 043	20 953	5 090	316 061	321 051	-4 990	100
2009: January	26 412	21 912	4 500	295 477	299 945	-4 468	32
February.....	26 686	22 197	4 489	296 353	300 633	-4 280	209
March.....	25 774	21 602	4 172	319 899	323 884	-3 985	187
April.....	25 152	22 075	3 077	305 876	308 839	-2 963	114
May.....	25 649	20 630	5 019	271 326	276 195	-4 869	150
June.....	26 936	20 768	6 168	259 093	265 070	-5 977	191
July	25 658	19 962	5 696	246 709	252 229	-5 520	176
August	26 928	20 604	6 324	235 816	242 046	-6 230	94
September	26 951	20 574	6 377	233 069	239 441	-6 372	5
October.....	26 975	21 049	5 926	242 748	248 481	-5 733	193
November	27 923	21 484	6 439	247 530	253 685	-6 155	284
December	27 567	21 125	6 442	231 185	237 449	-6 264	178
2010: January	28 841	22 118	6 723	227 850	234 628	-6 778	-55
February.....	29 082	21 559	7 523	231 909	239 166	-7 257	266
March.....	28 441	21 414	7 027	226 595	233 520	-6 925	102
April.....	27 482	21 390	6 092	222 824	229 128	-6 304	-212
May.....	26 893	20 847	6 046	231 508	237 552	-6 044	2
June.....	27 473	20 235	7 238	226 851	234 177	-7 326	-88
July	27 125	20 764	6 361	231 465	238 010	-6 545	-184
August	29 009	21 590	7 419	243 972	251 516	-7 544	-125
September	28 694	21 360	7 334	253 706	261 178	-7 472	-138
October.....	27 669	22 216	5 453	265 782	271 564	-5 782	-329
November	30 714	22 833	7 881	279 265	287 439	-8 174	-293
December	32 664	23 907	8 757	269 817	278 662	-8 845	-88



Appendix 7

Circulars sent to banking institutions during 2010

Banks Act Circular 1/2010	Status of previously issued circulars and directives
Banks Act Circular 2/2010	Interpretation of definition of default as outlined in regulation 65 of the Regulations relating to Banks
Banks Act Circular 3/2010	Regulations relating to Banks and related matters
Banks Act Circular 4/2010	Basel Committee report to the G-20: Comprehensive response to the international financial crisis
Banks Act Circular 5/2010	Interpretation and application of criteria relating to the granularity for retail exposures
Banks Act Circular 6/2010	Interpretation and application of criteria relating to exposures secured by residential mortgage bonds

Guidance notes sent to banking institutions during 2010

Banks Act Guidance Note 1/2010	Meetings to be held during the 2010 calendar year with audit committees and external auditors
Banks Act Guidance Note 2/2010	Meetings to be held during the 2010 calendar year with the boards of directors of banks and controlling companies
Banks Act Guidance Note 3/2010	Performing market risk hypothetical backtesting by internal models approach (IMA) banks
Banks Act Guidance Note 4/2010	Application process in respect of the proposed adoption of the internal ratings-based approach for the measurement of the bank's credit risk exposure in respect of positions held in the bank's banking book

Appendix 8

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

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

Government Gazette		Topic	Expiry
Date	Number		
2006/12/01	29412	A group of persons between which a common bond exists	Indefinite
1994/12/14	16167	Commercial paper	Indefinite
2008/12/19	31716	"Ithala Limited" A wholly owned subsidiary of Ithala Development Finance Corporation Limited	2011/12/31
1994/12/14	16167	Mining houses	Indefinite
1994/12/14	16167	Trade in securities and financial instruments	Indefinite
2008/01/01	30628	Securitisation schemes	Indefinite

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

Government Gazette		Topic	Subparagraph	Expiry
Date	Number			
1991/01/31	13003	Participation bond schemes	(dd)(ii)	Indefinite
1991/01/31	13003	Unit trust schemes	(dd)(ii)	Indefinite
2008/08/22	31342	Financial Service Co-operative	(dd)(i)	Indefinite

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

Government Gazette		Topic	Expiry
Date	Number		
1998/09/22	19283	Members of the Johannesburg Stock Exchange as persons authorised to accept money as mandatories and to deposit such money into banking accounts maintained by them	Indefinite

Section 2(vii): Exclusions by the Minister of Finance

Government Gazette		Topic	Expiry
Date	Number		
1992/01/24	13744	Post Office Savings Bank	Indefinite
1994/12/14	16167	Industrial Development Corporation of SA Limited	Indefinite

Section 78(1)(d)(iii): Exemptions by the Registrar of Banks

Government Gazette		Topic	Expiry
Date	Number		
1997/05/02	17949	Category of assets of a bank held in the name of a person other than the bank concerned	Indefinite

Appendix 9

Approval of applications in terms of section 52 of the Banks Act, 1990 (Act No. 94 of 1990), for local banking groups to acquire or establish foreign interests for the period 1 January 2010 to 31 December 2010

Name of controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Domicile
Absa Group Limited	2010/04/28	Absa Capital Representative Office (Nigeria) (Pty) Limited	Nigeria
Absa Group Limited	2010/11/30	Absa Life (Botswana) (Pty) Limited	Botswana
Absa Group Limited	2010/12/23	Sociedade Interbancaria de Servicos de Moçambique (10 per cent)	Mozambique
FirstRand Limited	2010/01/07	Xitimela Leasing (Mauritius) Limited (32,5 per cent)	Mauritius
FirstRand Limited	2010/03/31	RMB Asset Management (Namibia) (Pty) Limited	Namibia
FirstRand Limited	2010/09/16	First National Bank Tanzania Limited	Tanzania
FirstRand Limited	2010/09/28	FirstRand Bank Representative Office (Kenya)	Kenya
FirstRand Limited	2010/09/29	OGM Advisory (Pty) Limited	Australia
Investec Limited	2010/08/03	Jupiter Mines Limited (16,3 per cent)	Australia
Investec Limited	2010/08/27	Noble Mineral Resources Limited (3,3 per cent)	Australia
Investec plc*	2010/02/03	ITS Trust Company Limited	Switzerland
Investec plc*	2010/03/15	Leasedirect Finance Limited (75 per cent)	United Kingdom
Investec plc*	2010/05/10	Rensburg Sheppards plc (52,93 per cent) (The remaining shareholding of 47,07 per cent was acquired in 2005)	United Kingdom
Investec plc*	2010/05/10	Investec Securities (Australia) Pty Limited	Australia
Investec plc*	2010/05/31	Koutsouro Wind Energy SA	Greece
Investec plc*	2010/06/23	MZL Investments (Pty) Limited	Australia
Investec plc*	2010/07/02	Vocus Communications Limited (3,9 per cent)	Australia
Investec plc*	2010/07/07	Chesser Resources Limited (0,0085 per cent)	Australia
Investec plc*	2010/08/20	ITS Trust Company Limited (Geneva Branch)	Switzerland
Investec plc*	2010/08/20	Experien Nominees (Pty) Limited	Australia
Investec plc*	2010/11/04	Start Mortgages Holding Limited (33,58 per cent) (Another subsidiary of Investec plc already owns 66,42 per cent of the company)	United Kingdom
Investec plc*	2010/12/07	Tudor Tree Properties Limited	United Kingdom
Nedbank Limited	2010/03/12	Payment Association of Lesotho (Pty) Limited	Lesotho
Nedbank Limited	2010/07/13	Fairbairn Nominees (UK) Limited	United Kingdom
Standard Bank Group Limited	2010/04/28	Liberty Holdco Nigeria Limited	Nigeria
Standard Bank Group Limited	2010/04/28	Total Health Trust Limited (51,22 per cent)	Nigeria
Standard Bank Group Limited	2010/05/04	Liberty Holdings Botswana (Pty) Limited	Botswana
Standard Bank Group Limited	2010/05/10	CIMB Standard Islamic Infrastructure Fund (General Partner) Limited (40 per cent)	Malaysia
Standard Bank Group Limited	2010/05/18	Casa do Pão de Queijo Brasil Société Anonyme (50 per cent)	Brazil
Standard Bank Group Limited	2010/06/30	Payment Association of Lesotho (Pty) Limited (20 per cent)	Lesotho

Appendix 9

Approval of applications in terms of section 52 of the Banks Act, 1990 (Act No. 94 of 1990), for local banking groups to acquire or establish foreign interests for the period 1 January 2010 to 31 December 2010 (continued)

Name of controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Domicile
Standard Bank Group Limited	2010/08/19	SU Turkish Private Equity Opportunities I, S.C.A., SICAR (61,7 per cent)	Luxembourg
Standard Bank Group Limited	2010/10/08	Standard Bank plc – Hong Kong Branch	Hong Kong
Standard Bank Group Limited	2010/10/19	Stanbic IBTC Trustees Limited	Nigeria
Standard Bank Group Limited	2010/11/05	Liberty Properties (Swaziland) (Pty) Limited	Swaziland

* Applications in respect of Investec plc to establish or acquire foreign interests or subsidiaries were noted in terms of the conditions of approval in 2002 of the dually listed company structure

Appendix 10

Memoranda of understanding concluded between the Bank Supervision Department of the South African Reserve Bank and foreign supervisors as at 31 December 2010

Domicile of foreign regulator (listed alphabetically)		Foreign banking supervisor	Effective from
1	Argentina	Superintendencia de Entidades Financieras y Cambiarias (Central Bank of Argentina)	18 August 2007
2	Australia	Australian Prudential Regulation Authority	4 July 2007
3	China	China Banking Regulatory Commission	17 November 2010
4	Germany	Bundesanstalt für Finanzdienstleistungsaufsicht	13 August 2004
5	Hong Kong	Monetary Authority of Hong Kong	12 December 2006
6	Ireland	Irish Financial Services Regulatory Authority	21 July 2004
7	Isle of Man	Financial Supervision Commission of the Isle of Man	13 August 2001
8	Jersey	Jersey Financial Services Commission	11 June 2010
9	Kenya	Central Bank of Kenya	1 July 2010
10	Lesotho	Central Bank of Lesotho	27 August 2010
11	Mauritius	Bank of Mauritius	25 January 2005
12	Namibia	Bank Supervision Department of the Bank of Namibia	27 September 2004
13	Netherlands	The Netherlands Bank	23 March 2010
14	Nigeria	Central Bank of Nigeria	20 March 2008
15	Swaziland	Central Bank of Swaziland	18 June 2010
16	Tanzania	Bank of Tanzania	15 June 2010
17	Uganda	Bank of Uganda	15 June 2010
18	United Arab Emirates	The Dubai Financial Services Authority	8 August 2009
19	United Kingdom	Financial Services Authority	21 July 2006

The purpose of a memorandum of understanding (MoU) is to provide a formal basis for a bilateral working relationship and co-operation between supervisors, including the sharing of information and investigative assistance.

It should be noted that any MoU entered into by the Department does not modify or supersede any laws or regulatory requirements in force in, or applying to, the Republic of South Africa. Accordingly, an MoU sets forth a statement of intent and does not create any enforceable rights.

Since 2009 the Department's policy has been to allow only the acquisition or establishment of local (inward) and cross-border banking operations in instances where an MoU with the cross-border banking supervisor concerned has been concluded. This decision was underpinned by global initiatives to ensure that cross-border activities do not contribute to enhanced risk, as was evidenced by the global financial market crisis.

Appendix 10

Memoranda of understanding concluded between the Bank Supervision Department of the South African Reserve Bank and foreign supervisors as at 31 December 2010 (continued)

During the year under review the Department concluded eight new MoUs with foreign supervisors. A further nine MoUs were initiated during 2010, bringing the total number of MoUs in progress to 14. The pending MoUs are as follows:

Domicile of foreign regulator (listed alphabetically)		Foreign banking supervisor
1	Bahrain	Central Bank of Bahrain
2	Brazil	Department of Financial Surveillance and Information Management
3	Colombia	Superintendencia Financiera de Colombia
4	France	French Banking Commission
5	Ghana	The Banking Regulator
6	Greece	The Banking Regulator
7	India	The Reserve Bank of India
8	Japan	Financial Services Agency
9	Portugal	Banco de Portugal
10	Singapore	Monetary Authority of Singapore
11	Taiwan	Financial Supervisory Commission of Taiwan
12	Turkey	Banking Regulation and Supervisory Agency of Turkey
13	United Arab Emirates	Banking Supervision and Examination Department of the Central Bank of the United Arab Emirates
14	United States of America	Federal Reserve Bank of New York

Africa

The 14 Heads of State or Government of the Southern African Development Community (SADC) have signed a Protocol on Finance and Investment* (PFI). The PFI, among other things, includes a section setting out the framework for co-operation and co-ordination in banking regulatory and supervisory matters. The 14 SADC countries are the Republic of Angola, the Republic of Botswana, the Democratic Republic of Congo, the Kingdom of Lesotho, the Republic of Malawi, the Republic of Mauritius, the Republic of Mozambique, the Republic of Namibia, Republic of Seychelles and Republic of South Africa, the Kingdom of Swaziland, the United Republic of Tanzania, the Republic of Zambia and the Republic of Zimbabwe.

* <http://www.sadc.int/sadc2010>

Abbreviations

ABS	asset-backed securities
AC	additional criteria
AIRB	advanced internal ratings-based
AMA	advanced measurement approach
AML	anti-money laundering
ASA	alternative standardised approach
BIA	basic indicator approach
BIS	Bank for International Settlements
BOC	Bank of China
BSD	Bank Supervision Department (the Department)
CAR	capital-adequacy requirement
CBDA	Co-operative Banks Development Agency
CBK	Central Bank of Kenya
CBRC	China Banking Regulatory Commission
CBSU	Co-operative Banking Supervision Unit
CDO	collateralised debt obligations
CEO	chief executive officer
CFT	the combating of the financing of terrorism
CMG	Capital Monitoring Group
CP	core principle
CSD	Central Securities Depository
CTF	combating the financing of terrorism
CTR	cash threshold reporting
DHA	Department of Home Affairs
dti	Department of Trade and Industry
EAD	Exposure at default
EC	essential criteria
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FICA	Financial Intelligence Act, 2008 (Act No. 11 of 2008)
FIRB	foundation internal ratings-based approach
FRS	Financial Risk Subcommittee
FSA	Financial Services Authority
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSCF	Financial Sector Contingency Forum
FSI	Financial Stability Institute
FX	foreign exchange
G-20	Group of Twenty Finance Ministers and Central Bank Governors
GDP	gross domestic product
GHOS	Governors and Heads of Supervision
H-index	Herfindahl–Hirschman Index
HKMA	Hong Kong Monetary Authority
HSBC	HongKong Shanghai Banking Corporation Limited
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICBS	International Conference of Banking Supervisors
IFRSs	International Financial Reporting Standards
IIF	Institute of International Finance
IMA	internal models approach
IMF	International Monetary Fund
IRB	internal ratings-based
IRC	incremental risk capital
IRRBB	Interest-rate risk in the banking book
IT	information technology
LC	largely compliant
LCR	liquidity coverage ratio
LGD	Loss given default
MBA	models-based approaches
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MNC	materially non-compliant
MoU	Memorandum of Understanding
NCA	National Credit Act
NCD	negotiable certificate of deposit
NCR	National Credit Regulator



NOP	net open foreign-currency position
NSFR	net stable funding ratio
NT	National Treasury
OECD	Organisation for Economic Co-operation and Development
ORAS	operational risk appetite statement
ORMF	operational risk management framework
ORMS	operational risk measurement system
ORS	Operational Risk Subcommittee
OTC	over the counter
PCC	Public Compliance Communication
PD	probability of default
PFI	Protocol on Finance and Investment
PIIGS	Portugal, Ireland, Italy, Greece and Spain
PIN	Public Information Notice
PN	promissory notes
PoD	probability of default
QIS	Quantitative Impact Study
RO	representative office
ROA	return on assets
ROE	return on equity
ROSC	Report on the Observance of Standards and Codes
RWA	risk-weighted assets
SADC	Southern African Development Community
SAM	solvency asset and management
SARS	South African Revenue Service
SIG	Standards Implementation Group
SIGOR	Standards Implementation Group Operational Risk
SIGV	Standards Implementation Group Validation Subgroup
SME	small and medium enterprise
SSBS	SADC Sub-committee of Banking Supervisors
STA	standardised approach
sVaR	stressed value at risk'
UK	United Kingdom
US	United States
VaR	value at risk
VDP	Voluntary Disclosure Programme

Glossary

Basel II	Capital Measurement and Capital Standards: A Revised Framework issued in June 2006
Basel III	A global regulatory framework for more resilient banks and banking systems, Basel Committee on Banking Supervision
Basel Committee	Basel Committee on Banking Supervision
Core Principles	Core Principles for Effective Banking Supervision
Cooperative Banks Act	Cooperative Banks Act, 2007 (Act No. 40 of 2007)
CP Notice	Commercial Paper Notice No. 2172, <i>Government Gazette</i> No. 16167 of 14 December 1994
New Companies Act	New Companies Act, 2008 (Act No. 71 of 2008)
Postbank Act	South African Postbank Limited Act, 2010 (Act No. 9 of 2010)
SARB Act	South African Reserve Bank Act, 1989 (Act No. 90 of 1989)
Standing Committee	Standing Committee for the Revision of the Banks Act, 1990
the Bank	South African Reserve Bank
the Banks Act, 1990	Banks Act, 1990 (Act No. 94 of 1990)
the Department	Bank Supervision Department of the South African Reserve Bank
the Minister	Minister of Finance
the Registrar	Registrar of Banks

