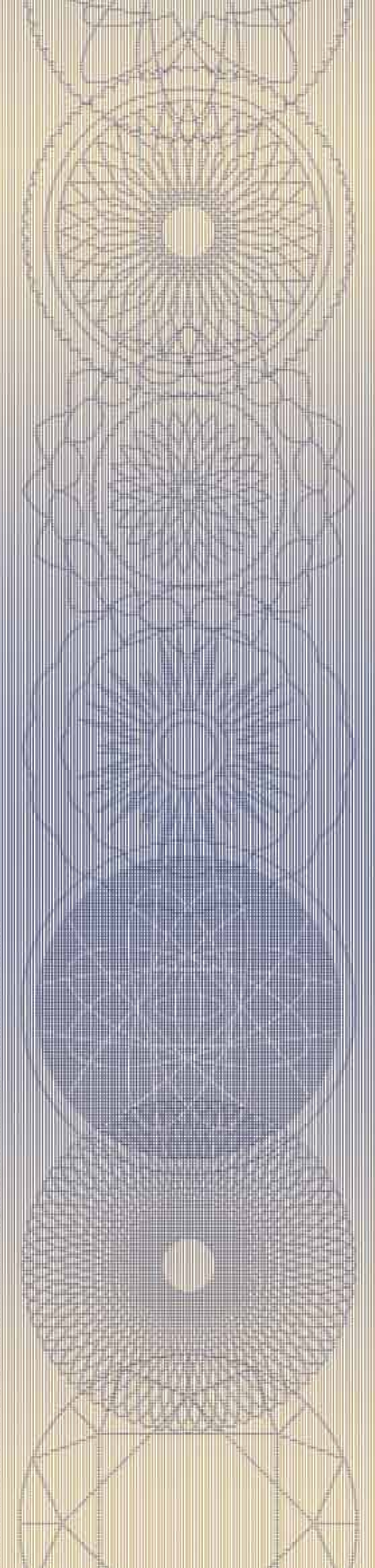
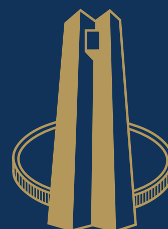


Bank Supervision Department

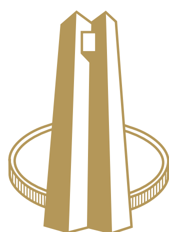
Annual Report 2011



South African Reserve Bank

Bank Supervision Department

Annual Report 2011



South African Reserve Bank

Vision

A sound, well-functioning and internationally competitive banking system.

Mission

To promote the soundness of the banking system and contribute to financial stability.

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.

© South African Reserve Bank

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without fully acknowledging the *Bank Supervision Department Annual Report* of the South African Reserve Bank as the source. The contents of this publication are intended for general information only and are not intended to serve as financial or other advice. While every precaution is taken to ensure the accuracy of information, the South African Reserve Bank shall not be liable to any person for inaccurate information or opinions contained in this publication.

Obtainable from:
Bank Supervision Department
South African Reserve Bank
P O Box 8432, Pretoria, 0001
Tel. 27-12-313 3218

ISSN 1811-4431

Also available on the Internet at: http://www.resbank.co.za/Publications/Reports/Pages/BankSupervisionAnnualReports.aspx

Purpose of the *Annual Report*

Legal basis for the *Annual Report*

The *Annual Report* is issued in terms of section 10 of the Banks Act, 1990 (Act No. 94 of 1990 – the Banks Act) which prescribes the following:

> 10. Annual report by Registrar of Banks
> (1) The Registrar shall annually submit to the Minister of Finance a report on his or her activities in terms of this Act during the year under review.
>
> (2) The Minister shall lay a copy of the report referred to in subsection (1) upon the Tables in Parliament within 14 days after receipt of such report, if Parliament is then in ordinary session, or, if Parliament is not then in ordinary session, within 14 days after the commencement of its next ensuing ordinary session.

Layout of the 2011 *Annual Report*

The 2011 *Annual Report* comprises four chapters and various appendices, namely:

Chapter 1: Registrar of Banks' review

This chapter serves as an introduction to the 2011 *Annual Report* and provides a broad overview of the most notable developments that occurred during 2011 within the banking industry, both domestically and abroad. Among other things, topics covered in this chapter include the following:

a. A deliberated synopsis of the economic and regulatory environment that prevailed during the period under review, and the challenges and risks that the banking sector faced.

b. A concise overview of items such as key international and domestic regulatory developments; reviews undertaken by international agencies (for example, the World Bank, the International Monetary Fund [IMF] and the Financial Action Task Force [FATF]); developments related to anti-money laundering activities; participation by staff of the Bank Supervision Department (the Department) in international and domestic regulatory and supervisory forums; regional co-operation specifically in respect of Africa; and issues to receive special attention during 2012.

Chapter 2: Overview of supervisory activities

This chapter outlines the day-to-day activities performed by the Department's divisions and sections which enable the Department to realise its mission of not only promoting the soundness of the banking system, but also contributing to financial stability. The topics covered in this chapter include the following:

a. An overview of the key activities of the core operational divisions and sections of the Department during the period under review, including the analysis divisions, the various risk specialist divisions, consolidated supervision, the review team, Pillar 3 (market discipline) disclosure and the Financial Stability Unit (particularly in terms of how it relates to the banking sector).

b. All other core operational matters, including the key issues and challenges the Department faced during the period under review.

Chapter 3: Developments relating to banking legislation

The third chapter outlines the most pertinent amendments and additions with regard to banking legislation. Topics covered in this chapter include, among others, the following:

a. An overview of key developments in respect of the Banks Act and the Regulations relating to Banks (the Regulations).

b. International developments that could impact the domestic regulatory and supervisory framework that are continually monitored and considered by the Department, such as the revision of the Core Principles for Effective Banking Supervision (the Core Principles), and the Basel II.5 and Basel III frameworks.

c. Other relevant non-banking legislative developments that could have an impact on either the Department's functions, its ambit of responsibilities or the legislative framework it employs, for example, developments regarding the Postbank Act, 2010 (Act No. 9 of 2010 – the Postbank Act) and the new Companies Act, 2008 (Act No. 71 of 2008 – the new Companies Act).

d. An overview of illegal deposit-taking schemes under investigation.

Chapter 4: Banking-sector overview

This analytical chapter provides an overview of aggregated financial and risk information as submitted by individual banks registered in South Africa, including domestic branches of foreign operations (offshore branches and subsidiaries of South African banks are excluded). This fourth and final chapter covers the following:

a. Structural features of the banking sector, for example, registered entities, shareholding structure, applications approved in terms of section 52 of the Banks Act, global presence of South African banks, and banking-sector assets to gross domestic product (GDP).

b. Overview of the total domestic banking sector's balance sheet, equity structure, profitability, and key risk areas.

Appendices

Appendices 1 to 9 contain administrative information (the departmental structure and lists of registered entities being supervised, exemptions, circulars, etc.), while Appendix 10 contains various tables detailing extensive financial data predicated on risk-based information submitted by banks over a three-year period ending December 2011.

Contents

Chapter 1: Registrar of Banks' review 1

1.1 Introduction 1

1.2 Key international developments, recommendations and focus areas, and the Department's response thereto 1

1.3 The implementation of a twin peaks model of financial regulation in South Africa 6

1.4 Strengthening South Africa's crisis resolution framework 6

1.5 Compliance with the Financial Stability Board Principles for Sound Compensation Practices........ 7

1.6 The International Monetary Fund Report on the Observance of Standards and Codes........ 8

1.7 The International Monetary Fund Staff Report for the 2011 Article IV Consultation........ 9

1.8 The International Monetary Fund financial soundness indicators 11

1.9 Participation in international surveys 12

1.10 Compliance with anti-money laundering and the combating of the financing of terrorism standards........ 13

1.11 Skills development........ 15

1.12 Participation in regulatory and supervisory forums........ 20

1.13 Regional co-operation and interaction 26

1.14 Issues to receive particular attention during 2012 28

1.15 Expression of gratitude........ 28

Chapter 2: Overview of supervisory activities........ 30

2.1 Introduction 30

2.2 Credit risk 30

2.3 Market risk........ 35

2.4 Operational risk........ 36

2.5 Liquidity risk........ 39

2.6 Pillar 2: Capital management 41

2.7 Pillar 3: Disclosure 42

2.8 Consolidated supervision........ 43

2.9 Financial stability: A macroprudential approach to supervision 45

Chapter 3: Developments relating to banking legislation........ 47

3.1 Introduction 47

3.2 The Banks Act, 1990 47

3.3 The new Companies Act, 2008 47

3.4 Update regarding amendments to the Regulations relating to Banks........ 47

3.5 Illegal deposit-taking........ 49

3.6 Exemption of banks in terms of the Consumer Protection Act, 2008 53

3.7 Developments regarding Postbank........ 54

Chapter 4: Banking-sector overview 55
4.1 Introduction 55
4.2 Structural features of the banking sector 55
4.3 Balance sheet 59
4.4 Off-balance-sheet activities 70
4.5 Profitability 71
4.6 Capital adequacy 75
4.7 Liquidity risk 78
4.8 Credit risk 80
4.9 Market risk 91

Appendices

1. Organisational structure of the Bank Supervision Department 99
2. Registered banks, mutual banks and local branches of foreign banks as at 31 December 2011 101
3. Name changes and cancellation of registration of banks and branches of foreign banks during the period 1 January 2011 to 31 December 2011 103
4. Registered controlling companies as at 31 December 2011 104
5. Foreign banks with approved local representative offices 105
6. Circulars, directives and guidance notes issued in 2011 107
7. Exemptions and exclusions from the application of the Banks Act, 1990 108
8. 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 2011 to 31 December 2011 109
9. Memoranda of understanding concluded between the Bank Supervision Department of the South African Reserve Bank and foreign supervisors as at 31 December 2011 111
10. Selected information on South African banks 113

References 144

Abbreviations 144

Glossary 146

Box

Box 4.1 Calculation of expected loss for internal ratings-based banks 85

Figures

2.1 Reporting methods applied by banks 30
2.2 Number of trading banks per market risk approach 35
3.1 Number of inspections relating to illegal deposit-taking schemes 50
4.1 Herfindahl–Hirshman Index for the South African banking system (2006–2011) 56
4.2 Shareholding structure of the South African banking sector (nominal value of shares) (per cent) 57
4.3 Global presence of South African banking groups 58
4.4 Total banking-sector assets in relation to gross domestic product 58

4.5 Total banking-sector assets, gross loans and advances, and their respective growth rates (year on year) ... 59
4.6 Composition of total banking-sector assets ... 60
4.7 Growth rates of selected asset classes within gross loans and advances (year on year) ... 60
4.8 Banking-book versus trading-book assets (as a percentage of total banking-sector assets) ... 61
4.9 Composition of gross loans and advances (per cent) ... 61
4.10 Loans and advances to banks ... 62
4.11 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) ... 63
4.12 Composition of liabilities ... 63
4.13 Asset and liability position in derivative financial instruments (as a percentage of equity attributable to equity holders) ... 64
4.14 Term debt instruments qualifying as regulatory capital (as a percentage of total term debt instruments) ... 65
4.15 Composition of deposits (per cent) ... 65
4.16 Sources of total deposits (as a percentage of total deposits) ... 66
4.17 Composition of total equity ... 67
4.18 Financial leverage multiple ... 67
4.19 Growth rates of total banking-sector assets and equity attributable to equity holders (year on year) ... 68
4.20 Composition of total banking-sector assets in respect of the five largest banks, branches of international banks and other banks (per cent) ... 68
4.21 Banking-sector assets for banks solo, banks consolidated and consolidated banking groups ... 69
4.22 Composition of total equity for consolidated banking groups ... 69
4.23 Total off-balance-sheet items in relation to total banking-sector assets ... 70
4.24 Composition of total off-balance-sheet items (per cent) ... 70
4.25 Composition of the income statement (smoothed) ... 71
4.26 Credit losses to net interest income (smoothed) ... 72
4.27 Composition of gross operating income (smoothed) (per cent) ... 72
4.28 Banking-book income versus trading-book income (unsmoothed) (as a percentage of gross operating income) ... 73
4.29 Composition of operating expenses (smoothed (per cent) ... 73
4.30 Net interest income ratio (smoothed) ... 74
4.31 Profitability ratios (smoothed) ... 74
4.32 Cost-to-income ratio (smoothed) ... 75
4.33 Capital-adequacy ratios (bank solo) ... 76
4.34 Composition of qualifying regulatory capital and reserve funds (bank solo) ... 76
4.35 Total risk-weighted exposure (bank solo) ... 77
4.36 Capital-adequacy ratios (consolidated banking groups) ... 77
4.37 Statutory liquid assets (actual versus required) ... 78
4.38 Contractual maturity of liabilities (as a percentage of total liabilities) ... 79
4.39 Business-as-usual maturity of liabilities (as a percentage of total liabilities) ... 79
4.40 Concentration of short-term deposit funding (as a percentage of total banking-sector liabilities) ... 80
4.41 Gross credit exposures and risk-weighted exposures per asset class ... 81

4.42 Impaired advances to gross loans and advances 82
4.43 Specific and portfolio credit impairments 82
4.44 Specific credit impairment ratios 83
4.45 Risk-weighting distribution of credit exposures under the standardised approach 83
4.46 Classification of credit risk exposures under the standardised approach 84
4.47 Exposures classified as 'sub-standard', 'doubtful' and 'loss' measured against specific credit impairments and collateral 85
4.48 Distribution of retail exposures at default into standard probability of default bands 87
4.49 Distribution of corporate exposures at default into standard probability of default bands 87
4.50 Total exposure at default 88
4.51 Total default exposure and default ratio per asset class 88
4.52 Composition of retail default exposures and their respective default ratios 89
4.53 Composition of corporate default exposures (excluding specialised lending) and small and medium corporate enterprises' default exposures, and their respective default ratios 90
4.54 Composition of regulatory capital requirement in respect of market risk 92
4.55 Composition of monthly turnover in derivative contracts (gross notional value) 92
4.56 Composition of unexpired derivative contracts at month-end (gross notional value) 93
4.57 Composition of unexpired derivative contracts at month-end: Exchange traded (gross notional value) 93
4.58 Composition of unexpired derivative contracts at month-end: Over-the-counter traded (gross notional value) 94
4.59 Aggregated effective net open foreign-currency position (as a percentage of qualifying regulatory capital) 95
4.60 Aggregated effective net open foreign-currency position per currency 95
4.61 Position in foreign-currency instruments 96

Tables

1.1 Key local training interventions 15
1.2 Key international training interventions 16
3.1 Inspections relating to illegal deposit-taking schemes 50
4.1 South African banking sector: Number of entities registered or licensed 56
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 57
4.3 Classification of credit risk exposures in terms of the standardised approach 84
4.4 Key credit risk indicators reported by internal ratings-based banks 86
4.5 Sectoral distribution of credit exposures (as a percentage of total credit exposure) 90
4.6 Geographic distribution of credit exposures (as a percentage of total credit exposure) 91

Chapter 1: Registrar of Banks' review

1.1 Introduction

The aftermath of the global financial market crisis remained a key focus area for the Department during the period under review. The myriad of new regulatory and supervisory standards and requirements issued by international standard-setting bodies such as the Basel Committee on Banking Supervision (the Basel Committee) and the Financial Stability Board (FSB)[1] necessitated continual review and assessment of the Department's domestic regulatory and supervisory framework to ensure alignment with international standards. During 2011 the Department finalised its process of incorporating the enhancements to the Basel II framework, issued by the Basel Committee in July 2009, into the domestic regulatory framework and the amended Regulations were subsequently implemented with effect from 1 January 2012. In addition, the Basel III framework, originally issued by the Basel Committee in December 2010, will necessitate substantial further efforts to ensure the successful implementation of, among other things, the various capital and liquidity standards. The implementation of the Basel III framework will be based on a phased-in approach commencing on 1 January 2013 and continuing up to 2018, in line with the timelines determined by the Basel Committee.

This chapter describes in more detail the above-mentioned key international developments, recommendations and focus areas, and the Department's response thereto. In addition, it provides some insight into other domestic regulatory developments such as the strengthening of the domestic financial market crisis resolution framework, the implementation of a twin peaks model of financial regulation in South Africa and actions taken by the Department to monitor compliance by the banking sector with anti-money laundering (AML) and the combating of the financing of terrorism (CFT) standards.

1.2 Key international developments, recommendations and focus areas, and the Department's response thereto

1.2.1 Enhancements to the Basel II framework

In its annual reports of 2007 to 2010,[2] the Department comprehensively reported on the background to and causes of the global financial crisis, and the identified weaknesses that required specific attention.

Some of the key lessons learnt from the global financial crisis include the following:

key lessons learnt from the global financial crisis

- The importance of banks' risk exposures being backed by a high-quality capital base.
- The need to address the inconsistent definition of capital across jurisdictions.
- A lack of disclosure prevented the market from fully assessing and comparing the quality of capital held by banks.
- The need to strengthen the risk coverage of the capital framework since a failure to capture major on- and off-balance-sheet risks and derivative-related exposures was a key destabilising factor during the global financial crisis. In this regard, the risk coverage of the capital framework has already been strengthened through the implementation of the Basel II.5 framework. In addition, the Basel III framework introduces further measures to strengthen the capital requirements for counterparty credit exposures arising from banks' derivatives, repurchase agreements and securities financing activities.

1 The Financial Stability Board, an international standard-setting body and abbreviated in this Report as FSB, is not to be confused with the Financial Services Board, which is a domestic financial services supervisory body.
2 Available at http://www.resbank.co.za/Publications/Reports/Pages/BankSupervisionAnnualReports.aspx.

- The risks arising from excessive leverage should be mitigated. One of the underlying features of the global financial crisis was the build-up of excessive on- and off-balance-sheet leverage in the banking system. This build-up of excessive leverage has also been a feature of previous financial crises, for example, the Asian financial crisis in 1997 and the Russian financial crisis (or Ruble crisis) in 1998. During the most severe part of the latest financial crisis, the banking sector was forced by the market to reduce its leverage in a manner that amplified downward pressure on asset prices, which further exacerbated the positive feedback loop between losses, declines in bank capital and the contraction in credit availability.[3]

various new or amended requirements and standards have been issued to address the weaknesses revealed by the global financial crisis

In the four years subsequent to the global financial crisis that commenced in 2007, international standard-setting bodies such as the Group of Twenty (G-20), the FSB and the Basel Committee have continually worked towards a comprehensive set of initiatives and strategies to avoid future crises. In addition, various new or amended requirements and standards have been issued to address appropriately the fundamental weaknesses revealed by the global financial crisis.

For example, as extensively reported in the Department's 2009 and 2010 annual reports, the Basel Committee issued three documents during July 2009 that materially impacted on the regulation and supervision of banks and banking groups, namely:

1. "Enhancements to the Basel II Framework";[4]
2. "Revisions to the Basel II Market Risk Framework";[5] and
3. "Guidelines for Computing Capital for Incremental Risk in the Trading Book".[6]

As part of a transparent and consultative process undertaken by the Department during 2010 and 2011, which involved all key players, the requirements contained in the aforesaid three documents, which are commonly collectively referred to as 'Basel II.5', were incorporated into the Regulations and implemented with effect from 1 January 2012.

1.2.2 Basel III: A global regulatory framework

1.2.2.1 Introduction

On 16 December 2010, the Basel Committee issued two further documents, namely:

1. "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems";[7] and
2. "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring".[8]

These two documents are generally collectively referred to as 'the Basel III framework' or 'the Basel III reforms'. However, for the purposes of the *Annual Report*, 'the Basel III framework' will be used. Along with the measures taken by the Basel Committee in July 2009 to strengthen the Basel II framework, the further requirements contained in the Basel III framework form part of the Basel Committee's comprehensive response to address the lessons learnt from the global financial crisis related to, among other things, the regulation, supervision and risk management of globally active banks.

Essentially the Basel III framework represents the details of global regulatory standards on banking capital adequacy and liquidity as agreed to by the Governors and Heads of Supervision (GHOS), which is the oversight body of the Basel Committee and is endorsed by the G-20.

3 Basel Committee, "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel: Basel Committee, revised version, June 2011), 4.
4 Available at http://www.bis.org/publ/bcbs157.htm.
5 Available at http://www.bis.org/publ/bcbs158.htm.
6 Available at http://www.bis.org/publ/bcbs159.htm.
7 Available at http://www.bis.org/publ/bcbs189.htm.
8 Available at http://www.bis.org/publ/bcbs188.htm.

At the time of its release in December 2010, Mr Nout Wellink, Chairman of the Basel Committee and President of De Nederlandsche Bank at the time, described the Basel III framework as:

> ... a landmark achievement that will help protect financial stability and promote sustainable economic growth. The higher levels of capital combined with a global liquidity framework will significantly reduce the probability and severity of banking crises in the future.[9]

The Basel III framework strengthens bank-level or microprudential regulation, which will help raise the resilience of individual banking institutions during periods of stress. More specifically, based on the key lessons learnt from the global financial crisis, the Basel III framework sets out requirements for higher and better-quality capital; better risk coverage; the introduction of a leverage ratio as a backstop to the risk-based requirement; measures to promote the build-up of capital that can be drawn down in periods of stress; and the introduction of two global liquidity standards, which are discussed in greater detail below.

Strong capital requirements are a necessary condition for banking-sector stability. However, in isolation they are not sufficient. As revealed by the global financial crisis, a strong liquidity base reinforced with robust supervisory standards proved to be of equal importance.[10]

strong capital requirements necessary for banking-sector stability

Moreover, the Basel III framework also includes a macroprudential focus; addressing system-wide risks that can build up across the banking sector and dealing with the procyclical amplification of these risks over time. These micro- and macroprudential approaches to supervision are interrelated as greater resilience at an individual bank level is likely to reduce the risk of system-wide shocks.

1.2.2.2 Minimum standards for funding liquidity

The difficulties experienced by some internationally active banks were largely due to lapses in basic principles of liquidity risk management. In response to these difficulties and as the foundation of its liquidity framework, the Basel Committee published a document entitled "Principles for Sound Liquidity Risk Management and Supervision"[11] during 2008. These principles provide detailed guidance on the management and supervision of funding liquidity risk and should help to promote better risk management in this critically important area.

In order to complement these principles, the Basel Committee has further strengthened its liquidity framework by developing two minimum standards for funding liquidity. The first is a liquidity coverage ratio (LCR), which aims to ensure that banks maintain an adequate level of unencumbered, high-quality liquid assets that can be converted into cash to meet their liquidity needs for a 30 calendar-day period under a significantly severe liquidity stress scenario. The second minimum standard is a net stable funding ratio (NSFR), which aims to promote medium- and long-term funding of banking institutions' assets and activities.[12]

the Basel Committee further strengthened its liquidity framework

The Basel Committee has put processes in place to ensure the rigorous and consistent implementation of the Basel III framework across all jurisdictions. For example, the higher capital and liquidity standards prescribed by the Basel III framework will be phased in gradually so that the banking sector would still be in a position to support lending to the real economy. Both the LCR and the NSFR are subject to an observation period and include a review clause to address any unintended consequences.

LCR and NSFR subject to an observation period

Following the observation period which commenced on 1 January 2011, it is envisaged that the LCR will be implemented as a minimum standard on 1 January 2015, after which the NSFR will be implemented on 1 January 2018. The Basel Committee has required regulators to monitor the ratios during the transition period and will continue to review the implications of these standards for financial markets, credit extension and economic growth in order to address unintended consequences as and when they arise.

9 Basel Committee, press release issued in terms of the "Results of the Comprehensive Quantitative Impact Study" (Basel: Basel Committee, 16 December 2010). The press release is available at http://www.bis.org/press/p101216.htm.
10 Basel Committee, "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel: Basel Committee, revised version, June 2011), 8.
11 Available at http://www.bis.org/publ/bcbs138.htm.
12 The calculation of the LCR and the NSFR is specified in the BIS document entitled "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring" referred to in section 1.2.2.1 of this Report.

1.2.2.3 Leverage ratio

With respect to the leverage ratio, the Basel Committee has specified the transition period to assess whether its proposed design and calibration are appropriate over a full credit cycle and for different types of business models. Based on the results of a parallel run to be conducted during the transition period, "any adjustments to the leverage ratio would be carried out in the first half of 2017 with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on appropriate review and calibration."[13]

1.2.2.4 Systemically important banks

excessive inter-connectedness among systemically important banks

While procyclicality amplified shocks during the global financial crisis, excessive inter-connectedness among systemically important banks also transmitted shocks across the international financial system and economy.[14] Therefore standard-setting bodies such as the Basel Committee stated that systemically important banks should have loss-absorbing capacity beyond the minimum standards.

During the global financial crisis, the failure or impairment of a number of large, global financial institutions sent shock waves through the financial system which, in turn, harmed the real economy. Supervisors and other relevant authorities had limited options available to prevent problems affecting individual institutions from spreading, which undermined financial stability. As a consequence, public-sector intervention to restore financial stability during the global financial crisis was necessary in several of the advanced economies. The financial and economic costs of these interventions and the associated increase in supervisors' moral hazard resulted in the realisation that additional measures need to be put in place to reduce the likelihood and severity of problems that emanate from the failure of global systemically important financial institutions (G-SIFIs) or global systemically important banks (G-SIBs).[15]

In this regard, on 4 November 2011, the Basel Committee issued a document entitled "Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement".[16] This document sets out the measures developed by the Basel Committee on the assessment methodology for global systemic importance; the magnitude of additional loss absorbency that G-SIBs should have; and the arrangements according to which they will be phased in. The rationale for adopting additional policy measures for G-SIFIs or G-SIBs is based on the negative, cross-border, exogenous implications caused by G-SIBs, which current regulatory policies do not fully address. As a result of possible cross-border repercussions, a problem in any of the G-SIBs could potentially have an impact on the financial institutions in many countries and potentially affect the global economy. The failure of a G-SIFI or G-SIB is therefore not only a problem for national authorities and consequently requires a global minimum agreement.

The measures adopted by the Basel Committee address the objective of requiring additional loss absorbency for G-SIBs, thereby reducing the probability of failure. The additional requirements for G-SIBs also complement the measures adopted by the FSB not only to establish robust national resolution and recovery regimes, but also to improve cross-border harmonisation and co-ordination.

assessment methodology for G-SIBs

The assessment methodology for G-SIBs is primarily based on a multiple indicator-based measurement approach. In this regard, the Basel Committee is of the following view:

> The selected indicators are chosen to reflect the different aspects of what generates negative externalities and makes a bank critical for the stability of the financial system. The advantage of the multiple indicator-based measurement approach is that it encompasses

13 Basel Committee, press release issued in terms of the "Results of the Comprehensive Quantitative Impact Study" (Basel: Basel Committee, 16 December 2010). The press release is available at http://www.bis.org/press/p101216.htm.
14 Basel Committee, "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel: Basel Committee, revised version, June 2011), 7.
15 Basel Committee, "Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement" (Basel: Basel Committee, November 2011), 1.
16 Available at http://www.bis.org/publ/bcbs207.htm.

> many dimensions of systemic importance, is relatively simple, and is more robust than the current model-based measurement approaches and methodologies that only rely on a small set of indicators or market variables.
>
> No measurement approach will perfectly measure systemic importance across all global banks. These banks vary widely in their structures and activities, and therefore in the nature and degree of risks they pose to the international financial system. Hence, the quantitative indicator-based approach can be supplemented with qualitative information that is incorporated through a framework for supervisory judgement.[17]

Supervisors are currently considering the extent to which the Basel III framework and assessment methodology for G-SIBs may be equally relevant in identifying domestic systemically important financial institutions or banks.

1.2.2.5 Revision of the Core Principles for Effective Banking Supervision

The Core Principles issued by the Basel Committee are the de facto minimum standard for sound prudential regulation and supervision of banks and banking systems. Originally issued in 1997 and updated in 2006, the Core Principles are used by G-20 countries as a benchmark for assessing the quality of their supervisory systems and for identifying future work to achieve a baseline level of sound supervisory practices. The Core Principles are also used by both the IMF and the World Bank, specifically in the context of the Financial Sector Assessment Program (FSAP), in order to assess the effectiveness of countries' banking supervisory systems and practices.

the 25 Core Principles have been expanded to 29

On 20 December 2011 the Basel Committee issued for public comment the revised Core Principles.[18] The consultative paper updates the Basel Committee's 2006 Core Principles and the associated "Core Principles Methodology", and merges the two documents into one. The 25 Core Principles have been expanded to 29 Core Principles and re-ordered to highlight the difference between what supervisors do themselves and what they expect banks to do. Revised Core Principles 1 to 13 address supervisory powers, responsibilities and functions. They also focus on effective risk-based supervision, the need for early intervention and timely supervisory actions. Accordingly, revised Core Principles 14 to 29 cover supervisory expectations of banks, emphasising the importance of good corporate governance, appropriate risk management and compliance with supervisory standards.

the revised Core Principles respond to several key trends and developments

Among other things, the revision of the Core Principles builds on the lessons learnt from the global financial crisis. The Core Principles have been enhanced to strengthen supervisory practices and risk management. In addition, the revised Core Principles respond to several key trends and developments that emerged during the last few years' market turmoil, namely:

- the need for greater intensity and resources to deal effectively with systemically important banks;
- the importance of applying a system-wide perspective to the microprudential supervision of banks to assist them in identifying, analysing and taking pre-emptive action to address systemic risk; and
- the increasing focus on effective crisis management, recovery and resolution measures in reducing both the probability and impact of a bank failure.[19]

The latest revision ensures that the Core Principles will remain relevant for many years to come through changing environments. As mentioned earlier, the total number of Core Principles has increased from 25 to 29. In addition, a total of 36 new essential and additional criteria have been introduced, while another 33 additional criteria have been upgraded to essential criteria. This means that there are now 229 essential criteria that represent the minimum

17 Basel Committee, "Global Systemically Important Banks: Assessment Methodology and the Additional Loss Absorbency Requirement" (Basel: Basel Committee, November 2011), 3.
18 Available at http://www.bis.org/publ/bcbs213.htm.
19 Basel Committee, "Core Principles for Effective Banking Supervision" (Basel: Basel Committee, 20 December 2011), 2.

baseline requirements for all countries using the Basel III framework. In view of the fact that the Core Principles are universally applicable, the implementation thereof by all countries will be a significant step towards improving financial stability domestically and internationally. The revised Core Principles also provide a good basis for further development of effective supervisory systems.[20]

1.2.2.6 Ongoing development of regulatory reforms

The Basel Committee continues its work on a range of initiatives to promote the resilience and stability of financial markets, banks and banking groups. As a member of the Basel Committee, the Department endorses the initiatives, strategies and new or amended requirements or standards to address comprehensively the fundamental weaknesses revealed by the global financial crisis. The Department is also actively involved in developing regulatory reforms that promote the safety and soundness of the banking system and that continue to support long-term economic growth.

1.3 The implementation of a twin peaks model of financial regulation in South Africa

the architectural move towards a twin peaks model of financial regulation was announced in February 2011

In February 2011 the Minister of Finance announced the architectural move towards a twin peaks model of financial regulation for South Africa. This coincided with the release of a policy document entitled "A Safer Financial Sector to Serve South Africa Better".[21] The policy document notes that due to the country's sound macroeconomic fundamentals and robust financial regulatory framework, the domestic financial sector weathered the global financial crisis relatively well.[22] However, the publication cautions South African authorities against becoming complacent. As such, it has been decided that South Africa should move towards a twin peaks model of financial regulation, where prudential regulation will form one peak under the South African Reserve Bank (the Bank) and market conduct regulation will form the other peak under the Financial Services Board. The move towards a twin peaks model is aimed at attaining the following objectives:

- enhancing systemic stability;
- improving market conduct regulation;
- making a meaningful contribution to sound micro- and macroprudential regulation; and
- strengthening the operational independence, governance and accountability of regulators.

Following the publication of the above-mentioned policy document, the Minister of Finance and the Governor of the Bank established a joint committee between the National Treasury, the Bank and the Financial Services Board. This committee, known as the Financial Regulatory Reform Steering Committee (FRRSC), is responsible for overseeing the implementation of the regulatory reforms, and is supported by six technical expert groups. A road-map document for implementation is in the process of being prepared which will provide a concise outline for the implementation of the key proposals under the twin peaks approach to financial supervision. The road-map will also describe the envisaged steps and timelines for the establishment of the twin peaks architecture and the necessary organisational, co-ordination and accountability arrangements.

1.4 Strengthening South Africa's crisis resolution framework

During 2011, the Bank and the National Treasury initiated a comprehensive review of South Africa's capacity to resolve a financial crisis. The review was conducted under the auspices of the World Bank/Financial Sector Reform and Strengthening (FIRST) Initiative[23] programme.

20 In view of the fact that the revised Core Principles have not been formally issued, subsequent references to the Core Principles will, unless explicitly stated otherwise, refer to the Core Principles published in 2006.
21 Available at http://www.treasury.gov.za/public%20comments/default.aspx.
22 This view is shared by the IMF's Executive Board as indicated in section 1.7.
23 FIRST Initiative's Crisis Preparedness Program was launched in September 2008 to support client countries in their efforts to improve their legal, policy and institutional arrangements, and their general capacity to deal with financial crises.

Aspects such as the effectiveness of South Africa's existing crisis resolution powers and mandates; co-ordination among regulators and legislative frameworks, institutional frameworks and funding arrangements; and the drawing on lessons learnt from the global financial crisis were assessed. A number of areas in South Africa's crisis resolution framework that could be further improved were identified. Subsequently, the FSB also released its "Key Attributes of Effective Resolution Regimes for Financial Institutions",[24] which is setting a new international standard with which South Africa has to comply. Work is currently under way to enhance further the South African crisis resolution framework and to strengthen the resolution regime as an integral part of the twin peaks approach to financial regulation.

1.5 Compliance with the Financial Stability Board Principles for Sound Compensation Practices

In its annual reports of 2007 to 2010, the Department reported on actions taken to review and assess banks' compensation practices and principles. Further to the work done in previous years, the Department formulated its flavour-of-the-year topic to be discussed with banks' boards of directors during 2011 as "compliance with the Financial Stability Board principles for sound compensation practices and the future disclosure thereof".[25] This flavour-of-the-year topic was directly influenced by a document published by the Basel Committee in September 2009, entitled "FSB Principles for Sound Compensation Practices: Implementation Standards".[26]

2011 flavour-of-the-year topic: compliance with principles for sound compensation practices and the future disclosure thereof

In terms of the format of the discussions with each bank, the chairperson of each respective bank's remuneration committee was required to make a presentation on the following aspects:

- A discussion of the bank's response to each of the individual items contained in the FSB questionnaire on compensation practices and the level of compliance with each individual practice.
- A gap analysis and planned actions with timelines to rectify any non-compliance with the above-mentioned principles.
- Pro-forma Pillar 3 remuneration disclosures based on the requirements of the consultative document entitled "Pillar 3 Disclosure Requirements for Remuneration",[27] which was issued by the Basel Committee in December 2010.

In addition to the above, the Department also requested certain of the larger banks to participate in the FSB's follow-up peer review on compliance practices. The review assessed the progress made both by national authorities and significant financial institutions in implementing the FSB's principles for sound compensation practices and the accompanying implementation standards.

The results of the Department's supervisory programme during 2011 and the feedback received pertaining to the implementation of the FSB's principles for sound compensation practices are consistent with the results of the FSB's document entitled "Second Thematic Peer Review of Compensation"[28] published in October 2011. The large banks in South Africa have made good progress towards implementing the said principles, and their compensation practices appear to be largely consistent with all elements of the FSB's principles and standards. This progress can be attributed to the proactive approach taken by the banks to ensure compliance with the aforementioned FSB principles and standards and the early supervisory attention afforded to these institutions by supervisory bodies.

compensation practices of the large banks appear to be consistent with all elements of the FSB's principles and standards

24 Available at http://www.financialstabilityboard.org/list/fsb_publications/tid_72/index.htm.
25 The Banks Act circular issued in this regard is available at http://www.resbank.co.za/Publications/Circulars/Pages/BanksActCirculars.aspx.
26 Available at http://www.financialstabilityboard.org/list/fsb_publications/tid_123/index.htm.
27 Available at http://www.bis.org/publ/bcbs191.htm.
28 Available at http://www.financialstabilityboard.org/list/fsb_publications/tid_141/index.htm.

The progress made by smaller banks in South Africa has been more varied as they are at different stages of compliance owing to different levels of sophistication regarding remuneration structures and practices. This matter will receive further supervisory attention in 2012.

1.6 The International Monetary Fund Report on the Observance of Standards and Codes

update on the progress made in addressing key findings of the IMF's Report

The IMF conducted a detailed assessment of the Department's compliance with the 25 Core Principles in March 2010[29] and issued two reports in this regard on 8 December 2010. A detailed discussion of the findings contained in the two reports was covered in the Department's 2010 *Annual Report*. An update on the progress made in addressing some of the key findings of the IMF's Report on the Observance of Standards and Codes (ROSC)[30] is provided below.

- Essential criterion 3 of Core Principle 1.4 – legal powers: The IMF stated that in order to ensure that the Registrar's ability to act decisively when banks encounter serious difficulties will not be hampered, the Minister of Finance's role in supervisory remedial actions and the required consent of either the bank's chief executive officer (CEO) or chairperson of the board of directors for the appointment of a curator need to be reconsidered. In order to address this concern, section 69 of the draft Banks Act Amendment Bill, 2010, which is discussed in greater detail in chapter 3 of this Report, has been amended to stipulate that the Governor of the Bank will unilaterally notify the CEO or chairperson of the board of directors in writing regarding the appointment of a curator.

- Core Principle 5 – major acquisitions: The IMF found that the Banks Act and the Regulations do not specify the criteria that the Registrar uses for approving or disapproving banks' proposed investments in subsidiaries and joint ventures. In this regard section 52(1)(c) of the proposed draft Banks Act Amendment Bill, 2010, has been amended to allow the Registrar to issue a directive specifying the circumstances under which a bank will be permitted to notify him/her of the acquisition of an interest through a registered office or principal place of business outside the Republic of South Africa without having to obtain his/her prior written approval.

- Essential criterion 7 of Core Principle 6 – capital adequacy: The IMF highlighted that there is no explicit power for the Registrar to revoke the use of the advanced approaches for either credit or market risk. This recommendation has been addressed through the amendment of regulation 23(3) of the Regulations, which now provides for the Registrar to direct banks to apply a specific method with respect to the advanced approaches for credit risk. A similar provision has been included in regulation 28(4) relating to the advanced approaches for market risk.

- In terms of Core Principle 9 – problem assets, provisions and reserves, the ROSC explained that:

> … the Department relies, as part of its supervisory approach, on the International Financial Reporting Standards (IFRSs) provisions as audited by the external auditor 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 the timely and appropriate information to the Board of the condition of the asset portfolio.[31]

29 Refer to the Basel Committee's paper entitled "Core Principles Methodology" issued in October 2006. The paper is available at http://www.bis.org/publ/bcbs130.htm.
30 Available at http://www.imf.org/external/pubs/cat/longres.aspx?sk=24482.0.
31 Ibid.

Amendments were accordingly made to regulation 23(22) of the Regulations to address this recommendation.

- Core Principle 11 – exposures to related parties: The IMF stated that the Department does not obtain comprehensive information on a regular basis in terms of banks' aggregate and individual exposures to related parties. The recommendation further stated the following:

  > … the Department does not yet require that transactions with related parties and the write-off of related party exposures exceeding specified amounts or otherwise posing special risk are subject to prior approval by the bank's Board... In addition, there is no specific requirement for banks to have policies and processes to identify individual exposures to related parties.[32]

  The above finding was addressed by amending the form Banks Act (BA) 210 to capture more granular information on related-party exposures. In addition, regulation 24(9) was included in the Regulations to ensure that banks have processes, procedures, systems and board-approved policies in place to address transactions with related parties and the write-off of related-party exposures that exceed 1 per cent of the bank's qualifying primary share capital and reserve funds. The addition of regulation 24(9) furthermore requires banks to monitor and report individual and aggregate exposure(s) to related parties.

- Core Principle 12 – country and transfer risk: The Department's adherence to this principle was rated as 'materially non-compliant', with the specific recommendation that a regulation specifically dealing with country and transfer risk should be promulgated. It was also stated that the granularity of regional exposures on the form BA 210 should be increased to enable the Department to monitor country and transfer risk on an ongoing basis. Form BA 940, which contains a detailed country analysis, was subsequently included in the amended Regulations, while regulation 39(5)(g) was included to ensure that banks have sufficiently robust risk management processes, practices, procedures and policies in place to address country and transfer risk.

- Core Principle 23 – supervisors' corrective and remedial powers (specifically essential criteria 3 and 4): The IMF rated the Department as being materially non-compliant in respect of this principle. The following was highlighted:

  > … severe limitations on the Registrar's authority to cancel or suspend a bank's licence or to restrict a bank's activities (Banks Act sections 23–26), in particular the delay of at least 30 days between the announcement of such measures to a bank and their actual application. … 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.[33]

  Section 24 of the draft Banks Act Amendment Bill, 2010, has been amended to provide the Registrar with the option to provide "written notice to the chairperson or CEO of the institution concerned" in order to "suspend the registration of a bank under section 23 with immediate effect", subject to certain provisions (also refer to Core Principle 1.4 discussed on page 8 of this Report).

  The amended Regulations were implemented with effect from 1 January 2012. Further details in this regard are provided in chapter 3 of this Report.

1.7 The International Monetary Fund Staff Report for the 2011 Article IV Consultation

The IMF's annual bilateral discussions in terms of Article IV of the IMF Articles of Agreement with South African officials were held during May and June 2011. The Staff Report for the 2011 Article IV Consultation (the Staff Report) was completed on 7 July 2011 and subsequently published on the IMF's website.[34] A Public Information Notice (PIN) (No. 11/115) summarising the views of the

32 Ibid.
33 Ibid.
34 Available at http://www.imf.org/external/pubs/cat/longres.aspx?sk=25183.0.

IMF's Executive Board as expressed during its discussion of the Staff Report, which concluded the 2011 Article IV Consultation, is also available on the IMF's website.[35] The PIN states that the IMF's Executive Board noted that the South African banking system remained sound, with banks being sufficiently liquid and well capitalised. It was highlighted that South African banks seemed to have weathered the stresses associated with the global financial crisis and the domestic recession well. The Staff Report also commented that continued vigilance would be important in light of the moderate impaired advances on banks' balance sheets; banks' dependence on domestic short-term wholesale deposits; high household indebtedness; and the renewed tensions in the international financial markets. It was agreed in the Staff Report that the envisaged shift towards a twin peaks regulatory and supervisory framework over the next few years would further improve the consolidated supervision of financial groups and improve the status of market conduct regulation and supervision.

South Africa closely followed international best practices and standards on financial regulation

The Staff Report mentioned that the moderate external financial conditions and the uncertainty about the strength of external demand warranted continued vigilance in the financial sector. It was furthermore noted that South Africa closely followed international best practices and standards on financial regulation, supervision and market conduct as prescribed by international standard-setting bodies. The Staff Report did, however, point out that the ongoing significant changes in these international standards and best practices had created some regulatory uncertainty and would take some time to incorporate fully.

In addition to the above-mentioned general observations, further details of the key banking-sector risks identified in the Staff Report and the Department's approach to mitigating the identified risks appropriately (indicated in italics) are provided below:

- The financial system concentration and interconnectedness require continued vigilance. Areas of vulnerability identified include (a) the impaired advances on banks' balance sheets, which while slowly declining as a share of loans, remain largely unchanged in nominal terms; (b) banks' traditional reliance on short-term funding from a relatively few large corporations; and (c) some financial entities' direct and indirect exposure abroad.

  The Department continues to analyse the trends of impaired advances on a regular basis. It also actively monitors banking groups' exposures to foreign counterparties on a continual basis.

- There is a need for continued rigorous supervision of cross-border risks because of moderate external financial conditions. The Staff Report further noted that South Africa's position in the cycle had not so far exposed the banking system to the risks associated with periods of moderate external financial conditions. However, with the external financial conditions set to remain moderate for the next few years, it is important for regulators to continue refining the tools in place to prevent excessive credit growth and risk taking.

  The Department continues to monitor the growth in credit exposure and engages with the banking sector as part of its ongoing operational supervisory approach.

- The Department implemented many FSAP and ROSC recommendations; it started preparing for the eventual introduction of the Basel III capital and liquidity requirements; and it expanded the perimeter of regulation, including initiatives in the insurance and credit-rating sectors. The Bank also convened an interagency financial stability oversight committee, which could in future adjust prudential rules to contain cyclical systemic risk.

  During 2011, the Department continued to review actions taken to address recommendations made in previous reports from international authorities, including those contained in the FSAP, ROSC and Article IV staff reports. On 15 December 2011, the Minister of Finance issued the amended Regulations, which address the Basel Committee measures, published on

35 Available at http://www.imf.org/external/np/sec/pn/2011/pn11115.htm.

13 July 2009, to strengthen the 1996 rules governing banks' trading book capital and to enhance the three pillars of the Basel II framework. As previously mentioned, these amended Regulations were implemented with effect from 1 January 2012.

- The IMF strongly supported the National Treasury's intention to move towards a twin peaks regulatory and supervisory framework over the next few years.[36] The Staff Report explained that because the initiative strived to concentrate prudential authority under one peak and market conduct authority under the other, it boded well for further improving the consolidated supervision of financial groups. According to the IMF, a twin peaks model will also rightfully elevate the status of market conduct regulation and supervision given the high concentration and interconnectedness of the financial industry. It was, however, highlighted that prudent management of the transition would be required to minimise regulatory uncertainty while keeping the focus on surveillance and risk management.

  The Department continues to make progress towards the implementation of the twin peaks financial regulatory model.

- The Staff Report cautioned the Department against further liberalising controls on capital outflows from resident non-bank financial institutions. It was noted that banks had granted mortgage loans to customers with funds from corporates and non-bank financial institutions, whose ability to invest abroad had been gradually increased with the liberalisation of controls. Although the Bank recognised the risk in principle, it noted that the limits had not been binding because of a clear home bias. The Staff Report indicated that the ongoing implementation of the Basel III liquidity requirements, which included a thorough review of incentives embedded in the legal and regulatory framework, taxation, and market practices, would mitigate the potential risks. Further steps in the gradual liberalisation of controls would need to factor in the capacity of the financial system to manage cross-border risks.

  While the Department has noted the concern of the IMF, it has not yet identified significant adverse effects of the liberalisation of controls on capital flows on the banking sector. However, the Department continues to analyse significant trends in the sector as part of its normal operations.

1.8 The International Monetary Fund financial soundness indicators

over 60 countries report FSIs on a regular basis to the IMF

In June 2001, the IMF's Executive Board endorsed a list of 12 core and 28 encouraged financial soundness indicators (FSIs), which are applicable to deposit-takers, other financial and non-financial corporations, households and real-estate markets. Currently, over 60 countries report FSIs on a regular basis to the IMF. The purpose of the FSIs is to support macroprudential analysis; enhance financial stability analysis in member countries; and aid the compiling of comparable financial stability indicators across countries. The FSIs were also compiled in response to recommendations made by the Group of Seven countries in April 2001, and aim to assist member countries in developing sound financial sectors to protect themselves against financial vulnerabilities. The FSIs also address the second recommendation of the report entitled "The Financial Crisis and Information Gaps"[37] endorsed by the G-20 in November 2009, namely, that of monitoring risk in the financial sector. The FSIs are used to strengthen the IMF's surveillance as part of the FSAPs and the Article IV consultations.

The Department has been participating in the IMF's FSI initiatives since 2005. During 2011 the Department started reporting the FSIs on a monthly basis to the IMF.[38]

36 Refer to section 1.3 for more information in this regard.
37 Available at http://www.imf.org/external/np/g20/pdf/102909.pdf.
38 The data reported by the Department to the IMF is available at http://elibrary-data.imf.org/Report.aspx?Report=4160276&Country=199.

1.9 Participation in international surveys

In addition to responding to numerous queries from the public relating to various aspects of the banking sector, the Department was invited to participate in a number of surveys conducted by international entities during 2011. This section provides a high-level overview of the Department's participation in two of the key surveys.

1.9.1 World Bank survey on bank regulation and supervision

This survey was initiated in 1999 with three follow-up surveys conducted in 2003, 2007 and 2011 respectively. The objective of the survey was to collect information on how banks are regulated and supervised around the world, including requirements and regulatory powers regarding bank entry, ownership, capital, activities, auditing, governance, liquidity, provisioning, disclosure, deposit insurance, disciplining powers including bank exit, and consumer protection. The 2011 survey was comprehensive, with over 1 000 lines of data collected relating to the period from 2008 to 2010. The results of the 2011 survey will be made available on the World Bank's website and will enable countries to benchmark their practices against each other. The results of previous World Bank surveys can be viewed on its website.[39]

1.9.2 Global standard-setting bodies and financial inclusion

During the November 2011 Seoul Summit, the G-20 approved its Financial Inclusion Action Plan which not only recognises the commitments of standard-setting bodies to support financial inclusion, but also encourages such bodies to explore further complementarities between financial inclusion and their own mandates. The G-20 launched the Global Partnership for Financial Inclusion (GPFI) to support standard-setting bodies and to implement the G-20's Financial Inclusion Action Plan. The GPFI was officially launched on 10 December 2010 and includes both G-20 and non-G-20 countries, as well as other stakeholders who are committed to strengthening co-ordination and collaboration on financial inclusion. The GPFI tasked its implementing partner, the Alliance for Financial Inclusion (AFI), to conduct five country-specific case studies (which included South Africa) to explore the application of the standard-setting bodies' standards and guidance at country level. The Department participated in the survey in its capacity as a member of the Basel Committee.

As a result of the surveys conducted, two reports and a white paper entitled "Global Standard-setting Bodies and Financial Inclusion for the Poor – Towards Proportionate Standards and Guidance" were prepared.[40] Some of the conclusions reached from the country-specific case studies indicate that standard-setting bodies have achieved various accomplishments to date and are taking further actions to create a more enabling environment for financial inclusion. The country-specific case study on South Africa is available from The Centre for Financial Regulation and Inclusion,[41] a non-profit organisation based in Cape Town which was contracted by the AFI.

39 Available at http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH /EXTPROGRAMS/EXTFINRES/0,,contentMDK:20292126~menuPK:546154~pagePK:64168182~piPK:64168060~theSitePK:478060,00.html.
40 Available at http://documents.worldbank.org/curated/en/2011/01/15301682/global-standard-setting-bodies-financial-inclusion-poor-toward-proportionate-standards-guidance.
41 The case study is available at http://www.cenfri.org/k2/item/99-standards-setting-bodies-ssbs-and-financial-inclusion.

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

1.10.1 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 the Department's objective to maintain an effective compliance framework and operational capacity to oversee compliance by banks with AML and CFT standards, it co-operates with the Financial Intelligence Centre (FIC) by enforcing all FIC guidance notes, circulars and other announcements to all banks. In addition, the Department also meets periodically with the FIC to discuss matters of mutual interest or concern with regard to banks' compliance with AML and CFT standards. Key developments pertaining to AML and CFT standards and interactions between the Department and the FIC during 2011 are discussed in more detail in the following sections.

the Department meets periodically with the FIC to discuss matters of mutual interest

1.10.2 Expansion of supervisory duties in terms of the Financial Intelligence Centre Act, 2001

The scope of the Department's supervisory duties has been expanded in terms of the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001 – the FICA), to include more proactive assessments of whether banks are complying with its provisions. For this purpose, two new review teams, comprising a total of ten staff members, have been established in the Department. These teams will, on a continual basis, perform on-site inspections pertaining to banks' adherence to AML and CFT requirements. The on-site inspections will cover all registered banks and assess and enforce compliance with the FICA, including any order, determination or directive made in terms of the FICA. The two review teams' on-site inspection plan for 2012 includes some of the large banks, some smaller domestic banks and one foreign branch. Furthermore, the two review teams will hold bimonthly AML and CFT meetings with the five large banks to discuss AML and CFT compliance-related issues. Representatives from the FIC will also be invited to these meetings. In addition, section 43A of the FICA also empowers the Department to issue directives to banks relating to AML and CFT compliance. The two review teams, in conjunction with other relevant teams within the Department, will recommend sanctions to be imposed by the Registrar on those banks failing to comply with the provisions of the FICA.

two new review teams established in the Department

1.10.3 Mechanisms to improve compliance with the Financial Intelligence Centre Act, 2001

In February 2011 the Minister of Finance requested the FIC to consider various mechanisms to improve compliance with the FICA. Among other issues identified, the Minister of Finance indicated that the inefficient application of the FICA by accountable institutions was regarded as a stumbling block for those seeking easy and affordable access to finance, and that it undermined the proper application of AML and CFT controls. It was also highlighted that banking institutions tended to identify their clients on either a service or product basis, rather than holding a single view of the client, which made it difficult for clients to switch from one bank to another.

In an effort to improve compliance with AML and CFT standards and enhance the integrity of data sources being used, it was decided that a new integrated process should be designed. In this regard the FIC requested the Department to embark on a joint strategic campaign for credit risk and FICA compliance purposes in order to direct the banks towards adopting and applying a client-view approach across their business systems and processes.

1.10.4 Banks' inability to block credit card transactions below the floor limit

The Department, the National Payment System Department (NPS) of the Bank and the FIC met in August 2011 to discuss concerns with regard to the practice of certain banks issuing credit cards without proper identification and verification of clients. Another concern expressed is the fact that banks are unable to freeze credit card transactions that are below the set floor limits owing to industry constraints. The FIC, the Department and the NPS have engaged with the banking sector in an effort to determine ways to resolve these issues.

1.10.5 Cash threshold reporting

the Department arranged individual CTR working sessions with the big five banks

During the period under review the Department participated in FIC-arranged individual cash threshold reporting (CTR) working sessions with executive and senior delegates of the big five banks in South Africa. The purpose of these sessions was to discuss technical issues related to the resubmission of failed CTR batches experienced by the banks when filing reports to the FIC and to determine ways in which to resolve them. In terms of section 28 of the FICA, banks as accountable institutions are required to submit reports on transactions that are above a R24 999,99 threshold in batches to the FIC. In instances where such reports do not comply with the FIC's prescribed requirements regarding mandatory information, the reports are rejected. Thereafter, banks are required to correct their reports in batches and resubmit to the FIC together with a form entitled 'Annexure A', confirming that they have failed to meet the prescribed requirements. However, the banking sector raised various concerns regarding the wording used in the form. Accordingly, following discussions between the Department, the FIC and relevant members from the banking industry, the FIC agreed to review and amend the form. Banks subsequently started completing Annexure A as prescribed.

1.10.6 Public Compliance Communication No. 03A: Identification and verification matters relating to account opening procedures for asylum seekers and refugees in terms of the Financial Intelligence Centre Act, 2001

Information contained in PCC No. 03A (PCC 03A) provides an interim measure that is intended to assist accountable institutions in instances where an official identification document is not available, and stipulates the circumstances under which reliance can be placed on the section 22 and section 24 permits issued in terms of the Refugees Act, 1998 (Act No. 130 of 1998 – the Refugees Act) as alternative forms of identification.

In terms of PCC 03A, accountable institutions should first verify the information with the Department of Home Affairs (DHA) before accepting the said section 22 and section 24 permits as proof of identification. For this purpose the DHA has established a call centre to assist institutions with the verification process. However, banks informed both the Department and the FIC that the DHA's call centre was not operational and as such the banks were unable to perform the required verification. Consequently banks were unable to open any refugee accounts due to the fact that any other alternative solution would be in contravention of PCC 03A. The Department is in discussions with the FIC in order to find an appropriate solution to this problem.

1.10.7 Compliance matters related to cash threshold reporting submissions

Issues related to banks' compliance with CTR requirements included the following:

- banks failed to secure outstanding know-your-customer information;
- certain client accounts were closed subsequent to CTR reporting dates;
- CTR records were submitted after reporting cut-off dates; and
- resubmission of CTR batches without proper completion of all relevant documentation.

1.10.8 Amendments to legislation

The relevant FIC requirements and recommendations related to customer due diligence, correspondent banking and shell banks have been incorporated into the banking regulatory framework. Refer to regulation 36(17) of the amended Regulations in this regard.

1.10.9 Financial Intelligence Centre enforcement forum

The FIC, as part of its duty to monitor and provide assistance to supervisory bodies in terms of section 4(c) of the FICA, hosted the first quarterly FICA Enforcement Forum meeting on 6 December 2011. Key issues discussed at the meeting included the following:

- development of a sanctioning model for the various offences prescribed in section 45 of the FICA;
- the enforcement framework of each supervisory body;
- the sharing of inspection reports conducted in terms of the FICA by supervisory bodies;
- planning in respect of future inspections; and
- the role of the FIC in terms of inspections conducted by supervisory bodies.

1.11 Skills development

1.11.1 Introduction

The Department spent R948 447,00 on the training of its staff members during the year under review. The main purpose of the training interventions was to develop the skills, knowledge base and competence of staff members. Furthermore, the comprehensive internal and external training interventions were provided to staff members at all levels and were aimed at improving banking-industry knowledge and interpersonal, business, and information technology skills. Staff members are continually encouraged to pursue further studies for professional growth and development, and the Department provides a support scheme consisting of financial support and study leave for relevant, approved courses. In addition, the Department reimburses membership fees for approved professional associations and supports professional education programmes provided by these associations.

comprehensive internal and external training interventions were provided to staff members

1.11.2 Key training interventions

Tables 1.1 and 1.2 list the training interventions attended during the year under review. A brief description of certain key training interventions is also provided in the following sections.

Table 1.1 Key local training interventions

Training intervention	Date
Induction programmes (for new staff)	Various courses during 2011
Advanced induction programmes (for new staff)	4–7 April 2011 28–30 June 2011
South African Institute of Chartered Accountants update seminars	Various seminars during 2011
Gartner symposium	23–25 September 2011
Oracle users group conference	14–15 November 2011
Risk and Return South Africa 2011 conference	3–4 March 2011
Internal Capital Adequacy Assessment Process seminar	14–15 March 2011
Securitisation workshop	24 March 2011
Stress-testing and reverse-testing workshop	2–4 March 2011
Visual Basic workshop	11–13 May 2011
Managing and measuring operational risk	28 June – 1 July 2011
African outlook economic conference	12 July 2011
Liquidity and interest-rate risk seminar	7–9 November 2011

Table 1.1 Key local training interventions (continued)

Training intervention	Date
Stress-testing and beating risk seminar	28–29 November 2011
SA capital markets summit	10–11 November 2011
Bank risk management and Basel III	5–8 August 2011
Managing and analysing risk for banks	22–23 August 2011
Certificate in money-laundering compliance	23–25 May 2011 18–21 August 2011
Analysis workshops	24–25 February 2011 4–5 May 2011 30–31 August 2011
Compliance monitoring workshop	23–24 June 2011
Presentation skills	Various courses during 2011
Telephone and reception skills Completed staff work Emotional intelligence Situational leadership Programme for developing leadership and team skills course Time management	10–11 August 2011 22–23 February 2011 3 March 2011 8 March 2011 19–22 September 2011 12 July 2011
Performance management	Various courses during 2011
Business writing skills	Various courses during 2011
Bank supervision and stability course Financial markets course Introduction to central banking Introduction to derivatives National payments system Risk management Foreign exchange policies Public finance	12–13 April 2011 10–13 May 2011 16 May 2011 24–27 May 2011 1–2 June 2011 21–23 June 2011 26 July 2011 16–18 August 2011
Financial, retirement and estate planning	20 April 2011
Voice clinic	21 June 2011

Table 1.2 Key international training interventions

Training intervention	Date
Financial stability seminar, Deutsche Bundesbank (Frankfurt am Main, Germany)	21–25 February 2011
Financial crisis – the role of deposit insurance seminar (Basel, Switzerland)	8–9 June, 2011
Financial soundness indicators workshop (Zambia)	10–14 July 2011
International seminar on financial regulation and supervision (Madrid, Spain)	17–23 July 2011
New challenges in financial regulation and supervision seminar (Cambridge, UK)	20–23 September 2011
World Council of Credit Unions, Savings and Credit Cooperatives congress (Accra, Ghana)	2–5 October 2011
Federal Reserve Bank of New York, bank supervision course (New York, US)	24–27 October 2011
FSI seminar on selected financial stability issues (Basel, Switzerland)	25–27 October 2011
Financial sector regulation for growth, equity and stability in a post-crisis world conference (Mumbai, India)	15–16 November 2011

1.11.3 Local training interventions

1.11.3.1 Risk and Return South Africa 2011 conference

During March 2011 a representative of the Department attended the Risk and Return South Africa 2011 conference in Cape Town, which was hosted by Risk magazine. A broad range of topics was covered, including the following:

- the industry outlook;
- assessing the impact of capital and liquidity reform;
- a round-table discussion by some South African banking heads of liquidity and treasury;

- decomposing market risk in equity markets;
- risk-managing volatility;
- analysing the impact of regulatory changes within the derivatives market;
- standardising central clearing and whether it can be implemented in South Africa;
- the convergence of risk management and portfolio construction;
- private equity in agriculture;
- a round-table discussion by chief risk officers of banks on risk management in the 'new normal' era;
- emerging markets versus developed markets: understanding the true risk; and
- a keynote address on rethinking risk management: from lessons learnt to taking action.

The attendees and speakers were from a wide spectrum of the financial services industry, including banks. Attendance at conferences such as this one provides the Department with valuable insights into the issues affecting the banking industry.

1.11.3.2 Certificate programme in money-laundering compliance and detection

In December 2011 four representatives of the Department successfully completed a certificate programme in AML compliance and detection presented by the Unit for Forensic Accounting at the University of Pretoria. The programme consisted of three block sessions of three days each; the completion of various assignments; and a written examination at the end of the year-long programme. Topics covered included, among others, domestic and foreign AML guidelines, laws and regulations, money-laundering schemes, case studies, responsibilities of accountable institutions, the financial intelligence authority, law enforcement and regulatory authorities, and an overview of AML-related activities.

1.11.3.3 Course on bank risk management and Basel III

In August 2011 a representative of the Department attended a course on bank risk management and Basel III, which was presented by Euromoney Training in Johannesburg. The course provided participants with an industry view in respect of the following key topics:

- developing an enterprise-wide risk management environment;
- raising the quality and transparency of the capital base;
- new approaches for assessing credit risk;
- market risk categories;
- funding liquidity risk;
- operational risk;
- stress testing; and
- other major risk types.

1.11.3.4 Course on managing and analysing risk for banks and corporates

During August 2011 a two-day training course was presented by professors Richard Cohen and James Bernstein in Johannesburg. The course covered, among other topics, the following:

- capital risk;
- economic capital;
- regulatory capital;
- accounting capital and IFRSs;
- risk-weighted assets;
- risk appetite;
- the Basel framework;
- credit risk;
- operational risk;
- market risk;
- trading risk;

- investment risk;
- asset and liability management including the asset and liability committee;
- value at risk; and
- analytical models and model validation.

The programme provided attendees with insight into analysing the key risks in a bank, risk analytics and risk drivers. It also provided an overview of risk management, focusing on the key risks and the implications of regulatory requirements.

1.11.3.5 Liquidity and interest-rate risk seminar

The Department hosted a three-day seminar during November 2011 on liquidity and interest-rate risk, presented by Mr Leonard Matz, an internationally recognised author, consultant and trainer on liquidity and interest-rate risk. Among other things, the course covered the following topics:

- measuring interest-rate risk;
- measuring liquidity risk;
- stress and scenario testing;
- interest-rate risk assumption sensitivity testing;
- risk governance;
- liquidity funds transfer pricing; and
- Basel III enhancements.

The knowledge gained at the seminar will further enhance the Department's ability to effectively assess and monitor ongoing compliance by banks with regard to the Basel III requirements.

1.11.3.6 The 9th Annual South African Capital Markets Summit

During November 2011 two representatives of the Department were afforded the opportunity to attend a summit on South African capital markets. The summit was hosted by the Information Management Network and endorsed by the South African Securitisation Forum.

A wide range of topics was covered, including the outlook for corporate and municipal funding strategies, bank lending, high-yield bonds, and secured and unsecured debt issuance volumes. The summit also examined recent developments in frontier markets (such as developing markets on the African continent) and recent legislative changes affecting capital markets. The consequences of the global financial crisis and its effect on the issuance of securities and market activity in sub-Saharan Africa were also discussed. The keynote speakers comprised a global economist, a political trends analyst and a private equity investor specialising in emerging Africa.

1.11.4 International training interventions

1.11.4.1 Financial stability seminar

The seminar was organised and hosted by the Centre for Technical Central Bank Co-operation of the Deutsche Bundesbank (the Bundesbank) in Frankfurt, Germany. The Bundesbank's 2010 *Financial Stability Review* essentially served as a guide book for the seminar. Topics such as the analysis of financial stability indicators, stress testing, rating models, and risk resulting from macroeconomic developments and financial markets were discussed in depth with the participants. Approximately 27 countries were represented at the seminar. Key aspects of financial stability analysis and surveillance were highlighted, with the aim of strengthening participants' theoretical and practical knowledge of the central bank's role in safeguarding the stability of the financial system. The seminar was primarily designed to provide both new and experienced employees the opportunity to broaden, update and exchange their knowledge of various aspects of financial stability analysis. Lectures were given by external specialists and experts from the Deutsche Bundesbank, augmented by participants' contributions from various central banking backgrounds.

1.11.4.2 Financial crisis: The role of deposit insurance seminar

The research seminar was held in Basel, Switzerland and was arranged jointly by the Bank for International Settlements (BIS) and the International Association of Deposit Insurers. The seminar not only focused on the effectiveness of deposit insurance schemes in preventing and resolving financial crises, but also assessed recent changes to deposit insurance schemes in a number of jurisdictions specifically within the context of wider resolution policy reforms in response to the global financial crisis.

1.11.4.3 International seminar on financial regulation and supervision

A representative of the Department participated in a seminar on financial regulation and supervision, which was hosted by the Bank of Spain in Madrid in July 2011. The seminar was attended by representatives of more than 25 central banks and covered the following key topics:

- regulatory developments and challenges;
- developing macroprudential instruments and tools, and macro-stress testing;
- risk-based supervision;
- home-host supervisory issues and supervisory colleges;
- on-site and off-site inspections;
- central banking: current trends and challenges ahead; and
- the new international financial architecture.

1.11.4.4 New challenges in financial regulation and supervision

In September 2011 a representative from the Department attended a seminar arranged by the Central Banking Publications Limited at Cambridge University, United Kingdom. The focus of the discussions was on new financial regulatory challenges following the global financial crisis. The following issues were highlighted by a number of presenters:

- Basel III implementation issues;
- the shadow banking system;
- the regulation of over-the-counter (OTC) derivatives;
- the development and design of macroprudential policies; and
- the regulation of systemically important financial institutions (SIFIs).

1.11.4.5 Specialised course in bank supervision

A representative of the Department attended a specialised course in bank supervision in September 2011, which was hosted by the Federal Reserve Bank of New York. A broad range of topics on bank supervision was covered, including the following:

- risk-focused supervision;
- guidance for an effective AML programme;
- internal controls;
- internal and external audit;
- effective techniques for stress testing and scenario analysis;
- supervision of Pillar 1 and Pillar 2 (supervisory review process) risks;
- corporate governance;
- the implementation of Basel III and recovery and resolution planning by the United States; and
- supervision of SIFIs.

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

1.11.4.6 Financial Stability Institute seminar on selected financial stability issues

The Financial Stability Institute's seminar, held in Basel, Switzerland, targeted central bank staff members who are involved with issues relating to the assessment of the implementation of various economic and financial standards that are internationally recognised as important for sound, stable and well-functioning financial systems. The seminar covered aspects such as recent developments regarding sound standards for financial regulation and supervision for the financial sector, and work undertaken by international standard-setting bodies such as the Basel Committee, the International Association of Insurance Supervisors and the FSB. Other topics included challenges with macro-stress testing, countercyclical capital requirements, macroprudential supervisory frameworks and financial stability assessments.

1.12 Participation in regulatory and supervisory forums

1.12.1 Domestic forums

1.12.1.1 Financial Stability Oversight Council

the scope and composition of the FSOC are still under discussion

One of the key proposals contained in the National Treasury's policy document referred to in section 1.3 of this Report, namely "A Safer Financial Sector to Serve South Africa Better", includes the establishment of a Financial Stability Oversight Council (FSOC). The FSOC is jointly chaired by the Minister of Finance and the Governor of the Bank. The scope and composition of the FSOC are still under discussion as part of the broader regulatory reform project, but it is envisaged that it will assess macroprudential risks; influence other regulatory agencies to act in the interest of the financial system; and co-ordinate financial stability actions. The role of the FSOC is an evolving one, and it therefore requires a flexible approach to its function and composition until such time that more clarity and greater consensus in this regard have been reached.

1.12.1.2 Group of Twenty Task Team

a G-20 task team was established to assist in preparing South Africa's input at G-20 meetings

Recent changes in the global financial regulatory framework and the design and implementation of other complementary measures to support financial stability have been driven through the G-20 forum and its supporting structures. As a G-20 member, South Africa in principle supports the efforts made to address weaknesses and imbalances in the global financial regulatory framework and is committed to implementing reforms in the non-bank financial sector as new standards are developed by the various international standard-setting bodies. In this regard the Department is represented on a G-20 task team that was established to assist in preparing South Africa's input at G-20 meetings.

With regard to South Africa's input at G-20 meetings and supporting structures, the Bank and the Department have been continually voicing their concern that inadequate attention has been given to the appropriateness and necessity of some elements of the regulatory reforms in emerging-market economies (EMEs). The Department is of the view that while international regulatory standards should be based on universally-agreed and applied principles, the specific implementation of these principles should be allowed some flexibility and country-specific discretion. There are several instances where particular areas of reform have significant financial implications for EMEs, without necessarily reducing systemic risk or addressing key areas of financial risk in their jurisdictions. These matters will remain a key focus area for the Department during 2012.

1.12.1.3 Financial Sector Contingency Forum

The Department is responsible for co-ordinating the activities of the Financial Sector Contingency Forum (FSCF) and its subcommittees. The FSCF is an industry-wide forum with the primary

objective of facilitating cross-sectoral co-operation in identifying threats to the stability of the South African financial sector. The FSCF also creates a co-ordinated network of contingency planning contacts across the financial services industry, and can act with authorities during a crisis to deal with disruptions that affect more than one firm or organisation. The FSCF facilitates co-operation between key financial sector institutions and regulators in times of crisis in the interest of swift and effective resolution. The FSCF is chaired by the Deputy Governor of the Bank responsible for bank supervision and financial stability.

the FSCF facilitates co-operation between key financial-sector institutions and regulators in times of crisis

Members of the FSCF include regulators (the Bank, the Financial Services Board and the Department); self-regulatory organisations such as the JSE Securities Exchange and Share Transactions Totally Electronic; the Payments Association of South Africa; Bankserv; the National Treasury; and the Banking Association of South Africa (BASA). The FSCF meets biannually, but the chairperson has the discretion to call ad hoc meetings or convene the FSCF in a crisis. The FSCF has two subcommittees, namely the Operational Risk Subcommittee (ORS) and the Financial Risk Subcommittee (FRS). These two subcommittees are discussed in greater detail below.

1.12.1.4 Operational Risk Subcommittee

The ORS is well represented with members comprising various departments within the Bank, the five major banks in South Africa and representatives from other regulatory authorities. The objectives of the ORS are firstly to identify and monitor operational risks in the financial sector that could potentially have a systemic impact, and secondly to develop, test and maintain suitable crisis management and contingency plans to mitigate these risks. The functions of the ORS are as follows:

- Develop and maintain a financial sector operational risk matrix.
- Identify and monitor business continuity management and risk-management practices within member organisations that could potentially have systemic implications.
- Develop response strategies for identified operational threats that could potentially have a systemic impact.
- Assess the resilience and operational integrity of the communication infrastructure.
- Assess the resilience and operational integrity of the financial sector settlement and clearing system.
- Assess and evaluate the effectiveness of plans and structures through appropriate testing exercises.

1.12.1.5 Financial Risk Subcommittee

The FRS has a very limited number of members due to the sensitive nature of banking-sector data. FRS members mainly comprise representatives from the Bank and the National Treasury. While this subcommittee may involve participants from other regulatory authorities as deemed necessary, such participants would not be full-time members of the FRS.

The objectives of the FRS include developing, documenting and testing contingency plans for responding to financial crisis situations. Such plans may take on various forms, for example, a one-bank liquidity shortage; systemic liquidity problems stemming from a dysfunctional interbank market; a foreign-exchange liquidity shortage; or the failure of a SIFI.

the objectives of the FRS include developing, documenting and testing contingency plans

1.12.1.6 Insolvency and Creditor Rights Steering Committee

The Insolvency and Creditor Rights Steering Committee met for the first time during May 2011 to review a draft report entitled “Report on the Observance of Standards and Codes: Insolvency and Creditor Rights” (the Report), which had been issued by a World Bank project team following their visit to South Africa in March and April 2011. The World Bank project team set out to review the legal and regulatory frameworks for creditor-debtor rights and corporate insolvency systems in South Africa.

Established by the National Treasury, the steering committee's mandate is to advise the World Bank project team on insolvency and creditor rights (ICR) in South Africa and to provide constructive input to the Report to ensure it accurately and sensitively reflects the legal and practical aspects of the ICR programme for South Africa. The steering committee comprises a representative sample of key regulators and public-sector representatives, including the Department.

The conclusions obtained in the Report are based largely on interviews held with various stakeholders; a review of applicable legislation;[42] data and information obtained on the subject of ICR; the investment climate in South Africa; and the contributions of the steering committee. In addition, a number of commercial banks provided responses to a questionnaire soliciting the data, information and experience of the banks on credit risk management issues, corporate recovery practices and levels and treatment of distressed assets. The World Bank project team's final report is pending finalisation.

1.12.1.7 Directorate of Market Abuse

The Department participates in the activities of the Directorate of Market Abuse (DMA), a subcommittee of the Financial Services Board with the statutory mandate to investigate cases of, and enforce the prohibitions against, market abuse as stipulated in the Securities Services Act, 2004 (Act No. 36 of 2004 – the SSA).

Market abuse consists of insider trading (prohibited in terms of section 73 of the SSA), market manipulation (prohibited in terms of section 75 of the SSA), and false reporting (prohibited in terms of section 76 of the SSA).

Members of the DMA are nominated in accordance with their availability and specialised knowledge in the fields of commercial law, accounting or financial markets. They meet approximately four times a year to decide on possible cases of market abuse. DMA members are appointed for a period of three years, after which they may stand for re-election or relinquish their nomination.

1.12.1.8 Capital Task Group

a Basel III capital task group was established under BASA

A Basel III capital task group was established under BASA, with all seven of the South African banks that participated in the Basel Committee's Quantitative Impact Study (QIS) being members of the task group. The Department has also been invited to participate in the meetings. The main objective of the task group is to deliberate key areas pertaining to the implementation of the new definition of capital requirements under the Basel III framework and to provide suggested recommendations on matters that require guidance or clarity to the Department's Policy Committee for consideration. These meetings, which are facilitated by BASA, have been held regularly since November 2011 and will continue to be held during 2012.

1.12.1.9 Structural Funding and Liquidity Risk Task Team

Under the direction of the 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. The NSFR detailed in the liquidity framework imposed by the Basel Committee is a core metric for effecting the national funding structure on the liquidity risk of banks in South Africa. In addition, the task team evaluated the impact of endogenous funding structures on the Basel III LCR.[43]

42 Among the numerous statutes that have been analysed for the assessment are the Insolvency Act, 1936 (Act No. 24 of 1936), the Deeds Registries Act, 1937 (Act No. 47 of 1937), the Magistrates' Court Act, 1944 (Act No. 32 of 1944), the Companies Act, 1973 (Act No. 61 of 1973 – the Companies Act), the Close Corporations Act, 1984 (Act No. 69 of 1984), the Security by Means of Movable Property Act, 1993 (Act No. 57 of 1993), the Cross-Border Insolvency Act, 2000 (Act No. 42 of 2000), the National Credit Act, 2005 (Act No. 34 of 2005), and the new Companies Act.

43 Refer to section 1.2.2.2 for a more detailed discussion of the LCR and the NSFR.

The Department has senior representation on both the task team's steering and technical committees. Other members of the technical committee include representatives from the National Treasury, the Financial Services Board, BASA, the Association for Savings and Investment SA, and invited domestic banks and asset management firms.

The work of the technical committee has been assigned to several workstreams, 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.

1.12.1.10 Liquidity Coverage Ratio Task Group

In support of the objectives of the structural funding and liquidity risk task team, BASA established a task group to consider factors affecting domestic compliance with the Basel III LCR. The Department was assigned observer status. The task group investigated the sensitivity of the LCR to changes in its variables using representative data obtained from the banks that participated in the task group. Some of this information was assimilated into position papers. Although the work of the task group has been concluded, certain position papers were addressed to the Department for consideration against domestic application of elements of the Basel III liquidity framework where regulators are entitled to exercise national discretion.

1.12.1.11 Banking Project Group

The Department is represented on the South African Institute of Chartered Accountants (SAICA) Banking Project Group (BPG). The BPG aims to provide a specialist forum to assist SAICA to:

- participate proactively in standard setting that will affect the banking industry;
- provide proactive input to the Bank in order to influence legislation relating to banking; and
- identify and appropriately communicate issues of importance to auditors, preparers and users of financial statements of banks, and other industry role-players that are members of SAICA in order to enhance their professional competence.

The BPG's activities cover issues relating to auditing, accounting and regulation that impact the banking industry.

1.12.1.12 Over-the-counter Derivatives Steering Committee

The OTC Derivatives Steering Committee was established in 2010. Its primary function is to oversee the development of the proposed regulation of the OTC derivatives market. The Department is an active participant on the OTC Derivatives Steering Committee, providing insight into and a perspective on the OTC activities of banks and the controls imposed upon them through the Regulations. The development of proposed regulations specifically for OTC derivatives is aligned to the reforms called for at the G-20's Pittsburgh Summit held in 2009.

The regulatory reforms aim to improve transparency in the derivatives markets, mitigate systemic risk and protect participants against market abuse. More specifically, the G-20 agreed that:

> All standardised OTC derivatives should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties by end-2012 at the latest. OTC contracts should be reported to trade repositories. Non-centrally cleared contracts should be subject to higher capital requirements.[44]

The OTC Derivatives Steering Committee has commissioned a consultation paper on the proposed regulation of the South African OTC derivatives market.

---

44 World Federation of Exchanges, *Focus*, (London, World Federation of Exchanges, February 2012), 4.

1.12.1.13 Postbank Corporatisation Committee

The Postbank Corporatisation Committee is a subcommittee of the National Treasury and was established in 2005. It comprises representatives from the Department of Communications, the South African Post Office, Postbank, the FIC, the NPS of the Bank and the Department. The mandate of the Postbank Corporatisation Committee is to develop and implement the corporatisation strategy of Postbank, which includes overseeing the following outputs:

- The introduction of necessary amendments to the Postal Services Act, 1998 (Act No. 124 of 1998) to give effect to the intended corporatisation. This came to pass with the repealing of sections 51(1), (3) and (4), 52, 53, 55 and 58 by the Postbank Act.
- The establishment of a corporate structure. This became effective with the passing of the Postbank Act in 2010.
- Overseeing the process of licensing Postbank in terms of the Banks Act.

The Postbank Corporatisation Committee meets on an ad hoc basis, ranging in frequency from fortnightly to monthly, to discuss the progress made with the licensing process. An update specifically with regard to Postbank is provided in section 3.7 of this Report.

1.12.2 International forums

1.12.2.1 Basel Committee on Banking Supervision Policy Development Group: Trading Book Group

The Department is represented on the Trading Book Group (TBG), a subgroup of the Policy Development Group (PDG) of the Basel Committee. In terms of the PDG's mandate it identifies and reviews supervisory issues and oversees the development of various policies. These activities are executed through several of the PDG's subgroups.

the TBG is concerned with addressing issues emanating from the implementation of the Basel II.5 framework and is focusing on a fundamental review of the market risk capital framework

The TBG deals primarily with market risk. The TBG is currently concerned with addressing issues emanating from the recent implementation of the Basel II.5 framework, which significantly altered the capital charges for market risk. The TBG is also focusing on a fundamental review of the market risk capital framework. Part of the review is concentrated around the debates regarding the relevance and definition of the distinction between the trading book and the banking book; how trading activities are defined; and how risks in trading books (that is, market risk charges) should be covered by appropriate levels of regulatory capital.

Discrepancies between the standardised and internal model approaches to reporting market risk are also being dealt with by the TBG. Among other disparities, concern was voiced in some jurisdictions that exposures to sovereign bonds inappropriately carry no capital under the standardised approach (STA), while under the internal models approach (IMA) volatility in the value of sovereign bonds gives rise to a capital charge. The methods for calculating capital under both the STA and IMA are currently receiving attention to reduce the effects of inappropriate diversification recognition and double counting. Market liquidity as a limitation to banks' ability to trade is also being assessed in the TBG's review.

1.12.2.2 Standards Implementation Group Operational Risk

The Standards Implementation Group Operational Risk (SIGOR) is a permanent working group of the Standards Implementation Group, which in turn is a subcommittee of the Basel Committee, and it focuses on operational risk implementation issues. The Department is an active member of SIGOR.

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 advanced measurement approach (AMA). SIGOR members share operational risk implementation issues that they have identified within their respective jurisdictions and actively participate in developing resolution plans.

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. The sharing of information and experiences among SIGOR members on the practical challenges associated with the implementation and maintenance of an operational risk framework under the AMA continued during the period under review.

1.12.2.3 Capital Monitoring Group

The Basel Committee established the Capital Monitoring Group (CMG) to monitor effectively the level and cyclicality of minimum required capital (MRC) produced under the Basel II framework. The CMG collects and analyses data from banks that have adopted one of the internal ratings-based (IRB) approaches to calculating their MRC in respect of 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, risk-weighted assets, portfolio-level exposures, 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 105 banks across 15 countries are collected and analysed for inclusion in the CMG report submitted to the Basel Committee. The 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 confidentially submitting them to the CMG.

1.12.2.4 Basel Committee on Banking Supervision Quantitative Impact Study working group

The Basel Committee initially established the QIS working group to calibrate the new Basel III rules and to assess the impact thereof on participating banking groups and member countries. The QIS working group subsequently evolved to fulfil the function of monitoring the implementation of the Basel III framework by participating banking groups and member countries. The QIS exercise takes place biannually with end-June and end-December reporting dates.

the QIS exercise takes place biannually with end-June and end-December reporting dates

During the year under review, the QIS working group's role and responsibilities included the computation of quantitative impacts based on reported data and the development and implementation of the QIS. The scope of the QIS exercises included:

- changes to the definition of capital;
- enhancements to risk coverage (including the revisions to the market risk framework, counterparty credit risk measurement and the capital requirements for securitisations held in the banking book);
- the leverage ratio; and
- the standards developed by the Basel Committee's working group on liquidity.

From an international perspective the QIS exercise has been performed in respect of end-December 2010 and end-June 2011 data, with 216 banks from 27 Basel Committee member jurisdictions participating. The QIS working group met twice during 2011 and South Africa will continue to participate actively in the Basel Committee's QIS exercises during 2012.

1.12.2.5 Financial Action Task Force working group and plenary meetings

A departmental representative attended the FATF working group and plenary meetings held in October 2011 in Paris, France, at the offices of the Organisation for Economic Co-operation and Development (OECD). Three respective working groups on typologies, terrorist financing and money laundering, and evaluations and implementation discussed various matters on the first three days, followed by two days' plenary meetings during which recommendations and reports from the working groups were discussed.

The process of revising the FATF standards commenced approximately two years ago. Three outstanding issues relating to the revised standards were discussed, namely, (1) the revision of recommendation 33, which deals with the transparency of legal persons; (2) the amendment of recommendation 34, which deals with the transparency of legal arrangements, namely, trusts; and (3) beneficial ownership issues.

the revised FATF standards were adopted at the FATF plenary meeting held in February 2012

The revised FATF standards were sent out for private-sector consultation and were discussed at the Private Sector Consultation Forum (PSCF) meeting held in Milan, Italy, in December 2011. It was decided that the order of the recommendations would be changed, and that the nine CFT recommendations would be incorporated into the forty new revised recommendations. The FATF held a special plenary meeting in January 2012 where the remaining issues relating to the revised standards were discussed and appropriately refined. The revised FATF standards were adopted at the FATF plenary meeting held in February 2012. It was resolved that the revised standards would become the criteria against which future evaluations would be measured. Member countries will also be required to incorporate the revised standards into their legislation.

The FATF is currently exploring an assessment tool that will, in addition to measuring countries' technical compliance with AML and CFT measures, also assess the effectiveness of such measures. The assessment tool will be used during the fourth round of mutual evaluations and will eliminate any subjectivity during assessors' rating of the effectiveness of countries' AML and CFT measures. The assessment criteria for effectiveness will be agreed upon at the upcoming plenary meetings, and will form the basis for evaluating FATF members' jurisdictions in future.

1.13 Regional co-operation and interaction

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

The Financial Stability Institute and the Department jointly hosted a high-level meeting in Cape Town, South Africa, in January 2011. The meeting focused on the emerging framework to strengthen banking regulation and financial stability for Africa. The attendees included, among others, the then Chairperson of the Basel Committee, Mr Nout Wellink, the Governor of the Bank, Ms Gill Marcus, and the Chairperson of the Financial Stability Institute, Mr Josef Tošovský. Key topics covered at the meeting included the following:

- A high-level overview of the Basel III framework and its focus on addressing fundamental shortcomings of the current supervisory framework.
- The global shifts happening in the financial sector in the aftermath of the global financial crisis.
- The importance of capital for sound banking systems, the role of capital and evolving capital regulation.
- The Basel III liquidity standards and their potential impact on banks' balance sheets and ability to extend credit.
- The new framework on banking supervision in the European context.
- The broader regulatory reforms, structural changes within the regulatory environment and the rationale behind the changes in the United Kingdom.
- An overview of trends in the development of the African financial sector, and the needs and challenges of bank supervision on the continent.
- An overview of the tools aimed at mitigating systemic risk built into the Basel III framework.
- The systemic symptoms of the global financial crisis, including the impact on global economic performance.
- The interconnectedness of economies and institutions in a global context.
- The supervision of systemically important banking institutions.
- Practical aspects on contingency planning and simulation exercises.

1.13.2 Regional workshop on financial soundness indicators

A representative of the Department attended a regional workshop on FSIs in July 2011 and an FSI reference group meeting in November 2011, both of which were hosted in Lusaka, Zambia. The regional workshop in July formed part of the Enhanced Data Dissemination Initiative for Africa Project and was attended mainly by participants from countries in sub-Saharan Africa. The workshop focused on, among other topics, the methodology employed for the compilation of FSIs; the completion of the FSI templates; and country-specific issues relating to the compilation and reporting of FSIs. Feedback from the majority of participants indicated that most countries that were already submitting FSIs did not experience challenges reporting the core set of 12 FSIs (as referred to in section 1.8 of this Report). The need for further refinement of the FSIs that had posed particular challenges as a result of the use of different definitions in the various jurisdictions was also discussed.

cross-country comparability remained a challenge

The objective of the FSI reference group meeting held in November 2011 was to advance the work already done on FSIs in view of the need to have a general framework for producing stability indicators in terms of the requirements of the Basel III framework. It was, however, highlighted that cross-country comparability remained a challenge as it was not easy to fully standardise the indicators. The meeting agreed to make the indicators more useful and relevant, and one of the challenges identified in this regard was the need to disseminate the FSIs. To date, seven FSIs have been included in the Special Data Dissemination Standards, with a proposal considered to increase this number to nine. It was furthermore proposed to include indicators relating to the real-estate market. The recommendations from the meeting will be submitted to the IMF's Executive Board for consideration.

1.13.3 Southern African Development Community Committee of Banking Supervision

The objectives of the Southern African Development Community (SADC) Committee of Banking Supervision are to establish a framework for co-operation between SADC central banks on banking regulatory and supervisory matters. In support of the above objectives the committee is undertaking the following key projects:

- The development of a model banking act. A working group comprising representatives from Zimbabwe, Malawi, Zambia and South Africa, the latter being represented by a member from the Department, has been formed to drive this project. The working group met in Lusaka, Zambia, in August 2011 to develop a draft work plan. It was proposed at the annual meeting held in Maseru, Lesotho, that Angola be added to the working group.
- The roll-out of a bank supervision application developed by the Information Technology Subcommittee of the SADC Committee. Ten of the eleven countries who subscribed for the project have implemented the bank supervision application.
- Ensuring full compliance with the Core Principles. It was agreed that members should perform a self-assessment of their level of compliance using the template South Africa had used when it completed its own self-assessment in 2006. It was reported at the annual meeting that the initial target date of June 2010 for the completion of the self-assessment by member countries had not been met. Member countries were again encouraged to complete the self-assessments.
- The implementation of Basel II by all member countries. It was agreed during a meeting held in Kinshasa, Democratic Republic of Congo, in April 2010 that all countries should have implemented at least the simplest version of Basel II in respect of each of the Pillar 1 risk areas, that is, credit, market and operational risk by 2014.
- The committee is engaged in arranging training interventions for member countries in areas identified by them with the objective of upgrading skill levels in banking supervision within the SADC region.

- Compliance with the International Accounting Standards and the IFRSs by all member countries. A target date of December 2012 was set for full compliance by all member countries.

1.14 Issues to receive particular attention during 2012

In addition to fulfilling its normal regulatory and supervisory tasks, the Department will also focus on the following issues during 2012:

- Participation in international regulatory and supervisory standard-setting forums at which the Department is represented, with a view to positively influencing the ongoing development of international regulatory and supervisory standards.
- Continued refinement of the supervisory framework in terms of Basel II.5 and ongoing adjustments to the framework required in terms of the Department's Basel III implementation process.
- Continual reviewing, amending and updating of the regulatory and legislative framework in accordance with the latest internationally agreed regulatory and supervisory practices and standards.
- Further development and refinement of the supervisory framework and processes to discharge the Department's responsibilities in terms of the FICA.
- Continued investigation of illegal deposit-taking schemes and participation in consumer education initiatives in this regard.
- Organisational restructuring in anticipation of the implementation of the twin peaks regulatory framework.
- Continued monitoring of credit extension trends and the impact thereof on the risk profile of the banking sector.
- Ongoing assessment of securitisation trends and regulatory challenges related thereto.
- Further investigation into shadow banking and the inter-linkages with the formal banking sector.

1.15 Expression of gratitude

I wish to express my appreciation to the Minister of Finance, Mr Pravin Gordhan, firstly for endorsing my appointment as Registrar and secondly for his input on requests in terms of statutory requirements. To the Governor of the Bank, Ms Gill Marcus, and Deputy Governor Lesetja Kganyago: thank you for the co-operation, guidance and support you have afforded me since my appointment as Registrar on 1 November 2011. To my predecessor, Mr Errol Kruger: I thank you for the good health in which you left the bank supervision function in general and the Department in particular.

My sincere appreciation goes to the staff members of the Department, for their continued efforts and willingness to meet the ever-changing challenges and demands that form part of the prevailing supervisory and regulatory landscape. Their sustained commitment to ensuring the achievement of the Department's mission of promoting the soundness of the banking system and contributing to financial stability is truly inspiring.

While the most pernicious threats of the worst global financial crisis since the Great Depression have successfully been averted, the global economic recovery remains fragile. The world economy is entering uncharted waters, and the regulatory framework will necessarily have to be attuned to meet the state of flux in which the global economy currently finds itself. It is in this regard that I wish to affirm my unwavering commitment to working closely with all the key players in the banking sector, both domestically and abroad, many of whom I have not met, in order to attain the departmental mission as articulated above.

René van Wyk
Registrar of Banks

Chapter 2: Overview of supervisory activities

2.1 Introduction

This chapter provides an overview of the day-to-day activities performed by the core divisions and sections of the Department during the period under review. These include the various risk specialist divisions, consolidated supervision, the review team, Pillar 3 disclosure and the Financial Stability Unit. Key Pillar 1 risks, namely credit, market and operational risk, and Pillar 2 supervisory activities, particularly with regard to liquidity risk, are also discussed. In addition, an overview of the Internal Capital Adequacy Assessment Process (ICAAP) reviews performed by the Department, including key findings, is provided. A synopsis is provided of both the Pillar 3 disclosure reviews performed during 2011 and the key initiatives related to consolidated supervision. Finally, certain key concepts related to the macroprudential supervisory approach followed by the Department are discussed.

2.2 Credit risk

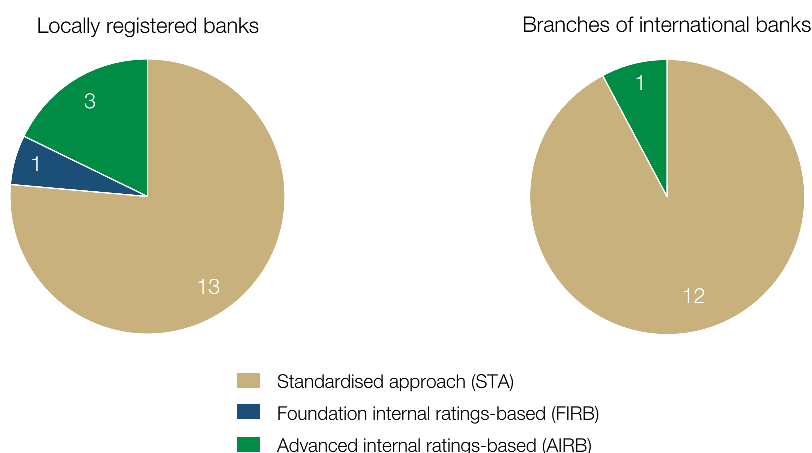
2.2.1 Prescribed methodologies

Under the regulatory framework employed in South Africa, banks can choose from the following three methodologies to calculate their minimum required regulatory capital relating to credit risk:

1. STA,[45] including the simplified standardised approach;
2. the foundation internal ratings-based (FIRB) approach; and
3. the advanced internal ratings-based (AIRB) approach.

The number of banks registered in South Africa using each of the aforementioned approaches is depicted in Figure 2.1.

Figure 2.1 Reporting methods applied by banks



45 STA, applicable to credit risk, is not to be confused with the TSA, which applies to operational risk (section 2.4 of this Report).

2.2.2 Amendments to the credit risk statutory returns

One of the key focus areas during 2011 was the quality of regulatory reporting, with specific emphasis on the interpretation of some key aspects of the credit risk-related regulations. Discrepancies and inconsistencies were identified through trend analysis of credit risk data submitted by banks, external audit reports and peer-group analysis. Guidance was provided to banks on interpretive matters. Furthermore, changes were made to the credit risk returns to (a) incorporate the enhancements to the Basel II framework; (b) refine reporting requirements; and (c) provide guidance on interpretive matters. The amendments included, among other things, the following:

changes were made to the credit risk returns

- Separation of securitisation and resecuritisation information in the form BA 500 to incorporate the resecuritisation enhancements to the Basel II framework.
- Expansion of the asset classes covered in the forms BA 200 and BA 210 to provide the Department with product-specific information (for example, unsecured lending, credit cards, and vehicle and asset finance).
- The counterparty credit risk section in the form BA 200 was refined to enable better and more consistent reporting by banks.
- The quarterly reporting requirement of classified exposures for banks that report using the STA was changed to monthly.
- The Basel-specific 1,06 scaling factor and certain other IRB-specific reporting requirements were introduced for banks that report using the IRB approach.
- Additional reporting requirements relating to geographical distribution and related-party exposures were introduced in the form BA 210 based on the requirements stipulated in the Core Principles.

2.2.3 Developments with regard to securitisation

2.2.3.1 New form BA 501: Additional securitisation information requirements

Following the secondary effects of the global financial crisis, which included the worldwide collapse of securitisation markets as reported on in the 2010 *Annual Report*, 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 that certain improvements to the existing legal framework should be considered by the Department to identify those areas where amendments were required.

In this regard, the form BA 501 was introduced to support and address the following shortcomings in the existing form BA 500:

the form BA 501 was introduced to support and address the shortcomings in the existing form BA 500

- Certain issuer special-purpose institution (SPI)[46] schemes were excluded from reporting in terms of the form BA 500 owing to securitisation exposures being captured on a bank-solo level.[47]
- The reporting of extensive credit and liquidity risk information is not required by the form BA 500. This resulted in the Department not receiving sufficient information to enable it to obtain a better understanding of the risk in the South African securitisation market.

Based on the KPMG report and the consultation process followed in conjunction with the banking industry, Banks Act Directive 1/2011 was issued in May 2011.[48] The directive pertains to all issuer SPIs of traditional or synthetic securitisation schemes relating to banks, controlling

46 An SPI refers to a company incorporated or a trust created specifically for the purpose of implementing a securitisation scheme.
47 'Bank solo' means any bank incorporated in South Africa, excluding its foreign branches, subsidiaries and associates.
48 Available at http://www.resbank.co.za/Publications/Pages/Bank-Act-directives.aspx.

companies and branches of foreign institutions that were authorised by the Department to issue commercial paper in terms of the current and prior securitisation notices. In terms of the directive, all such issuer SPIs are required to furnish the Department with specific information on a quarterly basis. The directive has been applied in respect of quarterly periods since 30 June 2011.

2.2.3.2 Additional information requested as part of all new securitisation applications

Securitisation schemes may be structured in many different ways and therefore pose a number of risks, irrespective of whether it is in a primary or secondary role. The Joint Forum[49] released a "Report on Asset Securitisation Incentives – July 2011" (the Report).[50] The Report not only recognises that regulators are able to play a role in the establishment of a framework for securitisation schemes that will promote the prudent management thereof, but also that such schemes continue to be an alternative funding source for institutions which, in turn, contributes to the availability of credit to support the real economy. Among other things, the Report further recommends that authorities encourage the improvement of transparency to ensure that investors, other market participants and supervisors have access to relevant and reliable information.

an information sheet should forthwith accompany new securitisation applications

In order to assist the Department in evaluating all the relevant risk factors when considering an application in terms of Government Notice No. 2, published in *Government Gazette* No. 30628, dated 1 January 2008 (the Securitisation Notice), it was decided that an information sheet should accompany each application submitted in respect of a new securitisation scheme in terms of the Securitisation Notice.

The information sheet was developed based on pre-sale reports issued by rating agencies rating the commercial paper issued by SPIs. The completion and submission of the information sheet will form part of the conditions of approval in respect of both bank and non-bank applicants. Banks Act Directive 1/2012 was issued in this regard in January 2012.[51]

2.2.4 Review of self-assessment templates submitted by banks

Every year, banks that have adopted the IRB approach to measure their exposure to credit risk are required to complete and submit a series of self-assessment templates in order to evaluate their level of compliance with the minimum requirements prescribed in the Regulations. During the course of 2011, these banks each submitted their self-assessment templates to the Department based on December 2010 data. The self-assessment templates were reviewed by the Department to identify any compliance gaps and exceptions.

2.2.4.1 Identified gaps

No material gaps were identified in the self-assessments submitted in 2011.

2.2.4.2 Identified exceptions

The following common exceptions were identified:

- Scope of documentation: The level of documentation of model parameters and policies in several banks was inadequate, thus making it difficult to assess their level of compliance with the minimum requirements of the Regulations. Most banks indicated that this exception would be addressed as part of their model rebuilding processes.

49 The Joint Forum was established in 1996 under the aegis of the Basel Committee, the International Organisation of Securities Commissions, and the International Association of Insurance Supervisors to deal with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.
50 Available at http://www.bis.org/publ/joint26.htm.
51 Available at http://www.resbank.co.za/Publications/Pages/Bank-Act-directives.aspx.

- Refreshing risk ratings: Some banks did not refresh their risk ratings within the one-year period specified in the Regulations. Business units remained focused on reducing the number of outdated reviews.
- Board and senior management responsibilities: The monitoring and reporting of rating systems to the board and senior management required improvement in some banks.
- Re-aging: There was no formal policy for the treatment of re-aged accounts in some banks.
- Minimum observation period: Some banks did not have sufficient data history available to estimate their internal risk parameters.

These exceptions will be monitored by the Department as part of its supervisory programme for 2012. In cases where exceptions were identified, banks were required to put in place plans to rectify their non-compliance and provide target compliance dates.

2.2.5 Internal ratings-based focused reviews

The Department continued to conduct focused credit risk on-site reviews in order to determine, among other things, whether the credit risk management practices of banks were sound; whether the models remained fit for purpose; and whether adequate levels of capital were being held for credit risk.

A risk-based approach was followed in selecting portfolios to be reviewed, and the focus of these reviews as reported in the 2010 *Annual Report* (page 50), remained unchanged. During 2011 the Department received one application for use of the AIRB approach. The application and approval processes were similar to those applied in previous years, namely, a detailed review of the application pack submitted by the bank (in terms of Banks Act Guidance Note 4/2010);[52] off-site analysis of the bank's parallel run submissions; and on-site reviews. The applicant bank was granted approval to adopt the AIRB approach with effect from 1 January 2012.

a risk-based approach was followed in selecting portfolios to be reviewed

A total of nine on-site meetings in the form of focused on-site reviews and the single new application review were conducted during the 2011 calendar year. The key findings of the reviews are as follows:

- Governance of model validation (recurring issue): The process followed for escalating issues to the designated committee or board of directors could be improved at certain banks. Given the importance of effective board oversight in terms of the approval of all material aspects of a bank's rating and risk estimation processes, this will remain a focus area during 2012.
- Annual validation of models (recurring issue): As reported in the 2010 *Annual Report*, it is the Department's view that appropriate processes and clearly documented policies are fundamental to effective IRB implementation. Even though banks focused on the performance of the prescribed annual validation, the backlog has not been fully resolved. The Department has also highlighted its concern with regard to the level and scope of the validation performed, and expects the banks to remain focused on improving the quality of the validations.
- Lending strategy and risk appetite setting: It was evident that the estimates from the IRB rating systems had been employed by most of the banks within the different business units for capital planning risk appetite, budgeting and internal risk management purposes.
- Level of compliance in terms of IRB requirements: The Department assessed the level of compliance with the minimum IRB requirements during the on-site reviews. The following instances of non-compliance were noted and will receive specific attention during 2012 to monitor progress and ensure full compliance:
  - There were instances where the effective maturities prescribed under the FIRB approach had been applied to corporate, sovereign and bank exposures, whereas banks should have calculated their own maturities when reporting according to the AIRB approach.
  - Certain instances of outdated reviews of assigned borrower and facility ratings were noted, that is, the ratings assigned were older than one year.
- Data quality: Banks remained focused on data quality. In certain instances the scope of the credit data quality reviews performed by banks' internal audit functions was extended.

52 Available at http://www.resbank.co.za/Publications/Pages/BanksActGuidance.aspx.

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

As reported in the 2010 *Annual Report*, the Department follows a formal approval process to review applications made by banks for any material internal model changes or developments that fall outside the scope of the original approval granted for use of the IRB approaches to calculate the minimum regulatory capital requirement for credit risk prior to implementation. Various applications were received during 2011 to obtain approval to use refined or redeveloped rating systems which, in most cases, would result in a decrease in the regulatory capital requirement.

The reasons for banks applying for such significant rating system changes were the following:

- Model performance: As the performance of models deteriorated, the need for redevelopment increased.
- Recalibrations using downturn data: Banks' data history tended to be biased towards benign periods of the cycle, and several recalibrations had led to increased capital requirements with the addition of downturn data.
- Migration of portfolios from the STA to the AIRB approach: Banks migrated smaller portfolios from the STA to the AIRB approach as they built up sufficient data history and expertise in creating rating systems.
- Reassessment of granularity: During the redevelopment of rating systems, banks tended to increase segmentation to improve risk discrimination. In certain cases banks removed segmentation, which added limited value.

2.2.7 Focused reviews: Use of the standardised approach

During the year under review, the review team completed the cycle of focused reviews that commenced in 2008. The reviews were risk based and focused on assessing the degree of compliance by banks that had adopted the STA for the calculation of their minimum regulatory capital and reserve funds required for credit risk with the requirements of regulations 23 and 24 of the Regulations.

reviews entailed an assessment of the correctness of the risk weights assigned by banks

The reviews entailed an assessment of the correctness of the risk weights assigned by banks and confirmation of the appropriate use of eligible external credit assessment institution ratings used in the calculation of the banks' minimum required capital and reserve funds relating to credit risk. The reasonableness of credit risk classifications used and the reporting of restructured credit exposures were also considered. In addition, the reviews encompassed an assessment of the eligibility of the credit risk mitigation instruments used, the methodology applied and each bank's compliance therewith. Although the criteria used were the same for all banks, the methodology applied was adjusted depending on the processes applied and the size of the bank.

After the completion of the review cycle it became evident that in general most banks had been diligent in their implementation of the STA and had, in the main, complied with the requirements of regulations 23 and 24 of the Regulations. However, the following issues were noted:

- The incorrect use of external credit assessments to determine the appropriate risk weights.
- The assignment of incorrect credit conversion factors to off-balance-sheet exposures and counterparty credit risk exposures.
- The incorrect calculation of the granularity threshold for retail exposures.
- The incorrect classification of asset classes, which resulted in the assignment of incorrect risk weights to the exposures.
- The use of ineligible credit risk mitigation techniques for credit risk mitigation purposes.
- The credit and credit risk mitigation policies not fully incorporating the criteria for credit risk mitigation as detailed in the Regulations.

- The restructured credit exposures and the credit policies not fully complying with the requirements for classification as restructured exposures as stipulated in the Regulations.
- Instances of incorrect reporting of month-end balances instead of average daily balances were noted for BA reporting in respect of products with volatile account balances.

2.2.8 Long-form reviews

The main objective of the long-form reviews, as reported in the 2010 *Annual Report* (pages 50 and 51), is to report to the Registrar on the accuracy and completeness of banks' calculation of the IRB parameter estimates as outlined below:

- probability of default estimates;
- loss-given default estimates, including adjustments;
- exposure at default estimates;
- risk-weighted exposure amounts;
- amount of required capital and reserve funds relating to credit risk;
- related amounts of capital impairment; and
- amounts of expected losses.

Reports emanating from the second cycle of the long-form reviews, which commenced in 2010, were submitted to the Department during 2011. The portfolios reported on differed depending on the materiality or significance of the portfolio within individual IRB banks. By contrast, the portfolios selected by the Department for review by external auditors in 2011 covered the following:

- residential mortgage exposures;
- vehicle and asset finance exposures;
- credit card exposures;
- sovereign exposures; and
- bank exposures.

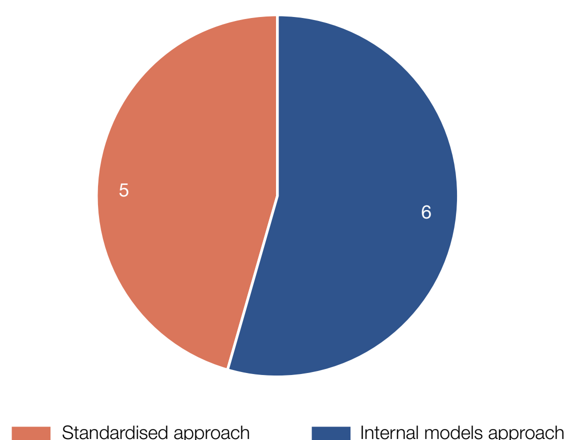
The findings of the long-form reviews were discussed with the banks, with specific focus on the progress made in addressing outstanding weaknesses.

2.3 Market risk

2.3.1 Market risk reviews

Market risk reviews conducted in 2011 by the Department concentrated on banks that had approval to use the IMA for regulatory reporting. No new applications were received for the use of the IMA during the year under review and accordingly the number of trading banks per market risk approach was unchanged, and is depicted in Figure 2.2.

Figure 2.2 Number of trading banks per market risk approach



the Department conducts both annual and quarterly reviews of IMA banks

As part of its supervisory programme, the Department conducts both annual and quarterly reviews of IMA banks to assess their continued suitability to carry on using the IMA. These reviews are not only focused on banks' models, but also on the risk drivers of the business, that is, business strategy, budgeted revenues and forecasts, new products, systems changes, risk limits and capital. The reviews complement the data already received by the Department in the form of regulatory returns and other prudential requirements of IMA banks, such as monthly back-testing and stress-testing results. A total of 26 on-site reviews, which included annual, quarterly and treasury reviews, were conducted in 2011.

2.3.2 Key findings

Trading conditions remained challenging in 2011 and as such, most trading banks experienced difficulty in meeting performance targets. In general, trading banks remained concerned about the sovereign debt crisis that is playing out in peripheral Europe and how it is going to affect trading conditions if it remains unresolved. Banks have modified their profit expectations for 2012 and beyond in line with their expectation of future trading environments.

With regard to banks' exposures to equities, it should be noted that these exposures are generally held for investment purposes and are included in the banking book for accounting purposes. From a regulatory perspective, equity exposure receives a capital treatment that is independent of the market risk charge, and is more punitive, attracting a risk weighting of between 100 and 400 per cent. Fifteen banks reported exposures of this nature during the course of 2011. Capital charges referred to above contributed to approximately 4,75 per cent of banks' total capital requirements. For supervisory purposes, equity risk is supervised together with market risk. Capital held for market risk made up about 2,16 per cent of the total capital requirement for the banking sector during the year under review.

2.3.3 Basel II.5

Among other things, Basel II.5 requires banks that make use of internal models for market risk to hold capital on a stressed value at risk (sVaR) and incremental risk charge basis where applicable. As such, the Department worked closely with the banking industry to ensure that banks would be ready to comply with the new Basel II.5 requirements. The Department reviewed sVaR methodologies from banks for approval and conducted a parallel run for a period of three months, which ended on 31 December 2011. The parallel run provided no evidence to suggest that banks would experience difficulties in meeting the resultant capital requirements of Basel II.5.

2.4 Operational risk

2.4.1 Introduction

Operational risk is defined by the Basel Committee as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.[53] The definition of operational risk includes legal risk, but excludes strategic and reputational risk. Legal risk includes, but is not limited to, exposures to fines, penalties, punitive damages resulting from supervisory actions, and private settlements.[54]

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 of directors and the bank's management in administering its portfolio of products, services and activities. Effective operational risk response is about not only reducing the downsides associated with operational risk exposure and experience proactively, but also seizing the opportunities for innovation and growth that may arise.

53 Basel Committee, "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel: Basel Committee, November 2005), 140.
54 Ibid.

In line with the Department's supervisory review programme, a risk-based approach has been applied to the review of banks' operational risk. The work performed during the year under review is summarised in the following sections.

a risk-based approach has been applied to review banks' operational risk

2.4.2 Focused operational risk reviews

A number of focused operational risk reviews were carried out during the year under review. 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, control and mitigate operational risk. The most prominent topics addressed during 2011 are as follows:

- Banks' operational risk strategic objectives for the next 12 months, as set by the group operational risk function.
- Recent changes to, or developments in, operational risk governance structures; operational risk human resources; information technology systems used in the management of operational risk; and the operational risk framework or policies.
- Recent changes to, or developments in, material products, activities, processes and systems that have impacted or will impact on operational risk.
- Top operational risk challenges for 2011, a list of which was compiled from international and local sources. Banks were requested to assess whether these challenges were relevant in their environment.
- Management information reports or 'dashboards' used for operational risk management.
- Internal and external audit reports related to operational risk management.

The main findings from the reviews in terms of the above-mentioned topics are detailed in the following sections.

2.4.2.1 Operational risk strategic objectives

The common operational risk strategic objectives identified by the majority of banks were (a) an improvement in the efficiency of risk management processes; (b) improved data collection; and (c) the integration of operational risk technology platforms.

2.4.2.2 Changes to operational risk governance structures, human resources, information technology systems, frameworks or policies

Almost all banks indicated that various components of the operational risk management framework were reviewed and policies were updated with new developments, improvements and discoveries. The changes to and refinement of the existing operational risk policies can be linked to the evolving nature of operational risk and changes in the external environment.

The Department recommended that banks consider practices followed by operational risk data consortiums, and recent operational risk papers published by the Basel Committee when updating or reviewing their internal loss data collection policies.

2.4.2.3 Changes to material products, activities, processes and systems that have impacted or will impact on operational risk

Since the business environment is not static, operational risk also continually changes. Banks were requested to discuss recent changes to, or developments in, material products, activities,

processes and systems that had impacted or would potentially impact on operational risk. The following items were commonly highlighted:

- The impact of new distribution channels, the remote opening of accounts and point of sale enablement.
- The new product approval process.
- The business initiative to focus on the client and to treat customers fairly.

2.4.2.4 Top operational risk challenges for 2011

A list of top operational risk challenges for 2011 was compiled from international and local sources and a sample of banks was requested to assess whether these challenges were relevant in their environment. These challenges included the following:

- regulation;
- reputation (any operational risk failure at a financial institution is usually accompanied by reputational damage);
- stress testing and data management;
- business continuity;
- outsourcing;
- cyber terrorism or crime;
- financial crime;
- information security (including exposure to data or information leakage); and
- spreadsheet risk.

All banks in the sample responded that all of the above-mentioned top operational risk challenges were relevant in their environment. The Department was satisfied with the banks' explanation of actions taken to prepare for and mitigate the risk exposure that could ensue from the above-mentioned top operational risk challenges.

2.4.3 Operational risk papers issued by the Basel Committee on Banking Supervision

the Basel Committee issued two papers on operational risk in June 2011

The Department continually monitors developments with regard to operational risk. In this regard the Basel Committee issued two papers on operational risk in June 2011. The first paper, entitled "Principles for the Sound Management of Operational Risk",[55] updates and replaces the Basel Committee's 2003 paper entitled "Sound Practices for the Management and Supervision of Operational Risk". 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 anticipates that sound industry practice will continue to evolve, and banks and supervisors have accordingly expanded their knowledge and experience in implementing operational risk management frameworks. A range of training reviews covering governance, data and modelling issues, loss-data collection exercises, and QISs has also contributed to industry and supervisory knowledge and the emergence of sound industry practice. The principles outlined in the paper are discussed within the context of four overarching themes, namely, (i) fundamental principles of operational risk management, (ii) governance, (iii) risk management, and (iv) disclosure. The following relevant extract has been taken from the fourth and fifth paragraphs of the paper:

> 4. Supervisors will continue to encourage banks "to move along the spectrum of available approaches as they develop more sophisticated operational risk measurement systems and practices". Consequently, while this paper articulates principles from emerging sound industry practice, supervisors expect banks to continuously improve their approaches to operational risk management. In addition, this paper addresses key elements of a bank's Framework. These elements should not be viewed in isolation but should be integrated components of the overall framework for managing operational risk across the enterprise.

55 Available at http://www.bis.org/publ/bcbs195.htm.

5. The [Basel] Committee believes that the principles outlined in this paper establish sound practices relevant to all banks. The Committee intends that when implementing these principles, a bank will take account of the nature, size, complexity and risk profile of its activities.[56]

The second paper issued by the Basel Committee on operational risk in June 2011 is entitled "Operational Risk – Supervisory Guidelines for the Advanced Measurement Approaches".[57] With regard to the regulatory capital-adequacy framework, the Basel Committee envisages that over time the operational risk discipline will continue to mature and converge towards a narrower band of effective risk management and measurement practices. The Basel Committee's paper in this regard seeks to improve the operational risk discipline 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, the paper is intended to be a living document. It is envisaged that 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. The paper does not reduce or supersede the discretion of national supervisors to act in a manner that is consistent with their particular regulatory approaches. Instead, the publication of this paper is intended to facilitate a convergence of practices by banks and national supervisors. While the status of banks accredited to use an AMA framework will not be affected by the observations and conclusions of the paper, some AMA banks may need to amend their practices to reflect the paper's contents. The following extract serves as a closing comment on this paper:

the operational risk discipline will continue to mature and converge towards a narrower band of effective risk management

8. Irrespective of the risk management and risk measurement practices adopted, a bank's operational risk strategy should reflect the nature and source of the bank's operational risks for all Operational Risk Measurement System (ORMS) elements, including regular review of predictive elements against experience. The operational risk strategy should be current and reflect material changes to the internal and external environment. Risk reporting should provide a clear understanding of the key operational risks, the related drivers and the effectiveness of the internal controls. The internal reporting framework should include regular reporting of relevant information at all levels of the bank, be transparent, responsive to changes, appropriate and support the proactive management of operational risk.[58]

2.4.4 Conclusion

Due to the fact that operational risk management is evolving and the business environment is constantly changing, banks' management should ensure that their operational risk policies, processes and systems remain sufficiently robust. Improvement in operational risk management will depend on the degree to which operational risk managers' concerns are considered, and the willingness of banks' senior management to act promptly and appropriately on their warnings.

Although the Department is satisfied with the management of operational risk from a sectoral perspective, there is opportunity for improvement. Since the introduction of operational risk as a distinct risk type during the implementation of Basel II in 2008, banks have made good progress with regard to operational risk management. The Department will continue to encourage banks to embed operational risk management in building a sustainable business and to monitor the ongoing evolution of operational risk towards actively managing the risk rather than merely taking note of it.

banks have made good progress with regard to operational risk management

2.5 Liquidity risk

2.5.1 Liquidity risk management thematic review

In terms of Core Principle 14 (CP 14) of the Basel Committee's Core Principles, supervisors must be satisfied that banks have a liquidity management strategy that takes into account the

56 Basel Committee, "Principles for the Sound Management of Operational Risk" (Basel: Basel Committee, June 2011), 1–2.
57 Available at http://www.bis.org/publ/bcbs196.htm.
58 Basel Committee, "Operational Risk: Supervisory Guidelines for the Advanced Measurement Approaches" (Basel: Basel Committee, June 2011), 2.

risk profile of the institution. Appropriate prudential policies and processes are also required to identify, measure, monitor and control liquidity risk, and to manage liquidity on a day-to-day basis. Supervisors also require banks to have contingency plans in place for handling liquidity problems.

the Department conducted a liquidity risk management thematic review

In order for the Department to discharge its duties relating to CP 14, it conducted a liquidity risk management thematic review based on a questionnaire that was sent out to all banks in the South African banking industry. This thematic review encompassed all areas required to be covered under CP 14, and certain additional aspects related to the Basel III framework for liquidity risk measurement, standards and monitoring. The questionnaire was used to establish the fundamental drivers, controls and governance of liquidity risk management and to evaluate the Basel III readiness of each bank through an off-site assessment. On the basis of a bank's size, its systemic relevance or apparent weakness in its liquidity risk management, a decision was made as to whether it was necessary to follow up the off-site assessment with an on-site review.

The Department places great emphasis on the importance of liquidity risk management, especially following the recent global financial crisis. Banks are encouraged to actively manage liquidity risk through ensuring that proper processes exist to promptly identify, measure, monitor and mitigate liquidity risk. Banks should also ensure that a rigorous liquidity stress-testing programme is implemented in order to determine what vulnerabilities exist. This process should assist in assessing the adequacy of a bank's funding sources to meet a potential unexpected outflow, irrespective of whether it is as a result of a bank-specific event or a market shock.

Finally, banks should take cognisance of the fact that the Department will place increased focus on liquidity risk management in order to ensure alignment with the global liquidity standards that are being introduced, namely the LCR and the NSFR.[59]

2.5.2 Participation in liquidity risk simulations

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. In its ongoing efforts to assess the adequacy and effectiveness of banks' liquidity risk management framework, the Department participated in liquidity risk simulation exercises at certain banks, which were facilitated by an independent external party. Representatives of the Department fulfilled an observatory role during these exercises.

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

real-life scenarios challenged experienced crisis and liquidity management teams

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. Another advantage of the simulation exercises related to the opportunity for banks' executive teams to review their own crisis management actions under stressed liquidity conditions, and to ascertain whether key staff members understood the crisis risk management process and their respective roles therein. It was, from the Department's perspective, interesting to observe how these teams co-ordinated with one another, and the exercises gave the management teams a sense of their bank's 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.

59 Refer to section 1.2.2.4 for a more detailed discussion of the LCR and the NSFR.

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 risk; the quality and availability of management information; skills in the treasury and balance-sheet management functions; cost and revenue optimisation; and liquidity contingency planning.

Participant banks acknowledged the usefulness of the simulation exercises, indicating that the exercises highlighted areas in which they could improve and demonstrated the need for robust and conservative liquidity risk management planning.

2.6 Pillar 2: Capital management

2.6.1 Overview of Internal Capital Adequacy Assessment Process reviews

During 2011 the Department reviewed prior years' findings in respect of the larger banks' ICAAPs in order to determine whether issues had been adequately addressed. On-site reviews conducted during 2011 focused on the following key aspects:

- The ability of banks to explain and justify differences between regulatory and economic capital requirements.
- Economic capital model developments.
- The adequacy and robustness of economic capital model validation processes.
- Capital supply to be loss absorbent in order to meet the economic capital requirements as determined by banks.
- Capital management, including the determination of internal capital buffers, and the incorporation of the Basel III framework in banks' longer-term capital plans.
- The internal use of ICAAPs by banks in respect of strategy setting, planning, risk appetite setting and monitoring, pricing, etc.

The Department will continue to benchmark local banks' ICAAPs against known international practice and international developments during 2012.

2.6.2 Participation in the Basel Committee on Banking Supervision Quantitative Impact Study

As mentioned previously, the Basel III implementation monitoring was conducted by the Basel Committee on a global scale in the form of QIS exercises.[60]

two QIS exercises took place during 2011 and a total of seven South African banks participated

During 2011, two QIS exercises took place and a total of seven South African banking groups participated. The first QIS exercise was based on the end-December 2010 data and the second on the end-June 2011 data. The results of the first QIS, together with the key elements within the Basel III framework that impacted the South African banking sector, were discussed with the participating banks individually and were found to be of great value to both the Department and the banks. Areas covered as part of this QIS were, among others, the definition of capital, the leverage ratio, liquidity risk and counterparty credit risk. The Department will continue to participate in further Basel Committee QIS exercises during 2012. In addition, the Department will conduct an internal QIS on the full complement of banks registered in South Africa during 2012. The main objectives of such an exercise are to assess the impact of the Basel III framework on these banks and to raise awareness of Basel III within these organisations.

60 Refer to section 1.12.2.4 of this Report.

2.7 Pillar 3: Disclosure

2.7.1 Overview of activities

During 2011 the Department's review of banks' regulatory objection for disclosure focused on the steps taken by banks to address previously identified issues. Full disclosure analyses were also conducted in respect of a selected few banks. The general observation was that much effort had been made by banks to improve their public disclosures.

Banks Act Directive 5/2011[61] was issued in terms of section 6(6) of the Banks Act, entitled "Exemption from Certain Disclosure Requirements Pertaining to Branches of Foreign Institutions", in terms of which branches of foreign institutions are exempted from certain disclosure requirements that are not relevant to them.

Banks Act Circular 5/2011[62] was issued in terms of section 6(4) of the Banks Act regarding the disclosure of capital-related information in order to standardise the disclosure of capital requirements and other capital-related matters.

2.7.2 Key findings

Despite the improvements noted with regard to banks' disclosure, the following areas, most of which were highlighted in the 2010 *Annual Report*, have been identified as those requiring further improvement:

- The incorrect disclosure of average amounts of gross credit exposure.
- Banks continued to disclose risk-weighted assets instead of capital requirements. However, only a small number of banks still had problems in this regard.
- Banks' disclosure of the amount of actual losses: The extent to which the said amounts differ from the bank's past experience; the factors that impact on the bank's loss experience; and the comparison of the banks' estimated and actual outcome continued to be an area in need of improvement. Correct disclosure would lead to meaningful assessments of the performance of the banks' internal rating processes.
- Not all banks disclosed the qualitative information relating to the methodology that they had adopted to assign economic capital and credit risk limits in respect of their exposure to counterparty credit risk.
- Some banks did still not disclose the cumulative amount of gains or losses that they had realised from the sale or liquidation of positions held in their banking book.

The Department will continue to monitor banks' compliance during its 2012 disclosure reviews.

2.7.3 Pillar 3 disclosure requirements for remuneration

certain common areas that could be improved in terms of Pillar 3 disclosure requirements for remuneration were identified

With regard to the Pillar 3 disclosure requirements for remuneration, which were finalised in the Basel Committee paper entitled "Pillar 3 Disclosure Requirements for Remuneration" dated July 2011,[63] the Department acknowledges the fact that most banks already have the required processes in place due to their compliance with the *King III Report on Corporate Governance for South Africa 2009* (*King III*) and the JSE Limited's listing requirements. However, the following shortcomings were identified as common areas that could be improved in terms of Pillar 3 disclosure requirements for remuneration:

2.7.3.1 Qualitative information

- A description of the types of employee considered as material risk takers and as senior managers, including the number of employees in each group.
- An explanation of how the bank ensures that risk and compliance employees are remunerated independently from the businesses they oversee.
- A description of the ways in which current and future risks are taken into account in the remuneration processes, including disclosure on:

61 Available at http://www.resbank.co.za/Publications/Pages/Bank-Act-directives.aspx.
62 Available at http://www.resbank.co.za/Publications/Circulars/Pages/BanksActCirculars.aspx.
63 Available at http://www.bis.org/press/p110701.htm.

- an overview of the key risks that the bank takes into account when implementing remuneration measures;
- a discussion of the ways in which these measures affect remuneration; and
- a discussion of how the nature and type of these measures have changed over the past year, reasons for the change, and the impact of these changes on remuneration.

2.7.3.2 Quantitative information

- The total amount of deferred remuneration paid out in the financial year.
- The number and total amount of guaranteed bonuses awarded during the financial year.
- The number and total amount of sign-on awards made during the financial year.
- The number and total amount of severance payments made during the financial year.
- A breakdown of the amount of remuneration awarded for the financial year according to Table A of Annexure A of the aforementioned Basel Committee paper on Pillar 3 disclosure requirements for remuneration. The breakdown should show the following types of remuneration awarded:
  - fixed and variable;
  - deferred and non-deferred; and
  - different forms of remuneration used (cash-based, shares and share-linked instruments, and other forms of remuneration).

2.7.4 Securitisation

The disclosure requirements for securitisation and resecuritisation activities, which form part of the Basel Committee paper entitled "Enhancements to the Basel II Framework" dated July 2009, became effective on 1 January 2012. Accordingly, banks' compliance therewith will be monitored during the course of 2012.

2.7.5 Basel III impact

In December 2011 the Basel Committee issued a consultative document entitled "Definition of Capital Disclosure Requirements",[64] which sets out the proposed detailed disclosure requirements aimed at improving the transparency of the regulatory capital base and enhancing market discipline. The Department will review banks' compliance with these requirements.

2.8 Consolidated supervision

2.8.1 Introduction

In addition to the normal activities performed in respect of consolidated supervision during 2011, the Department also had the following interactions with other regulatory authorities:

2.8.2 East Africa Regional Technical Assistance Center workshop on consolidated supervision

A representative from the Department was invited by the IMF to attend and make presentations at a workshop on consolidated supervision held in Mombasa, Kenya from 28 February 2011 to 3 March 2011. The four-day workshop was attended by representatives from Eritrea, Ethiopia, Kenya, Malawi, Rwanda, Tanzania and Uganda.

The East Africa Regional Technical Assistance Center (AFRITAC) is a collaborative venture between the IMF, the above-mentioned member countries, and bilateral and multilateral donors. AFRITAC originated from the IMF's response to African leaders' call for the international community to increase technical assistance to Africa.

64 Available at http://www.bis.org/publ/bcbs212.htm.

the workshop explored international standards and best practices related to consolidated supervision

The workshop was designed to explore international standards and best practices related to consolidated supervision, and the challenges faced in establishing effective arrangements in this regard. The Department was invited to participate in the workshop to outline the Bank's approach and experiences with consolidated supervision and to share the latest international developments relating thereto with the delegates.

The Department values its involvement in the East African region and will continue to support initiatives to improve the supervisory skills of regional supervisors.

2.8.3 China Construction Bank supervisory college

An invitation was received from the China Banking Regulatory Commission (CBRC) to attend a supervisory college of China Construction Bank (CCB) in Beijing, China in November 2011. CCB has a branch office in South Africa. Representatives of the Department attended and participated in the aforementioned college. The college was also attended by heads of related departments of the CBRC and delegates of China's Ministry of Finance, the People's Bank of China, the China Securities Regulatory Commission, the China Insurance Regulatory Commission and the State Administration of Foreign Exchange.

Host regulators of CCB's branch and subsidiary network presented their assessment of CCB's operations in their respective jurisdictions. The presentations covered areas such as the materiality of operations in the host jurisdiction, financial performance, risk assessment and planned supervisory interactions. During the supervisory college, consensus was reached on the future format of the CCB supervisory college, cross-border supervisory co-operation and information sharing. Presentations by CCB covered the following topics:

- China's current macroeconomic and financial environment;
- the development, regulatory practices and outlook of China's banking sector;
- the CBRC's regulatory framework and tools for supervising large banking groups; and
- supervision of the operations of CCB from a home-country perspective.

The supervisory college contributed to a better understanding among supervisors of the risks the CCB group is facing and the extent of supervision conducted in the different jurisdictions. The importance of the sharing of information between supervisors responsible for the supervision of the CCB group was again highlighted. Attending the supervisory college also provided the Department with the opportunity to learn more about China's banking sector, and the extent and quality of supervision conducted by the home-country supervisor.

2.8.4 Barclays supervisory college arranged by the Financial Services Authority

The Department was invited by the Financial Services Authority (FSA) to a Barclays supervisory college held in London, United Kingdom in December 2011. The college took place over three days and was divided into a core college, a general college and a crisis management group meeting.

The aim of the core college was for key host supervisors to exchange supervisory views on the Barclays Group. It included a discussion of work undertaken by the individual supervisory authorities and the finalisation of a joint risk assessment document. Future supervisory work plans for the Barclays Group were also discussed. In view of the Barclays Group's presence in South Africa it was decided that South Africa should be included as a member of the core college. The core college consisted of six key Barclays Group host regulatory authorities and the FSA as home regulatory authority.

The general college comprised members of the core college and ten other regulatory authorities. The general college facilitated a discussion of the Barclays Group's capital adequacy, with supervisors exchanging views regarding the supervision of the Barclays Group.

The crisis management group meeting was attended by the members of the core college, the Bank of England and the Federal Deposit of Insurance Corporation. This was the Department's first invitation to attend a crisis management group meeting, with valuable knowledge being obtained and crucial lessons learnt. From a host supervisory and learning perspective, attending the crisis management group meeting was extremely beneficial to the Department and will facilitate the further refinement of its consolidated supervisory framework.

the Department was invited to attend the crisis management group meeting for the first time

2.8.5 Supervisory meetings with the Financial Services Board

In its 2010 *Annual Report* the Department reported extensively on the quarterly supervisory meetings held between the Department and the Financial Services Board, with a specific focus on the South African financial conglomerate groups with significant investments in banking, insurance and securities. The objectives of these meetings are to:

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

The Department continued with these regular meetings during 2011 as they add value to both the Financial Services Board and the Department's supervisory processes. Both regulators recognise the importance of these meetings and the prominent role they play in their respective supervisory regimes. The meetings have subsequently been included as an integral part of both regulators' supervisory processes.

the supervisory meetings add value to both the Financial Services Board and the Department's supervisory processes

2.8.6 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. In 2010 a task group called the Solvency Assessment and Management Insurance Groups Task Group was formed, with an invitation being extended to the Department, industry participants and other key stakeholders to participate in the meetings. The Department continued to participate in and contribute to the task group meetings during 2011.

2.9 Financial stability: A macroprudential approach to supervision

The global financial crisis highlighted the need for a macroprudential approach to financial supervision. A macroprudential policy approach is one where fiscal, monetary and regulatory policies are all aimed at either changing or countering the collective behaviour of financial institutions that cause imbalances in the financial system in order to reduce the systemic risk emanating from such behaviour. This approach has become a widely-accepted method of managing system-wide risk across the entire financial sector. A macroprudential approach essentially entails overseeing, assessing and delivering appropriate policy responses to enhance the resilience of the financial system as a whole and to reduce systemic risk. As the build-up of macroeconomic and financial system risks might not always be noticed by microprudential regulators, macroprudential regulators need to analyse trends in the financial system and consider how they interact with the prudential soundness of financial institutions.

In most countries macroprudential supervision falls within the central bank's ambit of responsibilities. Even in instances where the responsibility for financial stability is not explicitly formulated in laws and mission statements, oversight of the financial system is an inherent function of the central bank on account of its pivotal role in the financial system and in view of the

fact that instability could constrain the effectiveness of central bank policies. Similarly, in South Africa there is general consensus that the Bank is best placed and has the appropriate capacity to perform macroprudential supervision effectively. The implicit responsibility of the Bank to monitor macroeconomic and financial stability risks was explicitly confirmed both in a letter from the Minister of Finance to the Governor of the Bank and in the policy document issued by the National Treasury referred to in section 1.3 of this Report, entitled "A Safer Financial Sector to Serve South Africa Better".

a financial stability unit was established in the Department in February 2011

As a result the Bank has further strengthened its financial stability functions by establishing a financial stability unit in the Department in February 2011. The main objective of the Financial Stability Unit is to assess and promote the overall soundness of the financial system in support of the broader financial stability objective of the Bank.

The main functions of the Financial Stability Unit are to research emerging issues in the local and international financial systems and to perform both quantitative and qualitative analyses utilising international standards and financial soundness indicators in order to identify the build-up of imbalances that may cause instability in the domestic financial system. A systemic crisis prevention strategy is also being developed which will include the implementation of contingency plans for facilitating systemic crisis resolution.

Chapter 3: Developments relating to banking legislation

3.1 Introduction

The Department continually strives to ensure that the legal framework for the regulation and supervision of banks and banking groups in South Africa remains relevant and current. Ideally the legal framework pertaining to banking regulation has to reflect local and international market developments and should comply with the applicable international regulatory and supervisory standards, and best practices. The Department therefore reviews all banking legislation, including the Banks Act, the Mutual Banks Act, 1993 (Act No. 124 of 1993 – the Mutual Banks Act), the Regulations issued in terms thereof and other pieces of related banking legislation on an ongoing basis and makes recommendations to the Minister of Finance to effect the necessary amendments thereto.

3.2 The Banks Act, 1990

The Banks Act was last amended on 1 January 2008, mainly to comply with the requirements and principles of the Basel II framework. Since then, the Department has been monitoring, among other things, the developments relating to the G-20 discussions and publications and directives issued by the Basel Committee and the FSB. Other developments relating to the new Companies Act, *King III* and court decisions were also observed in order to identify possible areas that would necessitate further amendment of the Banks Act.

In terms of section 92 of the Banks Act, the Minister of Finance appoints a standing committee to review the Banks Act from time to time and to advise him/her with regard to amendments to the Banks Act. During 2011 the Standing Committee for the Revision of the Banks Act, 1990 (the Standing Committee), was provided with details of the background to, and the reasons for, various amendments required in respect of the Banks Act. The Standing Committee agreed to the proposals in principle and the Department proceeded with the drafting process.

Draft 5 of the Banks Act Amendment Bill, 2010 was discussed by the Standing Committee during a meeting held in August 2011. Subsequently, draft 6 of the Banks Act Amendment Bill was forwarded to the Minister of Finance in order to obtain the necessary approval and to initiate the parliamentary approval process during the first half of 2012. However, as a result of ongoing developments in terms of the Basel III framework, the Department, in consultation with the National Treasury, has decided to first incorporate the necessary further Basel III-related amendments into the Banks Act Amendment Bill before presenting it to Parliament during the second half of 2012.

3.3 The new Companies Act, 2008

The new Companies Act was promulgated in April 2009 and became effective on 1 May 2011. Due 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. The provisions of the new Companies Act have already been incorporated into the Banks Act Amendment Bill, 2010 where applicable and appropriate.

3.4 Update regarding amendments to the Regulations relating to Banks

As already mentioned in section 1.2.1 of this Report, the Department comprehensively amended the Regulations during 2010 and 2011. This was firstly done in accordance with the departmental mission of promoting the soundness of the banking system and contributing to

the Department comprehensively amended the Regulations during 2010 and 2011

financial stability, and secondly in order to ensure that the regulatory framework for banks and banking groups remains relevant and current and is based on:

- the latest internationally agreed requirements, best practices and standards issued by international standard-setting bodies such as the G-20, the FSB and the Basel Committee; and
- the three documents commonly collectively referred to as 'Basel II.5', namely, "Enhancements to the Basel II Framework", "Revisions to the Basel II Market Risk Framework" and "Guidelines for Computing Capital for Incremental Risk in the Trading Book".[65]

Furthermore, during 2010 and 2011, the Department received various proposed amendments to the Regulations from banks, auditors of banks, departmental risk specialists and analysts, and other departments within the Bank. The Department also took various internal policy decisions in respect of specific matters that have an impact on the regulation and supervision of banks that need to be incorporated into the Regulations. In this regard, the Department identified the following areas in the Regulations that require either correction or further clarification:

- Based on the importance of their cross-border banking activity or their regional influence, the BIS invited a number of additional countries, in particular from emerging markets, including South Africa, to participate in the process of collecting information regarding international banking statistics. For this purpose, specific forms and related directives that are essentially based on standardised information requirements with regard to international banking statistics on external debt, which were developed jointly by the BIS, the IMF, the OECD and the World Bank, had to be developed and incorporated into the amended Regulations.
- The Department's consolidated supervision analysts and risk specialists requested that the information requirements related to foreign operations of South African banks be expanded to provide information users with a better understanding of the nature of the business conducted and the related risks incurred by such foreign operations.
- The IMF's ROSC, discussed in section 1.6 of this Report, recommended that certain improvements be effected to the Department's regulatory framework, particularly in the areas of country risk and transfer risk, and exposures to related parties.

Based on the above the Department issued for comment drafts 1, 2, 3 and 4 of the proposed amended Regulations on 15 March 2010, 30 June 2010, 17 December 2010 and 20 April 2011 respectively.

The background to and the specific details of the aforesaid respective draft Regulations were presented to, discussed and considered by the Standing Committee at its quarterly meetings during 2010 and 2011.[66] On 3 August 2011, draft 5 of the proposed amended Regulations was presented to the Standing Committee for their consideration and approval. The Standing Committee unanimously approved the draft, whereafter it was presented to the Minister of Finance for his consideration and approval.

the amended Regulations were implemented with effect from 1 January 2012

The amended Regulations were subsequently approved by the Minister of Finance on 31 October 2011, after which it was published in *Government Gazette* No. 34838 on 15 December 2011 and implemented with effect from 1 January 2012.

In addition to the various proposed amendments to the Regulations received from various key players, the amended Regulations also give effect to Basel II.5, and aim, among other things, to:

- strengthen the risk coverage of the capital framework;
- reduce risks from certain securitisation and off-balance-sheet activities;
- discourage excessive lending;
- strengthen board and senior management oversight in banks and banking groups;
- increase public disclosure; and

65 Refer to section 1.2.1 for more information in this regard.
66 Refer to section 3.2 for a more detailed discussion regarding the Standing Committee.

- strengthen the oversight of bankers' remuneration through incorporating the requirements stipulated in the FSB's document entitled "FSB Principles for Sound Compensation Practices". These principles are intended to better align the incentives for senior managers with the long-term sustainability, and hence better risk management practices, of the institution.[67]

Extensive consultation has already commenced between the Department, the National Treasury, the banking industry and other stakeholders on the required amendments for the phased-in implementation of the Basel III framework that will commence on 1 January 2013.[68] The first draft of the new proposed amended Regulations will be released during the first half of 2012.

Finally, the Department continues to monitor, among other things, the developments relating to the G-20 discussions, and the press releases, publications and directives issued by the Basel Committee and the FSB. This includes further work conducted by the Basel Committee in terms of the Basel III framework and the Core Principles[69] in order to identify possible further areas that would necessitate amendments to the Regulations. The Department is committed to remain fully compliant with international standards and market best practices relating to the regulation and supervision of banks and banking groups.

the Department remains fully committed to complying with international standards and best practices

3.5 Illegal deposit-taking

The Banks Act governs, among other things, the acceptance of deposits from the general public by institutions that are registered in terms of the Banks Act. Any person or institution that is not registered as a bank and who conducts the business of a bank as defined in section 1 of the Banks Act may be doing so in contravention of the Banks Act.

In terms of the Banks Act, the Department is mandated to investigate any person or institution who is suspected of taking deposits in contravention of the Banks Act, including institutions not in compliance with the relevant exemption notices as published in the *Government Gazette*.

During the year under review the Department received a number of enquiries and complaints, with supporting documentary evidence, pertaining to the business activities of certain institutions that were suspected of accepting deposits from the general public without being registered as a bank.

Experience has shown that in most cases, when an institution is found to be in contravention of the Banks Act, the likelihood exists that it is also in contravention of other legislation, for example, the Income Tax Act, 1962 (Act No. 58 of 1962), the Value-Added Tax Act, 1991 (Act No. 89 of 1991), the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002), and other Acts administered by the Financial Services Board.

The Department therefore endeavours to share any information it receives with other regulatory bodies to ensure that all possible contraventions that may have been committed by unregistered persons are brought to the attention of the appropriate authorities. Furthermore, the Department routinely shares information with other regulatory authorities to limit the duplication of investigations and to promote and sustain a good working relationship with such authorities.

the Department shares information it receives with other regulatory bodies

Staff members of the Department are regularly subpoenaed to provide evidence in court proceedings relating to the prosecution of persons who are allegedly contravening the Banks Act. The Department, together with the appointed temporary inspectors or managers, also provides assistance to the prosecuting authorities if and when required or requested to do so.

In cases where a scheme has been liquidated, the provisions of the Insolvency Act, 1936 (Act No. 24 of 1936) take precedence over the provisions of the Banks Act. When schemes are thus liquidated, the investigation in terms of the Banks Act is ended by the Department and the winding-up thereof becomes the responsibility of the appointed liquidator.

Section 84(1A)(d) of the Banks Act, however, affords the Department the right to nominate a person as the liquidator of a company when such a company has been directed to repay the

67 Refer to sections 1.5 and 2.6.3 for a more detailed discussion in this regard.
68 Refer to section 1.2.2 for more information regarding the implementation of the Basel III framework.
69 The latest developments in respect of the Core Principles are discussed in greater detail in section 1.2.2.5.

funds obtained in contravention of the Banks Act and if managers have been appointed to manage the repayment process. Once the Master of the High Court has appointed the person nominated as liquidator by the Department with the assistance of the appointed manager, the Department will assist the appointed liquidator if and when requested and required to do so.

the Department compiled a five-year review of schemes investigated

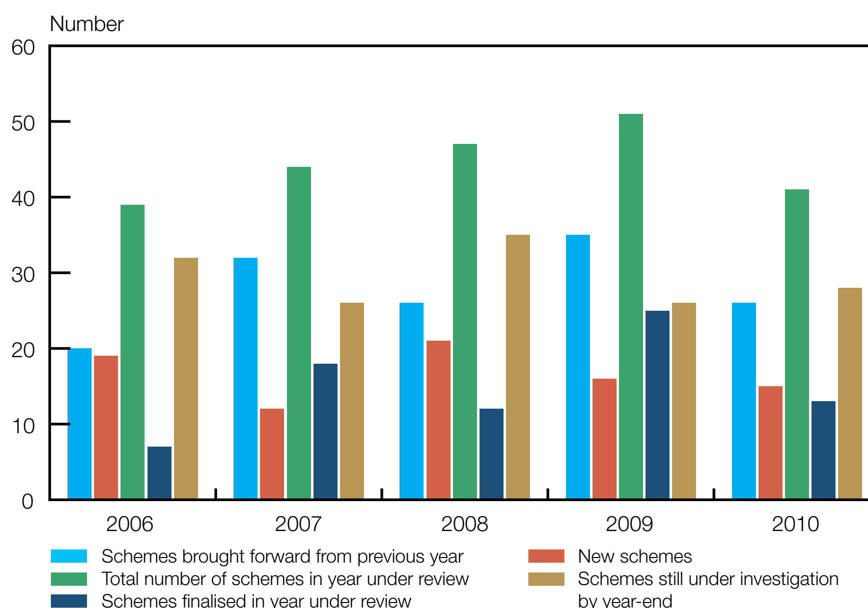
The Department compiled a five-year review of schemes investigated from January 2007 to December 2011 (refer to Table 3.1 below). During this period the Department received 83 new complaints relating to illegal deposit-taking schemes. A total of 139 schemes were carried over from previous years and 75 schemes were finalised in this five-year period. In total, 222 schemes were investigated during the five years under review.

During 2011, 15 new investigations, together with 26 investigations carried over from previous years, were undertaken. Of the total of 41 investigations, 13 were completed and 28 still remained under investigation as at 31 December 2011.

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
2007	39	32	20	19	7
2008	44	26	32	12	18
2009	47	35	26	21	12
2010	51	26	35	16	25
2011	41	28	26	15	13

Figure 3.1 Number of inspections relating to illegal deposit-taking schemes



Some of the schemes under inspection received coverage from both the local and international media; however, the Department has become aware of the fact that some media reports were not entirely accurate.

The Department has furthermore noted that there seems to be a misconception regarding the appointment of managers in terms of section 84 of the Banks Act, which states that:

(1) Simultaneously with the issuing of a direction under section 83(1), or as soon thereafter as may be practicable, the Registrar shall by a letter of appointment signed by him or her appoint a person (hereinafter in this section referred to as the manager) to manage and control the repayment of money in compliance with the direction by the person subject thereto. [70]

The common perception appears to be that once appointed, the appointed managers are responsible for the day-to-day management of the company. This, however, is not correct since the main responsibility of the appointed managers is to ensure that the funds that were invested in the scheme are repaid to investors.

Some of the more prominent inspections that the Department dealt with during 2011 are briefly outlined below:

prominent inspections that the Department dealt with during 2011

3.5.1 Realcor Holdings (Pty) Limited

The Department appointed PricewaterhouseCoopers Forensic Services (Pty) Limited (PwC) as temporary inspectors to investigate the business activities of Realcor Holdings Limited (Realcor). After receiving and considering the report from PwC, the Department concluded that Realcor had contravened the Banks Act by taking deposits from members of the general public while not being registered as a bank. The Department subsequently issued a directive in terms of section 83(1), read with section 84 of the Banks Act to Realcor to repay the investors. PwC was accordingly appointed as managers in terms of section 84 of the Banks Act to control and manage the process of repaying investors' funds.

Certain creditors, however, lodged applications with the High Court in Cape Town for the liquidation of certain companies within Realcor. The application was successful and a provisional liquidation order for Realcor was issued during December 2011. The Department has therefore retracted the directive issued to Realcor and relieved the managers of their duties.

3.5.2 Sharemax Investments (Pty) Limited

Following an inspection into the affairs of Sharemax Investments (Pty) Limited (Sharemax) and the various property syndication companies (PSCs) it had promoted, the Department concluded that the funding models used by Sharemax were in contravention of the Banks Act. It should be noted that this is an administrative finding and is in no way a conviction of criminality of the persons involved in the scheme. For this reason the findings of the Department will be reported to the appropriate authorities in due time.

Nevertheless, during September 2010 the Department issued directives to Sharemax and the PSCs it had promoted to repay the funds obtained from members of the public. The Department appointed two managers, namely Mr Jaco Spies of Facct Forensic Consulting (Pty) Limited and Mr Neels Alant of Hahn & Hahn Attorneys, to take control of the assets of Sharemax and the PSCs and to manage the repayment process. However, owing to the majority of funds having been invested in fixed property, it was clear that it would be impossible to immediately give effect to the directives to repay investors. The only option available at that stage that would have allowed the immediate repayment of investors' funds was to liquidate the companies and to repay the investors, which would undoubtedly have resulted in the devaluation of investors' funds.

In the months following the issuing of the directives, however, the PSCs appointed new, independent directors to their boards of directors who requested the Department to afford them additional time to consider alternative options. The Department granted the new boards of directors a reasonable period of time in which to seek alternative options to effectively comply with the directive to repay investors. In the prevailing circumstances this concession was deemed to be both responsible and reasonable as it aimed to preserve the inherent value in the PSCs for the benefit of the investors.

the PSCs appointed new, independent directors who requested additional time to consider alternative options

The boards of directors opted to resolve the matter by means of schemes of arrangement as contemplated in section 311 of the Companies Act. The Department had no objection to the

70 The Presidency, *Government Gazette* No. 30474 (Pretoria: The Presidency, November 2007).

proposal in principle as schemes of arrangement not only require approval by the vast majority of shareholders or investors, but also the sanctioning thereof by the High Court.

In light of the above it is clear that the Department is in no way party to any of the schemes of arrangement. The facts provided, the views expressed and the proposals made in terms of Sharemax were so provided, expressed and made by the boards of directors of the PSCs. As a result, such facts, views or proposals should not be construed as having been provided, expressed or made by the Bank, the Registrar, or the appointed managers.

When the Companies Act became effective on 1 May 2011, it introduced the concept of 'business rescue' which was also considered by the boards of directors of the PSCs and applied in certain instances. From the outset the Department realised that any repayment plan would entail the incurrence of costs and expenses. To this end the Department insisted on a detailed expense budget for the schemes of arrangement and it allowed the payment of such expenses with the strict condition that the boards of directors satisfy themselves that every payment made was necessary, reasonable, in the interests of the investors, and that it was legal to do so. The payment of expenses in this regard was also monitored closely by the appointed managers. The costs associated with the schemes of arrangement and business rescue were funded by available funds in the PSCs.

The fees and costs of the inspection and management of Sharemax and the PSCs were paid for by the Department. The Department is satisfied with the professional and competent manner in which the appointed inspectors, who were subsequently appointed as managers, conducted their respective appointments. It is hereby confirmed that the appointed managers performed their duties in the interest of the Department, the Bank and the investors.

Neither the Department, the Bank nor the appointed managers will henceforth have any involvement with the PSCs concerned. The future success of, and the risk and reward associated with, the PSCs will be dependent on various factors, such as the economy in general and the quality of their management in particular.

3.5.3 Ingede Mineral Holdings (Pty) Limited

Ingede collected over R70 million from more than 3 000 investors

One of the inspections that sparked the media's interest was Ingede Mineral Holdings (Pty) Limited (Ingede). Ingede was a scheme operated by a certain Mr Nsikayomuzi Goodman Goqo, who collected over R70 million from more than 3 000 investors. Temporary inspectors were appointed and after it was proved that Ingede was contravening the Banks Act, managers were appointed to manage the repayment of the funds collected from investors.

On 26 April 2011, the Master of the Kwazulu-Natal High Court in Durban, Honourable Madam Justice K Pillay, appointed Mr T W van den Heever (Mr Van den Heever) of D & T Trust (Pty) Limited as the provisional liquidator of Ingede. Mr Van den Heever was nominated by the Department in terms of the provisions of section 84(1A)(d) of the Banks Act. The final sequestration of the joint estate of Mr Goqo and his wife was issued on the same day as the final liquidation of Ingede, thereby ending the inspection by the Department.

3.5.4 Conclusion

The Department annually inspects various schemes similar in nature to those discussed above. Actions taken by the Department in this regard depend on the facts and circumstances of each case, and all schemes are dealt with in accordance with the applicable legislative framework.

Experience has shown that illegal deposit-taking schemes benefit only a few individuals. Such persons are usually the operators of the scheme, their agents (who earn commission from attracting investments) and a few individuals who either invested with the scheme during the initial stages and who actually received the promised returns, or who were fortunate enough to have had their investments repaid with interest.

in most instances illegal deposit-taking schemes do not generate real income

Regrettably, the truth is that in most instances illegal deposit-taking schemes do not generate real income since money collected from investors is merely 'rolled', meaning that new investors' funds are used to pay the returns of the initial investors. The main pitfall of this type of scheme,

however, is that it is impossible to maintain the scheme due to the fact that when the scheme becomes larger in size, an ever-increasing number of new investors are required to enable operators to maintain repayments to the initial investors. The fact that the promised returns are usually absurdly high and utterly unattainable means that the repayments thereof become impossible to maintain as the number of investors increases. Furthermore, funds collected from investors are not actually invested but are instead used to finance the living costs of the scheme's operators. For example, in one inspection over which the Department presided, over R5 million was used to purchase luxury cars for the operator of the scheme, while in another inspection approximately R14 million was spent on gambling. Inevitably, however, the schemes fail and investors lose their funds.

In order to inform the public about the risks and dangers of illegal deposit-taking schemes, the Department, with the help of the Strategy and Communications Department of the Bank, will conduct a public awareness campaign during 2012.

the Department will conduct a public awareness campaign during 2012

3.6 Exemption of banks in terms of the Consumer Protection Act, 2008

The provisions of section 14 of the Consumer Protection Act, 2008 (Act No. 68 of 2008 – the CPA) in part provide for the expiry and renewal of fixed-term agreements which, from the perspective of the banking industry would include, among other things, fixed-deposit agreements. While transactions between a bank and all juristic persons are excluded from the scope of the provision by virtue of section 14(1) of the CPA, it does not exclude transactions between a bank and individuals.

Despite the fact that it is ostensibly targeted at contract abuse by, for example, cell phone or health club service providers, section 14 of the CPA also confers a general right on the individual consumer to cancel his or her long-term and fixed-deposit contracts with a bank. The current practice is that the right to cancel these contracts vests with the bank. The bank has the discretion to release funds ahead of the contractual term on the grounds of some element of hardship based on the financial circumstances prevalent at the time. However, section 14(2)(b)(i)(bb) of the CPA, as it currently stands, removes that discretion and instead affords the individual a statutory right to cancel a fixed-term deposit contract by giving 20 days' notice.

In terms of section 14(2)(b)(i)(bb), the CPA provides that:

> … if a consumer agreement is for a fixed term despite any provision of the consumer agreement to the contrary, the consumer may cancel that agreement at any other time, by giving the supplier 20 business days' notice in writing or other recorded manner and form, subject to subsection (3)(a) and (b).[71]

The clause can therefore lead to substantial unintended consequences such as the following:

- It undermines the 'best regulatory practice' of encouraging banks to hold increasing proportions of their deposits in medium- and long-term contracts.
- It empowers the consumer to re-price the investments at any time during the contract period (specifically in a rising interest rate period).
- It is likely to oblige banks to report their retail deposits with a medium- or long-term contractual maturity as notice or short-term deposits (that is, 20 business days). This will force banks to downgrade and reclassify all medium- and long-term retail deposits to short-term deposits, which would consequently lead to a substantial increase in not only liquidity risk and liquid asset requirements, but also a restriction in lending capacity.

While the CPA and the Regulations relating thereto provide that a supplier (bank) may keep the fixed-term agreement intact, the burden of proof nevertheless rests with the bank as the supplier of the service to demonstrate the financial benefit to the individual consumer. In essence, it denies a bank the right to invoke its common law remedies in the case of a breach of contract.

71 The Presidency, *Government Gazette* No. 32186 (Pretoria: The Presidency, April 2009).

Should a bank fail to show financial benefit to the individual consumer, and a determined consumer proceeds to give 20 business days' notice of the cancellation of a fixed-term deposit, further unintended consequences may result, for example, liquidity risk management could be adversely affected. Since a bank presumes that the vast majority of fixed deposits will be retained until maturity, it funds itself with the fixed-rate (and by definition fixed-maturity) deposits as a partial hedge against fixed lending. However, should a future financial crisis cause panic in the market and result in a run on banks, the cancellation of fixed-term deposit contracts in terms of the CPA will result in a bank not being able to sustain its liquidity ratio for long periods, which may result in the failure of the bank, and in turn add to the risk of failure of the entire banking system. This is because banks typically rely on stability in the deposit base, which is provided by fixed-maturity deposits, to manage their net cash flow in order to satisfy customer demands for funds as they fall due. Since banks submit statutory returns based primarily on the contractual obligations to and from clients, the option to cancel a fixed-term agreement introduced by the CPA can render this information meaningless.

the Registrar expressed concerns about the unintended consequences that section 14(2)(b)(i)(bb) of the CPA may have on banks' liquidity risk management

The Department lodged an application with the Minister of Trade and Industry in April 2011 to raise the above-mentioned concerns. In the application, the Registrar expressed concerns about the unintended consequences that section 14(2)(b)(i)(bb) of the CPA may have on banks' liquidity risk management and the resultant systemic risk to which it could lead. The Registrar's application also addressed the general concern that prudential oversight of the banking industry might be compromised.

Subsequent to the above-mentioned application, the Minister of Trade and Industry, in *Government Gazette* No. 34399 dated 27 June 2011, issued Government Notice 532 in terms of section 5(4) of the CPA, exempting all banks registered in terms of the Banks Act, mutual banks registered in terms of the Mutual Banks Act and co-operative banks registered in terms of the Co-operative Banks Act, 2007 (Act No. 40 of 2007) from the provisions of section 14 of the CPA.

3.7 Developments regarding Postbank

The Postbank Act, which took effect on 19 July 2011, aims to transform Postbank from a division of the South African Post Office (SAPO) to a separate entity registered in terms of the new Companies Act. This is but one of the steps necessary to overcome the barriers preventing Postbank from qualifying to register as a bank in terms of the Banks Act.

The passing of the Postbank Act is the culmination of a process that was begun prior to 2005 by the signing of a memorandum of understanding between the then Minister of Communications and the then Minister of Finance, setting out a phased approach towards restructuring Postbank.

the Department has initiated a process to address the contentious clauses in the Postbank Act

The Department welcomes these developments and is set to honour the ultimate objective of the legislation, that is, for the Office of the Registrar of Banks to exercise supervisory control over the activities of Postbank in terms of the reporting requirements of the Banks Act. For this reason, the Department has initiated a process to address the contentious clauses in the Postbank Act, the envisaged end result being the removal of inconsistencies in the Postbank Act to ensure that it complies with the Banks Act and is aligned with the banking regulatory and supervisory framework in South Africa which is based, among other things, on the Basel Committee's Core Principles and the Basel framework. The Department anticipates the review process to be conducted in parallel with the ongoing process of registering Postbank as a separate entity in terms of the new Companies Act. It is expected that the review process will culminate in the registration and licensing of Postbank in terms of the Banks Act. The rationale behind taking this step is to avoid creating the impression that the Department is displaying leniency towards Postbank by waiving its powers in terms of the Banks Act. If the inconsistencies in the Postbank Act are not removed, the impression could easily be created that the Department will not only condone Postbank's non-compliance with the strict licensing criteria when it awards a banking licence to Postbank, but also not require it to undergo the same rigorous supervision as other banks registered in terms of the Banks Act.

Chapter 4: Banking-sector overview

4.1 Introduction

The domestic banking sector's operating environment remained challenging during 2011. However, signs of improvement compared to 2010 were evidenced by the year-on-year growth in banking-sector assets of 9,0 per cent as at December 2011, which is a marked improvement compared to the year-on-year growth of 5,3 per cent reported as at December 2010. The sector's profitability also improved with operating profit increasing by 30 per cent for the 12 months ended 31 December 2011. Average return on equity (ROE) and return on assets (ROA) for the banking sector increased from 14,6 per cent and 1,0 per cent in December 2010 to 16,4 per cent and 1,2 per cent respectively in December 2011. The banking sector remained adequately capitalised with total banking-sector equity increasing by 12,1 per cent during 2011. Total capital adequacy improved from 14,9 per cent at the end of December 2010 to 15,1 per cent at the end of December 2011. The Tier 1 capital-adequacy ratio (CAR) of the banking sector increased from 11,8 per cent to 12,2 per cent during the same period.

This chapter provides an overview of the financial and risk information, compiled by means of the aggregation of data submitted during 2011 from individual South African-registered banks (including domestic branches of international banks but excluding offshore branches and subsidiaries of South African banks). Information represents aggregated bank-solo information, except where explicitly indicated that it represents consolidated banking groups (refer to sections 4.3.4 and 4.6.2 for consolidated banking group information). Section 4.2.5 focuses on the global presence of South African banks and includes the banks' offshore subsidiaries, branches and representative offices. Furthermore, it should be noted that information presented on credit risk does not necessarily represent aggregated data for total banks. Such information rather reflects the aggregated amount for clusters of banks that adopted the same approaches[72] to calculate minimum capital requirements. Aggregated data in this chapter are invariably in respect of 2009, 2010 and 2011. Unless otherwise indicated, increases and decreases are measured on a year-on-year basis.

4.2 Structural features of the banking sector

4.2.1 Concentration in the South African banking system

The Herfindahl–Hirschman Index (H-index) is a widely respected barometer for measuring market concentration in a banking system. The H-index is calculated by simply squaring each bank's market share, measured in terms of total assets, and adding them together. Importantly, the H-index accounts for the number and relative size of banks in the system.

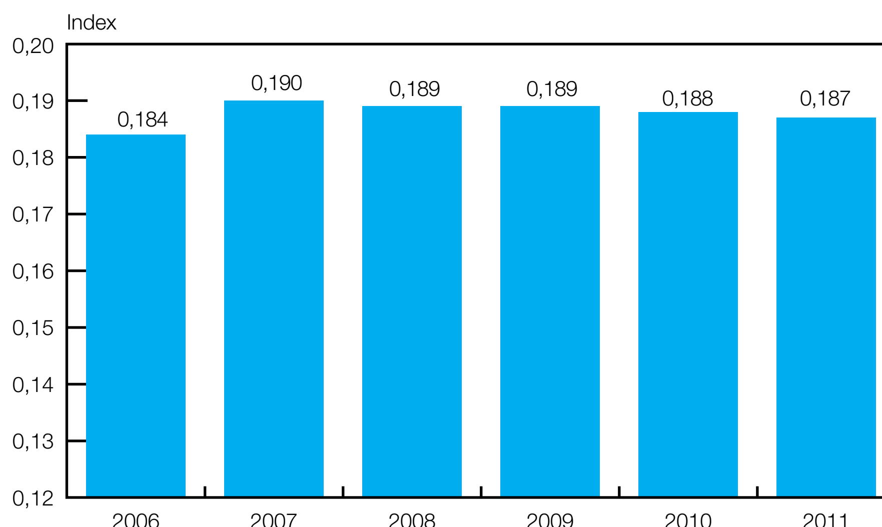
An H-index below 0,1 indicates that there is essentially no concentration in a banking system; an H-index between 0,1 and 0,18 is an indication of moderate concentration; and an H-index above 0,18 indicates a high level of concentration.

high concentration of banking-sector assets among the four largest banks

The level of concentration in the South African banking sector measured using the H-index is presented in Figure 4.1. The index decreased marginally from 0,188 at the end of December 2010 to 0,187 at the end of December 2011. The high concentration prevalent in the South African banking sector is attributable to the high concentration of banking-sector assets among the four largest banks, which accounted for 84,1 per cent of total banking-sector assets at the end of December 2011 (December 2010: 84,6 per cent). It should be noted, however, that notwithstanding the high level of concentration, the domestic banking sector remained stable during 2011. Appendix 2 provides the balance-sheet sizes of all individual banks, and Appendix 10 provides additional financial and risk information tables.

72 Refer to section 2.2.1 of this Report.

Figure 4.1 Herfindahl–Hirschman Index for the South African banking system (2006–2011)



4.2.2 Banking entities registered in South Africa

the number of representative offices increased to 43 in 2011

Table 4.1 shows the number of entities that have been registered or licensed with the Department since 2002. Compared to 2010, the number of registered banks in the Republic remained unchanged at 17. The Royal Bank of Scotland NV cancelled its banking licence with effect from 31 January 2011. As a result, the number of branches of foreign banks decreased to 12 at the end of December 2011. The number of representative offices increased from 41 in December 2010 to 43 in December 2011. Detailed commentary regarding the entities registered or licensed with the Department at the end of 2011 can be obtained from appendices 2, 3, 4, 5 and 7.

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Banks*................................	30	22	20	19	19	19	19	18	17	17
Mutual banks......................	2	2	2	2	2	2	2	2	2	2
Branches of international banks in the Republic of South Africa........................	14	15	15	15	14	14	14	13	13	12
Representative offices..........	52	44	43	47	43	46	43	42	41	43
Controlling companies.........	27	19	16	15	15	15	15	15	15	15
Banks under curatorship	1	1	0	0	0	0	0	0	0	0
Banks in receivership...........	2	2	0	0	0	0	0	0	0	0
Banks in final liquidation	1	1	2	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

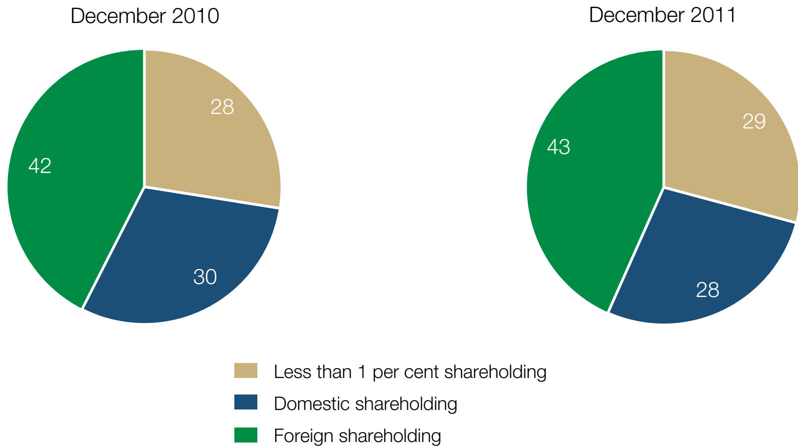
4.2.3 Shareholding structure

foreign shareholders held 43,2 per cent of the nominal value of the South African banking sector's shares in issue

The shareholding structure of South African banks is depicted in Figure 4.2. Foreign shareholders held 43,2 per cent of the nominal value of the South African banking sector's shares in issue at the end of December 2011 compared to 42,3 per cent in December 2010. The foreign

shareholding of 55,5 per cent in Absa Bank Limited, the second largest bank registered in South Africa, contributes significantly to the high percentage of banking-sector shares held by foreign shareholders. Domestic shareholders accounted for 27,5 per cent and minority shareholders for 29,3 per cent of the nominal value of banking-sector shares in issue at the end of December 2011 (December 2010: 30 per cent and 27,6 per cent respectively).

Figure 4.2 Shareholding structure of the South African banking sector (nominal value of shares) (per cent)



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

Core Principle 5 of the Basel Committee's Core Principles prescribes that banking supervisors should "have the power to review major acquisitions or investments by a bank or a bank controlling company, against prescribed criteria, including the establishment of cross-border operations".[73] This review should confirm that "corporate affiliations or structures do not expose the bank to undue risks or hinder effective supervision".[74] Section 52 of the Banks Act addresses Core Principle 5 as it requires South African-registered banking groups to obtain the prior written approval of the Registrar for the establishment or acquisition of any subsidiary, cross-border branch, representative office or any undertaking that has its registered office or principal place of business outside South Africa. The number of applications approved by the Department in terms of section 52 of the Banks Act since 2002 is shown in Table 4.2. The majority of such applications are submitted by the five largest banking groups (refer to Appendix 8 for more information in this regard).

applications approved by the Department in terms of section 52 of the Banks Act

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

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Local	47	28	16	29	16	12	15	10	16	19
Foreign*	43	31	20	17	8	25	19	26	22	27
Total	90	59	36	46	24	37	34	36	38	46

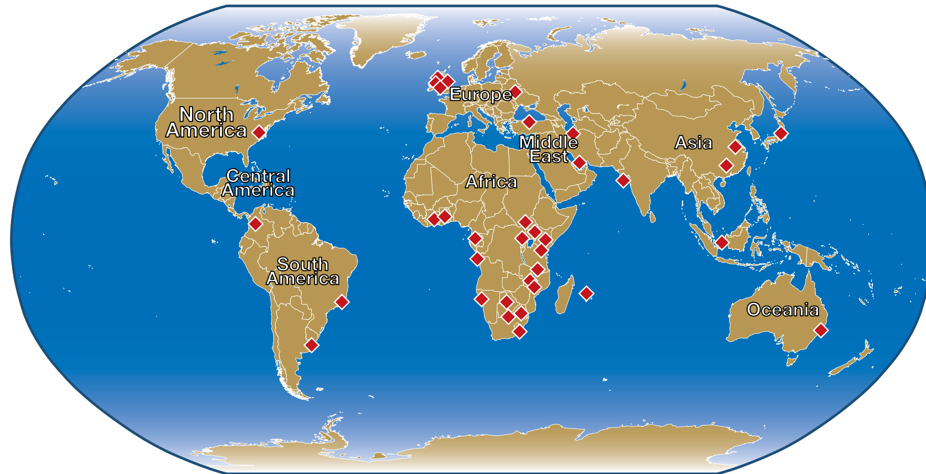
* Excludes transactions undertaken by Investec plc

73 Basel Committee, "Core Principles for Effective Banking Supervision" (Basel: Basel Committee, October 2006), 3.
74 Ibid.

4.2.5 Global presence of South African banking groups

South African banking groups' global presence (in respect of banking branches, subsidiaries and representative offices) is illustrated in Figure 4.3.

Figure 4.3 Global presence of South African banking groups

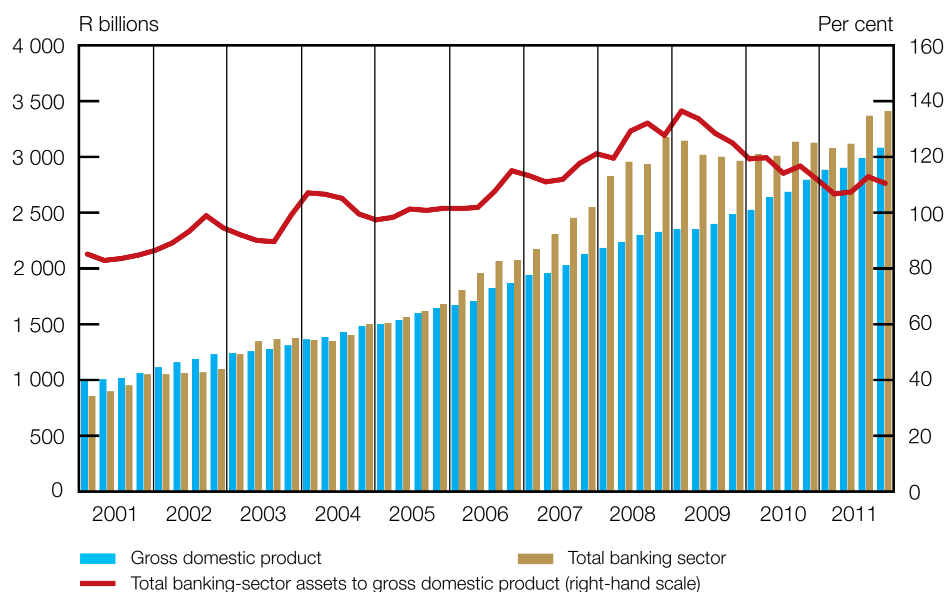


4.2.6 Banking-sector assets in relation to gross domestic product

banking-sector assets increased by 9,0 per cent

The total balance-sheet size of the banking sector relative to South Africa's nominal GDP[75] is shown in Figure 4.4. Banking-sector assets increased by 9,0 per cent and amounted to R3 409 billion or 110,5 per cent of nominal GDP at the end of December 2011 (December 2010: R3 126 billion or 111,9 per cent of nominal GDP) (refer to section 4.3 below for further information regarding the balance sheet). South Africa's nominal GDP increased by 10,3 per cent year on year to December 2011.

Figure 4.4 Total banking-sector assets in relation to gross domestic product



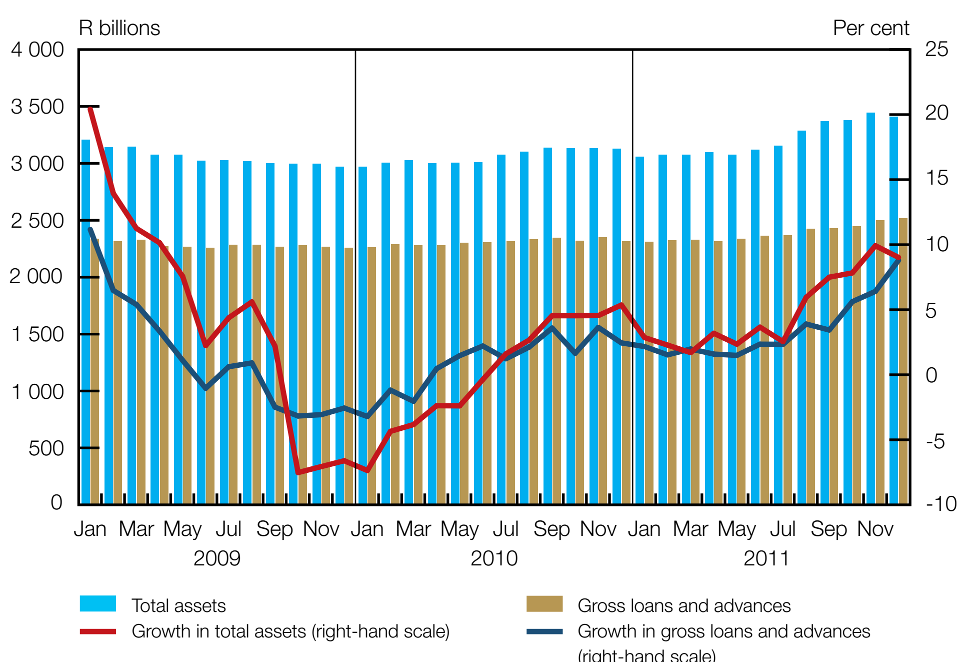
75 'Nominal gross domestic product' refers to the gross domestic product at market prices, as published in the South African Reserve Bank *Quarterly Bulletin*, reference code NRI 6006L, December 2011, pp. S–108.

4.3 Balance sheet

4.3.1 Assets

Figure 4.5 illustrates the growth in banking-sector assets, and gross loans and advances from January 2009 to December 2011. As mentioned above, total banking-sector assets increased by 9,0 per cent to R3 409 billion at the end of December 2011 (December 2010: R3 126 billion). The growth rate in total banking-sector assets accelerated during the third and fourth quarters of 2011 mainly due to a year-on-year increase in gross loans and advances which, in turn, was caused by increases in term and other loans. Gross loans and advances increased by 8,8 per cent to R2 516 billion in December 2011 (December 2010: R2 312 billion). Apart from an increase in gross loans and advances, total banking-sector assets also increased due to increases in Treasury bills and increased investment in government securities.

Figure 4.5 Total banking-sector assets, gross loans and advances, and their respective growth rates (year on year)

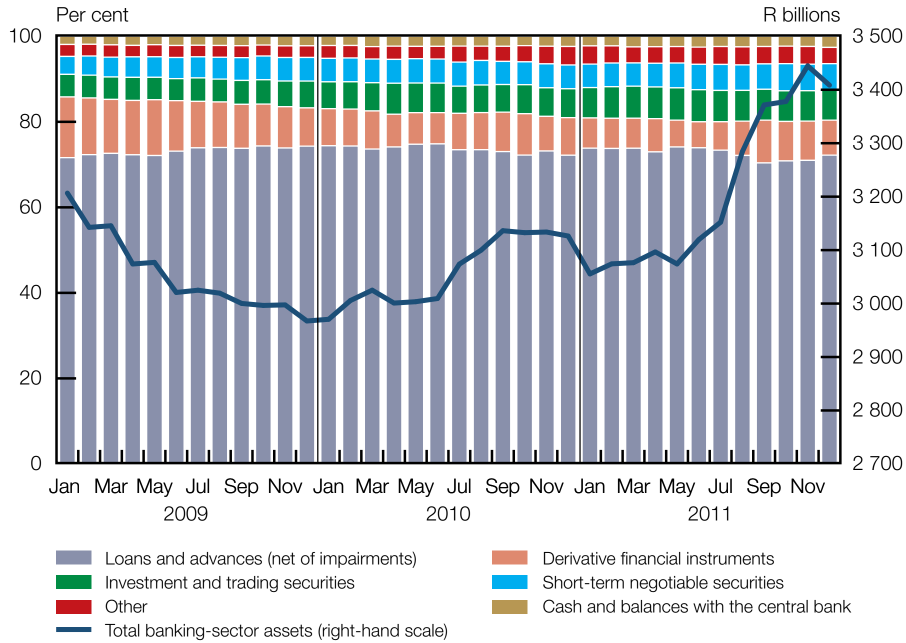


loans and advances constituted, on average, 72,7 per cent of total banking-sector assets

As portrayed in Figure 4.6, loans and advances constituted, on average, 72,7 per cent of total banking-sector assets during 2011 (2010: 73,6 per cent). Derivative financial instruments amounted to R279 billion at the end of December 2011 and represented, on average, 7,7 per cent of total banking-sector assets during 2011 (2010: 8,5 per cent). Derivative financial instruments increased by R74 billion in September 2011 as a result of mark-to-market adjustments on foreign-exchange derivatives.[76] Investment and trading securities, as a percentage of total banking-sector assets, increased from an average of 6,7 per cent during 2010 to 7,3 per cent during 2011. This increase was mainly due to an increase in the holding of government securities by banks.

76 'Mark-to-market' or fair value accounting adjustments of financial derivative instruments are calculated in terms of International Accounting Standard 39. The value of the derivative financial instruments is adjusted in response to changes in specified foreign exchange rates.

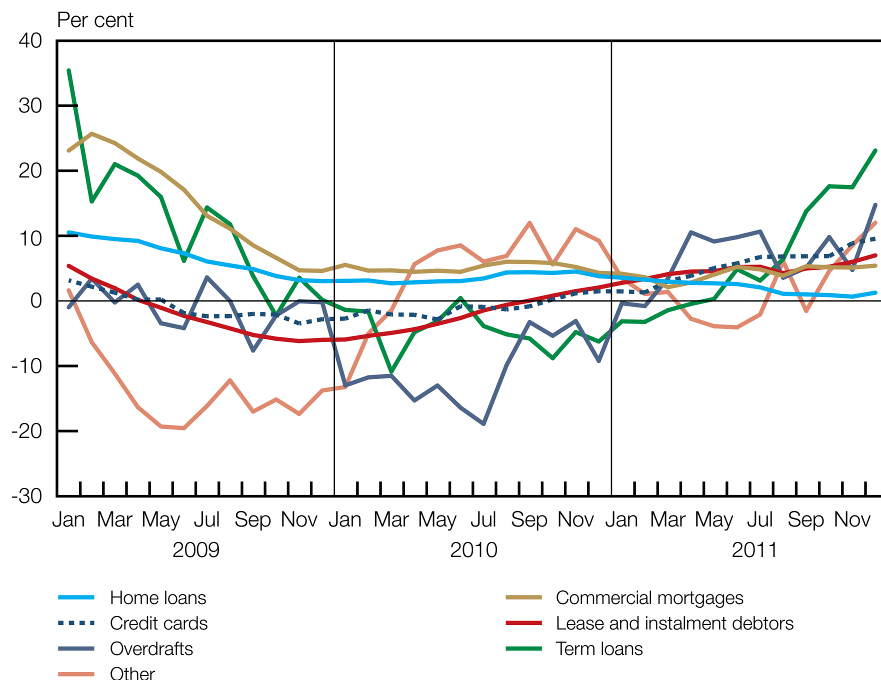
Figure 4.6 Composition of total banking-sector assets



growth in home loans remained subdued in 2011

Figure 4.7 depicts an in-depth analysis of the year-on-year growth in selected loans and advances. All loan and advance categories grew year on year. Home loans amounted to approximately R823,6 billion, on average, during 2011. The growth in home loans remained subdued in 2011 and further slowed from 3,8 per cent in December 2010 to 1,3 per cent in December 2011. However, commercial mortgages increased from 4,3 per cent in December 2010 to 5,4 per cent at the end of December 2011. The year-on-year growth in other loans was volatile during 2011 and fluctuated between negative 4,1 per cent and 12,0 per cent. Other loans (that is, redeemable preference shares, bank intra group balances, loans granted/deposits placed under resale agreements, factoring accounts, trade bills, bankers' acceptances and other) increased from R517 billion in December 2010 to R580 billion at the end of December 2011.

Figure 4.7 Growth rates of selected asset classes within gross loans and advances (year on year)

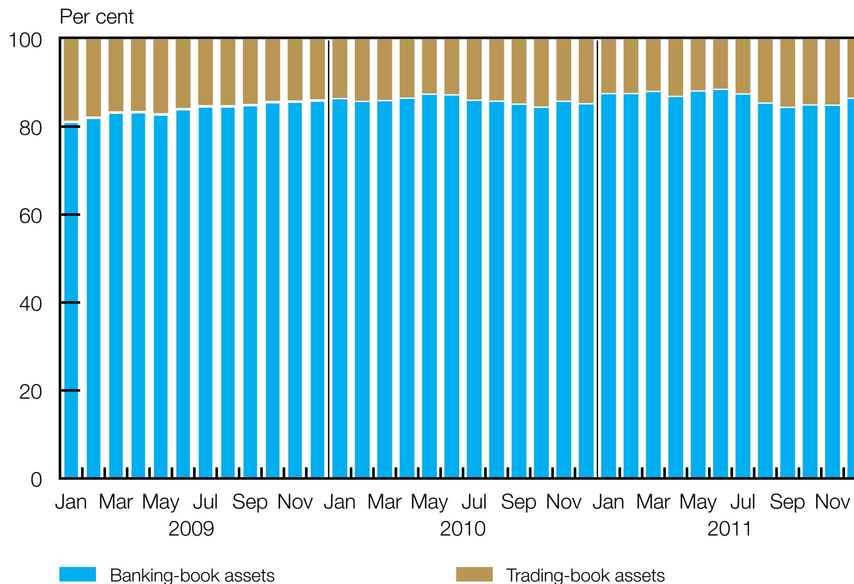


Term loans increased by 23,1 per cent to R437 billion at the end of December 2011 (December 2010: R355 billion). The growth in term loans accelerated during the second half of 2011 as a result of increased lending to banks and corporate clients. Overdrafts grew by 14,8 per cent at the end of December 2011 (December 2010: negative 9,2 per cent). The growth in credit cards, and lease and instalment debtors increased throughout 2011 and amounted to 9,6 per cent and 7,0 per cent respectively at the end of December 2011 (December 2010: 1,5 per cent and 2,1 per cent respectively).

term loans increased by 23,1 per cent

Figure 4.8 provides a breakdown of banking-sector assets in terms of banking-book and trading-book assets.[77] Banking-book assets comprised, on average, 86,7 per cent of total banking-sector assets during 2011, which is marginally higher than the 85,9 per cent reported during 2010.

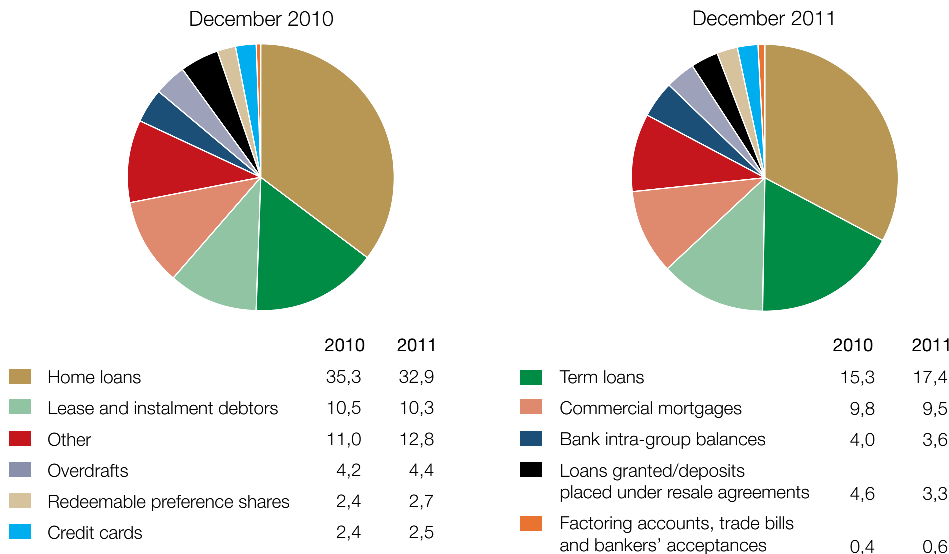
Figure 4.8 Banking-book versus trading-book assets (as a percentage of total banking-sector assets)



As outlined in Figure 4.9, the composition of gross loans and advances remained relatively unchanged between December 2010 and December 2011, with home loans still constituting the largest portion of gross loans and advances.

home loans again constituted the largest portion of gross loans and advances

Figure 4.9 Composition of gross loans and advances (per cent)



	2010	2011
Home loans	35,3	32,9
Lease and instalment debtors	10,5	10,3
Other	11,0	12,8
Overdrafts	4,2	4,4
Redeemable preference shares	2,4	2,7
Credit cards	2,4	2,5

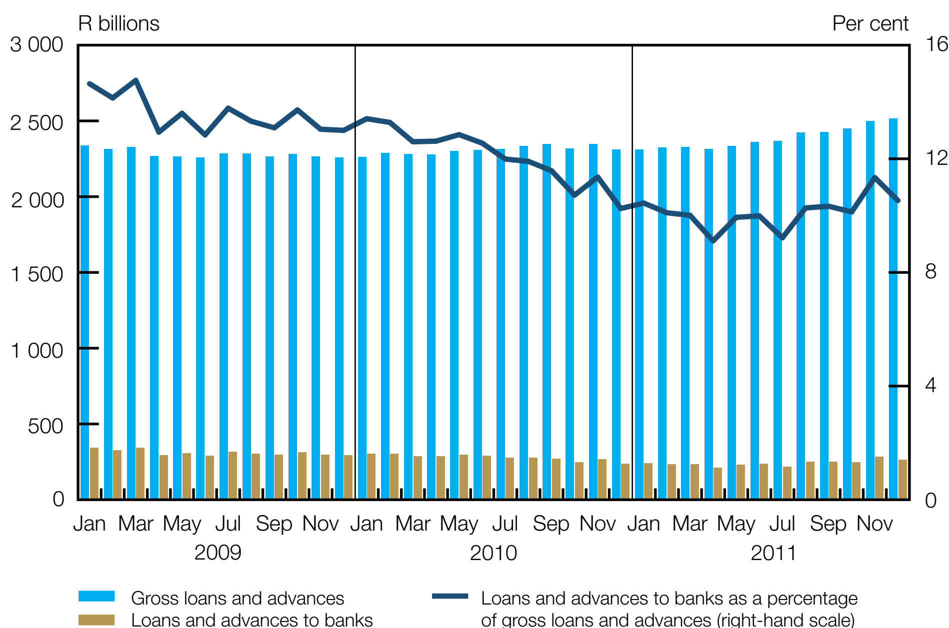
	2010	2011
Term loans	15,3	17,4
Commercial mortgages	9,8	9,5
Bank intra-group balances	4,0	3,6
Loans granted/deposits placed under resale agreements	4,6	3,3
Factoring accounts, trade bills and bankers' acceptances	0,4	0,6

77 Banking-book and trading-book assets include all asset and liability items designated as part of either a bank's banking or trading activities in terms of the bank's board-approved policy.

The percentage of home loans, as a percentage of total gross loans and advances, declined from 35,3 per cent in December 2010 to 32,9 per cent as at December 2011. Term loans, as a percentage of gross loans and advances, increased by over 200 basis points from 15,3 per cent as at December 2010 to 17,4 per cent in December 2011.

Loans and advances to banks, depicted in Figure 4.10, increased by 11,8 per cent to R265 billion at the end of December 2011 (December 2010: R237 billion). Expressed as a percentage of gross loans and advances, the ratio of loans to banks increased marginally from 10,3 per cent in December 2010 to 10,5 per cent at the end of December 2011. Loans to banks grew, on average, by 1,2 per cent per month during 2011 (2010: negative 1,6 per cent monthly average).

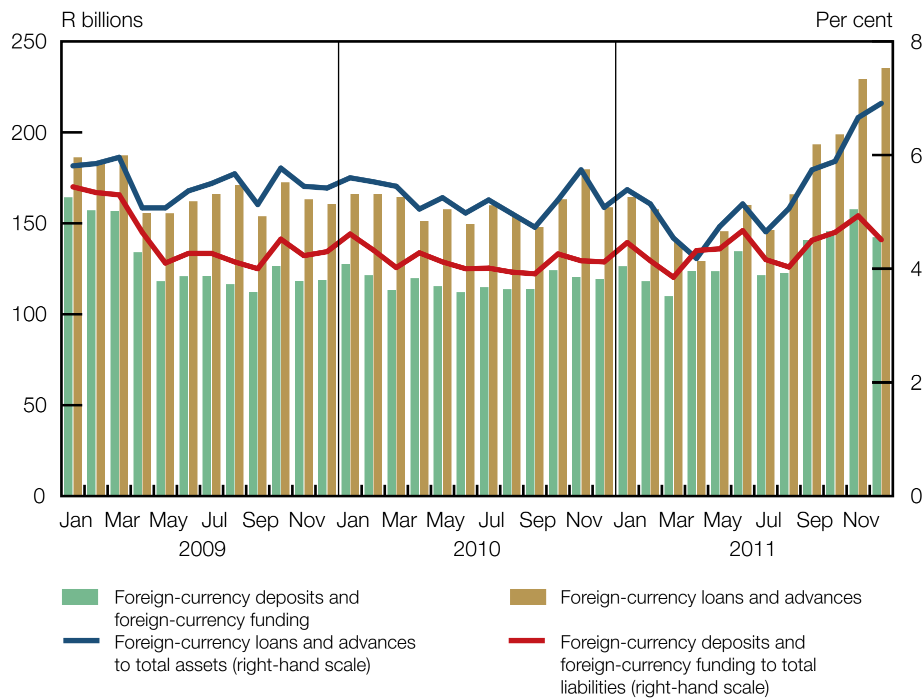
Figure 4.10 Loans and advances to banks



foreign-currency loans and advances exceeded foreign-currency deposits and funding

As depicted in Figure 4.11, foreign-currency loans and advances exceeded foreign-currency deposits and funding throughout 2011. Foreign-currency loans and advances increased significantly by 48,2 per cent from R159 billion in December 2010 to R235 billion at the end of December 2011. Expressed as a percentage of total assets, the ratio of foreign-currency loans and advances increased considerably during the third and fourth quarters of 2011. The increase can be attributed to both an increase in deposits with, and advances to, foreign banks reported by large banks, and the devaluation in the exchange rate of the South African rand to the US dollar. Foreign-currency deposits and funding increased from R119 billion at the end of 2010 to R142 billion in December 2011. The ratio of foreign-currency deposits and foreign-currency funding to total liabilities fluctuated between 3,9 per cent and 4,9 per cent during 2011. The relatively low ratio indicates that South African banks are not overly dependent on foreign funding and deposits.

Figure 4.11 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)



4.3.2 Liabilities

Banking-sector liabilities, shown in Figure 4.12, primarily comprised deposits. Deposits increased by 8,9 per cent to R2 710 billion at the end of December 2011 and constituted, on average, 86,2 per cent of liabilities during 2011 (2010: 85,8 per cent). Derivative financial instruments and other trading liabilities as a percentage of liabilities increased in September 2011 due to the increase in foreign-exchange derivative financial instruments.

deposits constituted, on average, 86,2 per cent of liabilities

Figure 4.12 Composition of liabilities

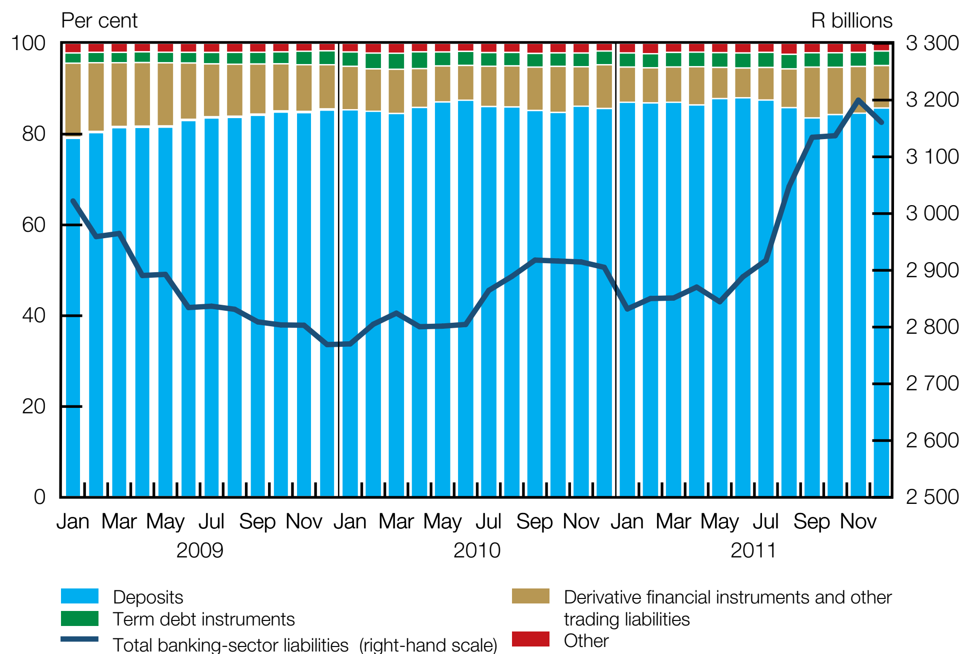
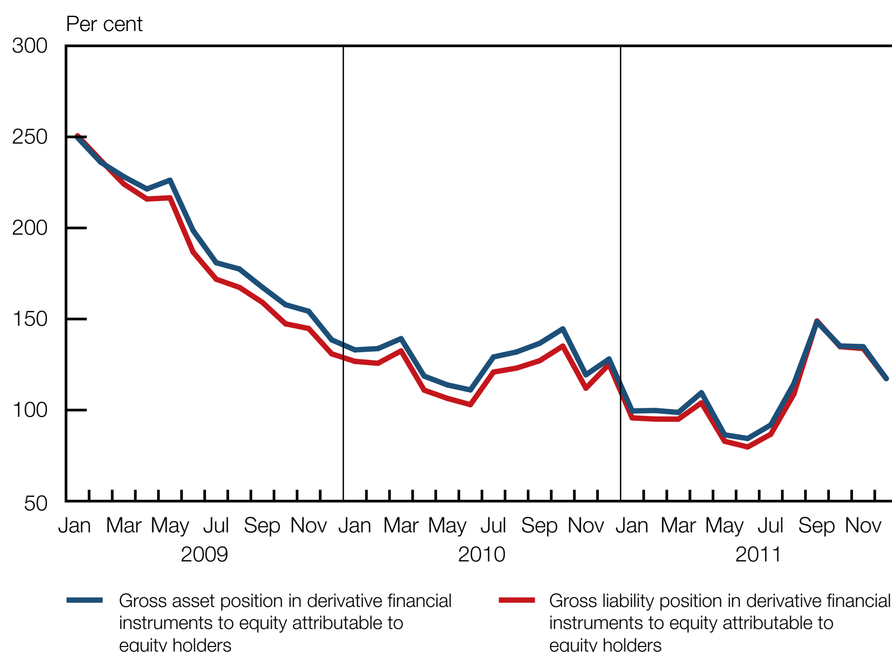


Figure 4.13 portrays the banking sector's gross asset and liability position in derivative financial instruments as a percentage of equity attributable to equity holders. The respective ratios increased considerably during the third quarter of 2011 owing to the aforesaid increase in foreign-exchange derivative financial instruments. However, the ratios declined during the fourth quarter of 2011 as a result of an increase in equity attributable to equity holders, coupled with a decrease in the value of derivative financial instruments. Nonetheless, the gross asset and liability positions were fairly matched throughout 2011 and the net mismatch between the ratios decreased to an average of 3,1 per cent during 2011 (2010: 7,6 per cent average).

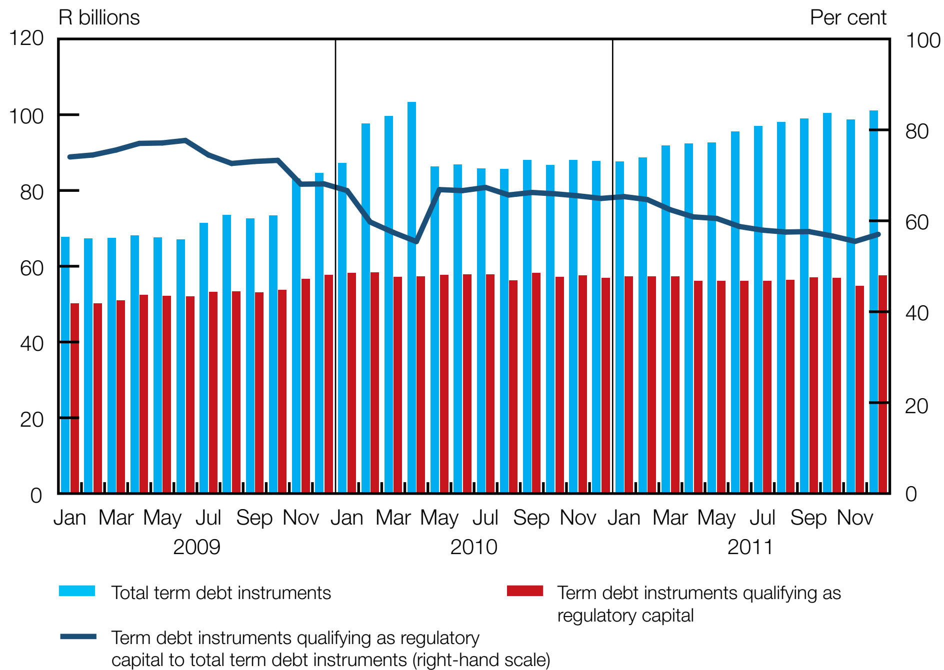
Figure 4.13 Asset and liability position in derivative financial instruments (as a percentage of equity attributable to equity holders)



in anticipation of Basel III, banks reduced their issuance of term debt instruments that qualify as regulatory capital

As illustrated in Figure 4.14, term debt instruments qualifying as regulatory capital remained relatively stable during 2011 and amounted to R58 billion at the end of December 2011 (December 2010: R57 billion). On average, 59,6 per cent of term debt instruments qualified as regulatory capital during 2011 compared to 64,0 per cent during 2010. In view of the Basel III framework's focus on loss-absorbing capital instruments, banks have reduced their issuance of term debt instruments that qualify as regulatory capital.

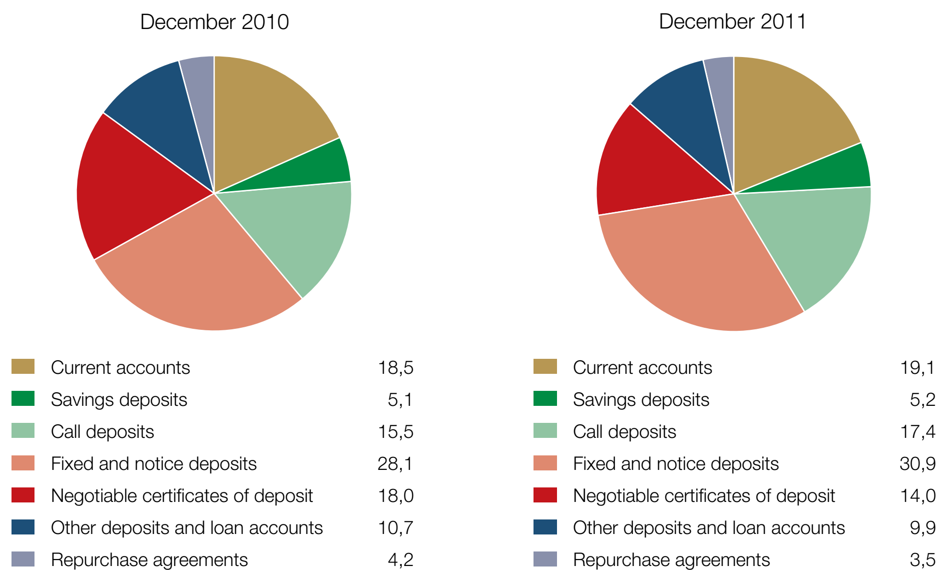
Figure 4.14 Term debt instruments qualifying as regulatory capital (as a percentage of total term debt instruments)



The composition of banking-sector deposits, depicted in Figure 4.15, remained relatively stable during the period under review. Fixed and notice deposits constituted the largest deposit class and amounted to R838 billion at the end of December 2011 (December 2010: R698 billion). The main changes in the composition of deposits included an increase in fixed and notice deposits to 30,9 per cent of total deposits at the end of December 2011 (2010: 28,1 per cent), and a decrease in negotiable certificates of deposit from 18,0 per cent of total deposits in December 2010 to 14,0 per cent in December 2011.

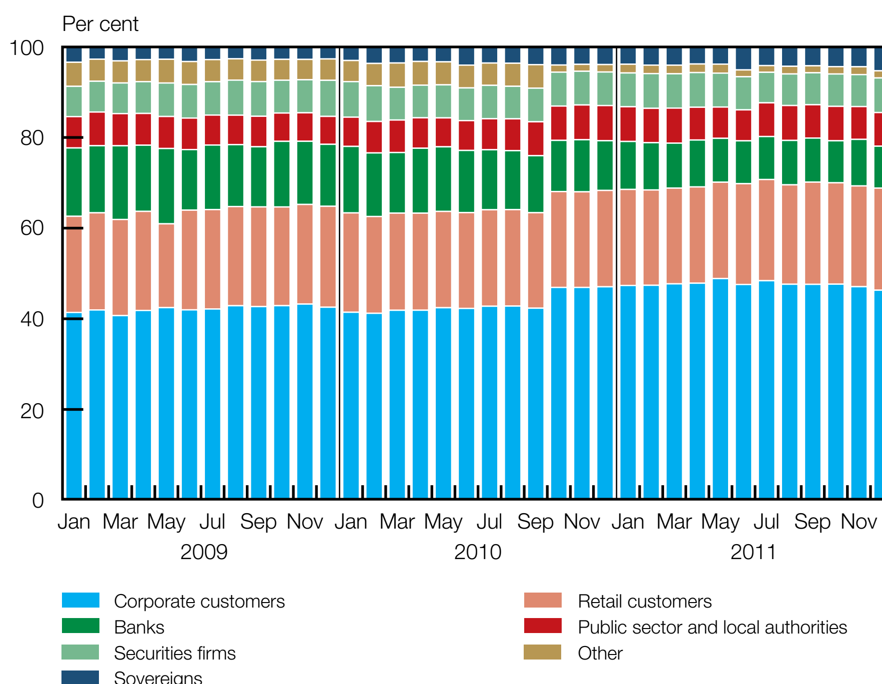
the composition of banking-sector deposits remained relatively stable

Figure 4.15 Composition of deposits (per cent)



As depicted in Figure 4.16, corporate customers continued to be the primary source of banking-sector deposits. Deposits from corporate customers, on average, amounted to approximately R1,2 trillion throughout 2011 and constituted 47,6 per cent of deposits during 2011 (2010: 43,3 per cent). Deposits from retail customers increased from R529 billion at the end of 2010 to R610 billion in December 2011 and constituted, on average, 21,8 per cent of deposits during 2011 (2010: 21,3 per cent).

Figure 4.16 Sources of total deposits (as a percentage of total deposits)



4.3.3 Equity

share capital increased by R7,8 billion

The composition of total equity is portrayed in Figure 4.17. Share capital and retained earnings constituted 92,2 per cent of total equity during 2011 (2010: 91,4 per cent). Total equity increased by 12,1 per cent to R248 billion at the end of December 2011 (December 2010: R221 billion). Retained earnings increased by R17,9 billion to R124 billion at the end of December 2011 (December 2010: R106 billion) while share capital increased by R7,8 billion to R105 billion at the end of December 2011 (December 2010: R97 billion). The movement in other reserves and preference shareholders' equity in September 2011 was due to a change in regulatory reporting by a large bank.

Figure 4.17 Composition of total equity

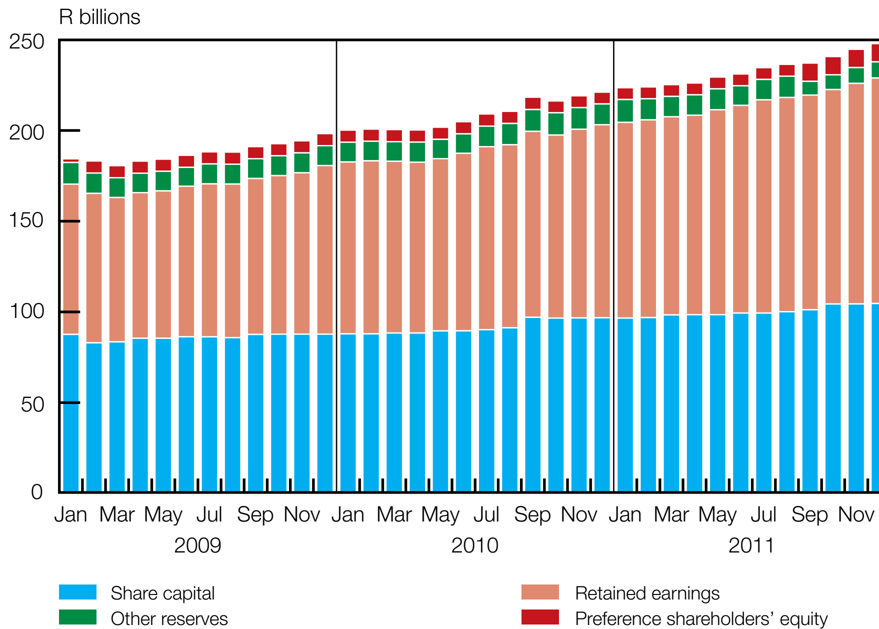
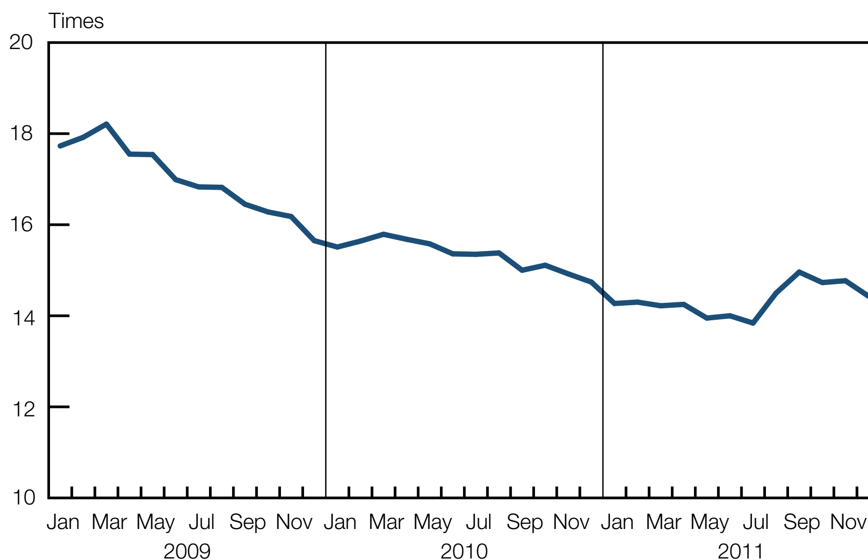


Figure 4.18 depicts the financial leverage multiple for the banking sector and is calculated by dividing total banking-sector assets by total banking-sector equity attributable to equity holders (note that this ratio does not comply with the definition of the leverage ratio referred to in the Basel III framework).[78] The financial leverage multiple amounted to 14,4 times at the end of December 2011 (December 2010: 14,7 times). It increased in the third quarter of 2011 mainly due to an increase in the year-on-year growth of total banking-sector assets, and slowed in the fourth quarter mainly due to an increase in total equity attributable to equity holders, as depicted in Figure 4.19.

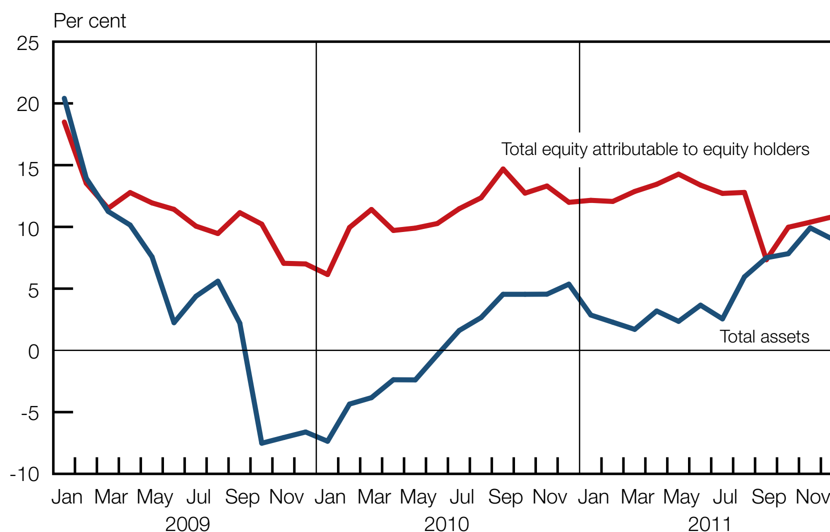
the financial leverage multiple amounted to 14,4 times

Figure 4.18 Financial leverage multiple



78 The Basel III framework presents a definition and a method of calculation for the leverage ratio. It also sets out a transitional period for the Basel Committee "to monitor banks' leverage ratio and its components on a semi-annual basis in order to assess whether the proposed design and calibration of the minimum Tier 1 leverage ratio of 3 per cent is appropriate over a full credit cycle and for different types of business models". Based on the results of this parallel run, the ratio may be adjusted and calibrated "with a view to migrating to a Pillar 1 treatment on 1 January 2018". Basel Committee, "Basel III: A Global Regulatory Framework for more Resilient Banks and Banking Systems" (Basel: Basel Committee, revised version, June 2011).

Figure 4.19 Growth rates of total banking-sector assets and equity attributable to equity holders (year on year)



4.3.4 Balance-sheet information on the total consolidated banking groups

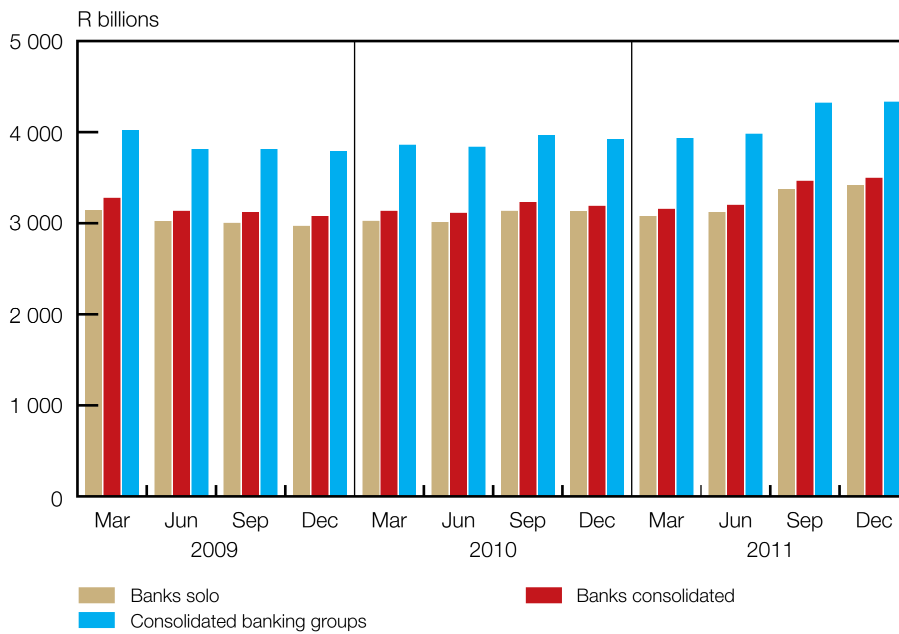
assets reported by consolidated banking groups grew by 10,4 per cent

The composition of total 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 4.20). Figure 4.21 reflects total banking-sector assets aggregated for banks solo[79] (excluding their foreign branches), banks consolidated[80] (including their foreign branches) and consolidated banking groups.[81] The assets reported by consolidated banking groups grew by 10,4 per cent to R4,3 trillion at the end of December 2011 (December 2010: R3,9 trillion). Over 90 per cent of the growth in rand value was due to an average increase of 11,7 per cent in the total assets of the largest five banking groups. The growth in total assets of banks solo was 9,2 per cent (December 2010: 5,3 per cent), largely due to an average growth of 10,1 per cent in the bank solo operations reported by the largest five banks.

Figure 4.20 Composition of total banking-sector assets in respect of the five largest banks, branches of international banks and other banks (per cent)

79 '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.
80 'Banks consolidated' includes the aggregate of banks incorporated in South Africa together with their foreign branches, subsidiaries and associates, as well as all local branches of international banks.
81 'Consolidated banking groups' includes the aggregate of registered bank-controlling companies and registered banks incorporated in South Africa (that do not have registered controlling companies).

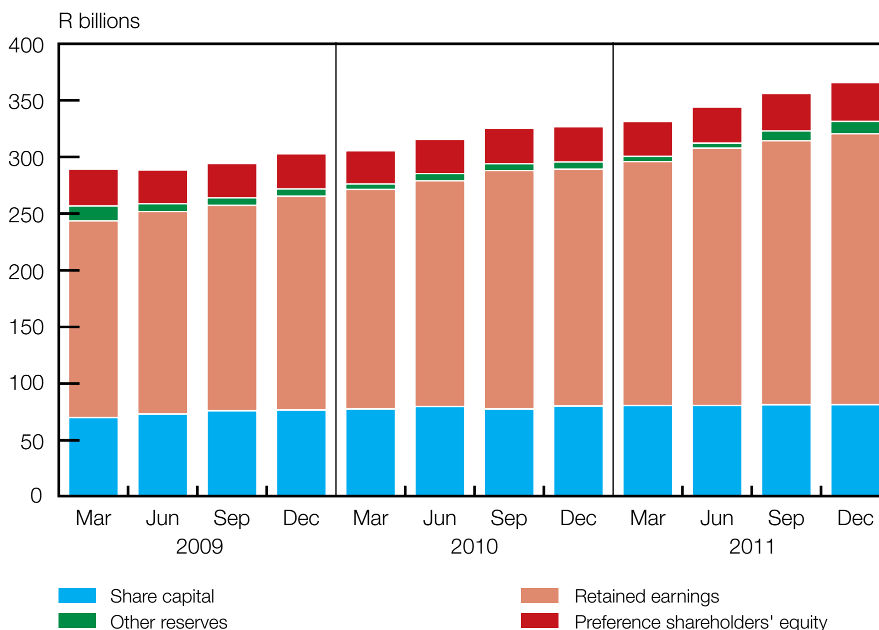
Figure 4.21 Banking-sector assets for banks solo, banks consolidated and consolidated banking groups



Total equity for consolidated banking groups mainly comprised share capital, retained earnings, other reserves and preference shareholders' capital (refer to Figure 4.22). The total equity of consolidated banking groups increased by 11,9 per cent to R366 billion at the end of December 2011 (December 2010: R327 billion), mainly due to 14,4 per cent growth in retained earnings. Other reserves increased by 71,1 per cent to R10,9 billion at the end of December 2011 (December 2010: R6,4 billion) mainly due to a rights issue and an increase in foreign currency translation reserves reported by two banking groups. Share capital and retained earnings represented 22,3 per cent and 65,4 per cent respectively of total equity at the end of December 2011 (December 2010: 24,5 per cent and 64 per cent respectively).

total equity of consolidated banking groups increased by 11,9 per cent

Figure 4.22 Composition of total equity for consolidated banking groups

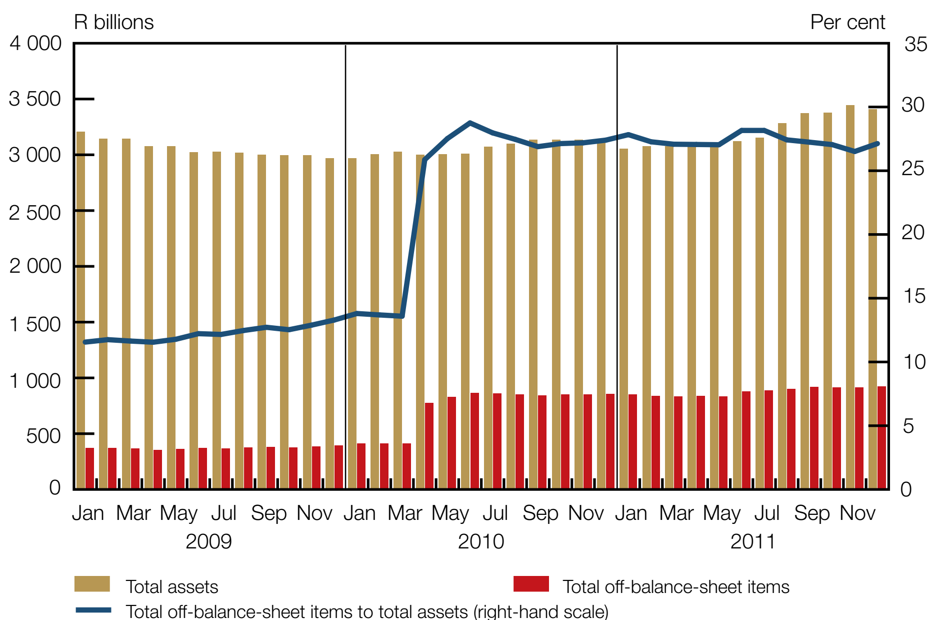


4.4 Off-balance-sheet activities

the ratio of off-balance-sheet items to total assets remained relatively stable

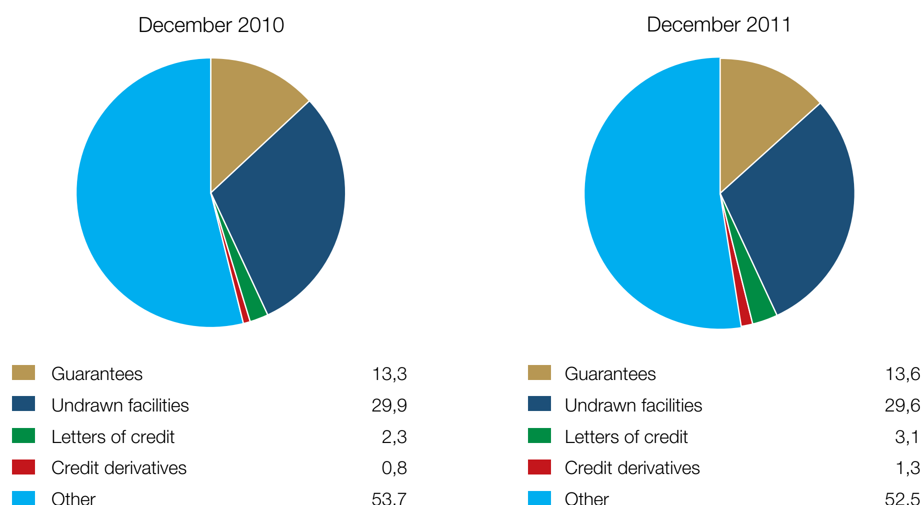
A comparison between total assets and total off-balance-sheet items is illustrated in Figure 4.23. Off-balance-sheet items increased by 88,9 per cent month on month in April 2010 owing to a change in regulatory reporting of off-balance-sheet items to include revocable facilities. The ratio of off-balance-sheet items to total assets remained relatively stable and amounted to 27,3 per cent, on average, during 2011 (2010: 23,9 per cent). Off-balance-sheet items increased by 7,9 per cent to R925 billion at the end of December 2011 (December 2010: R857 billion). All categories of off-balance-sheet items increased during the year under review, with the major growth categories being other (mainly revocable facilities) and committed undrawn facilities.

Figure 4.23 Total off-balance-sheet items in relation to total banking-sector assets



The composition of total off-balance-sheet items, portrayed in Figure 4.24, remained largely unchanged between December 2010 and December 2011. Off-balance-sheet items primarily

Figure 4.24 Composition of total off-balance-sheet items (per cent)



comprised 'other' off-balance-sheet items, which amounted to R485 billion at the end of December 2011 (December 2010: R460 billion). 'Other' off-balance-sheet items consisted mainly of revocable facilities.

4.5 Profitability

The banking sector's operating profit increased by 30 per cent to R49 billion for the year ending December 2011 (December 2010: R38 billion). The increase in operating profit was mainly due to a 12-month cumulative increase in net interest income (R9,6 billion) and non-interest revenue (R4,7 billion), coupled with a decrease in credit losses (R3,2 billion). Credit losses decreased by 11,7 per cent to R24 billion for the year ending December 2011 (December 2010: R27 billion), mainly due to an improved credit environment. A detailed monthly breakdown of the banking sector's income statement is illustrated in Figure 4.25.

operating profit increased by 30 per cent

Gross operating income (that is, the sum of net interest income and non-interest revenue) increased by 9,2 per cent to R170 billion for the year ending December 2011 (December 2010: R156 billion). Net interest income and non-interest revenue increased by 12,7 per cent and 5,8 per cent to R85,5 billion and R84,3 billion respectively during the year under review (December 2010: R75,9 billion and R79,7 billion respectively). The increase in non-interest revenue was due to a 13,0 per cent increase in net fee and commission income, while the increase in net interest income was mainly due to a year-on-year decrease in interest expense on negotiable certificates of deposit, term deposits, and other deposits and loans.

gross operating income increased by 9,2 per cent

Figure 4.25 Composition of the income statement (smoothed)[82]

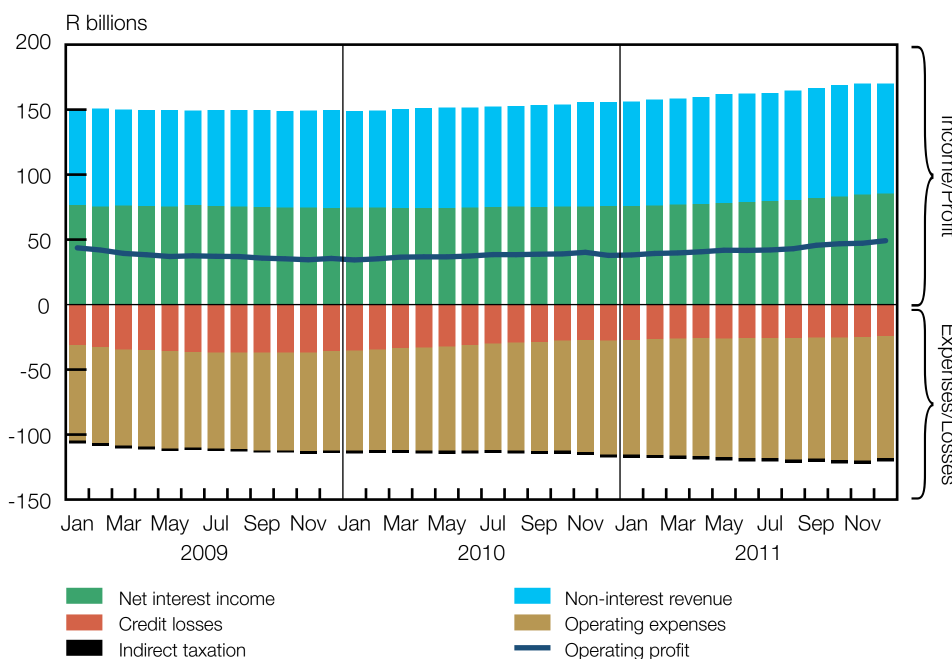
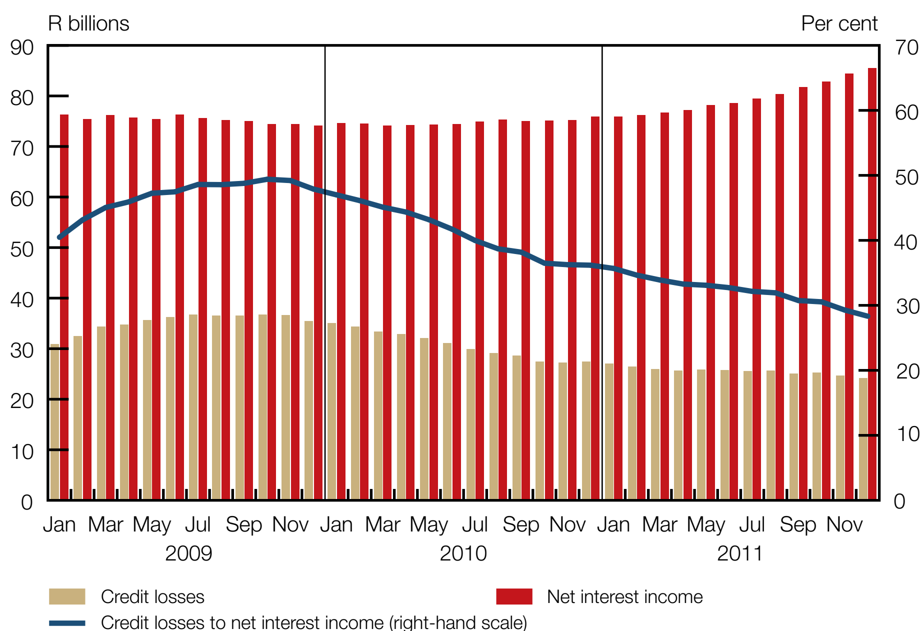


Figure 4.26 depicts credit losses as a percentage of net interest income on a month-on-month basis. The ratio continued to decline from 36,2 per cent in December 2010 to 28,3 per cent at the end of 2011 owing to the aforementioned increase in net interest income and decrease in credit losses.

82 'Smoothed' ratios are calculated using 12-month moving averages, while 'unsmoothed' ratios are calculated using monthly data.

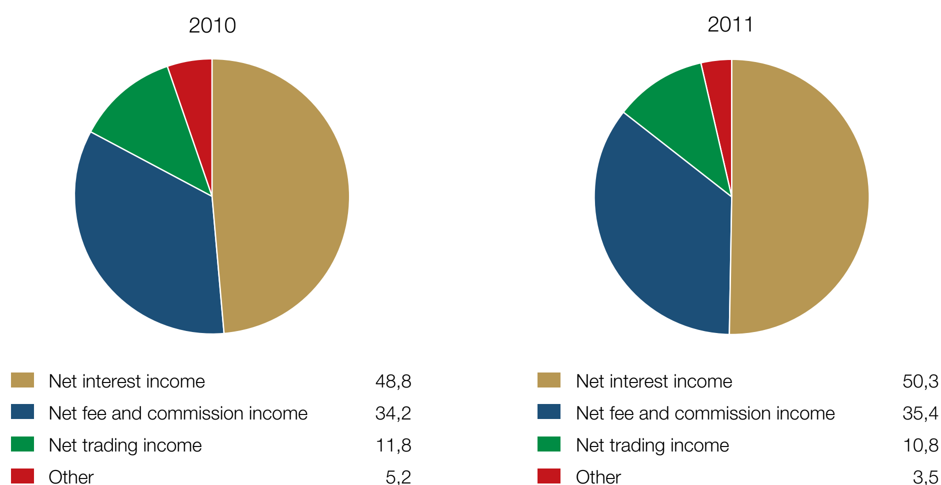
Figure 4.26 Credit losses to net interest income (smoothed)



94,4 per cent of gross operating income was derived from banking-book transactions

Figure 4.27 shows that there were minor changes to the composition of gross operating income from 2010 to 2011. Net interest income, and net fee and commission income constituted 50,3 per cent and 35,4 per cent respectively of gross operating income during 2011 (2010: 48,8 per cent and 34,2 per cent respectively). As depicted in Figure 4.28, 94,4 per cent of gross operating income was derived from banking-book transactions during 2011 (2010: 93,7 per cent). The changes in composition are largely reflective of the volatility in the fair value of the underlying trading-book instruments.

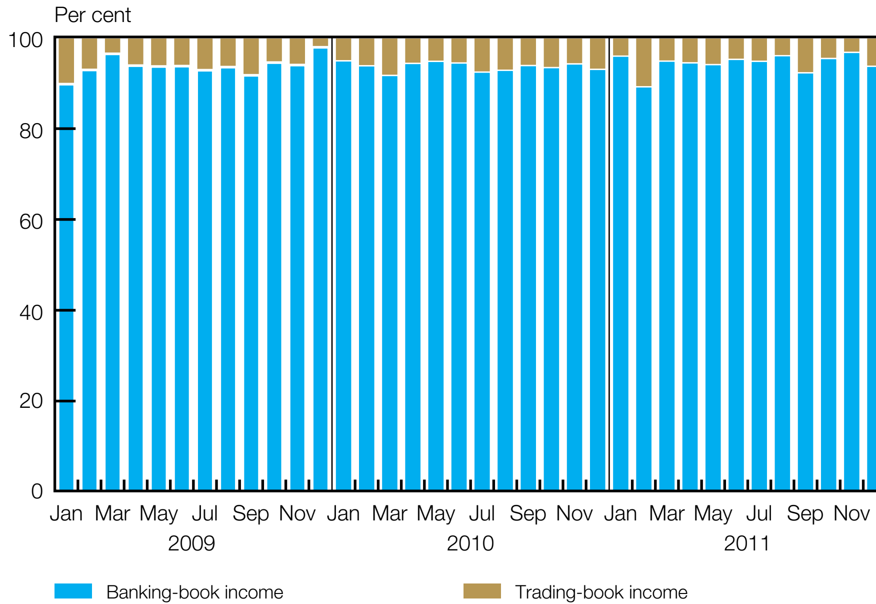
Figure 4.27 Composition of gross operating income (smoothed) (per cent)



2010	
Net interest income	48,8
Net fee and commission income	34,2
Net trading income	11,8
Other	5,2

2011	
Net interest income	50,3
Net fee and commission income	35,4
Net trading income	10,8
Other	3,5

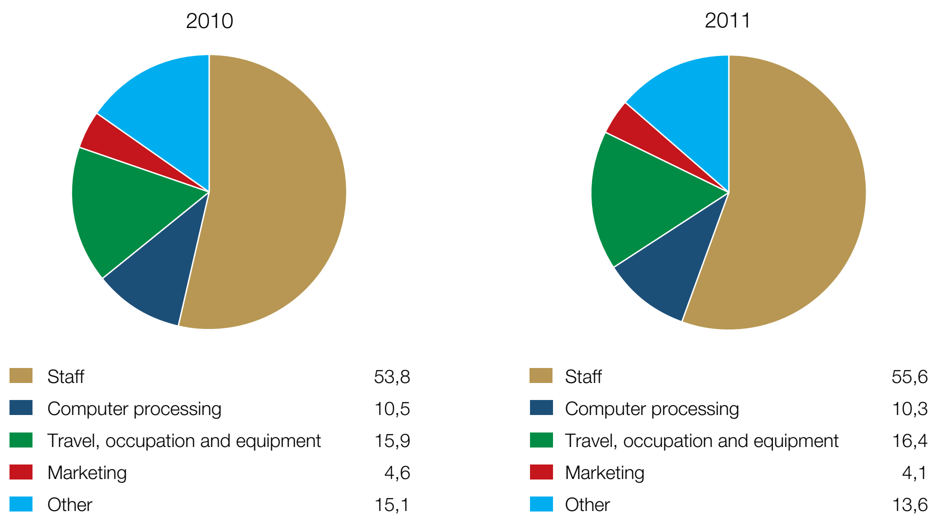
Figure 4.28 Banking-book income versus trading-book income (unsmoothed) (as a percentage of gross operating income)



operating expenses increased by 6,8 per cent

The composition of operating expenses, depicted in Figure 4.29, remained largely unchanged during the year under review. Operating expenses increased by 6,8 per cent to R94 billion for the year ending December 2011 (December 2010: R88 billion). The largest component of operating expenses, namely, staff expenses (as percentage of total operating expenses) increased from 53,8 per cent in 2010 to 55,6 per cent in 2011. Other operating expenses (consisting of fees and insurance, auditors' remuneration and other expenses), expressed as a percentage of total operating expenses, decreased by 150 basis points to 13,6 per cent for the period ended December 2011.

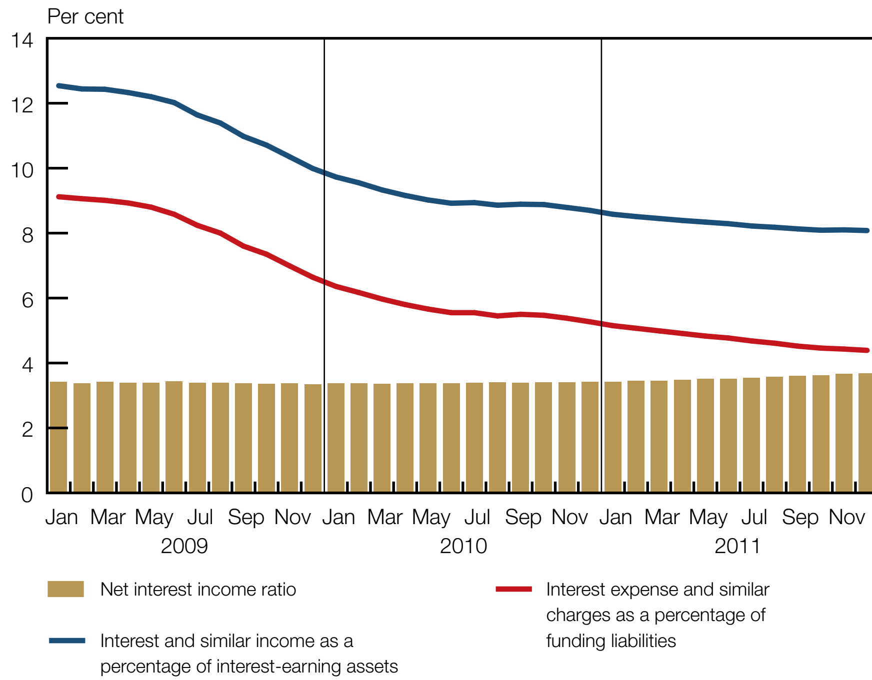
Figure 4.29 Composition of operating expenses (smoothed) (per cent)



The net interest income ratio, shown in Figure 4.30, is the difference between 'interest and similar income to interest earning assets' and 'interest expense and similar charges to funding liabilities'. The net interest income ratio increased marginally from, on average, 3,4 per cent during 2010 to, on average, 3,5 per cent during 2011, mainly due to the decrease in interest expense and similar charges exceeding the decrease in interest and similar income. The ratio

of interest and similar income to interest-earning assets declined during 2011 and amounted to 8,1 per cent at the end of December 2011 (December 2010: 8,7 per cent). The ratio of interest expenses and similar charges to funding liabilities decreased from 5,3 per cent in December 2010 to 4,4 per cent at the end of December 2011. This ratio mirrored the trend of interest and similar income to interest-earning assets ratio throughout 2011. During 2011, the repurchase rate remained unchanged.

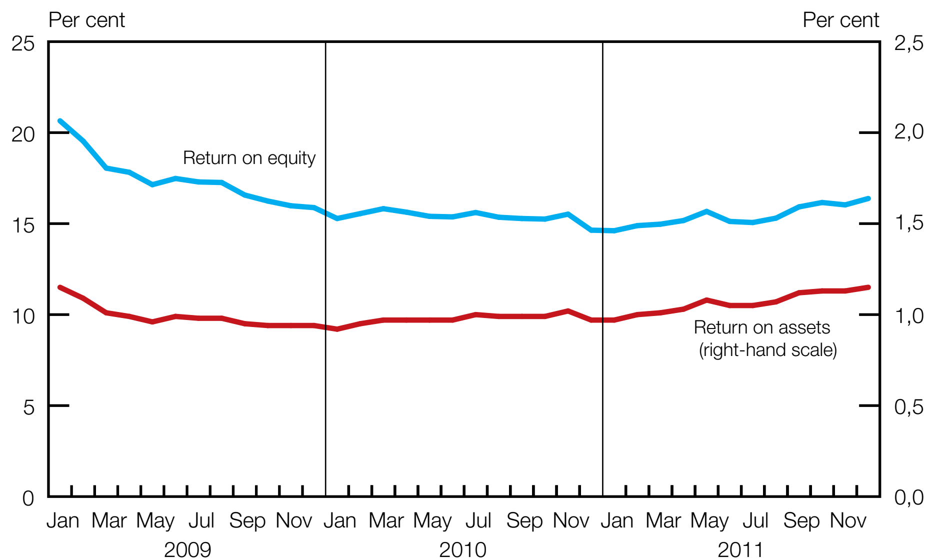
Figure 4.30 Net interest income ratio (smoothed)



ROE and ROA ratios increased

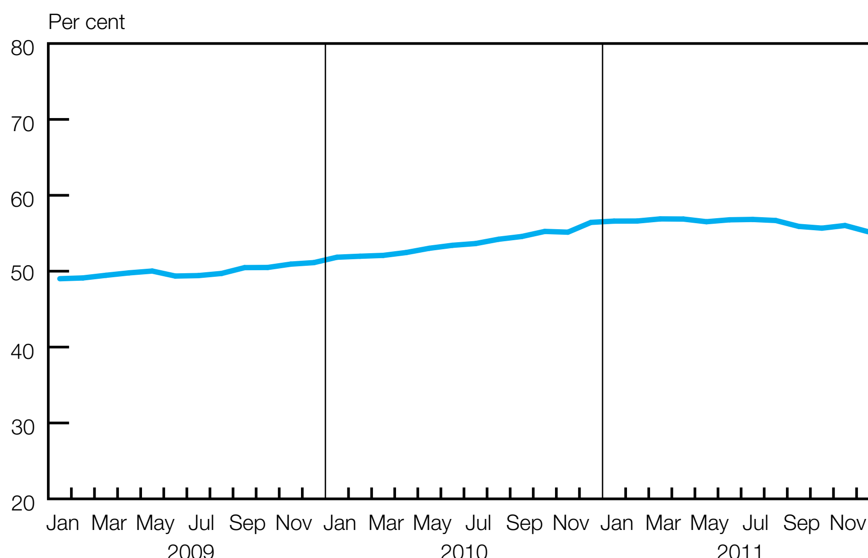
Figure 4.31 depicts the 12-month moving average ROE and ROA profitability ratios for the banking sector. The ROE and ROA ratios increased from 14,6 per cent and 1,0 per cent in December 2010 to 16,4 per cent and 1,2 per cent respectively in December 2011. The increase in the profitability ratios during 2011 was due to the aforementioned increase in banks' profitability.

Figure 4.31 Profitability ratios (smoothed)



The cost-to-income ratio, as illustrated in Figure 4.32, remained relatively stable at approximately 56,7 per cent between January and August 2011. Subsequently, the ratio decreased marginally to 55,2 per cent in December 2011, owing to a higher growth rate in gross operating income relative to that of operating expenses.

Figure 4.32 Cost-to-income ratio (smoothed)



4.6 Capital adequacy

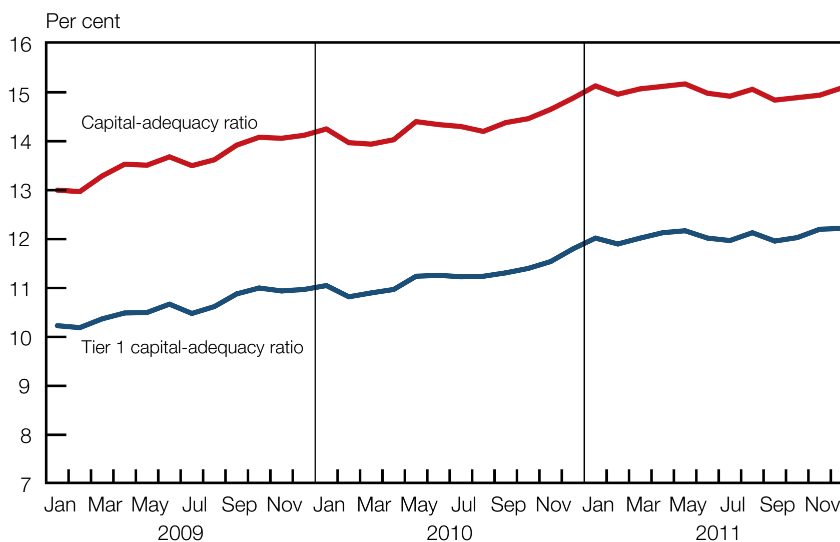
The minimum required CARs applicable to all banking operations and consolidated bank-controlling companies licensed in terms of the Banks Act are 7,0 per cent in respect of the Tier 1 CAR and 9,5 per cent for the total CAR. In addition, the Registrar may require banks and consolidated banking groups, as part of the supervisory review and evaluation process in terms of Pillar 2 of the Basel II framework, to maintain a total CAR above the minimum required level based on assessments of systemic risk and each bank's idiosyncratic risk.

4.6.1 Capital adequacy for banks solo

Banks' operations in South Africa (banks solo) remained adequately capitalised. The total CAR and the Tier 1 CAR for banks solo, depicted in Figure 4.33, remained relatively stable during 2011. The total CAR increased marginally from 14,9 per cent at the end of December 2010 to 15,1 per cent at the end of December 2011. The Tier 1 CAR increased from 11,8 per cent at the end of December 2010 to 12,2 per cent at the end of December 2011.

total CAR increased marginally

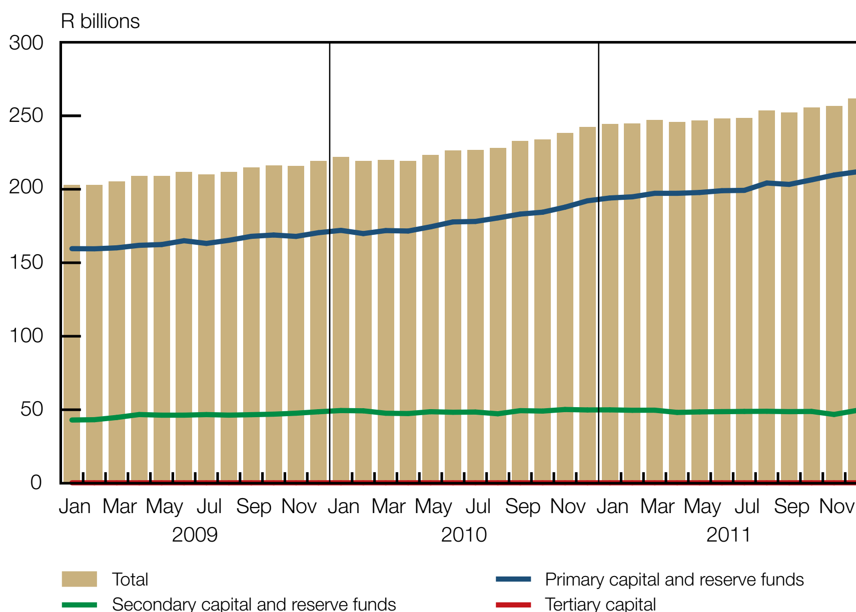
Figure 4.33 Capital-adequacy ratios (bank solo)



primary qualifying capital and reserve funds increased by 10,2 per cent

The composition of qualifying regulatory capital and reserve funds on a bank-solo basis is depicted in Figure 4.34. Total qualifying regulatory capital and reserve funds increased by 8,0 per cent from R242 billion at the end of 2010 to R262 billion at the end of December 2011, mainly due to an increase in primary qualifying capital and reserve funds. Primary qualifying capital and reserve funds increased by 10,2 per cent from R192 billion at the end of 2010 to R212 billion at the end of December 2011 and constituted approximately 80,4 per cent of total qualifying regulatory capital during 2011 (2010: 78,5 per cent). Secondary qualifying capital and reserve funds remained relatively stable during 2011 and amounted to R49,5 billion at the end of December 2011 (December 2010: R49,9 billion). As was the case in 2010, tertiary capital amounted to R0,3 billion throughout 2011.

Figure 4.34 Composition of qualifying regulatory capital and reserve funds (bank solo)

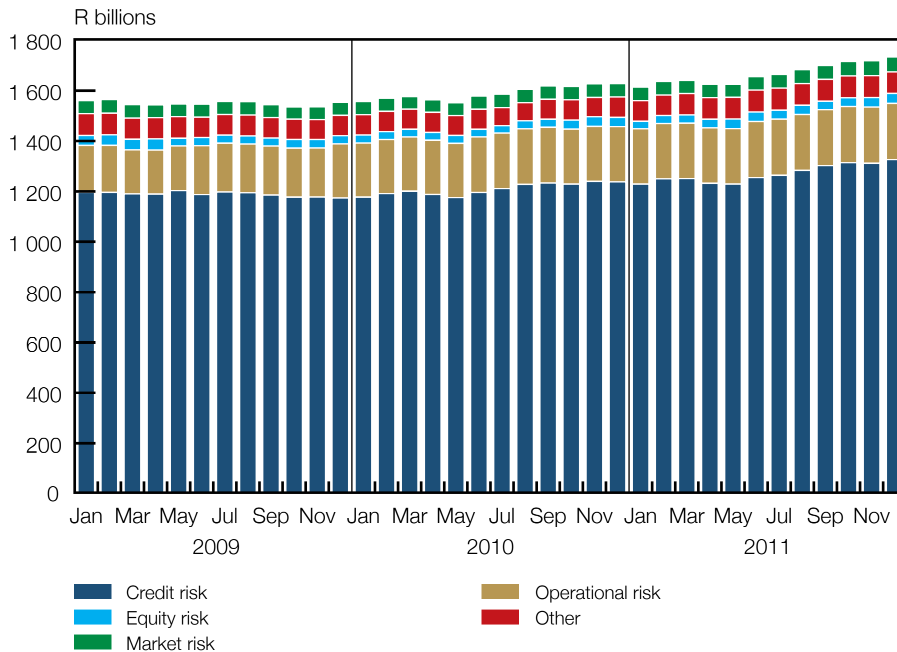


Total risk-weighted exposure (RWE),[83] as shown in Figure 4.35, increased by 6,5 per cent to R1 734 billion during the year under review (December 2010: R1 628 billion). Credit RWE, the

83 RWE is the amount used to calculate minimum regulatory capital (minimum regulatory capital = RWE x minimum required capital percentage).

largest component of total RWE, constituted, on average, 76,2 per cent of total RWE during 2011 (2010: 76,0 per cent). Total RWE increased by R106 billion mainly due to a R89 billion increase in credit RWE to R1 326 billion at the end of December 2011. Operational RWE amounted to R223 billion at the end of December 2011 and constituted, on average, 13,3 per cent of total RWE during 2011 (2010: 13,7 per cent). Equity risk in the banking book, market risk and other RWEs together constituted 10,5 per cent of total RWE during 2011 (2010: 10,3 per cent).

Figure 4.35 Total risk-weighted exposure (bank solo)

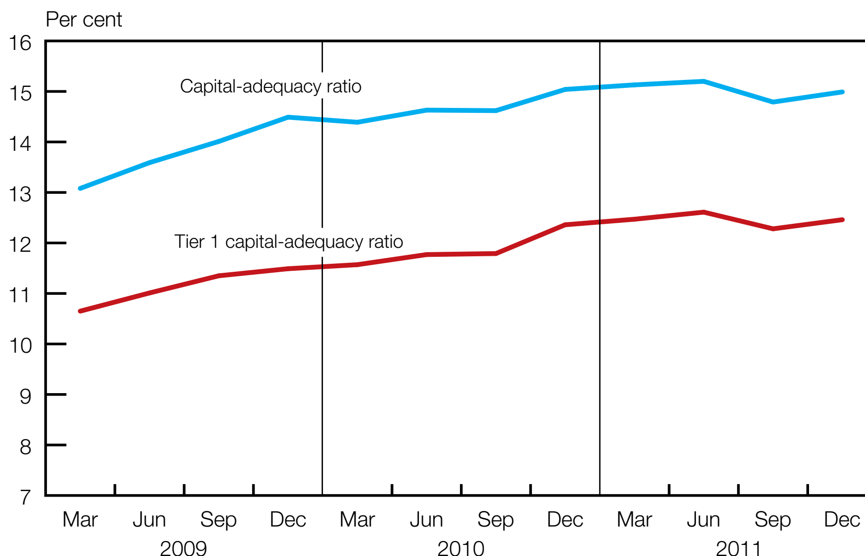


4.6.2 Capital adequacy for total consolidated banking groups

Figure 4.36 presents the CARs for consolidated banking groups. The total sector's CAR for consolidated banking groups remained unchanged at 15,0 per cent at the end of December 2011 (December 2010: 15,0 per cent). The consolidated Tier 1 CAR was 12,5 per cent at the end of December 2011 (December 2010: 12,4 per cent).

total banking-sector consolidated CAR remained unchanged at 15,0 per cent

Figure 4.36 Capital-adequacy ratios (consolidated banking groups)



4.7 Liquidity risk

the average liquid assets held increased

The average liquid assets held as a percentage of liquid assets required to be held are illustrated in Figure 4.37. In keeping with the previous year's trend, liquid assets held remained above the statutory liquid assets requirement of not less than 5 per cent of the banking sector's liabilities classified as 'reduced'[84] during the period under review. The average liquid assets held increased from R234 billion as at the end of December 2010 to R283 billion as at the end of December 2011. The ratio of liquid assets held to liquid assets required to be held peaked at 201,2 per cent during October 2011 before declining to 193,5 per cent as at the end of December 2011 (December 2010: 174,8 per cent). The banking sector holds liquid assets in excess of the statutory requirement as part of its liquidity risk management.

Figure 4.37 Statutory liquid assets (actual versus required)

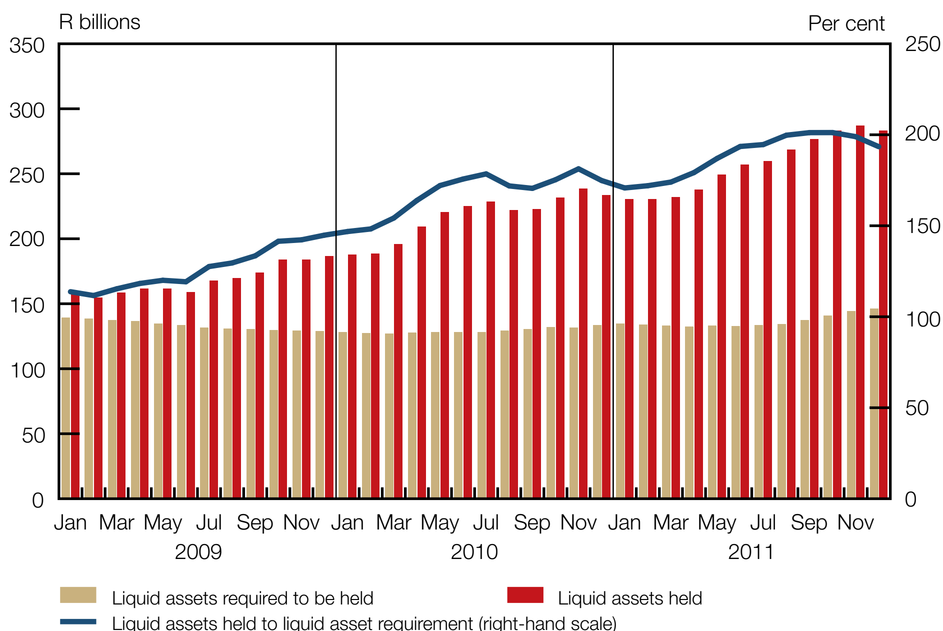


Figure 4.38 illustrates that as at the end of December 2011, 40,7 per cent of the total banking sector's contractual liabilities were classified as maturing the next day (December 2010: 38,9 per cent). This is significantly higher than the 3,2 per cent business-as-usual liabilities classified as maturing the next day (refer to Figure 4.39) as at the end of December 2011 (December 2010: 3,9 per cent). This difference between the two ratios may be attributed to the business-as-usual assumptions of banks, which take into account issues such as the retaining of funding or deposits on maturity or roll-over dates, notwithstanding the contractual arrangements pertaining to such funding or deposits. The decrease in the next-day bracket regarding the business-as-usual liabilities as at the end of December 2010 may be attributed to the contractual re-profiling by two of the major banks.

84 Refer to regulation 27 of the Regulations for a more detailed explanation in this regard.

Figure 4.38 Contractual maturity of liabilities (as a percentage of total liabilities)

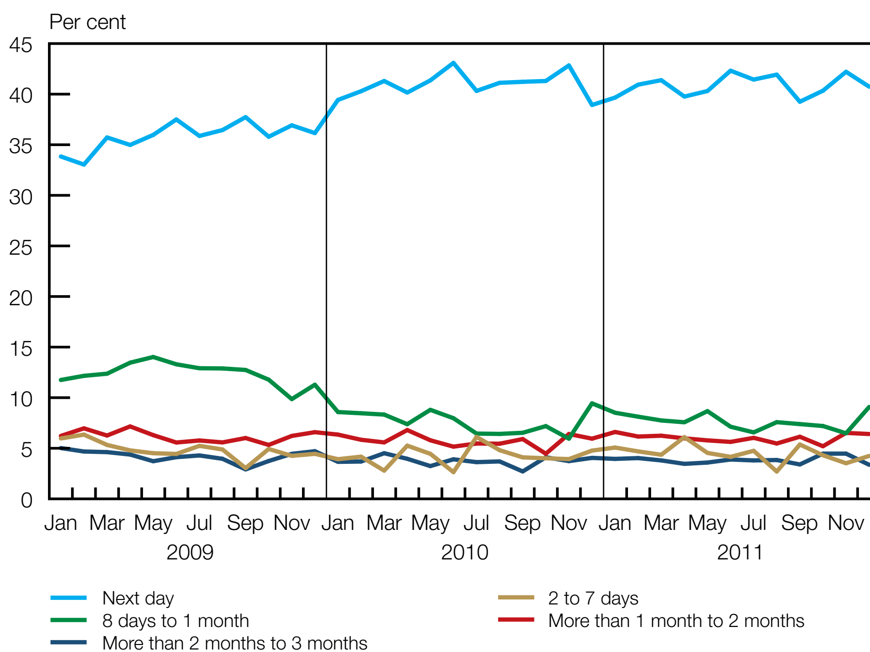


Figure 4.39 Business-as-usual maturity of liabilities (as a percentage of total liabilities)

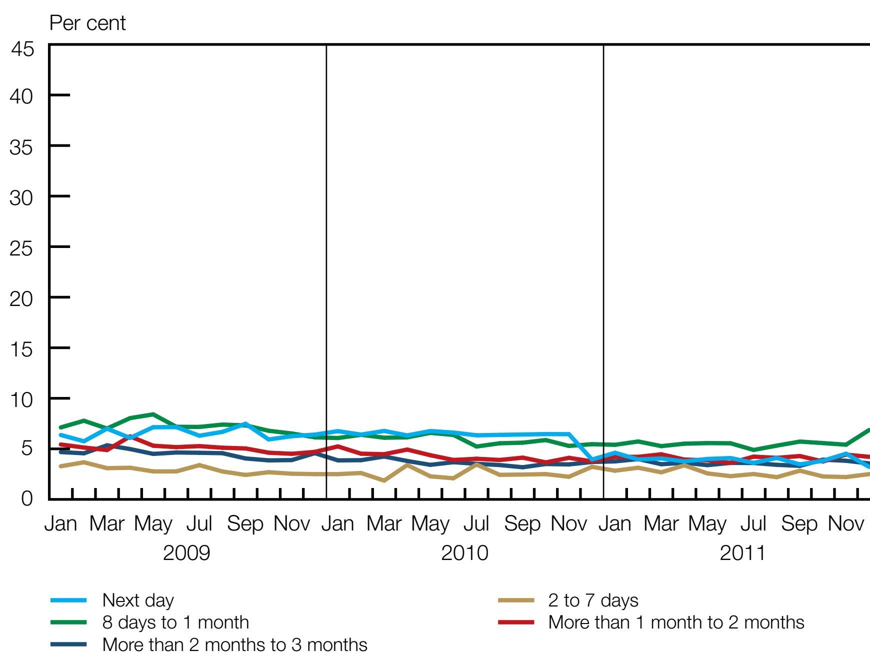
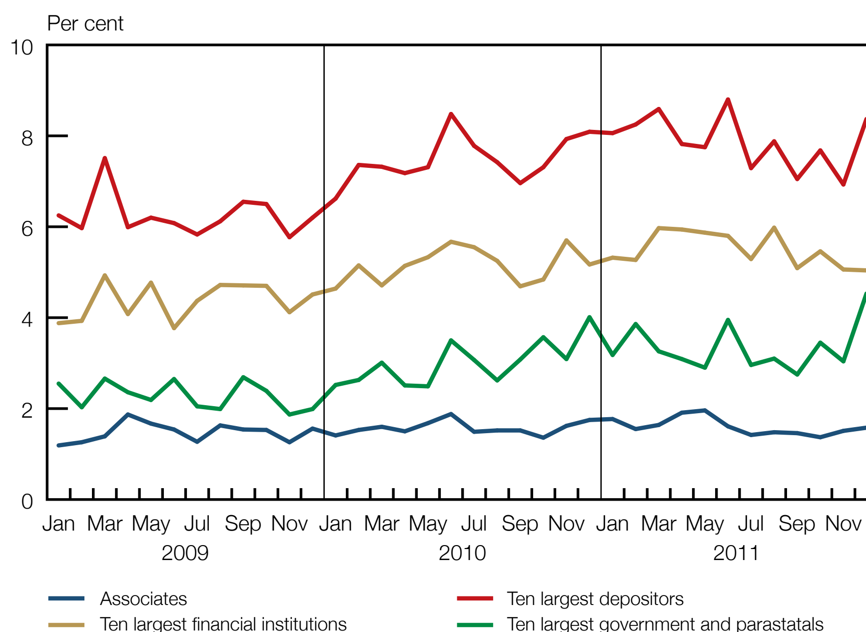


Figure 4.40 provides a summary of banks' total short-term deposit funding[85] (as a percentage of total liabilities) received from different categories of depositors. The banking sector's short-term funding received from the ten largest depositors and ten largest government and parastatals increased from 8,1 per cent and 4,0 per cent as at the end of December 2010 to 8,4 per cent and 4,5 per cent respectively as at the end of December 2011. Short-term funding received from the ten largest financial institutions and associates decreased marginally to 5,0 per cent and 1,6 per cent respectively as at the end of December 2011 (December 2010: 5,2 per cent and 1,8 per cent respectively).

85 Short-term funding has a duration of one month or less.

Figure 4.40 Concentration of short-term deposit funding (as a percentage of total banking-sector liabilities)



4.8 Credit risk

the lowest repurchase rate in more than 30 years played a role in improving the banking sector's credit environment

The Bank's repurchase rate remained unchanged at 5,5 per cent over the 12-month period to December 2011. This is the lowest repurchase rate in more than 30 years and, as a result, has played a role in improving the banking sector's credit environment. The sector accordingly experienced an increase in gross credit exposure and a decrease in credit losses during 2011.

The decrease in credit losses contributed towards increased profitability in the sector. Credit losses reduced the retail asset classes largely as a result of improved consumer financial positions resulting from the sustained low interest rate environment and improved credit collection processes. Retail mortgage on-balance-sheet exposure, the largest on-balance-sheet asset category reported by the IRB banks, increased by 0,3 per cent year on year to December 2011. This is reflective of, among other things, the sector's risk appetite and continued focus on pricing, as well as households' cautious approach to entering new long-term loans. The subdued mortgage market is affecting collateral values and lengthening the resolution process for distressed, secured portfolios. Impaired advances decreased by 11,8 per cent largely due to increased write-offs.

Moody's downgraded the senior debt and deposit ratings of the five largest South African banks

During February 2012, Moody's Investor Service (Moody's) downgraded the senior debt and deposit ratings of the five largest South African banks by one notch. The downgrades reflected "the impact of the country's increasingly constrained public finances and Moody's view that authorities would face challenging policy choices if multiple institutions were to need its financial support at the same time".[86] The downgrades were not a reflection of the banks' credit risk exposure or financial position.

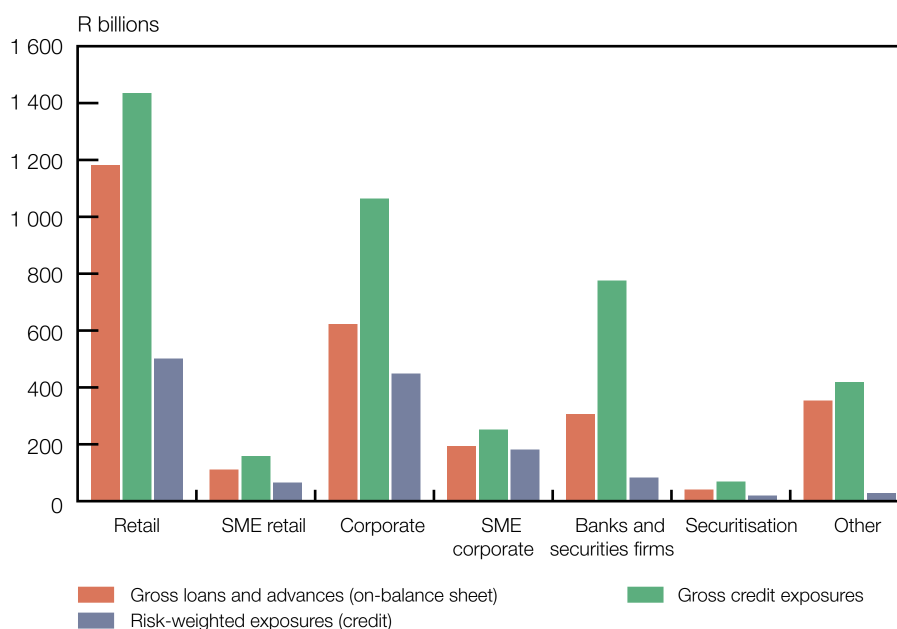
Gross loans and advances, gross credit exposures and RWEs per asset class as at December 2011 are shown in Figure 4.41. The difference between gross credit exposures and gross loans and advances (on-balance sheet) reflects off-balance-sheet credit exposures, repurchase or resale agreements, and derivative financial instruments in the various asset classes.

86 Moody's, "Moody's Downgrades South African Banks: Concluding Review Focusing on Systemic Support Assumptions" (Limassol: Moody's, 28 February 2012), 1. The review is available at http://www.moodys.com/research/Moodys-downgrades-South-African-banks-concluding-review-focusing-on-systemic--PR_238562.

The banking sector's total gross credit exposure increased by 7,2 per cent to December 2011. The difference between gross credit exposures and RWEs reflects the application of the risk weightings applied to the banks' total credit exposures in each asset class. At the end of December 2011:

- the banks and securities firms category had the lowest ratio of gross on-balance-sheet loans and advances to gross credit risk exposure (due to the large amount of off-balance-sheet exposure);
- the other category (that is, exposure to public-sector entities, local government and municipalities, and sovereign) had the highest ratio of gross on-balance-sheet loans and advances to gross credit exposures;
- the small and medium enterprise (SME) corporate category had the highest ratio of RWE to gross credit exposures; and
- the 'other' category[87] had the lowest ratio of RWE to gross credit exposures as a result of the South African sovereigns being risk weighted at zero per cent.

Figure 4.41 Gross credit exposures and risk-weighted exposures per asset class



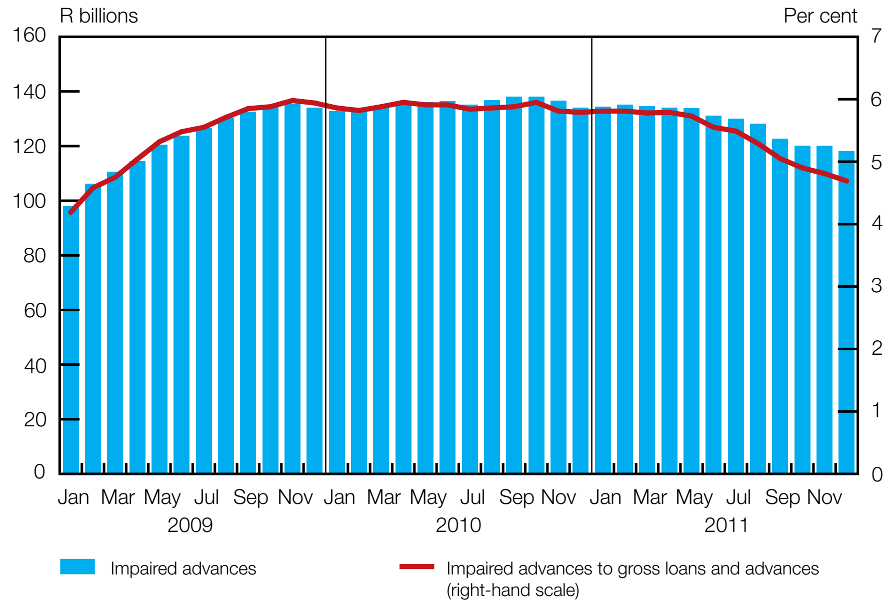
4.8.1 Total impaired advances

impaired advances decreased

Impaired advances decreased from a peak of R138 billion in October 2010 to R118 billion in December 2011 (refer to Figure 4.42). The decrease in impaired advances is a result of increased write-offs, the impact of stricter lending criteria, and proactive credit risk management processes focusing on highly indebted consumers. A key indicator of credit risk quality in the banking sector is the ratio of impaired advances to gross loans and advances. This ratio remained largely unchanged during 2010 and the first quarter of 2011, but has subsequently shown a declining trend, amounting to 4,7 per cent as at December 2011 (December 2010: 5,8 per cent). The decline in the ratio was due to an 11,8 per cent decrease in impaired advances and an 8,8 per cent increase in gross loans and advances.

87 The 'other' category consists of public-sector entities, local governments and municipalities, and sovereign counterparties.

Figure 4.42 Impaired advances to gross loans and advances

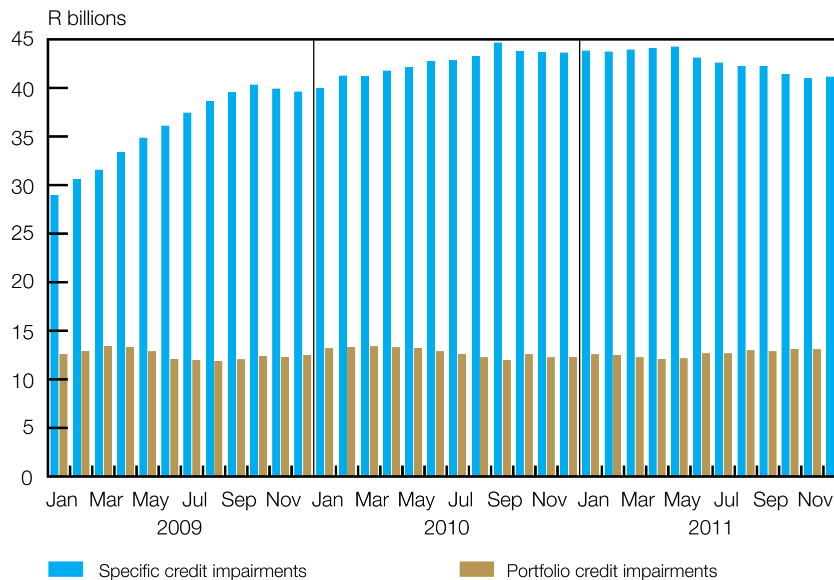


4.8.2 Credit impairments

specific credit impairments decreased

Figure 4.43 shows that specific credit impairments decreased from a peak of R44,6 billion in September 2010 to R41,1 billion in December 2011 (December 2010: R43,6 billion). The growth rate declined from 10,1 per cent at December 2010 to negative 5,6 per cent at December 2011. The decline in the growth rate of specific credit impairments corresponds to the decrease in impaired advances and is a result of an increasing number of write-offs. The growth in portfolio credit impairments increased from negative 1,4 per cent in December 2010 to 8,8 per cent in December 2011. The increase in portfolio impairments is reflective of the uncertainty and challenging conditions in the credit market.

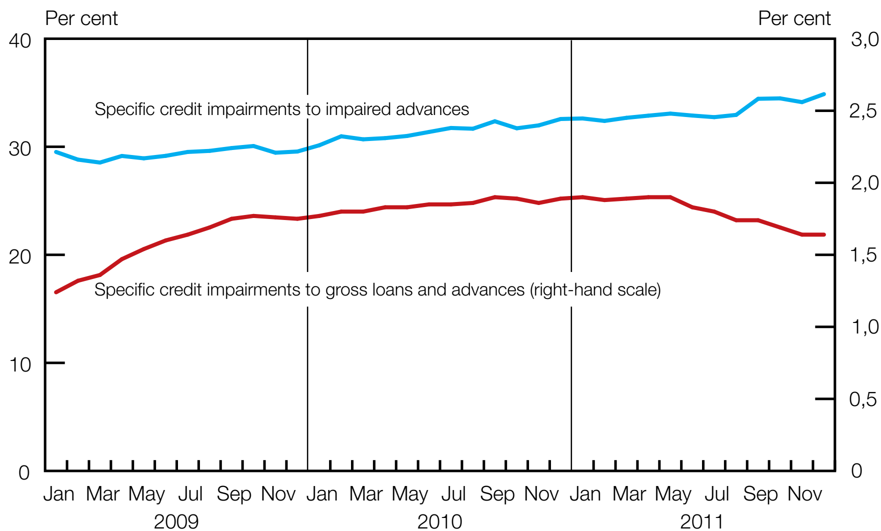
Figure 4.43 Specific and portfolio credit impairments



Specific credit impairments as a percentage of impaired advances and of gross loans and advances respectively are illustrated in Figure 4.44. The declining trend in the ratio of specific impairments to gross loans and advances since June 2011 is due to specific impairments

declining and gross loans and advances increasing. The increasing trend in the ratio of specific credit impairments as a percentage of impaired advances continued throughout the period under review, reaching 34,9 per cent at the end of December 2011 (December 2010: 32,6 per cent). This increase was due to the rate of decline in impaired advances exceeding the rate of decline in specific impairments during 2011, which indicates that banks continued to raise more specific impairments against impaired advances.

Figure 4.44 Specific credit impairment ratios

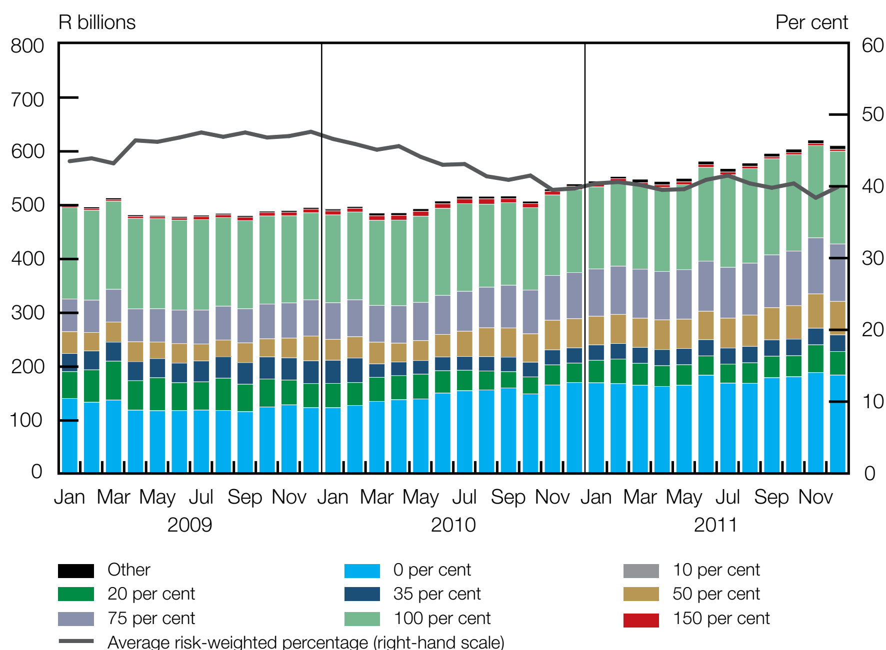


4.8.3 The standardised approach banks

The majority of banks use the STA to report credit risk for the purposes of calculating the minimum regulatory capital requirements. The STA banks represented 18,8 per cent of the total banking sector's total gross credit exposure at the end of December 2011 (December 2010: 17,8 per cent). Gross credit exposure increased by 13,0 per cent mainly due to an increase in on-balance-sheet exposure to retail, sovereign, bank and corporate exposure. Figure 4.45

gross credit exposure increased by 13,0 per cent

Figure 4.45 Risk-weighting distribution of credit exposures under the standardised approach



shows the gross credit exposure broken down according to the risk-weight percentage assigned. The total credit risk-weighted distribution of the STA banks increased by 13,1 per cent, which is in line with the increase in gross credit exposure. The ratio of total credit RWE to gross credit exposure (or average risk-weighted percentage) increased marginally from 39,7 per cent to 39,9 per cent as at December 2011. This was mainly due to a decrease in credit risk mitigation of counterparties risk weighted at 20 per cent.

4.8.4 Classification of credit risk exposures under the standardised approach

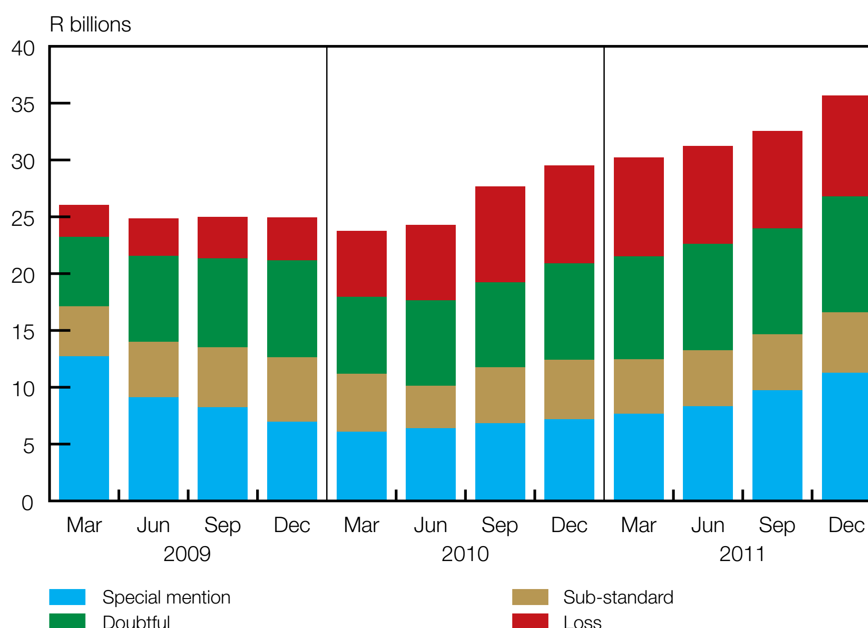
Credit risk exposures are reported quarterly and are classified as either 'standard', 'special mention', 'sub-standard', 'doubtful' or 'loss'. Table 4.3 provides only one of a number of different characteristics that credit exposures should exhibit in order to be classified under the STA credit risk category.

Table 4.3 Classification of credit risk exposures in terms of the standardised approach

Repayment of principle and/or accrued interest has been overdue for:	Regulation 24(5)(c) classification
0 to 60 days	Standard
61 to 90 days	Special mention
91 to 180 days	Sub-standard
181 to 360 days	Doubtful
More than 360 days	Loss

Amounts in all categories increased during the year under review, with the largest increase amounting to 56,8 per cent as at December 2011 in the 'special mention'[88] category (refer to Figure 4.46).

Figure 4.46 Classification of credit risk exposures under the standardised approach



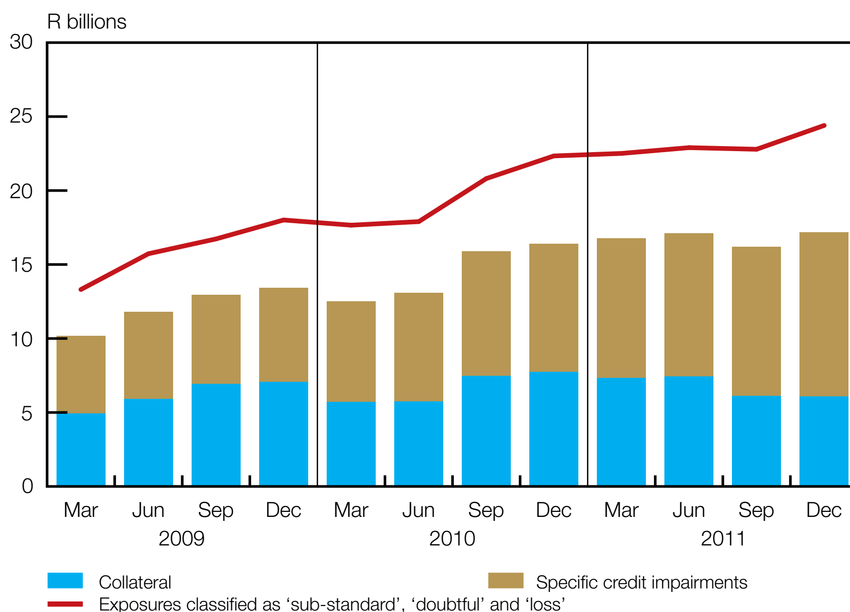
88 Credit exposures classified as 'special mention' are exposures that, if left uncorrected, could raise concerns about the timely and full repayment of the principal amount and related interest or other income, and as such require special attention.

Exposures classified as 'sub-standard', 'doubtful' or 'loss' measured against specific credit impairments raised and collateral held are shown in Figure 4.47. 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 has the authority to require banks with significant unsecured lending portfolios to adhere to higher minimum CARs.

the Registrar may require banks with significant unsecured lending portfolios to adhere to higher minimum CARs

The gap between the classified exposures and collateral, and specific credit impairments increased by 21,9 per cent in December 2011. This increase was mainly due to the growth in classified exposures (9,2 per cent) exceeding the growth in related specific credit impairments and collateral (4,6 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",[89] issued in July 2005, banks can estimate expected losses (ELs) based on three key drivers:

- Probability of default (PD) per rating band,[90] which gives the average percentage of obligors that default in this rating band during 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) at the point of default.
- Loss given default (LGD), which gives the percentage of exposure the bank might lose should the borrower default.

The EL is calculated as follows:

EL = PD x EAD x 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.

89 Basel Committee, "An Explanatory Note on Basel II IRB Risk Weight Functions" (Basel: Basel Committee, July 2005), 5–6.

90 For the purposes of analysing credit risk reported by IRB banks, the banks classify each credit risk exposure into one of 26 PD bands, ranging from performing to default. For further information, refer to lines 224 to 249 (formerly lines 193 to 219), columns 2 and 3 of the form BA 200. The form BA 200 is available at http://www.resbank.co.za/Lists/News%20and%20Publications/Attachments/52/03%20Chapter%20II.pdf.

Banks that utilised the IRB approach for calculating minimum capital requirements for credit risk represented 81,2 per cent of the banking sector's total gross credit exposure at the end of December 2011 (December 2010: 82,2 per cent). Table 4.4 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, with total retail and total corporate exposures forming the main components.

Table 4.4 Key credit risk indicators reported by internal ratings-based banks

	Dec 2009	Dec 2010	Dec 2011
Total exposure at default (R billions)	2 597	2 611	2 788
Exposure at default analysed by PD band (R billions)	2 533	2 547	2 721
Average probability of default (per cent)	7,4	7,0	5,8
Of which:			
Retail	12,4	11,3	9,8
Corporate	3,6	3,9	3,0
Average loss given default (per cent)	28,4	28,7	29,2
Of which:			
Retail	24,2	25,7	25,9
Corporate	34,4	33,6	33,7
Expected loss as a percentage of exposure at default (per cent)	2,0	2,0	1,7
Risk-weighted exposure as a percentage of exposure at default (per cent)	35,0	37,0	36,5
Advances in default as a percentage of exposure at default (per cent)	4,7	4,7	3,5

banks experienced an improvement in credit demand

Banks experienced an improvement in credit demand compared to the sluggish growth observed during 2010. Total EAD increased by 6,9 per cent to R2,7 trillion at the end of December 2011 (2010: 0,5 per cent to R2,6 trillion). The average PD for all categories, excluding specialised lending (which exposures were mapped into standardised rating categories) and securitisation, decreased to 5,8 per cent at the end of December 2011 (December 2010: 7,0 per cent). The decrease was due to the recovery in corporate and retail exposures.

Banks updated their internal models with data from the year under review. As a result, banks reported a slight increase in total LGD to 29,2 per cent at the end of December 2011 (December 2009: 28,7 per cent), driven by slight increases in LGD reported for the retail and corporate portfolios.

EL as a percentage of EAD decreased to 1,7 per cent (December 2010: 2,0 per cent) due to the recovery experienced during 2011. Defaulted advances decreased to 3,5 per cent at the end of December 2011 (December 2010: 4,7 per cent).

As with the STA banks, the IRB banks continued to refine credit risk frameworks, and specifically rating systems' risk estimates, which resulted in a slight decrease in the average risk-weight percentage.

Figures 4.48 and 4.49 respectively show the total retail and corporate distributions of EAD in standard PD bands, and give an indication of PD migration and credit quality from 2009. As the credit quality (or credit rating) of the exposures improved during 2011, the exposures migrated towards the lower PD bands. These lower PD bands of 0 per cent to 8,611 per cent would generally include higher-quality credit exposures. Total EAD reported within these bands

increased by 7,5 per cent at the end of December 2011 (December 2010: 2,8 per cent). For 2011, Figures 4.48 and 4.49 also indicate a decrease in EAD reported as 'in default'.[91]

Figure 4.48 Distribution of retail exposures at default into standard probability of default bands

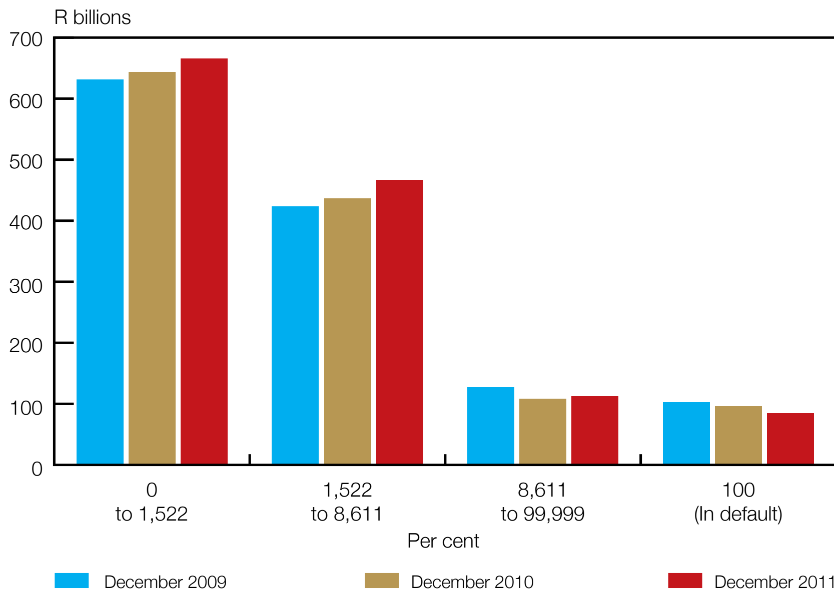
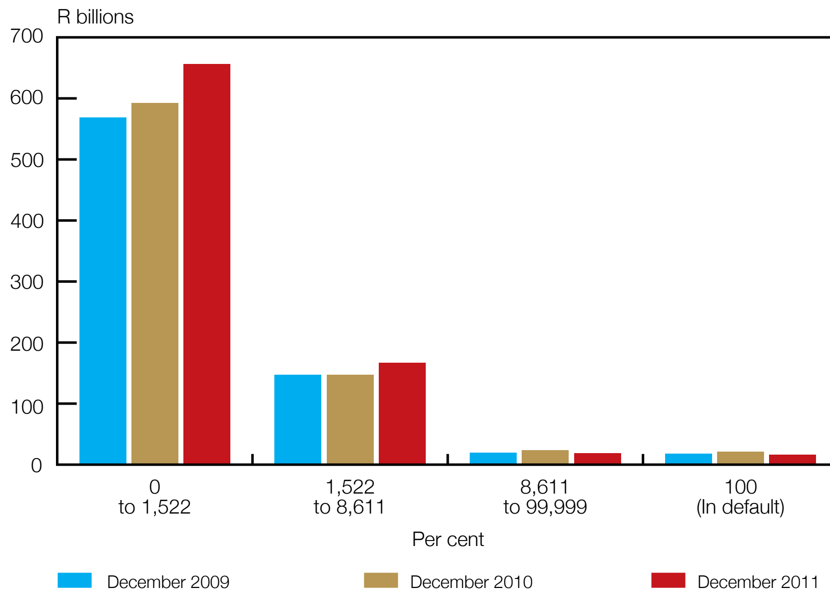


Figure 4.49 Distribution of corporate exposures at default into standard probability of default bands



4.8.6 Exposure at default

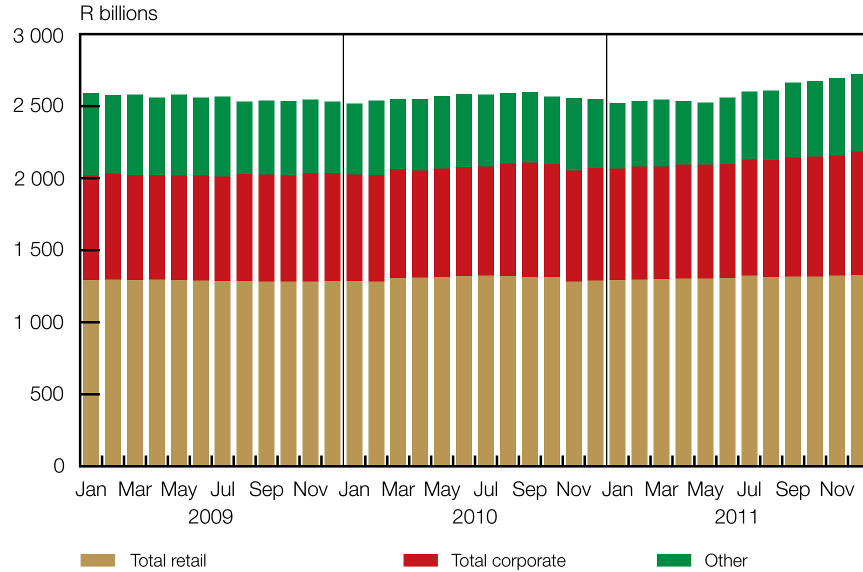
The total EAD per standard rating bands classified according to each major asset category is presented in Figure 4.50. EAD for IRB banks increased by 6,9 per cent to R2 721 billion at the end of December 2011 (December 2010: R2 547 billion). This is the highest EAD over the three-year period shown. All three asset categories increased during the year under review, with corporate EAD showing the largest increase (R74 billion) and the 'other'

total gross credit exposure for IRB banks increased

91 The 'in default' category 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.

category showing the highest growth rate (13,1 per cent in December 2011). The increase was mainly due to increased exposure to banks. As was the case in 2010, the sector continued to have the largest EAD to the retail category (48,8 per cent of total EAD), although the composition of total EAD changed marginally due to a 110 basis point increase in the 'other' category and a 76 basis point increase in the corporate category.

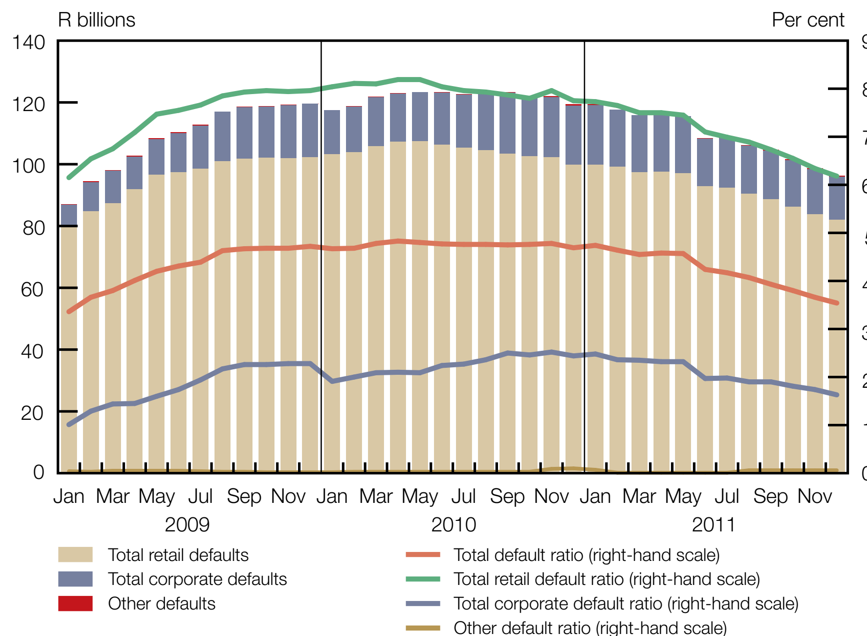
Figure 4.50 Total exposure at default



total retail default exposures declined

Total default exposures declined from a peak of R123,4 billion in May 2010 to R96,3 billion as at December 2011 (December 2010: R119,4 billion), with all asset categories reflecting a decline (refer to Figure 4.51). Total retail default exposures declined by 17,9 per cent mainly due to a 19,7 per cent decline in retail mortgage default exposures. The composition of total default exposures changed slightly, with total retail default exposures increasing by 160 basis points to 85,2 per cent in December 2011 (December 2010: 83,6 per cent).

Figure 4.51 Total default exposure and default ratio per asset class

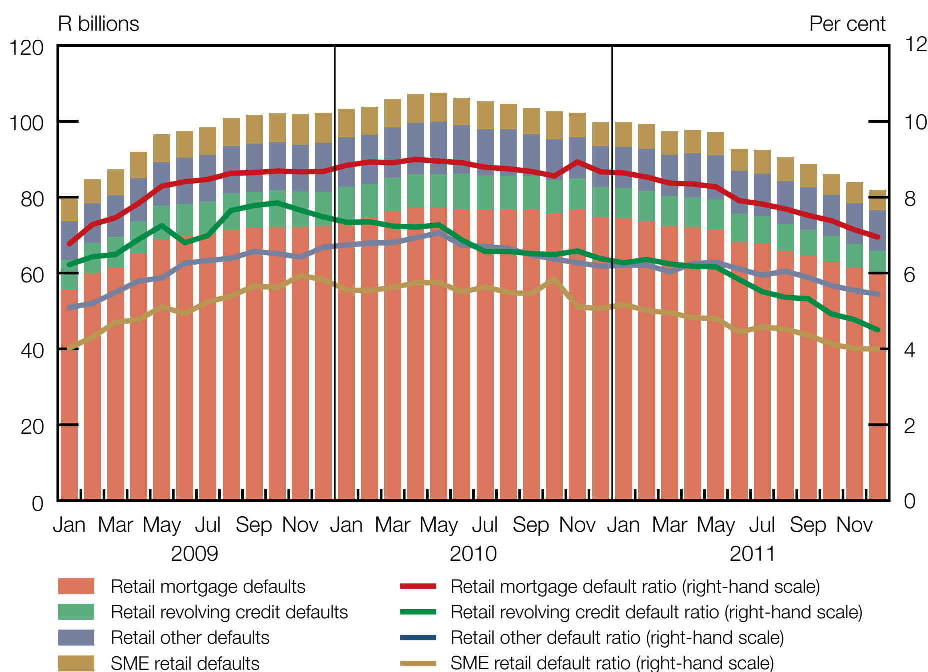


Default exposures in the corporate asset class, which includes corporate, specialised lending, SME corporate and purchased receivables from corporations, decreased by 14,5 per cent to December 2011 (December 2010: 16,0 per cent). As at December 2011, 3,5 per cent of the total EAD was reported as default (December 2010: 4,7 per cent). Both corporate and retail default ratios decreased during the year under review due to the decrease in defaulted exposures and the growth in performing exposures, indicating a general improvement in the quality of loans on banks' books.

corporate and retail default ratios decreased

Figure 4.52 shows the composition of retail default exposures and the related default ratios. Defaults in all retail asset categories declined during the year under review to December 2011. Retail mortgage defaults, the largest component of total retail defaults, peaked at R77 billion in April 2010 and subsequently declined to R60 billion in December 2011 (December 2010: R75 billion). Other significant declines in the retail default categories include a 25,8 per cent decline in retail revolving credit defaults to R6,0 billion – the lowest value over the three-year period (December 2010: R8,1 billion) – and a 14,7 per cent decline in SME retail defaults to R5,5 billion in December 2011 (December 2010: R6,5 billion). The default ratios of all retail categories also decreased during 2011, with the retail mortgage, retail revolving credit and SME retail default categories all showing declines in excess of 100 basis points.

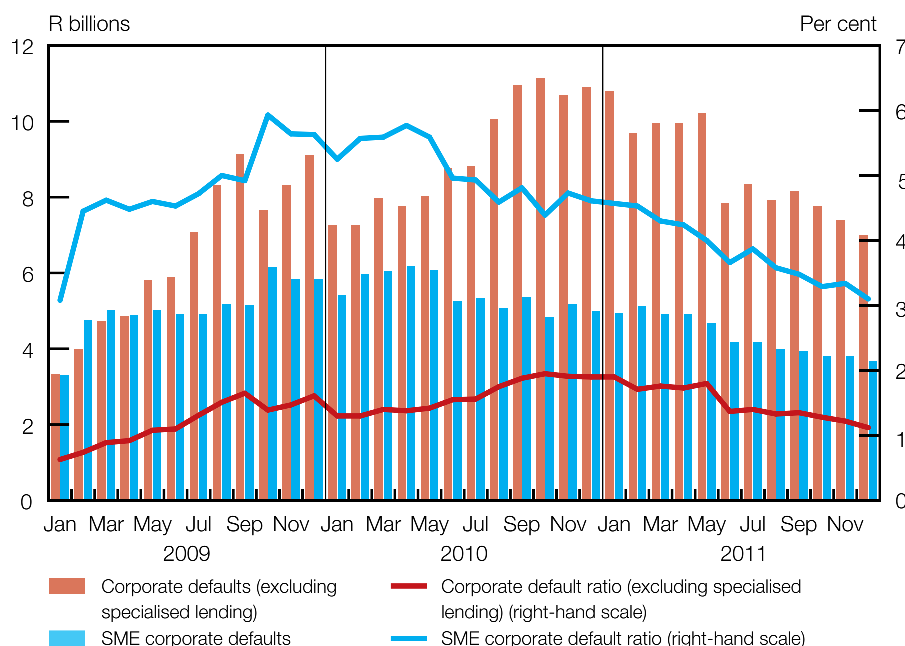
Figure 4.52 Composition of retail default exposures and their respective default ratios



Corporate defaults (excluding specialised lending, SME corporate and purchased receivables from corporations) continued to decline from a peak of R11,1 billion in October 2010 to R7,0 billion in December 2011 (December 2010: R10,9 billion) (refer to Figure 4.53). SME corporate defaults declined by 26,6 per cent to R3,7 billion in December 2011 (December 2010: R5,0 billion). Corporate defaults (including specialised lending and purchased receivables from corporations) and SME corporate defaults constituted 14,5 per cent of total defaults as at December 2011 (December 2010: 16,0 per cent). As at December 2011, 1,1 per cent of the exposure to the corporate asset class (excluding specialised lending, SME corporate and purchased receivables from corporations) was in default (December 2010: 1,9 per cent) and 3,1 per cent of the exposure to the SME corporate asset class was in default (December 2010: 4,6 per cent). The improvement in defaults was mainly due to continued write-offs and, to a lesser extent, the curing of accounts from default to performing PD bands.

corporate defaults continued to decline

Figure 4.53 Composition of corporate default exposures (excluding specialised lending) and small and medium corporate enterprises' default exposures, and their respective default ratios



4.8.7 Credit concentration risk: Sectoral and geographic distribution of credit exposures

Tables 4.5 and 4.6 provide an analysis of credit exposures as a percentage of total credit exposure according to economic sectors and geographic areas. Since December 2009, the major increases in credit risk exposure were to finance and insurance, real estate, manufacturing, and community and personal services, whereas the major decrease in credit exposure was to private households. Since December 2010, there was above-average increased exposure to the mining, business services, and finance and insurance sectors, and above-average decreased exposure to private households and other sectors. As was the case in December 2010, 60 per cent of the banking sector's credit exposure continued to be to the private households, and finance and insurance sectors as at December 2011.

Table 4.5 Sectoral distribution of credit exposures (as a percentage of total credit exposure)

	Dec 2009*	Dec 2010*	Dec 2011*
Agriculture	1,61	1,72	1,73
Mining	3,19	2,93	3,69
Manufacturing	3,67	4,10	4,25
Electricity	0,69	0,91	0,85
Construction	1,30	1,22	1,18
Wholesale and retail trade	3,83	3,86	3,92
Transport and communication	2,88	3,58	3,40
Finance and insurance	22,58	24,83	25,20
Real estate	5,46	6,41	6,35
Business services	4,65	3,35	3,69
Community and personal services	4,81	5,17	5,38
Private households	39,16	35,14	34,36
Other	6,17	6,79	6,02
Total	100,00	100,00	100,00

* Percentages may not add up to 100 due to rounding

Although the majority of credit exposure was still to South African counterparties as at December 2011, the banking sector's credit risk concentration to South Africa has been decreasing since December 2009 (refer to Table 4.6). The banking sector has been increasing its exposure mainly to the 'other' and Asian geographic regions since December 2009. As of December 2011, 86,9 per cent of the banking sector's credit exposure was concentrated in South Africa, followed by Europe and North America, representing 7,4 per cent and 1,7 per cent respectively (December 2010: 88,4 per cent, 7,4 per cent and 1,7 per cent respectively).

Table 4.6 Geographic distribution of credit exposures (as a percentage of total credit exposure)

	Dec 2009*	Dec 2010*	Dec 2011*
South Africa	90,63	88,37	86,87
Other African countries	0,50	0,51	1,21
Europe	7,06	7,38	7,38
Asia	0,31	0,54	1,25
North America	1,27	1,67	1,65
South America	0,11	0,19	0,16
Other	0,12	1,32	1,49
Total	100,00	100,00	100,00

* Percentages may not add up to 100 due to rounding

4.9 Market risk

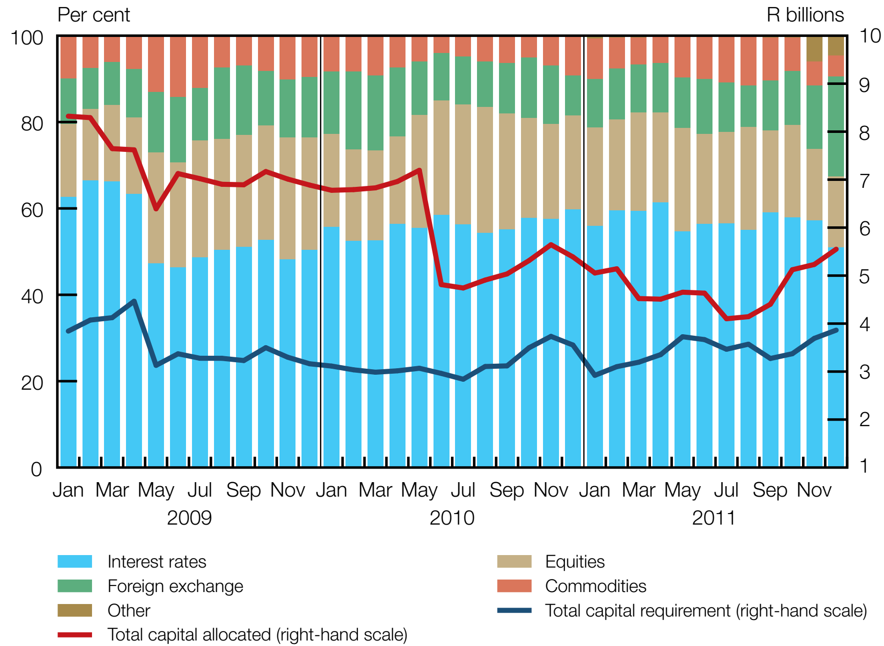
4.9.1 Regulatory capital requirement in respect of market risk

The composition of the market risk regulatory capital requirement is illustrated in Figure 4.54. The total regulatory capital requirement for market risk increased by 8,7 per cent from R3,6 billion at the end of December 2010 to R3,9 billion at the end of December 2011. Total capital allocated for market risk increased by 3,0 per cent to R5,6 billion at the end of December 2011 (December 2010: R5,4 billion).

The majority of the market risk regulatory capital requirement relates to interest rate exposure, which amounted to 51,0 per cent at the end of December 2011 (December 2010: 59,7 per cent). Interest rate instruments are used predominantly to manage interest rate risk in the banking book. Exposure to foreign-exchange instruments increased significantly, largely as a result of the depreciation of the South African rand to the US dollar during the last quarter of 2011. Market risk exposure to foreign-exchange instruments constituted 23,1 per cent of the total regulatory capital requirement for market risk at the end of December 2011 (December 2010: 9,2 per cent). Equity positions and commodities risk contributed 16,4 per cent (December 2010: 21,8 per cent) and 4,9 per cent (December 2010: 9,3 per cent) respectively to the total market risk capital requirement at the end of December 2011. Market risk capital requirements for other risks increased to 6,0 per cent of total market risk at the end of November 2011 and 4,6 per cent at the end of December 2011 respectively due to disclosure enhancements by one of the large banks.

exposure to foreign-exchange instruments increased significantly

Figure 4.54 Composition of regulatory capital requirement in respect of market risk



4.9.2 Derivative financial instruments

foreign exchange and interest rate contracts constituted the largest part of the turnover in derivative contracts

The composition of the monthly turnover in derivative contracts is depicted 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 fluctuated between around R6 billion and R12 billion during 2011, with the peak of R12,3 billion in February 2011 being attributed to an increase in interest rate derivative contracts. Foreign exchange and interest rate contracts constituted the largest part of the turnover in derivative contracts during the period under review and amounted to R3,6 billion and R1,7 billion respectively as at the end of December 2011 (December 2010: R3,1 billion and R1,6 billion respectively).

Figure 4.55 Composition of monthly turnover in derivative contracts (gross notional value)

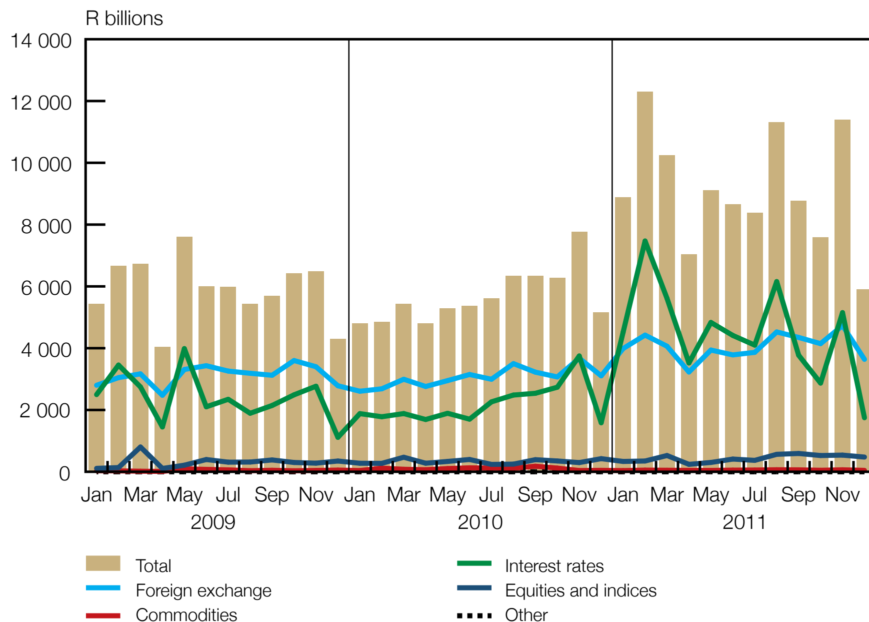
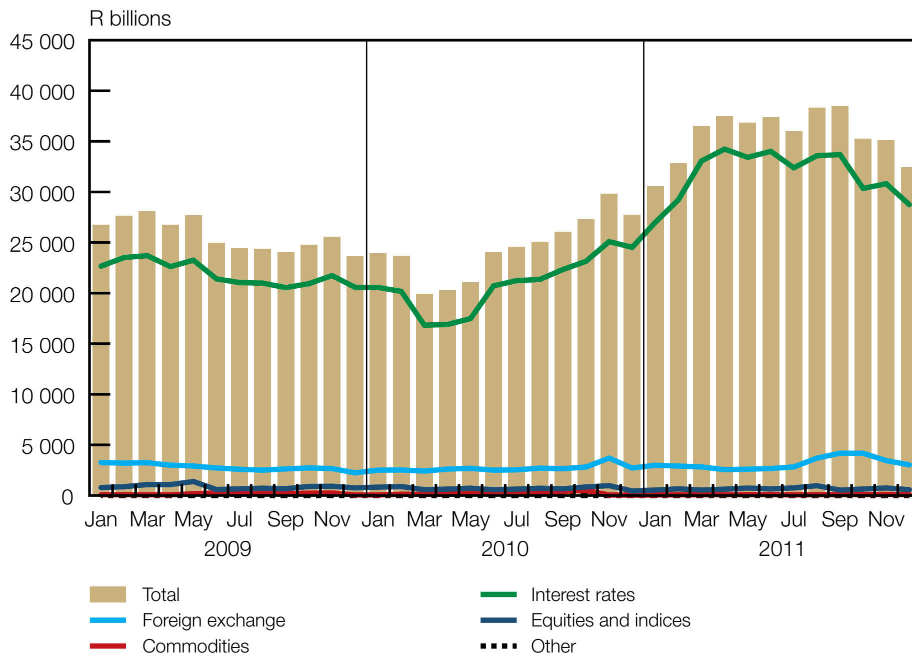


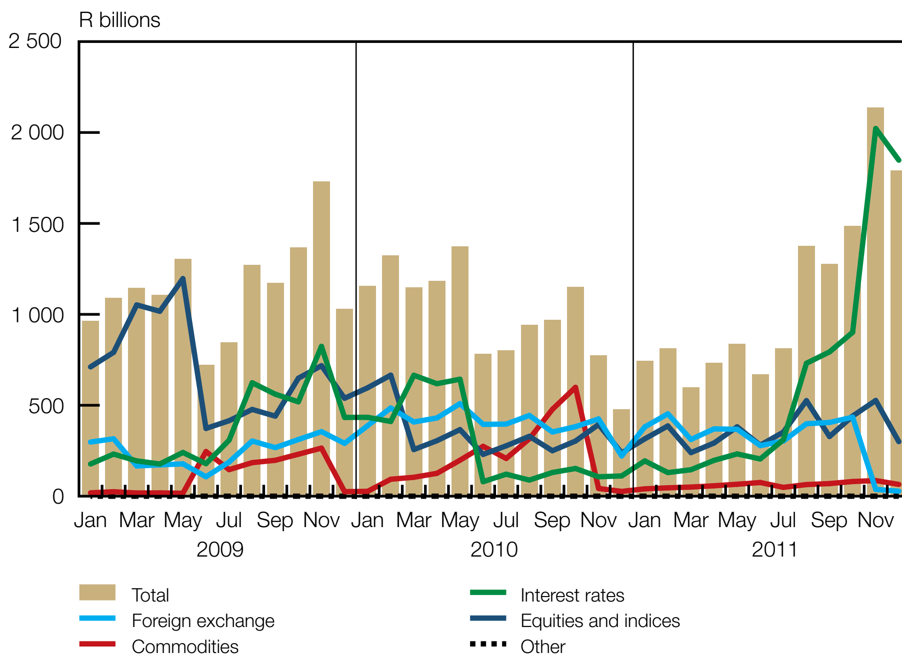
Figure 4.56 Composition of unexpired derivative contracts at month-end (gross notional value)



The gross notional value of total unexpired derivative contracts and their composition are illustrated in Figure 4.56. The gross notional value of total unexpired derivatives remained above R30 billion during 2011 and peaked at R38,5 billion at the end of September 2011. The gross notional value of total unexpired derivatives amounted to R32,4 billion at the end of December 2011 (December 2010: R27,7 billion). Unexpired interest rate derivative contracts represented 88,7 per cent of the total unexpired derivative contracts' gross notional value and amounted to R28,7 billion at the end of December 2011 (December 2010: R24,5 billion).

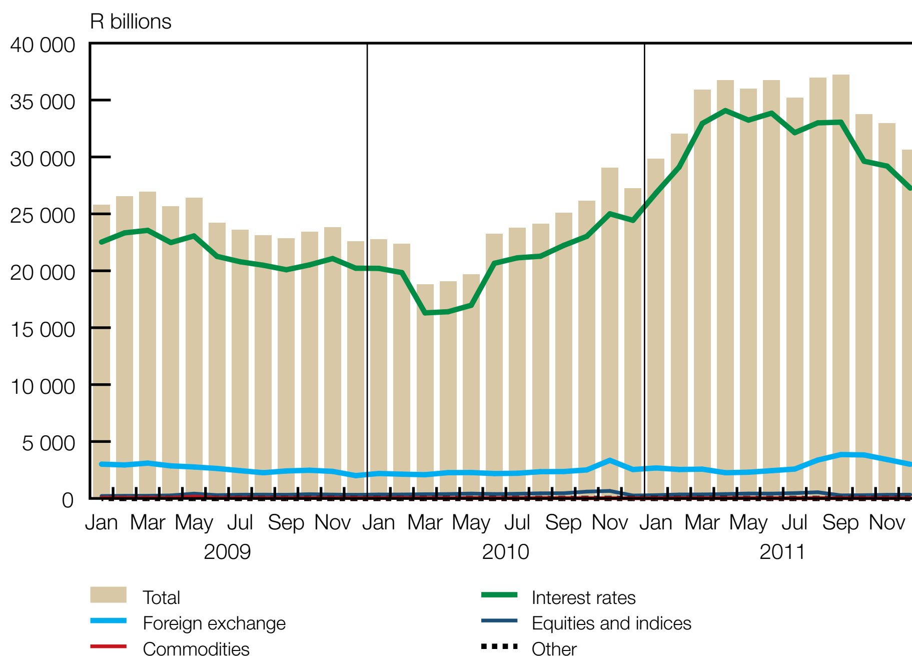
unexpired interest rate derivative contracts represented 88,7 per cent of the total unexpired derivative contracts' gross notional value

Figure 4.57 Composition of unexpired derivative contracts at month-end: Exchange traded (gross notional value)



Figures 4.57 and 4.58 present a breakdown of total unexpired derivative contracts at month-end into exchange-traded, unexpired derivative contracts and OTC-traded, unexpired derivative contracts respectively. Exchange-traded, unexpired derivative transactions amounted to, on average, R1 billion during 2011 (2010: R1 billion) and represented 2,4 per cent of the total unexpired derivative contracts at the end of December 2011 (December 2010: 1,7 per cent).

Figure 4.58 Composition of unexpired derivative contracts at month-end: Over-the-counter traded (gross notional value)



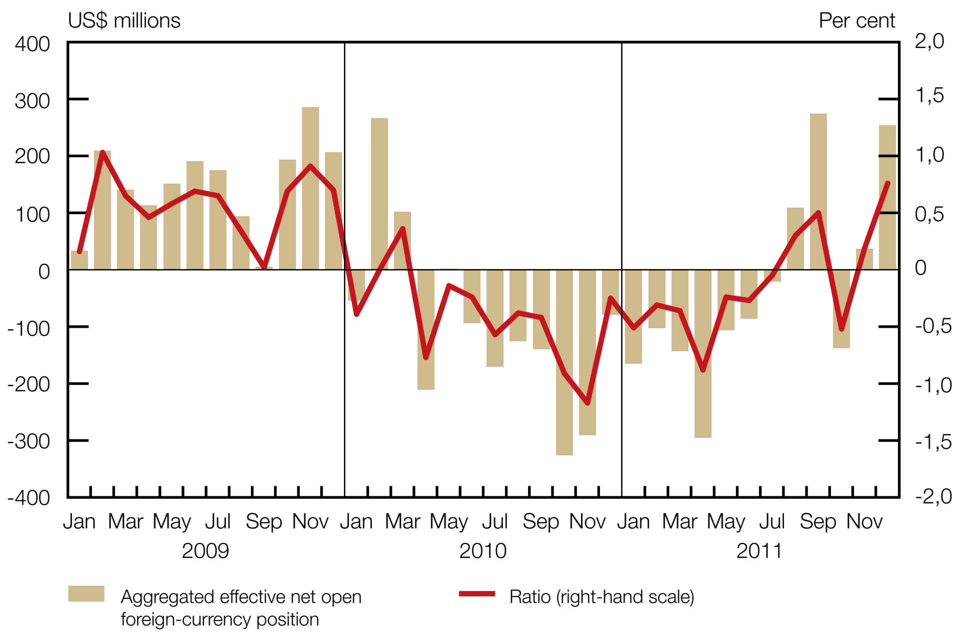
unexpired OTC-traded derivative contracts accounted for 97,6 per cent of total unexpired derivative contracts

At the end of December 2011, unexpired OTC-traded derivative contracts accounted for 97,6 per cent of total unexpired derivative contracts (December 2010: 98,3 per cent). Interest rate derivative contracts represented 89,0 per cent of the total unexpired OTC-traded derivative contracts at the end of December 2011 (December 2010: 89,7 per cent).

4.9.3 Currency risk

The total aggregated effective net open foreign currency position (FX NOP), which is depicted in Figure 4.59, 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 FX NOP was negative during the greater part of 2011 due to the growth in commitments to sell foreign currency exceeding the growth in commitments to purchase foreign currency. The aggregated effective FX NOP, expressed as a percentage of qualifying regulatory capital and reserve funds, remained well within the 10 per cent regulatory limit and amounted to 0,8 per cent as at the end of December 2011 (December 2010: negative 0,3 per cent).

Figure 4.59 Aggregated effective net open foreign-currency position (as a percentage of qualifying regulatory capital)



The contribution of each currency to the aggregated effective FX NOP is depicted in Figure 4.60. The 'US dollar' and 'Euro' categories were the main constituents of the fluctuations during 2011.

Figure 4.60 Aggregated effective net open foreign-currency position per currency

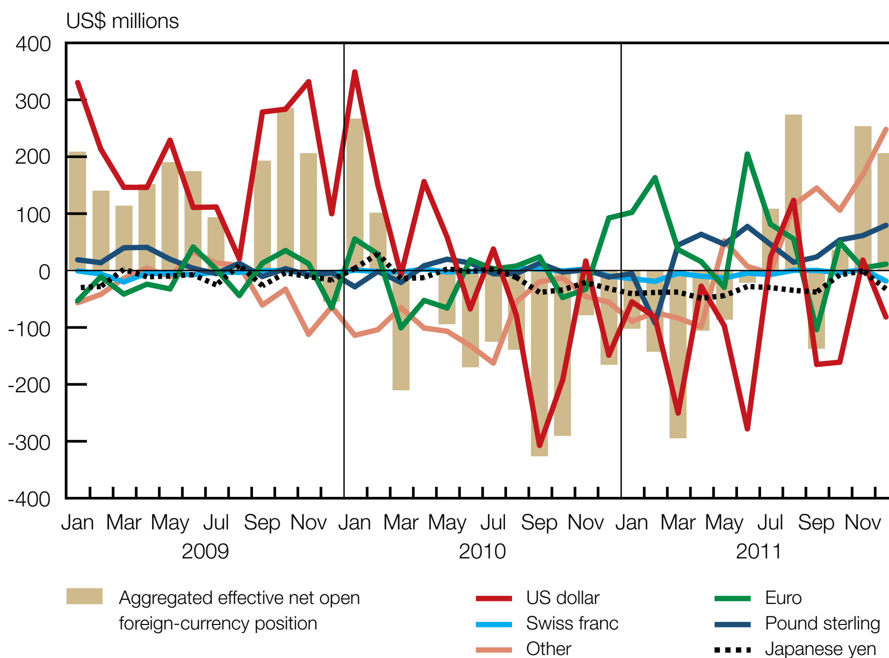
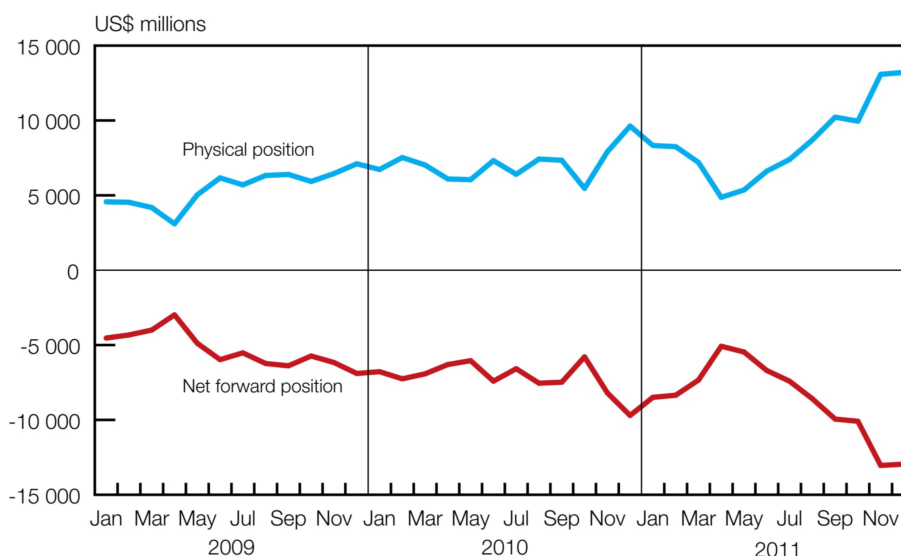


Figure 4.61 Position in foreign-currency instruments



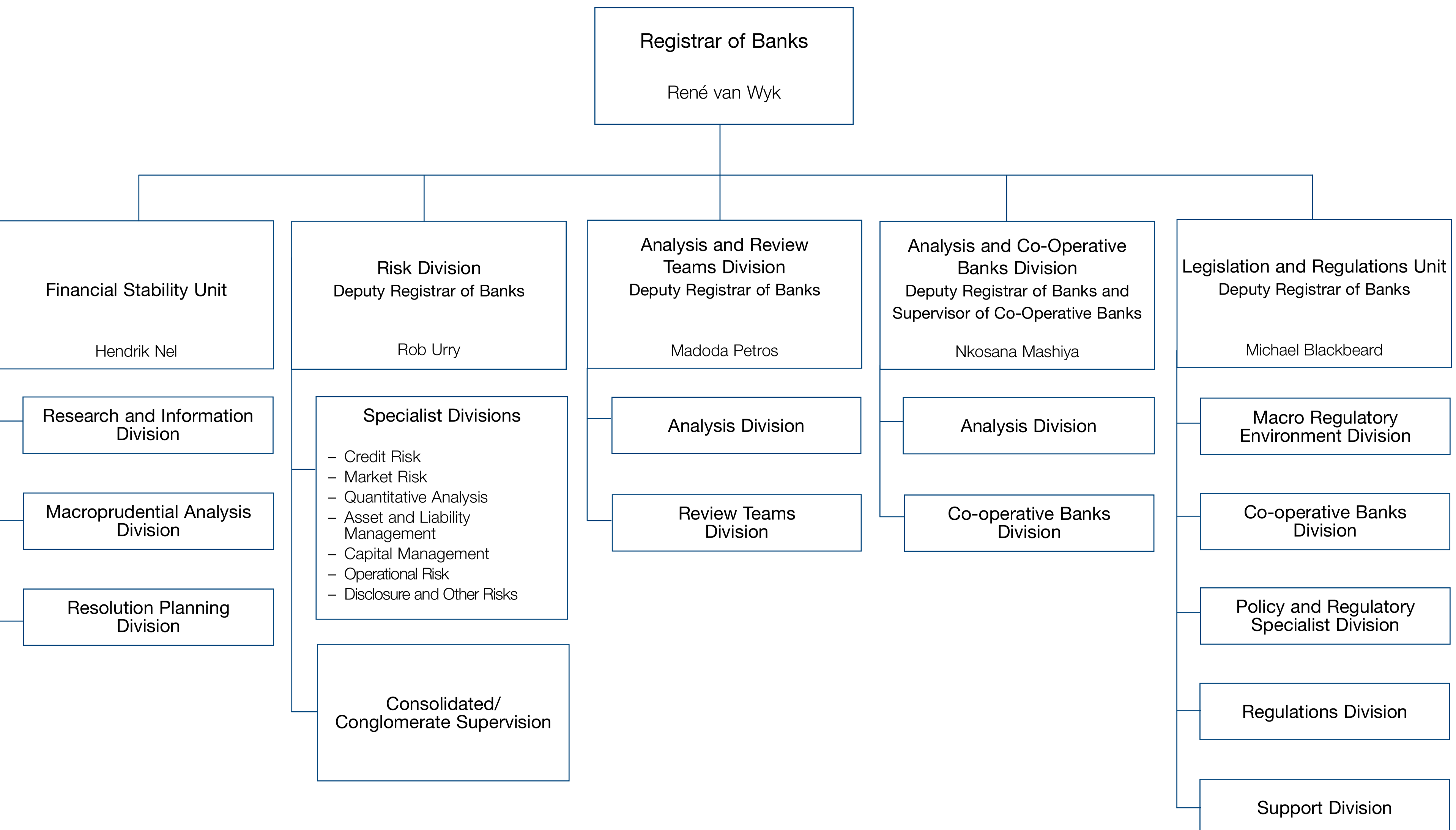
Presented in Figure 4.61 are the physical and net forward positions in foreign-currency instruments.[92] The physical position increased from US$8 billion at the end of January 2011 to US$13 billion at the end of December 2011 (December 2010: US$10 billion). As can be seen from Figure 4.61, the physical position and the net forward position are almost identical to one another. Therefore the net forward position also increased from a US$8 billion shortfall at the end of January 2011 to a US$13 billion shortfall at the end of December 2011 (December 2010: negative US$10 billion). This is due to banks reducing their NOP by acquiring forward positions to neutralise spot currency holdings and vice versa, with the objective of obtaining a low overall NOP that is in line with regulatory limits.

92 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.

Appendices

Appendix 1

Organisational structure of the Bank Supervision Department



Appendix 1 (continued)

Total staff complement, vacancies and employment equity numbers

	31 December 2010	31 December 2011
Total job register (permanent positions)	112	142
Total employed	103	123
Total vacancies	9	19
Employment equity: Race (target group – per cent)		
General management	36	42
Other staff	62	62
Employment equity: Gender (target group – per cent)		
General management	38	36
Other staff	74	71

Appendix 2

Registered banks, mutual banks and local branches of foreign banks as at 31 December 2011

Registered banks

	Institution	Address	Total assets at 31 December 2010 (R millions)	Total assets at 31 December 2011 (R millions)	Annual growth (per cent)
1	Absa Bank Limited	P O Box 7735, Johannesburg, 2000	670 623	725 679	8,21
2	African Bank Limited	Private Bag X170, Halfway House, 1685	37 977	49 236	29,65
3	Albaraka Bank Limited	P O Box 4395, Durban, 4000	2 819	3 238	14,83
4	Bidvest Bank Limited	P O Box 185, Johannesburg, 2000	2 500	4 062	62,53
5	Capitec Bank Limited	P O Box 12451, Die Boord, Stellenbosch, 7613	12 911	22 230	72,17
6	FirstRand Bank Limited	P O Box 650149, Benmore, 2010	616 912	665 525	7,88
7	Grindrod Bank Limited	P O Box 3211, Durban, 4000	2 466	3 481	41,16
8	Habib Overseas Bank Limited	P O Box 62369, Marshalltown, 2107	798	1 032	29,29
9	HBZ Bank Limited	P O Box 1536, Wandsbeck, 3631	2 467	3 530	43,09
10	Investec Bank Limited	P O Box 785700, Sandton, 2146	216 665	253 514	17,01
11	Mercantile Bank Limited	P O Box 782699, Sandton, 2146	6 263	6 136	-2,03
12	Nedbank Limited	P O Box 1144, Johannesburg, 2000	549 878	585 033	6,39
13	Sasfin Bank Limited	P O Box 95104, Grant Park, 2051	1 970	2 767	40,44
14	The South African Bank of Athens Limited	P O Box 7781, Johannesburg, 2000	1 245	1 653	32,78
15	The Standard Bank of South Africa Limited	P O Box 7725, Johannesburg, 2000	808 732	889 250	9,96
16	UBank Limited (formerly known as Teba Bank Limited)	Private Bag X101, Sunninghill, 2157	3 584	3 586	0,05

Appendix 2

Registered banks, mutual banks and local branches of foreign banks as at 31 December 2011 (continued)

Registered mutual banks

	Institution	Address	Total assets at 31 December 2010 (R millions)	Total assets at 31 December 2011 (R millions)	Annual growth (per cent)
1	GBS Mutual Bank	P O Box 114, Grahamstown, 6140	780	848	8,70
2	VBS Mutual Bank	P O Box 3618, Makhado, 0920	252	265	5,08

Registered local branches of foreign banks

	Institution	Address	Total assets at 31 December 2010 (R millions)	Total assets at 31 December 2011 (R millions)	Annual growth (per cent)
1	Bank of Baroda	Premises No.14, 2nd floor, Sandton City Twin Towers, (East Wing), Sandton, 2196	475	957	101,55
2	Bank of China Limited Johannesburg Branch (trading as Bank of China Johannesburg Branch)	P O Box 782616, Sandton, 2146	5 008	8 082	61,38
3	Bank of Taiwan South Africa Branch	P O Box 1999, Parklands, 2121	913	1 272	39,36
4	China Construction Bank Corporation – Johannesburg Branch	Private Bag X10007, Sandton, 2146	6 895	11 316	64,14
5	Citibank NA	P O Box 1800, Saxonwold, 2132	44 110	45 813	3,86
6	Credit Agrocole Corporate and Investment Bank	P O Box 527, Melrose Arch, 2076	21 029	7 271	-65,42
7	Deutsche Bank AG	Private Bag X9933, Sandton, 2146	37 998	24 495	-35,53
8	JPMorgan Chase Bank, NA (Johannesburg Branch)	Private Bag X9936, Sandton, 2146	29 260	28 300	-3,28
9	Société Générale Johannesburg Branch	P O Box 6872, Johannesburg, 2000	7 858	11 569	47,23
10	Standard Chartered Bank (Johannesburg Branch)	P O Box 782080, Sandton, 2146	16 113	20 314	26,07
11	State Bank of India	P O Box 2538, Saxonwold, 2132	2 070	1 745	-15,72
12	The Hongkong and Shanghai Banking Corporation Limited	Private Bag X785434, Sandton, 2146	14 450	25 375	75,60
13	The Royal Bank of Scotland NV (formerly known as ABN AMRO Bank NV)	P O Box 78769, Sandton, 2146	337	-	-

Appendix 2

Registered banks, mutual banks and local branches of foreign banks as at 31 December 2011 (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	13 January 1998
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	10 February 2004

Appendix 3

Name changes and cancellation of registration of banks and branches of foreign banks during the period 1 January 2011 to 31 December 2011

Name changes

	Previous name	New name	Date of change
1	Calyon Corporate and Investment Bank – South Africa Branch	Credit Agricole Corporate and Investment Bank – South Africa Branch	20 April 2011

Cancellation of registration

	Institution	Date of order
1	The Royal Bank of Scotland NV	31 January 2011

Appendix 4

Registered controlling companies as at 31 December 2011

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 55351, Northlands, 2116
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 America, National Association	P O Box 651987, Benmore, 2010
8	Bank of Cyprus Group	P O Box 652176, Benmore, 2010
9	Bank of India	P O Box 653589, Benmore, 2010
10	Barclays Bank plc	P O Box 1542, Saxonwold, 2132
11	Barclays Private Clients International Limited	P O Box 1542, Saxonwold, 2132
12	BNP Paribas Johannesburg	P O Box 52897, Saxonwold, 2132
13	Commerzbank AG Johannesburg	Le Val-North Block, Ground Floor, 45 Jan Smuth Avenue, Cnr The Valley Road, Westcliff, 2193
14	Credit Suisse AG	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	Industrial and Commercial Bank of China African Representative Office	P O Box 40, Cape Town, 8000
25	KFW Ipex-Bank GMBH	P O Box 2402, Saxonwold, 2132
26	Lloyds TSB Offshore Limited	Private Bank X25, Northlands, 2116
27	Millenium BCP	P O Box 273, Bruma, 2026
28	National Bank of Egypt	P O Box 55402, Northlands, 2116
29	Natixis Southern Africa Representative Office	Postnet Suite 352, Private Bag X1, Melrose Arch, 2076
30	Royal Bank of Scotland International Limited	5 Merchant Place, 9 Fredman Drive, Sandton, 2196
31	Société Générale Representative Office for Southern Africa	P O Box 2805, Saxonwold, 2132
32	Sumitomo Mitsui Banking Corporation	Building Four, 1st floor, Commerce Square, 39 Rivonia Road, Sandhurst, Sandton, 2196
33	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
34	The Bank of Tokyo-Mitsubishi, UFJ Limited	P O Box 78519, Sandton, 2146
35	The Mauritius Commercial Bank Limited	P O Box 3009, Parklands, 2121
36	The Representative Office for Southern and Eastern Africa of the Export-Import Bank of China	Postnet Suite 158, Private Bag X91-BE, Benmore, 2010
37	The Royal Bank of Scotland N.V.	P O Box 78769, Sandton, 2146
38	UBS AG	P O Box 652863, Benmore, 2010
39	Unicredit Bank AG	P O Box 1483, Parklands, 2121
40	Union Bank of Nigeria plc	P O Box 653125, Benmore, 2010
41	Vnesheconombank	P O Box 413742, Craighall, 2024
42	Wells Fargo Bank National Association	P O Box 3091, Saxonwold, 2132
43	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 2011 there were 43 representative offices (ROs) operating in South Africa, emanating from 22 countries.

2. Change in status of ROs during 2011

2.1 During the year under review the following RO was deregistered:

i. Credit Suisse Securities (Europe) Limited.

2.2 During the year under review the following new ROs were registered:

i. Bank of America, National Association;
ii. The Royal Bank of Scotland NV; and
iii. Industrial and Commercial Bank of China African Representative Office.

3. Supervisory approach

The following key activities took place during the period under review in order to ensure that the Department fulfils its responsibilities in terms of the RO Regulations:

- 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

Banks Act Circulars issued in 2011

C5/2011	Disclosure of capital-related information
C4/2011	Meetings to be held during the 2011 calendar year with boards of directors
C3/2011	The use of mapping tables by banks, controlling companies and branches of foreign institutions by converting national scale ratings to international scale ratings for the calculation of minimum required capital and reserve funds related to credit risk
C2/2011	Eligible institutions approved by the Registrar of Banks
C1/2011	Status of previously issued circulars

Banks Act Directives issued in 2011

D5/2011	Exemption from certain minimum disclosure requirements pertaining to branches of foreign institutions
D4/2011	Matters related to capital floors
D3/2011	Investments, and loans and advances by controlling companies: section 50 of the Banks Act, 1990
D2/2011	Reporting daily value-at-risk amounts for market risk using specified items of the form BA 325
D1/2011	Matters related to securitisation vehicles

Banks Act Guidance Notes issued in 2011

G4/2011	Matters related to parallel reporting on amended regulatory forms
G3/2011	Covered bonds
G2/2011	Meetings to be held during the 2011 calendar year with audit committees and external auditors
G1/2011	Status of previously issued guidance notes

Appendix 7

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 8

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 2011 to 31 December 2011

Name of controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Domicile
Absa Group Limited	2011-07-27	Global Alliance Seguros Sociedade Anônima	Mozambique
Absa Group Limited	2011-09-16	Overlook at Sugerloaf Incorporated	United States of America
Firstrand Limited	2011-01-21	Sociedade Interbancaria de Servicos de Mozambique (2,45 per cent)	Mozambique
Firstrand Limited	2011-03-15	FirstRand Bank Limited Beijing Representative Office	China
Firstrand Limited	2011-05-16	Society for Worldwide Interbank Financial Telecommunication (one share)	Zambia
Firstrand Limited	2011-06-27	RMB Namibia (Pty) Limited	Namibia
Firstrand Limited	2011-07-06	Telluride Investment Trust II (49 per cent)	Australia
Firstrand Limited	2011-07-06	Homecare Services Holdings (Pty) Limited	Australia
Firstrand Limited	2011-08-31	Branch network of Finance Bank Zambia Limited	Zambia
Firstrand Limited	2011-09-23	RMB Nigeria Limited	Nigeria
Firstrand Limited	2011-09-29	Placard Holdings (Pty) Limited (49,9 per cent)	Australia
Investec Limited	2011-02-02	Investec Capital Partners Sociedade Anônima (51 per cent)	Angola
Investec Limited	2011-09-23	Telligent Systems Incorporated (3,27 per cent)	United States of America
Investec plc*	2011-02-22	Wherry Road Norwich Propco Limited	United Kingdom
Investec plc*	2011-03-18	Access Capital Limited	United Kingdom
Investec plc*	2011-03-22	Torteval Funding LLP	Guernsey
Investec plc*	2011-04-15	Investec Power Holdings incorporated – two subsidiaries, namely (i) Mount Cone Wind Farm (Pty) Limited and (ii) Mount Lock Wind Farm (Pty) Limited; – two associate trusts, namely (i) Mount Cone Wind Farm Trust and (ii) Mount Lock Wind Farm Trust; – two trustees, namely (i) Mount Cone Wind Farm Trustee (Pty) Limited and (ii) Mount Lock Wind Farm Trustee (Pty) Limited; and – two operating companies, namely (i) Mount Cone Wind Farm Operating Company (Pty) Limited and (ii) Mount Lock Wind Farm Operating Company (Pty) Limited	Australia
Investec plc*	2011-07-21	Investec Capital Markets Limited (previously known as Silversmart Hong Kong Limited)	Hong Kong
Investec plc*	2011-07-28	Rontec Investments LLP (45 per cent)	United Kingdom
Investec plc*	2011-07-28	WPE Holdings (Pty) Limited (30 per cent)	Australia
Investec plc*	2011-08-16	Conrad Phoenix (Canada Water) Limited	United Kingdom
Investec plc*	2011-08-16	Lavomer Riah Holdings (Pty) Limited (16,03 per cent)	Australia
Investec plc*	2011-08-16	Neontar Limited and Principal Finance Capital Limited	Ireland
Investec plc*	2011-08-19	GIR Industries LLP (33,3 per cent)	United Kingdom
Investec plc*	2011-08-19	Farsound Engineering Limited (24 per cent)	United Kingdom

Appendix 8

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 2011 to 31 December 2011 (continued)

Name of controlling company	Date of approval	Name of interest (and percentage interest held, if not 100 per cent)	Domicile
Investec plc*	2011-09-08	The Evolution Group plc	United Kingdom
Nedbank Group Limited	2011-01-05	Nedzim Limited	United Kingdom
Sasfin Holdings Limited	2011-07-15	SasCred Financial Services Limited	Jersey
Standard Bank Group Limited	2011-03-01	Plato Finansal Danişmanlik Servisleri Anonim Şirketi	Turkey
Standard Bank Group Limited	2011-02-01	Liberty Holdings Zambia (Pty) Limited	Zambia
Standard Bank Group Limited	2011-02-01	Liberty Properties (Zambia) (Pty) Limited	Zambia
Standard Bank Group Limited	2011-02-15	CFC Stanbic Financial Services Limited – Uganda Branch	Uganda
Standard Bank Group Limited	2011-02-15	CFC Stanbic Financial Services Limited – Rwanda Branch	Rwanda
Standard Bank Group Limited	2011-03-18	Standard Bank Plc – Isle of Man Branch	Isle of Man
Standard Bank Group Limited	2011-03-23	Standard Bank Bureau de Change Limited, Malawi	Malawi
Standard Bank Group Limited	2011-02-15	Sociedade Interbancaria de Servicos de Mocambique	Mozambique
Standard Bank Group Limited	2011-03-10	Standard Bank – Management Company of Pension Funds Sociedade Anônima.	Mozambique
Standard Bank Group Limited	2011-05-30	Empresa Interbancaria Serviços Sociadade Anonima	Angola
Standard Bank Group Limited	2011-08-04	Standard Securities Zambia Limited	Zambia
Standard Bank Group Limited	2011-11-21	CfC Stanbic Bank Limited – South Sudan Branch	Republic of South Sudan

* All expansions undertaken by Investec plc were noted by the Department in terms of the 2002 conditions of approval applicable to the dual-listed company structure

Appendix 9

Memoranda of understanding concluded between the Bank Supervision Department of the South African Reserve Bank and foreign supervisors as at 31 December 2011

	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 Finanzdienstleitungsaufsicht	13 August 2004
5	Ghana	Bank of Ghana	26 October 2011
6	Hong Kong	Monetary Authority of Hong Kong	12 December 2006
7	India	Reserve Bank of India	21 October 2011
8	Ireland	Irish Financial Services Regulatory Authority	21 July 2004
9	Isle of Man	Financial Supervision Commission of the Isle of Man	13 August 2001
10	Jersey	Jersey Financial Services Commission	11 June 2010
11	Kenya	Central Bank of Kenya	1 July 2010
12	Lesotho	Central Bank of Lesotho	27 August 2010
13	Mauritius	Bank of Mauritius	25 January 2005
14	Mozambique	Banco de Moçambique	22 September 2011
15	Namibia	Bank Supervision Department of the Bank of Namibia	27 September 2004
16	Netherlands	The Nederlandsche Bank	23 March 2010
17	Nigeria	Central Bank of Nigeria	20 March 2008
18	Republic of South Sudan	Bank of South Sudan	14 November 2011
19	Swaziland	Central Bank of Swaziland	18 June 2010
20	Tanzania	Bank of Tanzania	15 June 2010
21	Uganda	Bank of Uganda	15 June 2010
22	United Arab Emirates	The Dubai Financial Services Authority	8 August 2009
23	United Kingdom	Financial Services Authority	21 July 2006

The purpose of a memorandum of understanding (MoU) is to provide a formal basis for bilateral working relationships 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 crisis.

Appendix 9

Memoranda of understanding concluded between the Bank Supervision Department of the South African Reserve Bank and foreign supervisors as at 31 December 2011 (continued)

During the year under review the Department concluded four new MoUs with foreign supervisors. MoUs with the following foreign supervisors are in the process of negotiation:

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	Greece	The Banking Regulator
6	Japan	Financial Services Agency
7	Portugal	Banco de Portugal
8	Singapore	Monetary Authority of Singapore
9	Taiwan	Financial Supervisory Commission of Taiwan
10	Turkey	Banking Regulation and Supervisory Agency of Turkey
11	United Arab Emirates	Banking Supervision and Examination Department of the Central Bank of the United Arab Emirates
12	United States of America	Federal Reserve Bank of New York
13	Zambia	Bank of Zambia

Africa

The 14 Heads of State or Government of the SADC have signed a Protocol on Finance and Investment (PFI).[1] 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, the Republic of Seychelles, the Republic of South Africa, the Kingdom of Swaziland, the United Republic of Tanzania, the Republic of Zambia and the Republic of Zimbabwe.

[1] Available at http://www.sadc.int/english/regional-integration/tifi/investment/database/key-documents/.

Appendix 10

Selected information on South African banks

Table		Page
1	Composition of total assets (R millions)	114
2	Composition of loans and advances to customers (R millions)	115
3	Composition of other loans (R millions)	116
4	Composition of total liabilities (R millions)	117
5	Composition of selected liabilities (R millions)	118
6	Sources of deposits (R millions)	120
7	Composition of total equity (R millions)	121
8	Composition of off-balance-sheet items (R millions)	122
9	Composition of the income statement (R millions)	123
10	Composition of interest and similar income (R millions)	124
11	Composition of interest expense and similar charges (R millions)	126
12	Profitability ratios (12-month moving average) (per cent)	128
13	Composition of gross operating income (R millions)	130
14	Composition of gross operating expenses (R millions)	131
15	Composition of qualifying capital and reserve funds (R millions)	132
16	Composition of risk-weighted exposure (R millions)	133
17	Contractual maturity of liabilities (composition) (R millions)	134
18	Business-as-usual maturity of liabilities (composition) (R millions)	135
19	Concentration of short-term funding (composition) (R millions)	136
20	Analysis of credit risk	137
21	Internal ratings-based banks: Composition of total credit exposure – Exposure at default (R millions)	138
22	Internal ratings-based banks: Composition of total retail credit exposure – Exposure at default (R millions)	140
23	Turnover in derivative contracts (R millions)	142
24	Effective net open foreign-currency position (US$ millions)	143

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
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	3 142 548
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	3 077 058
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	3 000 236
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	2 997 524
December	65 839	163 824	2 205 150	186 009	265 513	81 073	2 967 409
2010: January	64 295	163 080	2 210 100	186 489	257 510	89 091	2 970 564
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	3 025 032
April	69 137	167 348	2 224 357	217 664	229 704	92 697	3 000 908
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	3 009 449
July	70 591	172 901	2 258 369	195 525	261 440	114 901	3 073 728
August	71 744	177 909	2 277 778	199 983	268 922	103 506	3 099 841
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	74 490	173 773	2 256 961	210 943	274 789	135 444	3 126 400
2011: January	68 299	167 894	2 256 270	216 819	216 039	130 156	3 055 477
February	68 985	170 246	2 267 952	226 910	217 003	123 230	3 074 325
March	76 348	167 285	2 271 068	230 320	215 958	115 508	3 076 486
April	75 985	171 508	2 259 492	229 327	240 563	119 744	3 096 619
May	74 059	178 171	2 278 473	232 279	192 666	118 399	3 074 047
June	78 784	185 382	2 306 324	234 045	189 573	125 537	3 119 645
July	75 489	191 684	2 312 773	230 682	209 500	132 058	3 152 185
August	81 140	195 709	2 369 153	236 194	263 262	138 708	3 284 166
September	80 998	200 355	2 373 161	243 274	336 990	136 804	3 371 582
October	77 969	214 494	2 393 712	241 736	311 890	138 193	3 377 994
November	81 895	213 439	2 445 288	244 679	316 340	143 037	3 444 679
December	88 695	208 844	2 461 140	241 387	278 885	129 594	3 408 544

Table 2

Composition of loans and advances to customers (R millions)

	Home loans	Commercial mortgages	Credit cards	Lease and instalment debtors	Overdrafts	Term loans	Other	Less: Credit impairments	Loans and advances to customers
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	2 272 686
March...............	776 894	211 317	57 170	249 005	119 352	402 757	512 521	44 866	2 284 151
April..................	777 334	211 910	57 493	247 122	118 831	374 902	480 813	46 206	2 222 197
May..................	778 148	212 583	57 713	245 657	112 649	381 305	478 651	47 460	2 219 244
June.................	779 262	213 136	56 428	243 785	117 457	365 515	481 927	48 036	2 209 475
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	2 234 131
September	782 944	213 695	56 881	239 471	107 749	369 609	495 205	51 363	2 214 190
October............	784 901	214 565	56 864	238 900	108 109	375 030	502 048	52 461	2 227 957
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	2 210 100
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	2 227 331
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	2 245 152
June.................	803 026	222 662	55 963	237 366	98 198	367 104	523 041	55 198	2 252 163
July	806 518	224 125	55 735	238 660	95 443	360 071	532 827	55 011	2 258 369
August	815 664	226 220	55 960	238 953	100 645	362 518	532 902	55 085	2 277 778
September	817 490	226 467	56 407	239 598	104 240	348 243	554 532	56 195	2 290 781
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	96 814	354 819	517 392	55 367	2 256 961
2011: January	818 310	227 413	56 971	243 360	104 800	368 013	493 264	55 860	2 256 270
February...........	821 148	228 059	57 830	244 697	107 173	362 180	502 639	55 776	2 267 952
March...............	821 522	225 912	57 674	246 486	109 254	353 908	511 998	55 688	2 271 068
April..................	821 653	227 624	58 438	247 013	111 255	355 257	493 966	55 714	2 259 492
May..................	823 130	231 439	58 901	247 848	106 953	370 447	495 676	55 920	2 278 473
June.................	823 839	234 289	59 188	249 728	107 814	384 985	501 794	55 312	2 306 324
July	823 314	234 963	59 497	251 176	105 608	371 297	521 686	54 768	2 312 773
August	824 552	234 991	59 782	249 152	104 232	385 814	565 397	54 767	2 369 153
September	825 680	238 545	60 274	251 526	109 579	396 207	546 010	54 659	2 373 161
October............	825 918	238 775	60 922	253 456	112 349	402 257	554 594	54 561	2 393 712
November	826 648	239 332	61 628	256 039	108 746	426 810	580 191	54 106	2 445 288
December	826 908	239 920	61 964	259 472	111 092	436 833	579 539	54 588	2 461 140

Table 3
Composition of other loans (R millions)

	Loans granted/ deposits placed under resale agreements	Redeemable preference shares	Factoring accounts	Trade, other bills and bankers' acceptances	Bank intra-group balances	Other	Total
2009: January	99 296	56 201	2 165	4 439	180 364	206 690	549 155
February	85 813	55 421	2 274	4 245	178 474	197 487	523 714
March	85 229	54 072	2 533	3 427	168 701	198 560	512 521
April	76 082	54 575	2 228	2 943	154 385	190 600	480 813
May	81 081	54 697	2 150	2 955	145 198	192 570	478 651
June	86 129	54 793	1 974	3 877	143 936	191 219	481 927
July	90 624	55 884	1 827	3 808	149 872	200 425	502 440
August	93 775	57 014	3 732	3 470	150 732	189 749	498 472
September	88 852	56 841	3 806	3 537	149 479	192 689	495 205
October	87 093	57 632	4 293	3 302	161 360	188 367	502 048
November	79 009	57 346	4 064	3 328	142 852	194 909	481 507
December	79 833	57 126	3 689	3 796	144 506	184 669	473 618
2010: January	77 357	56 386	3 753	3 809	142 119	193 097	476 522
February	81 488	57 203	3 635	3 705	143 058	208 283	497 371
March	82 827	56 548	4 648	3 009	159 114	198 899	505 045
April	87 809	57 022	4 003	3 358	148 851	206 909	507 951
May	97 438	55 374	4 076	4 014	146 004	208 857	515 764
June	104 507	58 430	4 252	4 039	144 468	207 345	523 041
July	92 657	58 124	4 865	3 888	142 277	231 016	532 827
August	97 565	57 598	4 702	4 177	143 361	225 499	532 902
September	95 631	57 537	5 402	3 987	146 234	245 742	554 532
October	91 527	56 817	5 881	3 801	98 062	274 116	530 204
November	98 935	59 640	5 627	3 731	90 624	276 006	534 562
December	107 173	54 820	5 867	3 659	92 330	253 544	517 392
2011: January	84 556	54 655	5 251	3 758	96 190	248 853	493 264
February	87 532	55 423	4 971	3 582	92 457	258 674	502 639
March	90 090	59 047	5 950	4 217	82 672	270 022	511 998
April	93 135	57 402	5 937	4 390	86 422	246 681	493 966
May	94 133	54 761	5 497	5 247	84 719	251 319	495 676
June	88 829	57 816	5 830	4 825	79 107	265 386	501 794
July	87 790	63 257	6 302	6 105	87 491	270 741	521 686
August	109 437	64 124	9 105	7 892	83 100	291 740	565 397
September	88 861	63 679	9 616	9 272	88 488	286 094	546 010
October	85 542	68 598	10 071	7 933	72 934	309 516	554 594
November	89 703	68 243	10 359	9 073	94 178	308 633	580 191
December	84 218	68 222	10 632	3 726	91 431	321 311	579 539

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
2009: January	2 393 828	496 338	67 784	64 352	3 022 302
February	2 381 514	451 698	67 355	58 806	2 959 374
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	2 892 877
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	2 809 142
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	2 800 649
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	2 918 010
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	2 487 970	280 127	87 739	49 451	2 905 286
2011: January	2 464 451	219 416	87 675	60 382	2 831 924
February	2 475 979	220 458	88 677	65 221	2 850 335
March	2 481 162	221 315	91 788	56 969	2 851 234
April	2 480 615	241 555	92 328	55 976	2 870 474
May	2 498 216	195 354	92 691	58 349	2 844 610
June	2 541 906	189 565	95 496	61 541	2 888 508
July	2 552 807	209 589	96 940	58 231	2 917 566
August	2 615 846	260 015	98 046	73 819	3 047 726
September	2 619 103	351 121	98 992	65 235	3 134 451
October	2 644 662	326 943	100 478	65 179	3 137 262
November	2 707 447	329 191	98 727	64 587	3 199 951
December	2 710 069	295 917	101 047	53 648	3 160 681

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
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	2 418 152
April	385 683	116 553	524 898	594 592	427 414	216 969	93 688	2 359 798
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	2 356 363
July	398 592	118 969	519 554	593 136	403 483	224 465	116 189	2 374 389
August	397 305	118 436	435 603	677 092	405 017	223 290	116 451	2 373 195
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	2 365 632
2010: January	391 826	118 055	425 304	647 910	435 143	252 777	93 618	2 364 634
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	2 387 796
April	414 598	119 492	427 816	685 142	414 297	246 480	97 016	2 404 840
May	414 102	119 659	431 735	693 501	409 668	269 631	101 515	2 439 812
June	446 336	121 305	420 319	693 257	401 908	264 324	105 715	2 453 163
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	2 484 129
September	449 427	123 399	435 511	721 638	409 833	259 958	86 433	2 486 198
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	460 689	126 937	384 935	697 950	446 811	267 248	103 400	2 487 970
2011: January	430 649	124 195	388 824	715 339	434 042	277 455	93 946	2 464 451
February	443 363	124 328	389 993	716 537	435 011	278 431	88 315	2 475 979
March	454 265	125 530	402 157	723 520	413 365	277 701	84 624	2 481 162
April	435 830	125 772	415 142	726 677	399 562	278 087	99 545	2 480 615
May	429 840	126 469	422 609	755 059	396 875	271 264	96 099	2 498 216
June	459 847	129 106	411 170	761 268	392 199	297 327	90 989	2 541 906
July	449 035	130 687	433 858	800 788	401 385	241 511	95 544	2 552 807
August	448 063	131 418	432 779	828 339	406 488	253 524	115 235	2 615 846
September	454 827	135 383	432 605	842 328	390 839	260 857	102 265	2 619 103
October	463 281	134 965	458 401	834 969	382 414	270 582	100 050	2 644 662
November	477 858	139 820	469 699	845 680	380 035	278 030	116 325	2 707 447
December	516 380	140 981	471 047	837 572	379 093	269 467	95 529	2 710 069

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
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	268 573	11 554	280 127	56 957	30 781	87 739
2011: January	207 745	11 671	219 416	57 262	30 412	87 675
February	206 751	13 707	220 458	57 350	31 327	88 677
March	207 854	13 461	221 315	57 295	34 493	91 788
April	228 351	13 203	241 555	56 185	36 143	92 328
May	184 768	10 586	195 354	56 092	36 599	92 691
June	179 129	10 437	189 565	56 081	39 415	95 496
July	197 886	11 703	209 589	56 157	40 783	96 940
August	250 121	9 894	260 015	56 391	41 654	98 046
September	338 150	12 971	351 121	57 040	41 952	98 992
October	310 944	15 999	326 943	56 941	43 537	100 478
November	314 033	15 158	329 191	54 768	43 958	98 727
December	278 955	16 962	295 917	57 615	43 432	101 047

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
2009: January	81 569	136 646	28 712	361 032	159 880	991 088	507 750	127 152	2 393 828
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	2 359 798
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	2 374 389
August	62 796	125 867	28 337	324 213	183 424	1 017 741	519 304	111 514	2 373 195
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	2 382 842
November	66 460	122 830	26 499	331 381	173 320	1 028 884	522 805	106 821	2 378 999
December	63 466	120 027	25 639	323 412	188 328	1 006 607	526 758	111 394	2 365 632
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	2 465 611
August	89 818	148 284	26 106	323 205	178 484	1 063 338	528 499	126 396	2 484 129
September	98 004	162 905	22 977	312 689	184 358	1 052 744	523 686	128 835	2 486 198
October	99 473	165 495	21 628	279 068	184 941	1 159 385	522 542	38 690	2 471 222
November	97 124	165 164	27 368	288 471	186 789	1 177 727	529 266	38 224	2 510 133
December	97 295	164 827	28 241	272 681	184 168	1 170 754	528 888	41 116	2 487 970
2011: January	94 932	161 927	26 922	260 664	183 508	1 166 795	522 135	47 569	2 464 451
February	100 195	162 620	25 178	258 218	189 609	1 173 264	520 615	46 280	2 475 979
March	100 432	156 313	35 494	246 187	187 794	1 183 758	523 932	47 252	2 481 162
April	94 086	149 930	29 515	256 790	189 879	1 186 859	526 766	46 790	2 480 615
May	95 603	145 751	26 664	241 796	186 746	1 220 940	531 087	49 630	2 498 216
June	129 782	152 637	20 935	240 494	185 722	1 209 153	565 055	38 128	2 541 906
July	105 892	157 955	31 673	242 131	172 007	1 235 432	569 988	37 730	2 552 807
August	112 428	170 885	30 565	256 389	182 042	1 245 576	573 635	44 328	2 615 846
September	109 392	164 577	28 039	254 612	184 749	1 246 791	590 607	40 337	2 619 103
October	115 796	172 761	27 947	245 042	188 873	1 260 044	591 307	42 892	2 644 662
November	119 106	165 743	30 283	278 102	190 905	1 274 593	601 855	46 861	2 707 447
December	143 504	167 287	33 783	250 740	206 793	1 255 095	610 289	42 578	2 710 069

Table 7
Composition of total equity (R millions)

	Share capital	Retained earnings	Other reserves	Preference shareholders' equity	Total equity
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	106 357	11 456	6 498	221 114
2011: January	96 610	107 840	12 606	6 498	223 554
February	96 891	108 961	11 641	6 497	223 990
March	98 346	109 200	11 210	6 497	225 253
April	98 496	109 890	11 261	6 497	226 144
May	98 496	112 923	11 521	6 497	229 437
June	99 381	114 432	10 827	6 497	231 137
July	99 382	117 509	11 231	6 497	234 619
August	100 118	118 051	11 774	6 497	236 440
September	101 208	118 290	7 576	10 058	237 131
October	104 358	118 193	8 124	10 058	240 732
November	104 408	121 532	8 731	10 058	244 728
December	104 643	124 269	8 894	10 058	247 863

Table 8
Composition of off-balance-sheet items (R millions)

	Guarantees on behalf of clients	Committed undrawn facilities	Letters of credit	Credit derivative instruments	Other	Total
2009: January	109 084	196 255	22 765	19 509	23 033	370 646
February	110 413	196 702	22 896	16 709	22 434	369 153
March	112 463	195 233	22 234	14 933	21 403	366 266
April	106 042	187 699	20 487	15 783	25 091	355 101
May	105 850	195 164	20 020	16 127	25 318	362 478
June	102 664	205 688	19 438	13 480	27 968	369 239
July	101 485	206 934	21 219	11 921	26 306	367 866
August	103 470	211 536	21 438	12 960	27 043	376 447
September	103 284	214 059	22 621	12 915	28 630	381 509
October	104 831	206 613	21 862	12 545	29 688	375 539
November	107 123	216 623	22 348	13 214	27 080	386 388
December	103 267	231 399	20 853	12 386	26 480	394 386
2010: January	108 846	243 170	20 577	12 355	24 888	409 835
February	109 731	243 533	21 018	12 324	24 806	411 412
March	112 510	240 464	20 997	12 028	24 997	410 995
April	118 746	254 873	22 249	11 118	369 298	776 285
May	118 091	251 036	23 140	11 555	422 822	826 644
June	119 392	245 656	23 507	11 354	465 368	865 276
July	116 763	244 873	22 725	6 038	469 418	859 817
August	116 688	248 903	20 770	4 886	459 840	851 087
September	112 895	246 501	20 283	5 201	458 402	843 282
October	113 168	250 770	19 595	4 818	461 472	849 824
November	112 141	251 069	20 934	7 957	460 036	852 137
December	113 833	256 466	19 373	7 149	459 900	856 721
2011: January	116 412	248 428	20 303	7 261	458 007	850 411
February	114 096	232 238	19 239	6 633	466 312	838 518
March	114 933	230 180	22 836	6 619	458 619	833 187
April	114 483	234 154	23 548	6 811	459 028	838 024
May	117 377	232 547	22 597	7 036	451 795	831 352
June	134 552	237 906	23 746	6 975	475 252	878 431
July	126 190	249 715	24 171	7 254	480 279	887 610
August	123 893	253 863	26 497	9 192	487 001	900 446
September	127 597	255 320	30 745	11 630	493 053	918 344
October	124 182	254 079	31 297	11 257	492 837	913 653
November	129 274	260 861	26 882	12 047	484 214	913 278
December	125 385	273 763	28 273	12 064	485 083	924 568

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	
2009: January	5 862	6 880	3 102	5 768	122	3 751
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	2 770
May	6 125	5 527	2 927	6 254	129	2 342
June	6 560	6 548	3 399	6 029	72	3 607
July	5 987	6 544	2 995	6 661	193	2 683
August	6 202	6 091	2 484	6 525	156	3 128
September	6 343	5 937	3 110	6 995	181	1 995
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	2 969
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	3 071
September	6 021	7 098	2 599	7 997	178	2 345
October	6 450	6 338	1 997	7 592	241	2 957
November	6 118	8 131	2 213	7 721	228	4 086
December	6 740	8 007	2 552	8 502	357	3 337
2011: January	6 411	5 959	2 324	6 931	186	2 929
February	6 004	6 945	2 061	7 378	224	3 287
March	6 785	7 959	2 081	8 053	259	4 351
April	6 639	6 883	1 823	7 656	195	3 848
May	7 186	6 675	2 268	7 779	273	3 541
June	7 184	6 717	2 236	7 468	75	4 123
July	7 308	6 566	1 715	7 821	220	4 118
August	7 538	7 012	1 805	8 440	273	4 032
September	7 335	7 707	2 054	7 783	195	5 009
October	7 593	7 373	2 182	8 425	241	4 118
November	7 656	7 607	1 620	8 876	254	4 512
December	7 829	6 900	2 061	7 109	271	5 288

Table 10
Composition of interest and similar income (R millions)

	Short-term negotiable securities	Home loans	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
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
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	2 725	980	2 941	1 697	1 074	379	16 825

Table 10

Composition of interest and similar income (R millions) (continued)

	Short-term negotiable securities	Home loans	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
2011: January	907	5 143	1 635	654	2 138	900	2 175	3 081	-349	296	15 987
February...............	814	4 673	1 532	620	1 926	822	2 662	1 572	893	350	15 165
March...................	808	5 360	1 887	662	2 140	874	2 889	1 896	767	315	16 968
April......................	885	5 103	1 613	658	2 087	899	3 056	1 193	1 143	377	16 259
May......................	935	5 281	1 641	696	2 148	921	3 214	1 661	1 084	420	17 160
June.....................	920	4 958	1 588	683	2 107	894	2 938	2 085	917	345	16 747
July	956	5 271	1 683	678	2 167	946	3 209	1 583	1 270	391	17 372
August	1 061	5 275	1 784	704	2 145	817	3 508	403	2 858	354	18 201
September	1 018	5 142	1 693	683	2 058	895	2 979	3 134	-411	542	16 649
October................	1 040	5 306	1 675	707	2 182	1 082	3 640	1 386	1 378	543	17 854
November	1 122	5 204	1 693	701	2 168	932	3 224	3 140	104	550	17 740
December	1 040	5 378	1 675	720	2 228	1 023	3 533	1 722	1 226	616	17 928

Table 11

Composition of interest expense and similar charges (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
2009: January	3 386	692	11 706	1 599	1 966	154	463	742	19 225
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	16 810
April	2 459	414	7 691	3 571	1 705	19	668	1 224	15 305
May	2 228	514	7 258	3 696	1 374	-8	581	862	14 779
June	1 824	420	6 025	3 036	1 160	502	431	644	12 753
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	13 748
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	11 265
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	12 406
2010: January	1 753	399	5 390	3 004	1 030	213	697	446	12 039
February	1 612	359	4 970	2 695	925	-38	804	312	11 016
March	1 473	382	6 105	3 076	887	139	984	1 167	11 881
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	10 685
July	1 710	360	5 614	2 403	1 574	334	805	672	12 127
August	1 700	374	5 970	2 634	903	103	773	601	11 855
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	11 150
November	1 486	322	4 291	2 590	903	571	539	543	10 159
December	1 340	309	4 400	2 679	1 428	-454	647	263	10 085

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
2011: January	1 402	332	4 355	2 405	913	147	282	258	9 577
February	1 324	323	4 291	2 182	403	189	591	143	9 161
March	1 463	299	4 746	2 284	537	152	502	-200	10 183
April	1 469	293	4 634	2 209	326	215	749	276	9 620
May	1 506	304	4 809	2 201	493	258	837	434	9 974
June	1 458	303	4 476	2 062	526	312	730	304	9 562
July	1 532	316	4 824	2 195	506	199	732	239	10 065
August	1 500	321	5 389	2 125	333	240	978	223	10 664
September	1 641	315	4 359	1 706	1 415	-114	505	513	9 314
October	1 495	349	4 896	2 630	454	137	869	569	10 261
November	1 541	338	4 746	1 676	1 139	487	581	424	10 084
December	900	329	5 013	2 003	1 117	227	665	153	10 099

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	15,52	1,02	55,14	3,10	2,64	2,82	8,79	5,38	3,41
December	14,64	0,97	56,43	3,13	2,60	2,87	8,70	5,27	3,43

Table 12

Profitability ratios (12-month moving average) (per cent) (continued)

	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*
2011: January	14,61	0,97	56,60	3,12	2,62	2,88	8,58	5,15	3,43
February	14,89	1,00	56,61	3,13	2,64	2,90	8,51	5,07	3,45
March	14,97	1,01	56,89	3,15	2,65	2,93	8,45	4,99	3,46
April	15,17	1,03	56,87	3,16	2,67	2,94	8,39	4,91	3,48
May	15,67	1,08	56,52	3,20	2,70	2,96	8,34	4,83	3,51
June	15,12	1,05	56,77	3,21	2,69	2,97	8,29	4,77	3,52
July	15,06	1,05	56,82	3,24	2,68	2,97	8,22	4,68	3,55
August	15,30	1,07	56,68	3,26	2,70	2,99	8,18	4,61	3,57
September	15,92	1,12	55,90	3,30	2,70	2,96	8,13	4,52	3,61
October	16,16	1,13	55,67	3,33	2,72	2,97	8,09	4,46	3,63
November	16,03	1,13	56,02	3,37	2,68	2,98	8,10	4,43	3,67
December	16,38	1,15	55,20	3,38	2,63	2,92	8,08	4,39	3,68

* '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
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	11 712
May	6 125	3 970	1 510	47	11 652
June	6 560	4 191	1 324	1 032	13 108
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	11 626
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	11 820
June	6 719	4 542	1 082	1 068	13 410
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	304	12 787
November	6 118	4 788	1 646	1 697	14 249
December	6 740	5 278	1 466	1 263	14 748
2011: January	6 411	4 408	1 432	119	12 370
February	6 004	4 515	1 995	435	12 949
March	6 785	5 084	2 021	854	14 745
April	6 639	4 701	1 576	606	13 522
May	7 186	4 915	1 499	261	13 861
June	7 184	5 290	958	470	13 902
July	7 308	4 998	1 212	357	13 874
August	7 538	5 124	1 233	654	14 550
September	7 335	5 244	1 621	841	15 042
October	7 593	5 247	1 569	556	14 966
November	7 656	5 305	1 567	735	15 262
December	7 829	5 277	1 575	48	14 729

Table 14
Composition of gross operating expenses (R millions)

	Staff	Computer processing	Travel, occupation and equipment	Marketing	Other	Operating expenses
2009: January	3 075	666	1 017	206	805	5 768
February	3 117	674	1 135	212	950	6 088
March	3 489	638	1 030	287	828	6 271
April	3 260	630	1 030	288	903	6 111
May	3 326	677	1 054	249	949	6 254
June	3 123	671	1 017	292	925	6 029
July	3 648	649	1 033	274	1 056	6 661
August	3 578	592	1 064	267	1 025	6 525
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	6 789
December	3 265	751	1 185	393	971	6 566
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	7 188
June	3 590	641	1 104	320	1 128	6 781
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	7 592
November	4 155	1 912	1 369	400	-114	7 721
December	4 229	820	1 246	486	1 721	8 502
2011: January	3 712	752	1 253	227	986	6 931
February	4 088	762	1 203	280	1 044	7 378
March	4 511	752	1 298	296	1 196	8 053
April	4 317	768	1 295	197	1 079	7 656
May	4 306	805	1 272	276	1 120	7 779
June	4 008	772	1 273	360	1 056	7 468
July	4 314	760	1 266	253	1 228	7 821
August	4 588	780	1 345	328	1 399	8 440
September	4 402	691	1 348	333	1 009	7 783
October	4 553	867	1 316	385	1 305	8 425
November	4 762	809	1 453	469	1 384	8 876
December	4 542	1 134	1 041	433	-42	7 109

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
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	208 889
May	162 376	46 304	300	208 981
June	164 987	46 308	300	211 594
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	219 384
March	171 886	47 622	300	219 807
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	232 781
October	184 393	49 086	300	233 779
November	187 825	50 158	300	238 283
December	192 145	49 852	300	242 298
2011: January	194 068	49 907	300	244 275
February	194 850	49 632	300	244 782
March	197 263	49 686	300	247 249
April	197 238	48 165	300	245 703
May	197 795	48 525	300	246 619
June	199 019	48 704	300	248 022
July	199 250	48 839	300	248 389
August	204 249	48 945	300	253 494
September	203 296	48 697	300	252 293
October	206 407	48 844	300	255 551
November	209 659	46 783	300	256 742
December	211 802	49 480	300	261 581

Table 16
Composition of risk-weighted exposure (R millions)

	Credit risk	Operational risk	Market risk	Equity risk	Other risk	Total
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	1 564 690
March	1 190 077	174 746	42 289	83 922	53 382	1 544 417
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	1 546 952
June	1 187 618	193 580	32 825	80 738	51 701	1 546 461
July	1 197 684	193 787	32 029	81 859	51 792	1 557 152
August	1 194 450	193 606	32 144	83 029	52 999	1 556 227
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	1 553 942
2010: January	1 177 262	214 718	31 943	80 520	52 441	1 556 885
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	1 551 667
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	1 586 115
August	1 227 949	220 472	31 852	71 813	53 460	1 605 545
September	1 233 270	221 355	31 987	79 200	52 850	1 618 661
October	1 228 989	218 272	35 854	80 570	53 182	1 616 868
November	1 239 888	218 202	38 290	76 684	53 944	1 627 007
December	1 237 761	219 683	36 443	81 035	53 034	1 627 955
2011: January	1 228 984	219 483	29 957	81 889	53 828	1 614 141
February	1 249 842	219 711	31 814	81 216	54 152	1 636 735
March	1 250 933	219 909	32 766	85 062	52 130	1 640 799
April	1 232 236	220 003	34 392	85 765	53 095	1 625 490
May	1 229 077	220 136	38 212	86 090	51 916	1 625 431
June	1 254 799	222 841	37 597	87 122	53 243	1 655 602
July	1 263 971	222 931	35 532	87 783	54 330	1 664 546
August	1 283 517	221 922	36 619	86 142	55 150	1 683 351
September	1 302 310	222 190	33 562	86 798	55 154	1 700 014
October	1 313 809	223 271	34 576	86 847	57 463	1 715 967
November	1 311 669	223 190	37 858	86 868	59 042	1 718 627
December	1 326 288	223 149	39 619	85 333	59 374	1 733 763

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
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 ...	1 130 932	138 541	274 327	172 834	117 598	229 428	257 616	559 963	259 576
2011: January	1 123 093	143 559	240 932	187 170	111 757	211 083	255 516	531 233	264 438
February......	1 167 007	133 794	231 318	175 629	114 827	196 215	261 497	545 151	261 104
March..........	1 179 767	124 431	220 865	177 938	108 472	191 726	262 491	561 890	261 034
April............	1 141 309	175 081	217 191	171 531	99 441	198 242	254 075	586 834	264 743
May............	1 146 691	129 094	246 726	164 304	102 160	203 922	262 194	564 280	256 553
June...........	1 222 292	119 915	206 031	162 628	112 289	193 590	279 058	578 508	249 127
July	1 209 089	138 630	191 613	175 923	111 006	199 510	302 691	567 950	257 561
August	1 277 808	82 383	230 977	166 710	116 986	216 625	302 017	629 719	263 579
September ..	1 230 376	168 414	231 550	192 582	106 709	251 839	312 692	618 022	259 402
October.......	1 265 575	135 205	225 889	163 188	140 342	214 819	312 474	655 477	264 229
November ...	1 350 545	112 747	207 247	208 626	143 095	200 201	304 550	640 010	274 486
December ...	1 287 643	133 871	287 017	202 754	106 371	200 052	274 280	636 806	276 612

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
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 ...	114 394	93 613	158 554	109 293	107 387	245 006	362 870	1 550 631	365 111
2011: January	130 681	80 328	153 000	119 139	106 520	236 571	341 098	1 505 830	366 411
February......	112 565	89 358	163 192	119 858	113 621	220 791	345 485	1 526 486	367 164
March..........	115 545	76 336	150 258	127 112	99 239	215 229	341 451	1 557 457	377 586
April............	107 959	96 823	158 155	113 210	103 906	227 220	324 639	1 569 899	377 790
May............	113 860	73 203	158 471	110 178	96 409	224 789	312 483	1 586 340	373 117
June...........	118 102	66 323	160 173	104 181	104 176	214 088	319 047	1 644 312	366 446
July	105 197	73 142	142 727	123 367	104 950	209 437	350 714	1 641 103	377 482
August	124 815	67 034	162 080	125 203	104 140	227 011	358 757	1 701 476	387 053
September ..	108 422	89 027	179 437	134 323	103 978	258 807	373 259	1 692 303	405 364
October.......	119 940	71 343	174 862	117 802	123 262	243 665	384 244	1 716 324	401 598
November ...	144 776	70 805	173 189	141 851	122 310	237 702	381 684	1 721 516	424 622
December ...	101 619	79 126	216 916	133 167	112 413	243 979	360 071	1 710 410	429 014

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
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	235 183	150 338	116 447
2011: January	49 987	228 383	150 743	90 107
February	44 197	235 269	150 325	109 954
March	46 679	244 981	170 094	92 877
April	54 914	224 601	170 612	88 754
May	55 681	220 598	167 045	82 370
June	46 480	254 245	167 465	114 027
July	41 465	212 720	154 354	86 471
August	45 229	240 258	182 275	94 567
September	45 690	220 844	159 461	86 117
October	43 003	240 845	171 155	108 125
November	48 213	221 719	161 915	97 171
December	50 019	264 531	159 167	143 102

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)
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	1,6	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	1,8	30,97
March	134 173	2 281 537	41 178	5,88	1,8	30,69
April	135 553	2 278 991	41 752	5,95	1,83	30,8
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	1,9	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	2 312 328	43 622	5,79	1,89	32,57
2011: January	134 355	2 312 130	43 829	5,81	1,9	32,62
February	135 017	2 323 727	43 736	5,81	1,88	32,39
March	134 473	2 326 756	43 950	5,78	1,89	32,68
April	134 078	2 315 206	44 091	5,79	1,9	32,88
May	133 833	2 334 394	44 265	5,73	1,9	33,07
June	131 065	2 361 636	43 110	5,55	1,83	32,89
July	130 039	2 367 541	42 579	5,49	1,8	32,74
August	128 198	2 423 920	42 245	5,29	1,74	32,95
September	122 617	2 427 820	42 228	5,05	1,74	34,44
October	120 069	2 448 273	41 404	4,9	1,69	34,48
November	120 097	2 499 394	40 991	4,81	1,64	34,13
December	118 063	2 515 728	41 166	4,69	1,64	34,87

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)
2009: January	1 293 527	79 528	6,15	724 446	7 293	1,01	573 735	244	0,04	2 591 708	87 064	3,36
February	1 295 749	84 730	6,54	735 182	9 490	1,29	546 764	180	0,03	2 577 694	94 399	3,66
March	1 293 995	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	10 556	1,45	537 229	280	0,05	2 560 101	102 728	4,01
May	1 292 054	96 547	7,47	726 597	11 596	1,60	560 973	265	0,05	2 579 624	108 408	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	98 486	7,66	723 627	14 009	1,94	557 719	247	0,04	2 567 870	112 743	4,39
August	1 286 073	100 934	7,85	739 762	16 016	2,17	505 050	164	0,03	2 530 885	117 115	4,63
September	1 282 635	101 755	7,93	740 353	16 729	2,26	514 742	137	0,03	2 537 731	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	101 984	7,94	750 998	17 118	2,28	512 386	120	0,02	2 547 057	119 222	4,68
December	1 284 660	102 319	7,96	752 418	17 170	2,28	495 570	123	0,02	2 532 648	119 611	4,72
2010: January	1 285 421	103 321	8,04	740 944	14 134	1,91	492 365	119	0,02	2 518 731	117 573	4,67
February	1 280 785	103 859	8,11	739 567	14 803	2,00	519 713	164	0,03	2 540 065	118 827	4,68
March	1 306 990	105 897	8,10	753 739	15 762	2,09	489 248	158	0,03	2 549 976	121 818	4,78
April	1 308 840	107 229	8,19	744 418	15 610	2,10	495 691	147	0,03	2 548 948	122 987	4,83
May	1 312 769	107 531	8,19	752 576	15 740	2,09	504 144	147	0,03	2 569 489	123 418	4,80
June	1 321 026	106 257	8,04	755 960	16 909	2,24	507 020	129	0,03	2 584 006	123 295	4,77
July	1 322 657	105 328	7,96	757 616	17 229	2,27	498 593	139	0,03	2 578 866	122 696	4,76
August	1 319 097	104 598	7,93	783 650	18 464	2,36	487 611	148	0,03	2 590 357	123 210	4,76
September	1 314 087	103 364	7,87	793 986	19 877	2,50	489 077	150	0,03	2 597 150	123 392	4,75
October	1 315 245	102 607	7,80	782 134	19 240	2,46	467 440	142	0,03	2 564 819	121 989	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	1 289 086	99 897	7,75	781 313	19 055	2,44	476 031	487	0,10	2 546 431	119 439	4,69

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)
2011: January	1 291 827	99 881	7,73	775 031	19 229	2,48	455 180	312	0,07	2 522 038	119 421	4,74
February	1 296 411	99 162	7,65	783 121	18 469	2,36	456 171	52	0,01	2 535 703	117 683	4,64
March	1 298 665	97 442	7,50	782 876	18 429	2,35	464 147	44	0,01	2 545 688	115 915	4,55
April	1 301 969	97 622	7,50	792 933	18 424	2,32	440 199	47	0,01	2 535 101	116 093	4,58
May	1 304 127	97 120	7,45	788 711	18 336	2,32	432 642	39	0,01	2 525 481	115 495	4,57
June	1 307 064	92 817	7,10	788 790	15 505	1,97	461 936	36	0,01	2 557 790	108 357	4,24
July	1 322 769	92 457	6,99	808 134	16 022	1,98	469 244	44	0,01	2 600 147	108 522	4,17
August	1 313 227	90 500	6,89	813 775	15 435	1,90	480 610	303	0,06	2 607 613	106 238	4,07
September	1 317 124	88 678	6,73	824 095	15 691	1,90	524 005	308	0,06	2 665 223	104 677	3,93
October	1 317 318	86 221	6,55	831 864	15 042	1,81	525 271	301	0,06	2 674 453	101 564	3,80
November	1 322 997	83 890	6,34	832 704	14 490	1,74	539 444	318	0,06	2 695 145	98 699	3,66
December	1 327 117	81 977	6,18	855 514	13 955	1,63	538 555	331	0,06	2 721 187	96 263	3,54

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)
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	1 293 527	79 528	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	1 293 995	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	96 547	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	98 486	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	1 286 073	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	101 984	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
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	1 280 785	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	105 897	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	107 531	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	106 257	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	105 328	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	1 319 097	104 598	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	102 607	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	127 622	6 454	5,06	1 289 086	99 897	7,75

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)
2011: January	861 171	74 411	8,64	127 229	7 973	6,27	176 609	10 945	6,20	126 818	6 552	5,17	1 291 827	99 881	7,73
February..........	862 548	73 564	8,53	127 164	8 083	6,36	178 821	11 108	6,21	127 879	6 407	5,01	1 296 411	99 162	7,65
March..............	863 609	72 322	8,37	127 236	7 940	6,24	180 553	10 884	6,03	127 267	6 297	4,95	1 298 665	97 442	7,50
April.................	863 893	72 138	8,35	127 717	7 891	6,18	183 759	11 487	6,25	126 600	6 106	4,82	1 301 969	97 622	7,50
May	865 157	71 571	8,27	126 725	7 810	6,16	186 265	11 696	6,28	125 980	6 043	4,80	1 304 127	97 120	7,45
June	860 586	68 112	7,91	127 637	7 446	5,83	186 087	11 369	6,11	132 755	5 890	4,44	1 307 064	92 817	7,10
July..................	867 779	67 872	7,82	128 865	7 104	5,51	187 586	11 134	5,94	138 539	6 347	4,58	1 322 769	92 457	6,99
August.............	857 305	65 933	7,69	128 973	6 915	5,36	187 927	11 365	6,05	139 022	6 286	4,52	1 313 227	90 500	6,89
September	857 041	64 480	7,52	130 019	6 912	5,32	190 630	11 201	5,88	139 435	6 086	4,36	1 317 124	88 678	6,73
October...........	857 873	63 272	7,38	130 465	6 413	4,92	192 551	10 915	5,67	136 429	5 620	4,12	1 317 318	86 221	6,55
November.........	858 088	61 240	7,14	132 812	6 336	4,77	195 408	10 828	5,54	136 688	5 486	4,01	1 322 997	83 890	6,34
December.........	860 861	59 865	6,95	133 160	5 997	4,50	195 172	10 617	5,44	137 925	5 499	3,99	1 327 117	81 977	6,18

Table 23
Turnover in derivative contracts (R millions)

	Interest rate contracts	Foreign-exchange contracts	Equity and indices	Commodities	Other	Total
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	6 665 796
March	2 746 045	3 168 625	802 074	17 606	0	6 734 349
April	1 450 428	2 475 823	107 477	11 078	15	4 044 820
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	5 977 591
August	1 893 724	3 187 376	315 013	34 860	0	5 430 972
September	2 144 980	3 123 440	382 897	48 411	0	5 699 727
October	2 490 072	3 600 014	300 604	32 232	0	6 422 923
November	2 768 693	3 399 497	278 397	42 879	0	6 489 467
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	4 804 042
February	1 780 949	2 684 843	272 905	117 249	0	4 855 945
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	4 794 840
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	2 736 465	3 069 319	349 253	118 663	0	6 273 700
November	3 747 914	3 676 266	297 507	40 119	0	7 761 806
December	1 586 718	3 104 713	424 226	45 884	0	5 161 541
2011: January	4 517 689	3 989 174	334 142	38 688	0	8 879 693
February	7 469 417	4 423 045	348 359	53 388	0	12 294 209
March	5 613 281	4 063 285	526 282	48 920	0	10 251 769
April	3 521 179	3 228 461	240 221	44 820	0	7 034 682
May	4 832 822	3 939 724	301 387	43 320	0	9 117 253
June	4 412 226	3 782 738	411 263	53 086	0	8 659 313
July	4 098 971	3 864 828	369 120	56 484	0	8 389 404
August	6 155 777	4 525 775	564 790	65 404	0	11 311 746
September	3 772 931	4 347 539	592 158	62 295	0	8 774 923
October	2 870 392	4 146 854	525 555	48 284	0	7 591 085
November	5 150 783	4 731 486	1 450 953	63 898	0	11 397 120
December	1 748 111	3 638 334	475 913	44 951	0	5 907 309

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
2009: January	26 489	21 923	4 566	295 675	300 209	-4 533	33
February	26 761	22 226	4 535	296 849	301 175	-4 326	209
March	25 799	21 615	4 184	319 912	323 912	-4 000	140
April	25 209	22 112	3 097	305 994	308 977	-2 984	114
May	25 687	20 653	5 034	271 449	276 331	-4 882	151
June	26 946	20 780	6 166	259 110	265 086	-5 976	191
July	25 691	19 994	5 696	246 767	252 288	-5 521	175
August	26 952	20 626	6 327	235 824	242 057	-6 233	94
September	26 982	20 590	6 393	233 091	239 479	-6 388	5
October	26 985	21 059	5 926	242 749	248 482	-5 733	193
November	27 956	21 503	6 453	247 753	253 920	-6 167	286
December	29 299	22 195	7 105	242 056	248 954	-6 898	206
2010: January	28 854	22 128	6 726	227 852	234 632	-6 780	-54
February	29 106	21 583	7 523	231 932	239 189	-7 257	266
March	28 442	21 418	7 024	226 598	233 521	-6 922	102
April	27 506	21 415	6 091	222 828	229 130	-6 302	-211
May	26 900	20 854	6 046	231 534	237 579	-6 045	1
June	27 702	20 383	7 319	229 236	236 649	-7 413	-94
July	27 189	20 784	6 406	231 888	238 470	-6 582	-170
August	29 016	21 595	7 422	244 396	251 943	-7 547	-125
September	28 724	21 380	7 344	254 134	261 617	-7 483	-139
October	27 975	22 511	5 465	268 254	274 044	-5 791	-326
November	30 744	22 841	7 903	279 294	287 487	-8 194	-290
December	35 686	26 060	9 625	287 223	296 927	-9 704	-78
2011: January	31 445	23 118	8 328	280 155	288 648	-8 493	-165
February	31 719	23 468	8 251	286 455	294 808	-8 353	-102
March	29 914	22 714	7 200	276 850	284 192	-7 343	-143
April	26 488	21 624	4 864	274 028	279 108	-5 080	-295
May	26 911	21 553	5 358	273 569	279 032	-5 463	-106
June	27 688	21 073	6 615	280 461	287 162	-6 701	-86
July	28 033	20 638	7 395	287 399	294 815	-7 416	-21
August	29 739	21 042	8 696	307 269	315 856	-8 587	109
September	30 543	20 324	10 219	327 551	337 496	-9 945	274
October	30 530	20 576	9 955	335 416	345 508	-10 092	-138
November	33 576	20 496	13 080	335 378	348 421	-13 043	37
December	35 064	21 854	13 210	311 537	324 492	-12 956	254

References

Basel Committee on Banking Supervision, "Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" (Basel: Basel Committee, revised version, June 2011).

Basel Committee on Banking Supervision, "Basel III Rules Text and Results of the Quantitative Impact Study Issued by the Basel Committee" (Basel: Basel Committee, 16 December 2010).

Basel Committee on Banking Supervision, "Strengthening the Resilience of the Banking Sector" (Basel: Basel Committee, December 2009).

Basel Committee on Banking Supervision, "Core Principles for Effective Banking Supervision" (Basel: Basel Committee, October 2006).

Basel Committee on Banking Supervision, "An Explanatory Note on Basel II IRB Risk Weight Functions" (Basel: Basel Committee, July 2005).

Basel Committee on Banking Supervision, "International Convergence of Capital Measurement and Capital Standards: A Revised Framework" (Basel: Basel Committee, November 2005).

Basel Committee on Banking Supervision, "Operational Risk: Supervisory Guidelines for the Advanced Measurement Approaches" (Basel: Basel Committee, June 2011).

Basel Committee on Banking Supervision, "Principles for the Sound Management of Operational Risk" (Basel: Basel Committee, June 2011).

Moody's, "Moody's Downgrades South African Banks: Concluding Review Focusing on Systemic Support Assumptions" (Limassol: Moody's, February 2012).

South African Reserve Bank, *Quarterly Bulletin* (Pretoria: South African Reserve Bank, December 2011).

The Presidency, *Government Gazette* No. 30474 (Pretoria: The Presidency, November 2007).

The Presidency, *Government Gazette* No. 32186 (Pretoria: The Presidency, April 2009).

World Federation of Exchanges, *Focus* (London: World Federation of Exchanges, February 2012).

Abbreviations

AFI	Alliance for Financial Inclusion
AFRITAC	Africa Regional Technical Assistance Center
AIRB	advanced internal ratings-based
AMA	advanced measurement approach
AML	anti-money laundering
BA	Banks Act
BASA	Banking Association of South Africa
BIS	Bank for International Settlements
BPG	Banking Project Group
CAR	capital-adequacy ratio
CBRC	China Banking Regulatory Commission
CCB	China Construction Bank Corporation
CEO	chief executive officer
CFT	the combating of the financing of terrorism
CMG	Capital Monitoring Group
CTR	cash threshold reporting
DHA	Department of Home Affairs
DMA	Directorate of Market Abuse
EAD	exposure at default
EL	expected loss
EME	emerging-market economy
FATF	Financial Action Task Force
FIC	Financial Intelligence Centre
FIRB	foundation internal ratings-based
FIRST	Financial Sector Reform and Strengthening
FRRSC	Financial Regulatory Reform Steering Committee
FRS	Financial Risk Subcommittee
FSA	Financial Services Authority
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSCF	Financial Sector Contingency Forum

FSI	financial soundness indicator
FSOC	Financial Stability Oversight Council
FX	foreign exchange
G-20	Group of Twenty
G-SIB	global systemically important bank
G-SIFI	global systemically important financial institution
GDP	gross domestic product
GHOS	Governors and Heads of Supervision
GPFI	Global Partnership for Financial Inclusion
H-index	Herfindahl–Hirschman Index
ICAAP	Internal Capital Adequacy Assessment Process
ICR	insolvency and creditor rights
IFRSs	International Financial Reporting Standards
IMA	internal models approach
IMF	International Monetary Fund
IRB	internal ratings-based
LCR	liquidity coverage ratio
LGD	loss given default
MoU	memorandum of understanding
MRC	minimum required capital
NOP	net open position
NPS	National Payment System
NSFR	net stable funding ratio
OECD	Organisation for Economic Co-operation and Development
ORMS	operational risk measurement system
ORS	Operational Risk Subcommittee
OTC	over the counter
PCC	Public Compliance Communication
PD	probability of default
PDG	Policy Development Group
PFI	Protocol on Finance and Investment
PIN	Public Information Notice
PSC	property syndication company
PSCF	Private Sector Consultation Forum
PwC	PricewaterhouseCoopers
QIS	Quantitative Impact Study
RO	representative office
ROA	return on assets
ROE	return on equity
ROSC	Report on the Observance of Standards and Codes
RWE	risk-weighted exposure
SADC	Southern African Development Community
SAICA	South African Institute of Chartered Accountants
SAPO	South African Post Office
SIFI	systemically important financial institution
SIGOR	Standards Implementation Group Operational Risk
SLA	service level agreement
SME	small and medium enterprise
SPI	special-purpose institution
STA	standardised approach
sVaR	stressed value at risk
TBG	Trading Book Group
TSA	the standardised approach
US	United States

Glossary

Basel II	"Capital Measurement and Capital Standards: A Revised Framework" issued in June 2006
Basel II.5	"Enhancements to the Basel II Framework", "Revisions to the Basel II Market Risk Framework" and "Guidelines for Computing Capital for Incremental Risk in the Trading Book" issued in July 2009
Basel III	"Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems" and "Basel III: International Framework for Liquidity Risk Measurement, Standards and Monitoring" issued in December 2010 (revised June 2011)
Basel Committee	Basel Committee on Banking Supervision
Companies Act, 1973	Companies Act, 1973 (Act No. 61 of 1973)
Core Principles	"Core Principles for Effective Banking Supervision"
Co-operative Banks Act, 2007	Co-operative Banks Act, 2007 (Act No. 40 of 2007)
CPA	Consumer Protection Act, 2008 (Act No. 68 of 2008)
new Companies Act, 2008	new Companies Act, 2008 (Act No. 71 of 2008)
Postbank Act, 2010	South African Postbank Limited Act, 2010 (Act No. 9 of 2010)
Refugees Act, 1998	Refugees Act, 1998 (Act No. 130 of 1998)
SSA	Securities Services Act, 2004 (Act No. 36 of 2004)
Standing Committee	Standing Committee for the Revision of the Banks Act
the Banks Act, 1990	Banks Act, 1990 (Act No. 94 of 1990 – as amended)
the Department	Bank Supervision Department of the South African Reserve Bank
the Registrar	Registrar of Banks
the Regulations	Regulations relating to Banks