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An investigation into the adequacy and usefulness of financial risk disclosures in listed South African banks

Craig West

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University of Cape Town

A dissertation presented to the Department of Accounting at the University of Cape Town in fulfilment of the requirements for the degree of Master of Commerce

Declaration

I hereby declare that the work on which this dissertation is based is my original work (except where acknowledgements indicate otherwise) and that neither the whole work nor any part of it has been, is being or is to be submitted for another degree in this or any other university. In the case of West (1999) explicit permission was obtained.

Craig Richard West
December 2000

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Abstract

Overview

The proliferation of financial instruments in recent years has renewed the interest in financial risk disclosure and reporting. South Africa in particular has been exposed not only to the increased variety of derivative products, but has recently been re-entered to the world economy. This has created a need to review the standard of reporting by South African companies.

Companies within the financial services sector have been most impacted by these recent changes. As these companies deal in products that create and transfer risk, their financial risk reporting must be clear and detailed for the user to understand the various exposures to these risks. Inadequate reporting of risk is likely to lead to a higher cost of capital. Therefore it is of value to South African banks to evaluate their disclosure against local and international benchmarks to test the adequacy of the financial risk disclosure presented in the annual report. Compliance testing also serves as a proxy for the usefulness of the disclosure presented by the banks. A further proxy for the usefulness of the disclosure is the inclusion of a sample of international banks to benchmark the performance of the South African banks.

The listed South African banking industry is dominated by four large commercial banks, namely ABSA, FirstRand, Nedcor and Standard Bank. Two private/merchant banks have in recent years shown strong growth and have taken an increasing market share from the commercial banks, namely Investec and BOE. The remaining banks are all fairly small in comparison to these banks. For the smaller banks, there may be factors other than size influencing the extent of their risk disclosure. This raises further research questions that are beyond the scope of this dissertation.

Research method

The research problem as to risk disclosure was investigated by compiling checklists of the South African disclosure requirements regarding financial risk disclosure, and by developing an international best practice checklist based on the recommendations of international standard setting bodies.

The disclosure presented in the 1999 financial statements of 12 South African banks was scored against both checklists. In addition, 5 United Kingdom and 3 Australian banks were scored against the international best practice checklist to provide a meaningful benchmark against which the South African disclosure scores could be evaluated.

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Statistical tests (Spearman rank-order correlation) were performed to evaluate the association of: credit risk disclosure to the level of advances provided by the South African banks; market capitalisation at year end to the extent of financial risk disclosure presented by the South African banks and the number of shareholders against the extent of financial risk disclosure presented by the South African banks. The results of these tests provide some explanation regarding the extent of financial risk disclosure presented by South African banks in their annual reports.

Conclusions

The results of this study show that:

- South African banks comply adequately with the local reporting standards' disclosure requirements for financial risks,
- compliance by South African banks with a derived international best practice benchmark is inadequate,
- most of the largest United Kingdom and Australian banks measured by level of advances provide adequate disclosure against the derived international best practice benchmark,
- the extent of credit risk disclosure is significantly associated with the level of advances provided by a bank,
- the extent of financial risk disclosure is significantly associated with the market capitalisation of the banks, and
- the extent of financial risk disclosure is not significantly associated with the number of shareholders.

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List of Abbreviations

Basel Committee	Basel Committee on Banking Supervision
IASC	International Accounting Standards Committee
ICAEW	Institute of Chartered Accountants of England and Wales
IMF	International Monetary Fund
SA	South Africa
SAICA	South African Institute of Chartered Accountants
UK	United Kingdom
US	United States of America
SEC	Securities and Exchange Commission
ABIL	African Bank Investments Limited
ABSA	Amalgamated Banks of South Africa Limited
BOE	Board of Executors Limited
Investec	Investec Group Limited
Mercantile	Mercantile Lisbon Bank Holdings Limited
Nedcor	Nedcor Limited
FBC	FBC Fidelity Bank Holdings Limited
FirstRand	FirstRand Limited
NRB	New Republic Bank Limited
RMB	Rand Merchant Bank Limited
Regal Treasury	Regal Treasury Bank Holdings Limited
Securities Investment	Securities Investment Bank Limited
Saambou	Saambou Holdings Limited
JSE	Johannesburg Stock Exchange
GAAP	Generally Accepted Accounting Practice
IFCI	International Finance and Commodities Institute
IOSCO	International Organisation of Securities Commissions
Standard Bank	Standard Bank of Southern Africa
G10	Group of Ten
G22	Finance Ministers and central bank governors of 22 countries
Reserve Bank	South African Reserve Bank
Abbey National	Abbey National PLC
Barclays	Barclays PLC
Halifax	Halifax Group PLC
Lloyds	Lloyds TSB Group PLC
Royal Bank	The Royal Bank of Scotland PLC
ANZ	Australia and New Zealand Banking Group Limited
National Australia	National Australia Bank Limited
Westpac	Westpac Banking Corporation

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List of definitions (with associated explanations)

Adequacy

Adequacy is a value based term used in this study. The term adequacy, for the purpose of this study, refers to the adequate (i.e. full) compliance of the banks with the requirements and recommendations of local and international disclosure standards. The rate of compliance with the disclosure standards and derived best practice has been used as a proxy for adequacy.

Usefulness

This is another value based term used in this study. The assumption has been made in this study that the disclosure developed by standard setting bodies is useful (refer to the discussion in chapter one – statement of the problem). The rate of compliance of the banks with the disclosure standards and derived best practice used in this study is therefore also used as a proxy for usefulness.

Risk Reporting

Risk is defined as "uncertainty as to the amount of benefits. The term includes both potential for gain and exposure to loss" (ICAEW, 1999, p6). The reporting of risk (i.e. the transparency of companies with regard to the uncertainty of future benefits) is important as economic performance is essentially measured by comparing the returns earned against the risks taken to earn the return. "Transparency refers to a process by which information about existing conditions, decisions and actions is made accessible, visible and understandable" (Working Group on Transparency and Accountability, 1998). It is important to recognise that risk encompasses both upside risk (gains) and downside risk (losses).

Environmental risk

The evaluation of environmental risk addresses the broad environments in which the company operates. In countries where significant investment is held, sovereign risk must be examined. Social impacts and changes in technology are evaluated as these events affect the industry as a whole. Sensitivity to changes in the financial or regulatory environments is assessed. The impact of legislation and actions of competitors must also be reviewed. These risks are highly subjective and in some cases are company specific.

Operational risk

Operational/business risk is concerned with the failure of internal systems that result in losses, reputation and other company specific risks. Other issues within the ambit of this risk include risk of service failures, human error and fraud. Many of these issues are difficult to quantify. Often identification of these issues occurs after the event.

Financial risk

Financial risk is comprised of a number of specific risks, each of which is important in a banking organisation. They are: credit risk, market/equity risk, interest rate risk, liquidity/funding risk and currency/foreign exchange risk. Definitions of each of these risks are provided below.

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Credit risk	"Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss" (IAS 32 p43(b), 1995).
Market risk	"Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market" (IAS 32 p.43(a)(iii), 1995).
Interest rate risk	"Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates" (IAS 32 p43(a)(ii), 1995).
Liquidity risk	"Liquidity risk ... is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value" (IAS 32 p43(c), 1995).
Currency risk	"Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates" (IAS 32 p43(a)(i), 1995).
Capital adequacy	"Capital adequacy ratios are a measure of the amount of a bank's capital expressed as a percentage of its risk weighted credit exposures... Two types of capital are measured – tier one capital which can absorb losses without a bank being required to cease trading, ... and tier two capital which can absorb losses in the event of a winding-up and so provides a lesser degree of protection to depositors *than tier one*" (Reserve Bank of New Zealand, 1999 – italics added).
Tier one	"Tier one capital is capital which is permanently and freely available to absorb losses without the bank being obliged to cease trading. An example of tier one capital is the ordinary share capital of the bank. Tier one capital is important because it safeguards both the survival of the bank and the stability of the financial system." (Reserve Bank of New Zealand, 1999).
Tier two	"Tier two capital is capital which generally absorbs losses only in the event of a winding-up of a bank, and so provides a lower level of protection for depositors and other creditors. It comes into play in absorbing losses after tier one capital has been lost by the bank ... An example of tier two capital is subordinated debt." (Reserve Bank of New Zealand, 1999).
Risk management	Knowing the risks faced by a banking organisation does assist the user of the financial statements, but a more accurate assessment of a bank's risk profile can be made if a bank also discloses the "bank's management strategies and policies for managing and controlling those risks" (Basel, 1998a).

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Chapter 1 - Introduction

Introduction

Current issues

The improvement of risk disclosure and risk management are currently topics of international focus. The Working Group on Transparency and Accountability identified that this concern is partially due to recent financial crises that have hampered the world's financial markets. The Asian financial crisis highlighted the importance of a stable banking system but also the importance of understanding the risks involved in each banking organisation to prevent bank failure. "In short, transparency and accountability help to improve economic performance" (Working Group on Transparency and Accountability, 1998).

The developing markets for derivatives and other financial instruments have led to companies trading in these instruments facing accentuated risks, the bulk of which are located off the balance sheet. Unless fair values of these instruments are disclosed, "these derivatives are effectively invisible. Depending on underlying price movements, such derivatives *(e.g. financial forward contracts)* can have substantial values and can represent significant risk positions that may transform an enterprise's financial risk profile" (IASC, 1997 – italics added). Financial institutions are particularly susceptible to the increased risk as they trade in these instruments frequently. "The nature and extent of *banks'* financial activities requires the development of disclosures of financial risk exposures beyond those necessary for most commercial enterprises" (IASC, 1997 – italics added).

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Risk disclosure in South African banks is of particular interest following the transfer to curatorship of New Republic Bank on 29 January 1999. Furthermore, risk management has come under scrutiny following the outcry over the South African banks collective exposure to a collapsed Macmed (a health-care equipment group). "Moreover, even the more respected banks go through periods when they may seem prone to large bad debts. It happened to Nedbank in the mid-Eighties. Now Stanbic, which had its nose bloodied in Russia late last year *(1998)*, appears as one of the largest Macmed creditors" (McNulty, 1999b – italics added).

Increasing pressure from government and other special interest groups relating to the provision of finance to low-income earners by the major financial institutions, heightens the importance of quality risk disclosures within the South African environment.

"During 1998, 'bancassurance' – the convergence of banking, insurance and investment services – gathered momentum in South Africa" (Banking Council of South Africa, 1999). The role that banks and these new combined financial service entities play regarding the

stability of the economy as well as the reasons mentioned above makes banks, their risk disclosures and risk management highly topical issues.

International progress

Before IAS 32, the only risks that were required to be disclosed in terms of the international accounting standards were general banking risks (contained in IAS 30 (reformatted 1994) paragraph 50 to 52) and provisions and contingencies (IAS 10).

In 1995 the International Accounting Standards Committee issued IAS 32 on the disclosure of financial instruments. IAS 32 recommended narrative disclosures about the financial risks organisations faced. This standard improved the disclosure required from banks and other organisations.

The IASC has recently added the revision of IAS 30 to their projects list. IAS 30 deals with disclosure by banks and similar financial institutions. The revision was considered necessary following the release of IAS 32 on financial instruments disclosure and IAS 39 on the recognition and measurement of financial instruments.

The Basel Committee's transparency group (consisting of supervisory experts on disclosure and reporting representing the central bank governors of the world's largest ten economies) has made significant progress over the last few years as evidenced by the volume of the reports produced. In particular they have produced reports focussing on the disclosure of derivatives and recently on disclosure of risks in banks. A number of consultative and other discursive papers have been released on the topic of risk disclosure, for example a consultative paper on Best Practices for Credit Risk Disclosure released in 1999 and subsequently updated in September 2000. Their proposals should assist in improving risk disclosure in banks.

"The IMF has two primary responsibilities: overseeing the stability of the international financial system, and acting as an advisor to member governments" (Working Group on Transparency and Accountability, 1998). Reports have been issued by these organisations seeking to improve the disclosures of risk on a national level and to improve the communication amongst the world's economic markets.

World organisations such as the G22 and G10 have pooled their resources in establishing various committees to investigate the issue of disclosure (also termed transparency) as well as the issue of accountability for that disclosure.

While significant activity by international organisations is evident, as described above, individual countries have also taken up the challenge of improving their risk disclosures. The ICAEW in the UK are a prime example. They have a steering committee to examine the issue of financial reporting of risks. This group is examining the disclosure of all risks to which organisations are exposed, including non-banking organisations. The report "No

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Surprises – the case for better risk reporting" was produced in 1998 following a paper the group had published in 1997.

Throughout this study, two foreign countries are used for comparative purposes, namely the UK and Australia. The method of testing adopted in the study required a comparison with foreign companies providing financial statements in a similar style to those of South African banks. To identify these countries, the style of reporting in South Africa had to be noted. South African banks follow the Anglo-Saxon style of reporting. This appears reasonable in the light of fact that the majority of South African banks were originally branches of UK banking groups. Australian banks too have UK origins. The US on the other hand does not conform to this method of reporting. Indeed international studies have shown that there is a significant difference in the style of reporting between the US and Europe. This stems largely from the legislative environments in which each country reports. For this reason, the US was excluded from the scope of this dissertation. Furthermore, the US has not embarked on extensive harmonisation programmes as have the countries examined.

Local standards

The applicable accounting standards in South Africa are AC 120 and AC 125. These standards prescribe the disclosure for banks and financial instruments respectively. AC 120 was issued in 1993 and AC 125 in 1997. Recent changes in financial markets, the increased importance of derivatives and other financial instruments on financial institutions and the impact of recent political reform on the economy have all served to change the extent of risks faced by banks. While AC 120 is promulgated GAAP, it is not representative of the disclosure that should be required from a bank in today's financial market. This is illustrated in chapter two in the discussion of disclosure issues. AC 125 merely follows IAS 32.

Legislation regarding disclosure by banks has also recently undergone a change. Before 1994, the Companies Act (in terms of Part V of Schedule 4) allowed banks and other financial institutions to create hidden reserves. These reserves were used to smooth profits to boost public confidence in the stability of the organisation and therefore the banking system as a whole. This schedule in the Act was repealed for financial years commencing on or after 1 January 1994.

Standard of reporting

The overall standard of reporting by South African banks has been reasonably good. In Ernst & Young's 1999 publication "Excellence in Financial Reporting", the top 100 companies by market capitalisation were reviewed. Of the companies listed in the banking sector, eight were reviewed. Two were rated in the top 10, three in the "excellent" category, one in the "good" category and two were considered "unsatisfactory". It should be noted that the Ernst & Young survey evaluated all disclosure whereas this study reviews only financial risk disclosures of these organisations.

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Further improvement in disclosure is expected following the issue of circular 8/99 by SAICA (effective December 1999). This circular requires the auditor to ensure that a company has indeed complied with the requirements of the Companies Act and the Statements of Generally Accepted Accounting Practice where this fact is stated in their financial statements. Where deviations are found, these must be disclosed in the audit report.

While the overall reporting standard appears to be high, financial risks that banks face are particularly important as banks play an important role in ensuring the stability of the economy. The complete disclosure of financial risks must therefore be of an excellent standard.

Study rationale

Disclosure is the means of communicating to the users of the financial statements. There are a number of users of the financial statements of banks, being shareholders, employees, intermediaries, regulators, depositors, potential shareholders, the media and investment analysts.

Each of these users is in some way interested in the risk faced by the various banking organisations. Through globalisation and increased corporate activity in South Africa, the interest in these organisations financial statements is increasing.

One of the objectives of this study, therefore, is to determine whether the number of shareholders in a South African bank influences the extent of financial risk disclosure provided based on an international benchmark.

SAICA have embarked on a policy of harmonisation of SA accounting standards with those of the IASC. This policy of harmonisation coupled with the recent economic reforms e.g. the easing of exchange controls, increases the importance of benchmarking SA financial statements with those of the rest of the world.

Given the introduction of the South African economy to global markets, disclosure by South African banks participating in the pursuit of foreign investment is required to be of an international standard (in terms of adequacy and usefulness) in order to be comparable with their foreign counterparts. It is therefore necessary to compare the South African banks' disclosure against an international benchmark.

As it is generally only the larger South African banks that can compete at an international level, one would expect that the size of the South African bank could have an impact on the extent of the disclosure provided. It is therefore a further objective of this study to evaluate the correlation between the extent of financial risk disclosure provided based on

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an international benchmark and the size of the South African bank (as determined by the loans and advances provided and by market capitalisation).

Benchmarks

The benchmark used in this study is a derived checklist based on the proposals and recommendations of international organisations as well as international accounting pronouncements. These bodies have made the most advances with regard to the development of financial risk disclosure.

The bulk of the international bodies are represented by "first world" (i.e. industrialised) countries. The proposals made by these bodies are still applicable to the South African situation as SA has a "first world" banking system. Traditionally, South Africa has been classified as an "emerging economy" (i.e. a developing country). This is not true for our banking system. A brief background to the South African banking industry is given in chapter two.

Some country specific standards and proposals were reviewed as complementary to the international standards used in the development of the best practice checklist, in particular, those of the United Kingdom and Australia (as countries also in the process of international harmonisation). An industry comparison of these countries with the South African banking industry would be superfluous. As the Working Group on Transparency and Accountability (1998) identified, financial sectors in various countries are different. However, these differences should not affect the development of an international standard of risk reporting. Risk reporting is pervasive across all borders. The disclosure required in terms of an international standard for risk reporting should be consistent, irrespective of the nature of individual country's financial sectors. A lack of consistent reporting undermines the ability of analysts and other users to understand and assess risks in banking organisations across borders

The focus of this study is on standards being developed by international bodies for international application. As the South African Reserve Bank has adopted a policy of using these international standards, country specific analysis is unnecessary. Furthermore, all the other countries whose standards were reviewed are "first world" countries. Moreover, the banking industries within those countries need not be similar to South Africa. This study only examines financial risk disclosure not all disclosure. All banks, irrespective of their environment are exposed to these risks. While the weighting of the risks may vary, the risks remain and require disclosure.

A full discussion of the benchmarking organisations is contained in chapter two. Chapter five contains commentary on the derived best practice checklist.

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Statement of the problem

The purpose of financial statements is to provide the user of those financial statements with information that is useful for their economic decisions (AC 000, 1990). Those responsible for developing disclosure standards must be attempting to cater for the needs of the various stakeholders. If disclosure's purpose is useful information, the presumption can be made that a compliance test of disclosure in the financial statements can be considered a proxy for the usefulness of disclosure. While some disclosures may be more important to particular groups of users, the establishment of relative weightings would introduce an unnecessary level of subjectivity to the study.

Where compliance of local disclosure is tested against well-developed international disclosure, the compliance test can also be used as a proxy for the adequacy of the disclosure contained in those financial statements. This assumes that the standard against which the disclosure is compared is of itself adequate. Since experts in the field of disclosure are developing these standards and these bodies are developing disclosure that is considered to be of use to the stakeholders, one could assume that these standards are adequate and represent best practice. Furthermore, the standards developed by these international organisations followed a process of extensive research and discussions with international experts on disclosure. It should be noted that while the requirements of these standards may be deemed adequate, "poor disclosure practices *(often)* stem from inadequate compliance with and enforcement of existing standards" (Working Group on Transparency and Accountability, 1998 – italics added).

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The main research problem that this study will attempt to answer is therefore:

Are financial risk disclosures of listed South African banks both adequate and useful when compared to international best practice?

A full listing of research questions is contained in chapter 3.

Adequacy of financial risk disclosure for the purposes of this study has been determined by testing compliance of local banks against local standards and the derived international best practice checklist. The compliance test will go some way in proving the usefulness of the disclosure as well as deficiencies within the local reporting standards.

The compliance testing goes further to include a sample of UK and Australian banks. The evaluation of the compliance of foreign banks against the international best practice checklist will provide a further indicator of the usefulness of the disclosure contained within the checklist and the adequacy of the South African banks disclosure.

The checklist derived for this study was compiled using the recommendations and standards of various international bodies. A full discussion of the benchmarking organisations is contained in chapter two. The results of the various compliance tests are discussed in chapters four and five.

The importance of evaluating the financial risk disclosures of local companies against international best practice can be seen when evaluating the local disclosure standards currently in force. The accounting standard (AC 120) for banks only requires narrative disclosure on general banking risks. Additional disclosures are mostly voluntary or vaguely worded. While the financial instrument disclosure standard (AC 125) has gone some way to improve the risk disclosure requirements, further disclosure may yet be required. The determination whether further disclosure is necessary can be established by comparing the results of the extent of compliance by South African banks against local reporting standards and an international benchmark.

Users of the financial statements should also have an impact on the extent of disclosure provided by the banks. Shareholders are a significant group that should be able to request of the board of directors that additional disclosure be provided where it is relevant to the needs of the shareholders. To evaluate this impact, the correlation between the extent of financial risk disclosure provided and the number of shareholders in the South African banks was tested. The research question is detailed in chapter 3.

Increased foreign competition is also requiring banks to compete at an international level. According to the Banking Council of South Africa (1999), this been a motivating factor in the spate of proposed bancassurance mergers. Furthermore, "a strong banking sector is necessary both for internal growth and for international trade and investment. A strong banking sector requires scrupulous adherence to exacting international standards" i.e. disclosure (Banking Council of South Africa, 1999).

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South African banks are also seeking to compete with foreign banks both within South Africa and abroad. The ability of a South African bank to be competitive abroad is largely a factor of the size of the bank (i.e. the ability of the South African bank to provide comparable and competitive service when compared to the best efforts of the foreign banks). One would therefore expect that the disclosure by South African banks competing at an international level to be of a higher standard. This question is effectively tested by determining the extent of the correlation between the size of the bank (as determined by level of advances and market capitalisation) and the extent of financial risk disclosure. The research questions are detailed in chapter 3.

Everingham, in the Excellence in Financial Reporting survey, summarises the importance of compliance with international standards: "As we were dealing with the top companies by market capitalisation and our market is very much a global market, although classified

as an emerging one, it seemed right to us that the financial statements should take steps towards meeting the expectations of the global investor" (Ernst & Young, 1998).

Objectives

The objective of this study is to evaluate the extent of compliance of local and foreign listed banks with an international best practice benchmark as well as the usefulness of the disclosure to the users of the financial statements. The evaluation of the rate of compliance will serve as a proxy as to the adequacy and the usefulness of the financial risk disclosures provided by South African banks.

A comparison of the rate of compliance of the South African banks against the local reporting standards and the international best practice checklist will serve to highlight the deficiencies in the local reporting standards. The derived best practice checklist could serve as a point of departure for South African standard setters in the development of an improved reporting standard for South African banks.

The impact of the reintroduction of the South African economy to the international market will be evaluated through testing the association of size to the extent of financial risk disclosure. Size would be the appropriate indicator as it is the larger banks that are pursuing the international market. The smaller banks are focussing on their growth in the domestic market.

Finally, an additional objective of this study is to determine whether the users, as the primary recipients of the information in the annual financial statements, have an impact on the extent of the financial risk disclosure provided by the South African banks.

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Value of the research

The value of the research lies in its ability to focus attention on the positive and negative aspects of risk disclosure by South African banks. Given the globalisation of the South African economy, the international benchmarking to be conducted in this study should prove to be particularly useful to local banks, particularly in the light of the results of compliance of the foreign banks tested. The results of the scoring of the disclosures provided by these banks will provide South African banks with illustrative examples of appropriate disclosures.

While not overtly addressed in this dissertation, value can be extracted in the identification of deficiencies in local reporting standards applicable to South African

banks. This can be achieved in the comparison of the results of the compliance tests performed against local standards and the derived international best practice checklist.

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Chapter 2 - Background

Industry background

Before 1994, isolation of South Africa from the world as a result of political ideologies served to stunt growth and competition within the financial services sector. Stability in the financial sector was enforced through government policies and restrictions. The limited size of the market enabled a few major players in the banking sector to thrive. This is evidenced by the strong position of only four commercial banks in South Africa. It has only been in recent years that private/merchant banks have had the opportunity to grow in terms of market share.

Major political reform in 1994 was carried over into the financial sector. The banking sector was challenged with re-integration into the international financial environment as well as the introduction of foreign competition in the domestic environment. Government policy (e.g. the slow relaxation of exchange controls) restricted re-integration to a gradual level. This was done to ensure the stability of the economy.

Despite the lack of extensive development during the years of isolation, the structure that was in place was reasonably sophisticated. The major reforms introduced, therefore, concentrated on improving the existing structure.

"South Africa is well-known in the international financial community for the sophistication of its financial markets" (South African Reserve Bank, 1999c). However, the formal banking sector is still dominated by four large banks, namely ABSA, Standard Bank, Nedbank (under the banner of Nedcor) and First National Bank (under the newly listed FirstRand).

While these commercial banks dominate the banking sector, niche banks are taking an increasing market share by collectively offering a wide range of products. "The big retail banks are still under total onslaught. Latest figures show private banks are stealing more of their wealthier clients and smaller banks continue to siphon off instalment and leasing business and home loans" (Wood, 1999a). An Ernst & Young report in 1998 on global banking and financial services "found that financial service providers increase market share by offering a broad and diversified set of products and services" (Bidoli, 1998).

Bruce Young, a partner of Ernst & Young, indicated that the traditional commercial banks are being forced to join forces with insurance organisations to "buy market share". In doing so, the companies "take advantage of economies of scale ... optimise technology and rationalise" (Bidoli, 1998).

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In response to increasing competition and international trends, the domestic commercial banks are moving towards integration of financial service organisations, commonly termed "bancassurance". The influence of Anglo American resulted in FirstRand becoming the first bancassurer in South Africa (i.e. comprising both banking as well as insurance interests). While they have not merged to form a bancassurance group, a recent insurance/banking relationship has developed between Old Mutual and Nedcor.

Within the South African banking sector, there are three clear groups of banks. The sector is headed by the four commercial banks as indicated above. The second group comprises the two banks of BOE and Investec (focussed on high-worth individuals and corporate entities) that continue to show substantial growth. The third group consists of the rest of the sector. The banks in this third group are a mixture of commercial and private banks.

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While beyond the scope of this dissertation, it must be remembered that an additional group of unlisted banks also influence the market to a limited extent. These banks are normally branches of international banking groups or companies that are listed in the financial services sector because their business focus is not mainly banking.

At the time of writing, the South African banking sector (as listed on the JSE) consisted of 14 banks (excluding the South African Reserve Bank). Six banks comprise the bulk of the market with the remaining banks being owned either by the largest six banks (by asset base), or by other holding companies (both foreign and domestic).

Four of the top six banks (ABSA, FirstRand, Nedcor and Standard) are the traditional commercial bank, providing finance to the general public. The other two banks, BOE and Investec are focussed more on the provision of finance to high-worth individuals (normally professionals such as accountants, lawyers, doctors etc.) more so than a traditional commercial bank. The remaining banks in the sector provide a combination of the services as described above but to a lesser extent.

The most noticeable determinants of size in the South African banking market are the size of the loan books and market capitalisation. The size of the loan book is particularly significant as this is the main function of all the banks examined in this dissertation. Other significant indicators of size may exist but are beyond the scope of this dissertation.

The post-1994 reforms as well as increased international competition have resulted in banks being exposed to increased risk, particularly with regard to recent foreign banking crises. Increased trade in derivatives and other financial instruments has heightened this exposure. Diversification by South African banks into focussed business units has resulted not only in improved returns on equity but has also spread the risks arising from

trade in derivatives and other financial instruments contained in a banking business unit. Most of the larger banking groups now have insurance, asset management and other consultancy subsidiaries. Each of these units contributes more to the revenue of the group each year.

The South African banks are also aggressively pursuing the international market. The clearest example of the pursuit of international business is Investec "which now sources over 60% of earnings outside SA" (Theobald, 2000).

International development towards improving financial risk

Introduction

"One of the major financial events of 1998 was the melt-down of the Asian markets. It is not surprising that this has already been used as a justification for the cause of international accounting standards. Arthur Levitt, Chairman of the US SEC, has argued that transparent capital markets demand strong accounting standards:

'Look across the Pacific. These countries are paying a price for a system defined more by relationship-driven finance than market evaluation of risk and return. Everyone here knows what investors expect. They expect clear, comparable, dependable and honest reporting of events as they occur. And, if those expectations are not met, not only will a company's future be jeopardised, but so will the fundamental trust that allows our system to operate.

We can never forget that lesson. As technology and the forces of more globally integrated markets redefine the operation of capital markets, new demands for capital are increasing that must be satisfied at a global level. There has been an international effort ... on several projects to reduce disparities in reporting and disclosure requirements.

We are very sensitive to the costs associated with non-uniform standards – particularly those relating to accounting. But as we attempt to answer the call for more harmony, we must focus, first and foremost, on the needs of capital markets and capital market participants.

Participation in US capital markets delivers great benefits – but membership has a price. While we are looking for ways to reduce costs, we will not do so by diminishing the benefits our markets provide.

I don't presume to demand that the world's capital markets adopt our standards. But any set of global accounting standards must satisfy a fundamental test – does it provide the necessary transparency, comparability and full disclosure?'" (Ernst & Young, 1998)

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This quote summarises the main issues around which risk disclosure is being discussed. Firstly, risk disclosure can improve market efficiency by giving the investor the appropriate information. Secondly, complete and consistent disclosure ensures the investor's trust. Thirdly, improved risk disclosure has the ability to reduce the cost of capital through better pricing based on complete information. Fourthly, harmonised standards have the potential of reducing disclosure costs if uniformly applied. Lastly, international standards must be complete and ensure transparency that is comparable across borders.

Most organisations developing disclosure standards, particularly in the proposals for risk disclosure, refer to one or more of these issues. This development has been particularly prevalent since the Asian crisis. Risk disclosure in financial institutions has become an issue of international concern.

Market efficiency

One of the tasks of the Basel Committee's transparency group is to improve market efficiency through improved disclosure. This follows the considerations of the Working Group on Transparency and Accountability. This Working Group (1998) identified the contribution that disclosure makes on the efficient allocation of resources. The supply of information to market participants helps to stabilise the markets as expectations are rational and justified. "In essence, market discipline is founded on the observation that a sound and well-managed bank is able to attain better terms and conditions in transactions with informed and rationally-behaving market counterparties" (Basel, 1998).

Market discipline also encourages banks to act prudently knowing the users of the financial statements will review the exposures. "Unsafe" or "risky" banks are identified earlier, especially in times of market stress, by the stakeholders allowing a timely withdrawal of banks that would have otherwise failed. This lends itself to a more stable financial system.

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Public disclosure also prevents overreaction to or poor estimation of risk by investors and other stakeholders. "In an imperfect market, it has been emphasised that financial analysts can never perfectly substitute for the deficiency of a firm's disclosure policy" (Gibson, 1999).

The steering committee for financial reporting at the ICAEW showed that risk disclosures decline from those contained in prospectuses to those contained in annual reports. They attribute the decline in the share price and increased cost of capital of the newly listed companies to the reduced risk disclosure. Risk disclosure is vital in correctly pricing shares.

Market discipline also has a part to play in the supervision of banks. The Reserve Bank of New Zealand changed their method of supervision in 1996 to one of using publicly

available documents to supervise their banks. Nicholl (1996) noted that the international community was uncomfortable with the level of transparency that such a move would bring, especially the bank managers and directors. "In principle, the market, depositors, and the general public have no less a need for information than does the regulator" (IMF, 1997).

Investors' trust

Investors are less likely to trust disclosures in the financial statements of banks if those disclosures consist of only good news or if no news is disclosed followed by sudden releases of the negative information. Disclosure should be timely and unbiased. This builds the investors confidence. "Market confidence in management depends crucially on keeping the market informed of significant developments. Directors who have not explained their information risks are likely to find themselves punished by investors with unrealistic expectations who are caught by surprise" (ICAEW, 1999).

Investors' trust will extend into efficient allocation of resources from the capital markets. Those companies that adopt a policy of complete disclosure will maintain the lowest cost of capital.

Cost of capital

"All other things being equal, a company where management has a reputation for 'no surprises' will enjoy the lowest sustainable cost of capital and the highest sustainable share price. We believe that a company that acts this way will probably also further enhance shareholder value by improving its risk management. When we talk about 'no surprises' we do not mean that companies should smooth their earnings trend by turning the tap of accounting prudence on and off or that they should eliminate volatility at all costs. In reality 'no surprises' will involve telling it as it is. If the results are really volatile they should be reported as such and it should not come as a surprise to the market" (ICAEW, 1999).

The Basel Committee is also of the opinion that improved disclosure would lead to banks having more efficient access to the capital markets. This would lead to improved allocation of capital resources. Gibson (1999) in a paper supported by the IFCI mentions that a motivation to disclose risk is the opportunity of a lower cost of equity should the company wish to raise additional capital. She added that analysts' rating of a bank moved in relation to the level of disclosure provided (Gibson, 1999). The Basel Committee also support this view.

Business Day (1999b) identified that essentially financial institutions generate profit through the repackaging of risk. Furthermore, they indicated that the proper measurement of risk is a key element in ensuring efficient allocations of capital. To achieve proper measurement of risk, information must be available. Proper disclosure is one of the mechanisms of making that information available, thereby ensuring efficient allocation of capital.

Disclosure cost

If accounting standards are harmonised, those organisations currently producing both national disclosure and international disclosure would now only have to produce one set of financial statements. This would decrease the cost of disclosure to that organisation.

Comparability

For the international accounting standards to be prescribed worldwide, the standards must ensure complete disclosure, which will ensure transparency in the market place. For markets to become more efficient, appropriate information is required.

Current accounting standards are vague about the disclosure requirements for risks faced by business entities. Prescribing disclosure is one of the mechanisms of ensuring comparability. The prescribed disclosure must also exclude any ambiguities. Furthermore, the IMF (1997) show that companies are reluctant to voluntarily disclose more than another company, particularly when dealing with sensitive information.

Kuhner (1997) shows that market risk disclosure varies dramatically between financial institutions. The theory that market forces will ensure that all necessary disclosure will be made does not hold true. "This line of thought ignores the fact that what companies disclose in public is not driven purely by precise economic calculation. It is directors who make disclosures and they have opinions, interests and views about markets. They are also affected by the behaviour of other companies and a presumption that you only disclose what you have to" (ICAEW, 1999).

Concluding Remarks

In each of the above cases there has been a call for increased disclosure, be it an increase in quantity or quality. By far the majority of cases, the international bodies are calling for an increase in the quality of the disclosure currently provided, uniformity of presentation for comparability and enforcement of these improved standards.

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Disclosure issues

Introduction

The disclosure issues around the disclosure of financial risks, for most "first world" countries, lies more in the quality of and the manner in which the disclosure should be presented rather than generating new disclosure. As South Africa appears to lag behind the rest of the world in terms of disclosure practices, some of the disclosure recommended may be new to South African companies.

The IMF (1997) released a report considering the issues of quality of disclosure and other information provided by banks. This section is designed to highlight the issues surrounding financial risk disclosure and explanation of the effect on financial risks.

Lending activities

Over the years, banks have diversified their business to beyond the traditional role of mere providers of loans. However, this activity still accounts for a large portion of the banks business.

The lending function requires a significant amount of judgement regarding the creditworthiness of the applicant. These judgements are not always accurate. As such, a significant credit risk exists with regard to counterparties not performing in regard to their obligations. This problem is particularly significant in South Africa considering the increasing pressure from government and special interest groups for banks to make funds available to low income earners. Should these groups prevail, the banks will be exposed to a significant concentration of credit risk.

Movements in interest rates also significantly influence the value of and performance under loans to low income earners. In the South African environment, with volatile markets, fixed interest rate agreements may result in losses for banking organisations should interest rates move significantly. Exposure to interest rate risk should also be considered and disclosed.

Security provided under loan agreements is not always reassessed and the assets may have deteriorated. This increases the banks exposure to credit risk.

Lending activities can also subject a bank to liquidity risk. "Liquidity risk arises from the inability of a bank to accommodate decreases in liabilities or fund increases in assets. When a bank has inadequate liquidity, it cannot obtain sufficient funds, either by increasing liabilities or by converting assets promptly, at a reasonable cost, thereby affecting profitability" (IMF, 1997).

Trading activities

The trading activities of banks exposes them to market risk. This is as a result of changes in market prices which influence foreign exchange rates, equity and debt instruments. As the providers of foreign exchange, banks are particularly susceptible to market risk. Deterioration of foreign exchange rates could lead to losses for the banking organisations providing foreign exchange. Trading in other derivatives can also expose the banks to further market risks.

Derivatives

Current disclosure standards have not dealt sufficiently with the broadening derivative markets. AC 125, effective from December 1998, on the disclosure of financial instruments and AC 133, effective from December 2001, on the recognition and measurement of financial instruments have begun to address the issue of derivatives, but further disclosure may yet be required. The use of derivatives can often expose a bank to greater risks than are evident from the balance sheet. It is for this reason that extensive disclosure is required where the derivative activities in a bank are material. The use of derivatives usually exposes the bank to more than one type of risk, for

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example on an interest rate option, "the purchaser has the right – but not the obligation – to lock into a predetermined interest rate for a given period of time. The writer of the option is exposed solely to market risk in respect of interest rate movements, whereas the purchaser is additionally exposed to credit risk" (British Bankers' Association, 1996). The use of derivatives and the strategy to which the derivatives have been applied should be disclosed in sufficient detail to provide the users with information to make an assessment as to the condition of the bank with regard to derivative exposure.

Use of internal models

Banks are increasingly using internal measurement models to measure and manage financial risks. As such, the results of these models should be included with the commentary on risk management and measurement. In particular a description of the model, how it is applied and the assumptions used should be included in the commentary. The models used should also not be reviewed in isolation and the results of the stress testing and additional analyses that should have been performed to evaluate the results of the model should also be disclosed.

Inter-relation of risks

The increasing sophistication of the financial risk disclosure standards has resulted in financial risks being reviewed in isolation with derivatives seen as a separate issue with regard to risks. A "back to basics" approach should be adopted. The IMF (1997) noted that "best practices for disclosing market risks are still being developed. However, the intention is for a bank to report risks from a portfolio perspective whereby all the financial instruments related to the major categories of risk are examined together, and financial derivatives should not be looked at in isolation from the rest of the balance sheet".

Key information for analysis

The IMF (1997) noted further that "the market, depositors, and the general public have no less a need for information than does the regulator". Moreover, they noted some of the key information required by the supervisors of the regulatory bodies to evaluate risk. The Basel Committee took the information identified in the IMF paper into consideration in evaluating disclosure practices in order to propose best practices for particular disclosures.

Key information identified included the following:

- a discussion of the general risk management environment,
- credit risk:
  - likelihood of doubtful debts conversion in actual credit risk,
  - the credit risk of over-the-counter (OTC) derivative contracts measures at the cost of replacing the contract should the counterparty default,
  - risk concentrations and related party transactions,
  - details on counterparties with the largest credit exposures,
  - segmental analysis by business line, geographic area and related party,

    - analysis of non-performing loans, payment capacity of counterparty, collateral etc.,
- interest rate risk:
    - maturity structure of interest bearing assets and liabilities,
    - off-balance sheet items used to hedge interest rate gap,
    - maturity position including hedges,
    - portfolio of interest bearing instruments in liquid marketable form,
    - sensitivity analysis by instrument for movements in the interest rate, effects of a change in the slope of a yield curve and scenario analyses,
- currency risk:
    - maturity tables for each currency in which the bank ahs substantive positions,
    - details on all open positions,
    - maturity profiles of all outstanding foreign exchange contracts,
- a measure of total equity risk (including details on how the measurement is made),
- derivatives:
    - positive and negative replacement costs,
    - detailed accounting policy,
    - exposure by financial risk,
- liquidity risk:
    - management methodology,
    - distribution, concentration and type of funding source,
    - firm loan commitments, foreign exchange transactions, commitments to purchase securities and expected shortfalls in cash flow,
    - sensitivity analyses demonstrating effects of changes in future cash flows.

The bulk of the above key information required was drawn from the IMF report "Quality of Information, Supervisory Reporting, and Public Disclosure" (1997). This is the key information required to evaluate the risk profile of a bank. The international best practice checklist goes further than the above in its requirements.

Much of the information identified above is still not required by local standards. The information requirements introduced by the international best practice checklist have been highlighted in the tables of disclosure scores in chapter 5.

Benchmarking organisations

Introduction

Most of the benchmarking organisations that were used in the development of the disclosure checklist are international bodies set up to oversee national economic or supervisory bodies or to investigate particular issues.

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Basel Committee

The Basel Committee sits at the Bank of International Settlements (the recognised international Central Bank). This Committee is represented chiefly by the ten largest world economies. This body investigates and provides assistance with regard to bank regulation by national regulatory bodies. One of the sub-committees within this organisation is the transparency group whose task it is to investigate and recommend disclosure for banks.

The Basel Committee has released many reports and consultative papers over the last few years. Most recently, an updated paper on the Best Practice for Credit Risk Disclosure was issued. Credit risk is still considered as one of the major risks faced by banking organisations and is recognised as "a dominant cause of bank failures and banking crises worldwide" (Basel, 2000). Financial risk disclosures in banking organisations are the current focus of the Committee.

International Accounting Standards Committee

The International Accounting Standards Committee (IASC) has the mandate to produce accounting standards that are applicable internationally and that will produce quality disclosure in all enterprises. SAICA have representatives on this standard setting body.

Recent standards that influence this study are IAS 32 and 39 on financial instruments, particularly IAS 32 on presentation and disclosure. Part of the IASC's function is to revisit standards and ensure that the information required by the standards remains appropriate and of sufficient quality. In this regard, the IASC have placed IAS 30, dealing with banking organisations, on their projects list. At the time of writing, no date had been set for completion of this project.

International Monetary Fund

Recognised as a major lender to governments, the IMF has a particular interest in risk disclosures and have released a few pertinent papers on the subject. The focus of these papers has tended to focus on risk disclosures on a larger scale that that of individual enterprises, but rather on the country as a whole. For this reason, focus on the reports produced by the IMF has been limited in this study.

National Accounting Standard Setting Bodies

The accounting standards applicable to this study were reviewed for the United Kingdom, Australia and New Zealand. This review was performed more as a confirmation of the appropriateness of the developed international best practice disclosure checklist.

Furthermore, reports issued by committees of the ICAEW were also used for background information to assist the development of the disclosure checklist.

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National Reserve Banks

Reports issued by the Reserve Banks of the abovementioned countries were also reviewed. The Reserve Bank of New Zealand was of particular interest following the change in regulatory methodology. The New Zealand regulatory system uses prescribed publicly available information for the purposes of regulatory review.

The applicability of the reports and recommendations of the Basel Committee was confirmed as each of these countries' Reserve Banks subscribes to the opinions of the Basel Committee.

Summary

A review of documents issued by the South African Reserve Bank, Banking Council of South Africa and SAICA all demonstrated an intention to follow the developments of international standard setting bodies, in particular the developments of the Basel Committee and IASC.

The development of the best practice checklist will serve to test that resolve and determine whether South African financial risk disclosure is sufficient in the international arena.

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Chapter 3 – Research design

Introduction

In this chapter, the six research questions that are derived from the main research problem are introduced. The research method used and the manner in which it was applied is also discussed. This chapter also sets out the limitations to the scope of the problem and assumptions used in this study. Finally the non-parametric statistical method used to test the final three research questions is explained as well as the manner in which it was applied.

Research questions

The research questions below follow from the research problem as identified in chapter one:

1. Is the extent of financial risk disclosure of listed South African banks adequate in relation to local reporting standards?
2. Is the extent of financial risk disclosure of listed South African banks adequate in relation to international best practice?
3. Is the extent of financial risk disclosure of a sample of listed United Kingdom and Australian banks in relation to international best practice better than the financial risk disclosure of the South African banks?
4. Does size, as determined by level of advances, influence the extent of credit risk disclosure by listed South African banks?
5. Does size, as determined by market capitalisation at each bank's year end, influence the extent of financial risk disclosure presented in the annual reports of listed South African banks?
6. Does the number of shareholders of the listed South African banks influence the extent of financial risk disclosure presented in the annual report?

Research method

Approach

The research problem has been investigated by:

1. Compiling a disclosure checklist based on South African reporting standards;
2. Compiling an international best practice disclosure checklist based on the recommendations of international standard setting bodies and other relevant organisations (see chapter 2 discussion);

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3. Evaluating research questions 1 to 3 above quantitatively through scoring annual financial statements as well as qualitatively through discussion in chapters 4 and 5.
4. The results of the first three research questions permitted a ranking of SA banks. Questions 4 to 6 were then evaluated by means of the Spearman Rank Order Correlation Co-efficient.

The hypotheses and test results for the statistical tests performed are discussed in Chapter 6. The Research method for the statistical test used is discussed below.

Limitations

The scope of the study is limited as follows:

1. For the purposes of this study, only financial risk disclosure as applicable to banks has been considered as opposed to any other GAAP.
2. No legal disclosure beyond the enforcement of accounting standards has been evaluated.

Assumptions

The following principal assumptions have been made:

1. Provision of current and any additional disclosure is costless.
2. South African banks know all disclosure requirements and proposals.
3. The standards and proposals upon which the checklist is derived are representative of the ideal and may be applied as a standard benchmark when evaluating disclosure compliance.

Sample

The sample of South African banks initially included all 14 companies listed in the banking sector of the JSE. The motivation for this selection was one of obtaining publicly available information (the annual reports the respective companies) used for the purpose of investment decisions. This follows the principle set in the conceptual accounting framework (AC000) as to the purpose of financial statements. Users of financial statements require all information to be at their disposal to make informed investment decisions.

The financial statements of New Republic Bank (NRB) were excluded from the sample. While still listed on the JSE, the bank is currently under curatorship and the focus of the company is significantly different to that of a bank operating under normal conditions. FBC Fidelity, also placed under curatorship, was retained in the sample as the bank has subsequently come out of curatorship (after Nedcor's offer in May 2000) and is operating under normal market conditions. RMB Holdings has also been excluded from the sample. This company is a holding company for FirstRand (the bancassurer) and a few other smaller investments (with 91% of the headline earnings being derived from FirstRand). Their financial statements, inter alia, seemingly summarise some of the information contained in the FirstRand financial statements. RMB Holdings declare in

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their annual financial statements that the group is diversified and as such, the risk management policies and practices can be reviewed in the individual group company's annual financial statements. As they do not include the required disclosures, inclusion in the sample would unnecessarily skew the statistical results.

A full listing of the sample of South African companies reviewed is contained in Appendix C.

UK and Australian banks were selected to provide an international comparative against which the South African results could be further evaluated. To select the sample of UK banks, the level of advances to customers presented in the balance sheet of all listed banks were ranked. There was a significant drop in the level of advances provided to customers in banks ranked after the Royal Bank of Scotland. For this reason, a cut-off of £40,000 million was used (a rounded value for the level of advances held by the Royal Bank of Scotland).

A similar procedure was applied to the Australian banks. Firstly, the cut-off used for the UK banks was converted to Australian dollars. This provided a cut-off amount of approximately A$100,000 million. The value proved to be appropriate as there was a significant drop in the advances provided by Australian banks after the advances of the Australian and New Zealand Banking Group (which were approximately A$100,000 million).

The UK and Australian sample selection is listed in Appendices D and E.

As the benchmarking of all the listed South African banks against the largest UK and Australian banks could skew the scoring results, the results for the largest South African banks (as determined by level of advances) were also included in the tables provided in Chapter 5. The largest South African banks by level of advances used in this study were ABSA, BOE, FirstRand, Nedcor and Standard Bank listed in alphabetical order.

Data Capture

The 1999 annual financial statements were obtained for each of the companies in the sample. These financial statements were then carefully scrutinised against the compiled checklists. The same research method, as used by West (1999), was followed with regard to the scoring of the annual financial reports.

"Scoring was conducted as follows:

- 1 point was awarded for compliance with an attribute.
- ½ points were awarded for partial compliance. Partial compliance is noted in cases where only a component of a disclosure attribute requiring more than one component is disclosed, or where a separate disclosure requirement is incorporated with some

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other disclosure attribute. The effect of this classification is to indicate where information is shown, but its usefulness is compromised by a lack of complete transparency, which full compliance would otherwise provide.

- 0 was awarded for non-compliance.
- no score was noted if compliance with the attribute was indeterminate or irrelevant. This prevents results from being skewed by indeterminate attributes, since these items do not affect either the numerator or the denominator of the percentage disclosure score." (West, 1999)

Often in financial statements, it is unclear whether the disclosure has been omitted by a bank or whether the disclosure is irrelevant for that particular bank i.e. the bank does not engage in the particular activity. Where instances of this nature occurred, they are treated as indeterminate and no score is awarded. As noted above, by assigning no score, the percentage compliance is not skewed.

It must be emphasised that no attempt has been made to distinguish between required and recommended disclosure. This study compares currently supplied disclosure against an ideal. The ideal assumes that all disclosure is useful for the users of the financial statements (i.e. both required and recommended disclosure has a purpose and both should be presented). Furthermore, no attempt has been made to distinguish between degrees of compliance e.g. the same score given to a bank supplying one third of a disclosure requirement is given to a bank supplying two-thirds of the disclosure requirement. Moreover, the scores were not weighted for quantitative versus qualitative disclosure.

The absence of any weighting of the raw scores derived has introduced a level of bias not evident from the percentages shown in the tables. The percentages shown are, however, an indication of the level of disclosure provided by each bank and should not be examined as an accurate assessment of each bank's disclosure (i.e. a scientific scale). The results produced should therefore be examined with the limitations of the scoring model in mind.

In order to render the comparisons meaningful, the scores for each South African company against each checklist were reduced to percentages. The percentages do not take into consideration any of the attributes for which no score was awarded. The same calculation was performed for the UK and Australian companies' scores.

The discussion regarding the development of the best practice financial risk disclosure checklist is discussed under each risk examined in chapter 5.

The disclosure checklists are contained in Appendices A and B. The scores for the extent of financial risk disclosure based on local reporting standards presented by the

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sample of SA banks are contained in Appendix F. The scores for the extent of financial risk disclosure based on the derived international best practice checklist for SA, UK and Australian banks as well as a summary of the results are contained in Appendices G to J.

As noted above, the disclosure scores contained in the appendices were converted into percentages to better evaluate the rate of compliance. The rate of compliance for each disclosure requirement for the local reporting standards are discussed under the headings of AC 120 and AC125 in chapter 4.

Chapter 5 contains the rates of compliance (as a percentage derived from the disclosure scores) for each of the disclosure requirements of the international best practice checklist. The checklist has been broken into the following sections for the purpose of discussion: credit risk, market risk, interest rate risk, liquidity risk, currency risk and capital adequacy.

Statistical Methodology

Introduction

The statistical test used is discussed below to assist in the understanding of the results presented in Chapters 6. Spearman's rank-order correlation co-efficient was used to evaluate the three hypotheses stated in Chapter 6. The reason for the use of this particular statistical test and additional information on the research method are provided below.

Spearman's rank-order correlation co-efficient

This non-parametric statistical test is used to test the association between two sets of variables. By using a non-parametric test, the assumption that the two variables are normally distributed is avoided. The formula is derived from Pearson's parametric test of correlation. Ranks are assigned to the variables rather than using the raw scores. This results in the formula for the Spearman rank-order correlation co-efficient as follows:

EQUATION 1: SPEARMAN RANK-ORDER CORRELATION CO EFFICIENT

$$r_s = 1 - \frac{6\sum_{i=1}^{N} d_i^{\,2}}{N^3 - N}$$

where:

- r_s is the rank-order correlation co-efficient
- d_i is the difference between the ranks of the two variables
- N is the sample size

The variables to be tested for association are each ranked according to their respective values. The ranks for the sample are subtracted from each other. The differences are then squared before summing the differences. This removes the possibility that the test

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result would be skewed as positive and negative differences cancel each other out when they are summed.

The values are then inputted into the formula and the calculated r_s is then compared to a table of critical values for various probability levels. If the calculated value is larger than the critical value for the set probability level, then the null hypothesis that no association between the variables exists is rejected.

Application

Spearman hypotheses 1, 2 and 3 (Levels of association)

The Spearman rank-order correlation co-efficient test was used to test whether a statistically significant association exists between:

(a) the level of advances reported by a bank and the extent of the credit risk disclosure presented in the annual financial statements,

(b) the market capitalisation and the extent of financial risk disclosure presented in the annual financial statements, and

(c) the number of shareholders and the extent of financial risk disclosure presented in the annual financial statements.

Should the ranks assigned to the first variable and second variable be similar for each bank, the formula should generate a result in which the calculated value will exceed the critical value. The closer the calculated result is to 1, the greater the level of association.

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Chapter 4 – South African disclosure

South African Disclosure Standards – Results and Analysis

Introduction

In this chapter, the results of the scoring of the 1999 annual financial statements of the sample of listed South Africa banks will be discussed. The checklist against which the scoring was performed is included in Appendix B. This checklist includes only those requirements impacting financial risk disclosure. Furthermore, the checklist only comprises the applicable standards that were effective for the year under review, namely AC 120 (Disclosure in the Financial Statements of Banks) and AC 125 (Financial Instruments – Presentation and Disclosure).

AC 120 – Disclosure in the Financial Statements of Banks

AC 120 is effective for periods ended on or after 1 January 1996. The understanding and perception of financial risk disclosures have developed extensively since this standard was issued. However, as this standard has been available for a number of years, the expected rate of compliance with this standard should, intuitively, be high.

Below are the AC 120 tabulation of disclosures and the SA rate of compliance for the sample of banks tested.

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TABLE 1: AC 120 – SOUTH AFRICAN BANKS AVERAGE DISCLOSURE SCORES

Standard reference	Disclosure Requirement	Rate of compliance	Companies with omissions
.09	Basis for the recognition of the principal types of revenue	58.3%	ABSA, Nedcor and Securities Investment. Partial compliance by FBC, Investec, Regal Treasury and Standard
.09	Basis for the valuation of investments, dealing securities and financial derivative instruments,	95.8%	ABIL partial compliance
.09	The distinction which determines whether items are disclosed as assets and liabilities or contingencies and commitments,	25.0%	All but ABSA, BOE and Saambou
.09	Basis for the valuation of loans and advances,	50.0%	FBC, Nedcor and Securities Investment. Partial compliance from all but BOE, Regal Treasury and Saambou
.09	The conditions under which the accrual of interest on loans or advances is not recognised as income, and	70.8%	ABIL, Saambou, Securities Investment. Partial compliance from FBC
.09	The bases for providing for or writing off uncollectible loans and advances.	75.0%	Partial compliance from Investec, Mercantile, Nedcor, Regal Treasury, Standard and Securities Investment
.15	It is desirable for management to provide a commentary about average interest rate margins, average interest earning assets and average interest bearing liabilities for the period. Where assets and liabilities subject to unusual or non–market related rates have a material impact on interest income or expense, relevant disclosure is included in the commentary.	20.8%	All with partial compliance by ABSA, Nedcor and Standard
.20	The disclosures in the balance sheet or the notes to the financial statements should include, but are not limited to, the following assets and liabilities: (breakdown contained in appendix)	100.0%	None

.25	A bank should disclose the fair value of trading investments and the fair value of non-trading investments where these differ from their carrying values.	90.9%	ABIL
.29	Where a bank considers it necessary to set aside amounts in respect of banking risks, including future losses and other unforeseeable risks or contingencies in addition to those for which accrual must be made in accordance with Statements of Generally Accepted Accounting Practice, such amounts are accounted for and separately disclosed as reserves. Transfers to and from such reserves are disclosed as an appropriation of retained earnings or as increases in retained earnings.	0.0%	All barring FirstRand were unable to be determined. FirstRand had no information on the banking reserve.
.36	The users of the financial statements need to know about the contingencies and irrevocable commitments of a bank because of the demands these may put on its liquidity and solvency, and the inherent possibility of potential losses. Users also require adequate information about the nature and amount of off balance sheet transactions undertaken by a bank.	100.0%	None
.37, .41	A bank should disclose an analysis of assets, liabilities and off balance sheet items into relevant maturity groupings. It is essential that the maturity periods adopted by a bank are the same for assets, liabilities and off balance sheet items. This clarifies the extent to which the maturities are matched and the consequent dependence of the bank on other sources of liquidity.	70.8%	Regal Treasury with partial compliance by ABSA, FBC, Investec, Mercantile and Securities Investment
.43	A bank discloses an analysis expressed in terms of contractual maturities, and these disclosures are supplemented by a commentary as to the likelihood of repayment within each repayment period in order to provide users with a full understanding of the maturity groupings.	50.0%	All partial compliance
.44	Management provides, in its commentary on the financial statements, information about the effective periods and about the way it manages and controls the risks and exposures associated with different maturity and interest rate profiles.	58.3%	All partial compliance barring ABSA and BOE with full compliance
.45	The management of liquidity risk often involves the arrangement of short term credit facilities and other short term funding arrangements. In order that users can properly evaluate a bank's liquidity risk, the existence of these arrangements is disclosed.	57.1%	Mercantile with partial disclosure by ABIL, FirstRand, Investec and Securities Investment.
.46	To demonstrate the bank's exposure to interest rate risks, a bank may disclose repricing groupings. These groupings are based on the remaining period to the next date at which interest rates may change. Management may also provide, in its commentary in the financial statements, information about exposure to interest rate risks and about the way it manages and controls such exposures.	33.3%	ABSA, FirstRand, Regal Treasury and Securities Investment. Partial disclosure by the rest.
.47	A bank should disclose any significant concentrations of its assets, liabilities and off balance sheet items. Such disclosures can be made in terms of geographical areas, customer or industry groups or other concentrations of risk, which are appropriate in the circumstances of the bank. Geographical areas may comprise individual countries, groups of countries or regions within a country; customer disclosures may deal with sectors such as governments, public authorities, and commercial and industrial enterprises.	79.2%	Partial compliance by FBC, Mercantile, Regal Treasury, Saambou and Securities Investment
.49	The disclosure of significant net foreign currency exposures is also a useful indication of the risk of losses arising from future changes in exchange rates. Management may provide commentary on the way it manages and controls its foreign currency exposure and its risk.	50.0%	Regal Treasury and Securities Investment with partial compliance by ABSA, FirstRand, Mercantile, Nedcor and Standard
.50	Disclose details of the movements in the provision for losses on loans and advances during the period. These movements will include loans and advances written off, loans and advances previously written off that have been recovered during the period and the increase or decrease in the provision during the period	75.0%	Regal Treasury, Saambou and Securities Investment

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.53	Disclose separate amounts, at the balance sheet date, of the specific bad debts provision and the general bad debts provision. A bank discloses separately the amounts of the specific and general provisions for losses on loans and advances at the balance sheet date and the movements in the provisions during the period. The movements in the provisions, including the amounts previously written off that have been recovered during the period, are shown separately	66.7%	Mercantile, Regal Treasury, Saambou and Securities Investment
.54	A bank may disclose the aggregate amount of loans and advances at the balance sheet date on which interest is not being accrued and the basis used to determine the carrying amount of such loans and advances. Disclosure may also be made of the amount included in the balance sheet for loans and advances on which interest accrued is not recognised as income.	41.7%	ABIL, FBC, Investec, Regal Treasury, Saambou, Securities Investment with partial compliance by ABSA and Mercantile
.55	A bank discloses its policy for writing off uncollectible loans and advances.	100.0%	None
.58	Commentary should be given on the way the bank manages and controls the different components of banking risk.	95.8%	Partial compliance by ABIL
.59	Risk management policies and procedures, and the nature and extent of the risks to which a bank is exposed.	79.2%	ABIL with partial compliance by Mercantile, Regal Treasury and Saambou
.59	Disclosure as to the adequacy of the bank's capital	87.5%	ABIL with partial compliance by Mercantile

Principal omissions

Principal omissions for the purpose of this study have been defined as disclosure requirements where the rate of compliance is less than or equal to 50%. The remaining disclosure requirements are discussed in less detail.

The principal omissions regarding AC 120 disclosure are:

- an accounting policy to show the distinction between the recognition of assets and liabilities and contingencies and commitments,
- basis for the valuation of loans and advances,
- information regarding interest margins, interest bearing assets and liabilities and additional information where items impacting interest income deviate from market related rates,
- banking reserves,
- analysis of contractual maturities,
- repricing groupings,
- significant currency exposures and the way in which the risk is managed, and
- loans or advances on which interest is not being accrued.

Contingencies and commitments

Many of the accounting standards contain recommended disclosure that in the eyes of the standard setting bodies would provide useful additional information. Companies often ignore recommended disclosure in accounting standards as the disclosure is either considered trivial or the companies are unwilling to disclosure information that may lead to the loss of a competitive advantage.

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There are two possible reasons for the omission. Either the companies feel that the disclosure would relinquish some strategic advantage i.e. provide a competitor with additional information to the detriment of the company making the disclosure, or the disclosure requirement is considered to be trivial or unnecessary.

For the most part, the disclosure that these companies provided for their contingencies and commitments was adequate and an accounting policy would be superfluous.

Loans and advances

Providing loans and advances is a significant part of the banking business. An accounting policy clarifies the basis that the bank uses to value the loans and advances. Those companies that provided inadequate disclosure often provide information regarding the valuation basis in the policy note for doubtful debts. The inclusion of information in this accounting policy note is usually insufficient. A full accounting policy note for the valuation of loans and advances should be included in the financial statements as envisaged by AC 120. In particular, the note should include information on the initial recognition and subsequent measurement of loans and advances.

Interest information

Despite banks diversifying their earnings in recent years, interest income remains a significant proportion of their income. The disclosure required in this instance was commentary about interest margins, average balances of interest bearing assets and liabilities as well as instances where assets or liabilities have unusual or non-market related interest rates.

This information is useful to assess the future viability of interest income and how the income is earned though the use and supply of loans and advances. Average balances also provide significant additional information in that the balance sheet is the position of the bank at year end. The average balance provides useful information as to the manner in which the balance has been managed throughout the year. The financial position of the banks can change dramatically by providing or withdrawing loans and advances. An average balance effectively smoothes any manipulation of the balance sheet position at year end.

Banking reserves

If a bank creates a reserve for particular banking risks, the particulars of the reserve as well as the circumstances requiring the reserve would provide useful information to the stakeholders regarding the ability of the bank to manage its risks in terms of continuous assessment and forward planning.

Of all the South African banks assessed, only FirstRand indicated any banking specific reserves. However, as no commentary was provided as to the nature of the reserve or the circumstances necessitating the creation of the reserve, the score provided to the disclosure element was 0. As FirstRand was the only bank to be scored on this element, care should be taken not to extend the interpretation of this score to the remaining banks.

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Also to be noted is the impact that South African legislation has had on local reporting standards. While a discussion of this nature is beyond the scope of this dissertation, the disclosure of banking reserves necessitates a brief explanation. Before 1994, financial institutions, namely banks and insurers, were permitted in terms of the Companies Act 61 of 1973, to make use of reserve accounting. This Schedule in the Act (Schedule V) was repealed in 1994. The banking reserves disclosure requirement in AC 120 was introduced to negate the effect of the legislation. The disclosure requirement is only a recommended disclosure requirement.

FirstRand is currently the only true bancassurer in South Africa. A strategic partnership has recently been formed between Old Mutual and Nedcor. The financial statements of the FirstRand group are split into the banking group and the insurance group. It may be that the banking reserve in the financial statements represents a general reserve similar to the general reserve that most banks have disclosed. The word "banking" may have been inserted merely to distinguish the amount from an insurance general reserve. No commentary was provided by any banks as to the nature or circumstances that required the creation of the general reserve.

Contractual maturities and repricing

Some of the South African banks have begun to follow the examples of their international counterparts in disclosing a repricing table. In most cases, the tables are prepared are the earlier of the contractual maturity or repricing. In the case of BOE, a table was prepared on the basis of contractual maturity.

These tables provide important information regarding the continued liquidity of the bank and future interest income. While the tables supplied provide useful information, additional commentary on the information contained in the table would be of further use. In particular, circumstances that may alter the repricing or maturity of groups of products or contracts would provide additional assistance in the interpretation of the table and provide reassurance as to the reliability of the information contained in the table.

Currency risk

Currency risk disclosures are inadequately disclosed in the annual reports of South African banks. Some of the banks provide information regarding the exposure to various currencies in rands. While this information coupled with the exchange rates at balance sheet date supplied by the bank is useful, it does not provide an indication as to the susceptibility of the exposure to fluctuations as a result of movements in the currencies. Additional appropriate disclosure is discussed in the next chapter.

Most banks' discussion of risk management includes currency risk as part of market risk. The discussion of the management of this risk is usually limited to one line. The extensive involvement of banks in derivative contracts exposes the banks to significant

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currency risk. For example, foreign exchange contracts provide a means for the counterparty to the bank to lock into a set exchange rate at a particular date in the future. This in turn exposes the bank to the fluctuations that the counterparty is seeking to avoid. While a steady decline in the value of the rand, particularly against the US dollar, can be seen over time, the rand has declined rather sharply on occasion. These sudden movements can instantly expose the bank to far greater currency risks than were originally estimated. Banks should include discussions of this nature in their disclosure for currency risk.

Suspension of interest income

Most of the South African banks include a line in their accounting policy note for the provision for doubtful debts regarding the suspension of interest on doubtful loans and advances. For most of the banks, no disclosure is made regarding the loans and advances for which interest has been suspended or the balance of the interest income forfeited due to the interest being suspended and the impact on the current year's financial statements. This information would be particularly useful to stakeholders to evaluate the interest earned against performing loans and advances and the interest forgone on non-performing loans and advances. Furthermore, additional useful disclosure would include the effective rate on the balances for which interest has been suspended.

Summary

Apart from the omission regarding contingencies and commitments, the remaining omissions are significant. For the most part, it would appear that the disclosure has been omitted because the standard only recommends instead of prescribing the disclosure. The disclosure is therefore most likely omitted because banks are reluctant to disclose additional information that may provide additional benefit to their competitors.

AC 125 – Financial Instruments: Presentation and disclosure

The issue of AC 125 introduced further financial risk disclosure and clarified for many the types of financial risks for which disclosure were required. This standard was made effective for years ended on or after 1 January 1998.

The year under review in this study is the 1999 year end. The compliance with this standard should therefore be adequate as this would be the second year that the banks have had to provide the disclosure required by this standard.

Below is a tabulation of the rate of compliance of the South African banks with AC 125's required and recommended disclosures.

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TABLE 2: AC 125 – SOUTH AFRICAN BANKS AVERAGE DISCLOSURE SCORES

Standard reference	Disclosure Requirement	Rate of compliance	Companies with omissions
.44	A discussion of management's policies for controlling the risks associated with financial instruments, including policies on matters such as hedging of risk exposures, avoidance of undue concentrations of risk and requirements for collateral to mitigate credit risks, provides a valuable additional perspective, which is independent of the specific instruments outstanding at a particular time.	70.8%	ABIL with partial compliance by FBC, Mercantile, Regal Treasury, Saambou and Securities Investment
.51	When financial instruments held or issued by an enterprise, either individually or as a class, create a potentially significant exposure to the risks set out in paragraph .45, terms and conditions that may warrant disclosure include:		Sub-paragraphs were tested (see below)
.51	(a) the principal, stated, face or other similar amount that, for some derivative instruments, such as interest rate swaps, may be the amount (referred to as the notional amount) on which future payments are based,	75.0%	Partial compliance by FBC, FirstRand, Mercantile, Regal Treasury, Saambou and Standard
.51	(b) the date of maturity, expiry or execution,	54.2%	Saambou with partial compliance by rest, barring Nedcor and Securities Investment
.51	(c) early settlement options held by either party to the instrument, including the period in which, or date at which, the options may be exercised and the exercise price or range of prices,	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.51	(d) options held by either party to the instrument to convert the instrument into, or exchange it for, another financial instrument or some other asset or liability, including the period in which, or date at which, the options may be exercised and the conversion or exchange ratio(s),	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.51	(e) the amount and timing of scheduled future cash receipts or payments of the principal amount of the instrument, including instalment repayments and any sinking fund or similar requirements,	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.51	(f) stated rate or amount of interest, dividend or other periodic return on principal and the timing of payments,	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.51	(g) collateral held, in the case of a financial asset, or pledged, in the case of a financial liability,	13.6%	All barring ABIL and the partial compliance by Nedcor
.51	(h) in the case of an instrument for which cash flows are denominated in a currency other than the enterprise's reporting currency, the currency in which receipts or payments are required,	50.0%	Partial compliance by ABSA. All others, no compliance discernable.
.51	(i) in the case of an instrument that provides for an exchange, information described in items (a) to (h) for the instrument to be acquired in the exchange, and	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.51	(j) any condition of the instrument or an associated covenant that, if contravened, would significantly alter any of the other terms, for example, a maximum debt-to-equity ratio in a bond covenant that, if contravened, would make the full principal amount of the bond due and payable immediately.	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.58	For each class of financial asset and financial liability, both recognised and unrecognised, an enterprise should disclose information about its exposure to interest rate risk, including:	37.5%	Mercantile, Regal Treasury and Saambou with the rest showing partial compliance
.58	(a) contractual repricing or maturity dates, whichever dates are earlier, and	55.6%	ABSA and partial compliance by FBC, FirstRand, Investec, Nedcor, Standard and Securities Investment. Mercantile, Regal Treasury and Saambou were not scored.
.58	(b) effective interest rates, when applicable.	7.1%	Partial compliance by Standard. Remaining banks showed partial compliance. Mercantile, Regal Treasury and Saambou were not scored.

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.61	To supplement the information about contractual repricing and maturity dates, an enterprise may elect to disclose information about expected repricing or maturity dates when those dates differ significantly from the contractual dates. The additional information includes disclosure of the fact that it is based on management's expectations of future events, and explains the assumptions made about repricing or maturity dates and how those assumptions differ from the contractual dates.	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.62	An enterprise indicates its financial assets and financial liabilities that are:	33.3%	FBC, FirstRand, Investec, Mercantile, Regal Treasury, Standard, Securities Investment. Partial compliance by ABSA and BOE.
.62	(a) exposed to interest rate price risk, such as monetary financial assets and financial liabilities with a fixed interest rate,	50.0%	ABIL with partial compliance by ABSA, BOE and Nedcor. Full compliance by Saambou. Remaining were unscored.
.62	(b) exposed to interest rate cash flow risk, such as monetary financial assets and financial liabilities with a floating interest rate that is reset as market rates change, and	50.0%	ABIL with partial compliance by ABSA, BOE and Nedcor. Full compliance by Saambou. Remaining were unscored.
.62	(c) not exposed to interest rate risk, such as some investments in equity securities.	40.0%	ABSA, BOE, Saambou. Full compliance by ABIL and Nedcor. Remaining banks are unscored.
.64	However, when providing effective interest rate information, an enterprise discloses the effect on its interest rate risk exposure of hedging or "conversion" transactions, such as interest rate swaps.	58.3%	FirstRand with partial compliance by BOE, Nedcor and Standard. Full compliance by ABSA and Investec. Remaining are unscored.
.65	The enterprise discloses information that will permit financial statement users to understand the nature and extent of its exposure. In the case of a securitisation or similar transfer of financial assets, this information normally includes the nature of the assets transferred, their stated principal, interest rate and term to maturity, and the terms of the transaction giving rise to the retained exposure to interest rate risk. In the case of a commitment to lend funds, the disclosure normally includes the stated principal, interest rate and term to maturity of the amount to be lent and the significant terms of the transaction giving rise to the exposure to risk.	33.3%	FBC, FirstRand, Mercantile and Regal Treasury. Partial compliance by remaining banks.
.66	When an enterprise has a significant number of financial instruments exposed to interest rate price or cash flow risks, it may adopt one or more of the following approaches to presenting information:	70.8%	Saambou with partial disclosure by ABSA, FBC, FirstRand, Regal Treasury and Securities Investment.
.66	(a) The carrying amounts of financial instruments exposed to interest rate price risk may be presented in tabular form, grouped by those that are contracted to mature or be repriced:	77.3%	Regal Treasury and Securities Investment. Partial compliance by FBC. Saambou unscored.
.66	(i) within one year of the balance sheet date,	100.0%	None. Regal Treasury, Saambou and Securities Investment are unscored.
.66	(ii) more than one year and less than five years from the balance sheet date, and	88.9%	FBC. Regal Treasury, Saambou and Securities Investment are unscored.
.66	(iii) five years or more from the balance sheet date.	77.8%	ABIL and FBC. Regal Treasury, Saambou and Securities Investment are unscored.
.66	(b) When the performance of an enterprise is significantly affected by the level of its exposure to interest rate price risk or changes in that exposure, more detailed information is desirable. An enterprise such as a bank may disclose, for example, separate groupings of the carrying amounts of financial instruments contracted to mature or be repriced:	81.8%	ABSA and FirstRand. Saambou unscored.
.66	(i) within one month of the balance sheet date,	100.0%	None. ABSA, FirstRand and Saambou unscored.
.66	(ii) more than one month and less than three months from the balance sheet date, and	100.0%	None. ABSA, FirstRand and Saambou unscored.
.66	(iii) more than three months and less than twelve months from the balance sheet date.	100.0%	None. ABSA, FirstRand and Saambou unscored.
.66	(c) Similarly, an enterprise may indicate its exposure to interest rate cash flow risk through a table indicating the aggregate carrying amount of groups of floating rate financial assets and financial liabilities maturing within	18.8%	Partial compliance by BOE, Investec and Nedcor. No scores for Regal Treasury, Saambou, Standard and Securities Investment.

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	various future time periods.		
.66	(d) Interest rate information may be disclosed for individual financial instruments or weighted average rates, or a range of rates, may be presented for each class of financial instrument. An enterprise groups instruments, denominated in different currencies or having substantially different credit risks, into separate classes when these factors result in instruments having substantially different effective interest rates.	23.1%	Full compliance by ABSA, Nedcor and Standard. No compliance by the rest.
.67	In some circumstances, an enterprise may be able to provide useful information about its exposure to interest rate risks by indicating the effect of a hypothetical change in the prevailing level of market interest rates on the fair value of its financial instruments and future earnings and cash flow. Such interest rate sensitivity information may be based on an assumed 1% change in market interest rates occurring at the balance sheet date. The effects of a change in interest rates includes changes in interest income and expense relating to floating rate financial instruments, and gains or losses resulting from changes in the fair value of fixed rate instruments. The reported interest rate sensitivity may be restricted to the direct effects of an interest rate change on interest-bearing financial instruments on hand at the balance sheet date, since the indirect effects of a rate change on financial markets and individual enterprises cannot normally be predicted reliably. When disclosing interest rate sensitivity information, an enterprise indicates the basis on which it has prepared the information, including any significant assumptions.	16.7%	Partial compliance by ABIL and ABSA. Full compliance by Nedcor. Rest scored 0.
.68	For each class of financial asset, both recognised and unrecognised, an enterprise should disclose information about its exposure to credit risk, including:	54.2%	Full compliance by BOE. Remaining banks have partial compliance.
.68	(a) the amount that best represents its maximum credit risk exposure at the balance sheet date, without taking account of the fair value of any collateral, in the event other parties fail to perform their obligations under financial instruments, and	41.7%	Mercantile, Regal Treasury and Saambou. Full compliance by BOE. Remaining banks have partial compliance.
.68	(b) significant concentrations of credit risk.	58.3%	Full compliance by ABIL and BOE. Remaining banks have partial compliance.
.71	An enterprise's maximum potential loss from some recognised financial assets may differ significantly from their carrying amount and from other disclosed amounts such as their fair value or principal amount. In such circumstances, additional disclosure is necessary	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.72	To inform financial statement users of the extent to which exposure to credit risk at a particular point in time has been reduced, the enterprise discloses the existence and effect of the right of set-off, when the financial asset is expected to be collected in accordance with its terms. When the financial liability, against which a right of set-off exists, is due to be settled before the financial asset, the enterprise is exposed to credit risk on the full carrying amount of the asset, if the counterparty defaults after the liability has been settled.	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.73	When a master netting arrangement significantly reduces the credit risk associated with financial assets not offset against financial liabilities with the same counterparty, an enterprise provides additional information concerning the effect of the arrangement. Such disclosure indicates that:	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.73	(a) the credit risk associated with financial assets subject to a master netting arrangement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realised, and	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.

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.73	(b) the extent to which an enterprise's overall exposure to credit risk is reduced through a master netting arrangement may change substantially within a short period following the balance sheet date, because the exposure is affected by each transaction subject to the arrangement.	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.73	It is also desirable for an enterprise to disclose the terms of its master netting arrangements, which determine the extent of the reduction in its credit risk.	N/A	It could not be ascertained in any financial statements whether the omission was deliberate or the requirement did not apply.
.78	Disclosure of concentrations of credit risk includes a description of the shared characteristic that identifies each concentration and the amount of the maximum credit risk exposure associated with all recognised and unrecognised financial assets sharing that characteristic.	50.0%	All banks have partial compliance.

Principal omissions

The principal omissions of South African banks regarding the financial risk disclosure requirements and recommendations of AC 125 are:

- collateral pledged or held for/on financial instruments,
- discussion about instruments whose cash flows are in another currency,
- exposure to interest rate risk and effective interest rates,
- instruments exposed to market risk, cash flow risk within interest rate risk and instruments unaffected by interest rate risk,
- information regarding the nature and extent of significant exposures,
- tables of instruments by floating rate and average rate,
- sensitivity analyses for each risk,
- maximum credit risk exposure, and
- information on the identification of concentrations of credit risk and the maximum exposure for that concentration.

Credit risk

A number of the above omissions relate to credit risk. These include disclosure for collateral, maximum credit exposures and concentrations of credit exposure.

Most of the South African banks have disclosed various concentrations of credit risk. How the various concentrations are identified in terms of any shared characteristics is not discussed.

The concentrations identified are never aggregated to show maximum credit risk exposure. Disclosures of maximum exposures would enable the users to better evaluate the overall exposures of the bank and as such the risks the bank faces. The risk-return evaluation would be increasingly accurate as disclosures are improved. Maximum credit risk exposure refers not only to the credit risk exposures resulting from loans and advances but includes the credit risk arising from other instruments such as derivatives.

In a few of the financial statements reviewed, the banks include disclosure regarding non-performing loans. In some of these disclosures, the security held is briefly discussed.

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Discussion regarding collateral assists the user in evaluating the recoverability of non-performing loans. Security held over performing loans should also be disclosed at a recoverable value to assist the user in assessing the recoverability of the loans.

Interest rate risk

Despite interest income remaining a significant proportion of the total diversified income of banks, the disclosure regarding interest rate risk appears to still be inadequate. As with AC 120, the principal omissions relate to the disclosure of exposures to interest rate risk and the business activities that influence interest rate risk.

While AC 120 requires repricing and contractual maturity tables, AC 125 seeks to supplement this disclosure with tables of financial instruments by floating and fixed rates and the effective rates by financial instrument groupings. Currently most banks do not disclose average rates for average interest bearing assets. The disclosure should be improved to provide the all of the above information.

The instruments affected by interest rate risk and the extent to which they are exposed to interest rate risk is not adequately disclosed. The financial statements of South African banks do not adequately disclose exposures to financial risks.

Market and liquidity risk

The disclosure omitted in this instance relates essentially to the sensitivity of the interest rate risk exposure impacting the cash flows of the banks. Clearly fixed rate instruments will have an impact on the interest margins during times of changing interest rates. Furthermore, products launched with rates different to those in the market will also impact on the sensitivity of the interest income as changes to the interest rates are made.

Where instruments have cash flows in another currency, not only is the product influenced by changes in the interest rates, but also by fluctuations in the currencies involved. Following the steady decline in value of the rand against the dollar and other currencies, disclosure regarding instruments denominated in currencies other than rands would have been useful, particularly if the disclosures had been supplemented with sensitivity analyses of potential changes in the currencies involved.

In addition to the above, it is useful for the stakeholders to be able to differentiate between those instruments that are affected by interest rate risk. This will assist in the evaluation of the performance of the bank during times of fluctuating interest rates as the stability of income can be assessed.

General

Sensitivity analyses have been mentioned above for interest rate and currency risk. The same point can again be stressed for the other financial risks. Most banks are currently using value-at-risk methodologies to evaluate various sensitivities to various financial risk

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exposures. The discussion regarding the research method and the assumptions used in these models could still be improved.

In general, the disclosure on the part of South African banks with regard to the significant exposures appears to be inadequate. This may stem from the banks not being materially exposed to all the financial risks, however, with the exposure to international markets, it is more likely that the disclosure regarding financial risk exposures is simply lacking.

Summary

While the bulk of the disclosures currently being omitted by the banks represent recommended disclosures, the standard setting bodies recommended the disclosures to place the users of the financial statements in a better position through the provision of additional useful information. Without sufficient information, stakeholders cannot accurately assess the risk profile of the company being evaluated. This could result in adverse estimates being made that may be detrimental to the company or the user.

With the recent introduction of the requirement for the auditors of listed companies to report on the compliance of the companies with "Statements of Generally Accepted Accounting Practice", disclosure in most listed companies should improve.

AC 133 – Financial Instruments: Measurement and Recognition

The above South African accounting standard was issued in December 1999. The effective date of the standard is financial periods commencing on or after 1 January 2001. For this reason, this standard was excluded from the evaluation of South African companies compliance with local reporting standards (i.e. only standards that were effective for the 1999 financial year were used). Since early application of the standard is suggested, a brief discussion is provided below.

This standard expands on the disclosure introduced by AC 125 discussed above. This new standard should also improve the disclosure presented by South African banks with regard to their financial risks. The most significant disclosure impact of AC 133 is the disclosure of hedges, hedging policies and method of recognition of hedges.

Overall the disclosure with regard to the recognition of all financial instruments and the income generated by financial instruments has been improved. Further advances have been made with regard to the disclosure of securitisation and repurchase agreements. The disclosure of the securitisation activities follows the disclosure contained in the derived best practice checklist as shown in appendix A, but is not yet as comprehensive.

Further improvements were also made with regard to qualitative disclosure required by the standard. It remains to be seen whether these requirements will result in adequate qualitative disclosures.

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The 2001 annual financial statements of listed South African banks are therefore expected to show significant improvement in financial risk disclosures, particularly as a result of the requirement for auditors to now report on listed companies compliance with South African Statements of Generally Accepted Accounting Practice (as discussed in Chapter one – Standard of reporting) per circular 8/99.

At the time of writing, the full impact of AC 133 on the annual financial statements of listed South African banks was still pending.

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Chapter 5 – International best practice

International Best Practice – Results and Analysis

Introduction

The results for each of the financial risks identified have been separately discussed below. The discussion includes the development of the disclosure checklist for each financial risk and an analysis of the results included in the tabulations for each financial risk. In each section below, the commentary provided relates to the rate of compliance of the South African banks. Where relevant, the rate of compliance of the UK and Australian banks has been discussed. At the end of each section a brief overview of the UK and Australian banks rate of compliance has been provided.

The chapter has been divided into the various financial risks identified, namely credit risk, market risk, interest rate risk, liquidity risk, currency risk and capital adequacy. In each of the tables below, the overall South African rate of compliance for each disclosure attribute is mapped against the rates of compliance of the 5 UK banks, 3 Australian banks and the 5 South African banks selected by level of advances. For further discussion of the selection process, refer to chapter 3.

The highlighted areas in the tables below serve to identify those disclosure requirements that are new or differ significantly from the checklist prepared for South African reporting standards.

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Credit Risk

Credit risk has been identified as one of the most important risks with regard to banks. As the members of the Basel Committee's Transparency Group identified "transparency in this area is particularly important since weak credit risk management practices and poor credit quality continue to be a dominant cause of bank failures and banking crises worldwide" (Basel, 2000).

This section of the best practice checklist stems mainly from the recommendations of the Basel Committee. The reason for using their recommendations were twofold:

1) the Basel Committee is an international organisation, therefore:
    a) industry comparisons between countries is irrelevant, and
    b) the Basel Committee is recognised as the central bank for national central banks,
2) the method used by the Basel Committee to generate the report recommending the disclosures contained in the checklist included:
    a) fact-finding surveys,
    b) interviews with users of the financial reports, and

c) surveys of actual disclosure practices to identify gaps.

Experts in the field of disclosure and banking supervision included in the Basel Committee's Transparency Group developed the 1999 report "Best Practices for Credit Risk Disclosure" and were involved in evaluating the commentary for the 2000 re-release.

The experts identified that an assessment of a bank's credit risk profile requires information on five key areas, namely accounting policies and practices, risk management, exposures, credit quality and earnings. This approach has been followed for all the financial risks as the checklist was developed.

The disclosure areas that the Transparency Group in their paper on the best practice for credit risk disclosure identified as being inadequate with regard to credit risk disclosure included information on credit derivatives, securitisation activities, internal credit rating methods and assumptions and segmental information.

The rates of compliance for the sample of 12 South African, 5 UK and 3 Australian companies are provided in the credit risk table below.

TABLE 3: CREDIT RISK - RATES OF COMPLIANCE FOR SOUTH AFRICA, UK AND AUSTRALIA

Disclosure Requirement	SA Rate of Compliance	UK Rate of Compliance	Australian Rate of Compliance	Top 5 SA Banks' Rate of Compliance
Policies and Practices	**33.2%**	**57.1%**	**75.9%**	**42.6%**
3. Disclose policies, practices and methods used to manage credit risk	54.2%	60.0%	66.7%	70.0%
4. Disclose policies, practices and methods used to account for credit risk exposures, including:	50.0%	70.0%	66.7%	50.0%
4.1. Basis of measurement for assets at initial recognition and subsequent periods	62.5%	70.0%	100.0%	80.0%
4.2. Treatment of securitisation transactions and other activities that shift or reallocate credit risk	50.0%	100.0%	100.0%	50.0%
4.3. Method of recognising income on unimpaired assets	29.2%	50.0%	100.0%	40.0%
4.4. Basis of measurement of impaired assets	33.3%	60.0%	83.3%	50.0%
4.5. Basis for determining when assets are considered past-due and/or impaired	16.7%	50.0%	100.0%	40.0%
4.6. Basis for writing off assets	37.5%	50.0%	83.3%	50.0%
4.7. Method of recognising income on impaired assets	41.7%	70.0%	83.3%	60.0%
4.8. Treatment of hedging relationships affecting the measurement of assets	25.0%	75.0%	83.3%	40.0%
5. Disclose information on the accounting policies and methods used to determine specific and general allowances, including key assumptions used	41.7%	62.5%	75.0%	50.0%
5.1. Types of credit exposures evaluated individually or as groups	11.1%	30.0%	66.7%	20.0%
5.2. Determination of allocated and unallocated portions of the allowances	6.3%	50.0%	83.3%	10.0%
5.3. Method used to incorporate historical default experience	0.0%	75.0%	16.7%	0.0%
5.4. Other corrective measures used to reduce differences between estimated and actual losses	40.0%	100.0%	50.0%	33.3%
5.5. Policies and practices for country risk provisioning	60.0%	25.0%	50.0%	50.0%

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5.6. Changes to policies and procedures	100.0%	N/A	100.0%	100.0%
5.7. Level of allowances compared with historical net loss experience and changes to the allowances or key assumptions affecting the allowances	16.7%	33.3%	66.7%	25.0%
5.8. Other relevant information	50.0%	N/A	100.0%	50.0%
6. Discuss the application of the policies on the non-trading portfolio	8.3%	50.0%	66.7%	20.0%
Risk Management	**31.5%**	**57.4%**	**58.5%**	**45.0%**
7. Disclose information on the management, structure and organisation of the credit risk management function (including the relation to the overall risk function)	58.3%	100.0%	83.3%	80.0%
8. Disclose qualitative information about the nature of credit risk in the various banking activities and describe how credit risk arises in those activities.	37.5%	40.0%	50.0%	60.0%
9. Disclose qualitative information on the credit risk management and control policies and practices, including:	41.7%	60.0%	75.0%	50.0%
9.1. Methods used to limit or control overall credit exposures, including:	44.4%	70.0%	83.3%	60.0%
9.1.1. Risk limits	42.9%	83.3%	N/A	50.0%
9.1.2. Limits on concentrations of credit to single counterparties or classes of borrower	50.0%	83.3%	100.0%	60.0%
9.1.3. Limit monitoring	50.0%	50.0%	N/A	60.0%
9.2. Process and methods used to assess credit exposures on an individual and portfolio basis	42.9%	75.0%	83.3%	50.0%
9.3. Mechanisms used to reduce and/or mitigate credit exposures (e.g. collateral)	44.4%	50.0%	33.3%	50.0%
9.4. Securitisation activities	N/A	83.3%	100.0%	N/A
9.5. Use of innovative instruments that transfer credit exposure	62.5%	100.0%	100.0%	62.5%
9.6. Process for stress testing and incorporation into credit risk management function	0.0%	0.0%	16.7%	0.0%
10. Disclose information on techniques and methods for managing past due and impaired assets (including testing the adequacy of those provisions)	12.5%	33.3%	50.0%	30.0%
11. Discuss the use of credit scoring and portfolio credit risk measurement models or other internal models. Discussion should include information on:	9.1%	50.0%	50.0%	20.0%
11.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)	50.0%	25.0%	50.0%	50.0%
11.2. Qualitative and quantitative information about credit risk measurement models used (including parameters, performance over time, model validation and stress testing information)	0.0%	25.0%	16.7%	0.0%
11.3. Status of development of such models	0.0%	0.0%	N/A	0.0%
Exposures	**35.2%**	**58.3%**	**74.6%**	**47.4%**
12. Disclose balances of gross credit exposures, including current exposure, average exposure and where applicable, future potential exposure, by major categories and maturity band	50.0%	60.0%	100.0%	50.0%
13. Disclose information about credit exposures by business line and by geographical area	62.5%	80.0%	100.0%	90.0%
14. Disclose information about gross credit exposures by major categories of counterparties (including shareholders, directors and other related parties as well as high risk counterparties)	25.0%	30.0%	50.0%	50.0%
15. Disclose information about significant concentrations of credit risk, including a description of the determination of "significant" concentrations	33.3%	50.0%	66.7%	50.0%

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16. Disclose the quantitative effect of risk mitigation techniques, including collateral (nominal and market value), guarantees, credit insurance and legally enforceable netting agreements	27.3%	20.0%	50.0%	30.0%
17. Disclose quantitative and qualitative information about the use of credit derivatives and other instruments that reallocate credit risk, including:	12.5%	60.0%	83.3%	25.0%
17.1. Discussion of how the instruments are used (including strategy and objectives)	25.0%	100.0%	83.3%	25.0%
17.2. Notional amounts and fair value of instruments	75.0%	100.0%	100.0%	75.0%
17.3. Amount of credit risk bought and/or sold	25.0%	83.3%	83.3%	25.0%
17.4. Breakdown by type of instrument	50.0%	83.3%	100.0%	50.0%
17.5. Instruments by trading and non-trading book	25.0%	100.0%	50.0%	25.0%
18. Disclose quantitative and qualitative information on the securitisation activities, including:	N/A	83.3%	50.0%	N/A
18.1. Strategy and objectives or securitisation activities	N/A	66.7%	50.0%	N/A
18.2. Amount and type of assets securitised	N/A	100.0%	75.0%	N/A
18.3. Amount of servicing retained	N/A	100.0%	50.0%	N/A
18.4. Amount of risk retained	N/A	100.0%	50.0%	N/A
18.5. Details on subordinated interests retained and general recourse provisions.	N/A	83.3%	50.0%	N/A
19. Disclose summary information about contractual obligations with respect to recourse arrangements and the expected losses under those arrangements (including terms of arrangements, amounts of assets sold and expected losses under such arrangements)	N/A	N/A	N/A	N/A
Credit Quality	**21.3%**	**68.0%**	**75.1%**	**33.3%**
20. Provide summary information about the internal rating process and the internal credit ratings of its credit exposures i.e. quality of credit exposures (excluding proprietary information)	4.2%	50.0%	50.0%	10.0%
21. Disclose total credit exposures by major asset category, counterparty types and geographic area showing impaired and past due amounts relating to each category (provide an ageing analysis of past due credit exposures)	37.5%	70.0%	100.0%	50.0%
22. Disclose amounts of specific, general and other allowances established against each major asset category and disclose the unallocated portion separately	37.5%	70.0%	100.0%	60.0%
23. Disclose a reconciliation of changes in the allowances for credit impairment, by allowance	31.3%	60.0%	100.0%	30.0%
24. Disclose credit exposures on which the accrual of interest or other contractual cash flows – in accordance with the terms of the original agreement – has ceased because of a deterioration in credit quality	25.0%	80.0%	100.0%	40.0%
25. Disclose summary information about credit exposures that have been restructured during the year, including:	0.0%	N/A	50.0%	0.0%
25.1. Balance of restructured loans	N/A	N/A	100.0%	N/A
25.2. Magnitude of the restructuring activities	N/A	N/A	0.0%	N/A
25.3. Impact of the restructured credit arrangements on allowances and the present and future earnings	N/A	N/A	0.0%	N/A
25.4. Basic nature of concessions on all credit relationships that are restructured	N/A	N/A	N/A	N/A
Earnings	**30.7%**	**75.0%**	**82.9%**	**36.7%**
26. Provide information on revenues, net earnings and return on assets, including:	50.0%	87.5%	100.0%	50.0%
26.1. Income and expense information by nature or function	50.0%	90.0%	100.0%	50.0%

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26.2. Interest income and expenses by type of activity, geographical distribution and credit quality	45.8%	80.0%	100.0%	50.0%
26.3. Impact of non-accrual and impaired assets on financial performance	4.2%	60.0%	100.0%	10.0%
26.4. Summary information on the effect of hedging activities on income and expenses	0.0%	50.0%	50.0%	0.0%
26.5. Amount of write-offs and recoveries recorded in the income statement	29.2%	100.0%	100.0%	60.0%
26.6. Income effect of securitisations	N/A	50.0%	0.0%	N/A

Principal omissions

The principal omissions for the sample of South African banks are evident in the above table. For convenience, the omissions have been categorised as follows:

- revenue recognition,
- hedging,
- impairment of assets,
- allowances against assets,
- method of credit risk management and use of internal models,
- identification of counterparties and concentrations,
- credit derivatives,
- securitisation activities and restructured loans, and
- credit quality.

Each of the above omissions has been discussed below. Those areas that are not true omissions but rather disclosure requirements that were not scored for all the South African banks have also been included in the discussion below. A discussion on the performance by the UK and Australian banks is included in each principal omission section as was deemed appropriate and as a general discussion below.

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Revenue recognition

AC 120 requires a general accounting policy for the disclosure of the principal types of revenue. The above checklist requires more detailed policies regarding how the particular income is recognised for both impaired and unimpaired assets.

Revenue recognition policies are particularly important for the interest income earned by the banks. This revenue can be subjected to three different states, namely earned on unimpaired loans and advances; earned on doubtful loans and advances or suspended for impaired loans and advances. An accounting policy would supplement the accounting policy for doubtful loans and advances. The performance of the bank with regard to its revenue collection can be better assessed on reading a clear accounting policy.

The above serves to demonstrate the application for interest income only. Many of the banks' revenue recognition policies remain deficient for other types of income.

Hedging

The issue of the recognition and disclosure of hedges was not resolved with the issue of AC 125. AC 133 "Financial Instruments – Recognition and Measurement" was not yet in

force for the year under review. This statement (AC 133) provided recommendations and requirements for disclosure regarding hedges that should improve the disclosure provided by the banks if the standard is appropriately applied.

For the year under review, the South African banks usually provided an indication that hedges were treated in the same manner as the exposure being hedged. In a few cases, the disclosure for derivatives identified which derivatives were being utilised for trading or hedging purposes. Little to no disclosure was provided on the income effects of the hedging activities. For the most part, the UK and Australian banks provided better disclosure regarding hedging than the South African banks.

Impairment of assets

The South African statement on the accounting treatment of impaired assets (AC 128) was not effective for the 1999 year end. This statement should improve the disclosure regarding impaired assets. The bulk of the disclosure presented by the banks regarding impaired assets refers to the loans and advances of the banks and is discussed to the extent of the allowances made for doubtful debts. The impairment of assets other than loans and advances is usually not discussed. Some of the UK and Australian banks had accounting policy notes regarding the impairment of assets while others had additional discussion within each asset types accounting policy note.

Allowances

The South African banks accounting policies for doubtful loans and advances are vaguely worded. Few to none of the additional attributes required by the above checklist have been included. A detailed accounting policy assists the user in identifying whether the bank makes allowances aggressively or conservatively.

While it is expected that banks do incorporate historical default experience in determining their specific and general allowances, the manner in which they incorporate this experience in their research method is not explained in the annual financial statements.

Useful disclosure was provided by Barclays PLC is discussing the difference between UK and US GAAP. The differences discussed in the commentary highlighted that the US policy for writing off bad loans and advances was more aggressive than the UK policy. Additional disclosure was provided to demonstrate the application of the different policies.

Risk management and internal models

South African companies are improving the commentary provided on the manner in which risks are managed and how the risks impact the business. The disclosure provided is often extensive but unfocussed. The disclosure should focus on the manner in which the risk impacts the business, how and by whom the risk is managed (including the level of responsibility of the group) and the methods used to measure the exposure to the risk.

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When discussing internal models used to measure risk (e.g. value-at-risk), the assumptions made should be disclosed as assumptions have a material impact on the model's output. Furthermore, if additional models are used to evaluate the results of the original measurement model under stressful market conditions, the assumptions made and the stressful market conditions used should also be disclosed to assist in the evaluation of the results of the models used. Information should not be excluded from the financial report for the reason that users may not be able to understand the information.

Concentrations of Exposures

Just as the risk management commentary by South African banks is improving, the disclosure of exposures to various risks is also improving. From the analysis of South African banks, it was observed that many banks only provide one type of disclosure for the exposures faced. Often this disclosure does not provide a complete picture for the assessment of the exposure. The exposures to risks often overlap between categories of risks and assets and additional disclosure to demonstrate the exposures to all the risks may provide the user with sufficient information to accurately assess the banks risk profile.

Credit derivatives

Derivative disclosure by South African banks seems to have taken a broad brush approach. The disclosure tends to review all the derivatives as a whole. Some of the South African banks have broken the instruments down by trading and non-trading books and some have even shown the derivatives grouped by type. The disclosure provided does not sufficiently assist in the assessment of the overall credit risk exposure. Further disclosure is required to adequately disclose derivatives by risk type.

The UK and Australian banks tended to provide better disclosure than the South African banks. While in many cases, a point for full compliance was awarded, the UK and Australian banks could further improve their derivative disclosure.

Securitisation

None of the South African banks provided any disclosure with regard to securitisation activities. The disclosure has been omitted either because the bank does not participate in these activities or the disclosure is not required by any local standards of reporting, barring AC 412 on Consolidations – Special Purpose Entities, however application of this standard is required for financial periods commencing on or after 1 January 2000. The UK and Australian banks did refer to securitisation activities. South African banks that chose to pursue this line of business should refer to the UK and Australian annual financial statements for the appropriate disclosure. Abbey National, Royal Bank of Scotland and the Westpac banking group all provide excellent examples of securitisation disclosure.

Similarly, the South African banks displayed no disclosure regarding any loans or advances that had been restructured. Some of the UK and Australian banks did provide

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adequate disclosure regarding restructured loans. Again, these financials will serve as illustrations to South African banks of appropriate disclosure.

Credit Quality

Credit quality refers to the manner in which the bank manages and monitors the deterioration in the balances of loans and advances. Detailed disclosure regarding the banks allowances and credit rating policies and procedures is required. The allowances disclosed should be shown in an age analysis by major balance to which the allowance relates. This provides the user with sufficient information to make an assessment of the ability of the bank to generate "good" business and how efficiently the bank monitors the "bad" business.

Credit quality also covers the restructuring of loans and advances. Restructuring is an effective renegotiation of the terms of the loan or advance. The bank uses restructuring traditionally where the counterparty is likely to default and a restructuring may assist in a greater recovery of funds. As these activities clearly influence the assessment of credit quality, sufficient disclosure should be provided. Some of the UK and Australian banks provide examples of disclosure for restructuring activities.

General comments

The South African banks should perform a detailed analysis of the top UK and Australian banks to assist in improving their disclosure for credit risk. The disclosure scores of Halifax and Lloyds TSB affected the UK results adversely. This should be taken into consideration when comparing the disclosure scores of the UK banks.

UK and Australia

In each of the above categories, the UK and Australian banks have provided better credit risk disclosure than the South African banks. The year ends of the UK banks tend to mostly be in December whereas the Australian banks year ends are mostly in September. This provides one of the reasons for the better disclosure by these foreign banks, that is they are able to react to recommendations and reports generated by international bodies as their year ends tend to be later than those of the South African banks. Furthermore, it is possible that UK and Australia are better represented on the international organisations providing the recommendations and reports on improved disclosure and as such are able to incorporate the disclosure in their banks financial statements that much sooner than South African banks. This comment remains valid even when evaluating the top five South African banks by level of advances against the top UK and Australian banks scored.

Summary

Credit risk has been identified by various international organisations as the risk that most extensively affects the performance of banks. For this reason, credit risk needs to be analysed in greater detail in the annual reports to enable the user to draw appropriate conclusions regarding the manner in which the bank is affected by and manages the exposure to this key risk.

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Market Risk

The manner in which banks define market risk in their annual reports differs between companies. This has occurred despite the provision of definitions in AC 125. For the most part the banks have identified market risk as including interest rate risk, currency risk and equity risk. Some of the banks have split interest rate risk from market risk and have disclosed equity and currency risk as market risk. For the purpose of this study, each risk was treated separately with market risk being defined as equity risk. The definitions used in this study are included in chapter one.

The broad headings identified by the Basel Committee for credit risk disclosure were used as a base for the development of the market risk portion of the disclosure checklist. Papers by Kuhner (1997 and 1998) and Gibson (1999) supplemented the work performed by the Basel Committee. Further guidance was obtained from the International Accounting Standards and select national accounting standards reviewed.

The section on the use of internal measurement models is particularly important as increasing numbers of banks are using the value-at-risk methodology. The model and its assumptions now form an important part of the disclosure to be presented by banks.

While the checklist represents best practice based on the recommendations available, the checklist could possibly be extended for disclosure regarding the use of equity derivatives.

Due to the grouping of risks under the heading of market risks by the banks, equity risk disclosure is often overlooked and insufficient disclosure is provided.

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TABLE 4: MARKET RISK - RATES OF COMPLIANCE FOR SOUTH AFRICA, UK AND AUSTRALIA

Disclosure Requirement	SA Rate of Compliance	UK Rate of Compliance	Australian Rate of Compliance	Top 5 SA Banks' Rate of Compliance
Policies and Practices	**25.5%**	**48.3%**	**65.6%**	**40.5%**
27. Discuss the policies and practices used to measure and manage market risk	41.7%	50.0%	50.0%	60.0%
28. Disclose policies and practices of managing market risk exposures including the method of aggregating those exposures.	31.8%	60.0%	50.0%	50.0%
29. Disclose key assumptions and parameters of internal models used	37.5%	87.5%	83.3%	40.0%
30. Disclose policies and procedures for validating internal models used, including back-testing and stress-testing policies and procedures.	50.0%	87.5%	75.0%	50.0%
31. Disclose the impact of the hedging policy on market risk by major market risk factor.	14.3%	25.0%	66.7%	0.0%
32. Discuss the impact of the policies and practices on the non-trading portfolio.	14.3%	25.0%	66.7%	33.3%
Risk Management	**34.0%**	**58.0%**	**66.7%**	**51.7%**
33. Disclose information on the management, structure and organisation of the market risk management function	54.2%	60.0%	66.7%	90.0%

34. Disclose qualitative information about the nature of market risk in the various banking activities and describe how market risk arises in those activities.	36.4%	50.0%	50.0%	50.0%
35. Disclose qualitative information on the market risk management and control policies and practices	43.8%	75.0%	50.0%	50.0%
36. Disclose the use of market risk measurement models (including key assumptions and parameters)	56.3%	87.5%	83.3%	60.0%
37. Disclose methods used to monitor and limit market risk exposures (including risk limits)	62.5%	75.0%	83.3%	60.0%
38. Discuss changes in market risk exposure and management strategies from the previous year	7.1%	50.0%	N/A	0.0%
Exposures	**13.2%**	**40.0%**	**83.3%**	**21.7%**
39. Disclose balances of market risk exposures, including current exposure, average exposure and where applicable, future potential exposure, by major categories	16.7%	40.0%	100.0%	30.0%
40. Disclose information about market exposures by business line and by geographical area	30.0%	50.0%	100.0%	25.0%
41. Disclose information about significant concentrations of market risk	25.0%	50.0%	50.0%	16.7%
Quality of Information	**25.3%**	**63.5%**	**79.2%**	**43.7%**
42. Discuss the use of internal models. Discussion should include information on:	29.2%	70.0%	83.3%	50.0%
42.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)	64.3%	87.5%	100.0%	60.0%
42.2. Qualitative and quantitative information about market risk measurement models used (including parameters, performance over time, model validation and stress testing information)	28.6%	87.5%	83.3%	30.0%
42.3. Status of development of such models	50.0%	50.0%	N/A	50.0%
43. Include a sensitivity analysis, including hypothetical changes in market prices and rates	33.3%	50.0%	50.0%	37.5%

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Principal omissions

The principal omissions can be grouped and classified as follows:

- policies and practices
- management of exposures
- exposures disclosure, and
- use of internal models

The term "equity risk" has been used below to differentiate between the banks financial statement interpretation of market risk and the definition used in this study.

Policies and practices

The manner in which the banks defined market risk (as a combination of various financial risks) impacted negatively on the disclosure of equity. The disclosure was further impacted by the varying extent to which banks dealt in equity instruments. However, even those banks dealing in equities to a significant extent did not provide sufficient disclosure.

The strategy behind the utilisation of equity instruments was either poorly disclosed or not disclosed at all. Furthermore, whether the bank was using the instruments for speculative or hedging purposes was not adequately disclosed.

Management of exposures The management of equity risk was not sufficiently discussed because of the inaccurate interpretation of market risk. However, the use of internal models in the management process are discussed. Commentary on the internal models disclosure is provided below.

Exposures The exposures to market risk were poorly disclosed either because the bank did not materially use equity instruments for hedging or speculative purposes or the banks are unaware of how to present the disclosures. For the most part, the banks disclosure of exposures to equity risk involves disclosure of the investments held, the carrying value and the fair value of the investment. Further breakdowns, by geographic or business lines, are not presented.

Internal models The discussion of internal models was usually of a generic nature. Banks regularly disclosed the use of the value-at-risk methodology for equity, currency and interest rate risk. The output from the model was presented in a table. Where disclosed, it appeared as though the same general assumptions were used in the model for each risk. The same score was awarded to each risk evaluated in the checklist for which the model was applicable.

The discussion of the internal models used was of a reasonable standard. From the disclosure provided, it would appear that most of the banks rely on one model only and do not test the model under additional scenarios (e.g. stressful market conditions). Detailed discussion should be included about the stress testing performed on the internal models used to measure and manage financial risks.

UK and Australia The UK and Australian banks also grouped financial risks together to form a "market risk" grouping. However, in most cases the financial risks grouped together as market risk was for the purpose of risk management techniques applied. The risks within the market risk group were still separately discussed. Equity risk is still inadequately discussed. The most significant risks included in the market risk grouping were interest rate risk and currency risk. The disclosure of the UK and Australian banks remains better than that of the South African banks and will serve as useful illustrations to South African banks.

Summary Equity risk remains an important risk to banks. Disclosure should not simply be excluded because the equity instrument activities are immaterial. At the very least, a statement should be made as to the extent of the equity instrument dealings so that the user may form a judgement with regards the exposure to equity risk.

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Interest Rate Risk

The majority of a bank's activities revolve around loans and advances and other interest bearing instruments. Clearly interest rate risk is of significance to the users of the financial statements. Not only do users require sufficient information to assess the credit risk profile of the bank but they also require information to assess the banks exposure to interest rate movements and interest affected instruments. The credit risk disclosure assists in this regard.

The Basel Committee recommendations with regard to credit risk disclosure were once again used as the base for the development of the interest rate disclosure portion of the checklist. Other international bodies used included the International Accounting Standards Committee, select national accounting bodies and a paper published by Gibson (1999). Most of these resources provided similar recommendations with regard to the disclosure. Appendix A contains the best practice checklist and the source of the disclosure requirement.

With regard to internal models used to measure and monitor interest rate risk, these were often the same models as used for the measurement of market risk. See discussion under the heading of market risk above.

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TABLE 5: INTEREST RATE RISK - RATES OF COMPLIANCE FOR SOUTH AFRICA, UK AND AUSTRALIA

Disclosure Requirement	SA Rate of Compliance	UK Rate of Compliance	Australian Rate of Compliance	Top 5 SA Banks' Rate of Compliance
Policies and Practices	**31.9%**	**65.0%**	**70.8%**	**41.7%**
44. Disclose policies, practices and methods used to manage interest rate risk	41.7%	60.0%	50.0%	50.0%
45. Disclose policies, practices and methods used to account for interest rate risk exposures	50.0%	80.0%	66.7%	50.0%
46. A discussion on the key assumptions used in the above methods and practices should be included.	16.7%	70.0%	83.3%	40.0%
47. Discuss the application of the policies on the non-trading portfolio	12.5%	50.0%	83.3%	25.0%
Risk Management	**42.5%**	**72.0%**	**76.7%**	**56.0%**
48. Disclose information on the management, structure and organisation of the interest rate risk management function	50.0%	70.0%	83.3%	80.0%
49. Disclose qualitative information about the nature of interest rate risk in the various banking activities and describe how interest rate risk arises in those activities	41.7%	70.0%	50.0%	50.0%
50. Disclose qualitative information on the interest rate risk management and control policies and practices	41.7%	80.0%	50.0%	50.0%
51. Disclose methods used to monitor exposure to interest rate risk (including frequency of monitoring)	58.3%	90.0%	100.0%	70.0%
52. Disclose methods of controlling interest rate risk exposures	20.8%	50.0%	100.0%	30.0%
Exposures	**22.5%**	**56.7%**	**83.3%**	**36.0%**

53. Disclose the gross exposure to interest rate risk by reporting the financial assets and liabilities in an interest rate repricing schedule (by effective rate and maturity band)	37.5%	100.0%	100.0%	50.0%
54. Disclose the effective rates of interest for the various categories of interest bearing financial assets and liabilities	16.7%	60.0%	100.0%	40.0%
55. Disclose the impact of future interest rate changes on the exposures to interest rate risk	8.3%	40.0%	66.7%	20.0%
56. Provide information on contractual repricing and maturity dates as well as possible changes in the future and key assumptions made about future predictions	31.8%	40.0%	66.7%	50.0%
57. Disclose information about concentrations of interest rate exposures by business line and by geographical area	25.0%	50.0%	100.0%	40.0%
58. Disclose the effect of hedging policies on interest rate exposures	16.7%	50.0%	66.7%	12.5%
Quality of information	**23.3%**	**66.0%**	**83.3%**	**33.5%**
59. Discuss the use of internal models including use of models under stressful market conditions. Discussion should include information on:	33.3%	80.0%	83.3%	40.0%
59.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)	50.0%	70.0%	100.0%	50.0%
59.2. Qualitative and quantitative information about market risk measurement models used (including parameters, performance over time, model validation and stress testing information)	25.0%	70.0%	83.3%	37.5%
59.3. Status of development of such models	12.5%	33.3%	N/A	25.0%
60. Include a sensitivity analysis demonstrating stress scenarios	25.0%	50.0%	66.7%	37.5%
Earnings	**54.2%**	**70.0%**	**100.0%**	**80.0%**
61. Disclose the average balances and interest earned or paid, for each material category of interest bearing instrument	54.2%	70.0%	100.0%	80.0%

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Principal omissions

The South African banks demonstrated poor disclosure in each of the areas required. For this reason, the principal omissions will be discussed below under the following headings:

- policies and practices
- risk management
- exposures, and
- quality of information.

Policies and practices

In most of the South African banks annual report, the risk management function is discussed but the policies the bank follows in managing the risk and all the practices employed are either not discussed or are not discussed in enough detail. The BOE annual report provides a base from which companies can build to provide adequate disclosure.

BOE presented their key credit risk policies and processes under specific headings. This provides the user with some guidance as to the policies developed and processes followed to manage credit risk.

Risk management

The structure of the interest rate risk management function is often the same as the market risk management function. Most of the banks appear to have risk groups to manage particular financial risks. Interest rate risk tends to be included with equity and currency risk. While the risk management structure is understood from the commentary provided by the banks, what the management groups do is not always made clear.

Many stakeholders in the banking industry may understand the factors that generate interest rate risk. It would still be useful to the stakeholders to read the factors and business activities that management have identified as being affected by interest rate risk and how that risk is measured and controlled. The above information should be of a discursive nature. When the exposures are discussed, the tabulations showing the measurement of interest rate risk can then be discussed.

Exposures

South African banks are beginning to show the repricing schedules. These schedules are disclosed by the earlier of contractual maturity or repricing. The checklist above shows that there are additional combinations of data that would be of use to the stakeholders when evaluating the exposure of the bank to interest rate risk.

Quality of information

The models used often overlap with the models used in the market risk analysis (see market risk for further discussion). However, the assumptions used are often not discussed, nor the objective and applicability of the model.

UK and Australia

The UK and Australian banks reviewed provided far more detailed disclosure than the South African banks. These financial statements can serve as illustrations for the South African banks.

Summary

Interest rate risk is a vital constituent of the overall financial risk position of a bank. The disclosure for this risk should be of the highest standard to provide the users with sufficient and appropriate information to evaluate the exposure to interest rate risk.

Liquidity Risk

The importance of liquidity risk is often overlooked. All the countries evaluated achieved poor disclosure scores. While liquidity risk is usually defined in the financial statements, the discussion of how this risk is managed is insufficient. The commentary provided by the banks includes details on the manner in which the risk is measured, but no summary of those measurements nor any other tables are provided.

Liquidity risk is important because severe penalties could be enforced on defaulted contracts. The banks must therefore carefully monitor the maturities of both assets and liabilities and project expected shortfalls of cash in order to organise bridging finance at reasonable rates.

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TABLE 6: LIQUIDITY RISK - RATES OF COMPLIANCE FOR SOUTH AFRICA, UK AND AUSTRALIA

Disclosure Requirement	SA Rate of Compliance	UK Rate of Compliance	Australian Rate of Compliance	Top 5 SA Banks' Rate of Compliance
Policies and Practices	**20.8%**	**35.0%**	**25.0%**	**27.5%**
62. Disclose policies, practices and methods used to manage liquidity risk	41.7%	80.0%	16.7%	60.0%
63. Disclose policies, practices and methods used to account for liquidity risk exposures	33.3%	60.0%	50.0%	40.0%
64. A discussion on the key assumptions used in the above methods and practices should be included.	5.0%	0.0%	16.7%	0.0%
65. Discuss the application of the policies on the non-trading portfolio	4.2%	0.0%	0.0%	10.0%
Risk Management	**31.7%**	**48.0%**	**46.7%**	**44.0%**
66. Disclose information on the management, structure and organisation of the liquidity risk management function	41.7%	60.0%	33.3%	70.0%
67. Disclose qualitative information about the nature of liquidity risk in the various banking activities and describe how liquidity risk arises in those activities	29.2%	40.0%	33.3%	40.0%
68. Disclose qualitative information on the liquidity risk management and control policies and practices	40.0%	50.0%	33.3%	50.0%
69. Disclose methods used to monitor exposure to liquidity risk (including frequency of monitoring)	50.0%	80.0%	100.0%	50.0%
70. Disclose methods of controlling liquidity risk exposures	11.1%	10.0%	100.0%	10.0%
Exposures	**13.9%**	**36.7%**	**38.9%**	**13.3%**
71. Disclose concentrations of financial assets in the broad order of their liquidity and maturity	20.8%	100.0%	100.0%	30.0%
72. Disclose effects of changes to the exposures to future cash flows and expected shortfalls in cash	8.3%	0.0%	0.0%	0.0%
73. Disclose information about the distribution, concentration and type of funding source	12.5%	10.0%	16.7%	10.0%

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Principal omissions

The principal omissions will again be discussed under the broad headings of the checklist due to the poor disclosure by the banks.

Policies and practices

The main reason for the omissions was discussed at the beginning of the section, namely that liquidity risk is overlooked. Banks often appear to fail to understand the importance of this risk based on an analysis of their disclosure. The methods used to manage and account for this risk should be disclosed in detail. The methods used are often mentioned with no additional information as to the assumptions in the models and frequency of review.

Risk management

The most extensive disclosure made with regard to liquidity risk is the detail on the method used for monitoring. Commentary on how the information is interpreted to control the risk is seldom included. There is also little information regarding the activities that result in exposure to liquidity risk and those that do not.

Exposures

Some of the banks provide liquidity risk tables for their derivative exposures. This is not yet an industry practice. Furthermore, it is not only derivatives that result in exposure to liquidity risk. Tables could be presented showing the full exposure to liquidity risk, possible shortfalls of cash and the strategy that management generally employ to resolve the shortfall. This information will provide the user with assurances as to the ability of management to adequately monitor, measure and react to exposures to liquidity risk.

UK and Australia

The banks reviewed will only provide illustrative examples for certain disclosure attributes as the performance by these banks was largely inadequate.

Summary

Liquidity risk is either not fully understood or simply overlooked. The risk is clearly material in an organisation dealing in instruments with varying maturities. It may also be that management feel that additional disclosure may relinquish some strategic advantage and are reluctant to provide their competitors with such detailed information.

Currency Risk

This risk is becoming increasingly important as the world markets become more accessible. For organisations dealing in instruments in a variety of currencies, sensitivity to movements in those currencies must be regularly reviewed. Furthermore as a greater variety of derivatives become available, the exposures that result from the positions held must be addressed.

Currency risk is frequently grouped with market risk by the banks. The same internal measurement model (usually value-at-risk) is used to evaluate currency risk as is used for market risk. The discussion for market risk is usually applied equally to the exposure to currency risk.

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TABLE 7: CURRENCY RISK - RATES OF COMPLIANCE FOR SOUTH AFRICA, UK AND AUSTRALIA

Disclosure Requirement	SA Rate of Compliance	UK Rate of Compliance	Australian Rate of Compliance	Top 5 SA Banks' Rate of Compliance
Policies and Practices	**23.6%**	**55.0%**	**41.7%**	**36.7%**
74. Disclose policies, practices and methods used to manage currency risk	33.3%	40.0%	16.7%	50.0%
75. Disclose policies, practices and methods used to account for currency risk exposures	31.8%	60.0%	50.0%	50.0%
76. A discussion on the key assumptions used in the above methods and practices should be included.	20.0%	87.5%	100.0%	30.0%
77. Discuss the application of the policies on the non-trading portfolio	0.0%	62.5%	50.0%	0.0%
Risk Management	**19.8%**	**47.5%**	**45.8%**	**32.5%**
78. Disclose information on the management, structure and organisation of the currency risk management function	29.2%	60.0%	83.3%	50.0%
79. Disclose qualitative information about the nature of currency risk in the various banking activities and describe how currency risk arises in those activities.	30.0%	30.0%	16.7%	40.0%

80. Disclose qualitative information on the currency risk management and control policies and practices	21.4%	30.0%	16.7%	20.0%
81. Methods used to control currency risk exposures	21.4%	70.0%	66.7%	20.0%
Exposures	**16.3%**	**28.0%**	**26.7%**	**27.5%**
82. Disclose net open positions in each currency and how the position is derived	33.3%	40.0%	16.7%	50.0%
83. Disclose the effect of hedges on currency investments	33.3%	37.5%	50.0%	33.3%
84. Disclose information about currency exposures by business line and by geographical area	20.0%	25.0%	50.0%	30.0%
85. Disclose the impact of future currency rate changes on the exposures to currency risk	0.0%	25.0%	0.0%	0.0%
86. Disclose the impact of exposures on the non-trading portfolio	30.0%	37.5%	50.0%	37.5%

Principal omissions

The principal omissions will again be discussed under the broad headings of the checklist due to the poor disclosure by the banks.

Policies and practices

Commentary regarding currency risk is usually included in the market risk discussion by banks. This often results in insufficient disclosure on currency risk. Exposures to the various currencies have become an important disclosure issue with the steady decline in value of the rand against the dollar and other currencies. Knowing the gross exposures in each material currency as well as the currencies in which hedging positions have been taken would enhance the users ability to understand the exposure of the banks to volatile movements in various currencies. Sensitivity analyses would be particularly useful.

Risk management

Methods used to control the currency risk exposures are seldom discussed. Some of the banks discuss the use of hedging in generic terms, however the discussion is never directed at specific risks. Greater detail and improved structure of the risk management disclosure would improve the users understanding of the management of currency risk.

Exposures

Numerous balances within the financial statements are disclosed according to geographic regions. The exposure to the currency of the region is usually excluded from the disclosure.

Some of the banks provide brief sensitivity analyses based on a supposed 10% devaluation of the local currency. This type of disclosure was limited to the UK and Australian banks financial statements.

UK and Australia

The UK and Australian banks fared better than the South African banks, but only marginally so. All the banks reviewed could improve the disclosure regarding the exposure to various currencies. Some of the banks did provide exposure analyses for their derivative exposures. This type of disclosure should be extended to the other assets.

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Summary

The disclosure by all the banks reviewed should be improved with regard to currency risk. Additional tables showing the sensitivity to changes in material exposures to particular currencies would be useful to users wishing to evaluate the ability of the bank to withstand sudden market variations (similar to the swift devaluation of the rand against the US dollar).

Capital Adequacy

AC 120 only requires commentary on the adequacy of a banks' capital. This is clearly insufficient for users to evaluate this aspect of the banks. The South African Reserve Bank as the supervisory institution have laid down additional standards based on the minimum requirements of the Basel Committee.

The Australian Prudential Regulatory Authority and the Reserve Bank of New Zealand have extended the requirements of the Basel Committee to develop a fairly extensive standard for capital adequacy. This formed the basis of the international best practice checklist. A review of the results in the table below demonstrate that the disclosure provided by the Australian banks far exceeded that of the UK or South African banks.

TABLE 8: CAPITAL ADEQUACY - RATES OF COMPLIANCE FOR SOUTH AFRICA, UK AND AUSTRALIA

Disclosure Requirement	SA Rate of Compliance	UK Rate of Compliance	Australian Rate of Compliance	Top 5 SA Banks' Rate of Compliance
Policies and Practices	**36.5%**	**26.0%**	**70.8%**	**52.5%**
87. Disclose the purpose of the capital adequacy calculations	25.0%	40.0%	100.0%	60.0%
88. Disclose the justification for the risk weightings used (including risk factors considered) for each risk	12.5%	0.0%	66.7%	20.0%
89. Disclose the minimum capital ratio requirements	91.7%	40.0%	100.0%	100.0%
90. Disclose method of assessing overall capital adequacy in relation to the firm risk profile and the strategy for maintaining capital levels	25.0%	30.0%	16.7%	50.0%
91. Disclose stress testing procedures for testing internal capital adequacy targets	0.0%	0.0%	N/A	0.0%
Capital	**45.1%**	**35.0%**	**87.0%**	**75.0%**
92. Disclose the items comprising Tier 1, 2 and 3 capital (including the subdivision of Tier 2 capital into upper and lower Tier 2 capital)	58.3%	30.0%	100.0%	100.0%
93. Disclose for each class of equity share capital	33.3%	N/A	100.0%	50.0%
93.1. The inclusion in Tier 1 or Tier 2 Capital	100.0%	83.3%	100.0%	100.0%
93.2. Material conditions applying to that class	75.0%	83.3%	100.0%	83.3%
93.3. Cumulative preferred dividends in arrears	N/A	N/A	N/A	N/A
93.4. Other material terms of the issue of securities	100.0%	N/A	N/A	100.0%
94. For all other classes of capital instruments	31.8%	N/A	100.0%	50.0%
94.1. Inclusion in either Tier 1 or Tier 2 Capital	100.0%	83.3%	100.0%	100.0%
94.2. Priority in ranking for payment or claims of the class	50.0%	N/A	N/A	50.0%
94.3. All other material terms and conditions	75.0%	N/A	N/A	83.3%
95. Nature and amount of each reserve	44.4%	33.3%	100.0%	60.0%
96. Disclose how the off-balance sheet exposures are converted to credit equivalent amounts for the risk-weighting table.	0.0%	16.7%	50.0%	0.0%

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97. Disclose key assumptions and other parameters of any other internal models used to capture risks other than credit risk (including a discussion of development of these models)	N/A	N/A	33.3%	N/A
98. Disclose verification and validation methods used for the internal models as well as the results of the tests performed	N/A	N/A	N/A	N/A
Risk-weighted Exposures	**47.9%**	**60.0%**	**83.3%**	**75.0%**
99. Disclose a table of balance sheet exposures by risk weight band	54.2%	20.0%	83.3%	90.0%
100. Disclose a table of off-balance sheet exposures by risk weight band	4.2%	20.0%	50.0%	10.0%
101. Disclose Capital and, in particular, Tier 1 Capital as a percentage of risk weighted exposures	66.7%	100.0%	100.0%	100.0%
102. Disclose the date to which the measures of Tier 1 Capital and other Capital relate	66.7%	100.0%	100.0%	100.0%

Principal omissions

The capital adequacy disclosure by the South African banks was mostly better than the UK banks. The Australian banks fared better than both South Africa and UK. The excellence of the Australian banks disclosure can be explained by the recent standards issued by the Australian Prudential Regulatory Authority.

The principal omissions by South African banks can be summarised as follows:

- Purpose and justification for capital adequacy
- Bank specific goals and strategy for capital adequacy
- The meaning of the risk weightings and commentary on the conversion to a credit equivalent
- Other models used
- Off-balance sheet exposures

Purpose of capital adequacy

Most of the banks do not disclose the reason for the capital adequacy tests and requirements. For less informed stakeholders, this information would be particularly useful. The banks usually state that the capital adequacy information is provided to comply with standards set by the regulatory authorities.

Bank strategy

It would appear from the disclosure that the banks only provide capital adequacy information in order to comply with the regulatory requirements. However, as demonstrated by some of the banks, the maintenance of capital and capital adequacy targets form part of a banks strategy and business goals. Commentary on these goals and strategies should be provided to the users of the financial statements.

Risk weightings

Within the capital adequacy calculation, the assets are risk weighted. The banks fail to explain what the risk weightings mean or the justification of the regulatory authorities for prescribing certain risk weightings. This information would assist the users in the understanding of the capital adequacy information.

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Measurement models

It appears from the financial statements reviewed, that the banks calculate the capital adequacy along prudential lines and do not use additional models to test the capital adequacy calculations or assess additional information to determine if the capital adequacy is in line with firm goals.

Off-balance sheet exposures

Off-balance sheet exposures is usually given as one line in the calculation. Some of the UK and Australian banks provide the off-balance sheet items in a risk weighted table in the same manner as the on-balance sheet assets. This provides the user with additional information as to how the risk weightings were applied to the off-balance sheet exposures.

UK and Australia

As noted above, the Australian banks provided better capital adequacy disclosure than both the UK and South African banks. This is mostly due to the recent statements issued by the Australian Prudential Regulatory Authority.

Summary

The adequacy of a banks capital in the respective tiers can provide the user of the financial statements with greater confidence as to the stability of the bank. The disclosure should be improved regarding the explanations of the capital adequacy calculation and the meaning of the various tiers.

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Additional disclosure requirements

A brief review of the tables in this chapter illustrate that often the disclosures that the South African banks scored poorly on arose on the new disclosure requirements. The other requirements that the banks scored poorly on were usually the local standards recommended disclosures.

The South African banks appeared to score adequately on the local standards prescribed disclosures. This implies that a culture of willingness to disclose information needs to be instilled amongst the South African banks.

Presentation of Disclosure

This section has been included to highlight particularly excellent or usual disclosure by particular banks.

South African banks

Mercantile was the only bank to include both the risk management discussion and the analyses after the financial statements. While this disclosure made the task of scoring the financial statements easier, the information was not adequately laid out for ease of use.

ABSA included extensive discussions before the financial statements. This disclosure was excellent for the most part, however lack of reference to the notes and additional tables both in and after the financial statement respectively made the use of the annual report difficult. The currency profile table was useful for the analysis of currency exposures. ABSA was one of two South African banks to present information in this manner.

Investec provided concise financial risk commentary that was immediately followed by the relevant tables. Lack of reference to the notes in the financial statements made the remaining risk relevant information difficult to find.

FirstRand, as the only true South African bancassurer, disclosed separate risk management information for the banking section of the group. This proved useful as the risks incurred by an insurer may weight the financial risks differently.

Standard Bank chose to issue their annual report and financial statements separately, that is the unaudited management commentary was in a separate booklet to the financial statements.

BOE was the only bank to begin to differentiate between the policies and processes used to manage financial risks. While the differentiation was only made for credit risk, the presentation is noted as being a step in the right direction.

UK and Australian banks

Additional useful information presented by the UK and Australian banks was the difference between their disclosure and the US disclosure standards.

The presentation of the Barclays risk management information was particularly good. The risk management discussion included commentary on various balances impacted by the financial risk under review. This provides the user with most of the information required to make a risk profile assessment in one area of the annual report. Information was never unnecessarily repeated and cross-references enabled quick access to the relevant information. The accounting policies disclosed were fairly detailed and the notes to the financial statements appropriately presented.

The risk management disclosure by National Bank of Australia was preceded by a discussion on material balances in the financial statements. This provided the user with sufficient grounding on the contents of the financial statements before discussing the risks arising from those balances. The notes and supplementary tables presented with regard to financial risks were excellent.

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The above two banks scored the highest rate of compliance with the international best practice checklist. Their financial statements could be used as illustrative examples for South African banks wishing to improve their financial risk disclosure.

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Chapter 6 – Statistical testing

Spearman's Rank-Order Co-efficient Correlation

Introduction

The analysis of results in the previous chapters demonstrates that there is a significant difference in the extent of disclosure within the South African banking sector. This chapter aims to address three hypotheses to establish whether the level of advances, market capitalisation or number of shareholders in the company influences the extent of disclosure provided by the bank. The statistical hypotheses will be tested using the non-parametric method of Spearman's Ranked Correlation. A discussion of the research method of the testing is contained in Chapter 3. The hypotheses are as follows:

TABLE 9: HYPOTHESES AND STATISTICAL HYPOTHESES

Intuitive Hypotheses:	Statistical Hypotheses:
Hypothesis 1: The extent of credit risk disclosure is influenced by the size of the advances balance.	H_0: There is no correlation between the extent of the credit risk disclosure when compared to the level of advances on the bank's balance sheet. H_1: There is a statistically significant correlation between the extent of the credit risk disclosure when compared to the level of advances on the bank's balance sheet.
Hypothesis 2: The extent of financial risk disclosure is influenced by the market capitalisation at the year end.	H_0: There is no correlation between the extent of the financial risk disclosure when compared to the market capitalisation at the year end. H_1: There is a statistically significant correlation between the extent of the financial risk disclosure when compared to the market capitalisation at year end.
Hypothesis 3: The number of shareholders at year end influences the extent of financial risk disclosure.	H_0: There is no correlation between the extent of the financial risk disclosure when compared to the number of shareholders at year end. H_1: There is a statistically significant correlation between the extent of the financial risk disclosure when compared to the number of shareholders at year end.

The intuitive hypothesis is often stated differently to the null hypothesis. The reason for the difference stems from the direction in which the test is performed. The statistical hypothesis is stated so that where the ranks on Spearman's Ranked Correlation are correlated, the calculated value should exceed the critical value. To assist in this regard, the null hypotheses all indicate that no correlation exists, even where this differs from the intuitive hypothesis.

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Hypothesis 1

The level of advances maintained by a bank increases the credit risk exposure in rands, however the increase in the exposure may not be reflected in the extent of the disclosure. The purpose of this statistical test is to determine whether a statistically significant correlation exists between the level of advances held by the bank at year end (as an indicator of size) and the extent of the credit risk disclosure.

For the sample of 12 South African banks, advances per the balance sheet were ranked in descending order as were the results of the credit risk disclosure score based on the international best practice disclosure checklist. The results of the ranking and their differences are shown in the table below.

TABLE 10: RESULTS OF RANKING THE SOUTH AFRICAN BANKS LEVEL OF ADVANCES AND CREDIT RISK SCORES

Bank	Advances (R'm)	Rank	Credit Risk Score	Rank	d_i	d_i^2
ABIL	3,357	9	29.3%	8	1	1
ABSA	137,607	1	43.5%	2	-1	1
BOE	40,423	5	45.8%	1	4	16
FBC Fidelity	5,824	8	16.7%	11	-3	9
FirstRand	93,824	4	36.5%	5	-1	1
Investec	21,936	6	30.1%	7	-1	1
Mercantile Lisbon	2,744	10	19.7%	9	1	1
Nedcor	103,783	3	41.2%	3	0	0
Regal Treasury	74	12	15.0%	12	0	0
Saambou	9,777	7	31.9%	6	1	1
Securities Investment	190	11	16.9%	10	1	1
Standard Bank	112,445	2	38.0%	4	-2	4
Sample Size	**12**					**36**

The result of the Spearman rank-order correlation co-efficient formula can be summarised as follows:

- The calculated value for r_s achieved a value of 0.874 (87.4%).
- The calculated value exceeds the critical value (0.671) at the 99% confidence level.

The result confirms that the null hypothesis is rejected and a statistically significant correlation exists between the extent of credit risk disclosure and the level of advances. The result further confirms the intuitive hypothesis that an association would exist as the larger exposure warrants increased disclosure.

Hypothesis 2

The noticeable difference in the extent of financial risk disclosure presented by the South African banks leads one to question what other factors influence the extent of disclosure. This hypothesis will attempt to answer whether size (as determined by market capitalisation) influences the extent of financial risk disclosure.

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The market capitalisations as at the company year ends were ranked and compared against the rankings of the overall financial risk disclosure. Securities Investment was excluded from the test as insufficient information had been supplied to determine market capitalisation. The results of the ranking are provided in the table below:

TABLE 11: MARKET CAPITALISATION OF SOUTH AFRICAN BANKS AT REPORTED YEAR END AND FINANCIAL RISK DISCLOSURE SCORE

Bank	Mkt Cap (R'm)	Rank	Overall Risk Score	Rank	d_i	d_i^2
ABIL	5,309	7	9.8%	11	-4	16
ABSA	18,745	3	50.7%	2	1	1
BOE	12,258	4	48.0%	4	0	0
FBC Fidelity	1,567	8	19.9%	8	0	0
FirstRand	37,573	1	42.6%	6	-5	25
Investec	10,081	5	51.8%	1	4	16
Mercantile Lisbon	852	10	16.9%	9	1	1
Nedcor	32,500	2	49.4%	3	-1	1
Regal Treasury	661	11	11.1%	10	1	1
Saambou	1,221	9	30.1%	7	2	4
Standard	8,030	6	47.1%	5	1	1
Sample Size	**11**					**66**

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The result of the Spearman rank-order correlation co-efficient formula can be summarised as follows:

- The result for a sample of 11 was 0.700 (70%) that exceeds the critical value of 0.618 (61.8%) at the 97.5% confidence level.
- The hypothesis was accepted at the 99% confidence level.

The result confirms that the null hypothesis is rejected and a statistically significant correlation exists between the extent of financial risk disclosure and the market capitalisation of the South African banks at their respective year ends. The further conclusion that can be drawn is that there is a difference between the disclosure of the larger South African banks and the smaller South African banks. The intuitive hypothesis made is hereby confirmed.

Hypothesis 3

Intuitively, a further factor that should influence the extent of any disclosure in companies' financial statements would be the number of shareholders and the extent to which those shareholders have access to the financial records of the company. As listed companies

have been tested in this study, it is reasonable to assume that for many of the shareholders, the annual report provides the bulk of the information they will receive in a year.

This hypothesis seeks to examine whether the number of shareholders at year end influences the extent of the financial risk disclosure presented in the annual financial statements of the South African banks.

The results of ranking the banks by number of shareholders and by overall financial risk disclosure score is presented in the table below.

TABLE 12: SOUTH AFRICAN BANKS RANKED BY NUMBER OF SHAREHOLDERS AND OVERALL FINANCIAL RISK DISCLOSURE SCORE

Bank	Shareholders	Rank	Overall Risk	Rank	d_i	d_i^2
ABSA	71,636	1	50.7%	2	-1	1
FirstRand	25,884	2	42.6%	6	-4	16
Standard	25,140	3	47.1%	5	-2	4
BOE	21,908	4	48.0%	4	0	0
Saambou	11,081	5	30.1%	7	-2	4
Nedcor	8,267	6	49.4%	3	3	9
Mercantile Lisbon	6,434	7	16.9%	8	-1	1
Investec	3,788	8	51.8%	1	7	49
Regal Treasury	1,501	9	11.1%	9	0	0
Sample Size	9					84

The result of the Spearman rank-order correlation co-efficient formula can be summarised as follows:

- The calculated value for r_s achieved a value of 0.300 (30.0%).
- The calculated value does not exceed the critical value (0.600) at the 95% confidence level.

Only 9 of the 12 banks were evaluated in this test as the banks excluded did not provide the appropriate disclosure in their annual financial statements. The banks excluded were ABIL, FBC Fidelity and Securities Investment.

The result confirms that the null hypothesis is accepted and no statistically significant correlation exists between the extent of financial risk disclosure and the number of shareholders in the South African banks at their respective year ends.

The intuitive hypothesis is rejected. A possible reason for the hypothesis being rejected is that most of the banks have large institutional investors holding the majority of the shares. The majority Investor may be able to influence the extent of the financial risk disclosure.

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Conclusion

The level of advances and market capitalisation appear to influence the extent of financial risk disclosure presented in the annual financial statements of the listed South African banks. As the larger banks are more stable (i.e. less susceptible to fluctuations in the market) and prepared to disclose more information than the smaller banks (i.e. are less concerned about market reaction or are in a better position to manage market reaction and perception, one can conclude that the poor results achieved in the disclosure scoring stem more from a lack of willingness (by the smaller banks) to disclose the appropriate information rather than an inability to do so. It would appear that the number of shareholders in the company does not impact the extent of financial risk disclosure.

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Chapter 7 - Conclusions

Conclusions and Recommendations

Introduction

Six research questions were derived from the main research problem. The main research problem and the research questions have been listed below. The results of the six research questions can be classified into four key groups, namely the extent of disclosure by the South African banks, the extent of disclosure by the international banks, the impact of a South African bank's size on the extent of disclosure and the influence of shareholder numbers on the extent of disclosure by South African banks. These four groups were used in this chapter to discuss the conclusions.

This chapter also provides areas of further research that result from the scope of this study. These areas of further research are discussed briefly below.

Research problem

The main research problem this study aimed to answer was:

> Are financial risk disclosures of listed South African banks both adequate and useful when compared to international best practice?

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This problem was sub-divided into six research questions that attempted to address the scope of the problem as described in the previous chapters and listed below.

Research questions

This study sought to answer the following six questions:

- Is the extent of financial risk disclosure of listed South African banks adequate in relation to local reporting standards?
- Is the extent of financial risk disclosure of listed South African banks inadequate in relation to international best practice?
- Is the extent of financial risk disclosure of a sample of listed United Kingdom and Australian banks in relation to international best practice better than the financial risk disclosure of the South African banks?
- Does size, as determined by level of advances, influence the extent of credit risk disclosure by listed South African banks?
- Does size, as determined by market capitalisation at each bank's year end, influence the extent of financial risk disclosure presented in the annual reports of listed South African banks?
- Does the number of shareholders of the listed South African banks influence the extent of financial risk disclosure presented in the annual report?

The empirical and qualitative conclusions drawn from the results of the work performed on the samples drawn are discussed below.

Extent and adequacy of South African banks financial risk disclosure

Local standards

Based on a qualitative review of the rates of compliance of the South African banks with regard to the disclosure required by the local reporting standards, the banks appear to be complying adequately (i.e. greater than 50% compliance) with the standards. For the most part, the banks appear to have scored above 60%. While the percentages determined as adequate above are debatably so following the release of circular 8/99 by SAICA, it must be noted that the circular was only effective following its release in December 1999. It is expected that compliance with GAAP will improve as a result of the release of this circular.

Part of the reason for the banks not scoring 100% compliance is that some of the disclosure attributes are recommended and not required. Based on the design of this study, identification of the split between required and recommended disclosure would have impaired the results. An assessment of South African performance against best practice was the focus. This negated the necessity to distinguish between required and recommended disclosures. For this reason, the qualitative conclusion was drawn that the banks comply adequately with the local standards.

International best practice

The extent of financial risk disclosure provided by the South African banks against a derived international best practice checklist is wholly inadequate. Only two of the twelve South African banks scored achieved scores of greater than 50% for all financial risk disclosure. Part of the poor disclosure performance can be attributed to certain local standards (based on the standards of the IASC) not being effective for the year under review (e.g. AC 133 "Financial Instruments – Recognition and Measurement").

The conclusions that can be drawn with regard to financial risk disclosure by listed South African banks are as follows:

1. the local reporting standards are inadequate with regard to financial risk disclosure, and
2. the financial risk disclosure provided by South African companies is inadequate for users to fully understand the risk profile of the companies.

Based on the rate of compliance being a proxy for usefulness, the annual reports of the listed South African banks are not as useful as they could be for the bank's stakeholders to make economic decisions.

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Extent and adequacy of UK and Australian banks' financial risk disclosure

The UK and Australian banks performed much better than their South African counterparts. Care should be taken when interpreting the rate of compliance of the UK and Australian banks. Only the top 5 and 3 banks respectively by level of advances were selected for scoring. This introduces a bias to the result. However, if the largest five South African banks are included with the UK and Australian banks and these banks are ranked, 6 of the 8 foreign companies reviewed provided better financial risk disclosure than the South African banks.

The conclusion can be drawn that the financial statements of the UK and Australian banks provide better and more useful information than the South African banks. Based on the results of the scoring, these banks can also improve certain areas of their disclosure. In other areas, these foreign banks can serve as examples of appropriate disclosures for South African banks seeking to provide improved financial risk disclosure.

The influence of the size of the bank on financial risk disclosure

The results of the international best practice checklist for the South African banks revealed a large range of results, with the top scoring bank achieving a compliance percentage of 51.8 and the lowest scoring bank achieving a compliance percentage of 9.8. In an attempt to address these differences, statistical tests were employed to establish whether an association existed between:

1. credit risk disclosure and the level of advances, and
2. financial risk disclosure and market capitalisation.

It was found that in both cases there is a significant statistical correlation between these attributes. The conclusions result in the intuitive hypotheses being accepted for each of the above tests.

The influence of shareholder numbers on financial risk disclosure

Throughout this study, the needs of the user have been referred to with regard to the information provided in the annual reports. A statistical test was performed to test the association between the number of shareholders and the extent of financial risk disclosure. It was found that there is no statistically significant correlation between the number of shareholders and the extent of financial risk disclosure. It can be concluded that it is not the total number of shareholders but rather other market forces or parties that influence the extent of financial risk disclosure.

Areas for further research

While this study has focussed on the listed banks, much of the financial risk disclosure identified here is equally applicable to derivatives traders listed in the financial services

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sector. This study could be broadened to include those companies or alternatively the research method adopted in this study could focussed purely on the disclosure with regard to derivatives. The study could also be broadened to include the US in the analysis.

The research method applied in this study could be applied equally to other aspects of disclosure in different industries, that is, best practice identified and used as a benchmark against the South African disclosure provided in the annual financial statements.

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Appendices

Appendix A – Best Practice Disclosure Checklist

Disclosure Requirement:	Source:
General	
1. Discuss the status of the risk management structure in relation to the organisation as a whole as well as the level of responsibility held.	Gibson
2. Disclose interrelating effects of the various risk exposures	BIS
Credit Risk	
Policies and Practices	
3. Disclose policies, practices and methods used to manage credit risk	BIS, IAS 39 169(a)
4. Disclose policies, practices and methods used to account for credit risk exposures, including:	BIS, IAS 30.43, IAS 32.47, IAS 39.167
4.1. Basis of measurement for assets at initial recognition and subsequent periods	
4.2. Treatment of securitisation transactions and other activities that shift or reallocate credit risk	
4.3. Method of recognising income on unimpaired assets	
4.4. Basis of measurement of impaired assets	
4.5. Basis for determining when assets are considered past due and/or impaired	
4.6. Basis for writing off assets	
4.7. Method of recognising income on impaired assets	
4.8. Treatment of hedging relationships affecting the measurement of assets	
5. Disclose information on the accounting policies and methods used to determine specific and general allowances, including key assumptions used, also	BIS, IAS 30.43, IAS 32.47
5.1. Types of credit exposures evaluated individually or as groups	
5.2. Determination of allocated and unallocated portions of the allowances	
5.3. Method used to incorporate historical default experience	
5.4. Other corrective measures used to reduce differences between estimated and actual losses	
5.5. Policies and practices for country risk provisioning	
5.6. Changes to policies and procedures	
5.7. Level of allowances compared with historical net loss experience and changes to the allowances or key assumptions affecting the allowances	
5.8. Other relevant information	
6. Discuss the application of the policies on the non-trading portfolio	Gibson
Risk Management	
7. Disclose information on the management, structure and organisation of the credit risk management function (including the relation to the overall risk function)	BIS
8. Disclose qualitative information about the nature of credit risk in the various banking activities and describe how credit risk arises in those activities.	BIS
9. Disclose qualitative information on the credit risk management and control policies and practices, including:	BIS, IAS 32.43A
9.1. Methods used to limit or control overall credit exposures, including:	
9.1.1. Risk limits	
9.1.2. Limits on concentrations of credit to single counterparties or classes of borrower	
9.1.3. Limit monitoring	
9.2. Process and methods used to assess credit exposures on an individual and portfolio basis	
9.3. Mechanisms used to reduce and/or mitigate credit exposures (e.g. collateral)	
9.4. Securitisation activities	
9.5. Use of innovative instruments that transfer credit exposure	

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9.6. Process for stress testing and incorporation into credit risk management function	
10. Disclose information on techniques and methods for managing past due and impaired assets (including testing the adequacy of those provisions)	BIS
11. Discuss the use of credit scoring and portfolio credit risk measurement models or other internal models. Discussion should include information on:	BIS
11.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)	
11.2. Qualitative and quantitative information about credit risk measurement models used (including parameters, performance over time, model validation and stress testing information)	
11.3. Status of development of such models	
Exposures	
12. Disclose balances of gross credit exposures, including current exposure, average exposure and where applicable, future potential exposure, by major categories and maturity band	BIS, IAS 32.66
13. Disclose information about credit exposures by business line and by geographical area	BIS, IAS 14
14. Disclose information about gross credit exposures by major categories of counterparties (including shareholders, directors and other related parties as well as high risk counterparties)	BIS
15. Disclose information about significant concentrations of credit risk, including a description of the determination of "significant" concentrations	BIS, IAS 32.66(b), IAS 30.40
16. Disclose the quantitative effect of risk mitigation techniques, including collateral (nominal and market value), guarantees, credit insurance and legally enforceable netting agreements	BIS
17. Disclose quantitative and qualitative information about the use of credit derivatives and other instruments that reallocate credit risk, including:	BIS
17.1. Discussion of how the instruments are used (including strategy and objectives)	
17.2. Notional amounts and fair value of instruments	
17.3. Amount of credit risk bought and/or sold	
17.4. Breakdown by type of instrument	
17.5. Instruments by trading and non-trading book	
18. Disclose quantitative and qualitative information on the securitisation activities, including:	BIS, IAS 39.170(d)
18.1. Strategy and objectives of securitisation activities	
18.2. Amount and type of assets securitised	
18.3. Amount of servicing retained	
18.4. Amount of risk retained	
18.5. Details on subordinated interests retained and general recourse provisions.	
19. Disclose summary information about contractual obligations with respect to recourse arrangements and the expected losses under those arrangements (including terms of arrangements, amounts of assets sold and expected losses under such arrangements)	BIS, IAS 30.26, IAS 37.86
Credit Quality	
20. Provide summary information about the internal rating process and the internal credit ratings of its credit exposures i.e. quality of credit exposures (excluding proprietary information)	BIS
21. Disclose total credit exposures by major asset category, counterparty types and geographic area showing impaired and past due amounts relating to each category (provide an ageing analysis of past due credit exposures)	BIS
22. Disclose amounts of specific, general and other allowances established against each major asset category and disclose the unallocated portion separately	BIS, IAS 30.43(c)
23. Disclose a reconciliation of changes in the allowances for credit impairment, by allowance	BIS, IAS 30.43(b), IAS 39.170(f)
24. Disclose credit exposures on which the accrual of interest or other contractual cash flows – in accordance with the terms of the original agreement – has ceased because of a deterioration in credit quality	BIS, IAS 30.43(d)
25. Disclose summary information about credit exposures that have been	BIS

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restructured during the year, including:	
25.1. Balance of restructured loans	
25.2. Magnitude of the restructuring activities	
25.3. Impact of the restructured credit arrangements on allowances and the present and future earnings	
25.4. Basic nature of concessions on all credit relationships that are restructured	
Earnings	
26. Provide information on revenues, net earnings and return on assets, including:	BIS, IAS 30.10, IAS 39.170(c)
26.1. Income and expense information by nature or function	
26.2. Interest income and expenses by type of activity, geographical distribution and credit quality	
26.3. Impact of non-accrual and impaired assets on financial performance	
26.4. Summary information on the effect of hedging activities on income and expenses	
26.5. Amount of write-offs and recoveries recorded in the income statement	
26.6. Income effect of securitisations	
Market/Equity Risk	
Policies and Practices	
27. Discuss the policies and practices used to measure and manage market risk	BIS, IAS 32.47(b), IAS 39.169(a)
28. Disclose policies and practices of managing market risk exposures including the method of aggregating those exposures.	BIS
29. Disclose key assumptions and parameters of internal models used	BIS
30. Disclose policies and procedures for validating internal models used, including back-testing and stress-testing policies and procedures.	BIS
31. Disclose the impact of the hedging policy on market risk by major market risk factor.	BIS, IAS 32.43A, IAS 39.169(b)
32. Discuss the impact of the policies and practices on the non-trading portfolio.	Gibson
Risk Management	
33. Disclose information on the management, structure and organisation of the market risk management function	BIS
34. Disclose qualitative information about the nature of market risk in the various banking activities and describe how market risk arises in those activities.	BIS
35. Disclose qualitative information on the market risk management and control policies and practices	BIS
36. Disclose the use of market risk measurement models (including key assumptions and parameters)	BIS
37. Disclose methods used to monitor and limit market risk exposures (including risk limits)	FRS 13.107 (UK)
38. Discuss changes in market risk exposure and management strategies from the previous year	Gibson
Exposures	
39. Disclose balances of market risk exposures, including current exposure, average exposure and where applicable, future potential exposure, by major categories	BIS
40. Disclose information about market exposures by business line and by geographical area	IAS 14
41. Disclose information about significant concentrations of market risk	BIS
Quality of Information	
42. Discuss the use of internal models. Discussion should include information on:	BIS
42.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)	
42.2. Qualitative and quantitative information about market risk measurement models used (including parameters, performance over time, model validation and stress testing information)	

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42.3. Status of development of such models	
43. Include a sensitivity analysis, including hypothetical changes in market prices and rates	FRS 13.104 (UK)
Interest Rate Risk	
Policies and Practices	
44. Disclose policies, practices and methods used to manage interest rate risk	BIS, IAS 32.47, ED-76 (NZ)
45. Disclose policies, practices and methods used to account for interest rate risk exposures	BIS, IAS 32.56, ED-76
46. A discussion on the key assumptions used in the above methods and practices should be included.	BIS
47. Discuss the application of the policies on the non-trading portfolio	Gibson
Risk Management	
48. Disclose information on the management, structure and organisation of the interest rate risk management function	BIS
49. Disclose qualitative information about the nature of interest rate risk in the various banking activities and describe how interest rate risk arises in those activities	ED-76.7.2 (NZ)
50. Disclose qualitative information on the interest rate risk management and control policies and practices	BIS
51. Disclose methods used to monitor exposure to interest rate risk (including frequency of monitoring)	ED-76.7.2 (NZ)
52. Disclose methods of controlling interest rate risk exposures	BIS, ED-76.7.2 (NZ)
Exposures	
53. Disclose the gross exposure to interest rate risk by reporting the financial assets and liabilities in an interest rate repricing schedule (by effective rate and maturity band)	IAS 32.56, ED-76.7.3 (NZ)
54. Disclose the effective rates of interest for the various categories of interest bearing financial assets and liabilities	IAS 32.56, ED-76.7.4 (NZ)
55. Disclose the impact of future interest rate changes on the exposures to interest rate risk	IAS 32.57
56. Provide information on contractual repricing and maturity dates as well as possible changes in the future and key assumptions made about future predictions	IAS 32.55 and 59
57. Disclose information about concentrations of interest rate exposures by business line and by geographical area	IAS 14
58. Disclose the effect of hedging policies on interest rate exposures	
Quality of Information	
59. Discuss the use of internal models including use of models under stressful market conditions. Discussion should include information on:	BIS
59.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)	
59.2. Qualitative and quantitative information about market risk measurement models used (including parameters, performance over time, model validation and stress testing information)	
59.3. Status of development of such models	
60. Include a sensitivity analysis demonstrating stress scenarios	BIS
Earnings	
61. Disclose the average balances and interest earned or paid, for each material category of interest bearing instrument	ED-76.7.5 (NZ)
Liquidity/Funding Risk	
Policies and Practices	
62. Disclose policies, practices and methods used to manage liquidity risk	
63. Disclose policies, practices and methods used to account for liquidity risk exposures	ED-73A.11.1 (NZ)

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64. A discussion on the key assumptions used in the above methods and practices should be included.	
65. Discuss the application of the policies on the non-trading portfolio	
Risk Management	
66. Disclose information on the management, structure and organisation of the liquidity risk management function	
67. Disclose qualitative information about the nature of liquidity risk in the various banking activities and describe how liquidity risk arises in those activities	
68. Disclose qualitative information on the liquidity risk management and control policies and practices	
69. Disclose methods used to monitor exposure to liquidity risk (including frequency of monitoring)	
70. Disclose methods of controlling liquidity risk exposures	
Exposures	
71. Disclose concentrations of financial assets in the broad order of their liquidity and maturity	ED-73A (NZ), AASB 1032.5.3 (AUS)
72. Disclose effects of changes to the exposures to future cash flows and expected shortfalls in cash	IMF – Discussion Document
73. Disclose information about the distribution, concentration and type of funding source	IMF – Discussion Document
Currency/Foreign Exchange Risk	
Policies and Practices	
74. Disclose policies, practices and methods used to manage currency risk	
75. Disclose policies, practices and methods used to account for currency risk exposures	
76. A discussion on the key assumptions used in the above methods and practices should be included.	
77. Discuss the application of the policies on the non-trading portfolio	
Risk Management	
78. Disclose information on the management, structure and organisation of the currency risk management function	
79. Disclose qualitative information about the nature of currency risk in the various banking activities and describe how currency risk arises in those activities.	
80. Disclose qualitative information on the currency risk management and control policies and practices	
81. Methods used to control currency risk exposures	ED-76.6.2 (NZ)
Exposures	
82. Disclose net open positions in each currency and how the position is derived	ED-76.6.4 (NZ)
83. Disclose the effect of hedges on currency investments	FRS 13.92 (UK)
84. Disclose information about currency exposures by business line and by geographical area	
85. Disclose the impact of future currency rate changes on the exposures to currency risk	
86. Disclose the impact of exposures on the non-trading portfolio	FRS 13.97 (UK)
Capital Adequacy	
Policies and Practices	
87. Disclose the purpose of the capital adequacy calculations	Order of Council (NZ)
88. Disclose the justification for the risk weightings used (including risk factors considered) for each risk	Order of Council (NZ)
89. Disclose the minimum capital ratio requirements	Order of Council (NZ)
90. Disclose method of assessing overall capital adequacy in relation to the firm risk profile and the strategy for maintaining capital levels	BIS
91. Disclose stress testing procedures for testing internal capital adequacy targets	BIS

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Capital	
92. Disclose the items comprising Tier 1, 2 and 3 capital (including the subdivision of Tier 2 capital into upper and lower Tier 2 capital)	Order of Council (NZ)
93. Disclose for each class of equity share capital	Order of Council (NZ)
93.1. The inclusion in Tier 1 or Tier 2 Capital	
93.2. Material conditions applying to that class	
93.3. Cumulative preferred dividends in arrears	
93.4. Other material terms of the issue of securities	
94. For all other classes of capital instruments	Order of Council (NZ)
94.1. Inclusion in either Tier 1 or Tier 2 Capital	
94.2. Priority in ranking for payment or claims of the class	
94.3. All other material terms and conditions	
95. Nature and amount of each reserve	Order of Council (NZ)
96. Disclose how the off-balance sheet exposures are converted to credit equivalent amounts for the risk-weighting table.	Order of Council (NZ)
97. Disclose key assumptions and other parameters of any other internal models used to capture risks other than credit risk (including a discussion of development of these models)	BIS, Prudential Statement C3 (AUS)
98. Disclose verification and validation methods used for the internal models as well as the results of the tests performed	Prudential Statement C3 (AUS)
Risk-weighted Exposures	
99. Disclose a table of balance sheet exposures by risk weight band	Order of Council (NZ)
100. Disclose a table of off-balance sheet exposures by risk weight band	Order of Council (NZ)
101. Disclose Capital and, in particular, Tier 1 Capital as a percentage of risk weighted exposures	Order of Council (NZ)
102. Disclose the date to which the measures of Tier 1 Capital and other Capital relate	Order of Council (NZ)

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Appendix B – South African risk disclosures (extracts of AC 120 and AC 125)

Disclosure Requirements appropriate for risk disclosure	Paragraph Ref:
AC 120	
Accounting policies	
Basis for the recognition of the principal types of revenue	.09
Basis for the valuation of investments, dealing securities and financial derivative instruments,	.09
The distinction which determines whether items are disclosed as assets and liabilities or contingencies and commitments,	.09
Basis for the valuation of loans and advances,	.09
The conditions under which the accrual of interest on loans or advances is not recognised as income, and	.09
The bases for providing for or writing off uncollectible loans and advances,	.09
It is desirable for management to provide a commentary about average interest rate margins, average interest earning assets and average interest bearing liabilities for the period. Where assets and liabilities subject to unusual or non-market related rates have a material impact on interest income or expense, relevant disclosure is included in the commentary.	.15
The disclosures in the balance sheet or the notes to the financial statements should include, but are not limited to, the following assets and liabilities: Assets cash, call deposits and balances with the central bank, government and other securities held for dealing purposes, placements with, and loans and advances to, other banks, other money market placements, loans and advances to customers, and investment securities. Liabilities deposits from other banks, other money market deposits, amounts owed to other depositors, certificates of deposits, promissory notes and other liabilities evidenced by paper, and other borrowed funds.	.20
A bank should disclose the fair value of trading investments and the fair value of non-trading investments where these differ from their carrying values.	.25
Where a bank considers it necessary to set aside amounts in respect of banking risks, including future losses and other unforeseeable risks or contingencies in addition to those for which accrual must be made in accordance with Statements of Generally Accepted Accounting Practice, such amounts are accounted for and separately disclosed as reserves. Transfers to and from such reserves are disclosed as an appropriation of retained earnings or as increases in retained earnings.	.29
The users of the financial statements need to know about the contingencies and irrevocable commitments of a bank because of the demands these may put on its liquidity and solvency, and the inherent possibility of potential losses. Users also require adequate information about the nature and amount of off balance sheet transactions undertaken by a bank.	.36

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A bank should disclose an analysis of assets, liabilities and off balance sheet items into relevant maturity groupings. .41It is essential that the maturity periods adopted by a bank are the same for assets, liabilities and off balance sheet items. This clarifies the extent to which the maturities are matched and the consequent dependence of the bank on other sources of liquidity.	.37
A bank discloses an analysis expressed in terms of contractual maturities, and these disclosures are supplemented by a commentary as to the likelihood of repayment within each repayment period in order to provide users with a full understanding of the maturity groupings.	.43
Management provides, in its commentary on the financial statements, information about the effective periods and about the way it manages and controls the risks and exposures associated with different maturity and interest rate profiles.	.44
The management of liquidity risk often involves the arrangement of short term credit facilities and other short term funding arrangements. In order that users can properly evaluate a bank's liquidity risk, the existence of these arrangements is disclosed.	.45
To demonstrate the bank's exposure to interest rate risks, a bank may disclose repricing groupings. These groupings are based on the remaining period to the next date at which interest rates may change. Management may also provide, in its commentary in the financial statements, information about exposure to interest rate risks and about the way it manages and controls such exposures.	.46
A bank should disclose any significant concentrations of its assets, liabilities and off balance sheet items. Such disclosures can be made in terms of geographical areas, customer or industry groups or other concentrations of risk, which are appropriate in the circumstances of the bank. Geographical areas may comprise individual countries, groups of countries or regions within a country; customer disclosures may deal with sectors such as governments, public authorities, and commercial and industrial enterprises.	.47
The disclosure of significant net foreign currency exposures is also a useful indication of the risk of losses arising from future changes in exchange rates. Management may provide commentary on the way it manages and controls its foreign currency exposure and its risk.	.49
Disclose details of the movements in the provision for losses on loans and advances during the period. These movements will include loans and advances written off, loans and advances previously written off that have been recovered during the period and the increase or decrease in the provision during the period, and	.50
Disclose separate amounts, at the balance sheet date, of the specific bad debts provision and the general bad debts provision. A bank discloses separately the amounts of the specific and general provisions for losses on loans and advances at the balance sheet date and the movements in the provisions during the period. The movements in the provisions, including the amounts previously written off that have been recovered during the period, are shown separately	.53
A bank may disclose the aggregate amount of loans and advances at the balance sheet date on which interest is not being accrued and the basis used to determine the carrying amount of such loans and advances. Disclosure may also be made of the amount included in the balance sheet for loans and advances on which interest accrued is not recognised as income.	.54
A bank discloses its policy for writing off uncollectible loans and advances.	.55
Commentary should be given on the way the bank manages and controls the different components of banking risk.	.58
Risk management policies and procedures, and the nature and extent of the risks to which a bank is exposed.	.59

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Disclosure as to the adequacy of the bank's capital	.59
AC 125	
A discussion of management's policies for controlling the risks associated with financial instruments, including policies on matters such as hedging of risk exposures, avoidance of undue concentrations of risk and requirements for collateral to mitigate credit risks, provides a valuable additional perspective, which is independent of the specific instruments outstanding at a particular time.	.44
When financial instruments held or issued by an enterprise, either individually or as a class, create a potentially significant exposure to the risks set out in paragraph .45, terms and conditions that may warrant disclosure include:	.51
(a)the principal, stated, face or other similar amount that, for some derivative instruments, such as interest rate swaps, may be the amount (referred to as the notional amount) on which future payments are based,	.51
(b)the date of maturity, expiry or execution,	.51
(c)early settlement options held by either party to the instrument, including the period in which, or date at which, the options may be exercised and the exercise price or range of prices,	.51
(d)options held by either party to the instrument to convert the instrument into, or exchange it for, another financial instrument or some other asset or liability, including the period in which, or date at which, the options may be exercised and the conversion or exchange ratio(s),	.51
(e)the amount and timing of scheduled future cash receipts or payments of the principal amount of the instrument, including instalment repayments and any sinking fund or similar requirements,	.51
(f)stated rate or amount of interest, dividend or other periodic return on principal and the timing of payments,	.51
(g)collateral held, in the case of a financial asset, or pledged, in the case of a financial liability,	.51
(h)in the case of an instrument for which cash flows are denominated in a currency other than the enterprise's reporting currency, the currency in which receipts or payments are required,	.51
(i)in the case of an instrument that provides for an exchange, information described in items (a) to (h) for the instrument to be acquired in the exchange, and	.51
(j)any condition of the instrument or an associated covenant that, if contravened, would significantly alter any of the other terms, for example, a maximum debt-to-equity ratio in a bond covenant that, if contravened, would make the full principal amount of the bond due and payable immediately.	.51
For each class of financial asset and financial liability, both recognised and unrecognised, an enterprise should disclose information about its exposure to interest rate risk, including:	.58
(a)contractual repricing or maturity dates, whichever dates are earlier, and	.58
(b)effective interest rates, when applicable.	.58
To supplement the information about contractual repricing and maturity dates, an enterprise may elect to disclose information about expected repricing or maturity dates when those dates differ significantly from the contractual dates. The additional information includes disclosure of the fact that it is based on management's expectations of future events, and explains the assumptions made about repricing or maturity dates and how those assumptions differ from the contractual dates.	.61
An enterprise indicates its financial assets and financial liabilities that are:	.62
(a)exposed to interest rate price risk, such as monetary financial assets and financial liabilities with a fixed interest rate,	.62

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(b)exposed to interest rate cash flow risk, such as monetary financial assets and financial liabilities with a floating interest rate that is reset as market rates change, and	.62
(c)not exposed to interest rate risk, such as some investments in equity securities.	.62
However, when providing effective interest rate information, an enterprise discloses the effect on its interest rate risk exposure of hedging or "conversion" transactions, such as interest rate swaps.	.64
The enterprise discloses information that will permit financial statement users to understand the nature and extent of its exposure. In the case of a securitisation or similar transfer of financial assets, this information normally includes the nature of the assets transferred, their stated principal, interest rate and term to maturity, and the terms of the transaction giving rise to the retained exposure to interest rate risk. In the case of a commitment to lend funds, the disclosure normally includes the stated principal, interest rate and term to maturity of the amount to be lent and the significant terms of the transaction giving rise to the exposure to risk.	.65
When an enterprise has a significant number of financial instruments exposed to interest rate price or cash flow risks, it may adopt one or more of the following approaches to presenting information:	.66
(a)The carrying amounts of financial instruments exposed to interest rate price risk may be presented in tabular form, grouped by those that are contracted to mature or be repriced:	.66
(i)within one year of the balance sheet date,	.66
(ii)more than one year and less than five years from the balance sheet date, and	.66
(iii)five years or more from the balance sheet date.	.66
(b)When the performance of an enterprise is significantly affected by the level of its exposure to interest rate price risk or changes in that exposure, more detailed information is desirable. An enterprise such as a bank may disclose, for example, separate groupings of the carrying amounts of financial instruments contracted to mature or be repriced:	.66
(i)within one month of the balance sheet date,	.66
(ii)more than one month and less than three months from the balance sheet date, and	.66
(iii)more than three months and less than twelve months from the balance sheet date.	.66
(c)Similarly, an enterprise may indicate its exposure to interest rate cash flow risk through a table indicating the aggregate carrying amount of groups of floating rate financial assets and financial liabilities maturing within various future time periods.	.66
(d)Interest rate information may be disclosed for individual financial instruments or weighted average rates, or a range of rates, may be presented for each class of financial instrument. An enterprise groups instruments, denominated in different currencies or having substantially different credit risks, into separate classes when these factors result in instruments having substantially different effective interest rates.	.66

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In some circumstances, an enterprise may be able to provide useful information about its exposure to interest rate risks by indicating the effect of a hypothetical change in the prevailing level of market interest rates on the fair value of its financial instruments and future earnings and cash flow. Such interest rate sensitivity information may be based on an assumed 1% change in market interest rates occurring at the balance sheet date. The effects of a change in interest rates includes changes in interest income and expense relating to floating rate financial instruments, and gains or losses resulting from changes in the fair value of fixed rate instruments. The reported interest rate sensitivity may be restricted to the direct effects of an interest rate change on interest-bearing financial instruments on hand at the balance sheet date, since the indirect effects of a rate change on financial markets and individual enterprises cannot normally be predicted reliably. When disclosing interest rate sensitivity information, an enterprise indicates the basis on which it has prepared the information, including any significant assumptions.	.67
For each class of financial asset, both recognised and unrecognised, an enterprise should disclose information about its exposure to credit risk, including:	.68
(a)the amount that best represents its maximum credit risk exposure at the balance sheet date, without taking account of the fair value of any collateral, in the event other parties fail to perform their obligations under financial instruments, and	.68
(b)significant concentrations of credit risk.	.68
An enterprise's maximum potential loss from some recognised financial assets may differ significantly from their carrying amount and from other disclosed amounts such as their fair value or principal amount. In such circumstances, additional disclosure is necessary	.71
To inform financial statement users of the extent to which exposure to credit risk at a particular point in time has been reduced, the enterprise discloses the existence and effect of the right of set-off, when the financial asset is expected to be collected in accordance with its terms. When the financial liability, against which a right of set-off exists, is due to be settled before the financial asset, the enterprise is exposed to credit risk on the full carrying amount of the asset, if the counterparty defaults after the liability has been settled.	.72
When a master netting arrangement significantly reduces the credit risk associated with financial assets not offset against financial liabilities with the same counterparty, an enterprise provides additional information concerning the effect of the arrangement. Such disclosure indicates that:	.73
(a)the credit risk associated with financial assets subject to a master netting arrangement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realised, and	.73
(b)the extent to which an enterprise's overall exposure to credit risk is reduced through a master netting arrangement may change substantially within a short period following the balance sheet date, because the exposure is affected by each transaction subject to the arrangement.	.73
It is also desirable for an enterprise to disclose the terms of its master netting arrangements, which determine the extent of the reduction in its credit risk.	.73
Disclosure of concentrations of credit risk includes a description of the shared characteristic that identifies each concentration and the amount of the maximum credit risk exposure associated with all recognised and unrecognised financial assets sharing that characteristic.	.78

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Appendix C - Sample of Companies

Company	Year-end	Abbreviation
African Bank Investments Limited	September	African Bank
ABSA Group Limited	March	ABSA
BOE Limited	September	BOE
FBC Fidelity Bank Limited	March	FBC
FirstRand Limited	June	FirstRand
Investec Group Limited	March	Investec
Mercantile Lisbon Bank Holdings Limited	March	Mercantile
Nedcor Limited	December	Nedcor
Regal Treasury Bank Holdings Limited	February	Regal
Saambou Holdings Limited	March	Saambou
Securities Investment Bank Limited	March	SIB
Standard Bank Investment Corporation Limited	December	Stanbic

Appendix D – UK Companies selected

Company:	Advances to banks (m):	Advances to customers (m):
Barclays	£42,656	£113,538
Lloyds TSB Group	£16,963	£102,628
Halifax Group	£10,770	£96,566
Abbey National	£11,472	£75,772
Royal Bank Of Scotland Group	£1,655	£49,340

Appendix E – Australian Companies selected

Company:	Advances to banks(m):	Advances to customers (m):
National Australia Bank Limited	$11,120	$165,620
Westpac Banking Corporation	$4,006	$107,965
Australia & New Zealand Banking Group Limited	$3,472	$104,063

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Appendix F – South African Standards Scoring Results

Disclosure Requirement	ABIL	ABSA	BOE	FBC Fidelity	FirstRand	Investec	Mercantile Lisbon	Nedcor	Regal Treasury	Saambou	Standard	Securities Investment	SA Average
AC 120													
Accounting policies													
Basis for the recognition of the principal types of revenue	1	0	[illegible]	0.5	[illegible]	0.5	1	0	0.5	1	0.5	0	58.3%
Basis for the valuation of investments, dealing securities and financial derivative instruments,	0.5	1	[illegible]	1	1	1	1	1	1	1	1	1	95.8%
The distinction which determines whether items are disclosed as assets and liabilities or contingencies and commitments,	0	1	1	0	0	0	0	0	0	1	0	0	25.0%
Basis for the valuation of loans and advances,	0.5	0.5	1	0	0.5	0.5	0.5	0	1	1	0.5	0	50.0%
The conditions under which the accrual of interest on loans or advances is not recognised as income, and	0	1	1	0.5	1	1	1	1	1	0	1	0	70.8%
The bases for providing for or writing off uncollectible loans and advances.	1	1	1	1	1	0.5	0.5	0.5	0.5	1	0.5	0.5	75.0%
It is desirable for management to provide a **commentary** about average interest rate margins, average interest earning assets and average interest bearing liabilities for the period. Where assets and liabilities subject to unusual or non market related rates have a material impact on interest income or expense, relevant **disclosure** is included in the commentary.	0	0.5	0	0	0	0	0	0.5	0	0.5	1	0	20.8%
The **disclosures** in the balance sheet or the notes to the financial statements should include, but are not limited to, the following assets and liabilities: (breakdown provided in the statement but detail not required for risk disclosure)	1	1	1	1	1	1	1	1	1	1	1	1	100.0%
A bank should **disclose** the fair value of trading investments and the fair value of non-trading investments where these differ from their carrying values.	0	1	1		1	1	1	1	1	1	1	1	90.9%
Where a bank considers it necessary to set aside amounts in respect of banking risks, including future					0								0.0%

losses and other unforeseeable risks or contingencies in addition to those for which accrual must be made in accordance with Statements of Generally Accepted Accounting Practice, such amounts are accounted for and separately disclosed as reserves. Transfers to and from such reserves are **disclosed** as an appropriation of retained earnings or as increases in retained earnings													
The users of the financial statements need to know about the contingencies and irrevocable commitments of a bank because of the demands these may put on its liquidity and solvency, and the inherent possibility of potential losses. Users also require adequate information about the nature and amount of off balance sheet transactions undertaken by a bank.	1	1	1	1	1	1	1	1	1	1	1	1	100.0%
A bank should **disclose** an analysis of assets, liabilities and off balance sheet items into relevant maturity groupings. AIB is essential that the maturity periods adopted by a bank are the same for assets, liabilities and off balance sheet items. This clarifies the extent to which the maturities are matched and the consequent dependence of the bank on other sources of liquidity.	1	0.5	1	0.5	1	0.5	0.5	1	0	1	1	0.5	70.8%
A bank **discloses** an analysis expressed in terms of contractual maturities, and these disclosures are supplemented by a commentary as to the likelihood of repayment within each repayment period in order to provide users with a full understanding of the maturity groupings.	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	50.0%
Management provides, in its **commentary** on the financial statements, information about the effective periods and about the way it manages and controls the risks and exposures associated with different maturity and interest rate profiles.	0.5	1	1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	58.3%
The management of liquidity risk often involves the arrangement of short term credit facilities and other short term funding arrangements. In order that users can properly evaluate a bank's liquidity risk, the existence of these arrangements is **disclosed**	0.5		1	1	0.5	0.5	0					0.5	57.1%
To demonstrate the bank's exposure to interest rate	0.5	0	0.5	0.5	0	0.5	0.5	0.5	0	0.5	0.5	0	33.3%

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risks, a bank may disclose repricing groupings. These groupings are based on the remaining period to the next date at which interest rates may change. Management may also provide, in its **commentary** in the financial statements, information about exposure to interest rate risks and about the way it manages and controls such exposures.													
A bank should **disclose** any significant concentrations of its assets, liabilities and off balance sheet items. Such disclosures can be made in terms of **geographical** areas, customer or industry groups or other concentrations of risk, which are appropriate in the circumstances of the bank. Geographical areas may comprise individual countries, groups of countries or regions within a country; customer disclosures may deal with sectors such as governments, public authorities, and commercial and industrial enterprises.[1]	1	1	1	0.5	[illegible]	1	0.5	1	0.5	0.5	1	0.5	79.2%
The **disclosure** of significant net foreign currency exposures is also a useful indication of the risk of losses arising from future changes in exchange rates. Management may provide **commentary** on the way it manages and controls its foreign currency exposure and its risk.		0.5	1		0.5	1	0.5	0.5	0		0.5	0	50.0%
Disclose details of the movements in the provision for losses on loans and advances during the period. These movements will include loans and advances written off, loans and advances previously written off that have been recovered during the period and the increase or decrease in the provision during the period, and	1	1	1	1	1	1	1	1	0	0	1	0	75.0%
Disclose separate amounts, at the balance sheet date, of the specific bad debts provision and the general bad debts provision. A bank **discloses** separately the amounts of the specific and general provisions for losses on loans and advances at the balance sheet date and the movements in the provisions during the period. The movements in the provisions, including the amounts previously written off that have been recovered during the period, are shown separately	1	1	1	1	1	1	0	1	0	0	1	0	66.7%

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A bank may **disclose** the aggregate amount of loans and advances at the balance sheet date on which interest is not being accrued and the basis used to determine the carrying amount of such loans and advances. **Disclosure** may also be made of the amount included in the balance sheet for loans and advances on which interest accrued is not recognised as income.	0	0.5	1	0	1	0	0.5	1	0	0	1	0	41.7%
A bank **discloses** its policy for writing off uncollectible loans and advances.	1	1	1	1	1	1	1	1	1	1	1	1	100.0%
Commentary should be given on the way the bank manages and controls the different components of banking risk.	0.5	1	1	1	1	1	1	1	1	1	1	1	95.8%
Risk management policies and procedures, and the nature and extent of the risks to which a bank is exposed.	0	1	1	1	1	1	0.5	1	0.5	0.5	1	1	79.2%
Disclosure as to the adequacy of the bank's capital	0	1	1	1	1	1	0.5	1	1	1	1	1	87.5%
	54.3%	78.3%	91.7%	65.9%	74.0%	70.8%	60.4%	73.9%	52.2%	68.2%	80.4%	45.8%	
AC 125													
A **discussion** of management's policies for controlling the risks associated with financial instruments, including policies on matters such as hedging of risk exposures, avoidance of undue concentrations of risk and requirements for collateral to mitigate credit risks, provides a valuable additional perspective, which is independent of the specific instruments outstanding at a particular time.	0	1	1	0.5	1	[illegible]	0.5	1	0.5	0.5	1	0.5	70.8%
When financial instruments held or issued by an enterprise, either individually or as a class, create a potentially significant exposure to the risks set out in paragraph .45, terms and conditions that may warrant **disclosure** include:													
(a) the principal, stated, face or other similar amount that, for some derivative instruments, such as interest rate swaps, may be the amount (referred to as the notional amount) on which future payments are based,	1	1	1	0.5	0.5	1	0.5	1	0.5	0.5	0.5	1	75.0%
(b) the date of maturity, expiry or execution.	0.5	0.5	0.5	0.5	0.5	0.5	0.5	1	0.5	0	0.5	1	54.2%

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(c) early settlement options held by either party to the instrument, including the period in which, or date at which, the options may be exercised and the exercise price or range of prices.													N/A
(d) options held by either party to the instrument to convert the instrument into, or exchange it for, another financial instrument or some other asset or liability, including the period in which, or date at which, the options may be exercised and the conversion or exchange ratio(s),													N/A
(e) the amount and timing of scheduled future cash receipts or payments of the principal amount of the instrument, including instalment repayments and any sinking fund or similar requirements,													N/A
(f) stated rate or amount of interest, dividend or other periodic return on principal and the timing of payments,													N/A
(g) collateral held, in the case of a financial asset, or pledged, in the case of a financial liability,	1	0	0		0	0	0	0.5	0	0	0	0	13.6%
(h) in the case of an instrument for which cash flows are denominated in a currency other than the enterprise's reporting currency, the currency in which receipts or payments are required,		0.5											50.0%
(i) in the case of an instrument that provides for an exchange, information described in items (a) to (h) for the instrument to be acquired in the exchange, and													N/A
(j) any condition of the instrument or an associated covenant that, if contravened, would significantly alter any of the other terms, for example, a maximum debt-to-equity ratio in a bond covenant that, if contravened, would make the full principal amount of the bond due and payable immediately.													N/A
For each class of financial asset and financial liability, both recognised and unrecognised, an enterprise should disclose information about its exposure to interest rate risk, including:	0.5	0.5	0.5	0.5	0.5	0.5	0	0.5	0	0	0.5	0.5	37.5%
(a) contractual repricing or maturity dates, whichever dates are earlier, and	1	0	1	0.5	0.5	0.5		0.5			0.5	0.5	55.6%
(b) effective interest rates, when applicable	0	0	0	0	0	0					0.5		7.1%

To supplement the information about contractual repricing and maturity dates, an enterprise may elect to disclose information about expected repricing or maturity dates when those dates differ significantly from the contractual dates. The additional information includes disclosure of the fact that it is based on management's expectations of future events, and explains the assumptions made about repricing or maturity dates and how those assumptions differ from the contractual dates.													N/A
An enterprise indicates its financial assets and financial liabilities that are:	1	0.5	0.5	0	0	0	0	1	0	1	0	0	33.3%
(a) exposed to interest rate price risk, such as monetary financial assets and financial liabilities with a fixed interest rate,	0	0.5	0.5					0.5		1			50.0%
(b) exposed to interest rate cash flow risk, such as monetary financial assets and financial liabilities with a floating interest rate that is reset as market rates change, and	0	0.5	0.5					0.5		1			50.0%
(c) not exposed to interest rate risk, such as some investments in equity securities.	1	0	0					1		0			40.0%
However, when providing effective interest rate information, an enterprise discloses the effect on its interest rate risk exposure of hedging or "conversion" transactions, such as interest rate swaps.		[illegible]	0.5		0	1		0.5			0.5		58.3%
The enterprise discloses information that will permit financial statement users to understand the nature and extent of its exposure. In the case of a securitisation or similar transfer of financial assets, this information normally includes the nature of the assets transferred, their stated principal, interest rate and term to maturity, and the terms of the transaction giving rise to the retained exposure to interest rate risk. In the case of a commitment to lend funds, the disclosure normally includes the stated principal, interest rate and term to maturity of the amount to be lent and the significant terms of the transaction giving rise to the exposure to risk.	0.5	0.5	0.5	0	0	0.5	0	0.5	0	0.5	0.5	0.5	33.3%
When an enterprise has a significant number of financial instruments exposed to interest rate price or cash flow risks, it may adopt one or more of the following approaches to presenting information:	1	0.5	1	0.5	0.5	1	1	1	0.5	0	1	0.5	70.8%

(a) The carrying amounts of financial instruments exposed to interest rate price risk may be presented in tabular form, grouped by those that are contracted to mature or be repriced:	1	1	1	0.5	1	1	1	1	0		1	0	77.3%
(i) within one year of the balance sheet date,	1	1	1	1	1	1	1	1			1		100.0%
(ii) more than one year and less than five years from the balance sheet date, and	1	1	1	0	1	1	1	1			1		88.9%
(iii) five years or more from the balance sheet date	0	1	1	0	1	1	1	1			1		77.8%
(b) When the performance of an enterprise is significantly affected by the level of its exposure to interest rate price risk or changes in that exposure, more detailed information is desirable. An enterprise such as a bank may disclose, for example, separate groupings of the carrying amounts of financial instruments contracted to mature or be repriced:	1	0	1	1	0	1	1	1	1		1	[illegible]	81.8%
(i) within one month of the balance sheet date,	1		1	1		1	1	1	1		1	1	100.0%
(ii) more than one month and less than three months from the balance sheet date, and	1		1	1		1	1	1	1		1	1	100.0%
(iii) more than three months and less than twelve months from the balance sheet date.	1		1	1		1	1	1	1		1	1	100.0%
(c) Similarly, an enterprise may indicate its exposure to interest rate cash flow risk through a table indicating the aggregate carrying amount of groups of floating rate financial assets and financial liabilities maturing within various future time periods.	0	0	0.5	0	0	0.5	0	0.5					18.8%
(d) Interest rate information may be disclosed for individual financial instruments or weighted average rates, or a range of rates, may be presented for each class of financial instrument. An enterprise groups instruments, denominated in different currencies or having substantially different credit risks, into separate classes when these factors result in instruments having substantially different effective interest rates.	0	1	0	0	0	0	0	1	0	0	1	0	23.1%

In some circumstances, an enterprise may be able to provide useful information about its exposure to interest rate risks by indicating the effect of a hypothetical change in the prevailing level of market interest rates on the fair value of its financial instruments and future earnings and cash flow. Such interest rate sensitivity information may be based on an assumed 1% change in market interest rates occurring at the balance sheet date. The effects of a change in interest rates includes changes in interest income and expense relating to floating rate financial instruments, and gains or losses resulting from changes in the fair value of fixed rate instruments. The reported interest rate sensitivity may be restricted to the direct effects of an interest rate change on interest-bearing financial instruments on hand at the balance sheet date, since the indirect effects of a rate change on financial markets and individual enterprises cannot normally be predicted reliably. When disclosing interest rate sensitivity information, an enterprise indicates the basis on which it has prepared the information, including any significant assumptions.	0.5	0.5	0	0	0	0	0	1	0	0	0	0	16.7%
For each class of financial asset, both recognised and unrecognised, an enterprise should disclose information about its exposure to credit risk, including:	0.5	0.5	1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	54.2%
(a) the amount that best represents its maximum credit risk exposure at the balance sheet date, without taking account of the fair value of any collateral, in the event other parties fail to perform their obligations under financial instruments, and	0.5	0.5	1	0.5	0.5	0.5	0	0.5	0	0	0.5	0.5	41.7%
(b) significant concentrations of credit risk.	1	0.5	1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	58.3%
An enterprise's maximum potential loss from some recognised financial assets may differ significantly from their carrying amount and from other disclosed amounts such as their fair value or principal amount. In such circumstances, additional disclosure is necessary													N/A

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To inform financial statement users of the extent to which exposure to credit risk at a particular point in time has been reduced, the enterprise discloses the existence and effect of the right of set-off, when the financial asset is expected to be collected in accordance with its terms. When the financial liability, against which a right of set-off exists, is due to be settled before the financial asset, the enterprise is exposed to credit risk on the full carrying amount of the asset, if the counterparty defaults after the liability has been settled.													N/A
When a master netting arrangement significantly reduces the credit risk associated with financial assets not offset against financial liabilities with the same counterparty, an enterprise provides additional information concerning the effect of the arrangement. Such disclosure indicates that:													N/A
(a) the credit risk associated with financial assets subject to a master netting arrangement is eliminated only to the extent that financial liabilities due to the same counterparty will be settled after the assets are realised, and													N/A
(b) the extent to which an enterprise's overall exposure to credit risk is reduced through a master netting arrangement may change substantially within a short period following the balance sheet date, because the exposure is affected by each transaction subject to the arrangement.													N/A
It is also desirable for an enterprise to disclose the terms of its master netting arrangements, which determine the extent of the reduction in its credit risk.													N/A
Disclosure of concentrations of credit risk includes a description of the shared characteristic that identifies each concentration and the amount of the maximum credit risk exposure associated with all recognised and unrecognised financial assets sharing that characteristic.	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	50.0%
AC 125 Total	64.8%	50.0%	67.2%	45.7%	41.3%	63.5%	56.5%	77.8%	41.7%	37.5%	64.6%	55.3%	
Grand Total	59.6%	64.1%	79.5%	55.8%	57.7%	67.1%	57.5%	75.8%	46.9%	52.8%	72.5%	50.5%	

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Appendix G – International Best Practice Scoring Results (South Africa)

Disclosure Requirement:	ABIL	ABSA	BOE	FBC Fidelity	FirstRand	Investec	Mercantile Lisbon	Nedcor	Regal Treasury	Saambou	Standard	Securities Investment	SA Average
General:													
1. Discuss the status of the risk management structure in relation to the organisation as a whole as well as the level of responsibility held.	0	1	1	0.5	1	1	1	1	0	1	1	0	70.8%
2. Disclose interrelating effects of the various risk exposures	0	0.5	0.5	0.5	0.5	0.5	0	0.5	0	0.5	0.5	0	33.3%
	0.0%	75.0%	75.0%	50.0%	75.0%	75.0%	50.0%	75.0%	0.0%	75.0%	75.0%	0.0%	52.1%
Credit Risk													
Policies and Practices													
3. Disclose policies, practices and methods used to manage credit risk	0.5	0.5	1	0.5	0.5	0.5	0	0.5	0	1	1	0.5	54.2%
4. Disclose policies, practices and methods used to account for credit risk exposures, including:	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	50.0%
4.1. Basis of measurement for assets at initial recognition and subsequent periods	0.5	1	1	0.5	1	0.5	0.5	0.5	0.5	0.5	0.5	0.5	62.5%
4.2. Treatment of securitisation transactions and other activities that shift or reallocate credit risk		0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	50.0%
4.3. Method of recognising income on unimpaired assets	0.5	0	1	0	1	0	0.5	0	0	0.5	0	0	29.2%
4.4. Basis of measurement of impaired assets	0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0	0	0.5	0	33.3%
4.5. Basis for determining when assets are considered past-due and/or impaired	0	0	0.5	0	0	0	0	0.5	0	0	1	0	16.7%
4.6. Basis for writing off assets	0.5	0.5	0.5	0	0.5	0	0	0.5	0.5	0.5	0.5	0.5	37.5%
4.7. Method of recognising income on impaired assets	0	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0	1	0	41.7%
4.8. Treatment of hedging relationships affecting the measurement of assets		0.5	0.5	0	0.5	0.5	0	0	0		0.5	0	25.0%
5. Disclose information on the accounting policies and methods used to determine specific and general allowances, including key assumptions used, also	0.5	0.5	0.5	0	0.5	0.5	0	0.5	0.5	0.5	0.5	0.5	41.7%
5.1. Types of credit exposures evaluated individually or as groups	0	0	0		0.5	0		0	0	0	0.5		11.1%
5.2. Determination of allocated and unallocated portions of the allowances	0	0	0.5		0			0	0	0	0		6.3%
5.3. Method used to incorporate historical default experience	0	0	0		0	0					0		0.0%
5.4. Other corrective measures used to reduce differences between estimated and actual losses			0.5		0			0.5	0.5	0.5			40.0%
5.5. Policies and practices for country risk provisioning		0			0	1		1			1		60.0%
5.6. Changes to policies and procedures		1											100.0%

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5.7. Level of allowances compared with historical net loss experience and changes in the allowances or key assumptions affecting the allowances	0	0	0		0.5	0					0.5		16.7%
5.8. Other relevant information					0.5							0.5	50.0%
6. Discuss the application of the policies on the non-trading portfolio	0	0.5	0.5	0	0	0	0	0	0	0	0	0	8.3%
	21.4%	26.1%	50.0%	25.0%	39.5%	31.3%	25.0%	37.5%	22.3%	32.1%	50.0%	26.9%	33.2%
Risk Management													
7. Disclose information on the management, structure and organisation of the credit risk management function (including the relation to the overall risk function)	0	0.5	1	0	1	1	0.5	0.5	0	1	1	0.5	58.3%
8. Disclose qualitative information about the nature of credit risk in the various banking activities and describe how credit risk arises in those activities	0	1	1	0	0	0.5	0.5	0	0.5	0	1	0	37.5%
9. Disclose qualitative information on the credit risk management and control policies and practices, including:	0.5	0.5	0.5	0	0.5	0.5	0.5	0.5	0	0.5	0.5	0.5	41.7%
9.1. Methods used to limit or control overall credit exposures, including:	0.5	1	0.5		0.5	0	0	0.5		0.5	0.5		44.4%
9.1.1. Risk limits	0	1	0.5		0.5		0.5	0			0.5		42.9%
9.1.2. Limits on concentrations of credit to single counterparties or classes of borrower	0	1	0.5		0.5		0.5	0.5			0.5		50.0%
9.1.3. Limit monitoring	0	1	0.5		0.5	0.5	0.5	0.5			0.5		50.0%
9.2. Process and methods used to assess credit exposures on an individual and portfolio basis	0	0.5	0.5		0.5		0.5	0.5			0.5		42.9%
9.3 Mechanisms used to reduce and/or mitigate credit exposures (e.g. collateral)	0.5	0.5	1		0		0	0		0.5	1	0.5	44.4%
9.4. Securitisation activities													N/A
9.5. Use of innovative instruments that transfer credit exposure		0.5			0.5			0.5			1		62.5%
9.6. Process for stress testing and incorporation into credit risk management function		0	0		0			0			0		0.0%
10. Disclose information on techniques and methods for managing past due and impaired assets (including testing the adequacy of those provisions)	0	0.5	0.5	0	0	0	0	0	0	0	0.5	0	12.5%
11. Discuss the use of credit scoring and portfolio credit risk measurement models or other internal models. Discussion should include information on:		0.5	0	0	0	0	0	0	0	0	0.5	0	9.1%
11.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)		0.5									0.5		50.0%
11.2. Qualitative and quantitative information about credit risk measurement models used (including parameters, performance over time, model validation and stress testing information)		0									0		0.0%
11.3. Status of development of such models		0									0		0.0%
	15.0%	56.2%	54.2%	0.0%	34.6%	35.7%	31.8%	26.9%	10.0%	35.3%	53.1%	25.0%	31.5%

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Exposures													
12. Disclose balances of gross credit exposures, including current exposure, average exposure and where applicable, future potential exposure, by major categories and maturity band	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	50.0%
13. Disclose information about credit exposures by business line and by geographical area	0.5	1	0.5	0	1	1	0.5	1	0.5	0.5	1	0	62.5%
14. Disclose information about gross credit exposures by major categories of counterparties (including shareholders, directors and other related parties as well as high risk counterparties)	0	0.5	0.5	0	0.5	0.5	0	0.5	0	0	0.5	0	25.0%
15. Disclose information about significant concentrations of credit risk, including a description of the determination of "significant" concentrations	0.5	0.5	0.5	0	0.5	0.5	0	0.5	0	0.5	0.5	0	33.3%
16. Disclose the quantitative effect of risk mitigation techniques, including collateral (nominal and market value), guarantees, credit insurance and legally enforceable netting agreements	0.5	0	0.5	0	0	0	0	0.5	0	1	0.5		27.3%
17. Disclose quantitative and qualitative information about the use of credit derivatives and other instruments that reallocate credit risk, including:		0.5		0	0	0	0	0	0		0.5		12.5%
17.1. Discussion of how the instruments are used (including strategy and objectives)		0									0.5		25.0%
17.2. Notional amounts and fair value of instruments		1									0.5		75.0%
17.3. Amount of credit risk bought and/or sold		0.5									0		25.0%
17.4. Breakdown by type of instrument		0.5									0.5		50.0%
17.5. Instruments by trading and non-trading book		0.5									0		25.0%
18. Disclose quantitative and qualitative information on the securitisation activities, including:													N/A
18.1. Strategy and objectives or securitisation activities													N/A
18.2. Amount and type of assets securitised													N/A
18.3. Amount of servicing retained													N/A
18.4. Amount of risk retained													N/A
18.5. Details on subordinated interests retained and general recourse provisions.													N/A
19. Disclose summary information about contractual obligations with respect to recourse arrangements and the expected losses under those arrangements (including terms of arrangements, amounts of assets sold and expected losses under such arrangements)													N/A
	40.0%	50.0%	50.0%	8.3%	41.7%	41.7%	16.7%	50.0%	16.7%	50.0%	45.5%	12.5%	35.2%
Credit Quality													

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20. Provide summary information about the internal rating process and the internal credit ratings of its credit exposures i.e. quality of credit exposures (excluding proprietary information)	0	0	0	0	0	0	0	0.5	0	0	0	0	4.2%
21. Disclose total credit exposures by major asset category, counterparty types and geographic area showing impaired and past due amounts relating to each category (provide an ageing analysis of past due credit exposures)	0.5	0.5	0.5	0.5	0.5	0.5	0	0.5	0	0.5	0.5	0	37.5%
22. Disclose amounts of specific, general and other allowances established against each major asset category and disclose the unallocated portion separately	0.5	0.5	1	0.5	0.5	0.5	0	0.5	0	0	0.5	0	37.5%
23. Disclose a reconciliation of changes in the allowances for credit impairment, by allowance	0.5	0.5	0.5	0.5	0	0		0.5			0		31.3%
24. Disclose credit exposures on which the accrual of interest or other contractual cash flows – in accordance with the terms of the original agreement – has ceased because of a deterioration in credit quality	0	0.5	0.5	0	0.5	0		0.5			0		25.0%
25. Disclose summary information about credit exposures that have been restructured during the year, including:		0	0	0	0	0					0	0	0.0%
25.1. Balance of restructured loans													N/A
25.2. Magnitude of the restructuring activities													N/A
25.3. Impact of the restructured credit arrangements on allowances and the present and future earnings													N/A
25.4. Basic nature of concessions on all credit relationships that are restructured													N/A
	30.0%	33.3%	41.7%	25.0%	25.0%	16.7%	0.0%	50.0%	0.0%	16.7%	16.7%	0.0%	21.3%
Earnings													
26. Provide information on revenues, net earnings and return on assets, including:	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	50.0%
26.1. Income and expense information by nature or function	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	50.0%
26.2. Interest income and expenses by type of activity, geographical distribution and credit quality	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0	45.8%
26.3. Impact of non-accrual and impaired assets on financial performance	0	0	0.5	0	0	0	0	0	0	0	0	0	4.2%
26.4. Summary information on the effect of hedging activities on income and expenses		0	0	0	0	0	0	0	0	0	0		0.0%
26.5. Amount of write-offs and recoveries recorded in the income statement	0.5	1	0	0	1	0	0	1	0	0	0	0	29.2%
26.6. Income effect of securitisations													N/A
	40.0%	41.7%	33.3%	25.0%	41.7%	25.0%	25.0%	41.7%	25.0%	25.0%	25.0%	20.0%	30.7%
	29.3%	43.5%	45.8%	16.7%	36.5%	30.1%	19.7%	41.2%	15.0%	31.9%	38.0%	16.9%	30.4%
Market/Equity Risk													

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Policies and Practices													
27. Discuss the policies and practices used to measure and manage market risk	0	1	0.5	0.5	0.5	1	0	0.5	0	0	0.5	0.5	41.7%
28. Disclose policies and practices of managing market risk exposures including the method of aggregating those exposures.		0.5	0.5	0	0.5	0.5	0	0.5	0		0.5	0.5	31.8%
29. Disclose key assumptions and parameters of internal models used		1	0	0	0.5	1		0			0.5	0	37.5%
30. Disclose policies and procedures for validating internal models used, including back-testing and stress-testing policies and procedures.		1	0		0.5	1		0.5			0.5	0	50.0%
31. Disclose the impact of the hedging policy on market risk by major market risk factor.		0	0	0.5	0	0.5					0	0	14.3%
32. Discuss the impact of the policies and practices on the non-trading portfolio.		0.5	0.5	0	0	0	0					0	14.3%
	0.0%	66.7%	25.0%	20.0%	33.3%	66.7%	0.0%	37.5%	0.0%	0.0%	40.0%	16.7%	25.5%
Risk Management													
33. Disclose information on the management, structure and organisation of the market risk management function	0	1	1	0.5	1	1	0	1	0	0	0.5	0.5	54.2%
34. Disclose qualitative information about the nature of market risk in the various banking activities and describe how market risk arises in those activities.		0.5	0.5	0.5	0.5	0.5		0.5	0		0.5	0.5	36.4%
35. Disclose qualitative information on the market risk management and control policies and practices		0.5	0.5	0	0.5	0.5		0.5			0.5	0.5	43.8%
36. Disclose the use of market risk measurement models (including key assumptions and parameters)		1	0.5	0	0.5	1		0.5			0.5	0.5	56.3%
37. Disclose methods used to monitor and limit market risk exposures (including risk limits)		0.5	0.5	0.5	0.5	1		1			0.5	0.5	62.5%
38. Discuss changes in market risk exposure and management strategies from the previous year		0	0	0	0	0.5		0			0		7.1%
	0.0%	58.3%	50.0%	25.0%	50.0%	75.0%	0.0%	58.3%	0.0%	0.0%	41.7%	50.0%	34.0%
Exposures													
39. Disclose balances of market risk exposures, including current exposure, average exposure and where applicable, future potential exposure, by major categories	0	0.5	0	0	0.5	0.5	0	0	0	0	0.5	0	16.7%
40. Disclose information about market exposures by business line and by geographical area		0.5			0	0.5		0			0.5		30.0%
41. Disclose information about significant concentrations of market risk		0				0.5		0			0.5		25.0%
	0.0%	33.3%	0.0%	0.0%	25.0%	50.0%	0.0%	0.0%	0.0%	0.0%	50.0%	0.0%	13.2%
Quality of Information													

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42. Discuss the use of internal models. Discussion should include information on:	0	0.5	0.5	0	0.5	0.5	0	0.5	0	0	0.5	0.5	29.2%
42.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)		0.5	0.5		0.5	1		0.5			1	0.5	64.3%
42.2 Qualitative and quantitative information about market risk measurement models used (including parameters, performance over time, model validation and stress testing information)		0.5	0		0.5	0.5		0			0.5	0	28.6%
42.3. Status of development of such models		1				0.5					0		50.0%
43. Include a sensitivity analysis, including hypothetical changes in market prices and rates		0.5			0.5	0.5		0			0.5	0	33.3%
	0.0%	60.0%	33.3%	0.0%	50.0%	60.0%	0.0%	25.0%	0.0%	0.0%	50.0%	25.0%	25.3%
	0.0%	**54.6%**	**27.1%**	**11.3%**	**39.6%**	**62.9%**	**0.0%**	**30.2%**	**0.0%**	**0.0%**	**45.4%**	**22.9%**	**24.5%**
Interest Rate Risk													
Policies and Practices													
44. Disclose policies, practices and methods used to manage interest rate risk	0	0.5	0.5	0.5	0.5	0.5	0	0.5	0.5	0.5	0.5	0.5	41.7%
45. Disclose policies, practices and methods used to account for interest rate risk exposures	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	50.0%
46. A discussion on the key assumptions used in the above methods and practices should be included.	0	1	0	0	0.5	0	0	0.5	0	0	0	0	16.7%
47. Discuss the application of the policies on the non-trading portfolio	0	0.5	0	0	0.5	0	0	0					12.5%
	12.5%	62.5%	25.0%	25.0%	50.0%	25.0%	12.5%	37.5%	33.3%	33.3%	33.3%	33.3%	31.9%
Risk Management													
48. Disclose information on the management, structure and organisation of the interest rate risk management function	0	0.5	0.5	0	1	1	0	1	0.5	0.5	1	0	50.0%
49. Disclose qualitative information about the nature of interest rate risk in the various banking activities and describe how interest rate risk arises in those activities	0.5	0.5	0.5	0	0.5	0.5	0	0.5	0.5	1	0.5	0	41.7%
50. Disclose qualitative information on the interest rate risk management and control policies and practices	0	0.5	0.5	0.5	0.5	0.5	0	0.5	0.5	0.5	0.5	0.5	41.7%
51. Disclose methods used to monitor exposure to interest rate risk (including frequency of monitoring)	0	1	0.5	0.5	1	1	0.5	0.5	0.5	0.5	0.5	0.5	58.3%
52. Disclose methods of controlling interest rate risk exposures	0	0.5	0.5	0	0	0	0	0.5	0.5	0.5	0	0	20.8%
	10.0%	60.0%	50.0%	20.0%	60.0%	60.0%	10.0%	60.0%	50.0%	60.0%	50.0%	20.0%	42.5%
Exposures													

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53. Disclose the gross exposure to interest rate risk by reporting the financial assets and liabilities in an interest rate repricing schedule (by effective rate and maturity band)	0.5	0	0.5	0	0	0.5	0.5	1	0	0.5	1	0	37.5%
54. Disclose the effective rates of interest for the various categories of interest bearing financial assets and liabilities	0	0	0	0	0	0	0	1	0	0	1	0	16.7%
55. Disclose the impact of future interest rate changes on the exposures to interest rate risk	0	0	0	0	0.5	0	0	0	0	0	0.5	0	8.3%
56. Provide information on contractual repricing and maturity dates as well as possible changes in the future and key assumptions made about future predictions	0.5	0.5	0.5	0		0.5	0.5	0.5	0	0	0.5	0	31.8%
57. Disclose information about concentrations of interest rate exposures by business line and by geographical area	0.5	0.5	0.5	0	0.5	0.5	0	0.5	0	0	0	0	25.0%
58. Disclose the effect of hedging policies on interest rate exposures		0.5	0		0	0	0.5	0					16.7%
	30.0%	25.0%	25.0%	0.0%	20.0%	25.0%	25.0%	50.0%	0.0%	10.0%	60.0%	0.0%	22.5%
Quality of Information													
59. Discuss the use of internal models including use of models under stressful market conditions. Discussion should include information on:	0	0.5	0	0.5	0.5	0.5	0	0.5	0	0.5	0.5	0.5	33.3%
59.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)		1		0.5	0	0.5		0.5		0.5	0.5	0.5	50.0%
59.2. Qualitative and quantitative information about market risk measurement models used (including parameters, performance over time, model validation and stress testing information)		0.5		0	0.5	0.5		0.5		0	0	0	25.0%
59.3. Status of development of such models		0.5		0	0	0							12.5%
60. Include a sensitivity analysis demonstrating stress scenarios		0.5		0	0	0		0.5		0.5	0.5	0	25.0%
	0.0%	60.0%	0.0%	20.0%	20.0%	30.0%	0.0%	50.0%	0.0%	37.5%	37.5%	25.0%	23.3%
Earnings													
61. Disclose the average balances and interest earned or paid, for each material category of interest bearing instrument	0.5	0.5	[illegible]	0	0.5	0.5	0.5	1	0.5	0.5	1	0	54.2%
	50.0%	50.0%	100.0%	0.0%	50.0%	50.0%	50.0%	100.0%	50.0%	50.0%	100.0%	0.0%	54.2%
	20.5%	51.5%	40.0%	13.0%	40.0%	38.0%	19.5%	59.5%	26.7%	38.2%	56.2%	15.7%	34.9%
Liquidity/Funding Risk													
Policies and Practices													
62. Disclose policies, practices and methods used to manage liquidity risk	0	0.5	1	0.5	0.5	0.5	0	0.5	0	0.5	0.5	0.5	41.7%
63. Disclose policies, practices and methods used to account for liquidity risk exposures	0.5	0.5	0.5	0.5	0.5	0.5	0	0.5	0	0.5	0	0	33.3%

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64. A discussion on the key assumptions used in the above methods and practices should be included.	0	0	0	0	0	0.5		0		0	0	0	5.0%
65. Discuss the application of the policies on the non-trading portfolio	0	0	0.5	0	0	0	0	0	0	0	0	0	4.2%
	12.5%	25.0%	50.0%	25.0%	25.0%	37.5%	0.0%	25.0%	0.0%	25.0%	12.5%	12.5%	20.8%
Risk Management													
66. Disclose information on the management, structure and organisation of the liquidity risk management function	0	0.5	1	0	1	1	0	0.5	0	0.5	0.5	0	41.7%
67. Disclose qualitative information about the nature of liquidity risk in the various banking activities and describe how liquidity risk arises in those activities	0	0.5	0.5	0	0.5	0.5	0	0.5	0	0.5	0	0.5	29.2%
68. Disclose qualitative information on the liquidity risk management and control policies and practices	0	0.5	0.5	0.5	0.5	0.5		0.5		0.5	0.5	0	40.0%
69. Disclose methods used to monitor exposure to liquidity risk (including frequency of monitoring)	0.5	0.5	0.5	0.5	0.5	0.5		0.5		0.5	0.5	0.5	50.0%
70. Disclose methods of controlling liquidity risk exposures	0	0	0.5	0	0	0.5		0			0	0	11.1%
	10.0%	40.0%	60.0%	20.0%	50.0%	60.0%	0.0%	40.0%	0.0%	50.0%	30.0%	20.0%	31.7%
Exposures													
71. Disclose concentrations of financial assets in the broad order of their liquidity and maturity	0.5	0	1	0	0	0.5	0	0.5	0	0	0	0	20.8%
72. Disclose effects of changes in the exposures to future cash flows and expected shortfalls in cash	0	0	0	0	0	1	0	0	0	0	0	0	8.3%
73. Disclose information about the distribution, concentration and type of funding source	0.5	0	0.5	0	0	0.5	0	0	0	0	0	0	12.5%
	33.3%	0.0%	50.0%	0.0%	0.0%	66.7%	0.0%	16.7%	0.0%	0.0%	0.0%	0.0%	13.9%
	18.6%	**21.7%**	**53.3%**	**15.0%**	**25.0%**	**54.7%**	**0.0%**	**27.2%**	**0.0%**	**25.0%**	**14.2%**	**10.8%**	22.1%
Currency/Foreign Exchange Risk													
Policies and Practices													
74. Disclose policies, practices and methods used to manage currency risk	0	0.5	0.5	0	0.5	0.5	0.5	0.5	0.5	0	0.5	0	33.3%
75. Disclose policies, practices and methods used to account for currency risk exposures		0.5	0.5	0	0.5	0.5	0	0.5	0.5		0.5	0	31.8%
76. A discussion on the key assumptions used in the above methods and practices should be included.		1	0	0	0	0.5		0	0		0.5	0	20.0%
77. Discuss the application of the policies on the non-trading portfolio		0	0		0		0						0.0%
	0.0%	50.0%	25.0%	0.0%	25.0%	50.0%	16.7%	33.3%	33.3%	0.0%	50.0%	0.0%	23.6%
Risk Management													
78. Disclose information on the management, structure and organisation of the currency risk management function	0	0.5	0.5	0	0.5	1	0	0.5	0	0	0.5	0	29.2%

79. Disclose qualitative information about the nature of currency risk in the various banking activities and describe how currency risk arises in those activities.		0.5	0.5		0	0.5	0.5	0.5	0		0.5	0	30.0%
80. Disclose qualitative information on the currency risk management and control policies and practices		0	0		0	0.5	0	0.5			0.5		21.4%
81. Methods used to control currency risk exposures		0.5	0.5		0	0.5	0	0			0		21.4%
	0.0%	37.5%	37.5%	0.0%	12.5%	62.5%	12.5%	37.5%	0.0%	0.0%	37.5%	0.0%	19.8%
Exposures													
82. Disclose net open positions in each currency and how the position is derived	0	0.5	0.5	0	1	0.5	1	0.5	0	0	0	0	33.3%
83. Disclose the effect of hedges on currency investments		1	0		0								33.3%
84. Disclose information about currency exposures by business line and by geographical area		0.5	0.5		0.5	0.5	0	0	0		0	0	20.0%
85. Disclose the impact of future currency rate changes on the exposures to currency risk		0	0		0	0	0	0	0		0	0	0.0%
86. Disclose the impact of exposures on the non-trading portfolio		0.5	0		0	0		1					30.0%
	0.0%	50.0%	20.0%	0.0%	30.0%	25.0%	33.3%	37.5%	0.0%	0.0%	0.0%	0.0%	16.3%
	0.0%	**45.8%**	**27.5%**	**0.0%**	**22.5%**	**45.8%**	**20.8%**	**36.1%**	**11.1%**	**0.0%**	**29.2%**	**0.0%**	19.9%
Capital Adequacy													
Policies and Practices													
87. Disclose the purpose of the capital adequacy calculations	0	0.5	1	0	0	0	0	0.5	0	0	1	0	25.0%
88. Disclose the justification for the risk weightings used (including risk factors considered) for each risk	0	0	0.5	0.5	0	0	0	0	0	0	0.5	0	12.5%
89. Disclose the minimum capital ratio requirements	0	1	1	1	1	1	1	1	1	1	1	1	91.7%
90. Disclose method of assessing overall capital adequacy in relation to the firm risk profile and the strategy for maintaining capital levels	0	0.5	0.5	0.5	0	0	0	1	0	0	0.5	0	25.0%
91. Disclose stress testing procedures for testing internal capital adequacy targets		0	0										0.0%
	0.0%	40.0%	60.0%	50.0%	25.0%	25.0%	25.0%	62.5%	25.0%	25.0%	75.0%	25.0%	36.5%
Capital													
92. Disclose the items comprising Tier 1, 2 and 3 capital (including the subdivision of Tier 2 capital into upper and lower Tier 2 capital)	0	1	1	0	1	1	0	1	0	1	1	0	58.3%
93. Disclose for each class of equity share capital	0	0.5	0.5	0	0.5	0.5	0	0.5	0.5	0.5	0.5	0	33.3%
93.1. The inclusion in Tier 1 or Tier 2 Capital		1	1		1	1		1		1	1		100.0%
93.2. Material conditions applying to that class		1	1							0.5	0.5		75.0%
93.3. Cumulative preferred dividends in arrears													N/A
93.4. Other material terms of the issue of securities		1	1		1	1		1		1	1		100.0%

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94. For all other classes of capital instruments	0	0.5	0.5	0	0.5	0.5	0	0.5		0.5	0.5	0	31.8%
94.1. Inclusion in either Tier 1 or Tier 2 Capital		1	1		1	1		1		1	1		100.0%
94.2. Priority in ranking for payment or claims of the class		0.5											50.0%
94.3. All other material terms and conditions		1	1							0.5	0.5		75.0%
95. Nature and amount of each reserve	0	0.5	1		0.5	0.5		0.5		0.5	0.5	0	44.4%
96. Disclose how the off-balance sheet exposures are converted to credit equivalent amounts for the risk-weighting table.		0	0			0					0		0.0%
97. Disclose key assumptions and other parameters of any other internal models used to capture risks other than credit risk (including a discussion of development of these models)													N/A
98. Disclose verification and validation methods used for the internal models as well as the results of the tests performed													N/A
	0.0%	72.7%	80.0%	0.0%	78.6%	68.8%	0.0%	78.6%	25.0%	72.2%	65.0%	0.0%	45.1%
Risk-weighted Exposures													
99. Disclose a table of balance sheet exposures by risk weight band	0	1	0.5	0	1	1	0	1	1	0	1	0	54.2%
100. Disclose a table of off-balance sheet exposures by risk weight band	0	0	0	0	0	0	0	0.5	0	0	0	0	4.2%
101. Disclose Capital and, in particular, Tier 1 Capital as a percentage of risk weighted exposures	0	1	1	1	1	1	0	1	0	1	1	0	66.7%
102. Disclose the date to which the measures of Tier 1 Capital and other Capital relate	0	1	1	1	1	1	0	1	0	0	1	1	66.7%
	0.0%	75.0%	62.5%	50.0%	75.0%	75.0%	0.0%	87.5%	25.0%	25.0%	75.0%	25.0%	47.9%
	0.0%	62.6%	67.5%	33.3%	59.5%	56.3%	8.3%	76.2%	25.0%	40.7%	71.7%	16.7%	43.1%
Grand Total	9.8%	50.7%	48.0%	19.9%	42.6%	51.8%	16.9%	49.4%	11.1%	30.1%	47.1%	11.9%	

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Appendix H – International Best Practice Scoring Results (UK and Australia)

Disclosure Requirement:	Barclays	Halifax Group	Lloyds TSB	Abbey National	Royal Bank of Scotland	UK Average	National Australia	Westpac	ANZ	Aus Average
General										
1. Discuss the status of the risk management structure in relation to the organisation as a whole as well as the level of responsibility held.	1	1	1	1	1	100.0%		1	1	100.0%
2. Disclose interrelating effects of the various risk exposures	0.5	0.5	0.5	0.5	0.5	50.0%	0.5	0.5	0.5	50.0%
	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
Credit Risk										
Policies and Practices										
3. Disclose policies, practices and methods used to manage credit risk	1	0.5	0.5	0.5	0.5	60.0%	1	0.5	0.5	66.7%
4. Disclose policies, practices and methods used to account for credit risk exposures, including:	1	1	0.5	0.5	0.5	70.0%	1	0.5	0.5	66.7%
4.1. Basis of measurement for assets at initial recognition and subsequent periods	0.5	0.5	0.5	1	1	70.0%	1	1	1	100.0%
4.2. Treatment of securitisation transactions and other activities that shift or reallocate credit risk	1			1	1	100.0%		1	1	100.0%
4.3. Method of recognising income on unimpaired assets			1	0.5	0	50.0%	1	1	1	100.0%
4.4. Basis of measurement of impaired assets	1	0.5	0.5	1	1	80.0%	1	0.5	1	83.3%
4.5 Basis for determining when assets are considered past-due and/or impaired	1	0.5	0	0.5	0.5	50.0%	1	1	1	100.0%
4.6. Basis for writing off assets	1	0.5	0	0.5	0.5	50.0%	1	0.5	1	83.3%
4.7. Method of recognising income on impaired assets	1	0	1	1	0.5	70.0%	1	1	0.5	83.3%
4.8. Treatment of hedging relationships affecting the measurement of assets	1	0		1	1	75.0%	1	0.5	1	83.3%
5. Disclose information on the accounting policies and methods used to determine specific and general allowances, including key assumptions used, also	1	0.5		0.5	0.5	62.5%	1	0.5		75.0%
5.1. Types of credit exposures evaluated individually or as groups	1	0	0.5	0	0	30.0%	0.5	1	0.5	66.7%
5.2. Determination of allocated and unallocated portions of the allowances	1	0	0.5	0.5	0.5	50.0%	1	1	0.5	83.3%
5.3. Method used to incorporate historical default experience	1			0.5		75.0%	0	0.5	0	16.7%
5.4 Other corrective measures used to reduce differences between estimated and actual losses	1					100.0%	0.5			50.0%
5.5. Policies and practices for country risk provisioning	1	0	0	0		25.0%	1	0	0.5	50.0%

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5.6. Changes to policies and procedures						N/A		1		1	100.0%
5.7. Level of allowances compared with historical net loss experience and changes in the allowances or key assumptions affecting the allowances	1	0	0			33.3%		1	0.5	0.5	66.7%
5.8. Other relevant information						N/A		1			100.0%
6. Discuss the application of the policies on the non-trading portfolio	1	0.5	0			50.0%		1	0.5	0.5	66.7%
	97.1%	32.1%	38.5%	60.0%	57.7%	57.1%		89.5%	67.6%	70.6%	75.9%
Risk Management											
7. Disclose information on the management, structure and organisation of the credit risk management function (including the relation to the overall risk function)	1	1	1	1	1	100.0%		1	1	0.5	83.3%
8. Disclose qualitative information about the nature of credit risk in the various banking activities and describe how credit risk arises in those activities.	0.5	0	0	1	0.5	40.0%		0.5	0.5	0.5	50.0%
9. Disclose qualitative information on the credit risk management and control policies and practices, including:	1	0.5	0.5	0.5	0.5	60.0%		1	0.5		75.0%
9.1. Methods used to limit or control overall credit exposures, including:	1	1	0.5	0.5	0.5	70.0%		1	1	0.5	83.3%
9.1.1. Risk limits	1	1	0.5			83.3%					N/A
9.1.2. Limits on concentrations of credit to single counterparties or classes of borrower	1	1	0.5			83.3%		1			100.0%
9.1.3. Limit monitoring	1	0				50.0%					N/A
9.2. Process and methods used to assess credit exposures on an individual and portfolio basis	1	1	0.5	0.5		75.0%		1	1	0.5	83.3%
9.3. Mechanisms used to reduce and/or mitigate credit exposures (e.g. collateral)	1	0	0	0.5	1	50.0%		0.5	0.5	0	33.3%
9.4. Securitisation activities	1			1	0.5	83.3%			1		100.0%
9.5. Use of innovative instruments that transfer credit exposure	1			1	1	100.0%		1	1	1	100.0%
9.6 Process for stress testing and incorporation into credit risk management function	0					0.0%		0.5	0	0	16.7%
10. Disclose information on techniques and methods for managing past due and impaired assets (including testing the adequacy of those provisions)	0.5	0		0.5		33.3%		1	0	0.5	50.0%
11. Discuss the use of credit scoring and portfolio credit risk measurement models or other internal models. Discussion should include information on:	0.5	0.5	0.5	0.5		50.0%		0.5	0.5	0.5	50.0%
11.1 Type of model(s) used, portfolio(s) covered and size of portfolio(s)	0.5	0	0	0.5		25.0%		0.5	0.5	0.5	50.0%
11.2. Qualitative and quantitative information about credit risk measurement models used (including parameters, performance over time, model validation and stress testing information)	0.5	0.5	0	0		25.0%		0.5	0	0	16.7%
11.3. Status of development of such models	0	0	0			0.0%					N/A

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	73.5%	46.4%	53.3%	62.5%	73.4%	57.4%		76.9%	57.7%	40.9%	58.5%
Exposures											
12. Disclose balances of gross credit exposures, including current exposure, average exposure and where applicable, future potential exposure, by major categories and maturity band	1	0.5	0.5	0.5	0.5	60.0%		1	1	1	100.0%
13. Disclose information about credit exposures by business line and by geographical area	1	0	1	1	1	80.0%		1	1	1	100.0%
14. Disclose information about gross credit exposures by major categories of counterparties (including shareholders, directors and other related parties as well as high risk counterparties)	0.5	0	0	0.5	0.5	30.0%		0.5	0.5	0.5	50.0%
15. Disclose information about significant concentrations of credit risk, including a description of the determination of "significant" concentrations	1	0	0.5	0.5	0.5	50.0%		1	0.5	0.5	66.7%
16. Disclose the quantitative effect of risk mitigation techniques, including collateral (nominal and market value), guarantees, credit insurance and legally enforceable netting agreements	0	0	0	0.5	0.5	20.0%		0.5	0.5	0.5	50.0%
17. Disclose quantitative and qualitative information about the use of credit derivatives and other instruments that reallocate credit risk, including:	1	0	0	1		60.0%		1	0.5	1	83.3%
17.1. Discussion of how the instruments are used (including strategy and objectives)	1			1	1	100.0%		1	0.5	1	83.3%
17.2. Notional amounts and fair value of instruments	1			1	1	100.0%		1	1	1	100.0%
17.3. Amount of credit risk bought and/or sold	0.5			1	1	83.3%		1	0.5	1	83.3%
17.4. Breakdown by type of instrument	0.5			1	1	83.3%		1	1	1	100.0%
17.5. Instruments by trading and non-trading book	1			1	1	100.0%		1	0.5	0	50.0%
18. Disclose quantitative and qualitative information on the securitisation activities, including:	1			1	0.5	83.3%			0.5	0.5	50.0%
18.1. Strategy and objectives or securitisation activities	0.5			1	0.5	66.7%			1	0	50.0%
18.2. Amount and type of assets securitised	1			1	1	100.0%			1	0.5	75.0%
18.3. Amount of servicing retained	1			1	1	100.0%			1	0	50.0%
18.4. Amount of risk retained	1			1	1	100.0%			1	0	50.0%
18.5. Details on subordinated interests retained and general recourse provisions.	1			1	0.5	83.3%			0.5		50.0%
19. Disclose summary information about contractual obligations with respect to recourse arrangements and the expected losses under those arrangements (including terms of arrangements, amounts of assets sold and expected losses under such arrangements)						N/A					N/A
	82.4%	8.3%	33.3%	88.2%	70.4%	58.3%		90.9%	73.5%	59.1%	74.6%
Credit Quality											

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20. Provide summary information about the internal rating process and the internal credit ratings of its credit exposures i.e. quality of credit exposures (excluding proprietary information)				0.5	0.5	50.0%	0.5		0.5	50.0%
21. Disclose total credit exposures by major asset category, counterparty types and geographic area showing impaired and past due amounts relating to each category (provide an ageing analysis of past due credit exposures)	1	0	0.5	1	1	70.0%	1	1	1	100.0%
22. Disclose amounts of specific, general and other allowances established against each major asset category and disclose the unallocated portion separately	1	0.5	0.5	0.5	1	70.0%	1	1	1	100.0%
23. Disclose a reconciliation of changes in the allowances for credit impairment, by allowance	1	0.5	0.5	0.5	0.5	60.0%	1	1	1	100.0%
24. Disclose credit exposures on which the accrual of interest or other contractual cash flows – in accordance with the terms of the original agreement – has ceased because of a deterioration in credit quality	1	0.5	1	1	0.5	80.0%	1	1	1	100.0%
25. Disclose summary information about credit exposures that have been restructured during the year, including:						N/A		0.5	0.5	50.0%
25.1. Balance of restructured loans						N/A		1	[illegible]	100.0%
25.2. Magnitude of the restructuring activities						N/A		0	0	0.0%
25.3. Impact of the restructured credit arrangements on allowances and the present and future earnings						N/A		0	0	0.0%
25.4. Basic nature of concessions on all credit relationships that are restructured						N/A				N/A
	100.0%	37.5%	62.5%	70.0%	70.0%	68.0%	90.0%	68.8%	66.7%	75.1%
Earnings										
26. Provide information on revenues, net earnings and return on assets, including:	1	0.5		1	1	87.5%	1	[illegible]	1	100.0%
26.1. Income and expense information by nature or function	1	0.5	[illegible]	1	1	90.0%	1	[illegible]	1	100.0%
26.2. Interest income and expenses by type of activity, geographical distribution and credit quality	1	0.5	0.5	1	1	80.0%	1	1	1	100.0%
26.3. Impact of non-accrual and impaired assets on financial performance	1	0	0.5	0.5	1	60.0%	1	1	1	100.0%
26.4. Summary information on the effect of hedging activities on income and expenses	0.5			0.5	0.5	50.0%	0.5	0.5	0.5	50.0%
26.5. Amount of write-offs and recoveries recorded in the income statement	1	1	[illegible]	1	1	100.0%	1	1	1	100.0%
26.6. Income effect of securitisations	0.5			[illegible]	0	50.0%		0	0	0.0%
	85.7%	50.0%	[illegible]	85.7%	78.6%	75.0%	91.7%	78.6%	78.6%	82.9%
	87.7%	34.9%	48.5%	73.3%	71.4%	63.2%	87.8%	69.2%	63.2%	73.4%
Market/Equity Risk										

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Policies and Practices											
27. Discuss the policies and practices used to measure and manage market risk	1	0	0.5	0.5	0.5	50.0%		0.5	0.5	0.5	50.0%
28. Disclose policies and practices of managing market risk exposures including the method of aggregating those exposures.	1	0	0.5	1	0.5	60.0%		0.5	0.5	0.5	50.0%
29. Disclose key assumptions and parameters of internal models used	1		0.5	1	1	87.5%		1	1	0.5	83.3%
30. Disclose policies and procedures for validating internal models used, including back-testing and stress-testing policies and procedures	1		0.5	1	1	87.5%			1	0.5	75.0%
31. Disclose the impact of the hedging policy on market risk by major market risk factor.	0		0	0.5	0.5	25.0%		1	0.5	0.5	66.7%
32. Discuss the impact of the policies and practices on the non-trading portfolio.	0		0	0.5	0.5	25.0%		1	0.5	0.5	66.7%
	66.7%	0.0%	33.3%	75.0%	66.7%	48.3%		50.0%	66.7%	50.0%	55.6%
Risk Management											
33. Disclose information on the management structure and organisation of the market risk management function	1	0	0.5	1	0.5	60.0%		1	0.5	0.5	66.7%
34. Disclose qualitative information about the nature of market risk in the various banking activities and describe how market risk arises in those activities	1	0	0	0.5	1	50.0%		0.5	0.5	0.5	50.0%
35. Disclose qualitative information on the market risk management and control policies and practices	1		0	1	1	75.0%		0.5	0.5	0.5	50.0%
36. Disclose the use of market risk measurement models (including key assumptions and parameters)	1		0.5	1	1	87.5%		1	1	0.5	83.3%
37. Disclose methods used to monitor and limit market risk exposures (including risk limits)	1		0	1	1	75.0%		1	1	0.5	83.3%
38. Discuss changes in market risk exposure and management strategies from the previous year	0.5		0	1		50.0%					N/A
	91.7%	0.0%	16.7%	91.7%	90.0%	58.0%		80.0%	70.0%	50.0%	66.7%
Exposures											
39. Disclose balances of market risk exposures, including current exposure, average exposure and where applicable, future potential exposure, by major categories	0.5	0	0.5	0.5	0.5	40.0%		1	1	1	100.0%
40. Disclose information about market exposures by business line and by geographical area	0.5		0.5	0.5	0.5	50.0%		1	1	1	100.0%
41. Disclose information about significant concentrations of market risk	0.5		0.5	0.5	0.5	50.0%		0.5	0.5	0.5	50.0%
	50.0%	0.0%	50.0%	50.0%	50.0%	40.0%		83.3%	83.3%	83.3%	83.3%
Quality of Information											

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42. Discuss the use of internal models. Discussion should include information on:	1	0	0.5	1	1	70.0%		1	1	0.5	83.3%
42.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)	1		0.5	1	1	87.5%		1	1	1	100.0%
42.2. Qualitative and quantitative information about market risk measurement models used (including parameters, performance over time, model validation and stress testing information)	1		0.5	1	1	87.5%		1	[illegible]	0.5	83.3%
42.3. Status of development of such models	1		0			50.0%					N/A
43. Include a sensitivity analysis, including hypothetical changes in market prices and rates			0	1	0.5	50.0%		1	0	0.5	50.0%
	100.0%	0.0%	30.0%	100.0%	87.5%	63.5%		100.0%	75.0%	62.5%	79.2%
	77.1%	0.0%	32.5%	79.2%	73.5%	52.5%		85.8%	73.8%	61.5%	73.7%
Interest Rate Risk											
Policies and Practices											
44. Disclose policies, practices and methods used to manage interest rate risk	1	0.5	0.5	0.5	0.5	60.0%		0.5	0.5	0.5	50.0%
45. Disclose policies, practices and methods used to account for interest rate risk exposures	1	0.5	0.5	[illegible]	1	80.0%		1	0.5	0.5	66.7%
46. A discussion on the key assumptions used in the above methods and practices should be included.	1	0	0.5	[illegible]	1	70.0%		1	1	0.5	83.3%
47. Discuss the application of the policies on the non-trading portfolio	0	0.5	0.5	0.5	1	50.0%		1	1	0.5	83.3%
	75.0%	37.5%	50.0%	75.0%	87.5%	65.0%		87.5%	75.0%	50.0%	70.8%
Risk Management											
48. Disclose information on the management, structure and organisation of the interest rate risk management function	1	0.5	0.5	1	0.5	70.0%		1	1	0.5	83.3%
49. Disclose qualitative information about the nature of interest rate risk in the various banking activities and describe how interest rate risk arises in those activities	1	1	0	0.5	1	70.0%		0.5	0.5	0.5	50.0%
50. Disclose qualitative information on the interest rate risk management and control policies and practices	1	0.5	0.5	1	1	80.0%		0.5	0.5	0.5	50.0%
51. Disclose methods used to monitor exposure to interest rate risk (including frequency of monitoring)	1	[illegible]	0.5	1	1	90.0%		1	1	1	100.0%
52. Disclose methods of controlling interest rate risk exposures	1	0.5	0	0.5	0.5	50.0%		1	1	1	100.0%
	100.00%	70.00%	30.00%	80.0%	80.0%	72.0%		80.00%	80.00%	70.00%	76.7%
Exposures											

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53. Disclose the gross exposure to interest rate risk by reporting the financial assets and liabilities in an interest rate repricing schedule (by effective rate and maturity band)	1	1	1	1	1	100.0%	1	1	1	100.0%
54. Disclose the effective rates of interest for the various categories of interest bearing financial assets and liabilities	1	0	0	1	1	60.0%	1	1	1	100.0%
55. Disclose the impact of future interest rate changes on the exposures to interest rate risk	0.5	0	0	1	0.5	40.0%	1	0	1	66.7%
56. Provide information on contractual repricing and maturity dates as well as possible changes in the future and key assumptions made about future predictions	1	0	0	0.5	0.5	40.0%	0.5	0.5	1	66.7%
57. Disclose information about concentrations of interest rate exposures by business line and by geographical area	0.5	0.5	0.5	0.5	0.5	50.0%	1	1	1	100.0%
58. Disclose the effect of hedging policies on interest rate exposures	0.5	0	0.5	0.5	1	50.0%	1	0.5	0.5	66.7%
	75.0%	25.0%	33.3%	75.0%	75.0%	56.7%	91.7%	66.7%	91.7%	83.3%
Quality of Information										
59. Discuss the use of internal models including use of models under stressful market conditions. Discussion should include information on:	1	0.5	0.5	1	1	80.0%	1	1	0.5	83.3%
59.1. Type of model(s) used, portfolio(s) covered and size of portfolio(s)	1	0	0.5	1	1	70.0%	1	1	1	100.0%
59.2. Qualitative and quantitative information about market risk measurement models used (including parameters, performance over time, model validation and stress testing information)	1	0	0.5	1	1	70.0%	1	1	0.5	83.3%
59.3. Status of development of such models	1	0	0			33.3%				N/A
60. Include a sensitivity analysis demonstrating stress scenarios	0.5	0	0	1	1	50.0%	1	0	1	66.7%
	90.0%	10.0%	30.0%	100.0%	100.0%	66.0%	100.0%	75.0%	75.0%	83.3%
Earnings										
61. Disclose the average balances and interest earned or paid for each material category of interest bearing instrument	1	0	0.5	1	1	70.0%	1	1	1	100.0%
	100.0%	0.0%	50.0%	100.0%	100.0%	70.0%	100.0%	100.0%	100.0%	100.0%
	88.0%	28.5%	38.7%	86.0%	88.5%	65.9%	91.8%	79.3%	77.3%	82.8%
Liquidity/Funding Risk										
Policies and Practices										
62. Disclose policies, practices and methods used to manage liquidity risk	1	1	0.5	0.5	1	80.0%	0.5	0	0	16.7%
63. Disclose policies, practices and methods used to account for liquidity risk exposures	1	0	0	1	1	60.0%	0.5	0.5	0.5	50.0%

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64. A discussion on the key assumptions used in the above methods and practices should be included.	0	0	0	0	0	0.0%	0	0	0.5	16.7%
65. Discuss the application of the policies on the non-trading portfolio	0	0	0	0	0	0.0%	0			0.0%
	50.0%	25.0%	12.5%	37.5%	50.0%	35.0%	25.0%	16.7%	33.3%	25.0%
Risk Management										
66. Disclose information on the management, structure and organisation of the liquidity risk management function	1	0.5	0.5	1	0	60.0%	1	0	0	33.3%
67. Disclose qualitative information about the nature of liquidity risk in the various banking activities and describe how liquidity risk arises in those activities	1	0	0.5	0	0.5	40.0%	0.5	0.5	0	33.3%
68. Disclose qualitative information on the liquidity risk management and control policies and practices	1	0.5	0	0.5	0.5	50.0%	0.5	0.5	0	33.3%
69. Disclose methods used to monitor exposure to liquidity risk (including frequency of monitoring)	1	0.5	0.5	1	1	80.0%	1	1		100.0%
70. Disclose methods of controlling liquidity risk exposures	0	0	0	0.5	0	10.0%	1	1		100.0%
	80.0%	30.0%	30.0%	60.0%	40.0%	48.0%	80.0%	60.0%	0.0%	46.7%
Exposures										
71. Disclose concentrations of financial assets in the broad order of their liquidity and maturity	1	1	1	1	1	100.0%	1	1	1	100.0%
72. Disclose effects of changes in the exposures to future cash flows and expected shortfalls in cash	0	0	0	0	0	0.0%	0	0	0	0.0%
73. Disclose information about the distribution, concentration and type of funding source	0.5	0	0	0	0	10.0%	0	0	0.5	16.7%
	50.0%	33.3%	33.3%	33.3%	33.3%	36.7%	33.3%	33.3%	50.0%	38.9%
	60.0%	29.4%	25.3%	43.6%	41.1%	39.9%	46.1%	36.7%	27.8%	36.9%
Currency/Foreign Exchange Risk										
Policies and Practices										
74. Disclose policies, practices and methods used to manage currency risk	1	0	0	0.5	0.5	40.0%	0.5	0	0	16.7%
75. Disclose policies, practices and methods used to account for currency risk exposures	[illegible]	0	0.5	1	0.5	60.0%	0.5	0.5	0.5	50.0%
76. A discussion on the key assumptions used in the above methods and practices should be included.	1		0.5	1	[illegible]	87.5%		1		100.0%
77. Discuss the application of the policies on the non-trading portfolio	1		0	0.5	1	62.5%		0.5		50.0%
	100.0%	0.0%	25.0%	75.0%	75.0%	55.0%	50.0%	50.0%	25.0%	41.7%
Risk Management										
78. Disclose information on the management, structure and organisation of the currency risk management function	1	0.5	0.5	0.5	0.5	60.0%	[illegible]	1	0.5	83.3%

79. Disclose qualitative information about the nature of currency risk in the various banking activities and describe how currency risk arises in those activities.	0.5	0	0	0.5	0.5	30.0%		0.5	0	0	16.7%
80. Disclose qualitative information on the currency risk management and control policies and practices	0.5	0	0	0.5	0.5	30.0%		0.5	0	0	16.7%
81. Methods used to control currency risk exposures	1	0.5	0.5	0.5	1	70.0%		0.5	1	0.5	66.7%
	75.0%	25.0%	25.0%	50.0%	62.5%	47.5%		62.5%	50.0%	25.0%	45.8%
Exposures											
82. Disclose net open positions in each currency and how the position is derived	0.5	0	0.5	0.5	0.5	40.0%		0.5	0	0	16.7%
83. Disclose the effect of hedges on currency investments	0.5		0	0.5	0.5	37.5%				0.5	50.0%
84. Disclose information about currency exposures by business line and by geographical area	0.5		0	0	0.5	25.0%		1	0	0.5	50.0%
85. Disclose the impact of future currency rate changes on the exposures to currency risk	0		0.5	0.5	0	25.0%		0	0	0	0.0%
86. Disclose the impact of exposures on the non-trading portfolio	0.5		0	0.5	0.5	37.5%				0.5	50.0%
	40.0%	0.0%	20.0%	40.0%	40.0%	28.0%		50.0%	0.0%	30.0%	26.7%
	71.7%	8.3%	23.3%	55.0%	59.2%	43.5%		54.2%	33.3%	26.7%	38.1%
Capital Adequacy											
Policies and Practices											
87. Disclose the purpose of the capital adequacy calculations	0.5	0	0	0.5	1	40.0%		1	1	1	100.0%
88. Disclose the justification for the risk weightings used (including risk factors considered) for each risk	0	0	0	0	0	0.0%		1	1	0	66.7%
89. Disclose the minimum capital ratio requirements	1	0	0	0	1	40.0%		1	1	1	100.0%
90. Disclose method of assessing overall capital adequacy in relation to the firm risk profile and the strategy for maintaining capital levels	0	0	0	0.5	1	30.0%		0.5	0	0	16.7%
91. Disclose stress testing procedures for testing internal capital adequacy targets	0					0.0%					N/A
	30.0%	0.0%	0.0%	25.0%	75.0%	26.0%		87.5%	75.0%	50.0%	70.8%
Capital											
92. Disclose the items comprising Tier 1, 2 and 3 capital (including the subdivision of Tier 2 capital into upper and lower Tier 2 capital)	0.5	0.5	0.5	0	0	30.0%		1	1	1	100.0%
93. Disclose for each class of equity share capital						N/A		1	1	1	100.0%
93.1. The inclusion in Tier 1 or Tier 2 Capital	1	1	0.5			83.3%		1	1	1	100.0%
93.2. Material conditions applying to that class	1	1	0.5			83.3%		1	1	1	100.0%
93.3. Cumulative preferred dividends in arrears						N/A					N/A
93.4. Other material terms of the issue of securities						N/A					N/A

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94. For all other classes of capital instruments						N/A		1	1	1	100.0%
94.1. Inclusion in either Tier 1 or Tier 2 Capital	1	1	0.5			83.3%		1	1	1	100.0%
94.2. Priority in ranking for payment or claims of the class						N/A					N/A
94.3 All other material terms and conditions						N/A					N/A
95. Nature and amount of each reserve	1	0	0			33.3%		1	1	1	100.0%
96. Disclose how the off-balance sheet exposures are converted to credit equivalent amounts for the risk-weighting table.	0.5	0	0			16.7%		1	0	0.5	50.0%
97. Disclose key assumptions and other parameters of any other internal models used to capture risks other than credit risk (including a discussion of development of these models)						N/A		0.5	0	0.5	33.3%
98. Disclose verification and validation methods used for the internal models as well as the results of the tests performed						N/A					N/A
	83.3%	58.3%	33.3%	0.0%	0.0%	35.0%		94.4%	77.8%	88.9%	87.0%
Risk-weighted Exposures											
99. Disclose a table of balance sheet exposures by risk weight band	0.5	0	0	0	0.5	20.0%		1	1	0.5	83.3%
100. Disclose a table of off-balance sheet exposures by risk weight band	0.5	0	0	0	0.5	20.0%		1	0	0.5	50.0%
101. Disclose Capital and, in particular, Tier 1 Capital as a percentage of risk weighted exposures	1	1	1	[illegible]	1	100.0%		1	1	1	100.0%
102. Disclose the date to which the measures of Tier 1 Capital and other Capital relate	1	1	1	[illegible]	[illegible]	100.0%		1	1	1	100.0%
	75.0%	50.0%	50.0%	50.0%	75.0%	60.0%		100.0%	75.0%	75.0%	83.3%
	62.8%	36.1%	27.8%	25.0%	50.0%	40.3%		94.0%	75.9%	71.3%	80.4%
Grand Total	74.6%	30.3%	38.7%	62.4%	65.5%			76.4%	63.3%	57.5%	

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Appendix I – Summary of International Best Practice Scoring Results (South Africa)

	ABIL	ABSA	BOE	FBC Fidelity	FirstRand	Investec	Mercantile Lisbon	Nedcor	Regal Treasury	Saambou	Standard	Securities Investment	SA Average
General	0.0%	75.0%	75.0%	50.0%	75.0%	75.0%	50.0%	75.0%	0.0%	75.0%	75.0%	0.0%	52.1%
Credit Risk	29.3%	43.5%	45.8%	16.7%	36.5%	30.1%	19.7%	41.2%	15.0%	31.9%	38.0%	16.9%	30.4%
Policies and Practices	21.4%	36.1%	50.0%	25.0%	39.5%	31.3%	25.0%	37.5%	23.3%	32.1%	50.0%	26.9%	33.2%
Risk Management	15.0%	56.3%	54.2%	0.0%	34.6%	35.7%	31.8%	26.9%	10.0%	35.7%	53.1%	25.0%	31.5%
Exposures	40.0%	50.0%	50.0%	8.3%	41.7%	41.7%	16.7%	50.0%	16.7%	50.0%	45.5%	12.5%	35.2%
Credit Quality	10.0%	33.3%	41.7%	25.0%	25.0%	16.7%	0.0%	50.0%	0.0%	16.7%	16.7%	0.0%	21.3%
Earnings	40.0%	41.7%	33.3%	25.0%	41.7%	25.0%	25.0%	41.7%	25.0%	25.0%	25.0%	20.0%	30.7%
Market/Equity Risk	0.0%	54.6%	27.1%	11.3%	39.6%	62.9%	0.0%	30.2%	0.0%	0.0%	45.4%	22.9%	24.5%
Policies and Practices	0.0%	66.7%	25.0%	20.0%	33.3%	66.7%	0.0%	37.5%	0.0%	0.0%	40.0%	16.7%	25.5%
Risk Management	0.0%	58.3%	50.0%	25.0%	50.0%	75.0%	0.0%	58.3%	0.0%	0.0%	41.7%	50.0%	34.0%
Exposures	0.0%	33.3%	0.0%	0.0%	25.0%	50.0%	0.0%	0.0%	0.0%	0.0%	50.0%	0.0%	13.2%
Quality of Information	0.0%	60.0%	33.3%	0.0%	50.0%	60.0%	0.0%	25.0%	0.0%	0.0%	50.0%	25.0%	25.3%
Interest Rate Risk	20.5%	51.5%	40.0%	13.0%	40.0%	38.0%	19.5%	59.5%	26.7%	38.2%	56.2%	15.7%	34.9%
Policies and Practices	12.5%	62.5%	25.0%	25.0%	50.0%	25.0%	12.5%	37.5%	33.3%	33.3%	33.3%	33.3%	31.9%
Risk Management	10.0%	60.0%	50.0%	20.0%	60.0%	60.0%	10.0%	60.0%	50.0%	60.0%	50.0%	20.0%	42.5%
Exposures	30.0%	25.0%	25.0%	0.0%	20.0%	25.0%	25.0%	50.0%	0.0%	10.0%	60.0%	0.0%	22.5%
Quality of Information	0.0%	60.0%	0.0%	20.0%	20.0%	30.0%	0.0%	50.0%	0.0%	37.5%	37.5%	25.0%	23.3%
Earnings	50.0%	50.0%	100.0%	0.0%	50.0%	50.0%	50.0%	100.0%	50.0%	50.0%	100.0%	0.0%	54.2%
Liquidity/Funding Risk	18.6%	21.7%	53.3%	15.0%	25.0%	54.7%	0.0%	27.2%	0.0%	25.0%	14.2%	10.8%	22.1%
Policies and Practices	12.5%	25.0%	50.0%	25.0%	25.0%	37.5%	0.0%	25.0%	0.0%	25.0%	12.5%	12.5%	20.8%
Risk Management	10.0%	40.0%	60.0%	20.0%	50.0%	60.0%	0.0%	40.0%	0.0%	50.0%	30.0%	20.0%	31.7%
Exposures	33.3%	0.0%	50.0%	0.0%	0.0%	66.7%	0.0%	16.7%	0.0%	0.0%	0.0%	0.0%	13.9%
Currency/Foreign Exchange Risk	0.0%	45.8%	27.5%	0.0%	22.5%	45.8%	20.8%	36.1%	11.1%	0.0%	29.2%	0.0%	19.9%
Policies and Practices	0.0%	50.0%	25.0%	0.0%	25.0%	50.0%	16.7%	33.3%	33.3%	0.0%	50.0%	0.0%	23.6%
Risk Management	0.0%	37.5%	37.5%	0.0%	12.5%	62.5%	12.5%	37.5%	0.0%	0.0%	37.5%	0.0%	19.8%
Exposures	0.0%	50.0%	20.0%	0.0%	30.0%	25.0%	33.3%	37.5%	0.0%	0.0%	0.0%	0.0%	16.3%
Capital Adequacy	0.0%	62.6%	67.5%	33.3%	59.5%	56.3%	8.3%	76.2%	25.0%	40.7%	71.7%	16.7%	43.1%
Policies and Practices	0.0%	40.0%	60.0%	50.0%	25.0%	25.0%	25.0%	62.5%	25.0%	25.0%	75.0%	25.0%	36.5%
Capital	0.0%	72.7%	80.0%	0.0%	78.6%	68.8%	0.0%	78.6%	25.0%	72.2%	65.0%	0.0%	45.1%
Risk-weighted Exposures	0.0%	75.0%	62.5%	50.0%	75.0%	75.0%	0.0%	87.5%	25.0%	25.0%	75.0%	25.0%	47.9%
Grand Total	**9.8%**	**50.7%**	**48.0%**	**19.9%**	**42.6%**	**51.8%**	**16.9%**	**49.4%**	**11.1%**	**30.1%**	**47.1%**	**11.9%**	

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Appendix J – Summary of International Best Practice Scoring (UK and Australia)

	Barclays	Halifax Group	Lloyds TSB	Abbey National	Royal Bank of Scotland	UK Average	National Australia	Westpac	ANZ	Australian Average
General	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%	75.0%
Credit Risk	87.7%	34.9%	48.5%	73.3%	71.4%	63.2%	87.8%	69.2%	63.2%	73.4%
Policies and Practices	97.1%	32.1%	38.5%	60.0%	57.7%	57.1%	89.5%	67.6%	70.6%	75.9%
Risk Management	73.5%	46.4%	33.3%	62.5%	71.4%	57.4%	76.9%	57.7%	40.9%	58.5%
Exposures	82.4%	8.3%	33.3%	88.2%	79.4%	58.3%	90.9%	73.5%	59.4%	74.6%
Credit Quality	100.0%	37.5%	62.5%	70.0%	70.0%	68.0%	90.0%	68.8%	66.7%	75.1%
Earnings	55.7%	50.0%	75.0%	85.7%	78.6%	75.0%	91.7%	78.6%	78.6%	82.9%
Market/Equity Risk	77.1%	0.0%	42.5%	69.2%	73.5%	52.5%	85.8%	71.8%	63.5%	73.7%
Policies and Practices	56.7%	0.0%	33.3%	75.0%	56.7%	48.3%	80.0%	66.7%	50.0%	65.6%
Risk Management	91.7%	0.0%	16.7%	91.7%	90.0%	58.0%	80.0%	70.0%	50.0%	66.7%
Exposures	50.0%	0.0%	50.0%	50.0%	50.0%	40.0%	83.3%	83.3%	83.3%	83.3%
Quality of Information	100.0%	0.0%	30.0%	100.0%	87.5%	63.5%	100.0%	75.0%	62.5%	79.7%
Interest Rate Risk	88.0%	78.5%	38.7%	36.0%	88.5%	65.9%	91.8%	79.3%	77.3%	82.8%
Policies and Practices	75.0%	37.5%	50.0%	75.0%	87.5%	65.0%	87.5%	75.0%	50.0%	70.8%
Risk Management	100.0%	70.0%	20.0%	80.0%	80.0%	72.0%	80.0%	80.0%	70.0%	76.7%
Exposures	75.0%	25.0%	33.3%	75.0%	75.0%	56.7%	91.7%	66.7%	91.7%	83.3%
Quality of Information	90.0%	10.0%	30.0%	100.0%	100.0%	66.0%	100.0%	75.0%	75.0%	83.3%
Earnings	100.0%	0.0%	50.0%	100.0%	100.0%	70.0%	100.0%	100.0%	100.0%	100.0%
Liquidity/Funding Risk	60.0%	29.4%	25.4%	43.0%	41.1%	39.9%	47.1%	35.7%	27.8%	36.9%
Policies and Practices	50.0%	25.0%	12.5%	37.5%	50.0%	35.0%	25.0%	16.7%	33.3%	25.0%
Risk Management	80.0%	30.0%	30.0%	60.0%	40.0%	48.0%	80.0%	60.0%	0.0%	46.7%
Exposures	50.0%	33.3%	33.3%	33.3%	33.3%	36.7%	33.3%	33.3%	50.0%	38.9%
Currency/Foreign Exchange Risk	71.7%	8.3%	23.3%	55.0%	59.2%	43.5%	54.2%	33.3%	26.7%	38.1%
Policies and Practices	100.0%	0.0%	25.0%	75.0%	75.0%	55.0%	50.0%	50.0%	25.0%	41.7%
Risk Management	75.0%	25.0%	25.0%	50.0%	62.5%	47.5%	62.5%	50.0%	25.0%	45.8%
Exposures	40.0%	0.0%	20.0%	40.0%	40.0%	28.0%	50.0%	0.0%	30.0%	26.7%
Capital Adequacy	62.8%	36.1%	27.8%	25.0%	50.0%	40.3%	94.0%	75.9%	71.3%	80.4%
Policies and Practices	30.0%	0.0%	0.0%	25.0%	75.0%	26.0%	87.5%	75.0%	50.0%	70.8%
Capital	83.3%	58.3%	33.3%	0.0%	0.0%	35.0%	94.4%	77.8%	88.9%	87.0%
Risk-weighted Exposures	75.0%	50.0%	50.0%	50.0%	75.0%	60.0%	100.0%	75.0%	75.0%	83.3%
Grand Total	**74.6%**	**30.3%**	**38.7%**	**62.4%**	**65.5%**		**76.4%**	**63.3%**	**57.5%**	

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