FINANCE – GENERAL

1994

JAN. — JUNE

FINANCE - GENERAL

1994

JULY — DEC.

NBS income rises 30%

ROBYN CHALMERS

NBS Holdings was ready to actively support the financing of affordable housing, but violence levels in SA had to be contained, chairman Brian McCarthy said in the groups' annual report. B/Day

Violence and lawlessness were the crucial factors determining business confidence, foreign perceptions of SA and the success of the reconstruction and development programme.

In the year to March, NBS posted a 30% rise in earnings to 179,1c a share and dividends increased to 59c from 46c. Earnings were diluted by the higher number of shares in issue, with attributable income leaping 58% to R144,5m.

McCarthy attributed the group's solid performance to improved earnings by all divisions and associate companies. 30/6/94

NBS concluded a number of transactions during the year, which McCarthy said reduced dependence on the interest margin and brought the company closer to its goal of becoming a well balanced financial services group. 58

NBS acquired a 47,5% stake in Aegis Insurance at the beginning of the year and clinched a cross-shareholding deal with RMB Holdings which left both companies holding a 20% stake in each other.

BUSINESS Project to stimulate housing market

Banks in housing plan

By Mzimkulu Malunga

■ STABILISING FACTOR A new scheme could encourage banks to give more housing loans without fear of losing money:

The establishment of a fund that will minimise financial risks faced by banks could encourage them to grant more housing loans, says SA Perm general manager Mr Dennis Creighton.

Speaking to *Sowetan* this week, Creighton said the formulation of a Mortgage Indemnity Scheme would guarantee that banks get their money back in situations where there are bond boycotts or when people refuse to vacate houses when banks want to repossess.

The inability of banks to exercise their legal right in terms of mortgage bond agreements, such as repossession of a house when a person is unable to pay, is one of the major problems faced by financial institutions, he said.

Through discussions in the National Housing Forum, the government is expected to give the proposed scheme its full support. However, Creighton does not want to go into details about the form of government backing.

Once the MIS is firmly in place, it should be followed up with subsidies to inject stability into the payment process and minimise the number of defaulters. The usual criteria — which include a sound credit record, a five-to-ten percent deposit and ensuring that loan repayments do not exceed 25 percent of a buyer's income — would apply in the MIS era, said Creighton.

He sees the MIS as a temporary stabilising factor until normal market conditions and the credibility of the legal system have been restored. On the controversial issue of "redlining", Creighton says he believes this is being practised on a purely economic basis, and not on a racial basis.

(58)

Factors such as property prices in particular areas and the ability of banks to attach and sell the property in case there is a default, play a major role in influencing bankers' decisions to turn down loan applications for certain areas.

Redlining is an American term meaning that certain areas are blacklisted by financial institutions due to the financial risks involved.

Call for blanket credit indemnity

B/Day 29/6/95

ROBYN CHALMERS

A POWERFUL consortium of groups representing black consumer interests has threatened to call for a boycott on billions of rands worth of loan repayments in SA if banks do not grant blanket credit indemnity to all black consumers.

The boycott threat was made in a letter to leading SA banks by the African Consumer Council, an affiliate of the Foundation for African Business and Consumer Services.

Council president Eldridge Mathebula said the demand had the backing of the SA Council of Churches, SA National Civic Association affiliates and the National African Federated Chamber of Commerce.

The move has been described by Council of SA Banks CE Piet Liebenberg as "most regrettable".

"It would be very disappointing if the outdated culture of non-payment was reinstated.

"This is particularly so when SA is beginning to move towards a more normalised lending market."

Mathebula said the cut-off date for banks to respond to the council's demand was July 20.

After this, he said, a call would be made to all black consumers to refrain from further payments of outstanding bank loans.

He said the organisation had conducted an extensive survey on credit bureaus.

58

"It has shocked us to learn that 40% of active consumers in SA are placed with credit bureaus largely by financial institutions.

"The study revealed that 60% of these consumers are black. In essence, this means that an effective 7,4-million black consumers and 3,4-million white, coloured and Asian consumers are credit risks."

Blacklisted consumers would be unable to qualify for credit for five years which, Mathebula said, made it impossible for millions to participate in the economic future of SA.

He accused the banking community of having a racial bias when it came to lending.

The claim was vehemently denied by Liebenberg, who challenged Mathebula to produce concrete evidence of such devices.

"I have said it before and I will say it again — the banking community discriminates on risk but not on race.

"There is a firm agreement among all Council of SA Banks members that they will not consider race, religion or gender when granting or refusing credit," he said.

Short-term insurer Sentrasure puts up a record performance

Star 29/6/94

BY STEPHEN CRANSTON

Sentrasure, a short-term insurance company formed from the old Sentraboer co-operative, has reported a record R234,9 million in premium income in the year to February, an increase of R20 million on the previous year.

But Sentrasure is looking for new capital and will soon list on the JSE to raise a further R50 million.

Sentrasure chairman Frans Laubscher says that while the company is not satisified with the growth in turnover, good results have been achieved.

(58)

The company has focused on critical success factors, scientific management principles and focused marketing actions.

The average yield on shareholders' funds over the past two years has been 14,9 percent.

It has a fairly healthy solvency margin of 46 percent, which is a record level.

Sentrasure managing director Pierre Maritz says claims have increased and that they have changed in nature.

"Sentrasure must ensure that it is equipped for the changing environment and society in which it will have to do business.

"Agriculture remains the area in which we are focused and we shall continue to seek new markets in consultation with the co-operatives," he says.

Call for blanket credit indemnity

B/Day 29/6/96

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AIDS screening proves its worth in Southern Life policy

Star 29/6/94

■ BY STEPHEN CRANSTON

Controversy surrounded the introduction of Southern Life's Exclusive Life policy, which promised lower premiums as it required an AIDS test every five years — and offered substantially reduced cover to those failing it.

But the product has nonetheless gained wide acceptance and now accounts for 30 percent of new business.

MD Jan Calitz says in the annual report for the year to March that the success of the new product range has enabled the assurer to limit the increase in its reserves for AIDS, which now total R298,7 million.

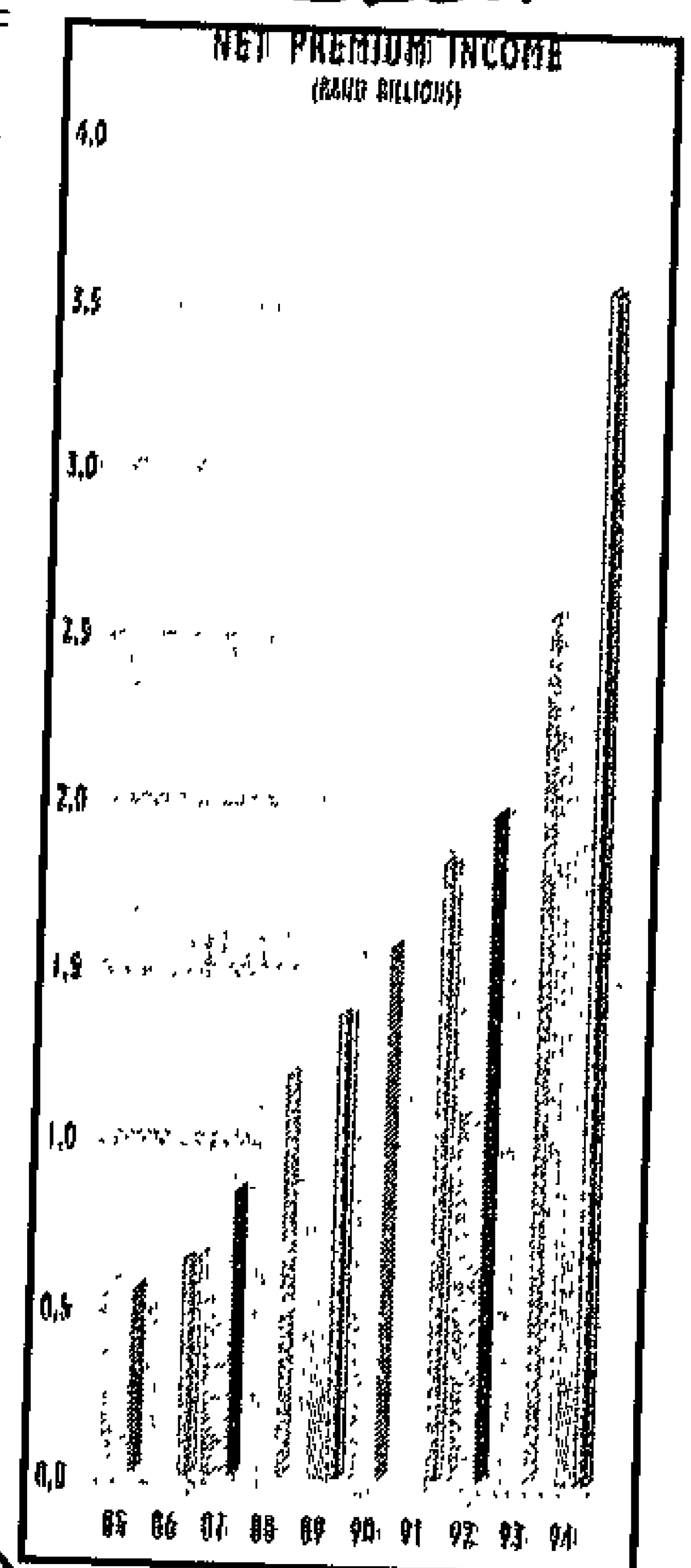
Total premium income increased by 44 percent to R3,6 billion and other new products which contributed to this included the Timed Exposure Portfolio (Step), which offers market-linked returns combined with the security normally associated with guaranteed funds.

58

The portfolio comprises fixed-interest investments and cash reserves, plus exposure to the JSE overall index via derivatives. This now has assets of more than R700 million.

After the abolition of the Sixth Schedule of the Income Tax Act, Southern was free to launch pure endowment products with a life of five years or more.

A comprehensive range was introduced as the Portfolio Series.



An equity-linked annuity product allowing annuitants to benefit from the performance of the stock market was launched in conjunction with UAL.

To increase Southern's penetration into lower-income groups, Futuregrowth was launched, which enables retirement funds to invest in economically targeted investments, and generating benefits for disadvantaged communities, while provding a reasonable monetary return relative to the risk involved.

Southern lifted its share of the broker market, which now accounts for more than half of new business. Market penetration was raised by the launch last October of First Link, a joint venture with FNB and First Bowring to market Southern products to FNB customers not normally be served by First Bowring.

In the property market, Southern has made innovative investments. Lanseria Airport was acquired for R25 million on a long-term leaseback agreement and a further R29 million was committed to an investment in a community shopping centre at Nyanga Station, near Cape Town, which incorporates the air rights construction technique and was undertaken after extensive consultation by the developers with the local community.

Southern chairman Neal Chapman says the industry has formed an investment development unit, designed to be an interface between the macro funding needs of housing, education and other social spending and the savings they administer.

Chapman says focused funding should be offered on a project-by-project basis, which is preferable to the prescribed-asset approach which creates a mountain of idle money ahead of the need to spend it.

Aids policy sales boost Southern (58)

(62)

Business Staff

SOUTHERN Life's controversial Exclusive Life policy, which offers lower premiums conditional on an Aids test every five years now accounts for 30 percent of new business.

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Black consortium makes loan boycott threats

Own Correspondent 58 CT 29/6/94

JOHANNESBURG. — A powerful consortium of groups representing black consumer interests has threatened to call for a boycott on billions of rands worth of loan repayments if banks do not grant blanket credit indemnity to all black consumers.

The boycott threat was made in a letter to leading banks by the African Consumer Council, an affiliate of the Foundation for African Business and Consumer Services.

Council president Mr Eldridge Mathebula said the demand had the backing of the SA Council of Churches, the SA National Civic Association affiliates and the National African Federated Chamber of Commerce.

The move has been described by Council of SA Banks chief executive Mr Piet Liebenberg as "most regrettable".

Mr Mathebula said the cut-off date for banks to respond to the council's demand was July 20.

After this, he said, a call would be made to all black consumers to refrain from further payments of outstanding bank loans.

He said the organisation had conducted an extensive survey on credit bureaus.

"The study revealed that 60% of active consumers are black. This means 7,4 million black consumers and 3,4m white, coloured and Asian consumers are credit risks."

Blacklisted consumers would be unable to qualify for credit for five years which made it impossible for millions to participate in the economic future of the country.

He accused the banking community of having a racial bias when it came to lending.

The claim was vehemently denied by Mr Liebenberg, who challenged Mr Mathebula to produce concrete evidence.

"The banking community discriminates on risk but not on race," he said.

Bank has R1bn ready for RDP

B/Day 28/6/94

EDWARD WEST

CAPE TOWN — The SA Development Bank was positioned to disburse R1bn in development aid to meet the goals of the reconstruction and development programme in the financial year to end-March 1995, CE Andre le Grange said yesterday.

He said at the launch of the bank's annual report that in the past financial year about R716,7m of project finance was disbursed, a 59% increase from the previous year's R446m.

New project approvals for the year amounted to R1,7bn.

By the end of March the bank had approved a cumulative total of 1 475 programmes and projects worth R8,9bn over 11 years, while a further 246 projects were under consideration with an estimated loan value of R2,1bn.

Le Grange said regarding the return flow of maturing loans that no zero performing loans were reported in the year.

Loan repayments, which would increase as the years passed, would play an important role in the continued financing of projects and in the repayment of capital market debt, he said.

The Development Bank is essentially a wholesale national development finance institution owned by government.

Le Grange said the bank would maintain its "arm's length" approach to government so as to avoid political prescription at the cost of economic soundness.

Proposals had been made to increase the shareholding of the bank to include the nine provinces, but it would take time to implement.

About 10% of the bank's current loan profile was for the funding of projects and policy development projects outside SA's borders, but inside the southern African region.

Most of these projects would benefit SA in the long run, such as the Lesotho Highlands Water Project.

The bank worked closely with the Southern African Development Community and preferential trade agreement organisations on projects outside SA, and would continue to do so, he said.

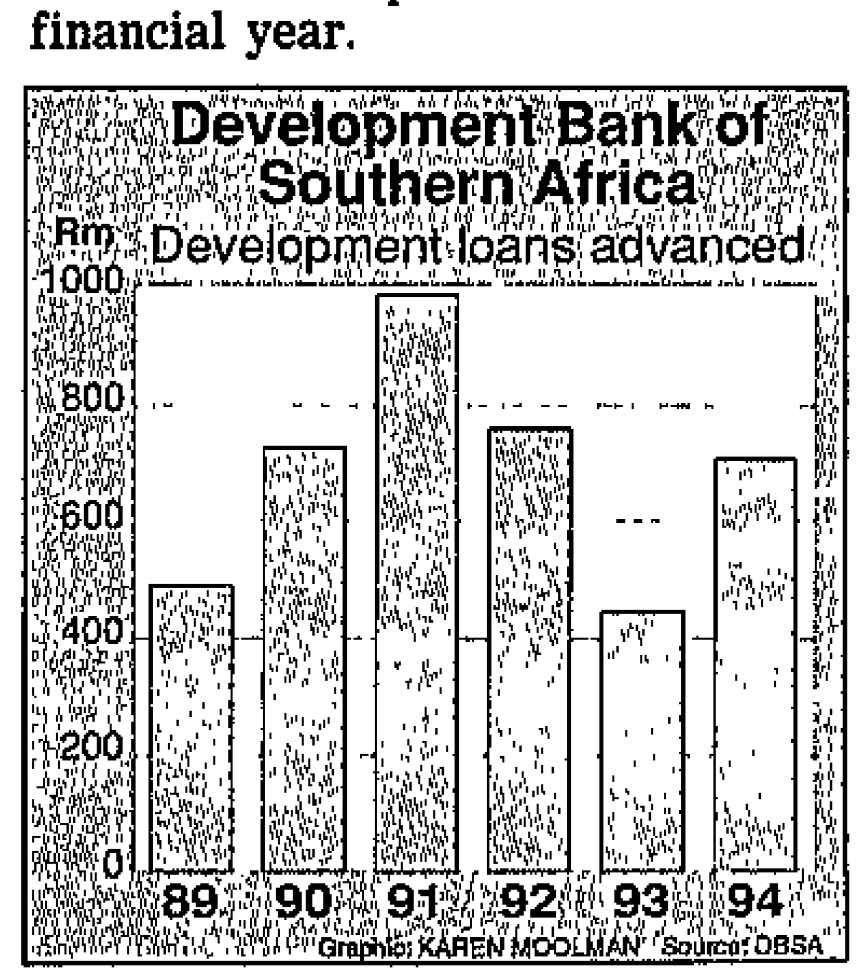
(58)

He believed SA should not blindly accede to pressure to join regional trade agreements.

SA should instead adopt a functional approach, starting possibly with bilateral agreements, before deciding on which institutional approach to take.

As a result of problems with the implementation of projects in the past financial year arising from political violence and uncertainty, the bank's liquidity was 39%.

Le Grange said the bank aimed to reduce this to 25% of loan disbursements, which would probably result in a small surplus of R200m this financial year.



Buoyant DBSA's earnings up 36 percent

The Development Bank of Southern Africa (DBSA) reported a 36 percent improvement in interest income while at the same time lifting its loan disbursements by more than 70 percent in the year to end March 1994.

APRIL 28/6/94

The bank disbursed almost 60 percent more funds of R710 million in the period under review (1993: R446 million) and approved new commitments of R1,703 billion.

(58)

DBSA said this upturn could be attributed to better project management and an effort to maintain the development momentum in an extremely volatile and uncertain time.

"The continued high level of new commitments shows that the appraising of new projects has been assisted by the improved project cycle and the devolution of decisions on projects to line management in the bank."

In addition to new commitments (representing almost 280 projects), other finance from borrowers and funders amounted to R569 million making total new commitments of R2,271 billion.

New projects approved included: R166,9 million for primary teacher education in the former Transkei, R91,7 million for the Greater Durban electrification programme and R56,2 million for link roads in former Bophuthatswana.

Interest income amounted to R546,8 million compared to R404 million a year earlier — 71 percent of this income was sourced from development lending and 29 percent was derived from the bank's liquidity holdings.

DBSA chairman Wiseman Nkuhlu said the bank was well placed to serve the efforts of the reconstruction and development programme.

The bank had a solid financial base, the ability to raise funds in local and international markets, and the capacity and experience in policy formulation, development planning and evaluation. — Sapa.

Liberty reports surge in business

(68)

CT 28/6/94

From JOHN CAVILL

LONDON. — Reporting a surge in new business since SA's elections, Liberty Life yesterday said it aimed to increase profits and dividends at "annual compound rate of at least 20%".

After being hit by pre-election uncertainty, Liberty Life said that by the end of May new recurring premiums were 30% up while single premium and annuity business were 85% better than the first five months of 1993.

The statement was made in the preliminary prospectus for Liberty's historic $360m to $500m international issue of 10-year convertible dollar bonds.

The issue, which will be priced on July 11, is being seen as a landmark for SA on the international capital markets. The Financial Times said: "A successful deal could pave the way for a spate of financings by SA's underborrowed corporate sector; a flop could turn off the tap of international investment."

In the preliminary prospectus, Liberty Life said it believed conditions in SA were "beneficial" for the group's continued development.

"A resumption of economic growth has the potential not only to add to the wealth and buying power of Liberty Life's existing customer base but also to expand that base."

Pointing out that in the last 10 years Liberty's earnings per share had risen by an average compound rate of 23,2% in rand terms (15,4% in $), the prospectus said the group would seek to "achieve growth in earnings and dividends at an annual compound rate of at least 20%".

Investors in Liberty Life had achieved total returns averaging 38,4% a year in rand terms (21,2% in $) since May 1984.

Banks warn on lending problems

(58)

CT 28/6/94

Property Editor

THE "ever-growing" properties in possession, the capital subsidy scheme and other mechanisms such as the mortgage indemnity scheme would have to be in place before banks would be prepared to advance mortgage loans across the spectrum.

This was the message given by Dennis Creighton, MD of Perm's MHF Properties division at a Sanco workshop in Midrand yesterday.

Reiterating what financial institutions have said in the past, Creighton said a major problem facing mortgage lenders was that borrowers refused to vacate properties after the banks had proceeded to a sale in execution.

"Many loans in default are the result of economic factors such as the borrower losing his job and discontinuing monthly repayments. He then refuses to vacate the property after it has been repossessed and stays on paying little or no rent.

"This problem has assumed serious proportions and needs to be sorted out before banks can be expected to extend mortgage finance on a large scale."

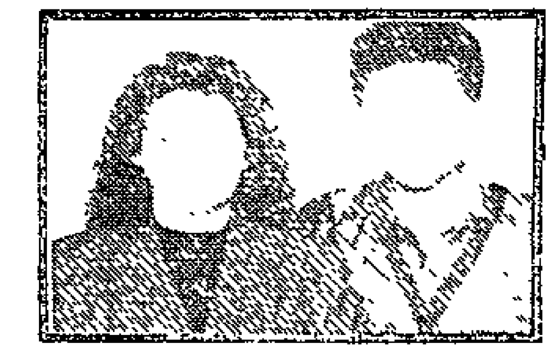
The proposed mortgage indemnity scheme, which was designed to remove the "non-commercial" risk that lenders face, would hopefully only be required for a limited period until conditions normalised and the usual legal process was restored.

He said banks had often been drawn into disputes between builders and consumers and were left "holding the baby", faced with bond boycotts and products of default quality.

Banks, he said, were going to insist on a product warranty mechanism by which the construction industry would have to stand by the quality of products and member practices.

READERS' HOTLINE

We help you fight for your rights



Colliette Caine

Thuli Zungu

THE NEST EGG SNATCHERS

City Press (58) 26/6/94

Savings accounts scam

SAVINGS account holders at Absa banks have been robbed of hundreds of thousands of rands in a sophisticated scam involving organised crime syndicates.

Absa this week admitted a savings book fraud had been in operation at its United and Allied banks in the Johannesburg area.

Spokesperson Alec Hogg said a number of matters had been referred to the police and the bank was continuing its internal investigation.

He appealed to holders of United and Allied savings and transmission account books to have them updated regularly to make sure their savings were intact.

Hogg confirmed the scam involved the use of forged documents. He would not give details of how the scam worked but said it targeted savings account holders who did not use their accounts regularly.

Fraudulent withdrawals were made at branches distant from the branch where the account was held. These withdrawals only came to light when the holder presented the book for updating at his or her home branch.

Hogg assured account holders that any money fraudulently withdrawn would be refunded by the bank and that investigation procedures would be speeded up.

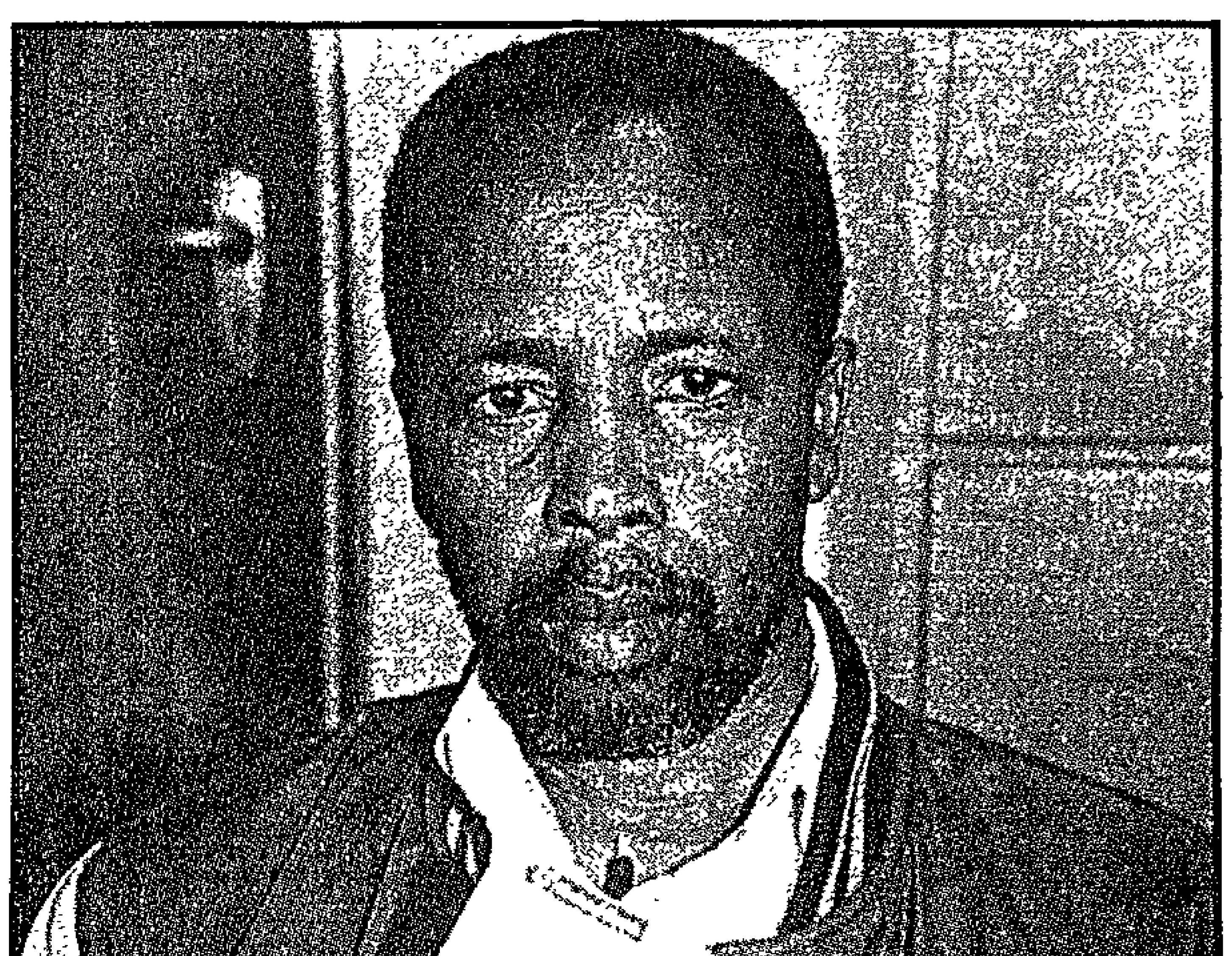
He said Absa had reviewed its procedures following press investigations into the scam, and would guarantee clients who were victims of the scam that their cases would be resolved within a month in future.

It has been taking Absa up to six months to resolve cases and refund victims. During the investigation clients don't know whether they will be refunded or not.

Absa has also instructed all its branches that any similar case reported by a client in future must be referred to the regional manager.

To prevent such frauds recurring, Absa had introduced a checking procedure on all pass book savings and transmission account withdrawals of over R1 000. Any withdrawal over R1 000 must be referred to management for authorisation in future.

"We are confident these measures will go a long way towards protecting our customers and improving communication between customers and the banks," Hogg said.



OVERJOYED . . . When City Press intervened Mothibedi Mokhatla, seen here with his wife Mamokane, was refunded the R38 500 retirement nest egg that went missing from his United Bank account.

Uncaring about R38 000!

RETIRED grandfather Mothibedi Mokhatla of Soweto spent last Christmas worried that his pension payout of R38 500 had been stolen.

He discovered the money was missing from his United Bank savings account a week before Christmas.

The bank said they would investigate.

He came to City Press in April after reading that 93-year-old Karel Teme of Kagiso had had his nest egg refunded by Absa after City Press intervened.

Absa was still telling him they were investigating the disappearance of his money.

Updated

Mokhatla had his book updated at United in Fox Street on December 17, 1993 and instead of the healthy balance he expected, he discovered R38 500 had been withdrawn in Springs.

The bank could not explain how the withdrawal had been authorised as Mokhatla had not lost his bank book or ID document.

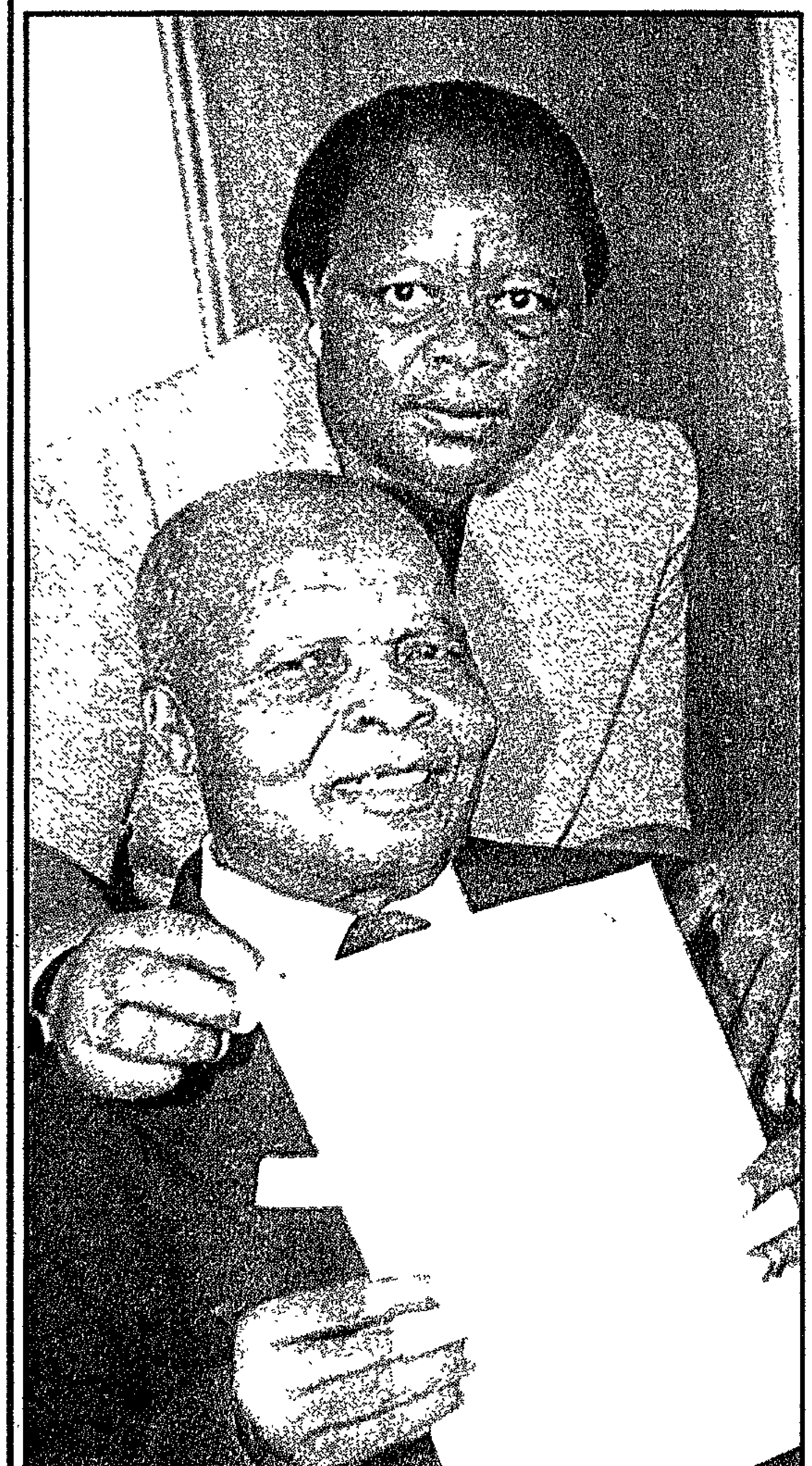
"I kept going back to the bank because I was so worried.

"They just told me to wait and be patient. I waited four months but I am tired of waiting now," he told City Press.

"Who can you trust if you can't trust the bank to look after your savings?" he asked.

As soon as City Press took up Mokhatla's complaint with Absa he was refunded. He too does not know how he was defrauded.

He lost his R82 000 savings!



ACCOUNT CLEANED OUT . . . Don't bank on it that your savings will be safe in the bank, says Isaac Tshabalala.

ISAAC Tshabalala discovered his life's savings of R82 000 had disappeared from his United Bank savings account when he had his savings book updated in March.

A self-employed hawker and father of five, Isaac had been putting money into his savings account to provide for his retirement. When he presented his savings book at United in Fox Street in March, he discovered a total of R82 000 had been withdrawn at the bank's Zeerust, Springfield and Jeppe branches.

He had not lost his savings book or identity document.

"I asked the bank how they could have allowed somebody to draw my money without my bank book or ID, but they wouldn't tell me," he said.

"They just told me I must report it to the police and they would investigate and let me know, but they never contacted me.

"When I went to the bank, they always told me they were still busy with investigations," Tshabalala told City Press.

Bank manager

Tshabalala approached City Press for help after being refused permission to see the bank manager at his branch in Fox Street, Johannesburg.

"I did not understand how my money could not be safe in my bank book. I do not have a cash card because I am afraid of being robbed at the machines, but I did not know money could be stolen from a book. Whenever I go to the bank they need my book and my ID," he said.

City Press took up Tshabalala's complaint with United and he was immediately refunded. He transferred his money to an investment where he feels it will be safer.

But he still does not know who stole his money or how they got away with it.

READERS' LETTERS

Old Mutual fund in UK boosts JSE by R400-m

BRUCE CAMERON (58)
Business Editor

ALMOST R400 million will pour on to the Johannesburg Stock Exchange in the next few weeks following the successful launch by life assurer Old Mutual of a South African investment fund in London.

The money is expected to give the JSE another boost on the back of the gold price which has been trading above the $390 an ounce barrier.

Old Mutual chairman Mike Levett said in an interview that the success of the fund showed there was "now a fundamental trust in South Africa".

The Old Mutual has already raised £50 million from institutional investors in Britain and expects a few more million to come in from individual investors before the fund closes its offer on July 1.

The fund — the Old Mutual South Africa Fund — is to be listed on the London Stock Exchange. ARG 24/6/94

The money raised will be transferred to South Africa in financial rands. This means it will translate into almost R400 million. The money is expected to give further impetus to the JSE, which has been breaking new barriers over the past few weeks.

This is the first fund to be launched by a South African institution in the foreign markets. Three funds have been recently launched by American institutions.

Stals rules out bank rate cut

(58) CT 24/6/94

RESERVE BANK Governor Dr Chris Stals has ruled out any immediate drop in interest rates.

He warned the standing committee on finance yesterday that South Africa, with a deficit of six percent of Gross Domestic Product — the amount the government needs to balance its books — was moving in the direction of the "debt trap".

The "debt trap" means that a country has to borrow just to service the interest on its debt.

Dr Stals said South Africa was not yet in this situation but "we are moving in that direction".

In a wide-ranging discussion of monetary policy, Dr Stals said there had been sustained outflow of capital — a net outflow of R16 billion had been recorded in 1993 — and this had continued up to the inauguration of President Nelson Mandela on May 10.

The drain on the reserves had been such that it had been necessary to arrange R11 billion in credits and R8,5 billion of this had been taken up.

Some R2 billion had now been repaid.

Dr Stals said that some of the

SA 'now heading to debt trap'

capital which had fled the country in the run-up to the election had now returned.

Spelling out the factors which could lead to a drop in interest rates, he said if there was a "substantial reduction" in the outflow of capital or an inflow of capital, this "could perhaps reduce market interest rates".

Alternatively, he said, this could happen if there was a "good increase" in domestic savings or a substantial reduction in the deficit on the budget.

Asked about the future of the financial rand, Dr Stals said the Reserve Bank would like to see the end of this instrument, but with the discount offered on the finrand at present, there was a "great division" between it and the value of the commercial rand.

Asked at what point he would propose the scrapping of the finrand, Dr Stals said he could not give a "dogmatic answer" but said that if the discount on the finrand was reduced to 10% and "we know that it is going to narrow" then "we will recommend that it be scrapped".

"However, the shock would be too great at this stage."

The Minister of Finance, Mr Derek Keys, told the committee that with continued economic growth, South Africa could reduce its budget deficit by a half percent every year for the next four years.

Replying to a question by Mr Ken Andrew (DP) he said the deficit could be reduced to between 4,25 and 4,5% by 1998.

He considered this an acceptable level.

Dr Stals told the committee the Reserve Bank had no problem with the idea of Reconstruction and Development Programme bonds. — Political Staff, Sapa

AFRICAN LIFE
Fm 24/6/94

Useful test case

Activities: *Life assurance.*
Control: *Real Africa Investments 51%.*
Chairman: *A H Arnott. MD: W A Jack.*
Capital structure: *67,9m ords. Market capitalisation: R441m.* (58)
Share market: *Price: 620c. Yields: 2,9% on dividend; 4,4% on earnings; p:e ratio, 23; cover, 1,5. 12-month high, 700c; low, 400c. Trading volume last quarter, 800 000 shares.*

Year to March 31	'91	'92	'93	'94
Total assets (Rm)	209	259	313	427
Gross premiums (Rm)	52,4	69,7	104,7	168,3
Investment inc (Rm) ..	13,8	16,5	19,8	22,9
Total surplus (Rm) ...	31,1	39,9	64,4	98,1
Equity profits (Rm) ...	8,6	11,0	13,8	17,6
Earnings (c)	15,3	18,7	22,5	27,0
Dividends (c)	9,8	12,0	14,8	18,0
Tangible NAV (c)....	97	110	134	164

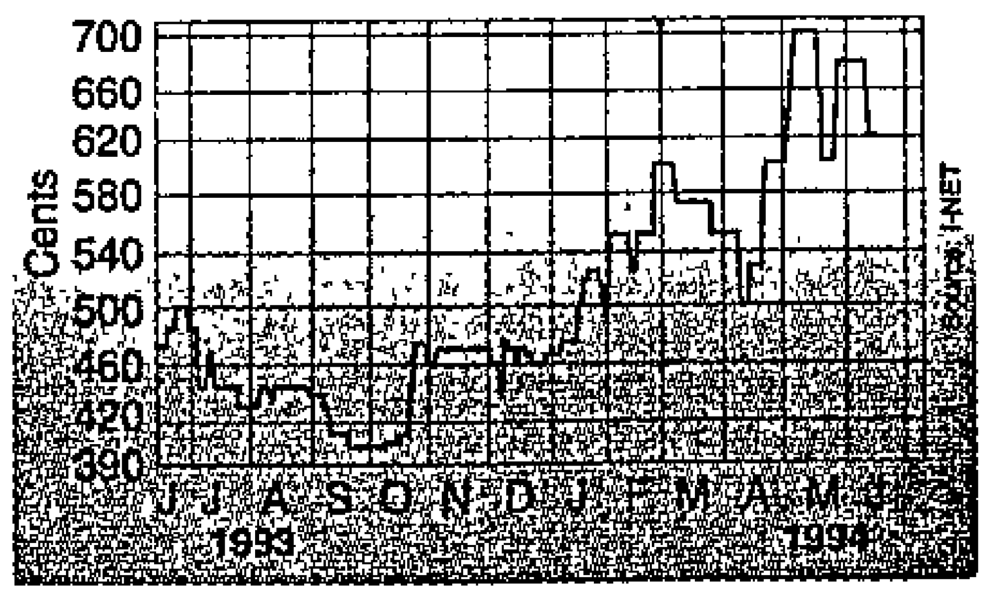
Among the listed assurers, African Life (Aflife) has tended to fill a unique position, offering low-cost, high-volume products mainly to black policyholders. While this is generally contrary to the trend of most other large listed companies, which traditionally have targeted the white market, Aflife's client base has been a broader reflection of society.

That makes the fundamental change to Aflife's shareholding structure, which took place in the 1994 financial year, almost poetically apt. After five years of planning and 18 months of negotiations (sounds similar to SA's political transition), former major shareholder Southern Life sold 51% of Aflife to a wide spread of black interest groups, under the banner of Real Africa Investments and headed by Aflife and Anglo American director Donald Ncube.

Southern Life retains a 25% interest, though Ncube, chairman of Real Africa, will succeed Adrian Arnott as chairman of Aflife at next month's AGM. Arnott will remain a director. Just as transitional SA went

Fm 24/6/94

African Life



through a phase when we clearly had two presidents, one incoming, one outgoing, Aflife's annual reports contains statements by both Arnott and Ncube.

Aflife was not the first group to engineer its shareholding towards black control, and a number of others will probably follow in the year to come. But Aflife has been one of the most significant and immediate changes of control.

That means, whether it likes it or not, Aflife will be closely watched as a test case in black financial empowerment. Its progress over the next few years will be measured beyond traditional criteria like earnings growth and returns to shareholders. Management is well aware that Aflife must be seen to succeed.

But for investors, it seems it's business as usual at the operating level. Board members have changed but senior management remains the same under CE Bill Jack. Aflife's solid growth since listing in 1990 remains intact, though the 61% increase in premium income is a new record.

While shareholding changes may be part of a political process which goes right to the heart of 44 Main Street, it's not going to help Aflife's trading activities in a competitive market just starting to emerge from recession. Aflife has been a rapid growth company (compound growth in premium income of 38% since 1986), often building expertise in new waters. That strong growth continues, but with it, probably naturally, comes concern that capital resources will be sufficient to meet future requirements.

New business strain is a common theme among assurers, especially smaller groups. Two factors — the relative lack of knowledge of Aflife's market and the high volume nature of its business — probably make Aflife more open to scrutiny than other assurers.

Jack points out that the life assurance fund of R228m is covered by investments of R341m, before considering current assets of R69m. In addition, scrip dividends have been well supported, strengthening the capital base. "In our current structure, that means we should not need additional capital, for example from a rights issue, in the immediate future."

Of course the new shareholders represented by Real Africa offer potential entry into new markets. Should a large new bloc of business come on to the books, or new products be developed, Aflife could conceivably use the strengthened rating of its shares to go to the market. (58)

Jack says talks are taking place with the shareholders — they include unions, church groups, stokvels and the Kagiso Trust — to try to assess the needs of their members. Group pension business and health-care products are possible new avenues of business, but Aflife is clearly going to proceed slowly and carefully, as in the past.

Notable on the income statement is the more than doubling of selling expenses, to nearly R50m. But this is directly related to the increase in new business, which at R110m has also doubled. Jack says Aflife tends to account for new business upfront, which can look dramatic in the first year.

Other expenses climbed a more manageable 17% to R41m and include the establishment of a new distribution system for single premium products. Measured against total premium income, year-on-year expenses declined from 33% to 24%, or against recurring premiums of R144m, from 36% to 29%.

Surrenders worth R9,5m, 36% more than in 1993, appear high, but once again can be related to the high volume of premiums written. Jack says the rate of surrenders is to be expected with the increase in Aflife's policy premium file, and is also partly a reflection of the economy.

Strong growth seems set to continue. This year Jack has upped his forecast to a 30% increase in premium income (last year he forecast 20%, against the actual 61% increase).

The share has also offered good appreciation, about one third higher than a year ago. The market has been quick to rerate the share, though it still lags the bigger life offices.

That means the counter still offers value — the potential of Aflife's new markets, coupled with the experience it has built up in these markets, could make this one of the more interesting shares in a sector which is now being overshadowed by some of the industrial boards. *Shaun Harris*

Aflife's Jack ... *talking to new shareholders*

New business opportunities arrive for African Life

Star 22/6/94

BY STEPHEN CRANSTON

African Life has been given a golden opportunity to win new business since control changed from Southern Life to Real Africa Investments.

Aflife MD Bill Jack says that the various organisations represented in Real Africa Investments account for some three million people directly and indirectly. The shareholders in the organisation include trade union groups, The Kagiso Trust, the National Association of Stokvels, church groups and black business leaders. (58)

Aflife is planning to move into the retirement funding and healthcare markets and the broader employee benefits area.

During the year a new distribution system was established on the Reef to market new guaranteed investment products, which enabled single premium income to increase from R6,6 million to R24,6 million.

Selling expenses more than doubled to R49,6 million in line with the increase in total new business.

Group funeral business grew particularly fast from just short of R7 million to R24,9 million.

Although Aflife's investments tend to be in traditional areas such as equities, property and fixed interest, it has made a number of socially responsible investments. One was in the Electrification Participation Notes, which is used to improve the supply of electricity to the underprivileged.

At a current share price of 675c, Aflife has a p:e of 25, putting in on a similar rating to Fedsure and Southern Life, but behind Metlife, Momentum and Liberty Life. With its considerable potential and strong track record, Aflife could be an exciting long-term investment.

Big plans for African Life

BDay 21/6/94

CHARLOTTE MATHEWS

REAL Africa Investments, which recently bought a 51% stake in life assurer African Life, would promote the growth of the company and form strategic alliances with partners who had a strong capital base, chairman-designate Don Ncube said in African Life's latest annual report.

In the year to March the company's total premium income grew 61% to R168,3m and its total assets were 37% higher at R427,3m. The total dividend for the year was 18c, a 22% improvement over 1993.

The company's expenses remained high, with selling expenses as a percentage of premium income now 29% compared with 22% in 1993. This compared with other life assurers' average ratio of 7% to 10%, an analyst said. African Life's management expenses as a percentage of premium income improved to 24,4%, against 33% in 1993.

CE Bill Jack said the increase in selling expenses was in line with the growth in total new business and the growth in marketing and administration overheads was about 17% year on year, taking into account the creation of a new sales division.

(58)

Almost half African Life's investments were in listed equities, which showed a 45% appreciation in value over the 12 months.

According to its statement of actuarial values of assets and liabilities, the company's excess of assets over liabilities was R168,8m compared with 1993's R142,0m, on a financial soundness valuation basis.

Premium income in 1995 was expected to be 30% higher but the increase in expenses would be more problematic since the company might establish new employee benefits and asset management divisions.

Flush Liberty hints at major US acquisition

BRUCE CAMERON (58)
Business Editor ARGUS 21/6/94

LIBERTY Life could be looking to buy a top life assurer in the United States in its quest to be a major world player in the industry.

Now well established in Britain, mainly through its joint ownership of Sun Life, Liberty Life announced at the weekend that it is seeking to raise $360 million to $500 million through a Euro-convertible bond.

In an interview yesterday Liberty vice-chairman Dorian Wharton-Hood declined to comment on the use of the money, apart from confirming that it will be used primarily for the purpose of facilitating the development of Liberty's offshore interests, including the reduction of offshore debt, with a "significant portion" going to the development of Liberty's business in South Africa.

However, later at a meeting of Liberty brokers in Cape Town he hinted that an American life assurer could be a target.

Mr Wharton-Hood said: "Liberty Life is unashamedly a global player. There are all sorts of exciting things we can do."

He confirmed that Liberty chairman and founder Donald Gordon had shifted his base to Britain from where he was now conducting the company's international affairs.

Mr Wharton-Hood pointed out that with R21 billion in shareholders' funds and free reserves, Liberty had the biggest asset base of any life assurer in the world except in Japan.

"This gives us a huge advantage when we need capital to go and raise the money."

This enabled Liberty to make appropriate acquisitions both locally and abroad.

"You can buy the biggest life company in the world for R1 billion."

This was particularly the case in the United States where many companies were in trouble and would like to de-mutualise.

Mr Wharton-Hood emphasised that Liberty would stay concentrated on its "first focus" — life assurance.

And the focus was also the middle to upper income group market.

He said although Liberty invested in other companies, this was not done to control them. A major reason for Liberty's success was this focus.

The second reason for the success of the company was its capital base. The third reason was the quality of its strategic investments; and the fourth reason was the "DG" or Donald Gordon factor, who had set the standards, rules and culture which were retained even though Mr Gordon was now based overseas "positioning Liberty as a world player".

■ The Liberty Life announcement of the proposed bond issue pushed the company's shares up by 150c to a 12-month high of R100 yesterday with foreign buyers playing a role.

The surge on the weekend announcement also took the JSE insurance index up 50 points (one percent) to a year high of 5693.

Cape of Good Hope Bank rated tops

58

CAPE of Good Hope Bank, SA's oldest bank, has maintained its position in holding the highest credit rating for a regional bank, according to Republic Ratings.

The bank has been given an A1-plus rating based on the additional support provided by Nedcor.

Republic Ratings adds that "from a competitive perspective, the bank has maintained its superior operational efficiencies and continues to reflect a higher quality of advances than most of its peers".

The bank's MD Mike Thompson mentions that rating agencies were crucial to the successful operation of a regional bank.

CT 21/6/94

Bank nominee companies 'out of line'

(58) CT 20/6/94

JOHANNESBURG. — South Africa's four largest bank nominee companies control 15,6%, or R134bn, of the Johannesburg Stock Exchange on behalf of undisclosed owners, information consultancy McGregors said.

Director Andrew McGregor said legislation needed to be extended to ensure the disclosure of the owners of shares held by nominees.

"If the banks are to play a greater role in the equities market it is essential that legislation is extended to the disclosure of beneficial holders of shares by nominee companies," he said.

Standard Bank Nominees holds R56bn on behalf of undisclosed beneficiaries, CMB Nominees R54bn, First National Nominees R20bn and Nedbank Nominees R4bn, McGregors calculated.

Disclosure

Nominee companies, contrary to the Companies Act, are not obliged to disclose on whose behalf they hold, buy or sell shares.

He said this undermined the right of the public and the shareholder and was typical of the country's covert business culture. It was also out of line with international standards.

Such secretiveness raised the danger of shareholders making uninformed investments and being severely damaged by the consequent collapse of companies they had put money into, like the Masterbond and Table Mountain Trust debacle.

"Members of the public, shareholders and potential shareholders need access to more not less information," he said. — Sapa

Liberty Life for megabuck bond venture

ARGUS 20/6/94 (58)

Business Staff

INSURANCE giant Liberty Life is to launch a South African company's first ever Euro-convertible bond issue of between $360 million and $500 million.

The Eurobond issue would be used mainly to develop the group's offshore interests, a statement said.

Proceeds would also be used to reduce existing offshore borrowings which arose out of the constraints involved in remitting capital resources from South Africa.

"I very much look forward to this historic and trail-blazing new issue," chairman Donny Gordon said, "which would further contribute to the continued successful development of the Liberty Life Group."

He believed international institutions were motivated to acquire stakes in prime South African corporations following the country's re-entry into the global financial community.

"Once the momentum of international investment has been established, this could be the precursor to a substantial inflow of new funds into the South African economy as confidence is further engendered," he said.

Robert Fleming & Co is to be the lead manager and book runner for the issue. It is assembling a powerful international group of lead managers for the issue which will be marketed across the globe.

The convertible bonds will not be listed on the JSE, but an application will be made to list the shares arising from the conversion of the bonds on both the JSE and London Stock Exchange.

An application will be made to list the convertible bonds themselves on the LSE.

Query over rand repurchase 'limit'

CT 20/6/94 (58)

Reserve Bank 'embargo' confuses

From IAN HOBBS and PETER GALLI

JOHANNESBURG. — There is confusion among banks and foreign exchange agencies over an apparent embargo by the SA Reserve Bank, introduced during the election period, on the repurchase of rands sold abroad.

The result has been difficulty for some SA travellers in exchanging rands for local currency as the embargo appears to be still in force.

There were conflicting statements by foreign agencies and the Reserve Bank at the weekend.

In London, a spokesman for Europe's biggest travel and exchange agency, Thomas Cook, said the Bank had acted against an anticipated massive illegal outflow of rands by putting an embargo on buying back rands from foreign exchanges. Thomas Cook had responded "prudently" by putting a strict limit on rand purchases.

"We already held an excess stock of rands. We took the precaution of limiting the size of transactions to the small amounts tourists might normally need during the duration of the Reserve Bank embargo," she said.

However, Reserve Bank Governor Chris Stals denied that the Bank normally bought back rands sold abroad by SA citizens, or that the situation had been changed by an embargo. Such transactions would contravene the Bank's own foreign exchange control regulations.

"The Reserve Bank never buys back from foreign countries, not even from banking institutions abroad. The only exception is some southern African regions, where we have signed agreements in this regard," he said.

People leaving the country were restricted to taking out R200 in SA banknotes, and would be in breach of foreign exchange regulations if they took more.

"If we bought this money back we would be in breach of our own regulations and legitimising what would be a forex loophole," Stals said.

The Thomas Cook spokesman said that if major money exchange organisations did not have a guarantee of repurchase by the central banks, and risked being left with large excesses of currencies like the rand, they would be reluctant to trade in them.

The embargo that had influenced recent rand trading was put in place in the run-up to the elections and was "still in force".

The spokesman insisted that previously the SA Reserve Bank "most certainly did buy rands back", although she could not say how and where this was done.

Cooks, who stress they have a long and proud record of trade with SA and have recently started issuing rand travellers' cheques, are continuing to handle "normal" smaller rand transactions despite the "election" embargo. So are many major banks, including Barclays.

One London official, who insisted that his bank should not be named, said: "I believe the legal limit South Africans can bring out in cash is R500. We are quite happy to make such exchanges. But if a stranger walks in and wants to exchange, say R20 000, we may feel obliged to make inquiries."

A money exchange source in London said: "Obviously, the SA Reserve Bank is extremely sensitive, but of course they have to take back money that moves through foreign exchanges. How they do this is their business and they obviously don't want to discuss the matter."

Good Hope Bank gets 'A1' credit rating boost...

BRUCE CAMERON
Business Editor

(58)
ARG 18/6/94

CAPE of Good Hope Bank — the country's oldest bank — has had its credit rating improved on the back of its above industry norm results this year.

Credtit rating company, Republic Ratings, has improved Good Hope's rating to A1-plus on a "with support" basis, while keeping its A2 rating for its stand alone capacity to repay short-term deposits.

With the new rating the bank has maintained its position of holding the highest credit rating given to a regional bank.

The bank, which has been in business since 1831, was given the upped "with support" rating on the basis of being a Nedcor subsidiary.

Republican Ratings said: "From a competitive perspective, the bank has maintained its superior operational efficiencies and continues to reflect a higher quality advances book than most of its peers."

It was impressed by the bank's 1993 performance in achieving a 27,3 percent return on equity and 1,5 percent return on assets — well above industry norms.

The bank's MD Mike Thompson said the ratings, which assured clients of a great deal of security, were crucial to the successful operation of a regional bank.

International Bank seeks more investment for SA

B/Day

ROBYN CHALMERS

THE recapitalised International Bank aimed to facilitate SA's re-entry into the global financial community and would seek local partners to achieve this, backer Dresdner Bank said yesterday. 14/6/94

The German bank's international head Volker Burghagen said the bank had recently been recapitalised to the tune of R30m, but a portion of this had been used to cover loan losses in Cape Town. (58)

International Bank MD Rod Gamble said the organisation currently had a capital base of R25m which would grow in line with profitable business opportunities. It had identified a niche role in the trade and corporate finance markets.

The International Bank is backed by a consortium, Société Financiere les Pays d'Outre-Mer (SFOM), comprising three well-respected European banking houses — Belgium's Banque Bruxelles Lambert, French-based Banque Nationale de Paris and Germany's Dresdner Bank.

Burghagen said while SA was well served by local banks, the banking community had been affected by years of isolation.

"SA has been revitalised, but from a business perspective, the country also needs to be recapitalised. It needs international investment and we hope to be a link in that chain."

The banking group had already undertaken certain initiatives with Nedcor in neighbouring African countries. In Namibia, SFOM merged with Nedcor to form the Commercial Bank of Namibia, and there were formal links between the two groups in Zimbabwe.

The floundering economies of many of SA's neighbours meant future investment would take time, but both Nedcor and the International Bank were looking at ways of servicing customers who were operating in southern Africa.

"There are clear intentions on both sides to expand our co-operation efforts into other areas in Southern Africa, but we are in no particular hurry," Burghagen said.

"We wish to build bridges between ourselves and other SA banking institutions and companies, between SA companies and international capital sources and financing structures and with our counterparts in the north."

Mutual fund will test JSE

BRUCE CAMERON
Business Editor

THE Johannesburg Stock Exchange faces a major test of overseas confidence with the decision by Old Mutual to go ahead with its South African fund.

This is the fourth major fund to be announced that will invest in South Africa and the region — but the first to be launched out of Britain and the first to be run by a South African finance house.

The fund is closed end will trade on the London Stock Exchange on the investment board.

Closed end funds listed on Wall Street are currently not doing too well and are trading at a discount to their listing price.

Portfolio manager for the Old Mutual fund Arnold Shapiro, who has spent a number of weeks in Britian speaking to fund managers and major investors, is however confident that the listing will be successful.

He said there were a number of differences between the funds in the United States and the Old Mutual fund.

One of the main differences was that Old Mutual was looking to sell shares in the fund to long term, major investors whereas shares in the United States' funds were being traded by small, speculative investors.

The Old Mutual fund was also aimed primarily at South Africa's lesser known (in international terms) second line shares.

"This is where there is the best value for money at the moment." (58) ARGT 14/6/94

Overseas investors could buy South African gold shares in Britain and other blue-chips but it was difficult for a foreign investor to buy good value second line shares.

Mr Shapiro said there was insufficient expertise or knowledge about the 200-odd companies.

Old Mutual had the expertise.

A public offer for shares in the £50 million fund will open on June 23 and close on July 1.

Mr Shapiro said no advancve buying of South Africa scrip had been done.

Also, he anticipated it would be fairly difficult to buy up shares with the current shortage.

Old Mutual has been extremely cautious in launching the fund after a previous attempt in 1991 took a dive as a result of foreign disinterest.

■ Foreign capital is likely to flow into South Africa, provided the government is committed to free markets, says the Bank For International Settlements (BIS).

In its latest annual review the BIS, the central banks' central bank, contends that if South Africa continues to pursue economic policies acceptable to foreign investors it will have a good chance of attracting overseas investment.

Rapid economic growth is necessary since South Africa will be competing with Asia and South America. Foreign direct investment in developing nations was $74 billion (R268 billion) last year, estimates the BIS.

Santam growth fails to boost shares

B/Day 10/6/94

CHARLOTTE MATHEWS

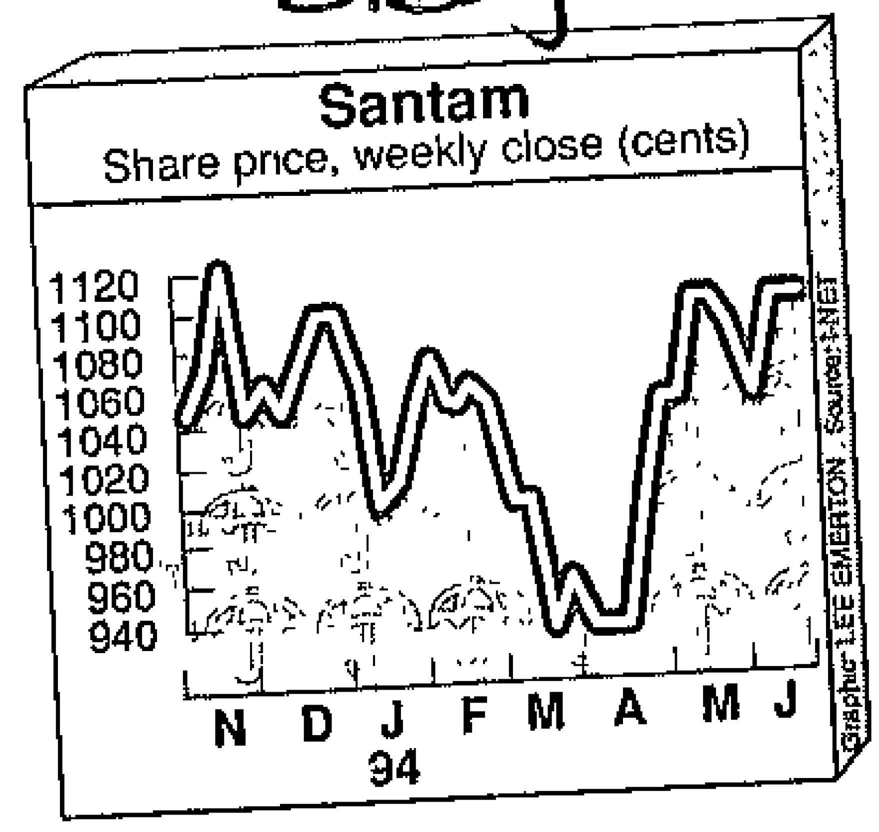
SHORT-term insurer Santam's poor JSE performance had defied its five-year assets and earnings growth record, analysts said yesterday.

The company's shares, at a current level of R11, are only 3,8% above their price of a year ago. Their price:earnings ratio, at eight times, is among the lowest in the sector.

The share has recovered some ground from its low of R9,35 in March and April, when it was affected by reports of looming strike action by the SA Society of Bank Officials.

Santam's lacklustre performance is considered unjustified by many analysts, since the company has shown consistent asset and earnigns growth over the past five years.

Total assets at September 1993 were R1,4bn, double 1989's R667m, while earnings a share doubled over this period to 151c from 73c in 1989.



Although underwriting profits are typically volatile, pre-tax investment income, on which Santam bases its dividends, rose to R106m from R61m over the five years.

Santam's solvency margin rose from 33,3% in 1989 to 62,8% in 1993, well above the 15% legal minimum.

Recently released figures for the six months to March showed an 18% earnings drop, mainly on a halving of the underwriting surplus.

But this was part of a trend shown by most short-term insurers as a result of the sharp escalation in crime since October. (38)

Analysts said investors were slowly re-rating the company. There was continued negative sentiment about its solvency ratio, which had been poor in the past and remained one of the lowest among the listed short-term insurers.

Both Santam and Mutual & Federal were trading at a price similar to their net asset values, determined by their investment portfolios.

But Mutual & Federal's price:earnings ratio was high and Santam's was low because Mutual & Federal's portfolio consisted mainly of high-growth equities while Santam's had a greater proportion of high yielding, low-growth fixed interest investments.

BANKING

Clearing the fog

Fm 10/6/94

Coercive laws can be avoided if bankers and politicians are sensible

The row between politicians and bankers over the supposed racial bias of bank loans is likely to generate much more heat than good sense before it is over. This is a pity, for the resumption of lending to potential black home-owners is a critical element of Housing Minister Joe Slovo's plan Subsidies may smooth it along but without mortgages the plan is doomed

The problem politicians have is how to create a greater flow of mortgages to their supporters, many of whom the banks have regarded as high-risk customers. The natural inclination of the Left is to use coercion when it believes it has a justifiable claim — in the name of what it imagines to be social justice — on the assets belonging to others.

That is what is behind the intimidatory call for banks to be forced to declare whether they are lending to blacks or whites. It could be seen as the beginning of a process whereby government could decide to whom the banks should lend. The next logical step, of course, could be an instruction to the banks that loans to blacks must be offered at lower than market rates of interest.

That, in turn, would threaten the commercial viability of the banking system and so defeat the political objective. Bank depositors and shareholders would find other outlets for their capital and the bulk of homeless would remain homeless.

Some banks, in the initial enthusiasm to lend to black homeowners, burnt themselves quite badly Rent boycotts turned into bond boycotts — though the latter has been neither widespread nor pervasive Nevertheless, they encouraged a culture among blacks of nonpayment. This was politically useful to those now in government — who, ironically, must depend on bank mortgage support to make good their electoral promises

The banks also had political difficulties over the repossession of houses where the owners refused or were unable to meet their obligations. These essentially noncommercial risks forced the banks into so-called redlining — a practice whereby a ban is placed on granting bonds in certain areas.

Piet Liebenberg

Inexperienced politicians, as well as aspirant home-owners who believe they are being discriminated against because of race, may welcome a proposal by an ANC-appointed team of legislators which would require banks to disclose how they are granting credit, on a racial, geographical and sex basis.

Neil Morrison, ANC co-ordinator of money and finance, says legislation might not be necessary if other solutions can be found Morrison is at pains to point out that the ANC does not wish to impose legislation until discussions have taken place between all parties. "The banks' suggestions will be taken as seriously as ours," Morrison says. It seems the first draft of the proposed legislation is already being toned down before it is discussed with the banks.

The hard Left, in the form of the civics (more particularly Sanco, the national civics association), seems adamant that the legislation should be introduced regardless.

The proposal for prescriptive legislation, which might form the basis of a Community Reinvestment Act, has been drafted by the ANC team "to promote the availability of credit to all creditworthy applicants and to discourage red-lining," says Morrison. According to Carien Engelbrecht, co-ordinator of the team, "banks haven't been able to orientate towards the black market and there is no information to show otherwise."

As well as requiring information such as the race, sex and geographical location of each loan applicant, the draft proposal requires banks to provide rejected applicants with written reasons for refusal. The authorities would attempt to use the information collected to determine whether there is discrimination based on race, sex or geographical area.

"We are trying to identify lending patterns which might reflect that banks aren't lending to certain areas or people," says Engelbrecht. "If these trends are reflected in the data, we can then go to the banks and ask them why these discriminatory practices are appearing."

However, she claims that legislation would not require banks to make loans which do not fit with sound risk criteria. Client confidentiality will be guarded, as the information required will not provide specific names but only figures. In our view, both statements might easily be contradicted in practice.

Morrison believes this type of legislation would have a temporary life. "There is no data available to assess where the problem lies and how great it is," he says. "If banks don't discriminate, they will be able to prove it." But such proof could be offered only at substantial cost, not only to shareholders but to the community — because banks will have

Continued on page 30

Fm 10/6/94

Continued from page 26

to divert resources that could be applied more productively.

The proposed legislation is similar to legislation enacted in the US in 1977 The Community Reinvestment Act (CRA) was initially introduced to stop banks discriminating against people who live in certain geographic areas, particularly black inner-city areas.

A group of representatives from Sanco and the bankers will go to the US next month to visit communities where banks participate in local funding programmes.

According to Morrison, who has worked on the proposed legislation for about a year, US banks place great emphasis on social programmes He cites the examples of Citibank, which provides 2,74% of its after-tax profits for social programmes; Chase Manhattan (1,61%) and Morgan Guaranty (1,05%). Chemical Bank has a CRA policy committee which meets quarterly to monitor the bank's CRA plan and advises on new projects It has also formed a Community Development Group to provide finance in low-income areas

One of Chemical Bank's projects is finding ways to increase the availability of housing finance It provides a fixed-rate 15-year or 30-year mortgage, with more flexible underwriting criteria than those used for a normal mortgage. Monthly debt.income ratios are increased From the 5% down payment required, only 3% must be from the borrower's own funds. And for those who don't qualify for this mortgage, Chemical Bank has committed a $10m pool of funds for mortgages with even more flexible underwriting criteria

Another community-based organisation in New York City is the New York Mortgage Coalition, which is made up of 10 banks. It helps lower-income families with their mortgages in New York City, Long Island and Westchester and provides home-ownership counselling. Participating banks offer home loans with lower down payments and flexible underwriting requirements.

However commendable this counselling may be, any comparison with the US is flawed The geographical area in which US banks may operate is restricted, though this is changing. Blacks constitute a small proportion of the US population, so the cost of special arrangements for them is lower than it would be for similar schemes here.

But apart from that, US banks are allowed by the authorities to go bankrupt. Where this has threatened to become pervasive, the taxpayer has had to pay heavily to maintain banking stability. In short, the US banking system has little to recommend it in almost any form or function to SA.

The preference of SA banks is for self-regulation, rather than government regulation as in the US. Council of Southern African Bankers (Cosab) outgoing chairman Chris Liebenberg says: "It is not in our future interests that the authorities impose unnecessary and costly regulations on an industry as sophisticated as ours. A desirable scenario for the future would be for the authorities and the banks to co-operate on regulatory philosophies, so that the role of the authorities diminishes over time. The emergence of enlightened self-regulation, in which the interests of all our stakeholders are protected, is therefore envisaged"

Swart

So far, without legislation, banks have made small inroads into providing schemes to finance low-income communities They have supported the Community Bank, which aims to provide community lending, with resources and infrastructure UAL, part of the Nedcor Group, has come up with an innovative way to finance housing. Its Collateralised Housing Paper was designed to provide income for low-income housing while offering investors a return But it is no panacea.

Nedcor Bank's Mike Leeming says his group is already reassessing lending policies to adapt them to criteria that place less emphasis on having a credit record and living in the same property for a certain time

FNB's Barry Swart believes banks were prevented by apartheid from lending in black areas and they have avoided taking a political risk by lending in unstable areas. Swart believes the proposed legislation is retrogressive. "We stopped asking for the applicant's race group years ago for the reason that it is discriminatory" He points out that banks have financed the greater part of the black furniture retailers' debtor books, because only a commercial risk was involved.

Leeming

Cosab CE Piet Liebenberg believes banks do not discriminate on race. "They discriminate on risk," he says. "They have to lend according to strict lending principles to protect depositors."

Liebenberg believes the new government could instil a new culture into areas where there has been a breakdown of law and a culture of nonpayment. "The new government has to help temporarily, so we can go back into these areas with little risk until the situation becomes normal."

The government Mortgage Indemnity Fund will insure banks against nonpayment of bonds and will cover them if they cannot repossess homes. Liebenberg reckons it will take two to three years before these communities become normal again. "If the Mortgage Indemnity Fund works, we won't need legislation."

Fm 10/6/94

Meanwhile, it is clear that banks could be threatened with coercion that will attempt to limit their stewardship of their own and depositors' assets. For instance, Moses Mayekiso, formerly president of Sanco and now an MP, recently proposed a levy on banks. He has also suggested that banks which fail to lend into low-income communities should be penalised at the discount window at the Reserve Bank by being forced to pay higher rates.

But governors of central banks elsewhere in Africa are almost unanimous in warning that governments tamper with the commercial lending criteria of domestic banks at great peril. Their experience has been that it undermines banking viability and discourages investment.

What government and the civics here will eventually learn is that banks cannot be legislated into viability and prosperity — yet it is easy to legislate them out of business. No government can legislate investment into being. It has to create the right conditions for investment and raise investment expectations — always a fragile phenomenon — through encouragement and blandishment.

It does not matter that bond repayment boycotts were in reality few and far between, or that those who once fomented violence and nonpayment are in government. Suspicions will linger and investor expectations are what govern a willingness to invest That is where the ANC and civics should concentrate their endeavours.

They must signal that black home-owners will be encouraged to meet obligations They have the political structures that will command the attention of bankers, however reluctant the latter may be.

These structures are needed to educate the bankers, as much as the bankers need to use their organisational reach to educate their potential customers.

In short, this problem can only be served by co-operation Coercion will threaten the whole system. Unpleasant through it may be, government and the civics will learn that they need the banks more than the other way around. The ANC has very sensibly given some indication that it understands that more can be gained by waving the carrot rather than the stick.

We have no doubt that the banks will adapt — and will want to adapt — to changing and more stable conditions in this country. Whatever racial bias their loans may have had was the outcome of a rational reaction to perceived risk.

What the ANC needs to do is convince the banks that the risks which they want them to take now will lead eventually to substantial rewards. A logical argument backed by intimations of good government and economic responsibility will, we believe, fall on surprisingly fertile ground. ■

'No basis' for council action, says association

(58)

ARG 10/6/94

SHARON SOROUR, Labour Reporter

THERE is "no basis" for impending court action to be initiated by the city council against the South African Association of Municipal Employees for allegedly overcharging life assurance premiums, says association secretary Gawie Beukman.

This follows a council statement that its attorneys had been instructed to initiate a claim against the SAAME for the repayment of all excessive money claimed by and paid to the association in respect of group life assurance premiums for members.

Council public relations officer Ted Doman said if the action was successful, and money was recovered, employees would be reimbursed for any excessive premium deductions made from their salaries.

But Mr Beukman said the association had not been approached "officially" by the council over the matter, and was "completely unaware" of the basis of the council's case.

Mr Beukman said he was surprised the council had issued a press release on the issue without consulting the association.

"Our legal advisers do not believe there is a basis for any fraud charges and we would have an excellent chance of successfully defending the civil action," Mr Beukman said.

Empowerment: African Life may not be as good for policyholders as shareholders

Weighing up Aflife

(58) WM 10-16/6/94

Jacques Magliolo investigates the insurance company vaunted as a venture into black empowerment, African Life

THERE are some problematic figures in the balance sheet of Assurer African Life, sold recently in a deal hailed as black empowerment

A cursory look at its annual results shows a solid, progressive company on a growth path. A close look at the figures, however, reveals cause for concern.

The firm's balance sheet, which is a reflection of the company's financial profile as at end-March 1994, should be questioned by policyholders and investors alike.

Under Funds Employed, the firm provides a breakdown of its capital base Here, shareholders' interest — made up of funds obtained from share issues, premiums and distributable reserves (used to pay dividend) — grew by a remarkable 31 percent.

If you're a shareholder, this means the company has improved its funds and financial status and your investment is sound. Such figures are often used by companies to promote positive investor sentiment, which ultimately bolsters its share price

Aflife's ability to reduce long-term debt by 13 percent during adverse trading conditions is also impressive A reduction in long-term loans, together with an increase in shareholders' interest, means the company has reduced its debt ratio.

However, it is the remaining figure under Funds Employed, labelled The Life Assurance Fund, which should raise eyebrows.

This reflects the amount of money available to pay future policy claims. In 1994 this grew by 26 percent, which is, in itself, impressive and amounts to an increase of R47,3-million.

But this is where policyholders and

■To PAGE B4

Wild thing ... From the ad that won the cinema and TV Grand prix for Hunt Lascaris

Are the Loeries worth the cost?

Reg Rumney

HOLLYWOOD'S Lou Gosset Jnr and TV1's Penny Smythe were genial, if not entirely slick, masters of ceremony; Abdullah Ibrahim unobtrusively played a few numbers in between courses; and the cast of *The Buddy Holly Show* rounded it all off with some rousing 50s numbers.

The real stars of the Loerie awards were the ads and, with the exception of the print ads whose type was too small to see on either of the big screens in the Sun City Superbowl, they were enthusiastically greeted. The enthusiasm turned to obstreperousness among some of the hoi polloi in the gallery as the evening wore on and the liquor flowed into them in the numerous breaks while the diners below finished their meals.

There were few hitches, however, and the general feeling is that the event was the best managed yet. With just a touch of the Oscars and suchlike glamorous mutual-admiration ceremonies, the Loeries went off better this year than ever before.

But was it worth it? Estimates of the costs involved start at R1-million.

In an industry as vocal and indiscreet as the ad business, it is to be expected that questions would be raised about the venue, the cost and the purpose of the whole affair.

Reg Lascaris, of the agency that won most accolades at the Loeries, Hunt Lascaris TWBA, points out that the event should match the nature of the industry, which is about hype. Every major country has a big ad awards ceremony, he notes. "Either you scrap it or keep it at a high standard."

All over the world two sets of awards exist, Lascaris adds, one for creativity and the other for effectiveness, and most of the time the same ads win awards for both.

"I think it is something we should be able to afford at least once a year," says O&M's Bob Rightford.

Lintas MD Lew Slade says he enjoyed the Loeries for the first time this year, and praised the presenters and organisers.

Slade is not perturbed by supposed extravagance. The Loerie awards, he says, are the one time when the glitter of the 60s and 70s, now rubbed off by harder times, returns to the ad business. Besides, he surmises, industries which have equivalent events, but are in areas branded as less glamorous, might have events which cost as much; they would not, however, attract as much publicity.

On the hoary debate about creativity for its own sake versus effectiveness, Lascaris says the overlap is

■To PAGE B2

Assets managed by insurers soar 35% to R278 billion

(58)

ARG 9/6/94

☐ Group business depressed by stagnating employment

BRUCE CAMERON
Business Editor

THE life insurance industry is managing R278 billion in assets on behalf of policy holders and group fund members — and most of the money invested in shares and property.

The amount of money invested with insurance companies has grown by 35 percent over the past year, with money pouring mainly into individual business.

Premium income from individual policies increased by 23 percent to R26 billion, chairman of the Life Offices Association Neal Chapman said.

Premium income from new business increased by 31 percent (R26 billion).

Premium income from group schemes, pension and provident funds increased by 11,5 percent to R13,8 billion.

Mr Chapman said the relatively modest increase in group fund premiums was a result of stagnating employment and modest salary increases.

He said the industry had seen its tax bill grow by 22 percent a year over the past 10 years and paid R992 million into the state coffers last year. This is more than one percent of total tax collected.

Mr Chapman said that income from the investment of assets had been 9,65 percent for 1993. Although this was substantially lower than the increase in assets, it reflected the lower interest rates and low increase in dividends.

But this was countered by the significant capital appreciation of assets.

The aim of the industry was to protect people's savings against inflation.

"To do this we have to invest in avenues that will show a real return, rather than current income."

By investing in shares and property the industry not only earned attractive returns for policyholders, but also used their savings directly to finance the economic growth of the country.

Last year the industry increased benefits paid to policyholders by 27 percent to R27,8 billion. He did not say whether this figure included surrenders and lapses.

On the controversial issue of surrenders, he said withdrawal from a group fund or a policy surrender often reflected the collapse of somebody's financial planning.

"This causes the industry enormous concern, but it is usually the result of misfortune beyond the control of the affected individual or of the insurer."

Mr Chapman said one of the positive aspects in the 1993 figures was the containment of expenses to 11,6 percent of total income. Ten years ago the figure was 13,3 percent and in 1973 it was 18,3 percent.

He said this showed that life insurance had become chepaer over the years with computerisation making the industry more efficient.

Remgro's net income more than R1 bn

(87)

MARC HASENFUSS
Business Staff ARG 9/6/94

THE Stellenbosch-based Rembrandt Group (Remgro) notched up a satisfactory 10 percent increase in net income from normal business operations to just over R1 billion (R951 million) or 200,9c a share for the year ended March.

The results do not justify the slump in Remgro's share price to R27,75 — which is well off a 12-month high of R36,75. Market sentiment, however, has been shaken by speculation of increased excise duties on tobacco and liquor.

The group's tobacco and liquor interests contribute nearly half of total earnings.

Remgro directors noted recent speculation in the media on increased excise duties on the tobacco industry.

But they would only say: "With the facts currently at our disposal we are not in a position at this stage to comment on the possible impact on the industry."

A final dividend of 26,40c was declared, bringing the total payout for the year up 20 percent to 43,44c. A special dividend of 14,52c was also paid in October last year.

Net income before taxation crept up 6 percent to R1,3 billion in the period under review, but a lower tax bill pushed net income after tax up 19 percent to R925 million.

A 14 percent drop in net income from associated companies to R179 million and a higher payout to "other members" limited bottom line growth to 10 percent.

■ **Lydenburg Exploration** has paid R9 million for an additional 10 percent of the benefits from Gold Field's Kalkoenkrans Project near Ventersburg.

Premier earns more in difficult year

(45)

ARG 9/6/94

ALIDE DASNOIS
Business staff

THE giant Premier Group managed to lift earnings 11 percent in one of the most difficult years in its history, chairman Peter Wrighton said.

Turnover in the year ended April was hit by relatively slow rises in food prices and by unemployment. Prices of Premier's basket of goods rose only 4,5 percent over the year, he said.

Trading profit of R634,7 million was reduced by a heavy interest bill (R78,9 million) ascribed to the inclusion of the borrowings of United Pharmaceutical Distributors (UPD) and Bonnita, as well as changes in accounting practices and expansion.

During the year the group increased its stake in UPD to 51 percent and in Bonnita (which now owns ice-cream producer Aylesbury) to 53 percent. Premier Pharmaceuticals, which strengthened its product range through a series of acquisitions during the year, showed exceptional results, Mr Wrighton said.

Performance from the food division was disappointing, though fishing did well. Bonnita achieved budgeted profits during the year.

In other divisions, Metro Cash and Carry maintained its momentum, CNA and Teltron showed encouraging results, but Clicks disappointed.

Interest-bearing debt jumped from R244 million to R449 million, but the group said the debt-equity ratio, at 20,4 percent, was still at an acceptable level.

A total of R88 million was written off for extraordinary items, including the restructuring of the food division.

Unibank seeks to net troubled Prima Bank

B/Day 7/6/94

ROBYN CHALMERS

ACQUISITION-hungry Unibank could step into the breach and rescue troubled Prima Bank if current negotiations between the two parties are successful.

Prima Bank was placed under curatorship in May. Curator Tim Store said yesterday in a circular to depositors that Prima Bank had attained the approval of the Reserve Bank to negotiate with Unibank to secure "the best possible arrangement for the bank's depositors". Unibank's major stakeholders include First National Bank, Fedlife and EG Chapman.

Unibank MD Gerrit van der Merwe confirmed the organisation was holding talks with Prima and would hold a diligence investigation to ascertain Prima's financial status.

"There are a number of reasons behind our interest, including the fact that a portion of our clients are the same. Prima is involved in asset based finance activities, which is one of Unibank's core businesses.

"Although it is still early days, should we come to a sensible agreement with Prima we will get well-trained staff and there are important opportunities for future growth," he said.

Van der Merwe said the two banks were negotiating the terms of the proposed acquisition and the amount of capital which would have to be injected into Prima. The talks should be completed within two weeks.

Store said preliminary findings on the affairs of the bank had made it clear that Prima would not be able to trade out of its current situation without outside intervention.

It would not be possible to release any part of depositors' funds until the negotiations were complete, but Prima would continue meeting interest payments during this period.

Merchant & Investment Bank (Miba) executive director Vusumzi Make said the negotiations between Prima Bank and Unibank would not affect the formation of Miba, the first black-controlled merchant bank in SA. (58)

Initially, Prima was to be used as a vehicle for the formation of Miba, but this was stymied when Prima was placed under curatorship. Nevertheless, Make said the concept of Miba would not be allowed to die. Miba was in talks with another prospective vehicle-company, he said.

"Discussions are under way to house Miba and we expect an outcome on this soon. Should agreement on these talks not be reached, we will look elsewhere.

"Miba will be critical in assisting growth in the SA economy by playing an important role in African trade and uplifting the black business community. We will do whatever needs to be done to ensure Miba goes ahead," he said.

Miba finds a way out of Prima Bank's mess

S/Times (Buss) 5/6/94

By ZILLA EFRAT

SOUTH Africa's first black-controlled merchant bank, Merchant & Investment Bank (Africa), or Miba, will be formed soon in spite of the fact that Prima Bank is under curatorship. Prima Bank was to have formed the foundation of Miba, but it was placed under curatorship last month because of mounting liquidity problems.

Vusumzi Make, executive director of Africa South Enterprise Investment Corporation, says negotiations are under way to house Miba elsewhere and to attract additional institutional partners.

SA and foreign investors, including Liberian businessman Bert Cooper, are expected to remain in the deal.

Original investors were to have placed R40-million in the new bank. Now, with additional partners, their investment should be larger.

Mr Make says of the original proposals: "On the basis of Prima's audited statements, we acted in good faith. But in time we found the situation was different to what we expected."

He says Miba should emerge in a stronger form than envisaged.

Miba chairman Don Mkhwanazi says the first setback was an unsuccessful attempt by former Cape Investment Bank chairman Jan Pickard Jnr to block the sale of Prima Bank to Miba.

(58)

But Mr Pickard "did us a favour in an odd sort of way. While he was holding up the Miba deal, several problems at Prima Bank were brought to our attention."

Mr Mkhwanazi says the pre-election "Zulu mayhem" in Johannesburg troubled Miba's foreign investors and they asked for time to review their commitment.

Mr Make says Miba will be involved in traditional merchant banking. It will also promote black economic empowerment and develop trade between SA and the rest of Africa.

"Miba has been hit by a series of setbacks, but it is better that they happened at the beginning than further down the track."

'People's bank' hit hard by bad image

58 ARG 4/6/94

BRUCE CAMERON
Business Editor

ABSA Bank, with 85 000 shareholders, comes closest to being able to claim the title the "people's bank" and it wants just this image.

However, Absa chief executive Danie Cronje frankly admits that the bank's image was hit hard by poor publicity after the mergers which made it into the country's biggest banking institution.

But Dr Cronje, speaking to investment analysts in Cape Town, was sure the bank which has appeared to lurch from one crisis to the next was now on the road to recovery.

Judging by the recovery of the share price over the past few days, he could be right. It has shot up by 32 percent over its low of 670c.

Although this is good news for the shareholders, the share is still under-performing compared to Absa's competitors, whose shares trade at a solid premium to net asset value. Absa net asset value a share is 958c.

If Dr Cronje is right and he can overcome the problems, the price is likely to grow.

He is committed to looking after his shareholders and has cut away much of the guff attached to company mission statements, saying the bank's primary mission is to make profits.

And the profits are there to look after the shareholders, many of whom, he said, relied on their share income to live. This was the reason why dividends were maintained at 43,5c a share against a drop in dividend cover from 2,8 to 2,7 times.

The problem is to get the bank into profits-growth mode and one of Dr Cronje's problems is to increase market share – something poor publicity has made difficult.

Dr Cronje admits the bank is still saddled with a number of problems, right down to poor service because of low morale after the merger.

But he is looking to improve not only shareholder but also customer confidence in the bank.

He is convinced that Absa is correct to stick with its various brand names. He muses about what would have happened if the brand names had been dropped and all the banks had traded under the name of Absa.

However, the brand names are not considered sacred any more. Each region of the bank will consider whether brand names should be kept alive or not.

He has lots of plans for the future, including devolving responsibility down to nine soon-to-be-created regions, stepping up the fee-earning side of the business, improving staff training, integrating the technology between the different brand names and entering new markets like the securities market.

He also wants to make the bank a "people's bank" in the more political sense, with a programme of affirmative action and by widening the bank's black customer base.

More banks for townships

38 ARGUS 4/6/94

■ You can bank on it ... automatic tellers are on their way to the townships.

ALIDE DASNOIS
Business Staff

CAUGHT in a controversy over services to poorer, mostly black clients, the big banks are promising new outlets in the townships.

Banks so far have mostly steered clear of the townships, claiming it was too dangerous to open outlets.

Only the Perm, in the Nedcor stable, has an agency in Guguletu with an automatic teller machine (ATM).

However, under pressure from civic organisations and the new government, the big four — Nedcor, Standard, First National and Absa — are planning to provide services closer to township residents. Bankers contacted by Weekend Argus confirmed that new outlets were on the drawing boards.

Standard Bank will spearhead its move with the new E-bank concept, said bank chief Bob Tucker. E-bank outlets would be opened "where people need access to their money" and lending outlets "where people live".

Taking issue with conventional banking wisdom that banks are needed where people shop and not where they live, Mr Tucker said: "We believe that you don't get industry where you haven't got commerce — and you don't get commerce where you haven't got banking."

He said E-bank would change South African banking radically, giving many more people access to simple, user-friendly services.

A spokesman for FNB said the group was planning to open a branch in Khayelitsha "probably before the end of the year". An ATM network and smaller banks would be sited around this hub, in gateways to the squatter camps such as garages, as well as in Langa, in Guguletu and in the Imarike project at Brown's Farm.

"The reason we haven't been in the townships so far is that it's been too dangerous," said the spokesman. "But, it's obviously high on our list of priorities — that's where the customers are."

Absa chairman Dave Brink said his group would "put an ATM in any appropriate place".

"It hasn't been possible in the townships up to now. But, if the new government manages to bring peace and tranquillity, we'll be there, because there's business to be done."

He said Absa did not have any special plans to target township residents. "We've got four banks already, covering a wide spectrum. We're keen and willing to do business in the townships."

Banks have been criticised by the African National Congress and SA National Civics Organisation and accused of opening more branches offshore than in the townships and of discriminating against poorer clients.

Some squatters to get loans

BRUCE CAMERON
Business Editor

BANKS must adapt to a new way of looking and assessing borrowers, Absa chief executive Danie Cronje said in an interview this week.

Dr Cronje said Absa, which had the biggest slice of the home-loan market, was committed to helping the financing of ambitious plans to provide 1 300 million new homes.

But, he warned that the government should not force banks into taking unacceptable risks as this could affect the risk profile of the country.

"The first thing that people look at in doing a country risk profile is the banks. There is no way South Africa can afford to have unprofitable banks."

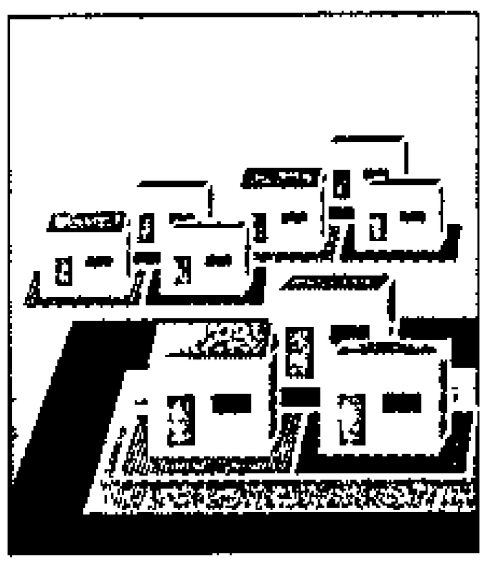
Absa was looking at new ways of creating risk profiles and had found that many people in informal housing qualified for loans, such as those who had a steady income from renting out shacks.

HOUSING

Too many variables

FM 3/6/94

Joe Slovo's aims seem realistic — but are his methods?



Government aims to provide 1m houses over the next five years, but "we won't be able to deliver even a fifth of that in the first year," says Housing Minister Joe Slovo. "It'll take time to get everything off the ground and running."

Slovo will not be drawn on the 1994/1995 housing budget — nor, for that matter, on any ballpark cost of his policy over the next five years. But it looks as if the housing allocation — actual budget and carryovers from previous years — will be in the region of R3bn (that's 50% more than in each of the past two years).

While there are obvious fiscal constraints, experts say the two biggest obstacles are affordability and institutional capacity.

One of the foundations of housing policy is the subsidy scheme, which works like this:

- ☐ R12 500 for people who earn less than R1 500 a month;
- ☐ R9 500 for incomes between R1 500 and R2 500 a month; and
- ☐ R5 000 for incomes of R2 500-R3 500.

This is a one-off capital subsidy, which the developer or the agent of a householder — such as a financial institution — will receive once the property has been transferred to the name of the householder. In contrast with the old Independent Development Trust scheme, neither the kind of house nor its location is prescribed. But the house must provide value for money — a criterion that will be assessed by the regional housing board or bank.

Slovo has several short-term objectives. One is the immediate implementation of the subsidy scheme. The first round of applications was considered earlier this week and the first awards are expected to come through by the middle of July.

The National Housing Forum, with the Department of National Housing, is busy preparing to offer a top-up subsidy for beneficiaries of previous schemes who received between R5 000-R7 500 for sites — that is, less than R12 500. Estimates are that about 700 000 sites could qualify for top-ups. Of these, roughly 90 000 serviced sites have not even been occupied. They are spread throughout SA and most are far from centres of employment — "but they are an input and we cannot waste them," says Slovo.

Cobbett

He is not in favour of perpetuating the provision of serviced stands only. In themselves, they do not provide roofs over heads. Housing experts believe that government subsidies should be structured to promote access to credit and encourage personal savings.

(58)

Another priority now is the establishment of the Mortgage Indemnity Scheme (MIS) "within a few months," according to Slovo. The scheme is the legacy of former Minister Louis Shill, essentially taking the form of an insurance company. It will be capitalised by government or foreign aid finance and then maintained by premiums from end-users.

But the scheme has been refined. Previously the aim was that banks would simply be insured for nonpayment of bonds due to political causes. Now, if occupants refuse to vacate a property in repossession, or banks are unable to repossess homes because of a breakdown in law and order, they will be covered. Thus the scheme aims to eradicate noncommercial risks for mortgage lenders, risks which until now have caused the low-cost housing market to be locked out.

A third priority is the creation of a National Housing Bank, possibly using an unbundled SA Housing Trust as a vehicle. While many in the housing arena are not sure what shape the bank will ultimately take, it is intended, according to Slovo, to "cheapen housing capital for potential homeowners, by acting as a wholesale bank to a variety of lenders. We are trying to structure it in such a way that its operation does not impact negatively on the whole finance system." Bankers accept that a wholesale bank may well offer solutions for mass housing schemes but point out that the retail capacity issue has still to be resolved.

Subsidies are one way of addressing the house ownership problem; another is to reduce the cost of available land. Several legislative approaches are envisaged here.

The first is the use of former State-owned land for low-cost housing. "No figures are available yet," says Slovo, "but we'll need to know them pretty quickly." The second piece of legislation — for which three drafts have already been prepared — is aimed at ending low-cost housing land speculation. The intention is to make the sale of such land subject to development within a certain time, failing which the sale falls away (how the purchase money will be recovered is not clear). A third legislative aim is to lower the cost of deed registrations and transfers.

Bureaucracy, in the form of provincial housing boards, will unfortunately increase to reflect the nine new provinces. What needs to be resolved is the division of administrative functions on the ground. The entire policy will stand or fall on the relationships that are established between the national housing department and its nine provincial counterparts.

Building cost forecasts

Big rises ahead

Year	June-to-June annual % change	Cumulative annual % change
1992	2,6	
1993	5,6	
1994	6,9	6,9
1995	14,7	22,6
1996	16,9	43,3
1997	14,7	64,4
1998	12,0	84,1

Source: Forecasts by Medium-Term Forecasting Associates based on the BER Building Cost Index

Money must come from the centre, according to the interim constitution, but the amounts will have to be negotiated. As Slovo points out, against the background of the recent pledge by PWV Premier Tokyo Sexwale to provide 150 000 houses next year, the fiscal powers of the provinces are basically limited to taxes on horse-racing. Says Slovo: "If one region were to hog all the available resources, the uneven development of housing which typified the previous government's housing policy would be perpetuated." The implication is that Sexwale has been making unrealistic promises.

Allocation of resources is supposed to be done by the Finance & Fiscal Commission, intended to prevent manipulation by any party or group. But bias is possible — it all depends on who is chosen to serve on this commission.

In terms of the constitution, regional premiers are accorded wide powers in implementation of housing policy but policy is to be determined through negotiations between the National Housing Forum and the Department of National Housing.

The big question, of course, is whether the

P.T.O

Investec Bank to raise R483m in rights offer

ROBYN CHALMERS

INVESTEC Merchant Bank has substantially increased the capital it intends raising through a rights offer to take advantage of acquisition opportunities and to present the global banking community with a strong balance sheet. BDay

Investec said this week it would proceed with a rights offer of ordinary shares in Investec and Investec Holdings (Inhold) to raise R307m and R176,5m respectively. The terms were 12 new shares for every 100 Investec instruments held at a price of R54 each and 15 new shares for every 100 Inhold at R45 each. 2/6/94

The amount of funding to be raised was significantly higher than the R180m and R114m it initially planned through respective Investec and Inhold rights offers.

MD Stephen Koseff said it was vital to have a strong capital base to compete with global banks as SA re-entered the international community. (58)

"We want to qualify as one of the world's top 500 banks to make headway on the international market and we need a strong capital-to-asset ratio to achieve that.

"We also wish to have enough ready capital to take advantage of opportunities as they present themselves without affecting our ratios, which are particularly strong at the moment.

"In terms of future acquisitions, we are focusing on the local market and neighbouring countries, but are also looking to strengthen our international operation in Europe," said Koseff.

Investec's results for the year to March were released last month and showed capital adequacy had increased to a risk-weighted capital-to-assets ratio of 16%.

Koseff said this was in line with the US banking community, where a large percentage of banks had capital ratios of 12% or more. One of the world's strongest banks, Republic National New York, had a capital ratio of 26%.

Sharp response from banks on planned law

CT 1/6/94

(58)

Own Correspondents

JOHANNESBURG. — Most of SA's major banking groups have responded sharply to reports that government is preparing legislation which, it says, would outlaw racial discrimination in banking.

Bankers said plans to force banks to disclose details of loans and deposits would be an administrative nightmare, and would be a morally retrogressive step.

ANC banking and finance spokesman Neil Morrison said at the weekend that the ANC had appointed a committee to begin drafting appropriate legislation.

It would require banks to report their loans by race and sex, while assets and liabilities would have to be outlined by subregion and sector. In addition, the race and sex of staff and the location of branches and defaults would have to be listed by neighbourhood.

Association of Mortgage Lenders executive director Martin Milburn-Pyle said most major banks had "deracialised" their loan books when the Population Registration and Group Areas Acts were abolished several years ago. "This means it would be exceedingly difficult to report what the race of a particular homeowner was. It would require a major data gathering operation which in itself is costly."

First National Bank banking GM Bob Wood said the group had long had a policy whereby it did not view race and sex as criteria for lending.

"All our customers are assessed according to identical lending and risk assessment criteria. For years we have promoted race and gender equality in the SA workplace, and have these records available as they are key to the management of our diversity management programme.

"But it is difficult to make definitive statements about a document we have not yet been able to scrutinise and we look forward to receiving this."

Wood said it was crucial that nothing compromised the confidentiality between banker and customer.

An Absa spokesman said such legislation would cause unnecessary delays in the processing of approvals, resulting in additional costs.

There would be a need for greater client detail. Additional bureaucrats would be required to implement and manage such a system.

"As with any change in legislation we would like to be part of the process, but at the outset it does not sound desirable."

'Disturbing'

Standard Bank chairman Conrad Strauss said in the group's 1993 annual report that government proposals for regulation of the banking sector contained some disturbing features.

"The implicit requirement to classify transactions on a racial basis is, in my view, morally retrogressive and the operational implications of compliance would be formidable indeed," he said.

Morrison yesterday questioned the banks' negative reaction to the proposed legislation. "If the banks have nothing to hide, what would they have to fear from the new Act?"

He rejected the claim that requesting race and sex classification of loans and mortgages was morally retrogressive.

"In the past, race and gender classification was used negatively to exclude certain groups from banking loans and mortgages. However, this information can now be used positively to ensure that credit is available to all creditworthy individuals."

Morrison said that while it was probably nominally correct that most banks were not discriminatory, in practice it appeared the opposite was true.

He said the proposed legislation, similar to that existing in countries such as Singapore and Malaysia, would be in line with the interim constitution. It would be used to prove whether banks were unbiased in the allocation of credit, and would facilitate the extension of loans key to equitable development.

Morrison said banks in other countries, while at first sceptical about such legislation, had eventually found it a useful marketing tool to advertise their social responsibility programmes to the community.

Responding to the banks' argument that the proposed Act would cause operational difficulties, Morrison said this would obviously be investigated. "We will open the discussion to the banking community and other interested parties to find ways of promoting creditworthy candidates at the least possible cost. At the approriate moment, we will invite input from the banks but in the meantime, positive suggestions and contributions are welcome."

He said the system would not necessarily require additional bureaucrats to implement and manage it. The relevant state agency could assume responsibility.

Republic Ratings defends decision on Prima Bank

Star 31/5/94

■ BY DEREK TOMMEY

Republic Ratings has defended its decision to go public earlier this month with its speculative grade rating for Prima Bank.

The move by Republic led to Prima seeking curatorship.

Dave King, a director of Republic, says his firm has been criticised for not obtaining Prima's prior approval before disclosing its rating.

But he says this is a ridiculous view, completely contrary to international practice.

"What is the point of a rating agency if it is only allowed to publicise what the company concerned wants?"

He says Republic had informed its subscribers last October of Prima's B2 rating. But it had delayed making it public in order not to jeopardise the Prima-Miba negotiations, which would have resulted in a R40 million cash injection for Prima.

Republic kept in constant touch with the potential new investors, he says.

However, once it seemed that the support would not be forthcoming, Republic felt it had to release its rating.

"No one can dispute the public's right to know when public money is at risk."

King says the critical issue was why Republic had accorded such a low rating to a bank, which had shown such strong growth in earnings and capital.

In the three years to 1993, published profits rose fourfold and the capital base sixfold. Further, the bank disclosed a risk-weighted capital adequacy ratio of 19 percent, which was the highest in SA and about three times the minimum statutory requirement. 58

However, Republic's detailed analysis reflected a wholly different picture, which brings to the fore the question of the accountability of directors and auditors in regard to the bank's published figures.

King says he found that about 30 percent of Prima's portfolio was non-performing. Despite this and a 470 percent rise in advances, the bank increased its provisions through its income statement by only R1,4 million in the three years to 1993.

This was woefully inadequate and had unrealistically bolstered disclosed profits.

By June last year, Republic had calculated that the capital value of loans against which provisions would have to be made for future losses totalled R50 million.

Against this, general provisions totalled R3 million.

While security was held in many instances, Republic believed potential write-offs on these accounts could eradicate the bank's entire capital base.

Republic had serious problems with many of the bank's accounting practices and also identified a number of breakdowns in its internal control environment.

NRB purchase of Profin is 'first step'

B/Day 30/5/94

ROBYN CHALMERS

NEW Republic Bank (NRB) has bought life assurance brokerage Profin — the first step towards the establishment of a financial services division, the company said at the weekend.

NRB MD Mac Mia said the bank had been associated with Profin for the past 18 months and the acquisition was a logical consequence of its expansionist strategy. (68)

"It is the bank's intention to eventually provide its clients with other associated services including short term insurance, administration of estates and pension funds, among others."

The company — NRB-Profin — would be located at the bank's head office in Durban, while consultants would be based at branches across the country.

NRB was listed in the Banks and Financial Services sector of the JSE earlier this year — the largest new issue on that board since Rand Merchant Bank was floated in 1992. (282)

The Profin purchase was in line with its stated intention to grow from a small to a medium-sized bank which provided a complete financial service to its clients.

Last July NRB bought Merchant Trade Finance (MTF) from Merhold, the financial and investment arm of the SA Bias Group, for R45m. The purchase was settled by issuing 14,2-million new ordinary shares in NRB to Merhold.

Recently released results for the year to March showed strong growth, with the group's capital and asset base more than doubling to R1,2bn from R503m for the previous year.

The group met its listing forecast during the year, posting a surge in attributable income to R11,6m from R3,5m. The increased number of shares in issue as a result of the MTF acquisition meant undiluted earnings dropped 10,1% to 54,9c (61,1c) a share.

However, fully diluted earnings rose 8,3% to 51c from 47,1c a share, and directors maintained the total dividend at 19c.

New law to stop discrimination in banking

Own Correspondent (58) CT 30/5/94

JOHANNESBURG. — The ANC had appointed a committee to begin drafting legislation to outlaw discrimination in banking, ANC banking and finance spokesman Mr Neil Morrison said at the weekend. This could include forcing banks to disclose details of loans and deposits.

"A draft Community Reinvestment Act will be put on the table for discussion. At this early stage we are planning to emphasise disclosure and monitoring rather than punitive action," he said.

The focus would be on monitoring individual branches and how they responded to the communities they served. He believed once it became public that a specific branch was discriminating on the basis of race or gender, the bank would take steps to change of its own accord.

The US had a Community Reinvestment Act whose main focus was against "red-lining" — blanket bans on mortgage bonds to specific communities. Mr Morrison said that discrimination by US banks on the basis of gender or race had virtually been outlawed.

Sources said steps had been taken before the election to begin preparing the legislation. It formed part of a process co-ordinated by human rights lawyer Professor Fink Haysom, who has become a key legal adviser in President Nelson Mandela's office.

There are reportedly two aspects to the banking legislation being prepared — the first to criminalise discrimination, and the second to arrive at a mechanism for public disclosure.

The US experience had shown that criminalisation was in itself not particularly useful, as it was difficult for individuals to lodge legal claims against banks. "In practice, this aspect of the law will not be a big weapon," the source said.

Council of SA Banks president Mr Piet Liebenberg said he hoped a joint trip to the US by representatives of the civic organisations and the Association of Mortgage Lenders in July would lead to an understanding of the extent to which US legislation could be applied in SA. He denied that banks discriminated, saying their reluctance to lend was linked to risk. "Depositors' funds are at stake," he said.

Banking laggard sees earnings decline

Another poor showing by Absa

Star 30/5/94 (58)

BY STEPHEN CRANSTON

In a fairly evenly matched banking sector, where the major players consistently report earnings growth of 15 to 20 percent, Absa still lags.

In the year to March, earnings per share were down 2,5 percent to 117,8c. Results would have been even worse but for two factors.

There was a R103,1 million saving on operating costs as the group suspended payments to the pension fund because of a large actuarial surplus.

Secondly, the provision for bad debts was down R50 million to R731 million, although at about 1,1 percent of advances it is still higher than those of its competitors.

The final dividend has been maintained at 26,5c and the total at 43,5c.

Chairman David Brink says he is disappointed, but believes sound progress has been made towards restoring health.

He says the group might have underestimated the difficulties involved in merging four institutions, all with different corporate cultures, but he claims Absa is well on its way to becoming SA's leading lender.

David Brink ... disappointed.

Nonetheless, the results are well below what management and analysts predicted a year ago at a time of healthy interest margins.

The publicity surrounding the resignation of the original chairman and CE, Herc Hefer and Piet Badenhorst, contributed to a loss of market share, although current CE Danie Cronje says Absa is now regaining market share.

In particular, although Allied and United have been under pressure from increased competition for home loans, Volkskas and Trust Bank have made gains.

Total group advances were up 7,5 percent to R69,28 billion, but the mortgage book has grown 15,7 percent.

Net interest income was up from R3,68 billion to R3,72 billion and other operating income was almost unchanged at R1,84 billion.

The increase in operating expenditure was held to 2,8 percent at R3,75 billion.

Brink says much of the work associated with the merger has been completed. The integration of computer systems is on schedule and organisational structures have been made more efficient.

The capital to risk-weighted assets ratio is 8,8 percent, up from 8,1 percent, and comfortably exceeds the statutory minimum of eight percent.

Brink says that the poor rating of the group's share on the JSE — at 720c it trades at a substantial discount to net asset value of 958,3c — will only improve when profitability ratios move towards levels similar to those of major competitors.

With Brink and Cronje at the helm, Absa should improve, albeit slowly.

Deposits, loans may be disclosed

New Act will outlaw bank discrimination

B|Day 30|5|94

(58)

THE ANC had appointed a committee to begin drafting legislation to outlaw discrimination in banking, ANC banking and finance spokesman Neil Morrison said at the weekend. This could include forcing banks to disclose details of loans and deposits.

"A draft Community Reinvestment Act will be put on the table for discussion. At this early stage we are planning to emphasise disclosure and monitoring rather than punitive action," he said.

The focus would be on monitoring individual branches and how they responded to the communities they served. He believed once it became public that a specific branch was discriminating on the basis of race or gender, the bank would take steps to change of its own accord.

The US had a Community Reinvestment Act whose main focus was against "red-lining" — blanket bans on mortgage bonds to specific communities.

GERALD REILLY reports that Morrison told a conference in Pretoria last week that discrimination by US banks on the basis of gender or race had virtually been outlawed. Banks were obliged to disclose detailed information on deposits and loans by bank branches. Details of rejected loan applications were also made public.

Morrison said this was an unanswerable argument for similar legislation in SA.

Sources said steps had been taken before the election to begin preparing the legislation. It formed part of a process co-ordinated by human rights lawyer Fink Haysom, who has become a key legal adviser in President Nelson Mandela's office.

Haysom had co-ordinated three teams

GRETA STEYN

writing laws on economics, basic needs and political and constitutional changes. The banking legislation was the work of the economics team, which included ANC-aligned legal experts such as Dennis Davis and Halton Cheadle.

A source said there were two aspects to the banking legislation being prepared — the first was to criminalise discrimination, and the second was to arrive at a mechanism for public disclosure.

The US experience had shown that criminalisation was in itself not particularly useful, as it was difficult for individuals to lodge legal claims against banks. "In practice, this aspect of the law will not be a big weapon," he said.

An ANC source close to the legal team said individual branches would be required to delineate the communities which they served and to disclose information on those communities. He expected the delineation process itself to be the subject of heated debate. The monitoring of how branches related to their communities would be done at a local rather than national level. For at least a year, the emphasis would be on collecting information. An objective assessment could then be made on where and why red-lining was taking place.

Legislation outlawing red-lining has been a rallying cry of the civics. Former Sanco president Moses Mayekiso, now an ANC MP, this weekend signalled that he would work for punitive measures to be implemented against banks who were found guilty. He told Sanco's southern Transvaal conference on the RDP: "We are faced with attempts to

☐ To Page 2

Banking

B|Day 30|5|94

☐ From Page 1

weaken our programme. We are not naive enough to think that simply by making it illegal to discriminate on the basis of race, gender, geographical location, etcetera, that the banks will end this widespread practice." He would insist that the strongest possible measures be taken against guilty banks.

Council of SA Banks president Piet Liebenberg said he hoped a joint trip to the US by Sanco and the Association of Mortgage Lenders in July would lead to an understanding of the extent to which US legislation could be applied in SA. He denied that banks discriminated, saying their reluctance to lend was linked to risk. "Depositors' funds are at stake."

(58)

Sage Group boosted by insurance and property

BIDay 30/5/94

CHARLOTTE MATHEWS

FINANCIAL services company Sage Group improved earnings by 23% to R61,8m for the year to March on sustained growth from its insurance interests and satisfactory results from its property division.

Operating profit rose 7% to R86,5m from R81,1m. The net interest charge more than halved to R8,1m from R18,9m in 1993, reflecting the strengthening of the balance sheet on the sale of non-core interests during the past year, the directors said. These included Sage's stakes in Rand Merchant Bank Holdings and Imperial Car Rental.

The ratio of borrowings to shareholders' funds was 40% from 116% the previous year. While shareholders' funds had risen to R348,6m (R277,8m), current liabilities fell to R191,3m (R475,1m).

Pre-tax profit lifted to R78,4m (R62,1m) and, after a fall in the tax rate to 22,2% from 25,9%, and lower retained earnings from associates, total profit after tax was R86,8m (R74,8m).

58

Earnings were 71,2c (60,5c) a share on an increased number of shares in issue, and assuming the conversion of all convertible preference shares, were 66,5c (55,4c) a share. A dividend for the year of 35c (30c) was declared.

Sage Group's results reflect those of Sage Life, which announced earlier last week a 26% increase in its surplus attributable to shareholders.

Results from Sage Group's property division were satisfactory in view of difficult industry divisions, the directors said, while the contribution to profit from its banking interests were virtually unchanged during this period.

During the past year, Sage Group completed the rationalisation and restructuring it began in March 1992. This had resulted in a strengthened and more efficient financial structure.

Absa undermined by 'intense competition'

BDay 30/5/94

ROBYN CHALMERS

AMALGAMATED Banks of SA (Absa) posted marginally lower profit for the year to March, undermined by intense competition, lower demand for credit and a focus on bedding down the merger.

But chairman Dave Brink said the bank was looking forward to reporting a return to real growth in earnings and dividends in the current financial year. (58)

Attributable income fell 2,5% to R666,4m against R683,8m during the previous financial year, translating into lower earnings of 117,8c (120,8c) a share. The total dividend was maintained at 43,5c.

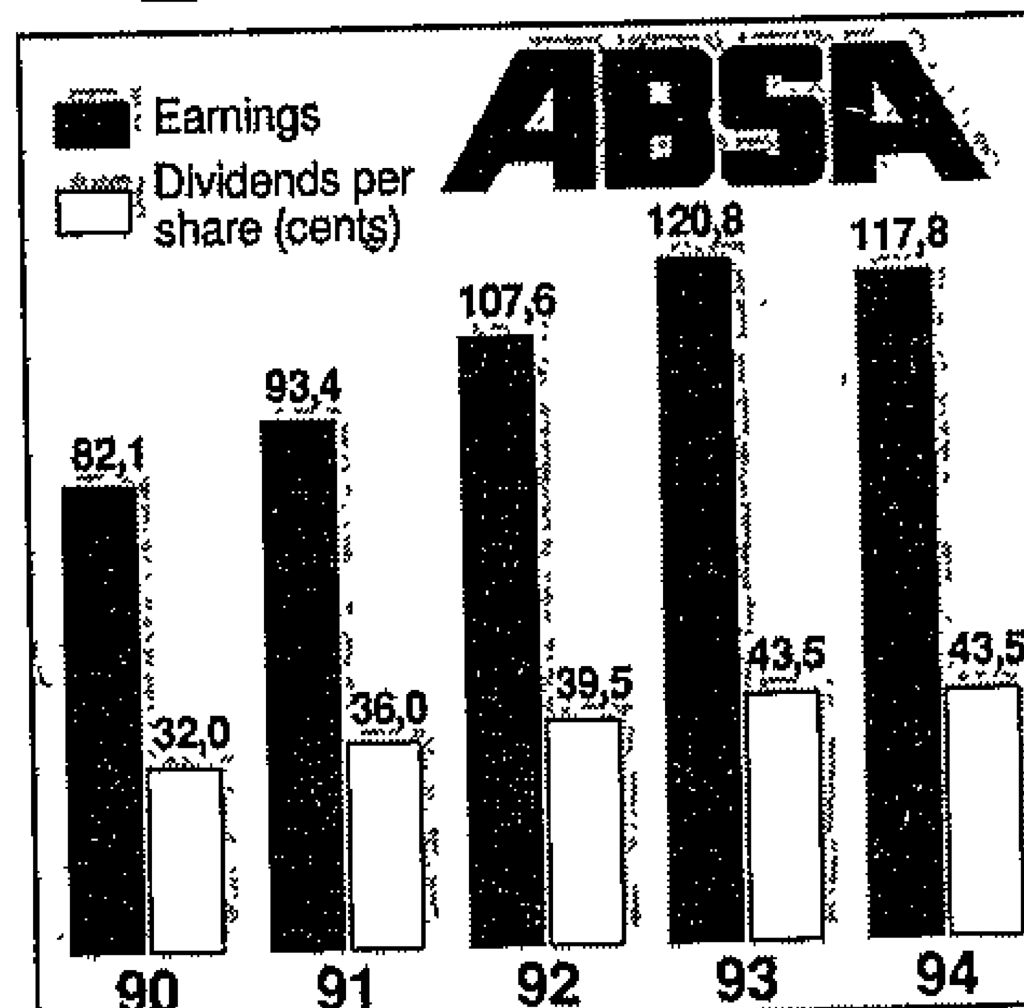
Net interest income was static at R3,7bn. Brink said a loss in market share was accentuated by management's focus on shedding poor quality business inherited through the merger.

There was a R103m windfall from the group's pension fund. Excessive employer contributions over the past few years meant there was a substantial surplus on the fund.

The bank used the bonsella to make further provisions, reflected in the charge for bad and doubtful advances of R731,1m (R781,4m). A further R184,3m was transferred from internal reserves to provisions for doubtful advances as a special contingency provision.

Operating income rose to R4,8bn from R4,7bn and a tight control on operating expenditure left it 2,8% higher at R3,8bn (R3,6bn). The result was that pre-tax income remained virtually static at R1bn.

In line with analysts' predictions, the group's tax bill was reduced to R432,3m from R446,1m, leaving net income up at R641,6m (R637,3m). The risk-weighted assets ratio was comfortably above the 8% statutory minimum at 8,8%.



Graphic KAREN MOOLMAN Source ABSA

Of major concern to Brink was the decline in the group's return on average assets to 0,82% (0,87%) and a drop in the return on average shareholders' funds to 12,87% (14,67%).

It was strategically imperative to improve Absa's profitability ratios to the same levels as those of its major competitors.

Certain analysts feared Absa's loss of market share was largely in the home loan business, but CE Danie Cronje said the decline in mortgage advances had been arrested. This was largely achieved by Volkskas and Trust-Bank which increased their home loan stakes.

Much of the work associated with the merger had been completed, and Cronje said the biggest task left was to join the information systems of Volkskas and TrustBank.

BUSINESS ON SATURDAY

Absa earnings slide back 2,5%

(58) By ARI JACOBSON CT 28/5/94

ABSA Bank bucked the trend of an otherwise good performance for big banks by recording a decline of 2,5% in earnings a share, to 117,8c (120,8c) for the year to March.

The final dividend remained unchanged at 26,5c a share as did the total dividend at 43,5c a share.

Its poor performance is adequately reflected in its share price which has fallen 21,7% over the year to its R7,20 a share close yesterday.

Absa has struggled to mobilise its resources since the linkage with Volkskas, Allied and United Bank in 1991 The amalgamation was further impeded by the inclusion of failed bank Bankorp in 1992 — to create the largest bank group in SA, with assets now at about R86bn (R82,5bn).

In addition, the resignation of MD Piet Badenhorst last year did little to create a wholesome structure in the group He was replaced by his deputy Danie Cronje.

But new chairman David Brink, who led the turnaround of construction group Murray & Roberts, said after the release of the results yesterday that Absa would return to real growth in earnings and dividends in the current 1994/95 financial year.

Brink said· "The decline in attributable income came from intensified market competition, poor demand for credit and the fact that management had to contend with completing the merger and shedding poor quality business"

He added: "The work associated with the merger has now been completed, the integration of computer systems is on schedule and organisational structures have been made more efficient".

LIBVEST FM 27/5/94

Astronomical numbers

(58)

Liberty Investors (Libvest) sits at the apex of the extensive Liberty Life group of companies. Together with Standard Bank Investment Corp (each holds 50% of the chain below), Liblife is the ultimate controller of assets worth around R106bn. If Liberty Life's 39% interest in Standard is taken into account, the wider banking and insurance grouping oversees assets of more than R230bn. These are the kind of telephone numbers that attract instant attention.

Libvest, of course, is also the Donald Gordon family's link into the Liberty Life Group. And, apart from the investment funds and property interests held directly by Liberty Holdings, the major source of earnings is workhorse Liberty Life, whose assurance activities feed a healthy stream of earnings and dividends through a three-tier

 FM 27/5/94

(58)

Gordon ... *an alternative route*

structure to Libvest.

Obviously, then, Libvest's results are largely a reflection of Liberty Life's. Value is added on the way up the chain through Liberty Holdings' direct investment in short-term insurer Guardian National and Guardbank Management Corp, as well as wholly owned subsidiaries Liberty Life Properties and Liberty Asset Management.

But the assurance group remains the primary engine and, not surprisingly, the cash equivalent dividend declared by Libvest (capitalisation shares were offered in lieu of the interim and final dividends) was similar to Liberty Life's 24,2% — though Libvest's

Activities: *Investment holding company. Together with Standard Bank Investment Corp, has joint control of Liblife Controlling Corp, the ultimate holding company of the Liberty Life Group.*

Control: *Gordon family 61%.*

Chairman: *D Gordon.*

Capital structure: *205,5m ords. Market capitalisation: R3,3 bn.*

Share market: *Price: R16. Yields: 1,6% on dividend; 3,1% on earnings; p:e ratio, 31,9; cover, 1,9. 12-month high, R16; low, R10,50. Trading volume last quarter, 1,1m shares.*

Year to Feb 28	**'91**	**'92**	**'93**	**'94**
Total assets (Rbn) ...	0,85	1,36	1,97	2,46
Pre-tax Profit (Rm) ..	54,5	68,9	88,6	103,1
Attributable (Rm)	60,0	68,9	87,8	102,9
Earnings (c)	26,5	32,6	42,9	50,2
Dividends (c)	14,0†	16,6	20,9††	26,0
Tangible NAV (c)	374	655	947	1 181

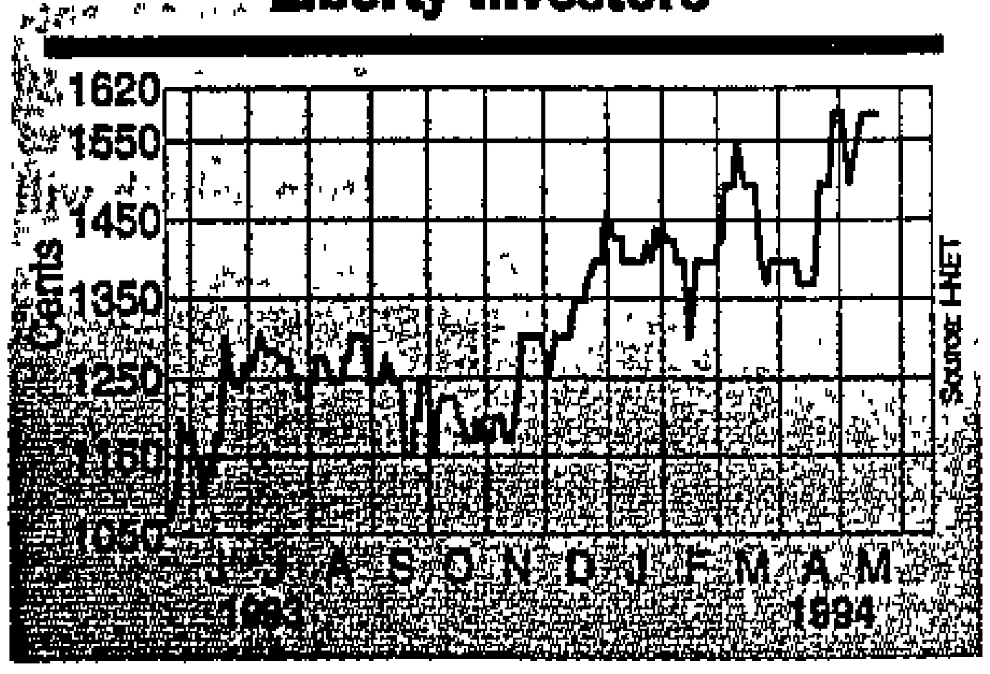
† Excludes special dividend of 6c per share and dividend in specie of 2,5 shares in First International Trust for every 100 shares held equivalent to 31,1c per share.
†† Excludes special dividend of 17,5c per share and non-recurring dividend of 30c per share.

EPS increased by only 17% compared with Liberty Life's 24,2%.

Immediate holding company Liberty Holdings lifted EPS 24,5% to 589c per share and increased its dividend payout by 25% to 450c.

The share price performance of Libvest has been strong (appreciation of about 52%) but not as buoyant as Liberty Life's 64%. That points to the basic difference between the respective investments — as an operating

Liberty Investors



company, Liberty Life will have wider fluctuations in its share price, up and down.

Libvest is for the long-term investor who wants a guaranteed stream of generous dividends, often spiced, as the table shows, by various special dividends and dividends in specie.

The only other obvious advantage for the smaller investor is Libvest's price — R16 compared with Liberty Life's R95. The share — like the rest of the Liberty Group — is expensive relative to the sector but has consistently yielded top returns.

Gordon says prospects for continued earnings and dividend growth are "excellent" and, after Liberty Life's strong performance (*Companies* April 22), it's hard to disagree, especially as Liberty Life is now sourcing more than half its income from the UK. Libvest offers an alternative route into this much-admired group. *Shaun Harris*

NEW SOUTH AFRICA

Dr Stability

Mandela banks on Stals to keep a tight rein on money policy

(58) ARG 26/5/94

BRUCE CAMERON
Business Editor

NEWLY re-appointed governor of the Reserve Bank Chris Stals has given notice that he will continue to keep a tight rein on South Africa's monetary policy.

Dr Stals is fairly relaxed that the government's Reconstruction and Development Programme would not counter the relative financial stability achieved with tight monetary policy over the past five years.

In an interview, following the confirmation of his re-appointment by President Mandela of a further five-year term as governor, Dr Stals said he had been meeting representatives of the new government for a long time and "they know what our policy approach is.

"We have spent the past five years establishing relative financial domestic stability. We must spend the next five years ensuring we maintain that stability.

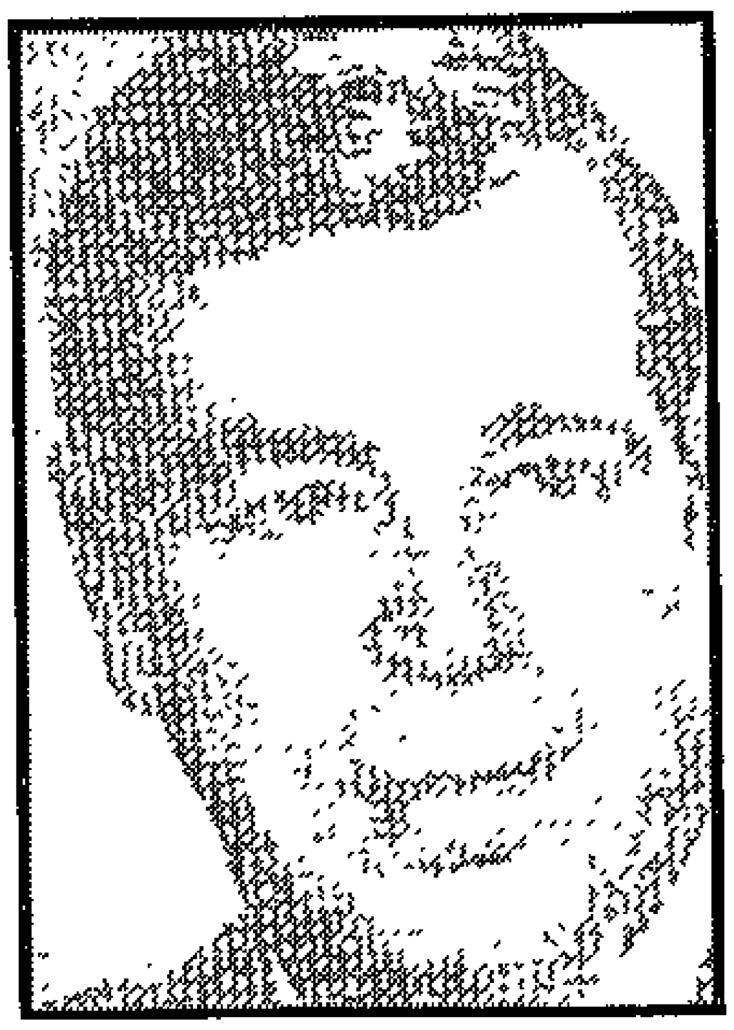
"For the past five years the threat came from the international community. This has changed to watching the domestic position.

"I think it (the job) is a big challenge. There are interesting times ahead. We know what government is looking for."

Dr Stals said the type of problems that would be faced by the Reserve Bank over the next five years would be different from the past 10 years.

The past 10 years had been extremely difficult with politics creating problems with balance of payments, sanctions and debt management. At the same time there had been excessive government spending caused by, among other things military spending and the costs of the Angolan war.

Hopefully, he would now have to contend only with more normal difficulties in the domestic situation. These could be tackled with normal macro economic policies.



DR CHRIS STALS ... watching the domestic position.

Dr Stals said there were many structural deficiencies of which the level of total domestic savings was among the most important.

The level of savings was not sufficient to finance investment needed for growth.

Other problems included the substantial budget deficit and the level of government debt but he believed these were still manageable.

Referring to the RDP, Dr Stals said there was no direct role for the Reserve Bank in this.

"No one believes the Reserve Bank should create money to finance the RDP. The Reserve Bank is not directly involved and it should not be. It is more a programme for government departments. The effect of the RDP on monetary policy works through the budget.

"Our job is the specialised function of the control of the money and capital markets. Our contribution to the RDP is to ensure monetary stability."

Dr Stals pointed out that in a number of places the RDP policy document stated that the implementation of the programme "needs support of a stable financial environment

"It was also mentioned by President Mandela that the programme could not be achieved if there is high inflation.

"It is very well understood that a sound monetary policy to create financial stability is essential.

"I believe the RDP will be implemented as the country can afford it. We will do the maximum possible and sometimes squeeze out a little more, but there is no indication that sound monetary and fiscal policy will be abandoned."

Dr Stals said the reasons for the RDP were legitimate and the programme had to be carried out.

The major problem he still had to contend with was the pressure on the balance of payments caused by the continued outflow of capital. The current position, although it had improved slightly since the election, was still difficult and was reducing the possibility of a further cut in interest rates

However if the outflow of capital reversed, the window for a further interest rate cut would re-open rapidly.

Dr Stals said that for the same reasons the time was not right for a change in the financial rand system.

The government would have to take the final decision on the issue but it would need to consult the Reserve Bank first. The bank would advise against abolition of the financial rand until the underlying situation improved.

■ Picture No 4 in The Argus *Autumn Shades* portfolio series has not been published today because of the pressure of news. It will appear on a Spectrum page tomorrow.

Metlife boosts earnings 22%

(58)

CT 26/5/94

METROPOLITAN Life yesterday reported a 22% increase in earnings per share from 37c to 45c for the six months ended March 31.

An interim dividend of 29,5c (24c) was declared. This represents an increase of 23%.

The disclosed surplus attributable to shareholders was R29,6m, 22% higher than in the corresponding six months in 1993 (R24,2m).

Total premium income grew 21% from R480,6m to R579,3m. Of this income 93,5% was derived from recurring premiums and the balance from single premiums. Investment income rose 16% to R218m (R187,5m) to bring total income for the six months to R797,3m, 19% higher than in the corresponding six months last year.

The company's total assets, compared to a year ago, increased 29% to R6,7bn (R5,2bn).

Analysts forecast flat or lower Absa results

B/Day 20/5/94

ROBYN CHALMERS

ANALYSTS have been conservative in their forecasts for Absa's year-end results after the interim shock, estimating earnings would be flat or up to 9% lower at 110c (120,8c) a share. The 1993 dividend of 43,5c should be maintained. (58)

The bank is due to release its results for the year to March 31 tomorrow. At the interim stage, it surprised the market by reporting a 4% earnings growth to R305m (R294m) as analysts had forecast earnings to be at least 10% higher.

One analyst said one of the main effects on earnings in the first half was the low 5% increase in advances to R66,9bn from R63,8bn, but volume growth in the second six months was expected to have picked up.

He said Absa was expected to have made some progress toward halting the loss of market share it had suffered during the first half, particularly in high interest retail advances.

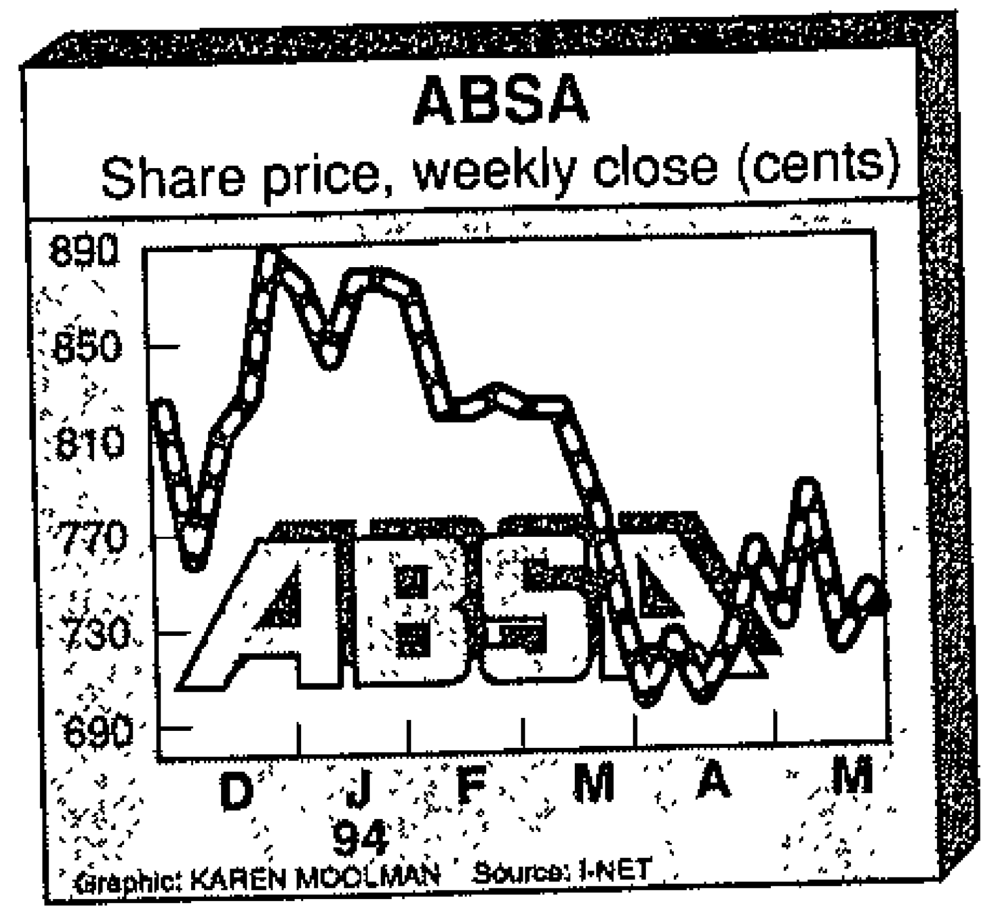
Analysts were uncertain about how successfully Absa had tackled the home loan market, where it was increasingly challenged by the Perm, Standard Bank and First National Bank, among others.

An analyst said "Absa appears to be getting rid of its doubtful debt. However, I do not believe there will be unexpected big write-offs as a result of recent heavy losses in failed and troubled investments".

But another analyst said one of the biggest question marks hanging over the bank's performance was the size of its exposure to the troubled W&A/FSI. Absa inherited significant FSI loans from Trustbank.

The group's poor image was another important factor, and was unlikely to improve until better results were achieved.

Its share price shed 40c to 700c in one week towards the end of March as a result of its unknown exposure to W&A, coupled with expected poor results and a report from the Goldstone Commission that linked four employees with gun-running.



In addition, former executive Bob Aldworth threatened to make public "sensitive matters" within Allied and Absa.

The counter lost 5c yesterday to close at 735c, well down on its 12-month high of R10,90 last July, but still above its year low of 670c.

All the analysts surveyed confirmed there were ongoing rumours of foreign exchange losses in Absa's treasury operations. However, they said management had dismissed the rumours and one analyst said if such losses had indeed been incurred, they were not large.

Operating expenses should be contained to well below 10% following a small 4,4% increase at the halfway stage to R1,92bn.

The 30% growth in the tax burden at the interim stage to R231m (R177m) should be reduced, and one analyst said an effective tax rate of 42% to 43% was likely.

Battered by lower demand for credit on the back of difficult economic circumstances, there was unlikely to be significant growth in assets when compared with the 1993 financial year. Total assets grew only 2% in the first half to R84,3bn.

Futurebank posts lower profit

BDay 26/5/94

ROBYN CHALMERS

THE cost of setting up three branches during the six months to March saw Futurebank post reduced net profit of R804 000 from R1,1m in the previous interim period.

(ER)

The bank — owned by First National Bank and the Foundation for African Business and Consumer Services — posted static interest income of R23,5m.

However, interest expenditure was reduced to R11,4m from R13,7m, leaving net interest income almost a quarter higher at R12m against R9,7m during the previous comparable period.

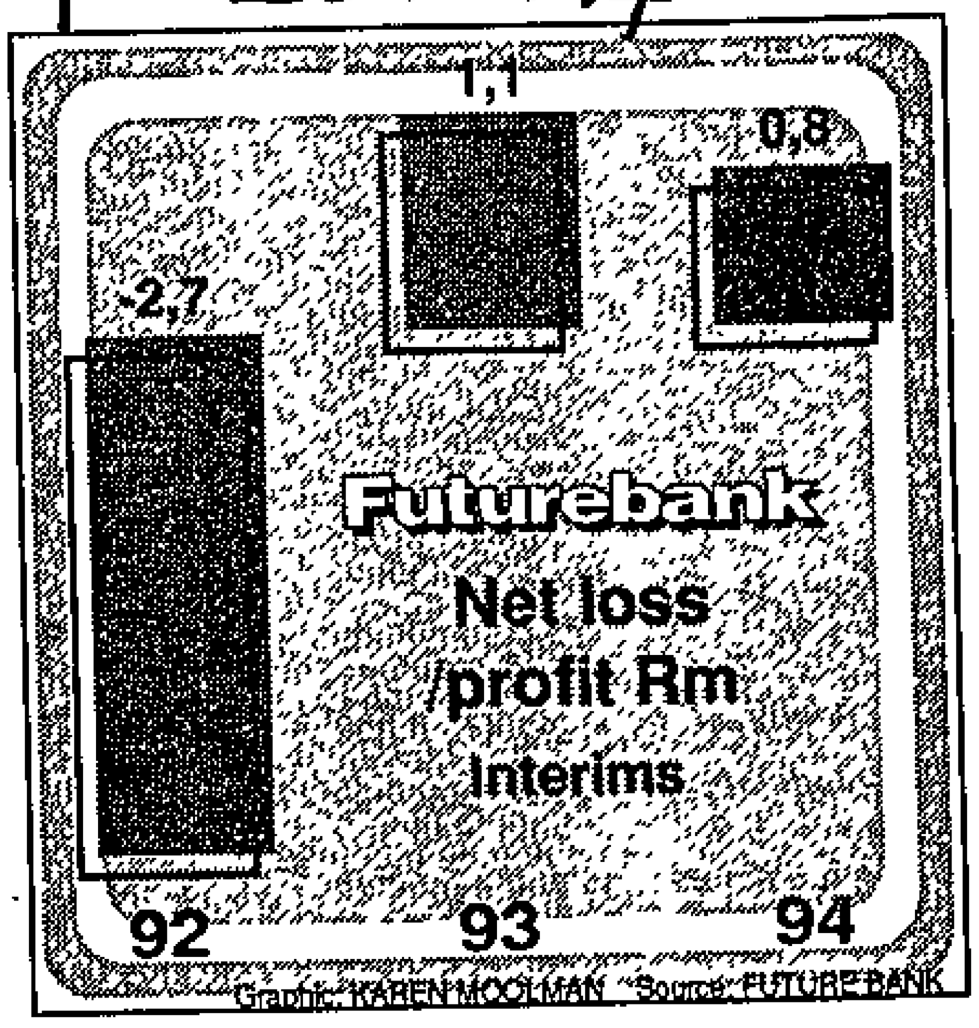
Non-interest revenue leapt to R1,1m from R713 000, resulting in a 26% hike in operating income to R13,2m from R10,4m.

Operating expenditure rose more than 40% to R9,7m from R6,9m, largely as a result of three new branches opening in Cape Town, Maritzburg and Nelspruit. The bank now had nine branches in total.

The provision for bad debts increased to R2,7m from R2,4m, while on the balance sheet side, deposits and loans dipped to R197m from R209,5m. Cash and short-term funds plummeted to R1,7m from R8m.

Directors said trading conditions had been "extremely difficult". They were satisfied that the group remained profitable.

Apart from the general economic recession in SA, directors said the taxi business was "particularly unexciting".



Graphic: KAREN MOOLMAN Source: FUTUREBANK

Chairman Jabu Mabuza said in the group's 1993 review that the political and economic environment had severely affected taxi finance, and Futurebank was closely monitoring its involvement in the taxi industry.

Directors said plans for further branches were under consideration, as the only two main areas the bank was not represented in were the Northern Cape and Port Elizabeth. "Prospects for the next six months depend on the economic and political situation in SA, but we would be happy to repeat our first-half results during the remainder of the 1994 financial year."

COMPANIES

Metlife earnings up 22%

B Day 26/5/94

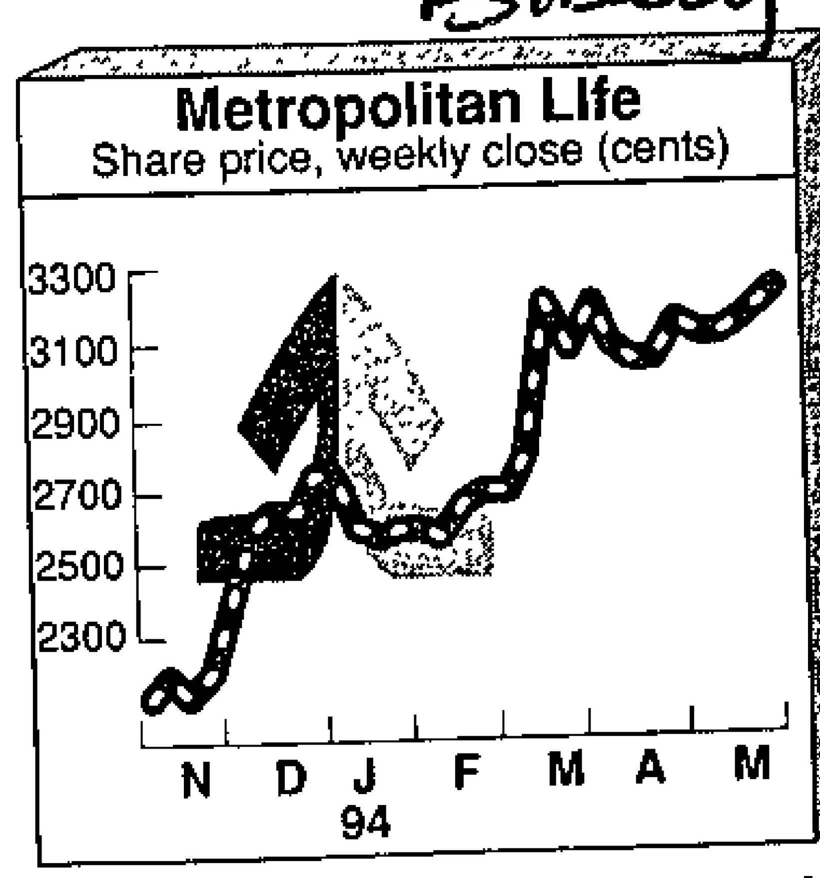
EDWARD WEST

CAPE TOWN — Metropolitan Life lifted earnings 22% to 45c (37c) a share for the six months to March in spite of political instability in the run-up to the elections which had a negative effect on some of its business.

The life assurer — the first listed company to move towards control by the black community — also posted an interim dividend 23% higher at 29,5c (24c). MD Marius Smith said the company was well positioned to benefit from the stabilisation of the political climate.

"Should the stable conditions continue, we expect that premium income, earnings and dividend for the full year will show strong growth compared with 1993," he said.

Company secretary Peter Scannel said the company's agents were affected by instability in areas such as KwaZulu/Natal prior to the elections.



He said political stability and the fact that the company hoped to pick up more business from civil servants once the new political structures were in place formed the basis of their optimistic forecasts for the second half.

58

The disclosed surplus attributable income to shareholders was R29,6m, 22% higher than the R24,2m in the corresponding six months in 1993.

Premium income grew 21% to R579,3m (R480,6m). Of the total, 93,5% or R541,8m (R450,5m) was derived from recurring premiums and the balance — which increased 24% to R37,5m (R30,1m) — was from single premiums.

Investment income climbed 16% to R218m (187,5m) to bring total income for the period to R797,3m, 19% up on R668,1m last year. The company's total assets increased 29% from a year ago to R6,7bn (R5,2bn).

The company announced last year that its major shareholder Sankorp would sell 10% of its 40% stake to the black-owned Metlife Investment Holdings (Methold).

But Methold warned last week that it was withdrawing the listing prospectus it had issued in March, because the placing of shares to pay for the stake had been slow, according to market sources.

Shares in Metlife continue to find favour on the JSE, however. The share closed 25c ahead yesterday at 3 225c, a new year high.

COMPANIES

Sage Life initiatives 'look good'

CHARLOTTE MATHEWS

SAGE Life, the life assurance operation of the Sage Group, lifted total income 17% to R698,6m in the year to March from R589m in the same period in 1993, on the back of buoyant new business sales. B Day

Sage Life's annualised new business premiums rose by more than a third to R293,4m in 1994 from R217,7m in 1993. This included a 57,2% increase in single premiums, while a substantial amount of investment-only single premium business was attracted by the individual and employee benefits divisions. SS

Sage Life MD Bruce Ilsley said recurring premiums did not arise to the same extent as single-premium business, but initiatives had been taken which were looking very successful. These included SageMed, a division selling only Sage's medical products, and a funeral benefits operation.

Total premiums received were R530m (R427m), a 24,1% rise against a 7,6% increase in expenses. Payments to policyholders were nearly 40% higher at R372,8m (R270,5m). Investment income, which is derived entirely from interest and dividends and excludes capital appreciation, was similar to 1993's R160m.

A R34,5m surplus was attributable to shareholders, against 1993's R27,4m — earnings a share of 115,0c (91,33c).

Sage Life's total assets exceeded R3bn, compared with 1993's R2,6bn. 26/5/94

For the first time the company disclosed its excess, including contingency reserves, of assets over liabilities, of R412m or about 12%. Ilsley said this was a healthy figure for an insurer of Sage Life's size. Greater disclosure requirements would result in more life companies publishing this figure.

In the past year two new unit trusts were launched and Sage's health products were successfully relaunched, Ilsley said.

OM in bid to attract foreign investment

BRUCE CAMERON
Business Editor

ARGUS 25/5/94 (58)

OLD Mutual is poised to relaunch a South African fund to attract foreign investment to South Africa.

The life assurer unsuccessfully attempted to launch a similar fund in Europe in 1991.

At the time Old Mutual was seeking to raise \$50 million (R180 million) to invest on the Johannesburg Stock Exchange (JSE).

International investors, however, gave the fund the cold shoulder because of the political situation at the time.

It is understood that this time around Old Mutual has been seeking commitments from investors before announcing the fund.

As was the case in 1991 British investment house Smith New Court is acting as the UK agents.

Since the beginning of the year a number of other funds dedicated to investment in South Africa have been successfuly launched, particularly in the United States.

Senior Old Mutual investment managers have been in Europe for the past few weeks drumming up support for the new fund.

It is understood the response has been firm and a decision to go ahead will be taken within days.

Old Mutual which does not want to have egg on its face for a second time is playing the fund very low key on the publicity front this time.

Last time a high profile road show was taken around Europe publicising the anticipated launch.

There was no official comment from Old Mutual today on the fund apart from confirmation that consideration is being given to the launch of a closed end fund that would be listed on the London Stock Exchange (LSE).

Shares in the fund would then be traded on the open market.

The fund would buy South African shares through the the financial rand and would then pay dividends in dollars.

In the first fund potential investors were told they would receive a minimum of 85 percent of net income.

The fund should be attractive to foreign investors at present as shares would be purchased at a fairly wide discount of about 30 percent between the commercial and financial rand.

Dividends from the South African investments would be paid in commercial rands to the new fund giving investors an additional advantage.

If foreign investors had supported the Old Mutual fund in 1991 they would have made solid gains with the appreciation of JSE share prices this year.

Citizen Bank reports R5,1m interim income

ROBYN CHALMERS

FIRST-time results for newly incorporated Citizen Bank Holdings showed net income after extraordinary items for the six months to March amounted to R5,1m. B/Day

Wholly owned subsidiary Citizen Bank began trading last October after it had purchased the assets, assumed the liabilities and taken over the business operations of the Ciskei Building Society.

Interest income amounted to R25,5m, with interest expenditure of R16,8m, which left net interest income at R8,7m.

Gains on insurance policies amounted to R2,4m, fee and commission income stood at R543 000 and other operating income came to R99 000. After operating expediture of R5,6m, net income before extraordinary items was left at R6,1m.

This represented earnings of 98c a share and directors declared a dividend of 13,5c. 25/5/94

Directors said the sound financial base, conservative management approach of the bank and recent reincorporation of the Ciskei into SA should improve stability and growth in the region.

Sapa reports Citizen Bank granted mortgage loans to the value of R19,5m during its first six months of trading. Compared with the Ciskei Building Society's performance during the same period, the rand value of the loans granted by Citizen Bank represented an increase of 23%. (58)

The bank granted 306 new mortgage loans, representing a growth of 18,5% during the period under review and its investment portfolio strengthened by R20,9m to R240,5m.

In its abridged group financial statements released in Bisho yesterday, the bank's CE Edgar van Deventer said the results had to be viewed against the background that the bank traded as Ciskei Building Society until its transformation into a listed bank during October last year.

"However, the transformation went smoothly without impact on day-to-day operations and the newly created bank performed above expectations," said Van Deventer.

The bank had made an additional doubtful debt provision of R7m in view of the reincorporation of Ciskei.

Stals stays as Reserve Bank governor

(58) ARG 24/5/94

THE governor of the Rèserve Bank, Dr Chris Stals, will remain at his post under the government of national unity, President Mandela has announced.

Promoting and maintaining overall financial stablity would remain the primary objective of the government's monetary policy in support of sustainable economic growth and macro-economic objectives.

"The Reserve Bank has the important function of protecting the value of our currency and striving for relative price stability at all times."

Mr Mandela said the "battle to reduce inflation" would continue.

Fiscal discipline would be maintained and monetary policy would remain "on a steady course" to enhance the growth prospects of the private sector.

The government was committed to reconstruction and development in the context of "a policy aimed at building a strong and growing economy which will benefit all our people".

The government would seek, firstly, to "return the capital account of the balance of payments to equilibrium" and, in due course, "ensure a net inflow of resources, consistent with the experience of other countries that enjoy more rapid growth rates".

Mr Mandela announced that dual currency and the exchange control apparatus would be subjected to "critical scrutiny".

Stals says capital outflows slowed

BDay 23/5/94 (58)

CAPITAL outflows had slowed in the 10 days following the election, bringing relief after a protracted hammering of SA's foreign exchange reserves, Reserve Bank Governor Chris Stals said yesterday.

But he warned the slowdown should not be seen as a definitive sign of a turnaround in the drain on SA's reserves.

He said much depended on the outcome of the first meeting of the new Cabinet today, and on a clear economic policy statement from the new government. The period following the election was insufficient time to make deductions about the future pattern of SA's capital outflows.

He was troubled by the rand's weakness, which he attributed to strong market forces. It remained Bank policy to keep the exchange rate as stable as possible.

A credit rating exercise would assist long-term foreign borrowings, which held potential for boosting foreign reserves, Stals said. It was announced on Friday that international financial institution Goldman Sachs had been appointed to manage SA's return to international capital markets, with the first priority being to obtain a credit rating.

Analysts said ratings broadened the in-

SAMANTHA SHARPE

vestor base for an issuer's securities and could reduce the cost of debt. The cost of foreign borrowing had been prohibitively expensive for some time.

Stals said capital outflows had been a key factor behind the unusually high money market shortage, which had helped drive up short-term interest rates. But long-term government stock yields should not be affected.

Banks had been compelled to buy dollars from the Reserve Bank to fund the flow of capital out of the country. Short of liquidity, the institutions were forced to borrow at a penalty rate at the Bank's discount window, which in turn drove short-term interest rates higher.

Stals disclosed after the election that SA's net foreign exchange reserves had fallen by R3,2bn in the first four months of the year. This followed a decline of R10,3bn during 1993.

Net reserves reflect the position when special short-term credits are excluded.

The money market shortage has been hovering at around R5bn, after hitting a record of R7bn at the end of April.

● Comment: Page 10

Mr de Blanche says speculation about increased gage rates.
It could also be that the that consumer spending should recover steadily."

Southern wary of gilts

S Times (Buss)

By SVEN LUNSCHE


SHAMS PATHER: Optimistic about SA growth and shares

EXPRESSING concern about government overspending, Southern Life is reducing its exposure in the capital market.

Southern Life general manager, investments, Shams Pather, said in an interview coinciding with the release of the company's 1993-94 results that the deficit before borrowing was likely to exceed budget.

The Government had committed itself to a deficit of 6% of gross domestic product. But economists were sceptical because of high transitional overspending and likely demands on the Exchequer for the reconstruction and development programme (RDP).

Mr Pather said: "The Government will have to go to the bond market to raise funds, with a detrimental effect on long-term interest rates." 22/5/94

Yields on long-dated stocks rose sharply this week amid fears of runaway State spending.

But Mr Pather is optimistic about the share market. Although the JSE is experiencing "a honeymoon period", there is much positive economic sentiment.

"We expect economic growth of 3% to 4% this year and this should improve corporate earnings," he says.

Construction and steel companies should benefit from the RDP.

The top 10 shares in Southern's equity portfolio account for almost 60% of share holdings, a fact which Mr Pather ascribes to poor liquidity on the JSE.

"It takes us days to build up the weighting we want, not only in blue-chip counters but in second-tier equities." (58)

He argues that only the lifting of currency controls will increase JSE liquidity.

At the end of last year, 58% of Southern's assets were in shares, 23% in gilts, 13% in property and 6% in the money market.

Investment income in the year to March was up 15% at R1,19-billion.

Premium income surged by 44% to R3,57-billion. Single-premium income was particularltly strong and so was business in new life products.

The life assurer lifted distributable earnings by 22,5% to R140-million and the dividend by 21,3% to 94c. Shareholders are offered capitalisation shares instead of the final dividend of 55,5c.

Southern's Timed Exposure Portfolio (Step) attracted R700-million in its first year, says managing director Jan Calitz.

Step offers market-linked returns with a high level of security.

Although the results exclude African Life, which was sold to black businessmen last year, total group assets rose by almost 30%, or R5,6-billion, to R24,8-billion.

STimes 22/5/94

Personal touch at Saambou

SAAMBOU has lifted its funding from individuals from 28% to 47% in fewer than three years as part of a strategic plan, writes JULIE WALKER.

The group, whose objective is to provide affordable banking to salary earners and pensioners, raised net operating income by 62% in the year to March 1994.

It made R50,6-million after a R49-million provision for bad and doubtful debt, but before a R17-million general-risk provision.

Saambou says the trebled provision has been made against possible abnormal changes in general business risk. (BUSS)

Net interest and related income grew by R10-million to R192-million and "other" by R5-million to R62-million. (58)

Managing director Johan Myburgh says Saambou cut operating expenses by R8-million to R155-million.

Earnings a share rose 54% to 15,5c and the dividend by 1c to 3c.

Investec gets in early to raise cash for coming opportunity

S/Times (Buss) 22/5/94

A CAPITAL-TO-ASSET ratio of 15,8% — almost twice the statutory minimum — is not enough for Investec. The successful banking group intends to raise an additional R180-million through a rights issue.

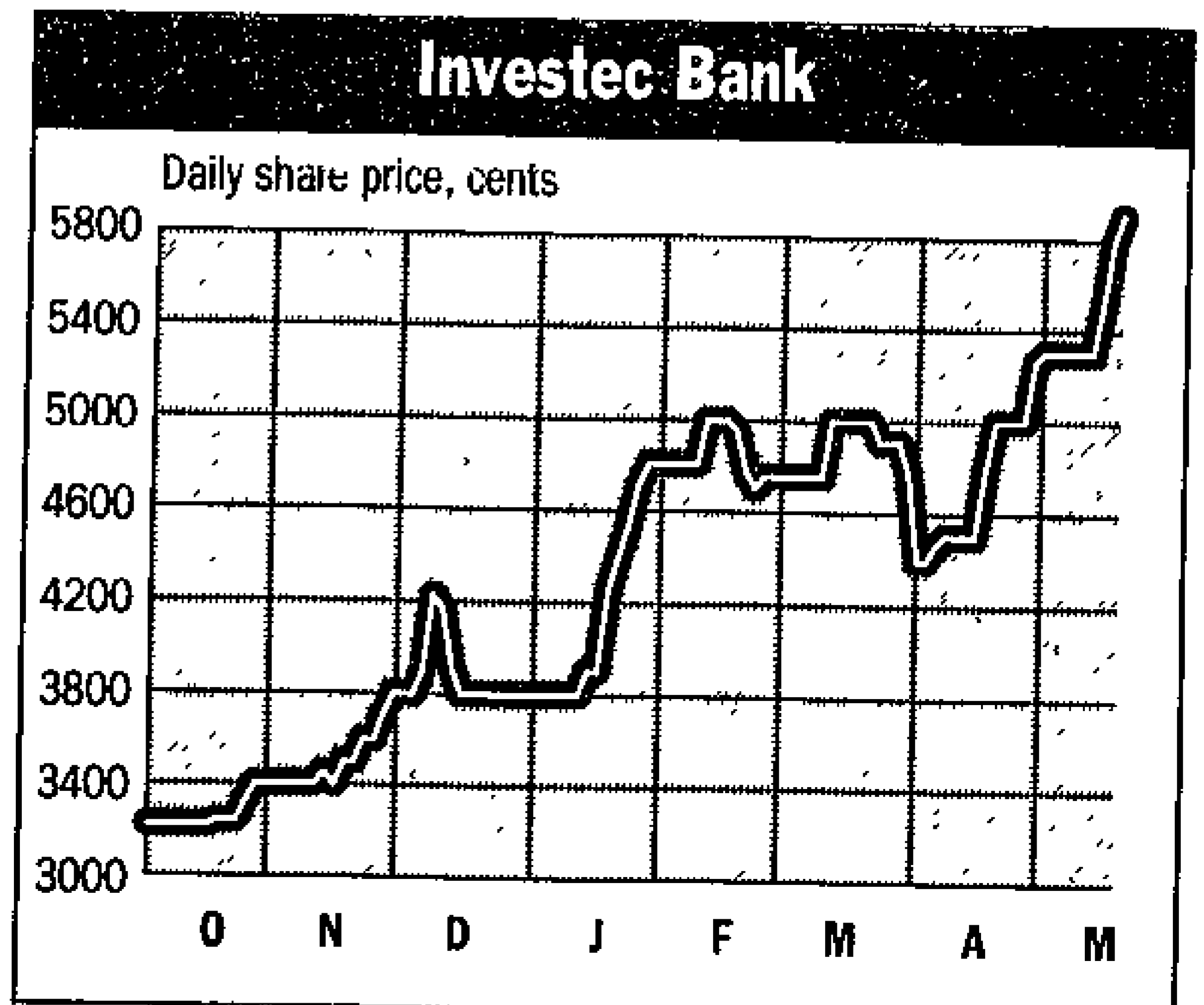
Investec has not announced the terms, but is likely to see how the share price fares after another fine set of results.

Terms could be about eight shares for 100 held at a price of about R55 each, the price before the results were announced. It quickly rose by 400c.

Investec increased attributable earnings by 48% to R80-million in the year to March 1994. It issued shares for acquisitions and earnings on the extra shares grew by 27% to 224,2c.

Investec trades on a historic price-earnings ratio of 25 and the 115c dividend yields 2%.

Group managing director Stephen Koseff says many American banks' capital ratios are 12% and more. Republic National New York, perhaps the world's strongests bank, has a capital ratio of 26%. (58)



Graphic: FIONA KRISCH

Source: I-NET

Investec has enough in the coffers to exceed a capital ratio of 10% until 1998. But Mr Koseff does not want to scratch around for capital when opportunity knocks.

Investec has already scored from two casualties in SA's financial services — Reichmans a few years ago and Sechold this year.

Mr Koseff says: "Today, capital is king, whereas it was leverage during the 1980s. To get anywhere internationally, you have to be one of the top 1 000 banks, or even the top 500 banks or many people won't even consider dealing with you."

International aspirations have prompted Investec to make full disclosure in its financial statements — something it shied away from previously.

Mr Koseff says Sechold's operations have been absorbed by Investec. Sechold's asset-management customer base has been retained in Investec Asset Management.

Sechold's four banks had good risk-management procedures in place, but the problem was no centralised group control. Investec adopts a macro-view of all its operations.

"Risk management is a key issue," says Mr Koseff. "We have engaged a team of British consultants to check our own procedures; we don't even trust ourselves."

Private banking contributed 56% of Investec's 1994 pre-tax profit, merchant banking 29%, Fedsure 10%, Reichmans 3% and property 2%.

Mr Koseff is proud that costs rose by only 4%, excluding the effect of the acquisitions, which lifted them 12% to R197-million. Costs were 72% of income three years ago; now they are 62%.

Most bad debt was incurred in property-related lending.

Investec's relationship with Fedsure is an alliance. Mr Koseff says there are no plans to follow the Rand Merchant Bank-Momentum path. Fedsure owns 31% of Investec and management and staff 37%. Institutions now own more than a quarter.

Mr Koseff says Investec has a balanced portfolio and does not rely on any one sector. Prospects are good because of its strong capital base, its people (staff turnover down to 16% a year and profit per employee up from R70 000 to R108 000).

"Our profile has risen since we became Sunday Times Top Company last year," says Mr Koseff. "We aim to continue to produce wealth for shareholders and to provide a return of inflation plus 10 percentage points."

Holding company Investec Holdings (Inhold) has lifted earnings and dividends at a faster rate than has Investec, yet looks cheaper in relation to the operating arm.

These are shares to buy.

Banks move to counter 'racism'

ARG 21/5/94 (58)

ALIDE DASNOIS
Business Staff

BANKS are moving to counter criticism that they do not properly serve black clients — before a new government forces them to change.

ANC banking expert Neil Morrison warned this week that legislation was on the cards to "encourage" banks to take a new look at old habits.

In an interview he said the legislation might be modelled on the Community Reinvestment Act in the United States, which is designed to prevent banks from discriminating on the grounds of geographical location, gender or race.

A joint delegation of the Association of Mortgage Lenders (AML) and the SA National Civics Organisation (Sanco) is to visit the US in July to examine American legislation.

South African banks have frequently been accused of ignoring the needs of poorer, mostly black clients.

Sanco spokesperson Mzwanele Mayekiso recently lashed the banks for opening branches in other countries rather than in the black townships.

He said the four major banks — Absa, FNB, Standard and Nedbank — had opened up more offices in the Cayman Islands and in Beijing than in the townships.

Mr Morrison said in the United States banks were obliged to disclose detailed information on deposits and loans by branch. Details of the rejected loan applications were also made public.

This meant the banks' records could be monitored to make sure that particular areas or communities were not being "redlined".

There was no penalty, but the bad publicity was often enough to persuade the banks concerned to change.

"For instance if a bank is seen to discriminate against black clients, cities with black councillors may decide to remove the city's account from that bank", Mr Morrison explained.

US legislation would however have to be modified for South African conditions. It was important banking did not become a "political football".

Reacting to claims by the banking sector that lack of security prevented banks from opening branches in the townships, Mr Morrison said this would have to be verified.

He said it might be "another case of untested wisdom".

"If the banks take deposits from black clients, but don't open up branches in the townships, I'd say that was racism," said Mr Mayekiso.

Banks claimed they sited branches — and particularly Automatic Teller Machines or ATMs — near retail outlets and not in residential areas. But this discriminated against black clients, he said.

Mr Mayekiso hoped the joint Sanco-AML mission to the United States would help communities and banks come closer together.

"We need to open up to each other. The communities need more accessible banking services — and the banks need make a profit, that means reduce risk."

As coordinator of Sanco's international affairs department, Mr Mayekiso will be leading the Sanco delegation of nine members.

Piet Marais, Absa general manager and part of the AML delegation, said bankers were keen to see how low-income communities and banks had managed to co-operate in the United States.

Concern over Govt housing bond plan

Star 21/5/94

A NEW mortgage indemnity scheme might encourage thousands of new homeowners to default on their bond repayments as the Government will guarantee that the banks get their money back, writes DAVID BREIER.

CAPE TOWN — Concern is growing that a new government plan to guarantee bond repayments on home loans for low-cost housing will encourage mass bond defaults — at taxpayers' expense.

Finishing touches are being put to the new mortgage indemnity scheme which is due to be announced in detail within weeks. It forms part of the ambitious new government plan under Housing Minister Joe Slovo to build 370 000 houses a year for the poor — including a subsidy scheme.

Sources close to the National Housing Forum (NHF), which negotiated the housing deal, said it would be up to new government housing structures to clamp down on new borrowers and ensure they did not exploit the scheme by defaulting on repayments on the assumption that the ANC-majority Government would bail them out.

The NHF sources said that under the scheme the Government would take over the "dirty work" from the banks to repossess homes and find alternative accommodation if borrowers did not pay their bonds.

The indemnity scheme will be aimed at giving the lending institutions confidence to re-enter the low-cost, mainly black, housing market after they burnt their fingers when many black borrowers engaged in bond boycotts under the previous government. Under the new scheme, the Government will guarantee the banks get their money back if borrowers default on their payments. (58)

But it is still not clear where the money to guarantee bond repayments will come from. National Housing Board sources said the most desirable solution was a compromise in which the indemnity scheme was jointly financed by a premium on home loans and by the Government — in other words, the taxpayer.

A premium on home loans could also hit conventional homeowners who did not benefit from the indemnity scheme.

The mortgage indemnity scheme will not be operated directly by the Government but will be under a new housing company, possibly a parastatal, the NHF sources said.

But there is great scepticism as to whether the Government would have the political will to repossess homes of black borrowers who fail to pay their bonds.

They believe borrowers under the indemnity scheme will test the new Government to the utmost by continuing with bond boycotts on the assumption that the ANC lacks the will to evict them.

Slovo was not available for comment, but his predecessor, former Housing Minister Louis Shill, said he believed that low-cost homeowners who had received a government housing subsidy of up to R12 500 would be the last to default on their bonds as they risked losing the value of their subsidies if their property was repossessed.

"As soon as a person has equity, the banks regard him as a good client," Shill said. The subsidy scheme would give many with no chance of breaking into the property market the equity to do so, he added.

Earnings up 54% at Saambou

CT 20/5/94 (58)

JOHANNESBURG. — Saambou Holdings yesterday reported a 62% increase in its net operating income to R50,6m for the year ended March 1994 against R31,2m a year ago.

Earnings a share rose 54% to 15,4c (10c), and it declared a final dividend of 2c a share pushing the total for the year to 3c a share (2c).

This was achieved after a R17m general provision was made to cater for the effect of any abnormal changes in business risks.

"The significant boost to net operating income was achieved by growth in income and reducing, in real terms, operating expenditure," group MD Johan Myburgh said.

Real growth

Total assets grew by 18,6% to R5 146,2m (R4 338,8m) in line with Saambou's strategy of achieving real growth in assets of about 7,5%.

"Our stated policy of targeting our efforts at the individual — the salary earner and pensioner — continues to pay off with total funding from this source up to 47%," he said.

"Our strategy of reaching individuals through group schemes has also shown a marked increase and currently represents 38% of new business."

Myburgh expected operations to maintain strong growth in the current year. — Sapa

Black take-up of Methold 'slow'

CHARLOTTE MATHEWS

THE SLOW take-up of the shares offered by Metropolitan Life Investment Holdings (Methold) to black participants may have prompted the cautionary notice issued by the group yesterday, sources said.

In the cautionary, Methold said negotiations in progress could affect its assets, capital structure and listing on the JSE. As a result it withdrew its prospectus issued on March 28.

An analyst said Methold's plan to repay the R140m loan from the Industrial Development Corporation — used to finance the purchase of 10% of Metlife's shares from holding company Sankorp — by selling shares to black stakeholders was unlikely to be successful.

Methold lacked the infrastructure, prospectus or marketing mechanism to sell the shares to a widespread market. He suggested negotiations could involve Sankorp to help refinance the deal.

Methold company secretary Piet Scannell said to date Methold had placed nearly 80-million of the 140-million shares it was required to place. It already had about 8 000 shareholders. B/Day

About 33-million shares had been bought by a number of smaller black investors, including a trade union, a medical aid and an institution. A further 46-million shares could be taken up through options held by various institutions. (58)

A second analyst said it was more likely that Methold was bringing in a foreign interest group with a low-interest loan to help refinance the deal. 20/5/94

Both analysts expressed some surprise at the proposal to list the shares, partly because a JSE listing meant that richer institutions tended to take up the shares rather than black investors.

Scannell said he knew nothing about a foreign investor. The decision to list on the JSE was made only a week ago and had not been contained in any of the three prospectuses issued since July last year.

Higher income growth lifts Saambou earnings

Star 20/5/94

BY STEPHEN CRANSTON

A real reduction in operating expenditure and continued income growth enabled Saambou Holdings to report a 54 percent increase in attributable earnings to R19,3 million and in earnings per share to 15,4c in the year to March.

A final dividend of 2c has been declared, making a total of 3c — 50 percent up on last year.

This was achieved even though the general risk provision, which caters for the effect of any abnormal changes in business risk, was almost tripled from R6 million to R17 million.

Saambou aims to achieve a 7,5 percent real growth in total assets and it has more than achieved this with an 18,5 percent increase to R5,15 billion.

Net interest and related income was up five percent to R192,8 million, but other income increased nearly 10 percent to R62,4 million.

Operating expenditure, on the other hand, rose by little more than one percent to R165,5 million.

The provision for bad and doubtful debt, which excludes the general risk provision, was up from R45,2 million to R49,1 million. (58)

Pre-tax profit rose 33 percent to R33,6 million, but outside shareholders' interest fell from R3,5 million to R2,5 million.

Group MD Johan Myburgh says Saambou's stated policy to target its efforts for raising capital at the individual — the salary-earner and pensioner - continues to pay off, with total funding from this source up to 47 percent.

"Our strategy of reaching individuals through group schemes has shown a marked increase and currently represents 38 percent of new business."

Provided there is no significant deterioration in the socio-economic environment, there is every reason for Saambou to continue its progressive performance trend, he says.

Saambou's net asset value has risen from 138,7c to 150,7c a share.

At its price of 135c, Saambou is one of the few banking shares to trade at a discount to net asset value. Its P/E ratio of about eight compares poorly with the sector average of almost 13, and only Absa has a lower rating among sizeable banking shares.

But whereas Absa still has to go through further restructuring pains before it is on the right track, Myburgh and his team have restored Saambou to health.

COMPANIES

Saambou continues on recovery path

BDay 20/5/94

ROBYN CHALMERS

SAAMBOU Holdings continued on its recovery path for the year to March, hiking attributable earnings 54% to R19,3m (R12,5m) after a cost-cutting exercise.

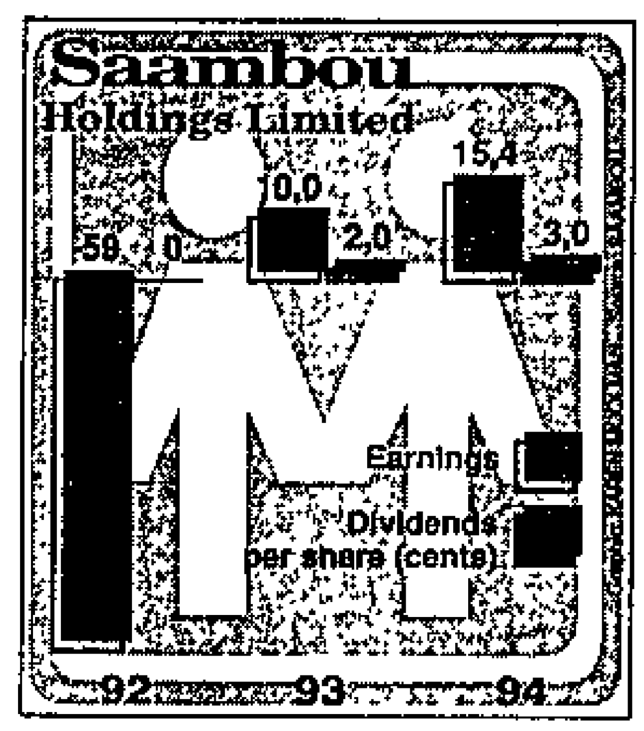
Net interest and related income amounted to R192,8m (R182,4m) with other income climbing to R62,4m (R57,2m).

Operating expenditure was reduced to R155,5m (R163,2m) and the bad debts provision rose to R49,1m from R45,2m.

This meant net operating income soared 62% to R50,6m against R31,2m for the previous financial year. A general risk provision of R17m (R6m) was made to cater for the effect of any abnormal changes in business risk.

The group did not pay income tax during the year under review as a result of substantial previous losses. Group MD Johan Myburgh said one of the reasons for the risk provision was to smooth earnings growth when the group resumed income tax payments.

Pre-tax income was more than a third higher at R33,6m (R25,2m) and the tax bill for levies and VAT absorbed R11,8m (R9,2m). Earnings leapt to 15,4c a share from 10c a share and a total dividend of 3c (2c) was declared.



Total assets grew 18,6% to R5,1bn from R4,3bn, in line with the group's strategy of achieving real growth in assets of about 7,5%. In order to achieve this, Myburgh said, Saambou was continuing with the process of eliminating its non-performing assets.

Myburgh said the significant boost to net operating income was achieved by growth in income and reducing operating expenditure in real terms. This included decreasing staff numbers to 1 400 from 2 500 over two years.

"The decrease in operating expenditure is a notable achievement and put Saambou on course to be a supplier of affordable banking services," he said.

The group continued its investment in the computer network, replacing terminals in all its branches during the year under review.

"These renewals and expansions, with new software being implemented this year, will have the effect of improving operating efficiencies and client service.

(58)

"Our stated policy of targeting our efforts at the individual continues to pay off with total funding from this source up to 47% from the 28% of two-and-a-half years ago."

Myburgh said the bank's capital position was strengthened by R40m through the issue of debentures, which meant that on March 31, Saambou's capital amounted to 8,7% of risk-weighted assets.

He was bullish about future prospects, predicting earnings growth to 22,5c a share for the next financial year provided the socioeconomic environment did not weaken.

Fm 2015194

INVESTEC

(58)

SALIENT FEATURES

	31 March 1994	31 March 1993	% increase
Earnings attributable to ordinary shareholders (R000)	**80 000**	54 000	48,1
Earnings per share (cents)	**246,2**	188,3	30,7
Diluted earnings per share (cents)	**224,2**	176,8	26,8
Dividends per share (cents)	**115,0**	90,0	27,8
Dividend cover (times)	**2,2**	2,1	
Net asset value per share on a diluted basis (cents)	**2 050,1**	1 412,7	45,1
Funds under administration (R millions)	**18 512**	10 100	83,3
Weighted number of ordinary shares in issue	**32 500 079**	28 923 387	
Weighted number of shares in issue on a diluted basis	**41 653 462**	35 590 053	

Consolidated income statement

	31 March 1994 R000's	31 March 1993 R000's	% Increase
Interest received	**730 475**	685 396	
Interest paid	**549 945**	534 316	
Net interest income	**180 530**	151 080	19,5
Provision for bad and doubtful debts	**34 657**	32 075	8,0
	145 873	119 005	22,6
Other income	**150 929**	121 670	24,0
Total income	**296 802**	240 675	23,3
Operating expenses	**197 568**	176 146	12,2
Income before taxation	**99 234**	64 529	53,8
Taxation	**26 060**	16 204	60,8
Operating income	**73 174**	48 325	51,4
Share of income of associated companies	**22 417**	15 851	41,4
Net income	**95 591**	64 176	49,0
Preference dividends	**8 231**	4 370	
Debenture interest	**7 360**	5 806	
Earnings attributable to ordinary shareholders	**80 000**	54 000	48,1
Ordinary dividends	**39 291**	26 907	
Retained income for the year	**40 709**	27 093	

Consolidated balance sheet

	31 March 1994 R000's	31 March 1993 R000's
Capital employed		
Share capital	**21 528**	18 900
Compulsorily convertible preference shares	**177 780**	70 881
Compulsorily convertible debentures	**69 480**	69 623
Reserves	**702 571**	405 668
	971 359	565 072
Preference share capital	**39 088**	71 788
Interests of minority shareholders in subsidiaries	**174 959**	21 316
Total capital employed	**1 185 406**	658 176
Liabilities		
Deposits and other accounts	**9 760 842**	4 943 549
Shareholders for ordinary dividends	**25 116**	17 325
	10 971 364	5 619 050
Assets		
Cash and short-term funds	**2 858 903**	1 375 941
Short-term negotiable securities	**2 242 273**	364 742
Advances and other accounts	**4 017 531**	3 187 438
Investment and trading securities	**978 332**	222 150
Associated companies	**486 257**	295 622
Fixed assets	**388 068**	173 157
	10 971 364	5 619 050

Dividend announcement

A final dividend (dividend No. 78) of 70 cents per share for the year ended 31 March 1994 has been declared payable to shareholders registered at the close of business on 3 June 1994 (1993: 55 cents per share). Dividend cheques will be posted on or about 15 June 1994.

The dividend is payable in the currency of the Republic of South Africa. In terms of the Income Tax Act, non-resident shareholders' tax will be deducted from dividends payable to all shareholders whose registered addresses are outside the Republic of South Africa.

By order of the board

S Noik
Secretary

17 May 1994

MAIZE PRICES

Fm 20/5/94

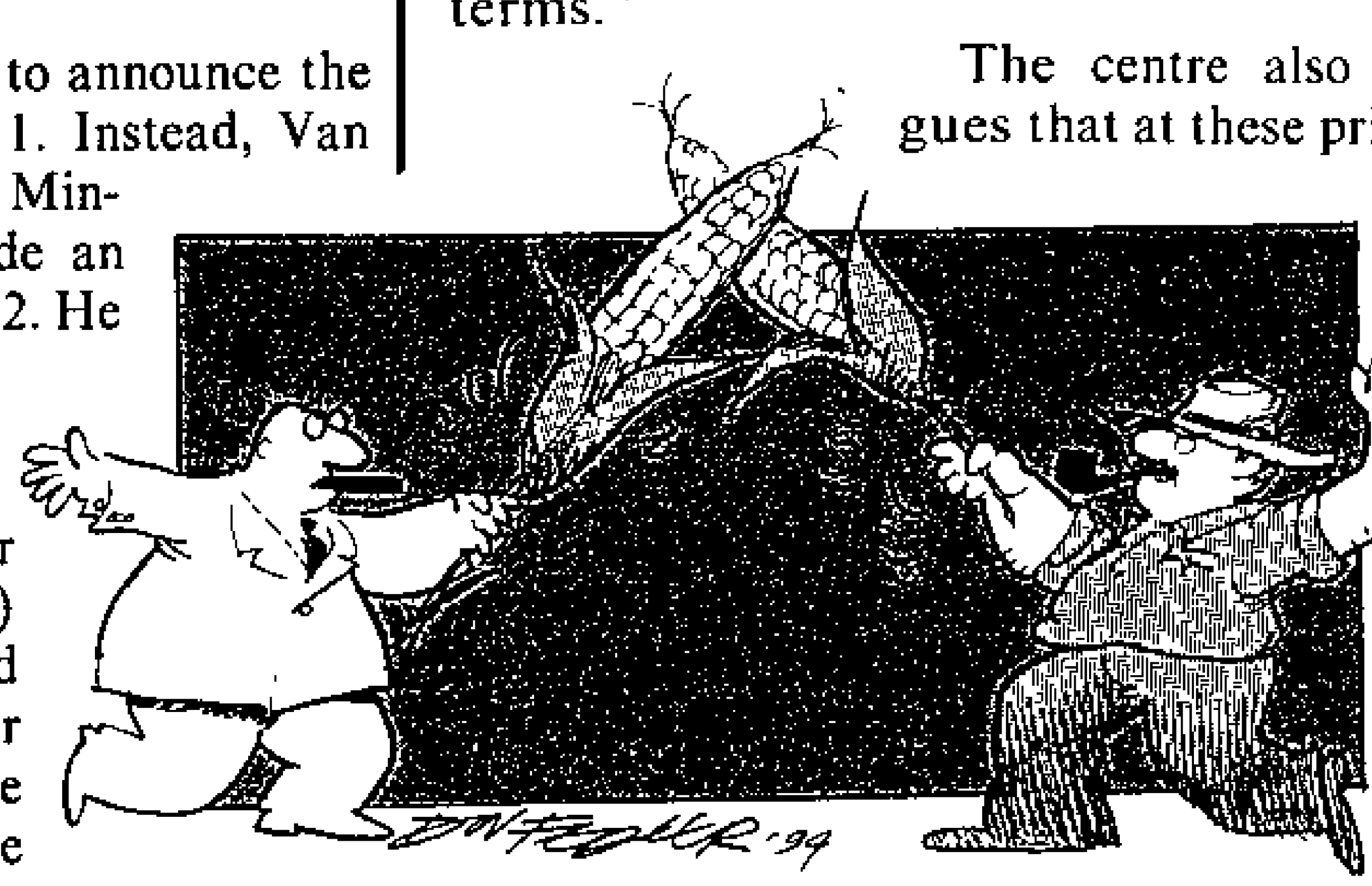
The farmers' last stand?

While farmers continue to harvest their 12,5 Mt bumper maize crop, producers and the large industrial buyers continue to argue over what the maize prices should be. Mediation, which lasted until nearly midnight on Monday, was requested by the Maize Board after meetings between the two groups failed to resolve the issue.

"It was agreed that both sides would submit their price proposals through me to the board by the end of this week," says Independent Mediation Services chairman Charles Nupen, who was appointed by the board. "I presume that the board would then submit the issue to Agriculture Minister Kraai van Niekerk by early next week."

If SA had a free market in maize (supported by a futures market to hedge prices), price-setting would be a simple supply-and-demand market exercise. But with the single-channel, government-fixed-price scheme still in operation, pricing remains highly political (*Business* March 18).

The board was supposed to announce the new maize prices on May 1. Instead, Van Niekerk, one of the few NP Ministers to keep his job, made an interim price ruling on May 2. He decided that last year's industrial buyer price of R545/t for white maize (for people) and R505/t for yellow maize (for animals) would remain unchanged but that last year's producer price of R417/t would be reduced to R310/t for the interim period.



The industrial buyers, such as Premier and Tiger Oats, would like to see the interim R310/t producer price become official, and they want no more than R80 tacked on to that to determine the price that they will pay.

The producers, however, want at least R330/t. And the board wants more than double the R80 differential because that money goes towards financing the board.

"The gap of almost R200/t between the board's proposed producer and (buyer) prices would be a major incentive to circumvent (and destroy) its statutory fixed price, levy and marketing systems," says Tiger Group trade liaison manager Boris Kaplan.

Producers, on the other hand, are adamant that they should benefit from the bumper crop and be allowed to pay off as much debt as possible. "With an interim producer price of R310/t, maize farmers, on average, would lose money this year," says National Maize Producers' Organisation GM Giel van Zyl.

The ANC's agricultural policy foresees a price-stabilising role for the board. But as far as support for retaining unrealistically high prices are concerned, Nampo's and the board's fond hopes of possible State support for their position have been dashed.

Says the ANC-aligned Land & Agricultural Policy Centre: "The board's proposal that its price of maize (to large buyers) be based on import parity, particularly in the context of a huge surplus (which would drive down prices to well below the world price if the market were freed), is rejected. At the same time, the centre recognises that prices based on export parity (the world price minus transport costs and other expenses) would be inadequate.

"Using an alternative weighted average import/export parity price formula as an interim measure, the centre's recommended buying prices (for the large companies) are R460/t for yellow maize and R480/t for white. These represent cuts of 20% and 23% respectively on last year's prices in real terms."

The centre also argues that at these prices no tariff protection is required but Nampo has proposed a 35% tariff on maize imports

The centre sees a freer marketing system as not only desirable but necessary in the light of the large price gap. It says that failure to introduce some immediate reforms may cause the system to collapse, at significant cost to the board and ultimately the taxpayer. The centre therefore favours the immediate lifting of restrictions on direct sales, which would remain subject to a levy but at a significantly reduced rate.

And should government accept the centre's policy and pricing recommendations, considerably fewer than this year's 3,9m ha will be planted under maize — and this year's surplus problem would be avoided. Realism will rule if the market is allowed to signal to producers how much to plant.

In a recent statement, Van Niekerk warned the board (and farmers) "that the political, policy and physical environment in which the board has to operate differs considerably from that of a year ago. These drastic changes also affect the board's price and other marketing measures." The single-channel system is clearly on the way out and the board's role as single buyer and seller of maize will also change accordingly. ■

PHARMACIES

No antidote for reform

Pharmacists, it seems, remain more determined than ever to hold on to their near-monopoly of drug sales to the public.

Pharmaceutical Society of SA president Gary Kohn this week again stressed that the present network of pharmacies needs to be maintained at all costs. "The pharmacy as a small business enterprise must be recognised as important and in the public interest," he told delegates to the society's 49th annual conference at Sun City Fm

Also tabled at the conference was a motion calling on the Pharmacy Council — statutorily constituted to protect the public interest but made up of a large number of pharmacists — to maintain pharmacy ownership firmly in the hands of registered pharmacists. 20/5/94

The motion, however, was withdrawn after the council's Johan van der Walt emphasised its commitment to keeping ownership with the pharmacist. Confirming that the council last year managed to scuttle the deregulation of pharmacy ownership by opposing the final draft of the Pharmacy Amendment Bill — which would have given the Health Minister the right to approve applications from Clicks, Pick 'n Pay and other non-pharmacists to open pharmacies — Van der Walt nevertheless stresses the importance of allowing controlled deregulation at the retail level. (96/283)

"Government advisers and business are still applying pressure to deregulate the sector."

Van der Walt envisages a situation where limited non-pharmacist ownership of pharmacies is allowed, at the sole discretion of the council — a suggestion the Competition Board last year threw out as not being in the public's best interest.

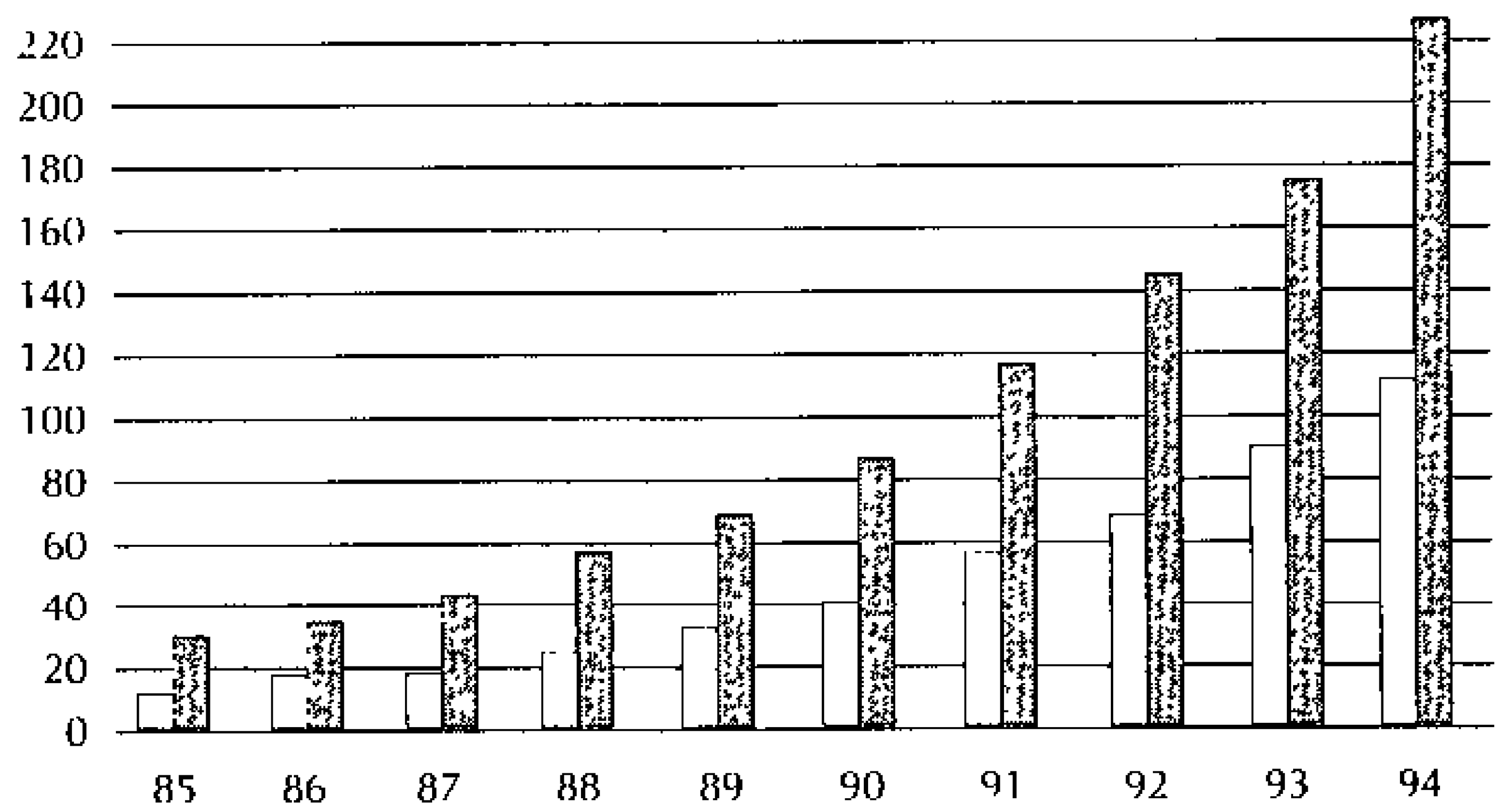
The board was concerned that the council would largely prevent deregulation of the sector by setting difficult criteria for non-pharmacist applications.

Van der Walt suggests that the council will consider an application from a non-pharmacist to open a pharmacy in an area where there is none. Of course, this type of thinking could exclude the large retail chains that tend to operate in busy places where often there are lots of little pharmacies operating mostly on inefficient economies of

Fm 20/5/94

Audited group results for the year ended 31 March 1994

Earnings and dividends (cents per share)



☐ Dividends per share
Ten year compound growth in dividends 27,6%

☒ Earnings per share (fully diluted)
Ten year compound growth in earnings 24,9%

Comment on period under review

The group increased attributable earnings to ordinary shareholders by 48% from R54-million to R80-million. This resulted in earnings per share increasing by 30,7% from 188,3 cents to 246,2 cents per share. The group has achieved a ten year compound growth rate in diluted earnings and dividends per share of 24,9% and 27,6% respectively. The non-rand component of the group's income now accounts for 43,5% of attributable earnings.

Conditions in financial markets were buoyant during the year under review, notwithstanding difficult trading conditions in the real economy and the political uncertainty that prevailed throughout the period. Organic growth in traditional areas of Banking and Merchant Banking contributed significantly to the growth in earnings which were further boosted by substantial cost savings achieved as a result of the rationalisation of Investec Property Group as well as Reichmans. Operating expenses, excluding those attributabe to new activities and acquisitions, increased by only 4,5%. The total growth in operating expenses was 12,2%.

Although recessionary economic conditions continued to prevail throughout the year under review, the increase in the provision for bad and doubtful debts was limited to 8%, reflecting a levelling off in problem loans and an overall improvement in the quality of the group's loan portfolio.

In compliance with the full disclosure requirements of the Fourth Schedule of the Companies Act 1973, taxation is disclosed as a separate item this year and contingencies and other transfers have been appropriately disclosed. The previous year's results have been correspondingly restated.

Growth in total assets of R5 352-million includes organic growth of R1 713-million and an amount of R3 639-million from the acquisition of Sechold. The strong growth in funds under management arose from internal growth of R3 770-million or 37,3% and R4 642-million attributable to the acquisition of Sechold.

The raising of R257,3-million of additional capital during the year has ensured that the group remains exceptionally well capitalised, with a risk weighted capital asset ratio of 16% which is well above the phased requirement of 8% by 1995.

Acquisition of Sechold

With effect from 1 March 1994 Investec acquired a 78% shareholding in securities trading group Sechold Limited, for a purchase consideration of R125-million. The acquisition has entrenched Investec's position as one of the leading players in the securities trading market, and it is expected to make a meaningful contribution to the group's results for financial 1995. The acquisition was effected through the issue to Investec of new Sechold shares in exchange for renounceable letters of allotment in respect of new Investec shares which were placed on Sechold's behalf. Sechold's capital was further strengthened by a R124,3-million rights issue in April 1994.

Rights issue

In anticipation of developments that are expected to take place within the Investec Group in the foreseeable future, the directors of Investec have resolved to proceed with a rights issue of ordinary shares to raise approximately R180-million before expenses. A further announcement will be published in due course giving the terms of the rights offer and the salient dates.

Prospects

Management is confident that sound earnings growth from the group's traditional areas of business, coupled with its recent acquisitions, will result in a meaningful increase in Investec's earnings and dividends in the 1995 financial year.

On behalf of the board

B Kardol
Chairman

S Koseff
Managing director

Registered office
Investec Bank Limited (Investec), Registered Bank, Registration Number 04/02833/06, 55 Fox Street, Johannesburg 2001

Transfer secretaries
Mercantile Registrars Limited, 6th Floor, Landmark Building, 94 President Street, Johannesburg 2001, PO Box 1053, Johannesburg 2000.

Directors:
B Kardol* *(Chairman)*, H S Herman† *(Deputy Chairman and Chief Executive)*, S Koseff† *(Managing)*, B Kantor†, A I Basserabie, H K Davies, G H Davin, F N Haslett, D E Jowell, I R Kantor, D H Mitchell, J C Senekal, B Tapnack†, P R S Thomas

†Executive *Netherlands

JONSSONS

FM 20/5/94

INVESTEC HOLDINGS LIMITED

(232) (58)

Audited group results for the year ended 31 March 1994

SALIENT FEATURES

	31 March 1994	31 March 1993	% Increase
Earnings attributable to ordinary shareholders (R000)	**33 497**	24 475	**36,9**
Earnings per share (cents)	**164,7**	122,4	**34,6**
Diluted earnings per share (cents)	**166,3**	128,1	**29,8**
Dividends per share (cents)	**72,0**	56,0	**28,6**
Dividend cover (times)	**2,2**	2,2	
Weighted number of ordinary shares in issue	**20 333 333**	20 000 000	
Weighted number of shares in issue on a diluted basis	**23 883 333**	22 390 000	

Consolidated income statement

	31 March 1994 R000's	31 March 1993 R000's	% Increase
Net income after taxation	**89 339**	60 515	**47,6**
Attributable to outside shareholders in subsidiaries	**42 480**	25 835	
Net income	**46 859**	34 680	**35,1**
Preference dividends	**13 362**	10 205	
Earnings attributable to ordinary shareholders	**33 497**	24 475	**36,9**
Ordinary dividends	**15 280**	11 200	
Retained income for the year	**18 217**	13 275	

Dividend announcement

A final dividend No 16 of 44 cents per ordinary share for the year ended 31 March 1994 has been declared payable to shareholders registered at the close of business on 3 June 1994 (1993: 35 cents per share). Dividend cheques will be posted on or about 15 June 1994. In terms of the Income Tax Act, non-resident shareholders' tax will be deducted from dividends payable to all shareholders whose registered addresses are outside the Republic of South Africa.

By order of the board

S Noik *Secretary* 17 May 1994

Consolidated balance sheet

	31 March 1994 R000's	31 March 1993 R000's
Capital employed		
Ordinary share capital	**2 200**	2 000
Compulsorily convertible preference shares	**84 696**	57 171
Share premium	**92 220**	32 570
Reserves	**254 675**	163 241
	433 791	254 982
Preference share capital	**93 670**	113 788
Convertible debentures	**69 480**	69 623
Interest of minority shareholders in subsidiaries	**582 410**	241 964
Total capital employed	**1 179 351**	680 357
Liabilities		
Deposits and other accounts	**9 760 017**	4 942 407
Shareholders for dividend	**23 813**	16 004
	10 963 181	5 638 768
Assets		
Cash and short-term funds	**2 858 903**	1 375 941
Short-term negotiable securities	**2 242 273**	364 742
Advances and other accounts	**3 992 288**	3 186 760
Investment and trading securities	**978 334**	222 150
Associated companies	**486 257**	295 622
Fixed assets	**405 126**	193 553
	10 963 181	5 638 768

Fm 20/5/94

INVESTEC HOLDINGS LIMITED

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Investment banks get in on SA act

CT 19/5/94 (58)

From PETER GALLI and ROBYN CHALMERS

JOHANNESBURG. — Investment banks Citibank and SG Warburg are the latest in a string of companies to reaffirm the confidence of the international finance community in SA.

Citibank was recently awarded a licence by the Reserve Bank to open a representative office in Johannesburg, while SG Warburg will soon be opening a corporate finance office.

US-based Citibank's return seven years after its departure from SA shores was unlikely to have a significant impact on Firstcorp, said MD David Lawrence.

Firstcorp evolved when Citibank disinvested in 1987 and sold its local interest to First National Bank. Citibank then merged with First Merchant to form Firstcorp.

Citibank's licence application was sourced from its east and southern Africa regional office in

Citibank, S G Warburg come to town

Nairobi. A spokesman from Nairobi said it was unclear exactly when Citibank would open the SA office.

Analysts said Citibank was likely to stick initially to its bread and butter business of supplying services to banks such as foreign currency clearing facilities and operating in foreign exchange markets.

Meanwhile SG Warburg has been awarded the exclusive right to market stockbroking firm Ivor Jones, Roy & Co's research on SA companies internationally.

Ivor Jones, Roy MD Ted Woods said yesterday the agreement also allowed Warburg to take a 50% equity stake in the company as soon as this was allowed by legislation and the JSE.

He said it was willing to sell 50% of its equity, but this level would not be increased. It would not acquire an equity interest in Warburg. "There were no financial transfers for creating the alliance and allowing Warburg to market our research," he said.

SG Warburg Securities director Michael Cook said from London yesterday: "IJR was looking to internationalise its business rather than just sell an equity stake, which was exactly what we were looking for in a SA firm. Our most immediate need was to develop a good research base in SA while becoming members of the community by taking an equity stake in a broking firm."

JOHN CAVILL reports from London that Warburg wanted to play a leading role in SA, raising funds on international markets, advising multinationals on establishing in the country and widening the shareholder base of companies both locally and among international investors.

Southern offers shares or cash

(58) ACC 19/5/94

□ Profits improve 22,5 % to R240 million

BRUCE CAMERON
Business Editor

ANGLO-AMERICAN life insurance subsidiary Southern Life has given shareholders a choice of extra shares or cash as their part of improved profits.

Profits are up by 22,5 percent to R240 million (1993: R196 million) for the year ended March, while dividends have been declared at 94c a share — an increase of 21,3 percent over 1993.

The solid perfoamnce came on the back of good all-round performance by the company, which attracted an 88 percent increase in new business, while total group assets grew by 29 percent to R24,8 billion.

Managing director Jan Calitz said: "We have decided to award capitalisation shares in lieu of the final dividend of 55,5c, which creates an opportunity for shareholders to acquire further shares in the company."

"Shareholders will be given the option of accepting a cash dividend instead of the capitalisation award."

The two major shareholders, Anglo American Corporation and First National Bank, have indicated they will accept the shares.

Dividends were covered 1,5 times by earnings.

Total income increased 35 percent to R4 756 million (R3 514 million), while premium income grew by 44 percent, passing the R3 billion mark for the first time in reaching R3 565 million (R2 482 million).

Investment income was up 15 percent at R1 191 million (R1 032 million), in spite of lower interest rates, and a low growth rate in dividends on shares.

Mr Calitz said the figures now excluded African Life following the sale of the controlling interest in the company.

Group total income increased by 31 percent, premium income by 38 percent and investment income by 12 percent.

The company's new business production rose by 88 percent to R2 241 million (R1 194 million), with single premiums accounting for R1 838 million and recurring premium business for R403 million.

Total group assets were up 29 percent from R5,6 billion to R24,8 billion.

The company's operating costs increased by 13,7 percent.

Old Mutual launches (58) new unit trust fund

CT 9/5/94

Business Staff

OLD MUTUAL has launched a new unit trust product — Guaranteed Trust — which aims to offer high stock market returns while safeguarding an investor's initial capital.

The capital repayment guarantee will be obtained by investing part of the lump sum into a single premium pure endowment, while the balance is channelled into any of Old Mutual's seven equity unit trusts.

The Guaranteed Trust provides a tax advantage by allowing both the initial capital and the stock market capital to be paid out tax-free at the end of the five year period.

Old Mutual's unit trust manager Selwyn Feldman notes: "The financial markets have reacted well to the positive outcome of the elections and unit trusts should provide the investor with inflation beating growth".

The minimum which can be invested is R15 000.

Premiums lift off for Southern

(58)

CT 19/5/94

Jan Calitz

By AUDREY D'ANGELO
Business Editor

SOUTHERN Life lifted premium income by an impressive 44% in the year to March 31, passing the R3bn mark for the first time.

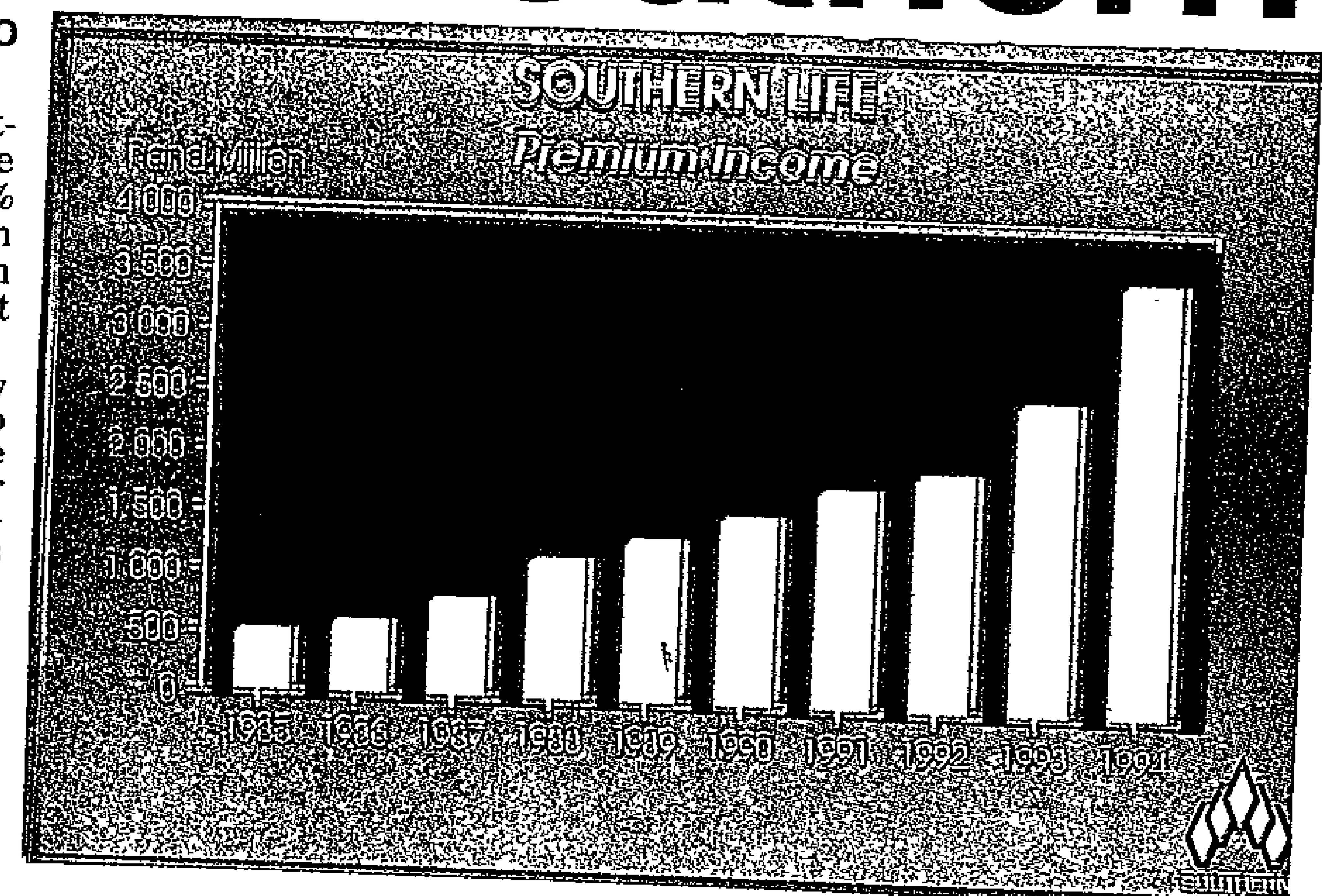
The company's new business rose by 88% to R2,2bn (R1,1bn). Single premiums accounted for R1,8bn of this and recurring premium business for R403m.

Total company income rose by 35% to R4,7bn (R3,5bn). Premium income reached R3,5bn (R2,4bn). Investment income rose by 15% to R1,1bn (R1bn) in spite of lower interest rates and low growth in dividends.

The final dividend is 55,5c a share, making a total pay-out for the year of 94c — 21,3% more than in 1993.

But shareholders are being offered a choice of capitalisation shares instead of the final dividend, retaining cash in the company and cutting down the payment of Secondary Tax on Companies (STC) by what MD Jan Calitz described as "a substantial amount".

He said the two principal shareholders, Anglo American Corporation and First National Bank, "have indicated that they will accept the capitalisation award."



NEW HIGH... New investment portfolios, and the sale of annuities, helped to send Southern Life's premium income soaring.

Distributable earnings rose by 22,5% to R240m (R196m).

Group total income rose by 31%, premium income by 38% and investment income by 12%.

Calitz said this rise was despite the fact that the figures excluded African Life, as a result of the sale of the controlling interest to Real Africa Investments.

Group total assets rose by 29% to R24,8bn. Calitz pointed out that this reflected the extent to which policyholders and shareholders benefited from the strength of the JSE over the past year.

He said the rise in premium income was partly due to the launch of new products and to the marketing of a UAL equity-linked annuity.

"We have had quite a lot of annuity sales during the year, many to holders of policies which have matured."

The Exclusive Life series of policies, aimed at reducing the impact of HIV infection on profitability by targeting people least at risk and testing them every five years, now accounted for 30% of all individual policy sales.

"The number of applicants for life assurance who test HIV positive indicates that the rate of HIV infection is increasing," Calitz warned.

"In SA the infection is mainly spread heterosexually, whereas media reports relating to slowdowns in infection rates are invariably based on US and European experience, where different conditions apply."

Discussing the sale of the controlling interest in African Life to a black consortium, Calitz said this had resulted in faster growth in the company — in which Southern retained a 25% stake — than would have been the case if it had retained 77%.

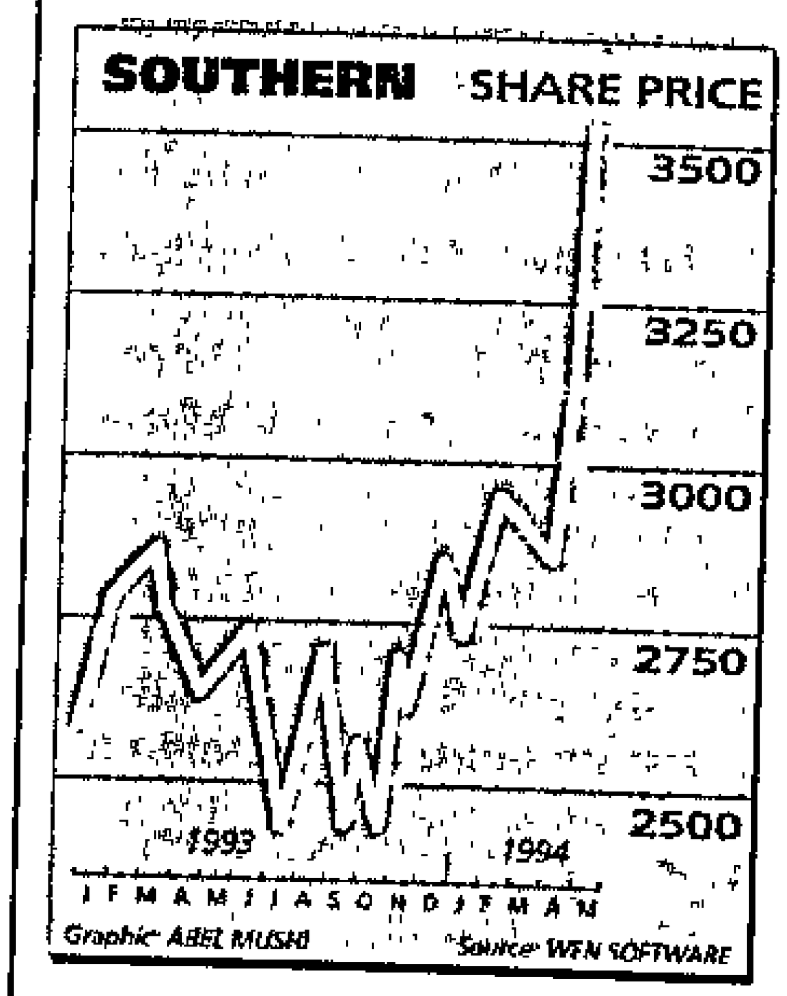
"The deal has resulted in a partnership for Southern Life with an important alliance of black interest groups. We have in turn invested R42m in Conslab Investments (Pty) which is one of the key investors in the new holding company."

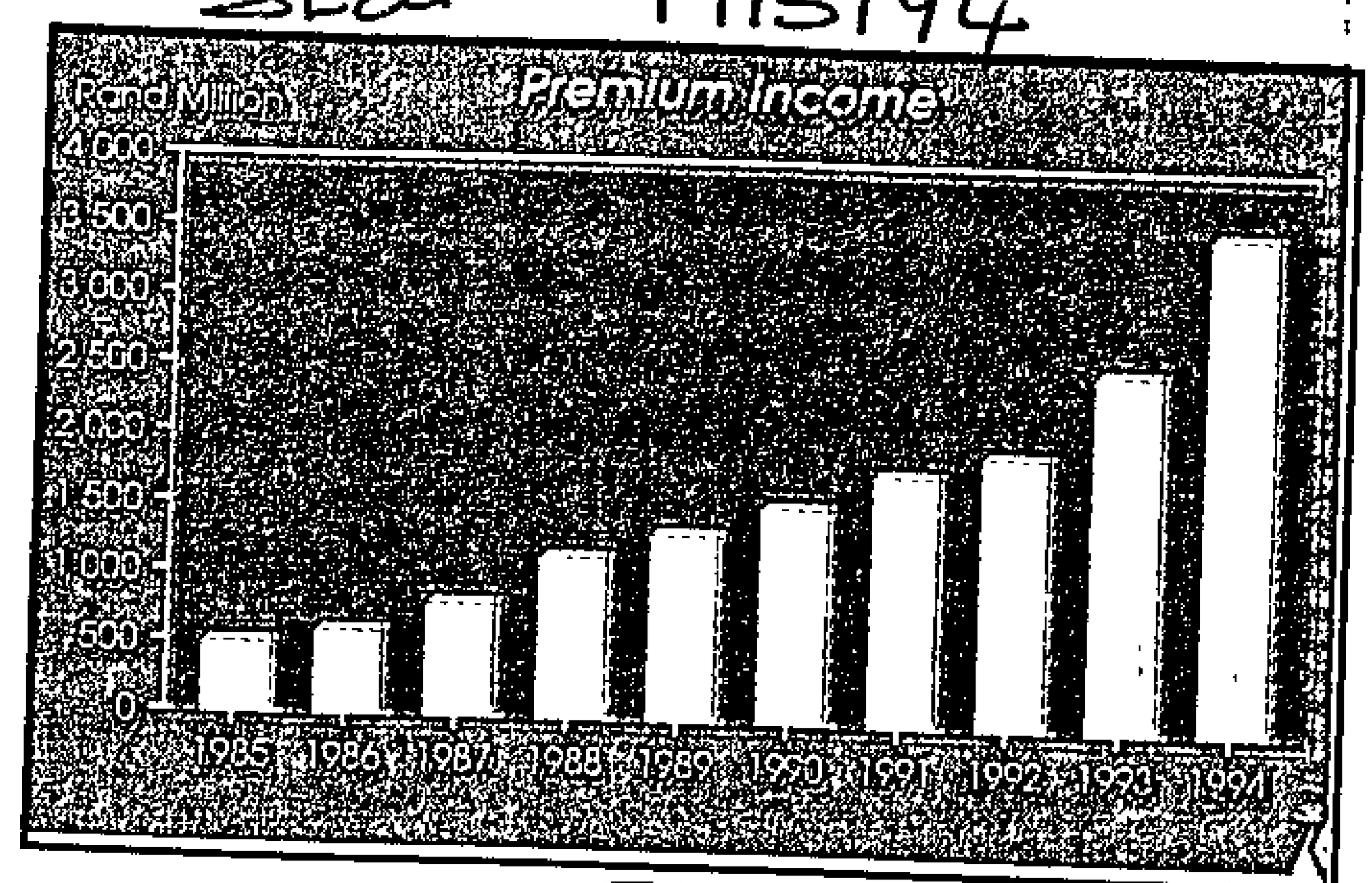
Calitz said First Link — a joint venture between First National Bank (FNB), First Bowring & Associates and Southern Life — had been marketing Southern Life policies to FNB clients who would not normally be serviced by First Bowrings.

"The potential market is significant and although First Link has been selling policies for only four months, early indications are promising."

Southern Life sees massive increase in new business

Star 19/5/94





58

BY JOHN SPIRA

On the back of an 88 percent increase in new business (to R2,24 billion), Southern Life has boosted its distributable earnings 22,5 percent to R240 million for the year to March.

Dividends for the year will be 94c — 21,3 percent up on last year. Shareholders have the option of capitalisation shares in lieu of the final dividend of 55,5c.

The company's total income rose 35 percent to R4,8 billion, while premium income grew by 44 percent to R3,6 billion, in the process passing the R3 billion mark for the first time. Investment income was 15 percent higher at R1,2 billion.

Group figures now exclude African Life (included in the 1993 figures) following the sale of its controlling interest.

Group total income rose 31 percent, premium income 38 percent and investment income by 12 percent.

MD Jan Calitz highlights the 29 percent increase in group total assets to R24.8 billion, "reflecting the extent to which Southern Life policyholders and shareholders benefited from the strength of the JSE over the past year".

Southern's top ten equity holdings, which represent some 60 percent of its total holding by market value, are First National Bank, Anglos, Richemont, De Beers/Anamint, Foschini/Lefic, SAB/Bevcon, the Rembrandt group, Wooltru, Anglovaal/Avhold and JCI.

Operating costs rose 13,7 percent over the previous year. Calitz says the success in containing expenses should be related to the 35 percent increase in total income.

"The fact that this increase was ahead of inflation is due to the rapid expansion of new business, increased investment in systems development and high marketing expenses — not to additional manpower."

He believes Southern has increased its market share over the past 12 months, principally as a result of the introduction of exciting new insurance products and its high levels of service.

Affirmative action was obviously a key focus area, with Southern being guided by several issues, among them a changing market structure, which indicates an increase in sales to black policyholders, who currently account for 50 percent of new policy sales.

Given Southern's financial strength, together with the positive outlook for the future of a democratic SA, shareholders can expect continued growth in earnings and dividends.

Although the share price has risen strongly ahead of the results, the yield on the increased dividend is 2,9 percent, versus the 2,4 percent insurance sector average.

In the light of the latest figures, shareholders can justifiably expect the yield gap to narrow in the months ahead.

Southern Life has a good year

B/Day 19/5/94

CHARLOTTE MATHEWS

LIFE assurer Southern Life improved earnings more than a fifth to 141,0c a share in the year to March on a combination of higher premium income, cost-cutting and the buoyant stock market, MD Jan Calitz said yesterday.

Net premium income was 38,1% better at R3,61bn, and net investment income rose to R1,2bn (R1,1bn). Together these brought total income to R4,8bn from R3,7bn, a 35% rise against the increase of 13,7% in operating costs.

(58)

But the group warned that the sale of its stake in African Life in the past financial year had made it impossible to compare 1994 and 1993 figures.

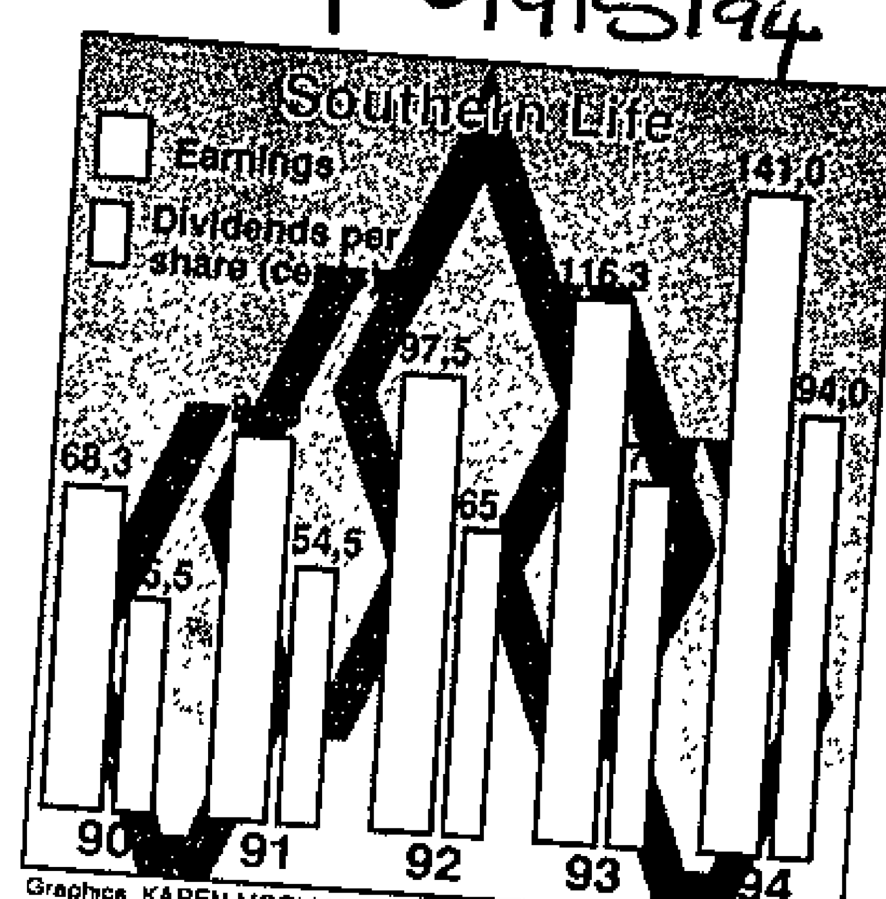
The sale had resulted in a R153m reduction in premium income and a R24m fall in investment income. Proceeds of the sale were included in the growth in life funds to R22,6bn from R17,3bn.

New business was 88% higher at R2,2bn, including R1,8bn of single premiums and R403m of recurring premium business.

Distributable earnings lifted to R240,3m from R196,2m, on which a total dividend of 94,0c (77,5c) was declared, covered one and a half times by earnings.

A capitalisation award will again be held in lieu of the final dividend of 55,5c a share. The group's main shareholders, Anglo American and First National Bank, had indicated they would accept the shares.

Southern Life life division executive director Chris Liddle said the



Graphics KAREN MOOLMAN Source SOUTHERN LIFE

sharp growth in new business was attributable partly to sales of the Equity Linked Life Annuity, marketed with UAL, which Southern took over from Crusader Life in August last year.

There had also been an increase in the amount of annuities being sold, partly because these were being used to take advantage of rand cost averaging into unit trusts.

Single premium business had benefited from pension fund managers moving assets from one investment manager to another. Within recurring premium business, new business from independent brokers was one third up on last year.

Liddle said that if capital transfer tax were introduced at a higher rate it would boost the sale of life assurance as a way of transferring assets to heirs intact. At present the Exclusive Life product was more appropriate to the type of market most likely to be affected by such a move.

Defined pension schemes fading out

Business Editor

THE increasing militancy of the workforce was causing many companies to close their defined pension schemes and switch to defined contribution schemes, to lessen the trustees' risk exposure, chartered accountant Willi Jonker said yesterday.

He told the annual conference of the Institute of Retirement Funds that he also expected more trustees to employ "passive" rather than "active" pension fund managers to reduce costs and lessen risk.

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A "passive" fund manager aimed at equalling the returns of the average portfolio at the lowest possible cost.

CT 18/5/94

There were many such managers overseas, but they were almost unknown in SA.

An "active" fund manager aimed at out-performing the market.

But since, for every manager who did the right thing by buying there was another who had done the wrong thing by selling, only half could out-perform the market.

Their fees, and the cost of every transaction — which was exceptionally high in SA — also ate into the profits of the fund.

Records kept overseas showed that "active" fund managers were successful in cycles. Those at the top stayed there for only a few years and then did less well for a period.

It was rare, however, for pension fund trustees to fire a manager who had done well for a few years and replace him with one who was under-performing, just as many investors made the mistake of failing to sell when the market was high and buy when it was low.

This explained why trustees were sometimes disappointed by the performance of a new manager who had been out-performing the market for a few years while the old one who had been replaced started to out-perform the market for a new client.

Santam div payout up 15pc

(58) ARG 18/5/94

ALIDE DASNOIS
Business Staff

SHORT term insurer Santam is to increase its dividend in spite of an 18 percent fall in attributable profits in the six months to end-March.

Managing director Jurie Geldenhuys said the dividend for the full year to September would be lifted 15 percent from last year's 50c.

Crime had slashed the underwriting surplus to R16,1 million from R32,6 million a year ago. But investment income was up slightly at R52,7 million and it was company policy to pay dividends out of investment income and to disregard underwriting results, Mr Geldenhuys said.

Attributable profit came in at R46,4 million (R56,4 million a year ago) and the dividend is still covered 2,8 times.

Mr Geldenhuys said the company's solvency margin had improved and total assets at R1,5 billion were nearly 25 percent higher than a year ago.

■ Newly listed **New Republic Bank** has more than trebled attributable income to R11,6 million in the year to March.

But earnings a share at 54,9c are up only 8 percent because of the increased number of shares in issue.

The bank said the results were in line with forecasts.

Further increases in earnings were expected this year on the back of improved economic conditions. The dividend has been maintained at 19c.

■ Health care company **Macmed** beat its own forecasts, turning in attributable income of R3,5 million in the 15 months to end March. On an annualised basis, earnings are up a hefty 60 percent on the previous year.

But the group has decided not to pay a final dividend so as to maintain gearing at its current low level of 7 percent, managing director Don McArthur said.

However Macmed is to pay a capitalisation award of 1,25c a share through a 1-for-68 rights issue.

Turnover increase of 79 percent annualised was due partly to higher demand for the group's products and partly to the acquisition of Hospital Products last September.

Earnings up 8% (58) at NRB

JOHANNESBURG. — The New Republic Bank more than doubled net interest and other income in the year to March 1994 which tripled attributable income to R11,6m from R3,5m a year earlier.

The Durban-based bank's performance in its first listed year was in line with its listing forecasts and it declared a final dividend of 12c a share, leaving the total for the year unchanged at 19c a share.

Net interest and other income increased in the period under review to R51,4m from R22,4m.

Earnings a share fully diluted improved 8,3% to 51c from 47,1c a share, while undiluted earnings a share declined 10,1% to 54,9c from 61,1c a share.

CT 18/5/94

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Crime undercuts Santam profits

(88)

CT 18/5/94

By AUDREY D'ANGELO

THE crime wave washed away some of short term insurer Santam's profits in the six months to March, despite a rise in premium and investment income.

The under-writing surplus before tax fell to R16,1m compared with R32,6m in the first half of last year.

So although gross premium income rose by 16,7% to R729,7m (R625,2m), net premium income to R644,4m (R553,5m) and interest income to R52,7m (R51,6m), attributable profit was 17,7% lower at R46,4m (R56,4m).

Earnings dropped to 64c (78c) a share. But the interim dividend rose 15% to 23c (20c) a share.

Pointing out that the interim dividend is covered 2,8 times by earnings, the directors say they expect the total dividend for the year to be 15% higher.

Net asset value has increased to 1 245c (879c). The share traded at 1 120c yesterday morning.

MD Jurie Geldenhuys said: "Sanlam's solvency margin has improved and now stands at around 70%. The company's financial base is about 115%. Both ratios are very sound."

Geldenhuys said that, in line with the experience of the short-term insurance industry as a whole, the crime wave in SA had an impact on underwriting results.

"When we consider the sharp increase in the crime rate during the six months the under-writing result can be seen as satisfactory.

"Likewise the modest rise in investment income is also very satisfactory when the sharp falls in interest rates over the past year or so are taken into account, and is in line with our targets."

Investec Bank in bid for global showing

(58) CT 18/5/94

By ARI JACOBSON

INVESTEC Bank group will be trying to break into the international scene in a serious way over the next year, according to MD Stephan Koseff.

Speaking in an interview after releasing strong financial results for the year to March, Koseff said that the international game-plan was to merge Allied Trust, based in the UK and Integro, run out of Amsterdam, into a formidable international merchant bank with assets, at present worth some £300m (R1,5bn) and to break into the top 500 banks based on capital size.

He explained that "breaking into the international scene" was the major reason for opting for a rights issue.

The bank has announced that it plans to attract about R180m to help build a stronger capital base.

However, the most important need according to Koseff, is to have the capital to be "a contender" overseas.

"In the international arena capital is king," he said.

Koseff pointed out that Investec's capital adequacy ratio (crudely share capital versus total assets) is about 16% — well-above local standards: "It will stay that way until 1998.

"But in the US most banks have it up at 12% and the top bank (Republic National Bank of New York) is at 26% — it's only here in SA where that ratio is below 10%."

The Banks Act requires financial institutions to obtain a capital adequacy ratio of 8% by next year.

"Investec's current capital would probably put us in the top 700 in the world and this would exclude us from operating in some US states."

He added that a large capital base will help with its expansion plans in Southern Africa and more generally internationally.

"We prefer to have more than the necessary capital — we never want to feel constrained."

Koseff also maintained that counterparty risk and price risk would be forced on security traders in the future and this is another reason for having "surplus" amounts of capital.

He added that "we are happy with Sechold and expect it to return to profitability this financial year — there are no lurkers and everything has been accounted for."

Koseff confessed: "Although Sechold's four banks have a good decentralised structure — at Investec we believe that risk management should be centralised"

"We do not even trust ourselves on the risk management issue and so Investec has hired experts from the UK to look at our systems."

Koseff is quick to mention that Investec will enter the share-trading arena as soon as banks are permitted there.

● The Investec share is currently trading at a very expensive PE of about 27:1, having risen more than 85% over the last year. The share closed out last night at an all-time high of R58 a share.

Top bank analyst Alan McConnochie of Ed Hern Rudolph, commenting on this share performance at an Investment Analysts seminar in downtown Johannesbuirg this week, said: "Investec is the sort of share that makes every analyst, who recommends it, look clever".

● Investec/Metboards' Property Fund Managers (Metprop) yesterday reported a 9% dip in distributable income, to 26,4c (29c) a unit, for the year to March.

The distribution available to unit holders, for the last six months of the financial year, amounts to 12,7c (13.7c).

Star 18/5/94

Big leap ahead for Santam

Santam has reported a jump in net asset value per share in the six months to March to 1 245c (879c a year ago).

The interim dividend is up by 15 percent to 23c a share (20c). Santam expects the total for the year to September to rise by 15 percent.

The crime wave had an impact on underwriting results. The pre-tax underwriting surplus was R16,1 million (R32,6 million).

Investment income rose to R52,7 million (R51,6 million).

Profit before tax, but after transfer to contingency reserves, at R61,6 million, was down from the R78 million in the same period of 1993.

Profit attributable to shareholders was R46,4 (R56,4 million). This was equal to earnings of 64c (78c) a share (68)

Although the dividend has been lifted on lower earnings, it is still covered 2,8 times (3,9 times).

Gross premium income was R729,7 million (R625,2 million).

Net premium income was R644,4 million (R553,5 million). — Sapa.

Rising crime harms Santam's earnings

EDWARD WEST

CAPE TOWN — Insurance group Santam has reported a 17,9% drop in earnings to 64c (78c) a share for the six months to March, due mainly to the effect of rising crime on the short-term insurance industry. BDay

In spite of the lower profit, the interim dividend was lifted 15% to 23c (20c), covered 2,8 (3,9) times, and the company indicated it would increase its full distribution for the year to September by 15% over last year's 50c.

Directors cautioned the interim results should not be taken as a basis for expectations for the full year, due to the nature of the industry and the variable nature of underwriting results. 18/5/94

The interim pre-tax underwriting surplus dropped by half to R16,1m (R32,6m). Investment income increased only marginally to R52,7m (R51,6m).

Pre-tax income was down by just more than a fifth to R61,6m (R78m) after a lower contingency reserve transfer of R8,2m (R9,1m). The tax bill was lower at R15,2m (R21,6m) and attributable profit fell 17,7% to R46,4m (R56,4m). (68)

MD Jurie Geldenhuys said the results were satisfactory considering the crime rate over the six months. He said the modest increase in investment income was also acceptable given lower interest rates.

He added that the higher year's dividend would be in line with company policy of dividend growth outstripping the inflation rate.

Underwriting results were largely disregarded in the payout because they fluctuated, and dividends were paid out of investment income which grew steadily.

The solvency margin further improved and currently stood at about 70% while the company's financial base was about 115%, which reflected financial strength, Geldenhuys said.

Gross premium income for the six months was 16,7% higher at R729,7m (R625,2m). Net premium income was 16,4% higher at R664,4m (R553,5m). Total assets amounted to R1,54bn, 24,6% higher than R1,23bn at the same time a year ago.

The bulk of the assets were investments with a market value of R1,32bn and cash resources of R111,4m. Net asset value climbed 41,6% to 1 245c (879c) a share.

Geldenhuys said he hoped the period of relative peace during and after the elections was a sign of the future and that a period of reduced crime could be expected.

Adapt to new needs, retirement industry urged

(58) (3502) ARG 17/5/94

ALIDE DASNOIS
Business Staff

THE retirement industry could not afford to be complacent in the face of immense socio-economic needs, Director-General of Finance Estian Calitz said.

Addressing the Institute of Retirement Funds conference in Somerset West, he said pension fund managers would increasingly be called on to reassess the risk profiles of their investments and change their portfolios to take into account these needs.

The industry had an opportunity to act innovatively to the advantage of the poorer sectors of the population.

Dr Calitz said the ANC reconstruction and development programme (RDP) provided a good framework for economic policy.

"It is a sound basis for the trade-off between scarce resources and insatiable need."

In implementing the RDP the new government could build on progress which had already been made in its financial sector, tax and trade reform, the encouragement of small business and the reallocation of government spending from defence to social services, particularly education.

There was a large measure of consensus about economic policy. The new government would shift economic priorities to the disadvantaged sectors of the population and would expect the private sector to follow suit.

But dramatic "business unfriendly" policies were not on the cards.

Mobilising the country's savings was a priority for economic growth. Contractual saving had grown by 18 percent a year to reach R45 billion in 1993 This had been offset by "discretionary dis-saving".

In 1990 net personal savings had dropped to 1 percent of disposable income — a record low.

Though the level of saving had improved since, it was necessary to encourage personal saving through tax and interest rate policies.

With R800 billion under management at the end of last year, financial institutions including private funds played an important role in financing private and public investment.

Barclays considers SA option

58

CT 16/5/94

Own Correspondent

LONDON — Barclays, Britain's biggest bank, is among leading British financial groups considering a return to SA

Barclays sold out of what is now First National Bank in 1986 in response to US pressures and the anti-apartheid campaign in Britain, which slashed its student market share.

A spokesman said at the weekend "Obviously we are keeping our position regarding SA under review

"In due course we may set up a representative office there.

"We provide trac · finance for customers who do business in SA and these services will increase.

"If we do return it will most likely be in support of that corporate business and not as a retail bank."

The spokesman said that, contrary to London reports, it had no plans to establish an SA operation of its merchant banking and securities arm, BZW (Barclays de Zoete Wedd), which has nearly £50bn in funds under management.

● The announcement last week of a deal in which Nedbank acquired 20% of Equator Bank, a subsidiary of world banking group HSBC Holdings, opens up vast possibilities for mutual cooperation and cross-referral of business between the two companies

Equator specialises in financial advisory services and trade finance in sub-Saharan Africa.

Nedbank will buy shares in Equator Holdings Ltd, the parent comupany of Equator Bank, from Wardley International Ltd, an indirectly-held, wholly owned subsidiary of HSBC.

Equator Bank has its headquarters in Connecticut and offices in eight countries. It specialises in business in sub-Saharan Africa.

Nedcor CE Richard Laubscher said the investment was the last building block in its strategy [illegible] b-Saharan Africa.

Equator Holdings, established in 1975, manages two Africa equity funds, and a $75m fund is being organised. This will invest in private sector companies.

HSBC Holdings is one of the largest banking groups in the world, with total assets of about $300bn. It has more than 3 000 offices in 65 countries

HSBC's public relations manager Alex Cheeseman said the deal with Nedbank would give HSBC access to business opportunities in SA.

● Meanwhile, a study by the Unisa School of Business Leadership has found that SA banks are unlikely to succeed in making a significant and profitable entry into foreign banking markets.

The study into the international competitiveness of the SA retail and corporate banking industry found that 52,45% of interviewees from various banks, industry analysts and corporate clients, completely excluded the possibility of expansion into foreign markets in the retail sector

SA wary of AfDB membership offer

S Times (Buss)
16/5/94

By SVEN LUNSCHE: NAIROBI

SOUTH Africa has poured cold water on suggestions by the African Development Bank (AfDB) that its membership is a foregone conclusion and will come about speedily and easily.

SA has presented the AfDB with only a letter of intent to enter into negotiations which could lead to its membership.

The cautious approach contrasts with AfDB enthusiasm at its annual meeting this week for SA membership.

What should have been a celebration of the AfDB's 30th anniversary turned sour with the release of a damning report outlining its serious financial problems.

The AfDB frequently offered to process a SA membership application within a week. Vice-president for Southern Africa Adewale Sangowawa said: "We are very keen to have SA join us and can facilitate membership very speedily."

However, he is likely to be confronted with difficult year-long negotiations and strict demands from SA.

"We want to make an investment because it is worth our while, not just becasue we're part of the continent," said the Department of Finance's Eltie Links, who presented the letter of intent with Development Bank of Southern Africa chief executive Andre la Grange.

In an attempt to dampen AfDB enthusiasm, he rejected Mr Sangowawa's suggestion that consensus had been reached on conditions for SA membership. (58)

The new Government would first have to approve SA's strategy, which was drawn up by a Transitional Executive Council committee, headed by Mr la Grange. That alone could delay the start of negotiations by about two months.

The AfDB is ready to make SA one of its top African shareholders by offering it between 8% and 12% of its shares.

At 10%, SA would have to pay about \$275-million over five years. The rest — \$1,9-billion — would be on call.

Initially, SA would be a net borrower, according to the AfDB. It projects that SA would receive between \$300-million and \$400-million annually for the first five years of its membership.

With gross domestic product a head of \$2 600, SA is well over the threshold of eligibility for soft loans from the AfDB. But even the AfDB's direct market rate offers more favourable terms than most European and US funds and capital markets.

The SA delegates are not surprisingly concerned about the AfDB's \$700-million liabilities, which could force it to draw on call money sooner than SA might expect.

Mr Links says: "Once we join, we would shoulder responsibility for liabilities which were built up over the years when we weren't members. It is something we will have to look at in the negotiations."

SA will call for long repayment periods at favourable rates and denominated in rands.

Mr la Grange says: "We will be reluctant to take up loans in currencies against which the rand is likely to depreciate."

AfDB's management is also of serious concern to SA. Mr Links says: "Being a large shareholder brings with it responsibility for management of the bank. We will take this seriously."

SA is likely to get a seat on AfDB's executive, possibily one of the four vice-presidents, and an overall staff allocation in line with its shareholding. Development Bank staff are receiving training in Abidjan, Ivory Coast, headquarters of the AfDB.

But the timing is of secondary consideration for SA. For one, donor aid is flowing in in the aftermath of Nelson Mandela's inauguration, providing concessionary funding of up to R2-billion.

Furthermore, SA's capital markets are super-liquid now.

Mr la Grange says SA needs to identify its requirements as outlined by the reconstruction and development programme.

Observers believe that SA holds the upper hand, particularly when viewed against the AfDB's financial and managerial problems.

NBS earnings surge by 58%

CT 4/5/94 (58)

By MAGGIE ROWLEY
Deputy Business Editor

EXCEEDING expectations and with a good performance from all divisions and associates, NBS Holdings lifted earnings 58% to R144,5m for the year to end March .

Due to an enlarged share base, earnings at the share level were diluted but still showed an impressive 30% increase at 179,1c (137,6c), according to preliminary figures.

This was achieved in spite of a continued rise in bad debt which jumped 38% to top R97,6m against R70,6m the previous year. The general provision for losses has been strengthened to R114,2m (R84,8m).

A final dividend of 39c a share brings the total payout for the year to 59c a share, 28% up on last year's 46c.

Group MD John Gafney said all operating divisions had reported improved earnings and excellent results had been posted by the group's insurance interests. Earnings from non-banking investments had, he said, performed strongly and now contributed 33% of group earnings.

During the year the mortgage loan portfolio was increased by 14% to R8bn and the bank now has a market share of around 9%. He said NBS Corporate Division, a fully fledged corporate bank, had increased its total advances by 49% to R2,2bn.

Gafney said expenditure had been contained through strict control of expenses and the benefits of rationalisation initiated in 1992.

The bank had also benefited from favourable interest margins.

Investment

NBS Holdings' investment in associate companies was increased from R68,9m to R426,5m through the acquisition of a 20% interest in RMB Holdings, a 47,5% stake in Aegis Insurance company and a further 10% interest in FBSA Holdings.

These acquisitions, which were financed by the issue of additional shares, resulted in an increase of 70% in the group's capital and reserves which now stand at R988m.

He said that income from the group's major associates had contributed positively to the performance, with RMB Holdings increasing earnings by 49% and Norwich by 59%.

"Our capital and reserves are extremely sound with NBS Bank's risk weighted capital at 9,63% against the minimum 7% stipulated by the Bank Act."

He pointed out that the NBS's share price had moved up 66% over the past 12 months and is currently trading at around R24,50 while the market capitalisation recently exceeded R2bn for the first time.

● Paul Leaf-Wright, senior GM finance and treasury, said 80% of the bad debt during the year under review arose from mortgage bond business with 30% to 40% of this in turn being in the low cost housing market.

Among the top performers in the group, he said, had been the banking division which had benefited from increased margins.

He said the group now had a healthy spread of financial services and the current year would be one of consolidating these interests.

The group, he said, was budgeting for a 5% real growth in earnings for the current year.

Nedbank buys a 20% stake in Equator Bank

Star 13/5/94

BY STEPHEN CRANSTON

Nedbank has acquired a 20 percent interest in Equator Bank, a subsidiary of HSBC, the holding company for the Hong Kong and Shanghai Bank and the Midland Bank in the UK. (58)

The investment is still subject to approval from the Reserve Bank.

Equator Holdings, established in 1975, provides merchant banking, specialist trade and fund management services in sub-Saharan Africa.

It manages two African equity funds and a $75 million fund is being structured to invest in unlisted private sector companies in southern Africa.

Nedcor CE Richard Laubscher sees the investment as an important and critical component of the group's strategy for sub-Saharan Africa.

"We believe that Equator's presence in Angola, Ghana, Kenya, Mozambique and Zambia will complement our investments in Commercial Bank of Namibia and the Merchant Bank of Central Africa in Zimbabwe, creating synergies across the region, which will be of benefit to our corporate clients."

He says Equator complements the existing strategic alliance between Nedbank and SFOM, the African banking arm of Banque Nationale de Paris, Dresdner Bank and Banque Bruxelles Lambert.

Equator CE Frank Kennedy says that the Equator/Nedbank link should advance Equator's aim to generate trade between South Africa and its neighbours.

Retail bank to fund housing

B/Day

WILSON ZWANE

A RETAIL housing bank, which would finance about 670 000 houses over the next five years, would be established within six months, former SA National Civic Organisation (Sanco) president Moses Mayekiso said yesterday. 13/5/94

Sanco was holding discussions with the SA Housing Trust, which would be used as a shell for the bank.

The bank's "top priority" clients would be community-based development organisations with sound financial histories, a recent report by Sanco's commission on development finance said. (58/123)

Mayekiso said Sanco would lobby government to introduce legislation to force banks to disclose, among other things, demographic information on housing loans including sex, income levels and the location and value of the property being financed.

The "disclosure burden" on banks might help the sector acquire information "with which to plan and structure banking operations to address the goals of the reconstruction and development programme".

Slovo outlines plans for new portfolio

B/Day 13/5/94

TIM COHEN

NEW Housing Minister Joe Slovo spelt out preliminary but ambitious plans for his portfolio yesterday, including the establishment of a national housing bank and the implementation of a mortgage indemnity scheme. (123)

An upbeat Slovo expressed support for agreements already achieved by the National Housing Forum, and endorsed the concept of the provision of housing as a kick-start for the economy.

Slovo said priority had to be given to the poor, who had been ignored largely in the past and had to be brought into the mainstream of policy.

He stressed all major players would need to be engaged, especially the private sector, which had a "seminal" role to play.

Slovo mooted the idea of a housing summit to gain wide involvement and establish a logic to the provision of housing, which had been somewhat "constipated".

The provision of housing could be a major generator of jobs, but for this to happen there had to be a great degree of market certainty to release the "latent energy" in the sector.

The idea of a national housing bank had to be realised, although the details needed to be planned with care.

Slovo said one of his major tasks would be to develop a good relationship with the provincial housing administrations.

The ANC's reconstruction and development programme specified that 1-million "housing units" should be built within five years, which Slovo said was realisable although it might not be possible to build 370 000 houses in the first year.

Slovo said he was "over the moon" about his portfolio.

"We have been talking liberation, but this will be the beginning of making liberation . . . There is so much goodwill, I think there is a very good chance we can make a breakthrough."

GERALD REILLY reports that a million new houses by the end of the century is possible provided adequate funds are available for training workers, according to Building Industries' Federation of SA CE Ian Robinson.

Commenting on an ANC paper on the costs of the RDP, Robinson said 100 000 houses could be built next year, 200 000 in 1996 and, by 1998, 300 000 a year.

The success in training workers would determine the speed with which houses could be delivered. Bifsa was currently spending R20m a year on training, and this would have to be greatly increased.

Training was being carried out at Bifsa training colleges but it would be necessary to introduce on-site training schemes if the enourmous challenge of putting up a million houses by 2 000 was to be met.

Robinson said expanded training would be costly and government would have to get involved in the funding.

Nedbank takes a bite of Equator

CHARLOTTE MATHEWS

NEDBANK has bought a 20% stake in Equator Holdings, a subsidiary of international banking group HSBC Holdings.

Nedcor chief executive Richard Laubscher said it had been decided the purchase figure would remain unspecified because it was a private deal.

The HSBC group has more than 3 000 offices in 65 countries and more than $300bn in assets.

B/Day

Equator Holdings, whose majority shareholder is Wardley International, an indirect wholly owned subsidiary of HSBC, owns 100% of Equator Bank. The group provides merchant banking, specialist trade and fund management services in sub-Saharan Africa.

13/6/94

"We believe that Equator's presence in Angola, Ghana, Kenya, Mozambique and Zambia will complement our investments in Commercial Bank of Namibia and Merchant Bank of Central Africa in Zimbabwe, creating synergies across the region," Laubscher said.

Equator's activities and geographic presence fitted in well with the existing strategic alliance between Nedbank; the African banking arm of Banque Nationale de Paris, SFOM; Dresdner Bank; and Banque Bruxelles Lambert, he added.

Equator Bank currently manages two African equity funds and a $75m fund is being structured which will invest in unlisted private sector companies in southern Africa.

(58)

Equator has been exploring the possibility of generating trade and investment between SA and its neighbours. Equator and Nedcor Bank officials believed the link with Nedbank would promote this.

Business Report

Own Correspondent

Spotlight on African Development Bank

58

CT 12/5/94

LONDON. — A damning indictment of the African Development Bank (ADB) is contained in a report which warns that if the bank is not strengthened, it may end up destroying itself

The report into the bank's operations was drawn up by a panel chaired by former World Bank vice-president David Knox.

It has been distributed to the bank's governors but has not yet been formally published.

A picture is presented of a top-heavy bureaucracy, riddled with intrigue and suspicion, where buck-passing is the order of the day and proper procedures are routinely not observed.

The bank is accused of spreading itself too thinly over too many activities, and of being "pulled in all directions by conflicting goals and attitudes of its shareholders".

Its management and executive directors are said to be virtually at war with one another.

One regional delegate at the bank's 30th anniversary annual meeting in Nairobi this ~~week~~ says the report failed to tackle directly the deep corruption in the bank.

ADB president Babacar Ndiaye who has tried to knock the bank back into shape welcomed the report. "Taken as a whole the report calls for a fundamental restructuring of the bank, its policies, procedures and culture."

Plan of action

He added that urgent action is needed to address the recommendations made and outlined a 32 point plan of action to strengthen the bank's portfolio and overall performance.

The ADB's activities have been hampered by the US Congress delay in approving new funds for the bank which has a membership fo 51 African and 25 non-African countries.

Also, the gloomy economic picture for Africa is a restricting factor. Africa, the Knox report says, "is worse off than 30 years ago, with poverty, ill-health, and famine threatening large and growing numbers of people.

"Africa's real per capita incomes fell by more than 15% in the 1980s and have slumped further since. If Africa is to provide its people with enough food, jobs and rising incomes, its economies need to grow by more than 5% a year. Even then, it would take 15 years of uninterrupted growth just to recover per capita income losses of the 1980s."

Last year the African economies grew by just 1,4%.

World stock markets

BRITISH shares ended a volatile session little changed as the US market failed to give a ...

JSE actuaries indices

	INDEX	PREV.	MOVE	EARN YLD	DIV. YLD
OVERALL	5456	5440	16	5,2	2,2
MINING PROD	3824	3815			

Star 12\5\94

Curator for Prima Bank

■ BY DEREK TOMMEY

A curator will be appointed to oversee troubled Prima Bank, says the Registrar of Banks.

It is envisaged that the appointment of a curator at this stage will enable Prima to continue its normal business activities.

The appointment follows a critical report on the bank's finances by rating agency, Republic Ratings. While many people felt initially that SA did not need a rating agency, there is no doubt that Republic's ratings are being treated with greater respect.

Republic said yesterday it had accorded the bank a short-term rating of B 2.

This means that in Republic's opinion the bank's capacity timeously to honour commitments is considered to be vulnerable to changes in business, economic or financial considerations.

Republic director Dave King said the rating was accorded after an intensive investigation into the quality of the bank's asset portfolio, the extent of its "off balance sheet" liabilities and the nature of its accounting policies.

58

He said the speculative grade rating was accorded largely because of the level of non-performing assets.

In Republic's opinion, insufficient provisions have historically been made to cater for potential future write-offs and certain interest revenue has been imprudently accounted for in the past.

It believes that the bank urgently requires a capital injection and the agency is concerned over the ongoing delays in attracting this capital.

Barclays bank set to return to SA

(58) CT 11/5/94

LONDON. — Barclays, UK's biggest bank with a market capitalisation of £8,5bn, is among leading British financial groups looking at a return to SA.

A spokesman for the bank, which sold out of what is now First National Bank in 1986 in response to US pressures and the anti-apartheid campaign in Britain which slashed its share of the student market, yesterday said: "Obviously we are keeping our position regarding SA under review.

"In due course we may set up a representative office there. We provide trade finance for customers who do business in SA and these will increase, especially from other African countries where the bank operates.

"If we do return it will most likely be in support of that corporate business and not as a retail bank."

The spokesman said that contrary to London press reports it had no plans to establish a SA operation of its merchant banking and securities arm, BZW (Barclays de Zoete Wedd) which has nearly £50bn in funds under management.

SA set to sign up as AFDB member

JOHANNESBURG. — The Transitional Executive Council and Minister of Finance, Derek Keys, yesterday issued a joint declaration of intent for SA to become a member of the African Development Bank. (58) CT 11/5/94

This follows a series of missions to SA by representatives of the AFDB since 1991.

The Development Bank of SA said the country would officially enter into a series of consultations with the AFDB on terms and conditions of SA's membership.

These consultations would be pursued under the auspices of the Government of National Unity and might eventually lead to SA becoming a fully fledged member of Africa's premier development financing institution, the DBSA said.

The AFDB has earmarked between R720m and R1,26bn a year over the next five years for financing investment projects and programmes to both SA's public and private sectors, to enhance economic and social development. — Sapa

Boland Bank hit by R16-m in bad debt

Star 11/5/94

Despite an increase of 52 percent in the Boland Bank Group's operating income before provision for taxation in the year ended March 31, the profit attributable to shareholders increased only marginally.

In Boland's unaudited profit statement released yesterday managing director Gert Liebenberg said growth was attained through a strong increase in the group's net interest income, supplemented by a steady improvement in income from other services and a containment of the rate of increase in expenses.

Liebenberg said the liquidation of a single client necessitated a specific provision for R16 million in the provision for bad debt. This was the principal reason why profits attributable to ordinary shareholders showed only a marginal increase.

Recovery

58

"The board is positive that the effects of the prolonged recession will systematically be overcome in the present year and that a gradual recovery of the growth in financing and a stabilisation of bad debt provision will benefit the bank's profitability," Liebenberg said.

In view of the fact that the interim dividend had been increased by 2c a share it was decided to retain the final dividend at its previous level of 58c (1993: 56c). — Sapa.

Nampak achieves rise in attributable profit of 15%

B/Day 11/5/94

MARCIA KLEIN

LOWER interest, tax and an abnormal profit on a disposal helped paper and packaging group Nampak produce a 15% rise in attributable profit to R174,3m (R151,2m) in the half-year to March.

Pressure on selling prices and a 2% decline in volumes saw turnover rise just 3% to R2,38bn (R2,32bn).

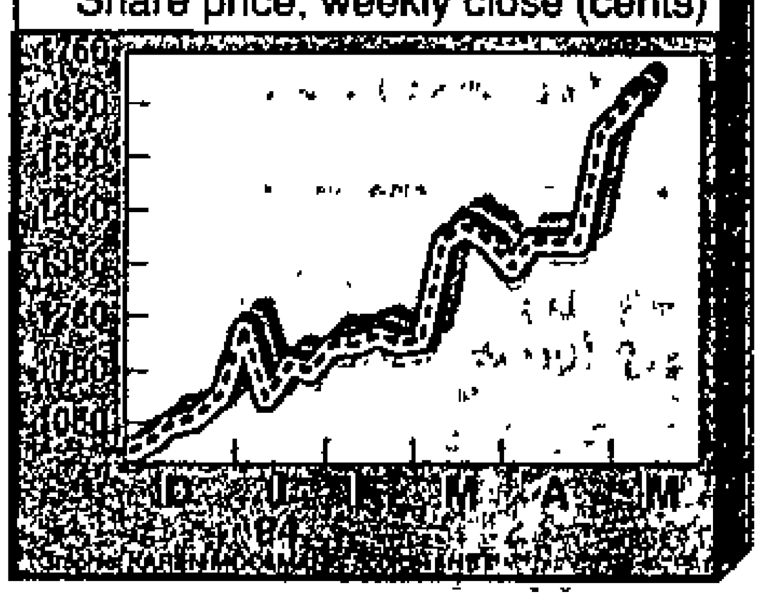
Margins were held through efficiencies and cost control, and operating profit rose similarly to R274,8m from R266,8m previously.

But a significant drop in interest to R5m (R18m) and a lower tax rate enabled the company to lift taxed profit 10% to R169,2m from R154,1m.

Attention to asset management enabled Nampak to spend R106,4m in capex and still increase its interest cover to a high 56 (15,2) times, and drop its gearing to 19% (28%).

The bottom line increase of 15% was helped by an abnormal profit of R10,3m on the sale of the Kliprivier brown paper machines.

This item was reported at an after-tax level to separate it from actual



Nampak
Share price, weekly close (cents)

trading results and "to highlight the full effect of the transaction".

A small increase in shares in issue saw earnings rise 14% to 35,8c (31,3c) a share, and a 9% higher interim dividend of 9,5c (8,7c) was declared.

Chairman Brian Connellan said he was pleased with the results as trading conditions had been difficult, and selling prices and volumes under pressure.

There was no growth in demand for non-durable consumer products.

But the group had outperformed the industry through a focus on financial and management controls.

The packaging division increased turnover 2% to R1,94bn, and its operating profit 12% to R259,6m.

Connellan said can manufacturer Bevcan had maintained its profits in a market which had become highly competitive with the entry of aluminium cans.

The plastics, glass, Divpac, cartons, corrugated and polyfoil divisions all increased their earnings.

But liquid packaging profits were lower, following the phasing-out of decentralised benefits.

The Foodcan and sacks divisions also produced lower earnings due to a drop in demand in the second quarter. Flexible packaging increased volumes, but earnings were affected by pricing pressures.

The disposal of the Kliprivier brown paper machines saw the paper and printing division report a 3% drop in turnover to R542,4m.

Higher volumes in the paper distribution, tissue and printing divisions were offset by price wars in all these markets, and operating profit slumped 56% to R15,2m.

At current levels of demand, Nampak would increase full-year earnings, but at a lower level than the first half because of the benefit at this stage of the abnormal profit.

R16m single bad debt dents Boland Bank performance

B/Day 11/5/94

EDWARD WEST

CAPE TOWN — A single bad debt marred otherwise sound results by Boland Bank for the year to March, leaving attributable income marginally higher at R24,2,m (R24,1m), despite a 52% increase in operating profit.

MD Gert Liebenberg said growth was attained through a strong increase in net interest income, supplemented by steady income improvement income from other serves and containment of the rate of increase in expenses.

Liebenberg said liquidation of a single client necessitated a specific bad debt provision of R16m.

The bank refused to name the company liquidated.

The bad debt was the principle reason attributable income showed only a slight increase, Liebenberg said.

Interest income was 22% higher at R163,1m (R133,2m).

Provision for bad debts was 21% higher at R62,7m (R52m).

Total income was higher by a fifth to R197,1m (R164,8m).

Expenses were 14% higher at R168,1m (R139m) and operating income was 52% higher at R39m (R25,7m). Earnings a share came to 180,4c (179,2c).

In view of the fact the interim dividend had been lifted 2c, it was decided to retain the final dividend at its previous level 33c, bringing the total for the year to 58c (56c).

The board was confident the affects of the recession would be overcome this year.

Gradual recovery of the growth in financing and stabilisation of bad debt provisions would benefit profitability, it said.

ATC earnings plunge 33%

MUNGO SOGGOT

ANGLO-Transvaal Collieries' attributable earnings fell 33% to R2,6m for the year to March (R3,9m) on a 33% drop in turnover to R2,7m (R4m).

Dividend income from Randcoal — its sole investment — fell to R2,7m (R3,9m).

Earnings a share were cut to 154c (231,5c), and an ordinary dividend of 155c was declared.

Interest received was R11 000 (R12 000) and expenditure was unchanged.

The market value of the company's 8,36% stake in Randcoal rose to R151m (R70m). Book value was unchanged at R90 000. The net asset value of shares was 9 441c (4 388c) a share.

Longrail turnover moves into the fast lane

B/Day 11/5/94

MUNGO SOGGOT

ROAD freight group Longrail clocked up an 18% rise in earnings to 9c (7,6c) a share for the year to February, despite the high cost of increasing its fleet in the previous year.

On Monday, the share was untraded at its May 6 annual high of 105c, off an annual low of 40c in July last year. The dividend increased 20% and a scrip alternative was declared.

The company — which is jointly owned by management and Imperial Holdings — saw turnover jump 31% to R92,3m from R70,6m the previous year. Income before interest and tax climbed to R4,9m (R4,3m).

Longrail's interest bill rose to R3,6m (R3,2), and its tax bill increased to R2,09m (R2,01m).

MD Marius Els predicted further strong growth in the coming year.

The company's gearing dipped to 89% from 201% the previous year. Gearing had been reduced further by share issues of R5,3m underwritten by Imperial to fund two recent acquisitions, the company said.

Political uncertainty, surplus capacity in transport and a high level of vehicle-related crime had led to turbulent business conditions. But the company looked forward to a "much improved business environment".

Longrail and Imperial chairman Bill Lynch said "the group had sufficient resources to grow with the new SA".

The board announced that shareholders could opt for capitalisation shares in the ratio of 3,33 new ordinary shares for every 100 shares held, or could take the dividend in cash at 3c a share.

B/Day 11/5/94

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Cheques: banks' duty of care confirmed

KwaMashu Bakery Ltd vs Standard Bank of SA Ltd
Judgment given in the Durban and Coast Local Division on February 4 1994
Judge PC Combrinck
Advocate K Kemp instructed by Strauss Daly Inc, Durban, appeared for the plaintiff
Advocate D Gordon, Advocate C Mann and Advocate D Tobias instructed by Lawrie Wright, Durban, appeared for the defendant.

THE OK Bazaars (1929) Ltd drew two cheques on the Standard Bank amounting to R32 395,68. Both cheques were made payable to "KwaMashu Bakery Limited only". Each was marked, in bold across the middle and running vertically, "not transferable".

Two persons stole the two cheques. They opened an account at the Standard Bank's Durban branch under the name "KwaMashu Bakery Limited Soccer Club".

The Standard Bank then collected the two cheques for the two persons and paid the amount of the cheques into this account, and debited the OK's account.

As a result of a request for a large cash withdrawal from that account, employees of Standard Bank telephoned the OK Bazaars to inquire whether it had drawn one of the cheques and whether the cheques could be paid. However, they did not tell the OK that the cheque was to be collected and paid into the account of KwaMashu Bakery Limited Soccer Club. The parties agreed that had they done so, the OK would have contacted KwaMashu Bakery Ltd, and the theft of the cheque would have become known.

KwaMashu Bakery Ltd, the true owner of the cheques, brought an action against Standard Bank for payment of the amount of the cheques.

It based its claim on the principle established in the Appellate Division case of Indoc Electronics (Pty) Ltd vs Volkskas Bank Ltd 1992 (1) SA 783 (A) that a collecting bank may be liable for negligence to the true owner of a cheque. Standard Bank sought to show that in the circumstances, the standard of care sought to be imposed upon it was too onerous.

Standard Bank led extensive evidence of the procedures it followed in collecting cheques. It appeared from this that there was in SA a same-day clearance system and that as a result the time periods allowed for cheques to go through the Automated Clearing Bureau were critical.

Statistics of the volume of cheques handled by the bank indicated that a large proportion of cheques marked "not transferable" were paid into other accounts, and that if thorough checking procedures were followed in order to prevent this from happening, the bank would incur estimated charges of R131 090 a month.

> In this occasional series, Advocate **MARK STRANEX** looks at recent Supreme Court judgments of special interest to business.

The potential risk to the banking industry as a result of a depositor's title to cheques being defective amounted to anything between R15m and R1,5bn. This risk was practically uninsurable because of the high premium the banks would have to pay to obtain appropriate cover.

On the strength of this evidence, the parties asked the court to answer certain questions regarding the bank's duty of care in the circumstances of the case. They asked the court to determine, firstly, whether it, in its capacity as a collecting bank, owed KwaMashu Bakery Ltd a duty of care to display reasonable care in collecting the proceeds of the cheques so as to ensure that they were deposited to the account of the payee and not someone else.

In answering this question, Judge Combrink said the bank's evidence had been that it was faced with the inability of tellers to identify and separate cheques marked "not transferable" from others.

Its evidence had been that despite specific instructions to tag cheques with restrictive endorsements, only 1% to 2% of such cheques were being identified and tagged. Furthermore, drawers of cheques persistently described the payee inaccurately.

The judge said this evidence could not detract from the rule established by the Appellate Division that there existed a duty of care on the part of a collecting banker. Evidence of the existence of that duty was apparent in, inter alia, a resolution of the commercial banks that they would deal with non-transferable cheques only by accepting them for the credit of an account bearing the identical name to that of the payee.

The one argument the bank could not answer was that if there was no duty of care owed by a collecting banker, the banks would not need to bother even to look at cheques which are deposited for collection, to ascertain whether the depositor is the named payee.

A bank which voluntarily decided to participate in a situation which had inherent risk was not entitled to complain, and avoid its duty of care arising in that situation by pointing to the cost of safeguarding against the risk of the situation. The bank therefore did owe KwaMashu Bakery Ltd a duty of care in the circumstances.

The parties' second question was what steps the bank should have taken to discharge its duty of care.

The judge said the first thing the bank should have done was to ask the thieves for the constitution of the KwaMashu Bakery Soccer Club, and the names and addresses of its executive and other details.

Secondly, the bank should have ascertained whether or not the account holder was the named payee of the cheque. It might be unreasonable to expect of a teller that he identify and tag non-transferable cheques, but there had been a suggestion of the creation of a special instrument identified by an enormous coloured stripe across it as a means of identifying the special conditions attached to such cheques. This was an answer to all the difficulties experienced by the banks in discharging their duties toward the true owner of a cheque.

Thirdly, the bank's designated officer should have seen that the named payee did not accord with the name of the account holder as it appeared on the deposit slip.

The bank was therefore liable to KwaMashu Bakery Ltd for the amount of the cheques.

☐ **A full transcript of this judgment will appear in Commercial Law Digest (fax 011-315-4550).**

Bad debt knocks Boland

(58) CT 10/5/94

By AUDREY D'ANGELO
Business Editor

A R16m provision for bad debt as a result of one unnamed major customer going into liquidation hit Boland Bank's profits for the year to March 31.

The directors explain that this is why attributable profit "shows only a marginal increase" to R24,2m (R24,1m) in spite of a 52% rise in operating income to R38,9m (R25,6m).

Net interest income rose by 22% to R163,1m (R133,2m). Total income rose by 20% to R197,1m (R164,8m). But total provision for bad debts rose by 21% to R62,7m (R51,9m)

Earnings at share level were 180,4c (179.2c) undiluted and 148,5c diluted, based on a compulsory 50% conversion of preference shares from 1996.

The final dividend is unchanged at 33c a share. But the interim dividend was 2c higher than last year, making a total of 58c (56c) for the year.

MD Gert Liebenberg said the directors were positive that "the effects of the prolonged recession will systematically be overcome in the present year and that a gradual recovery of the growth in financing and a stabilisation of bad debt provision will benefit the bank's profitability."

Liebenberg said operating income before tax had shown a satisfactory growth rate

But a specific credit exposure caused a sharp increase in provision for bad and doubtful debts.

"The liquidation of this particular client at the end of the financial year necessitated a specific provision for R16m and is the principle reason why the profit attributable to ordinary shareholders shows only a marginal increase"

Bad debt erodes Boland earnings

Business Staff (58) ARG 10/4/94

IN spite of a 52 percent increase in Boland Bank Group's operating income before provision for taxation in the year ended March 31, profit attributable to shareholders increased only marginally.

In Boland's unaudited profit statement managing director Gert Liebenberg said growth was attained through a strong increase in the group's net interest income, supplemented by a steady improvement in income from other services and a containment of the rate of increase in expenses.

Mr Liebenberg said the liquidation of a single client necessitated a specific provision for R16 million in the provision for bad debt.

This was the principle reason why profits attributable to ordinary shareholders showed only a marginal increase.

"The board is positive that the effects of the prolonged recession will systematically be overcome in the present year and that a gradual recovery of the growth in financing and a stabilisation of bad debt provision will benefit the bank's profitability," Mr Liebenberg said.

In view of the fact that the interim dividend had been increased by two cents a share it was decided to retain the final dividend at its previous level of 58c (1993: 56c).

■ Niche player **Unibank** has reported a 40,7 percent increase in net income to R3,9 million in the six months to March. Advances were up 23 percent to R405,5 million, but MD Gerrit van der Merwe says that uncertainty began to creep into the market in the second quarter after strong demand in the first.

COMPANIES

Perm's housing back in the black

S Times (Buss)

By JULIE WALKER

REPAYMENTS on more than 90% of the 80 000 housing loans worth R2,3-billion granted by the Perm in black townships are up to date.

That is evidence enough for Nedcor chief executive Richard Laubscher to believe in the growth potential of that lending area.

Nedcor results for the six months to March, announced this week, show attributable earnings up 16% at R271-million.

The three commercial banking operations — Nedbank, Perm and Nedfin — contributed 81% of the income. Syfrets and UAL showed good growth.

Mr Laubscher says group provisions for bad debt were reduced by 14% to R103-million, partly because of overprovisions in previous years, especially by the Perm, where asset growth was deliberately restricted because of sociopolitical considerations.

The number of properties in possession has fallen sharply this year as the Perm's lending regains momentum. Repossessed houses are fully provided for. An additional special provision of R169-million was also made in previous years.

Mr Laubscher believes Nedfin Bank can improve now that it has fleet rent management under control — an area he estimates has lost Nedfin R40-million in the past few years.

At its best, Nedfin could bring "a couple of billion rands" extra to the balance sheet. Other banks have scored from falling interest rates because they have large hire-purchase books written at fixed rates when borrowing was more expensive.

Nedcor's expenses rose by 13% to slightly more than R1-billion against total income of R1,62-billion before provisions. Mr Laubscher says rationalisation of services, such as human resources, marketing and information technology, into single units has taken place.

8/5/94

In line with tax planning, Nedcor will probably bring to account from the next financial year onwards some of the profits made on project finance deals.

Mr Laubscher says that so far their net effect on income has been nil. But the deals are big and profits will be good.

Nedcor did not undertake an ordinary rights issue recently to raise capital but preferred to issue R272-million through a debenture issue.

Mr Laubscher says an ordinary rights issue boosts interest income, but dilutes earnings a share. Nedcor's route has a negative effect on interest income, but there is no dilution at the earnings a share level.

Nedcor is capitalised at 9,4% of risk-weighted assets, well above the statutory requirement.

Nedcor believes it is well positioned to cope with the future. Mr Laubscher says the Perm has paid its school fees ahead of the new political dispensation and is best equipped to meet the challenges of granting housing loans.

Much business has been on hold until after the elections and Mr Laubscher pleads that Nedcor be judged on its performance over the full year. He says all indicators point to reduced interest rates. "If what I read in the papers about the reversal of capital flow is true, rates should come down within a few weeks."

Nedcor's capitalisation issue instead of dividend in the previous year led to a dilution in earnings-a-share growth to 15%, or 139c. The interim dividend was lifted 16% to 29c.

Nedcor shares were R31 before the results and R31,50 after.

☐ Mr Laubscher this week presented his first news conference as group chief executive after Chris Liebenberg's retirement. He said it was international protocol for commentators to be nice to the new boy for the first three sessions.

RICHARD LAUBSCHER ... the Perm has paid its dues in the housing market

Nedcor earnings surge on fall in bad debts

CT 6/5/94

(58) Own Correspondent

JOHANNESBURG. — A sharp fall in bad debts and cost containment were major reasons behind the 15% rise in Nedcor's earnings a share to 139c in the six months to March.

The results were a little better than expected, analysts said, but failed to push share prices higher yesterday. The market had already discounted the result, with the share rising to a peak of R31 this week.

Dividends were up a robust 16% to 29c, while return on shareholders' funds increased marginally to 20,1%.

Net interest income rose a muted 9%, despite solid growth in loans and advances (about 16%). CE Richard Laubscher said the debenture issue of R272m had had a negative effect on the bank's interest margin, while lower levels of fixed-rate lending than its competitors had also prevented a rise beyond single digits.

"A dramatic growth in Perm bonds over the last few months helped increase net interest income, but the deliberate strategy to build up consumer deposits was also a cost to the net interest line."

A strong performer on the income statement was the growth of non-interest income. The behaviour of financial markets, which assisted foreign exchange and capital market trading and increased derivative income, helped notch up a fat 16% increase in non-interest earnings.

The bottom line was aided by well-contained expense growth. Sustainable rationalisation and re-engineering over the past three years, especially in the Perm, helped cut costs.

Bad debt provisions fell a robust 14%. Laubscher said the drop was attributable to a large reduction in previously "aggressive" provisioning for the Perm, UAL and Syfrets. The returns on township lending were not yet adequate, he said.

The tax charge increased 21% and reflected the increase in the rate of VAT from 10% to 14%.

In terms of the capital requirements of the Banks Act the group held 9,4% of capital against its risk-weighted assets, compared with the 7% requirement.

iort

Aflife nets 54% income growth

(58) CT 6/5/94

From CHARLOTTE MATHEWS

JOHANNESBURG. — Life assurer African Life, in which a consortium of black business recently took a majority stake, reported a 54% increase in total income in the year to March to R191,2m from R124,5m in the same period in 1993.

The increase includes a 61% rise in total premium income to R168,3m from R104,7m and a 16% improvement in investment income to R22,9m from R19,8m.

Recurring premiums were 47% higher at R143,8m from R98,1m while single premiums lifted nearly four times to R24,5m from R6,6m.

As a result of this growth, selling expenses more than doubled, while other costs rose 17%.

Net income after expenses and tax grew 52,2% to R98m from R64m and earnings a share were 20% higher at 27c (22,5c).

A dividend of 18c (14,8c) was declared for the year.

African Life CE Bill Jack said a large proportion of the growth in premium income came from group funeral business.

He said this did not carry the same new business strain as traditional life products since it was annually reviewable.

The company's core individual life business had also grown well.

About 95% of the climb in single premium business resulted from the introduction of a new guaranteed growth and income plan, Guaranteed Trust, for a minimum investment of R25 000 for a five-year term.

The product was first launched about 18 months ago.

African Life had also captured market share from some of its competitors.

Jack said African Life also intended to begin marketing its employee benefit and asset management services in the current year, for which it would have to extend its skills and distribution network.

However, this move would be made in consultation with African Life's new shareholders.

Jack said one of the next tasks to be tackled by African Life would be to increase the tradeability of its shares.

About a quarter of the company's shares were at present freely tradeable in the market.

Jack said the company would like to realise some of the benefits of its listing, which were that it could make deals using paper rather than cash or bank borrowings.

This could only be done if the market price was a real price and the shares were tradeable.

African Life income up 54%

B/Day 6/5/94

CHARLOTTE MATHEWS

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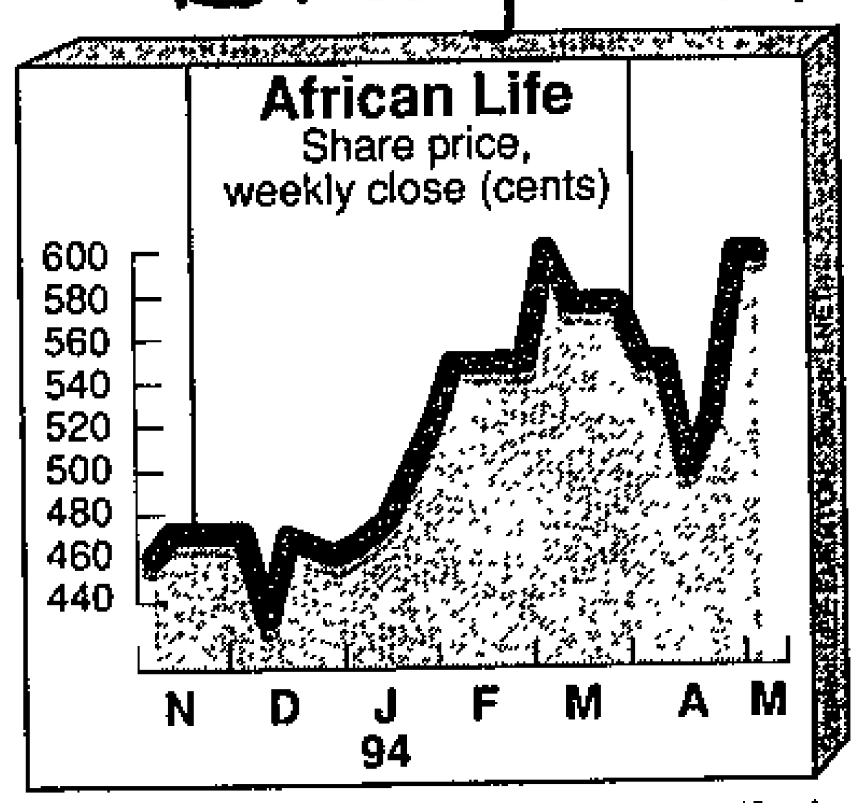

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Nedcor holds costs and slugs bad debt

BIDay 6/5/94

SAMANTHA SHARPE

A SHARP fall in bad debts and cost containment were major reasons behind the 15% rise in Nedcor's earnings a share to 139c in the six months to March.

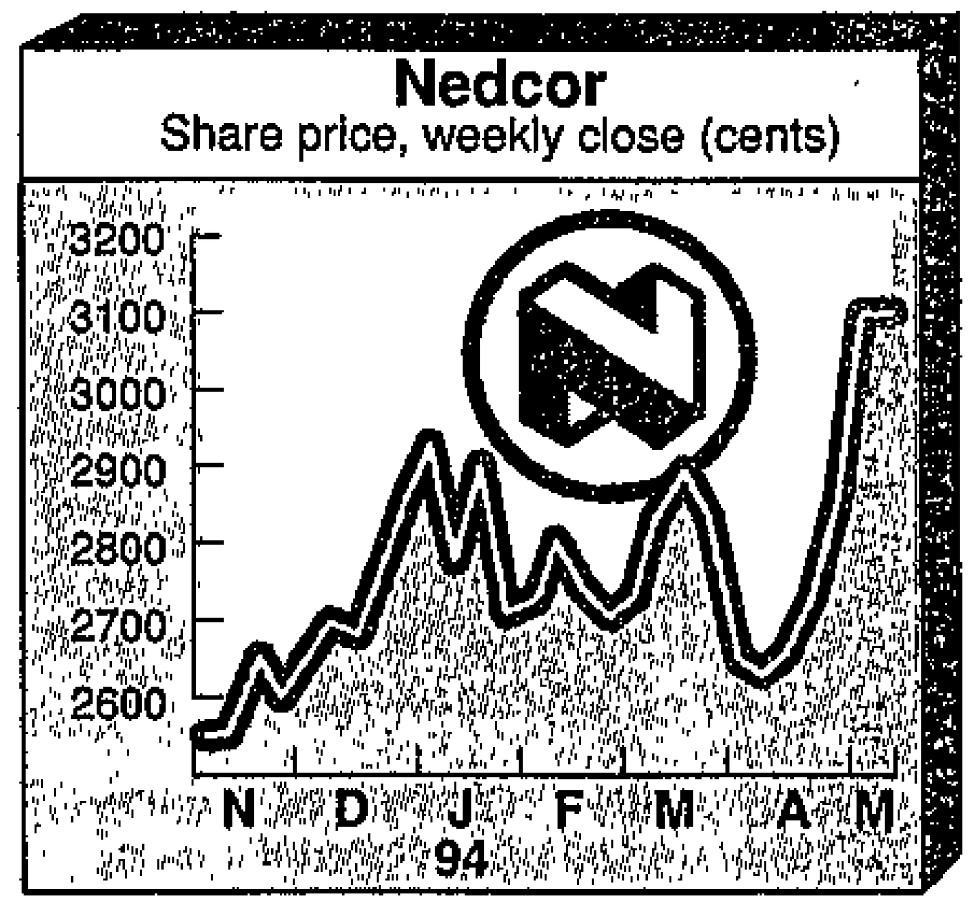
The results were a little better than expected, analysts said, but failed to push share prices higher yesterday. The market had already discounted the result, with the share rising to a peak of R31 this week.

Dividends were up a robust 16% to 29c, while return on shareholders' funds increased marginally to 20,1%. (58)

Net interest income rose a muted 9%, despite solid growth in loans and advances (about 16%). CE Richard Laubscher said the debenture issue of R272m had had a negative effect on the bank's interest margin, while lower levels of fixed-rate lending than its competitors had also prevented a rise beyond single digits.

"A dramatic growth in Perm bonds over the last few months helped increase net interest income, but the deliberate strategy to build up consumer deposits was also a cost to the net interest line."

A strong performer on the income statement was the growth of non-interest income. The behaviour of financial markets, which assisted foreign exchange and capital market trading and increased derivative income, helped notch up a fat 16% increase in non-interest earnings.



The bottom line was aided by well-contained expense growth. Sustainable rationalisation and re-engineering over the past three years, especially in the Perm, helped cut costs. Further integration of the Perm and Nedbank over the next 18 to 30 months would ensure sustainable cost reductions, Laubscher said.

Bad debt provisions fell a robust 14%, going against the trend of other banks reporting this month. Laubscher said the

☐ To Page 2

Nedcor

BIDay

☐ From Page 1

drop was attributable to a large reduction in previously "aggressive" provisioning for the Perm, UAL and Syfrets. (58)

Perm arrears and the number of properties in possession — culprits behind previously high bad debt figures — were reduced, but the returns on township lending were not yet adequate, he said

The tax charge increased 21% and reflected the increase in the rate of VAT from 10% to 14%. A focus on tax planning saw the implementation of some new tax strategies but these were not reflected in the interim figures. The effect of the strategies might be evident in the year-end results, he said.

In terms of the capital requirements of the Banks Act the group held 9,4% of capital against its risk-weighted assets, compared with the 7% requirement

Scheme ready, says Shill

ROBYN CHALMERS

PRETORIA — The Mortgage Indemnity Scheme (MIS) was ready to get off the ground, outgoing Housing Minister Louis Shill said last night. BDay

Looking relaxed, Shill said no announcement would be made before he left office on Wednesday, but it was imperative that the scheme got going.

Shill and the National Housing Forum have been negotiating with banks for several months to formalise a mechanism to encourage banks back into the area of affordable housing.

"The banks are ready to invest in an MIS company, and except for a few minor points we have agreed on the scheme with the forum," he said.

"I have few regrets about my term of office and believe there are important structures in place which can help the speedy delivery of homes." 6/5/94

Shill said he would be taking a few weeks' holiday before becoming non-executive chairman of Sage. (58)(~~123~~)

He would remain an unofficial consultant to the Housing Department and would be available to officials if needed.

Sources believe ANC local government spokesman Thozamile Botha could be Shill's successor. His colleague Billy Cobdett is tipped to become Deputy Housing Minister.

NBS HOLDINGS

FM 6/5/94

Definitely Super Ten quality

(58)

NBS Holdings, little brother to the big four banks, has come through with the sector's strongest results this year. A 30% increase in EPS, to 179c a share, is significantly better than the market expected and beat the 26% compound average EPS growth the bank has shown since 1988.

It also comes despite an additional 20,7m shares issued to fund investments and alliances formed over the past year, which have had a profound effect on results.

Even more important than the impressive bottom-line growth is the spread of income which associates have brought to NBS's party; these have lessened its traditional reliance on interest income and broadened its exposure to the financial services market.

NBS enjoys the best of both worlds. Interest margins were favourable, boosting interest income 31% to R435m. Noninterest income also grew at a useful 24% to R202m and is now about a third of operating income.

The real benefit of earlier acquisitions, though, which include 20% of RMB Holdings, 47,5% of short-term insurer Aegis and a further 10% (to 49%) of French Bank, is revealed in the whopping 245% increase in income from associates, to R32,7m. Full-year benefits from Aegis are included for the first time, worth more than R14m, while six months' earnings from RMB Holdings added a further R5m to the bottom line.

BIGGER SLICE

Year to March 31	1993	1994
Net interest income (Rm) .	333	435
Total income (Rm)	523	666
Attributable income (Rm) .	91,3	144,5
Earnings (c)	138	179
Dividends (c)	46	59

Altogether, NBS now derives 23% of total income from associates. Final figures are yet to be calculated, but insurance has grown from 19% a year ago to about 25% of total earnings. Total nonbanking income, including insurance, accounts for about 40%.

The investment in associates, now R426,5m, has also had a positive effect on the balance sheet, increasing capital and reserves by 70% to R988m. Within the bank, the capital:assets ratio has strengthened to 9,63%, against the required minimum of 7%. That provides the sort of cushion NBS will need if it continues to grow business at the rate of recent years.

The home loans book, NBS's core business, grew 14% to R8bn. A pleasing aspect of this growth, says Finance GM Paul Leaf-Wright, is that expenditure on mortgage business was contained to an increase of

Gafney ... *getting expensive*

12%. Similarly, he notes the 22% rise in operating expenses, to R420m, is well under control despite the inclusion of new spending related to investments in new business areas.

Bad debt provisions are up 38% to R97,6m and the general provision for losses is up 35% to R114,2m. MD John Gafney says the provision is above average by industry standards and selected resources are being focused on managing arrears. "We try to help borrowers confronted with problems such as unemployment."

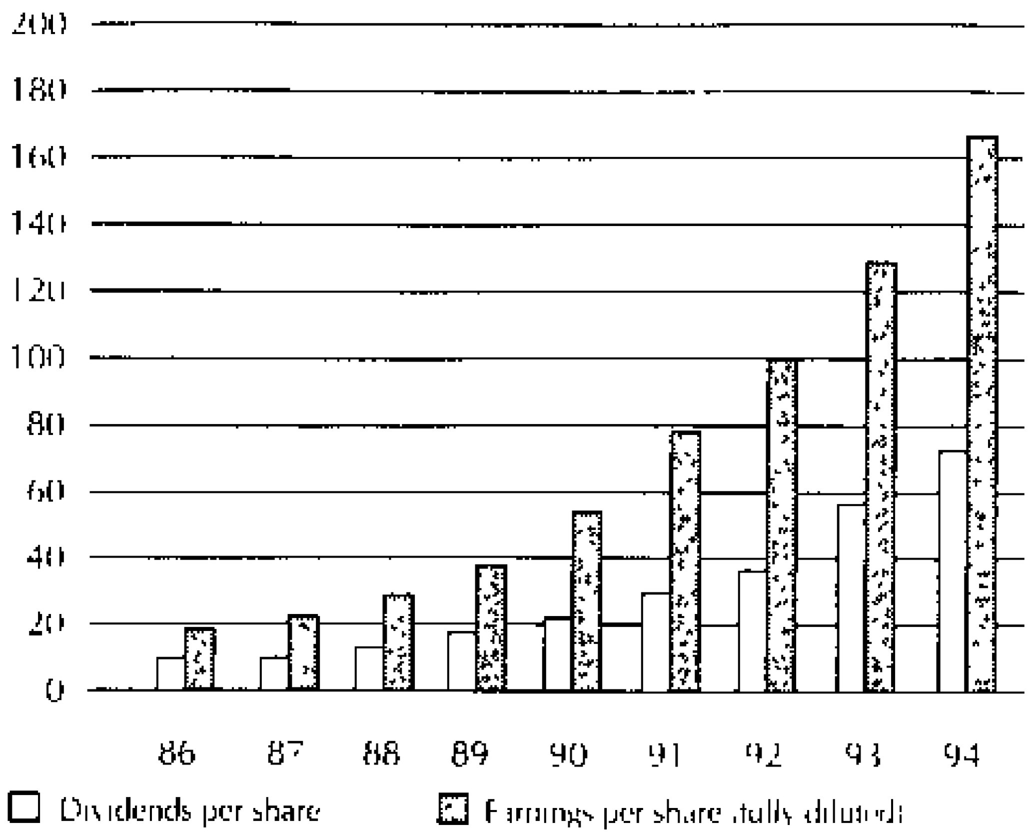
Results for the first half should continue this trend now acquisitions have been bedded down, though it's probably unrealistic to expect 30% growth again, with inflation falling and interest margins unlikely to offer the same generous benefits.

Leaf-Wright says NBS expects "meaningful growth" and is aiming at EPS 5%-10% above the rate of inflation. On a new high of R24,50, the counter has appreciated about 50% over the year against the Banks index's 18%; that indicates the market may be expecting more.

When the interim was reviewed, NBS was rated slightly lower than sector leader Standard Bank Investment Corp (SBIC). It has since overtaken SBIC to become the most highly rated commercial bank share. That makes it expensive, but results go a long way to justify the price. *Shaun Harris*

(~~235~~) 58

Earnings and dividends (cents per share)



Nine year compound growth in earnings 28,7%
Nine year compound growth in dividends 26,3%

Comment

The results of Investec Holdings Limited (Inhold) reflect the continuing sound performance of the company's subsidiary Investec Bank Limited (Investec). Shareholders should refer to the announcement of Investec for further details of the results.

Earnings attributable to ordinary shareholders increased by 36,9% to R33,5 million, resulting in earnings per share of 164,7 cents, 34,6% higher than the previous year. The group has achieved a nine-year compound growth rate in diluted earnings and dividends per share of 28,7% and 26,3% respectively.

The non-rand component of the group's earnings accounts for 43,5% of attributable earnings

Shareholders are referred to the Investec Bank Limited announcement whereby the directors of Investec have resolved to proceed with a rights issue of ordinary shares to raise approximately R180 million. In order to place Inhold in a position to follow its rights, the directors have resolved to proceed with a rights offer of ordinary shares in Inhold to raise approximately R114 million A further announcement will be published in due course, giving the terms of the rights offer and the salient dates.

The directors expect Investec, and therefore Inhold, to continue to achieve growth in earnings and dividends.

On behalf of the board

I R Kantor *Chairman*
B Kardol *Deputy Chairman*

Registered office:
Investec Holdings Limited (Inhold),
Registration Number 85/05574/06, 55 Fox Street,
Johannesburg 2001

Transfer secretaries:
Mercantile Registrars Limited, 6th Floor, Landmark Building, 94 President Street, Johannesburg 2001
PO Box 1053, Johannesburg 2000

Directors: I R Kantor *(Chairman),* B Kardol* *(Deputy Chairman),* A I Basserabie, G R Burger, G H Davin, H S Herman, B Kantor, S Koseff, D H Mitchell, P R S Thomas.

*Netherlands

JONSSONS

FNB continues on solid earnings growth course

Star 5/5/94

■ BY STEPHEN CRANSTON

First National Bank (FNB) has reported a solid 16,9 percent increase in earnings per share to 362,6c in the six months to March. (58)

The dividend has been lifted by 14,5 percent to 63c.

Senior GM Norman Axten says that the bank has continued to increase its market share, particularly in home loans, where the book exceeded R10 billion, or about 10 percent of the market, for the first time, and in instalment sales, particularly for cars.

Advances increased by 18,8 percent to R45,17 billion and deposits and current accounts increaseed by 22,3 percent to R52,24 billion.

There was a slight widening of interest margins, though they have been under pressure from the beginning of April.

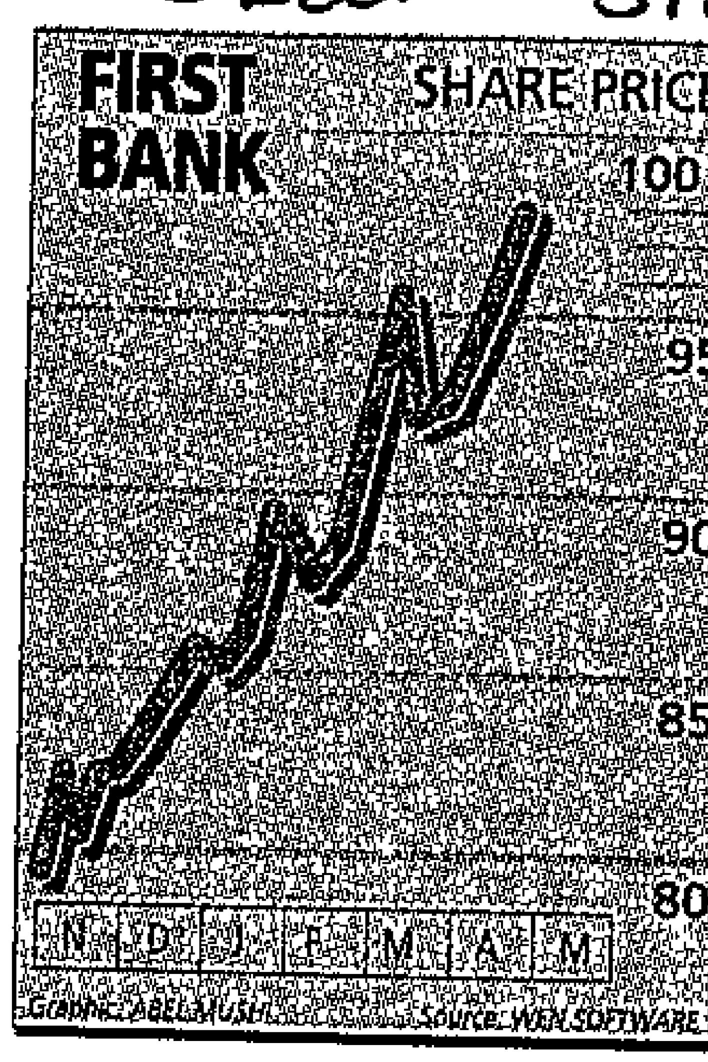
Interest income increased by 6,1 percent to R3,40 billion and interest expenditure by 1,7 percent to R2,16 billion.

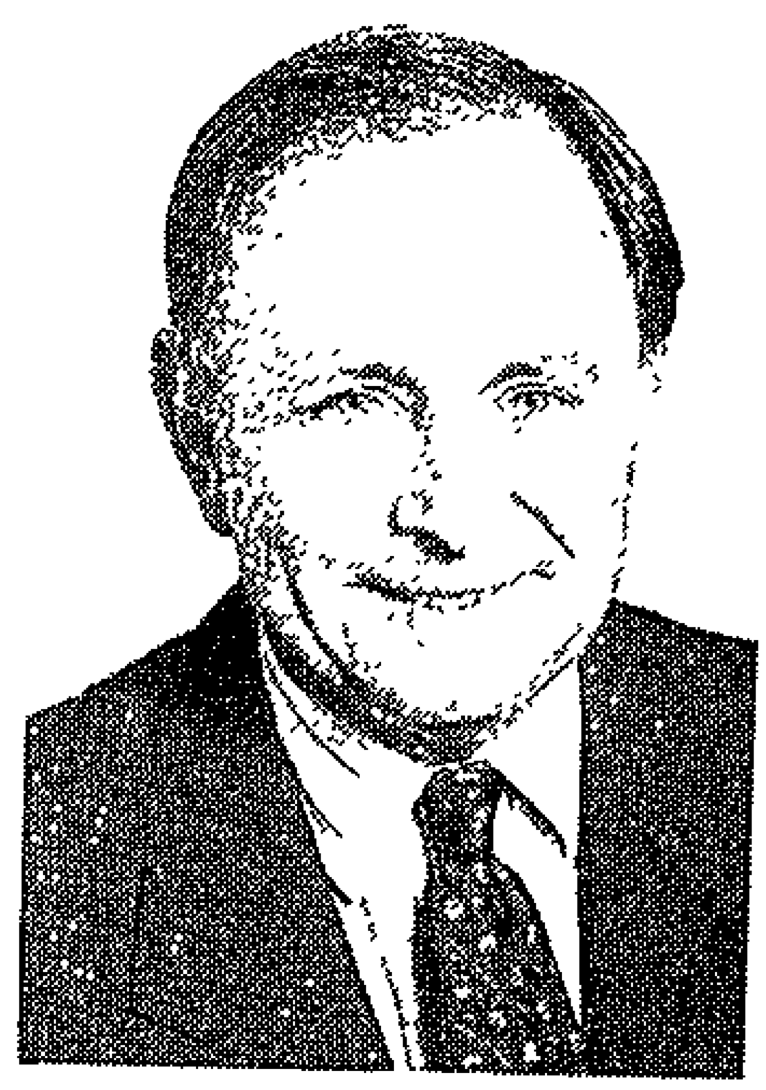
The charge for bad debt continued to fall and at R184,1 million it is 0,4 percent lower than for the same period last year.

Axten says that a new credit rating system was introduced four years ago, which has enabled the bank to recognise bad debt earlier, and to act before the debt gets out of hand.

Operating income other than that earned from interest increased by 27,7 percent to R964,8 million.

Five or six percentage points of this growth can be attributed to the full consolidation of First Bowring.





Norman Axten . . . increasing market share.

FNB acquired the 50 percent of First Bowring which it did not already own from Anglo American on October 1.

Non-interest expenditure increased by 23,6 percent to R1,52 billion.

Pre-tax income was up 18,7 percent to R500,5 million.

Axten says that as banking has changed, FNB has been forced to move into new business areas.

It owns the computer recovery company, First Recovery, which has just signed BP as a client, and Electronic Data Interchange company FirstNet.

Its experience in handling credit cards has led to the bank taking a major share of the private label credit cards, launched by retailers such as Jet, pharmacy chains and medical insurance groups.

An innovation announced yesterday was the SmartBox, a device which ensures the secure deposit and transportation of money from the tills of a retailer to its financial institution.

It was designed in conjunction with Edgars and a pilot is in operation at Edgars Market Street.

The SmartBox communicates via the radio transmitter with the PCs at the store and the bank. If anyone tampers with the box, dye packs stain the cash.

The bank is also diversifying geographically. FNB Botswana merged with the Financial Services Company of Botswana during the period.

FNB is splitting its shares five to one. MD Barry Swart says that traditionally a share split improves marketability, and the move makes the shares more accessible to a greater number of South Africans.

Fat margins help lift First National

BTDay 5/5/94

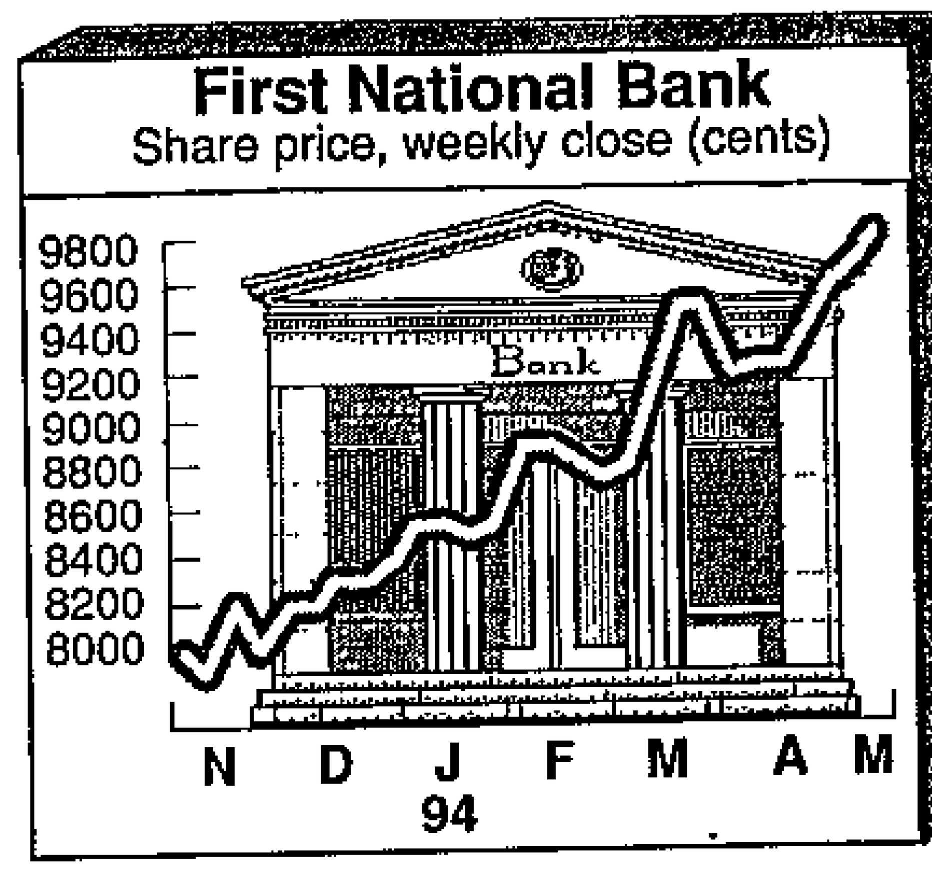
GRETA STEYN

HEALTHY margins and a fall in bad debts helped First National Bank notch up a 16,9% rise in earnings to 362,6c a share in the six months to March. (58)

The results, slightly better than market expectations, pushed the share up 100c to a new high of R98 yesterday. FNB also announced a five-for-one share split to improve marketability and encourage individual shareholders to invest.

Banks' interest margins have been boosted by a prolonged period of tight monetary policy, and FNB continued to reap the benefits. Net interest income rose almost 15%. Senior GM Viv Bartlett said margins had remained more or less constant, but interest income had been boosted by increased lending volumes.

"The demand for credit is picking up and we are feeling much more bullish about the economy now than we did this time last year." Advances rose rapidly (almost 19%) in the period with the demand for home loans far outstripping other categories. Bartlett said the bank's home loan book was growing at about 30%.



An important feature of the results was the 0,4% fall in the bad debt charge.

Bartlett said the bank's stringent monitoring of credit had paid off, with realised bad debts as a percentage of assets lower than last year.

Analysts said banks used provisions for bad debts as a tool to smooth the earnings

To Page 2

First National

BiDay 5/5/94 From Page 1

performance over a couple of years.

Other operating income notched up robust growth, but was partly offset by the surge in operating expenditure. The inclusion of First Bowring in group results from October 1 resulted in a sharp increase in operating income and expenditure, which rose 27,7% and 23,6% respectively. (58)

When the effects of the deferred taxation rate adjustment are taken into account, net income fell 7%. The reduction in the company tax rate to 40% released almost R140m as a one-off last year.

In terms of the capital requirements of the Banks Act, the group holds 8,9% of capital against assets, compared with the 7% requirement.

The dividend was raised 14,5% to 63c, while the return on shareholders' funds was slightly up at 18,6%.

FNB records more growth

MARC HASENFUSS ARG 5/5/94 (58)
Business Staff

FIRST National Bank (FNB) notched up another sterling performance in the six months to the end of March, lifting after tax profits 17 percent to R309 million.

Earnings a share came in at 362,6c, from which the bank declared a 15 percent higher interim dividend of 63c a share, covered a conservative 5,2 times.

A five to one share split has been proposed in a bid to boost trade in the share, which is currently trading at R98. The share spilt will adjust the current market price of FNB shares by a fifth.

FNB reported interest income up 6 percent to R3,4 billion against static interest expenditure of of R2,16 billion. This left R1,24 billion in net interest — a 15 percent increase over the corresponding six months last year.

Bottom line was also bolstered by a slight decrease in bad debt charges of R184 million in the period under review.

The trading results incorporated First Bowring and Associates Holdings with effect from October, 1993. This boosted other operating income to R965 million and increased other operating expenditure to R1,5 billion.

A good year for NBS Holdings

Star 4/5/94

■ BY STEPHEN CRANSTON

NBS Holdings had a creditable year to March, with total income up 28 percent at R666,4 million and earnings per share up 30 percent at 179,1c.

A final dividend of 39c has been declared, with the total for the year up 26 percent at 59c.

The group ended the year with a much stronger balance sheet as capital and reserves increased by 70 percent to R988,5 million.

Favourable interest margins, contained expenditure and a rationalisation programme all had a favourable impact on results.

The bad-debt environment, however, remained difficult and the debt write-off increased from R70,6 million to R97,6 million. (58)

The general provision for losses was increased from R84,8 million to R114,2 million.

Chairman Brian McCarthy says that the benefits of diversification are being realised and earnings from associates, which now include Aegis and RMB Holdings, was up 245 percent to R32,7 million.

Income from associates contributed 23 percent of total income.

Advances continue to increase and were up from R8,75 billion to R10,53 billion.

Attributable earnings increased by 58 percent to R144,4 million, though this was diluted at the earnings-per-share level by the issue of 20,7 million new shares to fund the acquisition of stakes in its new associates.

The net asset value per share increased from 871c to R11,26.

McCarthy says the group is well positioned to take advantage of the opportunities that will follow South Africa's first fully democratic elections.

At 13,7 it has a P/E ratio in line with FNB's, which seems fair, but only about half the rating of associate RMB Holdings, which is less easy to justify.

SOWETAN Tuesday May 3 1994


Ellen Kuzwayo chairs the Community Bank Trust.

Loans for the poor

58

■ **ON LINE** Community Bank will be in action sometime next month:

By Mzimkulu Malunga

THE COMMUNITY Bank has signed a R50 million contract with a computer company, ABS, to install and supervise the bank's computer system. The system is aimed at ensuring that the bank is able to reach clients even in remote areas of the country. Installation has already started.

ABS officials expect the full system to be in place within the next few weeks.

The training of staff on how to use the computer system is also expected to be in full swing once the network has been installed.

The Community Bank is due to open for business next month with branches in Hillbrow, Benoni and Athlone.

Unlike other financial institutions, which have their own computer departments, the bank has decided to subcontract this section to an outside company.

The bank's managing director, Mr Archie Hurst, says the move is a new departure for banking in South Africa.

The Community Bank is an initiative of community-based organisations and a banker, Mr Bob Tucker.

Discussions on this venture started two years ago under the chairmanship of community leader Ms Ellen Kuzwayo.

Early this year a long-time civic leader, Mr Cas Coovadia, was appointed the bank's chief executive.

This institution is aimed at specialising in the provision of loans to the poor.

PROTEA ASSURANCE

Investors expected better

FM 29/4/94

Putting aside the paraphernalia attached to the legally compelled dispersion of the group into three wholly-owned subsidiaries *(Fox* November 26), Protea Assurance's (Prosure) excellent 49% increase in EPS isn't as exciting as it appears at first sight. (58)

General insurance underwriting which includes fire accident and motor as well as

Activities: *Short and long-term insurance*
Control: *Sun Alliance Plc*
Chairman: *D T Fletcher; MD: A L Tainton*
Capital structure: *7,9m ords. Market capitalisation: R244m*
Share market: *Price: 3 100c. Yields: 2,3% on dividend; 7,9% on earnings; p:e ratio, 12,7; cover, 3,5. 12-month high, 3 500c; low, 2 550c. Trading volume last quarter, 64 000 shares.*

Year to Dec	'90	'91	'92	'93
Earnings (c)	(184)	(122)	164	245
Dividends (c)	53	53	60	70
Total assets (Rm)	583,4	766,8	814,7	1 109
Solvency ratio % ..	98,5	90,0	98,5	125
Underwrit Profit Rm	(39,5)	(31,1)	(3,9)	(4,1)
Invest Income (Rm) .	21,2	25,1	26,0	28,5
Pre-tax Profit Run ...	(18,7)	(9,0)	23,0	26,8

Tainton ... *careful selection*

FM 29/4/94

marine and aviation posted a loss of R4,1m (1992: R3,9m). MD Andrew Tainton says increased competition, shrinking consumer demand, the hardening Lloyd's market and the demise of IGI all impacted negatively.

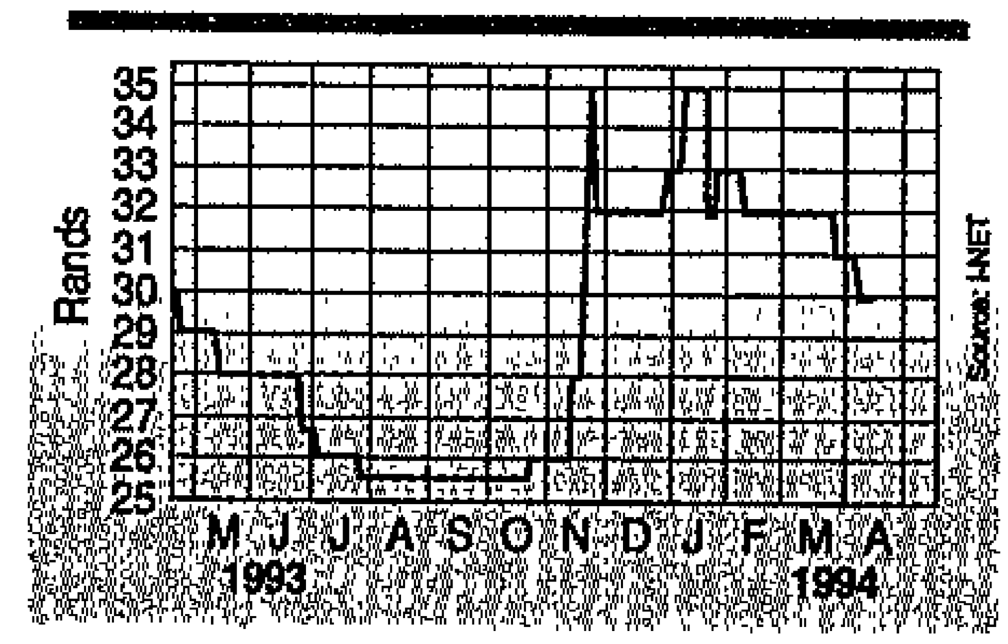
On the life side, shareholders' life profit of R2,4m — three times higher than in the previous year's — appears as a vast improvement. But that result was technically derived. It followed the transfer of the life assurance business to the newly formed Protea Life Company. (58)

A fairer reflection of the life assurance activities is found in the 68% rise in premium income, much of which is accounted for by the big jump of 333% in single premium business written. However, the 34% increase in recurring premiums, one of the highest growth rates in the industry, reflects a more sustainable growth in business. Tainton attributes this to increased new business from brokers as well as greater selectivity. And it suggests that Protea policies are finding preferential favour in the marketplace.

Ahead of other profit sources is the income derived from investment activities. Improved equity prices and a better cash flow meant that investment income rose, but only by a relatively mediocre 9,4% to R28,5m.

What really boosted profitability was the cutback by R6,2m in expenditure on technology development costs. By itself, that reduction largely accounts for the 49% rise to R19,3m, the amount available for distribution to shareholders. It marks the completed installation of advanced IT. Tainton says it

Protea Assurance



FM 29/4/94

has given the group a strong competitive cutting edge.

If the 1993 increase in life premiums written is indicative of the success Prosure is to enjoy, last year's technology investment was essential and the conservative accounting treatment of expensing will bring quantifiable rewards. (58)

Five years ago, Prosure's share price was 800c. It reached its peak of R35 in January, a compound annual share price growth of 34%. This considerably outstrips the comparable EPS growth rate of 10,5% and it suggests the market expected a higher sustainable growth rate than has been achieved.

Though its restructuring has transformed the company from a single composite insurer into a corporate group with four subsidiaries, Prosure still has to bring its short-term insurance results to account. This is the high risk/high reward area. And it is also why Prosure cannot hope to be rated as highly as the pure life assurers. Nevertheless, it is solid, and well managed, and its managers are keeping it abreast of changing times. The conservative solvency ratio indicates real inherent strength. *Gerald Hirshon*

Taxi feuds affect bank

Sowetan 28/4/94

By Mzimkulu Malunga

■ SCRAPPY BUSINESS CLIMATE: The violence at ranks impacts badly on business

INSTABILITY in the taxi industry had a negative impact on FutureBank last year.

Presenting the company's annual report, chairman Mr Jabu Mabuza said: "An area which has been severely impacted upon is that of the taxi industry and business written from that source has been disappointing."

He said the violence that hit the taxi ranks and the high defaults in loan repayments, due to high vehicle prices, impacted badly on the bank.

Mabuza said the Government's failure to come up with subsidies for the taxi industry worsened the problem.

The bank said due to difficult trading conditions in the taxi industry, the Southern Africa Black Taxi Association scheme had been amended to minimise the risks to FutureBank as well as to make it more affordable to taxi owners. Although the bank's income jumped threefold and interest on income doubled, the institution has not paid dividends to ordinary shareholders as most of the money went to pay outstanding amounts due to preferential shareholders.

Preferential shareholders have to get their money before any payment can be made to the ordinary shareholders.

(58)

FutureBank is owned jointly by the Foundation for African Business and Consumer Services and a First National Bank division, WesBank.

WesBank handles the day to day running of FutureBank.

Jabu Mabuza

Sea Harvest pays interim div

MARC HASENFUSS
Business Staff

SEA Harvest's catch was gutted by "difficult" trading conditions locally and internationally — but higher interest income coupled with lower tax and finance costs helped the group maintain interim earnings and declare a maiden interim dividend.

In the half year to end March turnover was a slender 3 percent higher at R158 million. Profit margins were squeezed, leaving operating income down 12 percent at R26 million.

Directors said the difficult trading conditions were exacerbated by unusual climatic conditions. This adversely affected hake catches and the volumes processed and marketed in the period under review were below expectations.

However, increases in interest earned to R4,8 million (previously R4,1 million), cuts in finance costs to R270 000 (R620 000) and a lower tax bill of R12,5 million (R14,8 million) bolstered bottom line to R18,4 million (R18,8 million).

Earnings a share came in at 18,4c, making for a first time interim payout of 7c a share.

Directors are predicting no material change in trading conditions for the remainder of the financial year. ARG 25/4/94

"Catch rates have recently improved and earnings for the year are expected to equal those of the 12 months ending September 1993."

■ **Malbak** is set for a sponsored ADR listing in the US in an endeavour to spread its shareholder base.

An ADR (American Depositary Receipt) is the means by which non US companies facilitate American investment in their shares. Sponsored ADRs trade on the "over-the-counter-market" (OTC) in the US. The programme allows foreign companies to release the benefits of being a US publicly traded security without changing their current reporting processes.

According to a Malbak spokesman, the group filed its F-6 form with the US Securities and Exchange Commission (SEC)at the weekend. It should take three weeks for the filing to be declared effective.

Malbak executive chairman Grant Thomas said growing interest from both institutional and private investors located in the US prompted the decision to follow an ADR programme.

"In a few weeks' time, once the SEC has declared our filings effective, Malbak will be able to satisfy and develop further US interest in its ordinary shares."

Mr Thomas said the ADR listing would enlarge the market for Malbak shares and would give the company access to the largest capital market in the world.

"Some institutional investors might have restrictions on purchasing and holding securities abroad and the ADR programmes overcomes that obstacle.

"It should also enhance the image and understanding of Malbak, its products and services and financial instruments in the US market place."

Long life recovery forecast

(58) ARG 25/4/94

ALIDE DASNOIS
Business Staff

THE current upswing in the economy is likely to last longer than any upturn since 1974, according to Southern Life economist Sandra Gordon.

Writing in Southern Life's quarterly Economic Comment, she said fixed investment, rather than consumer spending, would be the main engine for growth.

Miss Gordon expected gross domestic fixed investment to top 6 percent this year.

Projects worth more than R120 billion were already in the pipeline and the new coalition government was expected to introduce huge social spending programmes.

In an interview Miss Gordon said estimates of three percent economic growth this year "could be conservative".

The strength of the agricultural recovery had been underestimated and good rainfall suggested that farmers would have another good year in 1994..

External economic conditions were improving, and export volumes were likely to increase in 1994.

Higher gold and commodity prices would boost export revenue.

However, the trade surplus would be eaten away by higher imports as the recovery got under way.

Still, Miss Gordon forecast a "still healthy" surplus of about R18 billion this year, giving a current account surplus of about R5,5 billion.

She said the new government was unlikely to break with the financial discipline of the past.

The re-appointment of Reserve Bank governor Chris Stals would indicate the government's intention to maintain financial stability.

"We think the future government will be pragmatic, though we can't expect fiscal and monetary policy to be as tight as in a first world country — which South Africa is not."

Southern Life was expecting average inflation of 7,9 percent this year, rising to 10,4 percent in 1995.

Higher-than-expected inflation rates reduced the chances of interest rate drops.

Also, the economy had entered the upswing with severely depleted reserves.

As a result, she was expecting one — rather than two — cuts in Bank rate this year, probably in May after the publication of April's inflation rate which would exclude the VAT effect for the first time.

Though the chances of sustainable economic growth were good, politics would remain the decisive factor, Miss Gordon emphasised.

But, she noted, even if growth rates toppped 5 percent, it would take almost 10 years for the economy to achieve 1981 living standards.

The level of real gross domestic product (GDP) in 1993 was still almost 2,5 percent below its 1989 peak. Real GDP per capita had dropped 18,5 percent since 1981.

"Even if an ambitious reconstruction plan for a targeted annual growth rate of 5 percent is achieved, it will take almost a decade before 1981 living standards are again achieved."

Sankorp buys 46% of ABS

S1 TimesBus)

24/4/94

By JEREMY WOODS

SANLAM investment arm Sankorp has taken a 46% stake in fast-growing technology services group ABS Computers, in a shares and rights issue deal that has raised R29-million for ABS.

The Sankorp stake is held by Omnivan, jointly owned by Mercedes Information Technology (MIT) and Absa, both associates of Sankorp.

ABS managing director James Fitzgerald says: "We received many acquisition proposals, but the ABS board decided that a key ingredient must be enlarging the company's business.

"Sankorp approached us on the basis that there were opportunities to grow the business and this is proving to be correct."

Mr Fitzgerald says Sankorp acquired some shares then subscribed to a rights issue which gave it the 46% stake.

ABS specialises in information technology services for corporations as well as cost-effective transaction automation.

"Sankorp spotted that our out-sourcing business had growth potential and believed it could contribute," says Mr Fitzgerald.

Part of the deal is joint control. (58)

Mr Fitzgerald says: "The ABS board now has a MIT director, who is Sankorp's representative. We can discuss expanding the business and future acquisitions with him. The company retains its independence. It is a good deal for ABS and will make a significant difference to profits and growth."

Crisis-hit LOA is falling apart

(58) Argus 23/4/94

BRUCE CAMERON
Business Editor

The life assurance industry is in turmoil and faces changes which could sorely affect the public if the crisis is not diffused. The issue has been sparked by market tactics.

THE multi-billion rand life assurance industry is in crisis, with its self-regulatory body, the Life Offices Association, (LOA), threatening to fall apart as it quibbles over virtually meaningless marketing tactics.

Chief executive of the Financial Services Board, (FSB), Piet Badenhorst has entered the row, seeking to negotiate a settlement.

The insurance industry is trying to play out the drama in secret and few details about the clash have been revealed.

If the LOA falls apart, the public will be the main casualty, as insurance salespeople will be offered greater inducements, while the life offices fight for survival in what would be an almost unregulated market. This would be likely to push up costs, to the detriment of policyholders.

But, hanging over the insurance industry, is the threat of its being subjected to a legally enforced disciplinary code which could result from the row.

The Financial Services Board, (FSB), has expressed concern about the on-going refusal of LOA members to introduce enforceable codes of conduct.

Senior sources in the industry said this week that the FSB would be virtually forced to introduce regulatory legislation for all aspects of the industry if the LOA fell apart.

The crisis in the normally close-ranked and tight-lipped industry has been sparked by Liberty Life's refusal to adjust downward benefit illustrations given to the public about potential returns on policies.

The illustrations are basically meaningless as they are not a guarantee of what policyholders will receive, but are used to lure clients.

With the falling of interest rates and that of inflation, the benefit illustrations, set at 12 and 15 percent growth, became even more meaningless.

The majority of LOA members decided to reduce benefit illustrations to nine and 12 percent from April 1.

Liberty Life, however, refused to agree, arguing that by lowering the illustrations, the public would think they were based on specific assumptions.

There is also a dispute over whether the LOA's executive committee can overrule a members'general meeting which last year agreed not to reduce the benefit illustrations.

The insurance industry as a whole has steadfastly resisted using historical performance allowing policyholders to make comparisons with other investment vehicles, like unit trusts and bank deposits, as well as between the different life offices.

With the current row, this issue has again been raised.

Liberty Life has been at the forefront of stopping attempts to make historical performance comparisons.

Mr Badenhorst believes the current crisis could be defused by later next week.

But he declined to comment on what compromise solution was being offered.

LOA chief executive Jurie Wessels also declined to comment, saying there was agreement among the members that the issue be negotiated without media involvement.

If agreement is not reached, Liberty Life will automatically be expelled from the LOA.

This would mean that it would not have to abide by any of the LOA's regulatory agreements.

It could then give assurance brokers greater inducements to sell its products by, among other things, making these appear more attractive.

Other life offices like Norwich, Fedlife, Sage Life and Commercial Union, which rely almost exclusively on the broker community to sell its products, would be forced to break ranks as well to ensure their survival, causing the breakdown of the LOA.

Industry sources said this would also be likely to increase hard sell and unethical tactics by insurance salesmen, which would also be to the detriment of policyholders.

Last year the LOA faced considerable criticism over its resistance of full investigations into soaring lapses and surrenders of policies.

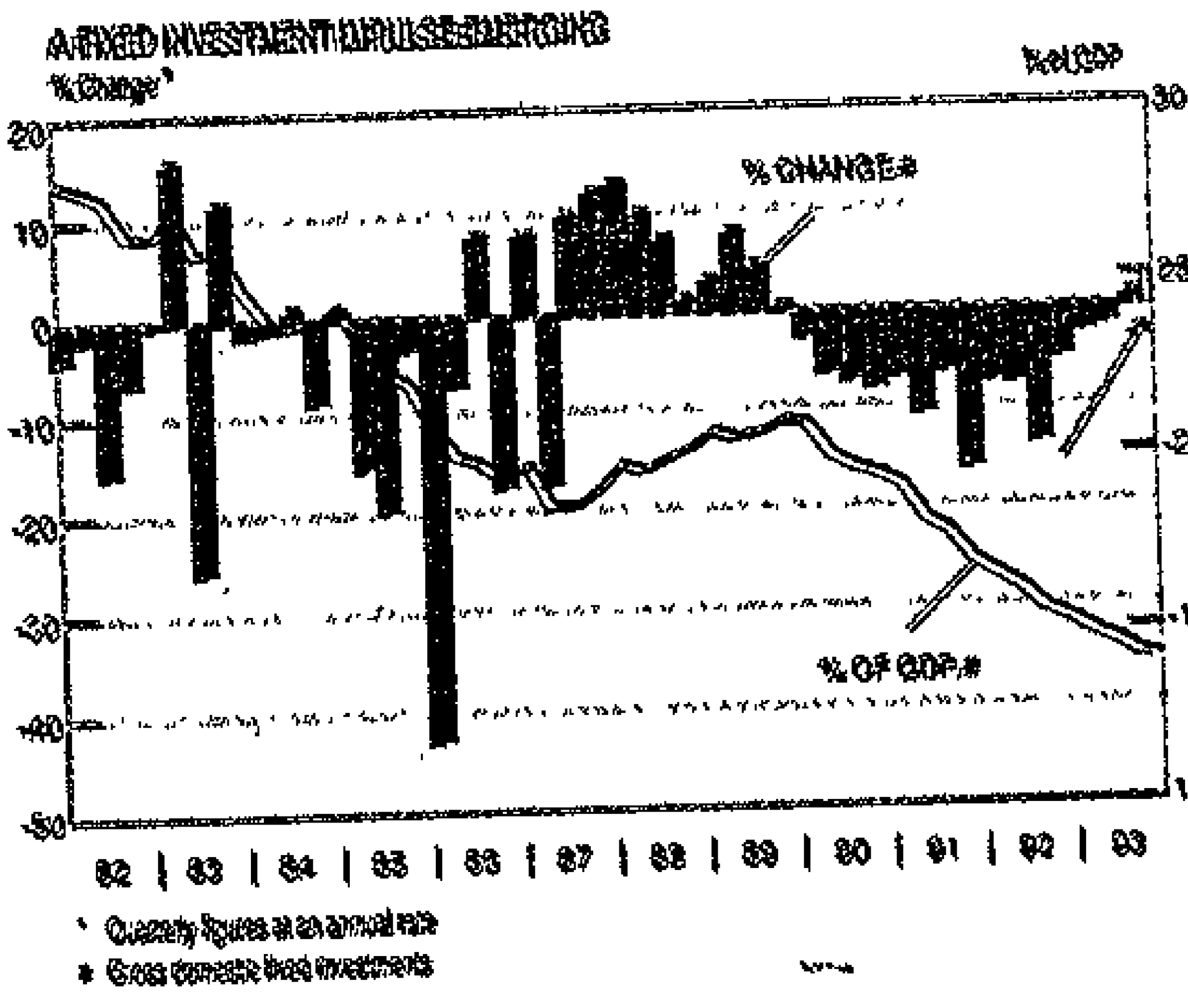
It was estimated by Professor George Marx of the University of Pretoria's acturial science department that more than R1 billion was lost by the general public as a result

He maintained that one of the major reasons for the high lapses and surrenders could be that hard sell salespeople were selling inappropriate and unaffordable policies, putting the substantial commissions they earned above the interest of their clients.

INSIDE

TOMORROW

Who owns whom: a peek into corporate SA
Pension debate hots up



Boland points to the good news

(58) CT 23/4/94

By AUDREY D'ANGELO

SOUTH Africans are too pessimistic in their short-term outlook and are not considering encouraging factors such as higher fixed investment, increased exports and, possibly, capital inflows after the election, says Boland Bank chief economist Louis Fourie.

Discussing prospects after the election Fourie says, in his Economic Review, that the rand may not deteriorate further "and may even show an increase from the second half of 1994."

He also thinks that "as long as excessive credit creation is contained an inflation rate of from 7% to 9% for the foreseeable future is a reality for SA.

"The classic arguments that a new government will undo the conservative monetary policy of the past three years is probably somewhat thoughtless and emotionally motivated.

"Excessive credit creation as a growth stimulus is an obsolete and disappearing 'solution' and is being replaced internationally by a policy of striving towards financial stability.

"In addition to this SA has reached a time when employment rather than wage increases will take priority in the labour market, which will further support an anti-inflation policy stance."

Fourie says indications are "that fixed investment expenditure will play a leading role in the economic performance of the country in the medium to long term.

"Accessibility to international capital markets, a stable financial environment and several socio-economic development initiatives form the basis of this expectation.

"The fact that there appears to exist an apparent urgency with policy makers to increase the level of fixed investment spending over time from the current low of 14% of gross domestic product (GDP) to at least 24%, obviously also holds the additional promise of a systematic strengthening of consumer spending."

Fourie expects exports to "develop into the second largest economic growth stimulus in coming years."

Pointing out the importance of capital inflows to protect SA's depleted foreign exchange reserves, he says "South Africans are perhaps over-pessimistic about the likelihood that inflows will be realised."

Fm 22/4/94 (58)

FEDSURE

Funding growth

Activities: *Composite insurance and financial services*

Control: *Control pool, including directors, management and Investec, hold 56%.*

Chairman: *J A Barrow; MD, A I Basserabie*

Capital structure: *85,3m ords. Market capitalisation R1,15bn*

Share market: *Price R13,50 Yields: 3,3% on dividend; 4,6% on earnings, p.e ratio, 21,6; cover, 1,4. 12-month high, R14,25, low, R10,50. Trading volume last quarter, 1,8m shares.*

Year to Dec 31	'90	'91	'92	'93
Total assets (Rbn)	4,1	5,1	6,5	8,7
Premium income (Rm)	684	891	1 248	1 309
Investment inc (Rm)	370	445	503	560
Taxed profit (Rm) ..	23,6	28,8	51,2	64,4
Attributable inc (Rm)	23 6	28,8	42,4	53,4
Earnings (c)	35,1	42,8	51,8	62,6
Dividends (c) . .	25	30,5	36,75	44,5

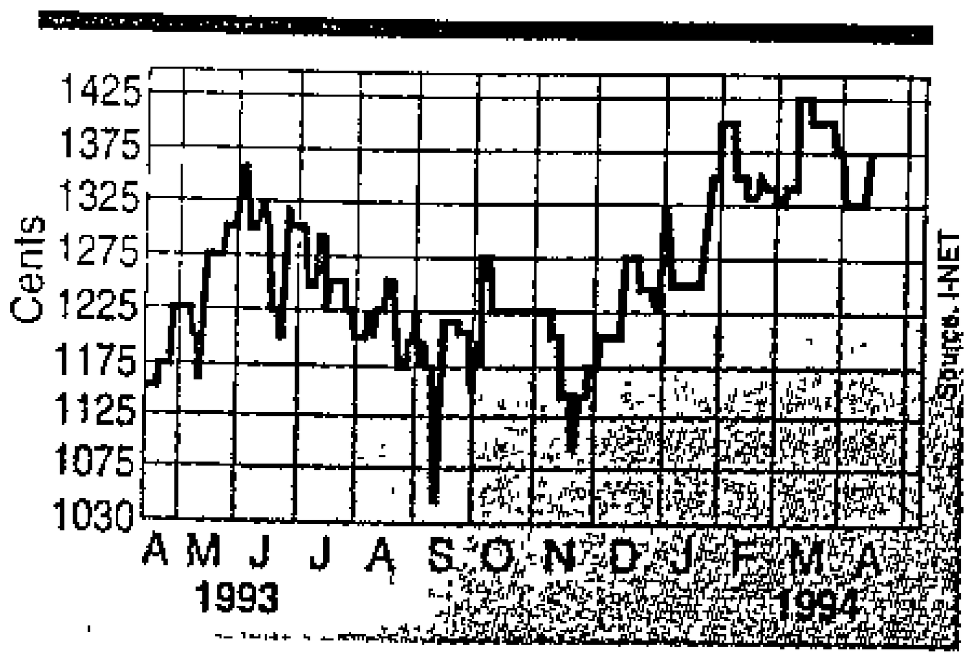
Fedsure's share price has gained R2, or 17%, since the 1992 annual report was reviewed a year ago. That compares somewhat unfavourably with the 26,5% gain in the JSE Insurance index over the same period, though the index is dominated by the highly rated Liberty Life counters.

Much of the lift in Fedsure's price has only come since the December year-end: the share gained 8,1% over the financial year, which contrasts with the insurance and financial services group's 21% advance in EPS and dividends. In real terms, 1993's performance was stronger than the similar bottom-line growth recorded in 1992, considering it was achieved in an environment of lower interest rates and inflation Yet in financial 1992 Fedsure's share price rose nearly 50%

Why the comparatively poor share price performance? It certainly is no reflection of the underlying business. Fedlife Assurance, from which Fedsure's strong 26% growth in taxed profits is derived

Fedsure's Basserabie ..
confident of the capital base

Fedsure



With total premium income at R1,31bn, Fedlife remains SA's fifth largest life office ranked by premium income. A breakdown shows individual recurring premiums up nearly a third to R370m Over the past five years, individual premiums have grown to the point where they now comprise about half the total.

Group CE Arnold Basserabie says new annualised recurring premiums advanced 41% That's good growth and must represent considerable new market share. It also highlights one of the few factors analysts feel might be affecting investor perceptions of Fedsure, whether it has enough capital to meet new business strain.

Basserabie is confident of the capital base, saying it can comfortably support organic growth over the next three years. Should a new transaction be entered into, he says, Fedsure might take the opportunity to raise new capital It entered the past financial year with a strengthened capital base — shareholders' funds three times bigger at R348m and total assets up 28% to R6,5bn — after the earlier share swap with Investec and subsequent rights issue

By year-end, assets had grown a further 34% (though nearly 20% was due to capital appreciation) and shareholders' funds were up 6,5% to R371m. After year-end, Fedsure raised a further R69m to fund its acquisition of the credit life and funeral business of Saflife and IGI Life as well as IGI's short and long-term business in Namibia. The acquisitions were not on the books long enough to affect 1993 results, but chairman John Barrow says, apart from expanding Fedsure's customer base and distribution channels, they should contribute around R150m a year to premium income

Despite strong growth, Fedlife held comparable marketing and administration expenses (excluding one-off costs from acquisitions) to an increase of only 5% Investment income grew a useful 11%, excluding capital appreciation, in the face of lower interest rates and generally lower increases in dividend payouts.

Associates also performed well, especially Investec and Saambou with share price appreciation of 55% and 25% respectively. Besides the increasing value of these strategic investments, Fedsure benefits by expanding into the broader financial services sector through associates' client bases and markets. Associates increased the volumes of business placed with Fedsure

Backed by Fedlife's continuing growth and good performance — and what appears to be potential from last year's acquisitions — the 1994 year should again see consistent results from Fedsure Further acquisitions are possible, but Basserabie says there are no immediate targets. Of note, though, are plans to launch an American Depository Receipt (ADR) programme The short-term aim is to aid investment for US shareholders, though the ADRs could ultimately be used to raise capital offshore Fedsure has been looking at foreign insurance markets for some time.

On 1993's performance and prospects for this year, Fedsure's share rating seems out of line with competitors such as Southern Life and Momentum, particularly its dividend yield of 3,3%. The share offers value and could appreciate strongly given investor support.

Shaun Harris

AMIC Fm 22/4/94

Merits attention

Activities: *Diversified industrial group with interests primarily in iron, steel and engineering, industrial explosives and chemicals; mining and construction equipment and services pulp, paper, forestry and timber; sugar and food electronics and electrical engineering motor vehicles, freight and travel; building and construction.*

Control: *Anglo American and De Beers*

Chairman: *L Boyd; deputy chairmen H K Davies, M A Sander, A J Trahar*

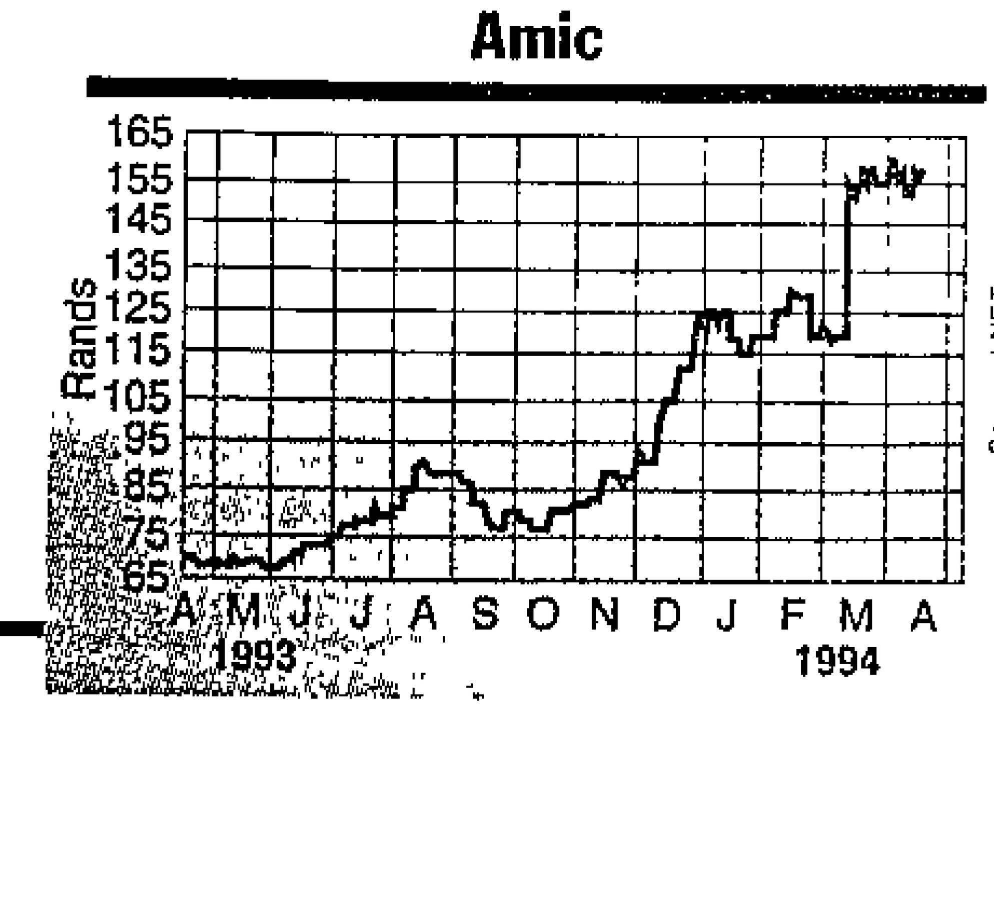
Capital structure: *57,6m ords Market capitalisation: R9,16bn*

Share market: *Price 15 900c. Yields 2,4% on dividend; 5,6% on earnings; p e ratio 17,8, cover, 2,4. 12-month high, 16 080c low, 6 800c. Trading volume last quarter, 744 000 shares.*

Year to Dec 31	'90	'91	'92	'93
ST debt (Rm)	398	470	288	737
LT debt (Rm) ...	271	516	369	965
Debt equity ratio	0,11	0,13	n/a	0,11
Shareholders' interest	0,65	0,63	0,64	0,66
Int & leasing cover	20,0	17,4	4,9	9 5
Return on cap (%) .	11,3	9,5	6,1	5,5
Turnover (Rbn) ...	6,12	6,46	6,86	8,79
Pre-int profit (Rm) ..	799	643	598	723
Pre-int margin (%) .	9,3	6,7	8,8	8,2
Earnings (c)	836	731	617	891
Dividends (c)	350	350	350	375
Tangible NAV (c) ...	7 372	7 701	7 091	9 071

Rather a lot has been written recently about Amic, the Anglo American Corp's industrial conglomerate; some would say too much. But

Amic



LIBERTY LIFE

FM 22|4|94

(58)

Recognising the international assets

Activities: *Insurance and financial services in SA and abroad.*
Control: *Liberty Holdings 52,8%. Ultimate control rests with Liblife, held equally by Liberty Investors and Standard Bank Investment Corp.*
Chairman: *D Gordon; MD: A Romanis.*
Capital structure: *233,2m ords. Market capitalisation: R18,7bn.*
Share market: *Price: R80. Yields: 2,1% on dividend; 2,4% on earnings; p:e ratio, 41,7; cover, 1,2. 12-month high, R92; low, R58. Trading volume last quarter, 1,7m shares.*

Year to Dec 31	'90	'91	'92	'93
Total assets (Rbn)	28,14	34,52	†61,59	86,63
Net prem inc (Rbn)	1,93	2,27	†7,36	10,65
Investment inc (Rbn)	1,70	1,90	†3,62	3,90
Total inc (Rbn)	3,63	4,17	†10,98	14,55
Life Funds (Rbn)	16,60	20,76	†48,39	69,00
Investments (Rbn)	25,36	31,20	†58,60	83,33
Attributable (Rm)	218	275	353	442
Earnings (c)	102,1	127,0	154,6	192,0
Dividends (c)	‡86	*108	▲132	164

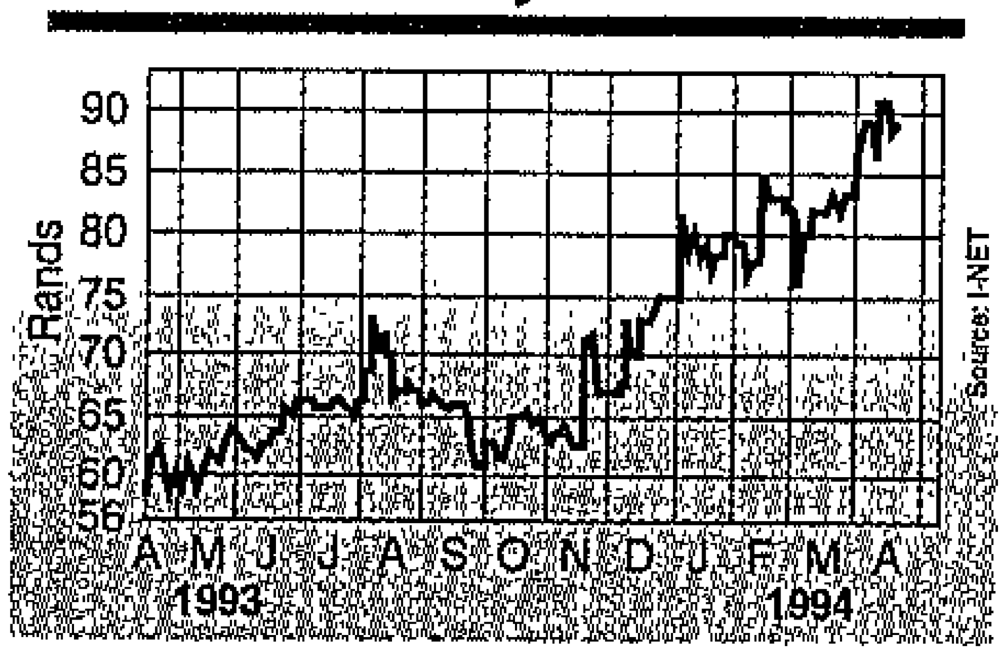
† Restated to show the proportional consolidation of the Liberty Life Group's 50% interest in Sun Life Corporation plc.
‡ Excludes special dividend of 50c per share.
* Excludes dividend in specie equal to 199,2c per share.
▲ Excludes special dividend of 100c per share.

Donald Gordon says 1993 was undoubtedly Liberty Life's most successful year in its corporate history. Liberty's ubiquitous chairman has made similar claims in preceding years, as indeed a new record was set in one or other area by the group. This time, though, he is including the effects of Liberty's life assurance activities overseas.

While Liberty has been expanding its UK insurance and property interests for some time, their importance has only been fully revealed by the SA Institute of Chartered Accountants' adoption of new international accounting standards relating to interests in joint ventures. Accordingly, the Liberty group's 1993 annual report shows the proportional consolidation of its 50% interest in UK insurer Sun Life.

The new reporting standards come at a convenient time. It has only been in recent years that Sun Life has been able to increase market share and shine through the morass of the UK insurance industry, while the British property market is also recovering from a long depression.

Liberty Life



Liberty's Gordon ... *value rising in London*

The immediate effect is to swell Liberty Life's asset base and income figures dramatically (*see table*). It's revealing, as Gordon points out, that 55% of Liberty's total income of R14,6bn and 40% of its R86,6bn assets are derived from the UK. That's certain to make 1993 the year when Liberty was recognised for the extent of its international operations. Adding to this is the increasing mass and influence of the wider Liberty Group.

Despite being the fourth largest SA-based company on the JSE by market capitalisation, Gordon says Liberty Life's market cap on the London Stock Exchange of more than £3bn (reflecting the financial rand discount) is now second only to the UK's largest insurer, Prudential Corp Plc.

Back home, the group controls assets of about R106bn if investment funds and property interests managed by other Liberty Holdings (Libhold) subsidiaries are included. If account is taken of the 39% stake in Standard Bank Investment Corp, the wider grouping controls assets exceeding R230bn.

UK interests are held by Transatlantic Holdings Plc, channelled to Liberty Life (and SA investors) through Liberty's 44%-holding in JSE-listed First International Trust (FIT) The improved performance of the UK holdings has strengthened FIT's earlier lacklustre results — in 1993 attributable income grew 16,8% to R57,8m, with a similar increase in EPS to 32c and a 10% rise, to 22c, in dividend, with the option of a 0,9-for-100 capitalisation share award at year-end, after an interim cash payout of 7c.

The insurance activities continue to advance with clockwork consistency The 24,2% rise in EPS and dividends represents slightly stronger growth than the 1992 financial year. The final dividend was better than indicated at interim, when shareholders were offered a cash equivalent of 80c if they elected not to take the 1,5-for-100 share capitalisation award.

Liberty's 45% growth in net premium income included R750m in new annualised recurring premiums, up 30%. There is little question of the balance sheet's capacity to meet rapid growth in new business — shareholders' funds grew 46% to R12,46bn on the previous year's restated figure, largely through appreciation of investments — but Liberty is keeping a tight rein on costs. Management expenses of R365m were up only 12% over 1992.

Locally, a highlight was the flotation of Liblife Strategic Investments (Libsil), the 80%-held company containing Liberty Life's key strategic investments. The R1,03bn rights offer was the third largest undertaken on the JSE, though so far Libsil's share price performance has been mixed. The price approached a peak of R15 before drifting back to R10,75, in line with movement of underlying investments. Libsil paid a maiden dividend of 12c per share, on EPS of 56c generated since September.

Liberty Holdings, immediate holding company of Liberty Life, lifted EPS 24,5% to 589c and increased its dividend by a quarter to 450c. The price has appreciated about 35% to R205, though not surprisingly the best share performance came from Liberty Life, which gained 41% against 26,5% growth in the Insurance index over the period.

On 1993's performance alone, Liberty Life probably justifies its high rating. Now that the extent of its rand hedge component is clear, it could attract additional support from investors. Though foreign investors have as yet not shown much interest in insurance shares, Liberty's extensive portfolio of blue chips offers an entry into top-rated shares on the JSE. For this reason, some broking firms are strongly marketing Liberty Life to overseas investors.

It would not be surprising to see Gordon make another substantial foreign investment this year, possibly a US insurance company. It's something he has often referred to and, with the UK interests starting to pay, 1994 could be a prudent time to shop around.

Liberty is expensive but, with almost guaranteed growth in earnings, dividends and share price appreciation, investors will be prepared to pay the high price. *Shaun Harris*

BARINGS

Vote of confidence

Barings, the blue chip London-based international merchant banker, famous for its boldness and outstanding successes in Japan, has scored an early jackpot in SA. It announced its intention to open a Johannesburg office on Monday, April 18, during nationwide despair at the political impasse. Its decision was vindicated the next day when government, the ANC and the IFP announced an agreement enabling Inkatha to participate fully in the general elections.

That vindicated Barings' confidence before the elections, though international finance head Christopher Kemball says the decision was taken six weeks ago, after a visit to SA. "We held long talks with the ANC and other political leaders and decided SA had a lot going for it. We believe there will be steady progress towards a proper political establishment and a solid economic and financial framework," Kemball says.

Barings is strengthening its SA desk in London with the appointment of Graham Bell, former director and economist of broking firm Ivor Jones, Roy. Bell, top economic research analyst in the *FM* ranking last year, will head Barings' SA research and sales team in London. "Apart from covering SA, we hope to broaden research into other southern African markets, including Zimbabwe, Botswana, Mauritius and Kenya."

According to Kemball, the SA equities market is estimated to have the capacity to absorb an additional US$4bn in investment funds. "It is similar in many ways to Argentina where we have more than 700 institutions investing regularly. We only have about 70 institutions investing in SA regularly — there's room for growth off a low base."

Bell moves to London this week. Barings' SA office will, apart from research, also cover corporate finance and restructuring.

Shaun Harris

TORQUE

Kovarsky: paying the penalty

I was asked last week whether I intended contemplating in this column Times Media MD David Kovarsky's departure. At the time I didn't but, on reflection, it seems an inescapable subject.

Besides, newspapermen are notoriously nosey. It is a requirement which goes, it seems, with the job. And they are particularly inquisitive about one another, which is why Kovarsky's departure has attracted so much morbid attention.

The job of TML CE, which Stephen Mulholland made so peculiarly his own, was always going to be a difficult seat for any successor. Whatever anyone says about Mulholland (and he has many detractors) he is undeniably successful in business. He breathed life into a moribund company and lashed it to the kind of profitability which delights shareholders.

Always leave when you're on top, the sages say. The timing of Mulholland's departure was impeccable. He went off to the Antipodes leaving TML with new records in EPS and its share price.

And, of course, if Mulholland's timing was good for him, it had to be terrible for Kovarsky. Poor chap, he couldn't have judged it worse. Given that he took the chair when TML had nowhere to go but down, the results for the last financial year were creditable.

But then, Kovarsky's departure (was he pushed or did he jump?) has nothing whatever to do with profits or balance sheets. It has everything to do with people; more especially it revolves around Kovarsky's failure or inability to earn the support and loyalty of his senior men.

Power is a mysterious substance; its capricious behaviour has excited examination down the centuries. In the end, power depends significantly on acceptance by those upon whom it is used. It is often lightly bestowed. It is easily lost. I say this because Kovarsky shrank from using power.

An ancient British aphorism is that if you attack the king, be sure to kill him. As an analogy, it breaks down but the point is the same: there are times when it is imperative to be ruthless. And to my certain knowledge, Kovarsky stumbled twice at the hurdle of dismissing a senior editor. It was an action which marked him as timid and kindly; it evoked not gratitude but derision. In his defence, Kovarsky says it took greater fortitude to withhold the sanction than to apply it.

At bottom, Kovarsky's tenure was marked by his transparent failure to exercise leadership. It is a peculiar calling which requires the employment of bewildering opposites, the ability to display qualities of brutal hardness tempered by compassion. Kovarsky demonstrated the uncertainty of a man unsure of himself. Kovarsky says, not unnaturally, that I have misread this. In the end — and this is only my opinion — this tentative approach cost him the critical support of the major shareholder.

He challenged the time-honoured principal of editorial independence. It is a right which (most) editors hold fiercely, and defend bitterly. Kovarsky's various attempts, some of unusual subtlety, to undermine this right, provoked demonstrable hostility. He says his efforts in this area were completely misinterpreted.

Nor has he left for reasons related to projects he initiated. It is true he indulged in some expensive undertakings but in the sweep of things, these are unimportant. What raised temperatures was his vision of the future, and the path he intended TML to follow. In the process he fomented memories of a long-standing, bitter and trivial dispute between *FM* editor Nigel Bruce and the ANC's ideology guru Pallo Jordan.

It ended with Bruce deciding it better to withdraw from a formal lunch with ANC president Nelson Mandela and it earned for Kovarsky unfortunate publicity in the London *Financial Times* and a stinging rebuke from *Private Eye*.

Kovarsky (46), a CA with a career in auditing, textiles and mining, is a well-meaning man who has much to offer. One failure doesn't mean it will be repeated.

The first report in the TML library file marked Kovarsky is a profile written while he was an executive director of JCI. It quotes him as saying: "I quickly found you have to learn how to deal with people or you are dead."

Indeed.

Lunch with Mr Margo

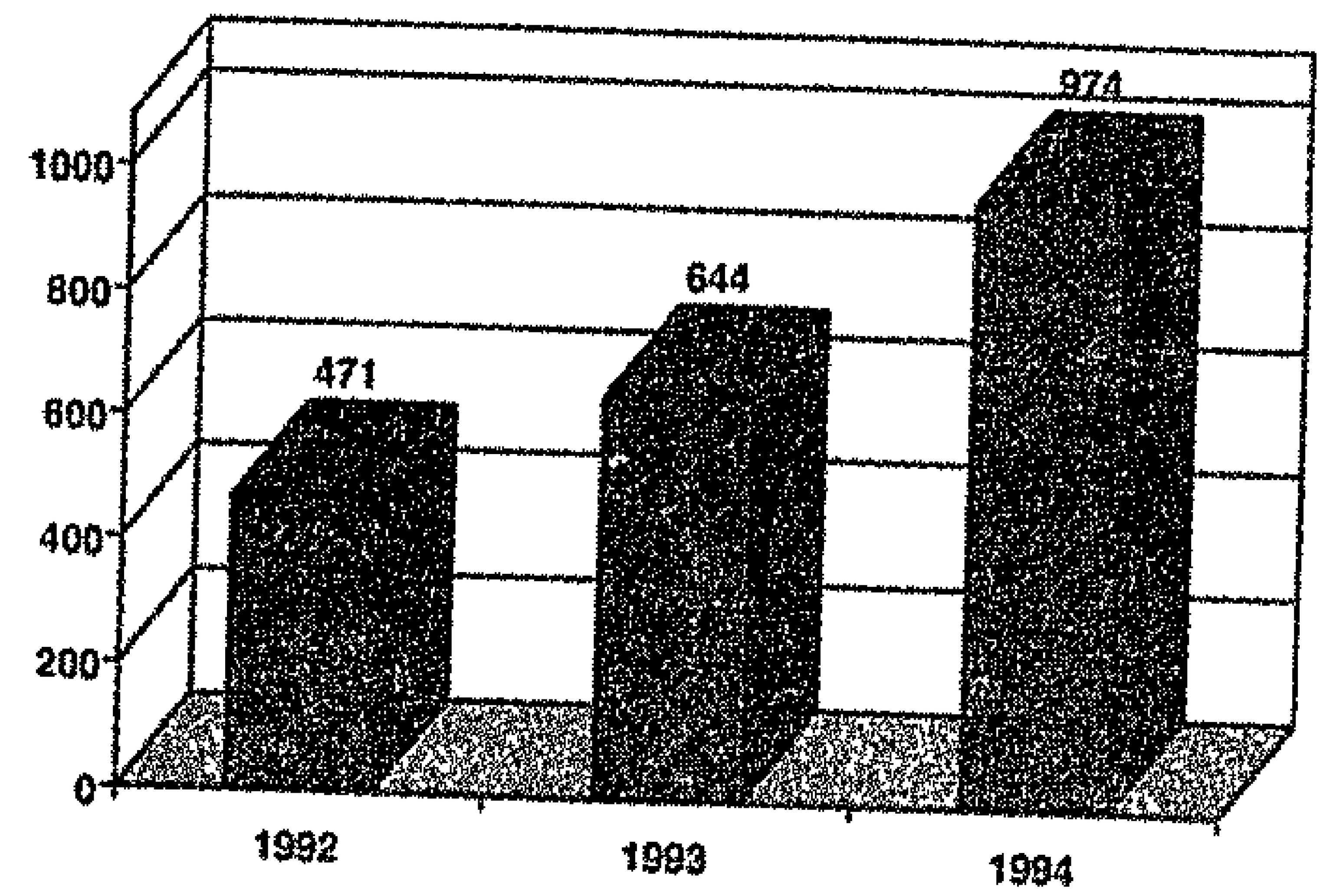
Retired Judge Cecil Margo, whom I suggested should retire as chairman of the Securities Regulation Panel (*Torque* April 1), is in the news again. This time he is reported as giving evidence in a criminal prosecution brought against the former MD of the Bank of Lisbon, Durval Marques, for fraud. Margo is chairman of the bank.

It shouldn't be necessary for me to say this again but I must point out the glaringly obvious conflict of interest in which Margo finds himself. The conflict is that the chairman of the SRP — whose duties embrace all public companies (not just those listed) — should not also be a director of public companies. It may be legally permissible; it is abhorrent as a tool of corporate governance.

Of course, Margo is trapped in an unfortunate situation which is a product of our system (and, perhaps, our circumstances). It is widely held that we do not possess sufficient numbers of qualified persons for regulatory jobs. That may be so; nevertheless, it cannot be right for the head of the SRP to be involved in any way, shape or form with criminal actions in the courts. In this case, Margo's testimony derives entirely from his chairmanship of a bank.

Margo has invited me to take lunch with him so he can give me "all the facts." Clearly, *boeuf Wellington* won't be the only dish on the menu.

David Gleason



Individual life new business (rand/millions).

Star 20/4/94

Southern Life's new individual business sales have risen 51 percent to a record R974 million for the year to March.

Recurring premium business made up 27 percent at R262 million, with single premiums accounting for R712 million.

Chris Liddle, executive director (life division), attributes the success to a solid investment performance and the positive response to Exclusive Life, which eliminates cross-subsidisation of HIV-infected people.

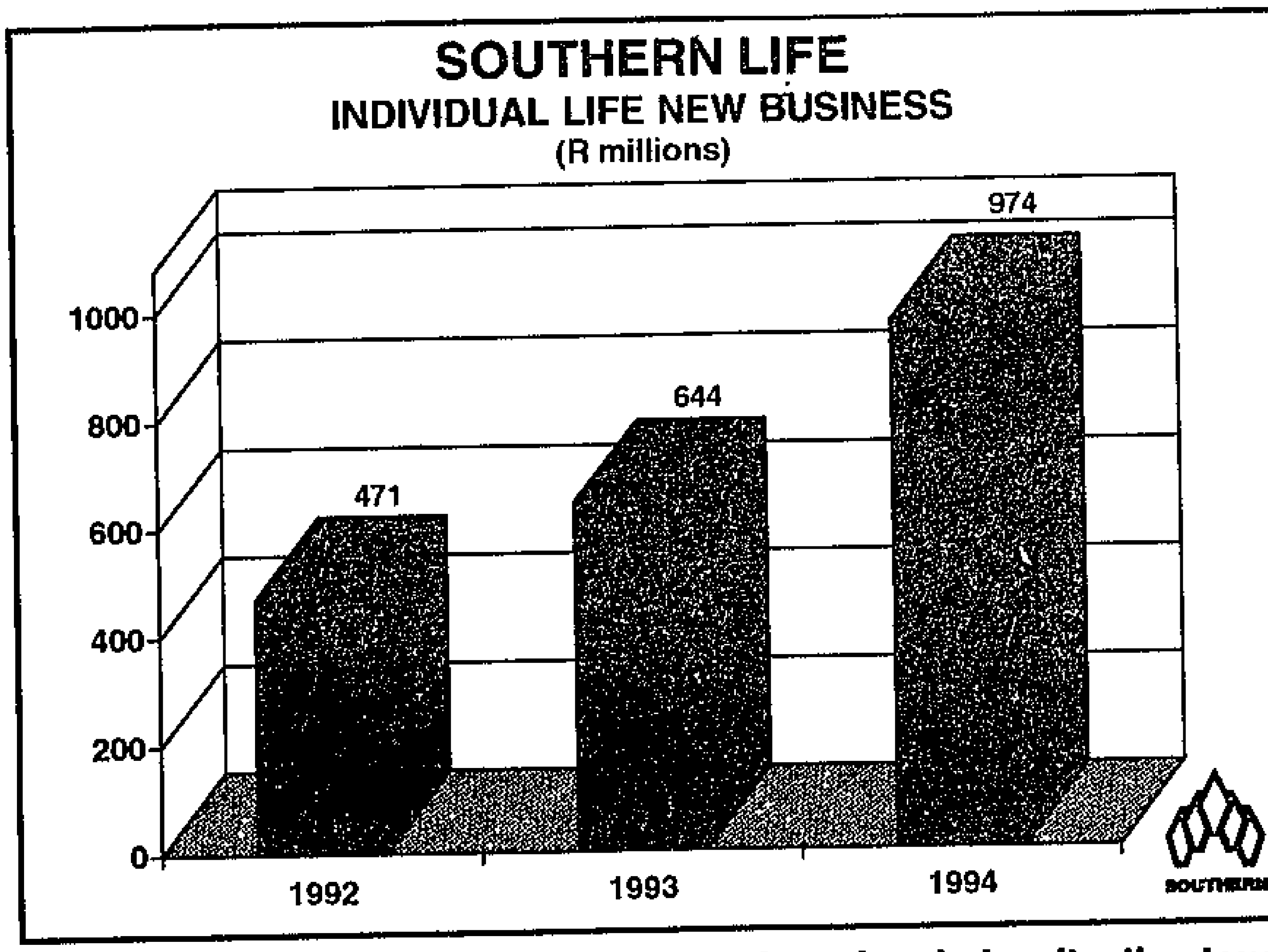
Less than a year after its launch, Exclusive Life already made up a third of Southern's new policy sales.

The managed portfolio yielded 31,3 percent over a one-year period, compared to an inflation rate of 9,5 percent over the same period.

(58)

Support from brokers was strong, and Southern increased its share of business in this market.

"Business from brokers is a positive endorsement." — Business Staff.



Graph shows Southern Life sales roaring ahead despite the tough economic climate.

Southern sales soar to record levels

(58) ARG 20/4/94

BRUCE CAMERON
Business Editor

ASSURER Southern Life has seen a 51 percent increase in new individual business sales to edge close to the R1 billion-mark for the first time.

And its controversial Exclusive Life policy, aimed at protecting policyholders against the financial ravages of an Aids epidemic, is one of the major reasons for its growth.

For the financial year ending March 31, 1994 new individual business went from R644 million in 1993 to R974 million.

Recurring premium business made up 27 percent of the total at R262 million, with single premiums accounting for the balance of R712 million.

Chris Liddle, executive director (life division), attributed this success to the company's solid investment performance and the overwhelmingly positive response to Exclusive Life, the pioneering policy which eliminates cross-subsidisation of HIV infected people.

Less than a year after its much publicised launch, Exclusive Life already made up a third of Southern Life's new policy sales, he said.

"Exclusive Life is one of the major reasons why recurring premium business has grown by 23 percent, despite the tough economic times which faced consumers over the past year.

"Recurring premium sales are considered to be the mainstay of a life assurer's business and this consistent growth is a tribute to Southern Life's sales intermediaries," said Mr Liddle.

"With the volume of sales we have certainly silenced our detractors who were highly critical when we launched the product.

"Given the increasing number of HIV positive people applying for insurance, we believe that the rest of the life industry will have no alternative but to take steps to prevent healthy clients cross-subsidising infected people.

"There is an increasing consumer focus on investment returns and our industry-beating performance has also done much to attract new business.

"We have outperformed our three major competitors over periods of one, two, three and five years and handsomely beaten inflation," Mr Liddle said.

Southern Life's managed portfolio yielded 31,3 percent over a one-year period, compared to an inflation rate of 9,5 percent over the same period.

Southern Life's financial results and dividend declaration will be announced on May 18.

Mortgage indemnity scheme welcomed

Star 19/4/94

BUSINESS STAFF

Sanlam has welcomed the announcement by Minister of Housing Louis Shill that a mortgage indemnity scheme (MIS) with state guarantees will be launched to encourage financial institutions to provide funds for low-cost housing.

Institutions have a name for such a scheme: securitisation. It means that a bank or building society offers another financial institution a collection of mortgages, for which the former has already granted individual loans, as security for a loan which it can use as desired.

Kobus Louw, senior portfolio manager at Sanlam's head office, says the industry is awaiting further details of the scheme with great interest.

Sanlam would, under certain conditions, be very interested in participating in it because it could entail giving further effect to its policy of corporate social responsibility.

"Our conditions are that the loans should be at market-related interest rates with acceptable security for the policyowner funds employed", he says.

Sanlam already has experience of securitisation and has already invested large amounts in this manner. (58)

Most of these have been for low-cost housing projects. One was undertaken in conjunction with the independent development trust.

This particular scheme ensures a plot owner of a small loan to build a temporary home which the owner can enlarge or upgrade when he has more money.

In this way individual house ownership is also promoted.

Louw says Sanlam and other life offices have for years been discussing with other institutions and the authorities possible structures for the provision of capital to alleviate the housing crisis.

"The authorities should, inter alia, provide a legislative structure to promote securitisation."

FINANCIAL MARKETS

Bubble, bubble but not all trouble

Financial markets have been on red alert since bloody Monday when ANC and Inkatha supporters clashed in the Johannesburg CBD. Then other developments created havoc with investor confidence — militant statements from Inkatha leader Mangosuthu Buthelezi, the imposition of a State of Emergency in Natal and an unsuccessful meeting of the four major political players last week (see *Leaders)*.

At the start of the week preceding the march into the CBD, the JSE overall index closed that Monday at 5 230, the RSA 150 at 12,76%, the rand at R3,4490 to the US dollar and the financial rand at FinR4,5775. By Tuesday March 29, the overall index was 4967, the RSA was up to 12,96% and the financial rand was at R4,7700. The rand was still holding its own with support from the Reserve Bank which could have borrowed as much as R519m that month for the purpose.

But by Monday this week, the rand was at record low levels, closing at R3,5950, well down from its post-Rubicon levels of about US$/R2,7. And the financial rand was down further to a R5,63 close while the RSA 150 climbed to 13,3%. The overall index, rescued by a falling finrand, had recovered slightly, to 5009 up from a closing low of 4848 on April 5.

All this came after a bad month. In March, R1,3bn in gross foreign exchange reserves left the country. The drain was offset somewhat by a R410m rise in the value of gold holdings so the fall in total reserves was moderated: to R867m leaving only R7,9bn ($2,4bn) which is only five-six weeks' worth of import cover. And this was despite the rise in Reserve Bank "other liabilities" — to R11,6bn — that month.

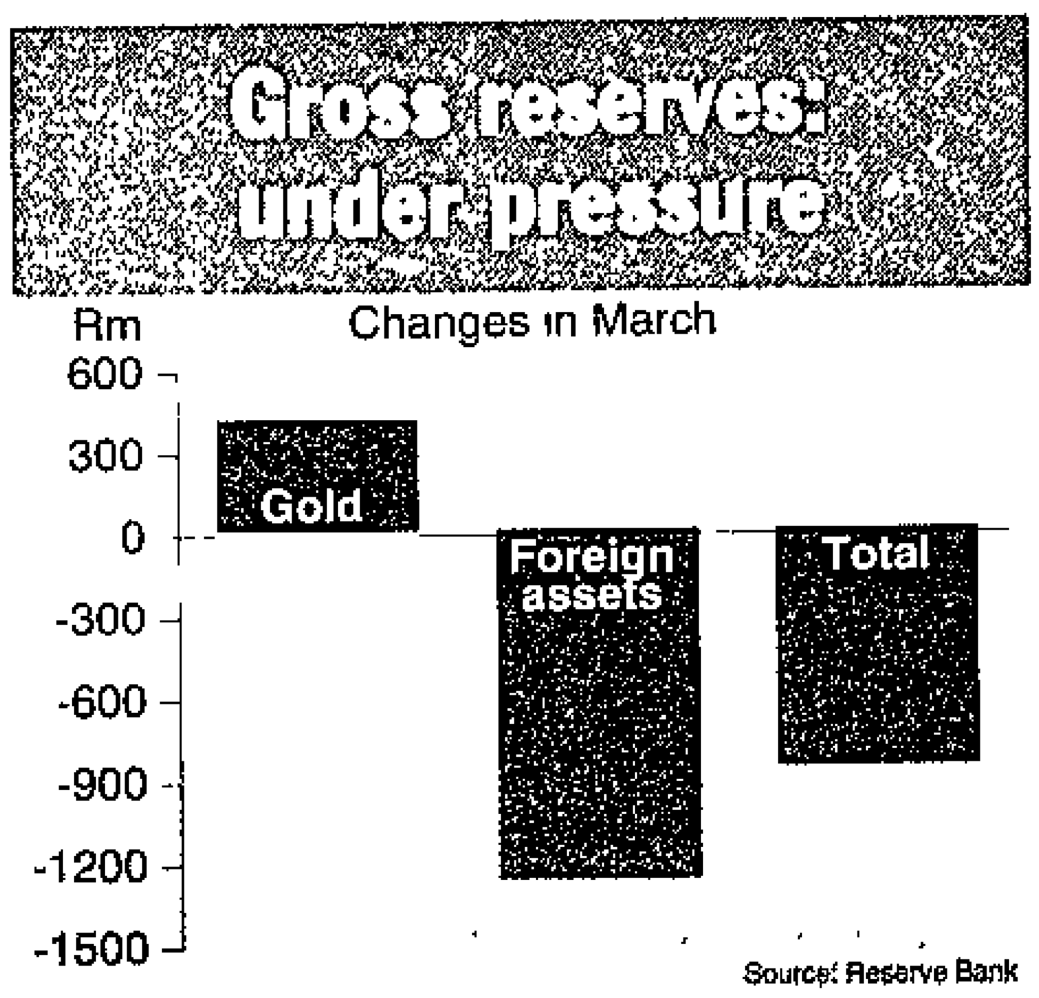
The effects were seen in the money market, where a R2,3bn injection of government spending (government deposits with the Reserve Bank fell by that amount) was not enough to keep banks afloat and they were obliged to seek a further R1,5bn in overnight loans.

These figures are a measure of the rising costs of ongoing violence. Less easy to quantify at this stage is the loss to businesses. At best, the country will sacrifice nearly a week of production and consumption to vote at the end of the month. Small organisations with a modest cash flow are most vulnerable and many of these are in high risk areas and have already suffered revenue losses.

But these events must be seen in context.

It was always clear that the weeks ahead of the election would be turbulent, as those who have most to lose in a broad democracy fight for a more acceptable alternative.

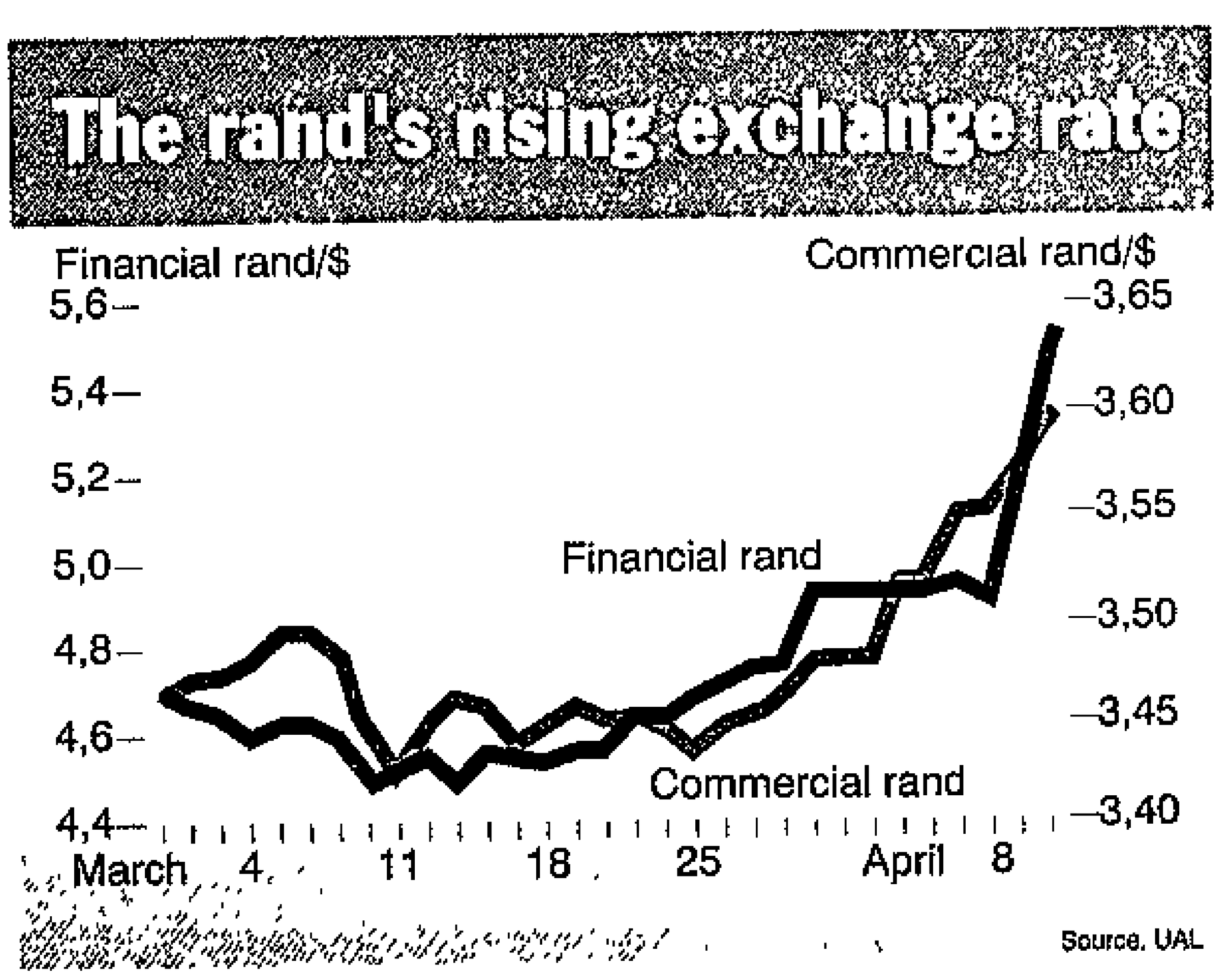
In February 1990, when F W de Klerk changed the course of SA history, by opting for negotiated change rather than risk a revolution, the turmoil we are facing in the run-up to the first all-race election became inevitable. There were too many interests vested in the status quo and too many interests vying to direct the course of change, for a transition to come peacefully — or cheaply in terms of human life, destruction to property, lost productivity and investment forgone.



But the price we are paying is only a fraction of the damage that would have been inflicted on the country by the long drawn-out economic, political and social disintegration that lay down the road we had followed for more than 40 years.

We are now facing a huge hurdle, but when we have taken it we will be facing in the right direction.

Encouragement comes from international investment bankers Salomon Brothers who have published a booklet entitled, *SA: things don't fall apart.* After summing up the economic and political developments, it concludes: "The transition process under way in SA is a historically momentous achievement. It involves possibly the most substantial realignment of political, military, social and economic power ever completed at a bargaining table rather than on a battlefield, including the Middle East, eastern Europe and the former Soviet Union. Our assessment is that this realignment will succeed." ■



STANDARD BANK

Two-step

FM 15/4/94

The launch of E-Bank later this year is a major strategic move by Standard Bank of SA to define and target its markets more clearly.

(58)

While an extensive network of ATMs has cut deep into the mass market and banking halls are filled with people making small deposits and withdrawals, Standard Bank has the largest corporate client base in the country. According to the *FM Top Companies* survey (June 25 1993), it is lead banker to 166 of the Top 300 listed industrial companies, with nearest rival First National Bank holding this position to only 143. So an expensive infrastructure, offering a range of sophisticated services, has been catering to a large number of people — possibly half the client base — who use only one simple product.

This means Standard has the problems facing all SA's commercial banks trying to service both ends of the market — but more so. E-Bank, a division and wholly owned subsidiary, is designed to solve the problem by attracting high-volume, cash business, through terminal-based branches, says Standard MD Mike Vosloo. And clients requiring added value will remain with Standard Bank branches, many of which will be upgraded. A possible prototype is the Sandton branch with a full service customer portfolio relationship focus.

Though E-Bank will service initially about 2m of the existing client base, Vosloo believes the combined growth potential of the two operations is greater than that of the existing bank. By eliminating vault space, foreign exchange, teller and other services, E-Bank will reduce the cost of penetrating the emerging market — to "provide the best value at the lowest possible prices." And a diversity of retail and corporate products ranging from cheque acounts to derivative instruments will be available for clients at the top end of the market.

This will eventually mean a total refocus

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Vosloo

Tucker

of the existing branch network (SB)

Standard is SA's second largest bank with domestic assets of nearly R59bn at its December year-end, behind Absa Bank with over R81bn at the same date. It has been growing at a much faster rate than Absa since the latter took over Bankorp in 1992 and, if E-Bank grows as anticipated and Absa continues to lag, the Standard Bank group should be breathing down its rival's neck within a few years.

E-Bank, which is to be headed by former Perm MD Bob Tucker, will be largely transactions based. But it will also provide home loans "though not necessarily through a branch," says Vosloo. "We will probably have three or four home loan production offices." E-Bank will finance low cost housing. Since bond boycotts started in 1989, this has been high-risk lending but Vosloo says risk will be reduced by schemes "appropriately guaranteed" by government "and a structure deeply involved in teaching people about owning a home." Other types of lending will come later.

Vosloo predicts return on equity of E-Bank will be lower than the present levels of the group — of about 14% — while that of Standard will rise and, overall, "it will be at an acceptable level." ■

LIFE ASSURERS — 1

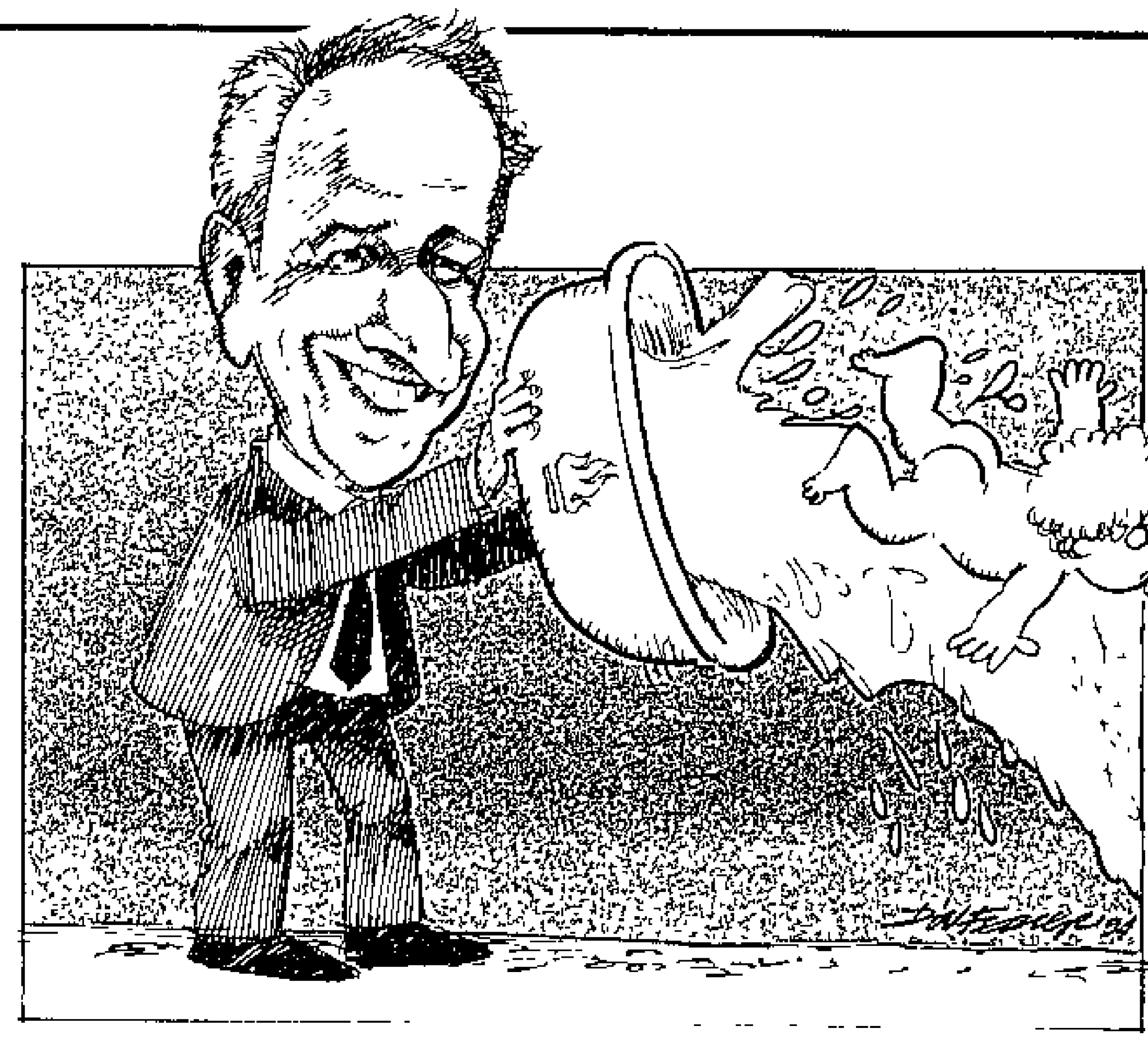
At each others' throats

Life offices, in a scenario which borders the absurd, are locked in an argument which conceivably could see the dissolution of the immensely powerful Life Offices Association (LOA).

There is a series of concordats which form the basis of the LOA. Liberty Life is flouting one of these — the Benefits Illustration Agreement (BIA.) The penalty for rejecting such an agreement is to be ousted from the association.

Liberty's vice-chairman Dorian Wharton-Hood was expected to give his final word to the association on Tuesday this week but, according to his office, was not prepared to discuss the matter with the media. Wharton-Hood is a past chairman of the association.

The Financial Services Board, ultimate regulatory body for life assurance, is astonished at the emotions aroused. The board says it's "perturbed" about an issue which could cause Liberty to leave the LOA and, without wanting to intervene, has made its own views known to Wharton-Hood.



In some interviews about the structure of financial services regulation, the board has brought in the concept of self-regulatory organisations (SROs) (as currently formatted, the Life Offices Association would qualify) which would be industry-administered but confirmed in their powers by parliament. Any institution opting to stay outside the appropriate SRO would then be subject to the direct regulation of the board.

The issue which has led to a crisis seems almost trivial and some of Liberty's competitors suggest it is caused partially by resentment of the dominance of the Cape-based mutual assurers; possibly, also, that Liberty has an agenda for marketing which requires freedom from the 20 or so concordats which bind LOA members.

The BIA, on which all life assurers have been focusing, has, for several years, obliged all life intermediaries when working out potential pay-outs for policyholders, to express these on compounded yields of 15% and 12%.

To police the intermediaries and restrain them from offering prospects based on historical investment performances, all life offices follow up a proposal with an official letter illustrating the 15%-12% investment benefit. When inflation and investment yields fell, a majority of LOA members felt the illustrations should be reduced to 12% and 9%.

Liberty and other LOA members resisted this. Compromises were suggested and rejected. Tuesday was deadline for Liberty to decide whether it would comply or leave the association but that deadline was not met.

It appears such a minor and technical issue that it now seems it is being used as a lever to change the self-regulation of life offices.

There are some offices which would welcome a statutory regulatory authority which would then allow the LOA to reform itself to contest every unwelcome regulation imposed by the statutory authority. Several life assurers privately say the relationship to the FSB is now "far too cosy."

□ On Monday, Old Mutual, a leader of the group which wants the BIA revised, launched a new product — Flexifamily. The accompanying literature illustrated benefits at 15% and 12%. The literature, said an Old Mutual spokesman, will rapidly be reprinted and any intermediary who quotes those percentages will be carpeted. ■

LIFE ASSURERS — 2

Financial leapfrog

Life assurers Sanlam and Liberty Life appear to be playing leapfrog in an attempt to prove big is beautiful. Liberty, by incorporating its relationship with Sun Life, disclosed total assets of R86,6bn. A year ago, the figure provided for the *FM's Top Companies* survey was R35,7bn — now restated at R61,6bn.

Purely on size of assets, that could have nudged Liberty into second spot in the league, ahead of Sanlam. But Sanlam riposted by proceeding from last year's disclosed asset base of R61,5bn — now restated to R66,0bn — to more than R90bn.

Old Mutual, which has the largest asset base of all, says it has no intention of changing its accounting principles at this stage. Sanlam says its own restatement was motivated by accounting circular AC121 but agrees it has the scope to reveal even more assets, if desirable.

Both Sanlam and Liberty cite reasons for the disparities. Says Sanlam: "The 1992 figure has been adjusted to be comparable with the 1993 figure which includes the total assets of the unlisted wholly owned subsidiaries which Sanlam uses solely to hold share and property investments."

Liberty says: "As a result of the new international accounting standard . . . and in view of the growing importance of Liberty Life's interest in Sun Life . . . the consolidated financial statements for the 1993 year of Liberty Life and Liberty Holdings have been prepared on a basis whereby our 50% interest in Sun Life has been proportionately consolidated."

Size has been a preoccupation of the leading life offices. At some stages, Sanlam contested the perception that it was smaller than Old Mutual, arguing it occupied top spot on

SA EAGLE

FM 15/4/94

Cost squeeze continues

Activities: *Short-term insurance.*
Control: *BAT Industries Plc through Eaglestar Insurance (58,3%).* (58)
Chairman: *J H Bishop; MD: P T Martin.*
Capital structure: *12,2m ords. Market capitalisation: R607m.*
Share market: *Price: 40,75c. Yields: 4,0% on dividend; 9,4% on earnings; p:e ratio, 10,6; cover, 2,3. 12-month high, 5 300c; low, 4 000c. Trading volume last quarter, 139 267 shares.*

Year to Dec 31	**'90**	**'91**	**'92**	**'93**
Total assets (Rm)	948	1 168	1 299	1 609
Solvency ratio (Rm)	82,6	90,1	94,5	117,2
Gross premiums (Rm)	729	882	905	1 021
Underwriting profit (Rm)	(34,8)	(0,8)	11,2	(4,9)
Investment inc (Rm)	52,4	90,4	79,8	80,8
Pre-tax profit (Rm)	12,1	82,0	87,3	73,8
ROE (%)	5,0	9,4	8,4	5,7
Earnings (c)	201	507	500	469
Dividends (c)	150	165	195	200
Tangible NAV (c)	4 001	5 366	5 934	8 218

Appropriately enough in the circumstances, the main theme of John Bishop's first annual statement as chairman of SA Eagle is change — political change in SA, the need for people and companies to adapt to this change; and, close to home, specific matters

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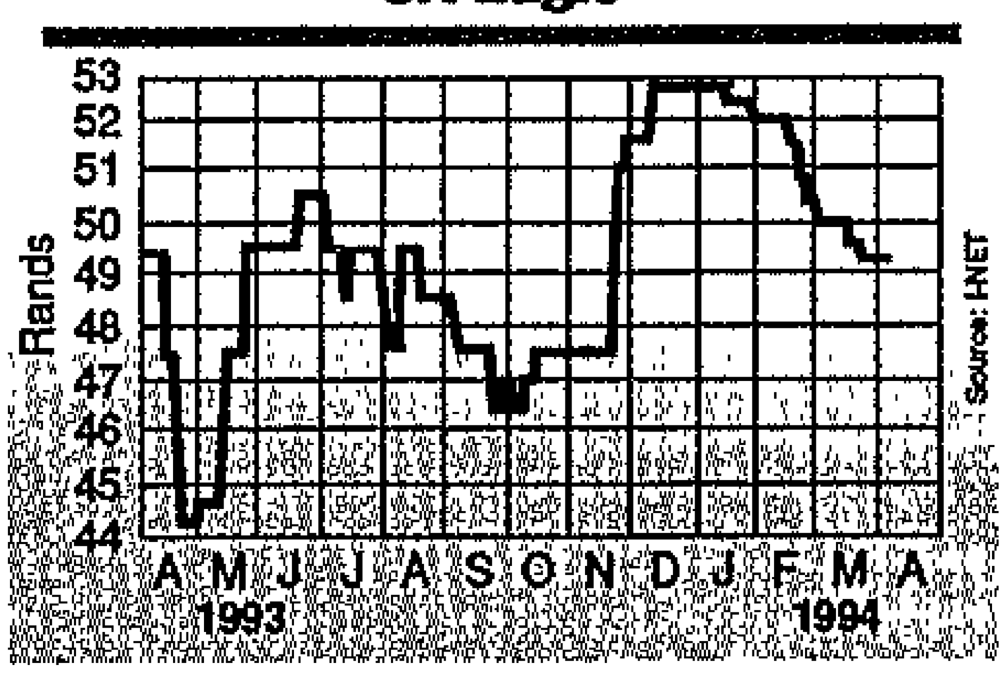
concerning the short-term insurance industry such as the new Short Term Insurance Act, the effects on the financial services industry brought about by the appointment of the Policy Board for Financial Services & Regulation and the debate over commission rates.

SA Eagle has already adopted the changes to the presentation of its financial statements required by the amendments to the Fourth Schedule of the Companies Act, which came into effect after its year-end. These relate mainly to the inclusion in the income statement of realised gains and losses on the disposal of investments and, in the balance sheet, the disclosure of inner reserves. Restatement of 1992's results shows EPS lifted from 391c to 500c, net worth up from 5 860c to 5 934c and the solvency ratio improved from 93,3% to 94,5%.

SA Eagle



In other respects, it seems the more things change, the more they stay the same. In its review of the 1992 annual report, the *FM* highlighted two factors. The first was the limited use which SA Eagle makes of reinsurance and the potential effects of this on underwriting profit volatility. The second was the unacceptable rate of operating cost increases, which was seen as undermining results. The latest annual report offers little encouragement on either front.

Reinsurance premiums last year increased to 16,3% of gross premium income, from 15,6% in 1993. With the hardening of reinsurance rates, this probably does not indicate an increae in the relative volume of business reinsured, thereby leaving the company more vulnerable than others to the vagaries of the industry which, as a whole, saw a marked deterioration in claims experience, particularly during the latter part of 1993.

This, for SA Eagle, was reflected in the fact that claims (before admin costs relating to the claims department) were 11,6% higher in 1993, whereas net earned premium income rose only 9,4%, contributing to the turnaround from an underwriting profit of R11,2m to a loss of R4,9m.

It would, however, be wrong to conclude that the only reason for the loss was an unfavourable underwriting experience. For years, operating costs have continued to soar. Last year's increase, combining general underwriting expenses with those of the claims department, were up 15,4% and, in rand terms, were about R6m more than could be justified by normal, inflationary factors. This represents 37% of the turnaround in underwriting results and exceeded the underwriting loss by more than R1m. The impact becomes more marked at pre-tax level; excessive operating costs represent 44% of the R16,6m profit decline, while most of the rest is accounted for by a reduction in the surplus from disposals of investments.

Essentially, based on its present cost structure, the company is unable to make an underwriting profit if claims exceed 70% of net premium income. In practical terms this means the insured public must pay 43% more than the benefits it can expect to receive from insurance if the company is to make a profit — an extraordinary price for "peace of mind" which must, ultimately, undermine the competitive position of the company.

One ray of hope is that SA Eagle will be able to bring cost escalations under control now that its Eagle 2 000 computer system has been fully commissioned. As has been the case since 1991, 1993 costs were adversely affected by this development (including severance payments to staff displaced by the new system). MD Peter Martin expects an underwriting profit, provided crime-related claims abate and normal weather patterns prevail.

The surge in share prices towards the end of last year boosted the company's solvency ratio to a record 117%, which at least underlines the strength of its balance sheet and its capacity to take on new business.

At 4 975c, the share is virtually unchanged since the *FM* reviewed the 1992 annual report. The 4% dividend yield is a bit high for the sector (being second only to Santam: 5,3%), but could indicate the company will be in line for an upward rating if future results start to benefit from the ambitious investment in computer technology.

Brian Thompson

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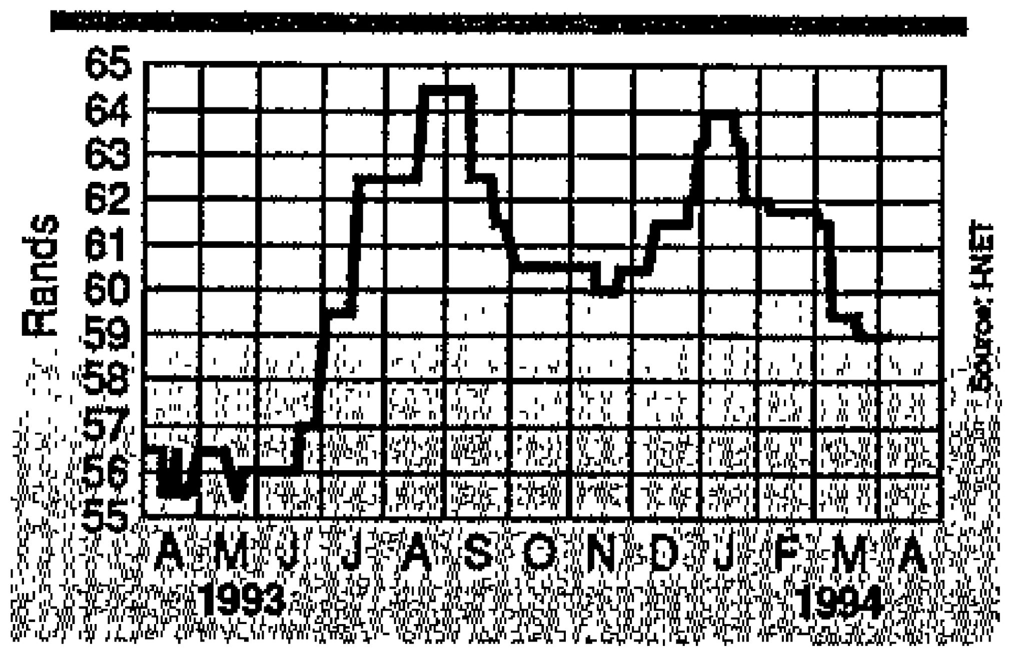
GUARDIAN NATIONAL

Worsening crime costs

The last quarter of 1993 was tough for the short-term insurance industry, largely because of rising crime, and so far this year is not looking any better. Against this uninspiring background, Guardian National has shown strong growth in premium income. That in itself is not always a good thing but, in this case, the growth seems well controlled

Guardian National



Guardian National's Gordon ... *more market share*

FM 15/4/94 (58)

Activities: *Short-term insurance.*
Control: *Guardian Royal Exchange 51%.*
Chairman: *D Gordon; MD: K Nilsson.*
Capital structure: *10,1m ords. Market capitalisation: R602m.*
Share market: *Price: 5 950c. Yields: 3,8% on dividend; 10,4% on earnings; p:e ratio, 9,7; cover, 2,8. 12-month high, R65; low, R55. Trading volume last quarter, 18 500 shares.*

Year to Dec 31	'90	'91	'92	'93
Total assets (Rm) ..	589	718	873	1 161
Solvency ratio (%) ..	66,0	73,6	67,6	71,8
Underwriting profit (Rm)	(14,0)	1,6	6,6	1,2
Investment inc (Rm)	44,9	50,8	61,1	64,0
Pre-tax profit (Rm) ..	30,8	52,4	67,6	65,2
Taxed profit (Rm)	26,7	41,2	54,0	62,3
Earnings (c)	266	410	537	616
Dividends (c)	130	155	187,5	224
Tangible NAV (c)	2 154	2 916	3 418	4 936

and backed by a surge in the value of shareholders' funds, countering financial strain that accompanies rapid growth in premiums.

Chairman Donald Gordon says the growth in premiums — gross income increased by 34% to R1bn, net income by 36% to R695m — is partly organic and partly due to the substantial new business flowing from the interim curatorship of IGI. That has meant more market share for Guardian.

But the balance sheet shows the real achievement, with shareholders' equity up 45% to R499m. This is largely due to the surplus on revaluation of investments, which increased to R115m from 1992's R16m, and a near doubling of the contingency reserve to R81m. The tax benefit of the transfer to the reserve also boosted EPS, worth 143,5c a share.

The bottom line was greatly aided by the lower corporate tax rate, with Guardian's effective rate declining from 20,1% to 4,9%, and the tax charge reducing from R13,6m to R3,2m. That won't be repeated this year, though growth in expenses has slowed to 18% (1992: 20%).

Like most other insurers, however, Guard-

FM 15/4/94

ian's underwriting profits took a knock, down to R1,2m compared with R6,6m a year ago and R15,8m at the interim. That shows the effect of crime claims in the second half.

Less cash flow from underwriting and lower interest rates dampened investment income, which slowed to growth of 4,8% after the 17% gain at the interim. But the increase in the dividend payout was maintained at 19,5%, in line with the compound annual average since 1988, and possibly even longer.

(58)

With two main shareholders — the UK's Guardian Royal Exchange Plc and Liberty Life — controlling about 96% of the equity, it will be interesting to see whether the rate of increase in dividends is maintained if operating conditions continue to deteriorate.

MD Keith Nilsson says the first quarter of 1994 has been difficult, with a continuation of the high level of crime claims seen towards the end of 1993. Premiums have accordingly been increased, mainly on domestic accounts, but the commercial and megabusiness books are also being looked at.

The rest of the year is difficult to forecast, with uncertainty around the general election period. All Nilsson can hope for is that conditions improve, after the bad start to the financial year. With underwriting profits at their lowest since 1990, when with most of the industry Guardian recorded an underwriting loss, results this year won't be spectacular.

Still, the group is financially sound, with the solvency margin firming to 71,8% (using the international measure) and the potential of stronger profits from premium growth when the economy improves. That, however, is not reflected in the share rating.

One reason, as the *FM* has noted for several years, is probably the tight control of Guardian's equity by the two parent groups, which means the shares seldom trade. That makes Guardian's listing almost academic.

Shaun Harris

DELTA ELECTRICAL FM 15/4/94

Better rating justified

Delta Electrical's major achievements last year were the completion of the electrolytic manganese dioxide expansion project at Delta EMD and further fine-tuning of operations in preparation for improved trading which management hopes will come about this year.

(1895)

In this context, 1993 results were satisfactory. Attributable earnings from own operations remained at just over R23m but, as in 1992, total earnings were impaired by a lower contribution from associates, mainly reflecting the sale of the investment in Valhold in March 1992.

The latest annual report notes that the remaining associate, Jasco Electronics (20,7%-held), performed in line with expectations. Despite the lower earnings brought to account, Delta was slightly better

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Activities: *Manufactures, distributes and services electrical products.*
Control: *Delta Plc (49,6%).*
Chairman: *N A Bury; MD: E W van Zyl.*
Capital structure: *41,4m ords. Market capitalisation: R445m.*
Share market: *Price: 1 075c. Yields: 2,6% on dividend; 5,4% on earnings; p:e ratio, 18,5; cover, 2,1. 12-month high, 1 150c; low, 525c. Trading volume last quarter, 315 823 shares.*

Year to Dec 31	'90	'91	'92	'93
ST debt (Rm)	3,8	11,7	1,6	17,7
Debt:equity ratio	0,13	0,14	(0,07)	0,10
Shareholders' interest	0,51	0,51	0,57	0,56
Int & leasing cover .	26,9	50,2	141,4	50,8
Return on cap (%) ..	32,7	28,2	28,2	21,7
Turnover (Rm)	302,3	313,6	334,2	364,3
Pre-int profit (Rm) ...	48,1	47,6	49,6	47,8
Pre-int margin (%) ..	15,9	15,2	14,9	13,1
Earnings (c)	55,2	62,8	59,8	58,0
Dividends (c)	24,5	27,5	27,5	27,5
Tangible NAV (c)	155	176	202	246

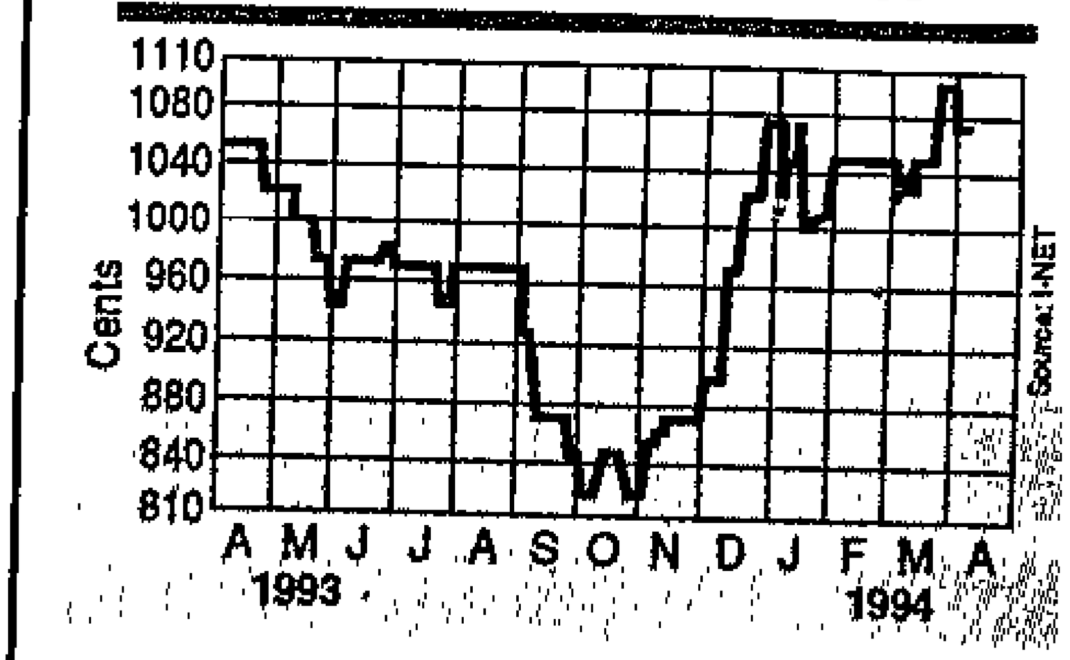
off to the extent that it received R251 000 in dividends from Jasco last year, whereas previously there was no cash income from investments — this helped boost cash flow to R38m (1992: R37,5m) and, presumably, contributed to the decision to hold Delta's dividend at 27,5c despite slightly lower total attributable earnings for the second year.

Additional capacity at Delta EMD was commissioned only in December and, in the context of the 1993 financial statements, had the unfortunate effect of producing a mismatch between the balance sheet (which includes the capital cost of this project as well as the additional working capital requirement of the expanded Delta EMD) and the income statement (where the corresponding turnover/profit contribution will not be felt until this year).

Asset management ratios have been adversely affected and, unless one is aware of the pitfalls of comparisons, could be taken to indicate the group had failed to live up to its reputation for tight and cost-effective man-

Delta MD Eben van Zyl ... *preparing for better trading*

(1895)



agement.

Raw data appears to indicate asset turn had slipped from 1,9 times to 1,65, a significant deterioration. However, if one strips out from assets the R17m capital cost of the expansion, plus what appears to have been an additional R10m in working capital attributable to this expansion, the ratio "recovers" to 1,89 times, unchanged from the previous two years.

Similarly, gross (pre-interest) return on total assets appears to have declined from 28,2% in 1992 to 21,7%. Indications are that about half of the decline is attributable to the inclusion on the balance sheet of the additional investment in Delta EMD and, consequently, the actual decline in profitability of existing operations was relatively slight.

With the usual provisos about politics, it seems Delta is well placed to resume earnings growth this year, after a two-year break. The main reason, again, is that the full impact of the Delta EMD expansion will be felt. Management is confident the total capacity of the expanded plant will be sold and, if things remain as now, results will be enhanced by the weakness of the rand as the additional output is for export.

Other reasons management is optimistic that earnings will improve are the expected benefits from a restructuring of the repairs and service division, undertaken last year to improve its cost-effectiveness, and signs of recovery in the cable business.

Given the improved outlook, it is a bit disappointing that the share price of 1 075c is virtually unchanged since the *FM* reviewed the 1992 annual report. Earnings or dividend multiples are also little changed and, relative to what has happened elsewhere on the JSE industrial board, Delta is now rated at a discount to the industrial market and the electronics sector, where it is listed. This rating is inconsistent with the group's track record and could improve if expectations for 1994 are fulfilled.

Brian Thompson

CAFCA FM 15/4/94

Optimistic outlook

(1895)

Linked as it is to both the commodity cycle and fixed investment spending, Harare-based Central African Cables (Cafca) did well to achieve earnings growth of 29% (9% real) to Z$16,2m on turnover up just 6%.

Much of this growth came only in the

SBIC

Muscular asset base

FM 15/4/94

58

Activities: *Banking and financial services.*
Control: *Liberty life 37%; Old Mutual 21,9%.*
Chairman: *C B Strauss; MD: E P Theron.*
Capital structure: *119m ords. Market capitalisation: R11,6bn.*
Share market: *Price: 9 750c. Yields: 2,2% on dividend; 7,1% on earnings; p:e ratio, 14,0; cover, 3,2. 12-month high, 11 200c; low, 8 650c. Trading volume last quarter, 931 000 shares.*

Year to Dec 31	'90	'91	'92	'93
Total assets (Rbn)*	45,8	50,8	64,6	69,7
Total advances (Rbn)	35,3	40,9	49,2	54,2
Total deposits (Rbn)	38,2	43,6	54,5	59,3
Return on assets (%)†	0,93	1,04	1,02	1,23
Return on equity (%)	16,7	16,8	14,1	15,4
Net income (Rm)	424	523	638	844
Attributable (Rm)	413	511	625	828
Bad debt provisions (Rm)	215	379	381	477
Earnings (c)	422	507	593	696
Dividends (c)	133	160	187	219
Tangible NAV (c)	2 247	2 609	3 572	4 515

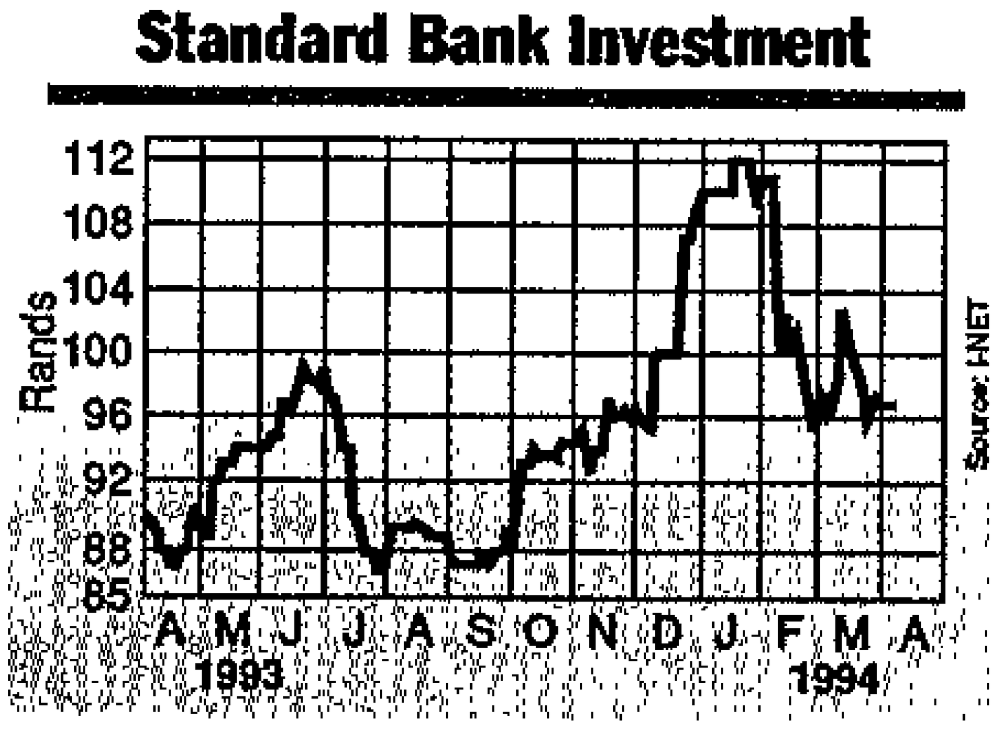
* Restated to account for the group's share of non-distributable reserves in associates.
† Excluding acceptances.

Investors have come to expect strong results from Standard Bank Investment Corp (SBIC), still the top rated share among the big four commercial banks. True to form, it delivered a solid performance in financial 1993 — taxed income up 32,5% to R844,4m, diluted to 17,4% at EPS level through the earlier rights issue, which has strengthened the capital base and shares issued for overseas acquisitions, which are starting to pay.

Creditable as the results are, closer examination of the accounts show it's not all plain sailing. SBIC is trading in tight conditions and amid tough competition, which is likely to intensify this year, from local banks and competitors abroad.

The income statement shows the effect of softer interest margins, though SBIC still attained a comfortable 18,3% advance in net interest income to R3,1bn. An encouraging trend, given the likelihood of continuing pressure on interest rates, is the bigger contribution from other operating income, largely commissions, which grew by 20,4% and accounts for about 41% of total income of R4,4bn.

Standard Bank Investment



SBIC's Strauss ... *international expansion paying off*

Less encouraging, though, is the bad debt provision, at 0,83% of advances (1992: 0,73%) the highest for at least the past five years. Chairman Conrad Strauss says the increase is associated with high unemployment, social unrest and lack of investor confidence. MD Eddie Theron points out a major portion of losses were for loans under R100 000.

There's little comfort in that for 1994 — amid what SBIC calls signs of "stress borrowing" from smaller companies, it's also likely that many small businesses are overstretched after the long recession. For that reason, SBIC may have to keep its provision high. But the bank says no, provided the domestic economy grows at a reasonable rate, it is budgeting for lower provisions.

Perhaps of more concern is the still high operating expenses, at R3,2bn, 20,9% up over the year, after rising 22% at the interim and 21% in 1992. Theron blames the increase partly on Vat rising from 10% to 14% and notes expenses include the first-time inclusion of Stanbic Africa (formerly ANZ Grindlays). But, with expenses increasing from 70,9% to 72,4% of total income over the year, this trend needs to be curbed.

The tax charge was slightly lower at R467m, though the big break came from the lower corporate rate, which released a substantial R91,6m to income from deferred tax. The bulk, R62,5m, has been offset against a reduction in pre-tax income in relation to project finance agreements, the remaining R29,1m being part of a R91,2m extraordinary item. SBIC has an STC credit, from dividends received exceeding dividends paid by R105m, which can be distributed in present and future years without paying STC.

A breakdown of contributions to group net income (see table) shows the pressure which local banking operations are under. Standard Bank SA's contribution slowed down, made up for by the inclusion of the African banks and a positive contribution from European banks (mainly London).

Stannic, now integrated and reported as part of the commercial bank since being made a division last year, seems to have performed well despite competition depressing margins on new business. After-tax profit, helped by the reduced tax charge, grew 39%.

With demand for credit remaining weak, it's not surprising the balance sheet shows growth in advances slipping to 9,3% (21%), against total assets which grew 9%. That came almost entirely from SBIC's aggressive push into the loan home market, with mortgage lending increasing 33% to R16,2bn. If home finance is stripped out, advances grew by 1,8%. That's a more accurate reflection of trading conditions.

The bank's strength lies partly in its enlarged capital base, with a capital-to-assets ratio of 12,8% (10,3%) the healthiest among the big four. That offered SBIC a stronger return on assets than in 1992. But, at 15,4%, SBIC is getting a sluggish return on equity, though this has been depressed by its high

Foreign surge
Net income contributions

	1992		1993	
Banking operations	Rm	%	Rm	%
SOUTH AFRICA	548,9	86	675,6	80
Standard Bank of SA	505,8	79	619,5	73
Standard Merchant Bank	43,1	7	56,1	7
COMMON MONETARY AREA	42,3	6	43,2	5
Standard Bank Namibia	14,6	2	18,0	2
UnionBank Swaziland	2,0		2,9	
Standard Bank of Bop.	25,7	4	22,3	3
STANBIC AFRICA BANKS	(0,3)		40,9	5
EUROPEAN BANKING	(7,3)	(1)	21,0	2
Standard Bank London	(7,5)	(1)	15,7	2
Std Bank Jersey & Isle of Man	0,2		5,3	
Total banking operations	583,6	91	780,7	92
ASSOCIATE COMPANIES	14,6	2	22,9	3
Share of attributable income	54,7	8	75,6	9
Less normal divs received	(40,1)	(6)	(52,7)	(6)
Investment, finance and other service companies net of adjustments	39,3	7	40,8	5
Net income after taxation	637,5	100	844,4	100

Source STANDARD BANK

FM 15/4/94

capitalisation.

Earnings growth in 1993 was also at the same level as its two main competitors: Strauss does not expect the increase to exceed 17,4% this year. The share, up only about 9% over the year, has not appreciated as strongly as the shares of competitors, and, while still attracting the highest ratings, the gap between SBIC and the other banks, except Absa, is closing. (58)

An interesting new development this year will be the launch of E-Bank under former Perm MD Bob Tucker. Aimed largely at the massive unbanked community, the new project is expected to show a departure from traditional banking operations when it is launched in a few months.

SBIC remains a blue chip and its value is enhanced by the connection with Liberty Life. The market value of that investment increased 32% to R2,63bn in 1993. But, among the top banks, there is not much to choose from. Others appear to offer better value now.

Shaun Harris

CUSAF FM 15/4/94

Surge of life

Activities: *Holding company with subsidiaries in short- and long-term insurance and other financial services.*

Control: *Commercial Union (UK), GFSA and Absa (90%).*

Chairman: *A M D Gnodde; MD: J A Kinvig.*

Capital structure: *10m ords. Market capitalisation: R910m.*

Share market: *Price: 9 100c. Yields: 2,7% on dividend; 8,8% on earnings; p:e ratio, 11,3; cover, 3,2. 12-month high, 9 450c; low, 5 000c. Trading volume last quarter, 13 900 shares.*

Year to Dec 31	'90	'91	'92	'93
Underwriting profit (Rm)	(18,8)	5,3	29,5	19,1
Investment inc (Rm)	43,0	46,2	47,5	53,2
Life profits (Rm)	3,0	4,3	11,7	22,8
Pre-tax profit (Rm)	27,3	58,9	93,6	103,7
ROE (%)	10,4	13,3	15,8	13,2
Earnings (c)	291	485	735	802
Dividends (c)	105	192	200	250
Tangible NAV (c)	2 806	3 651	4 640	6 095

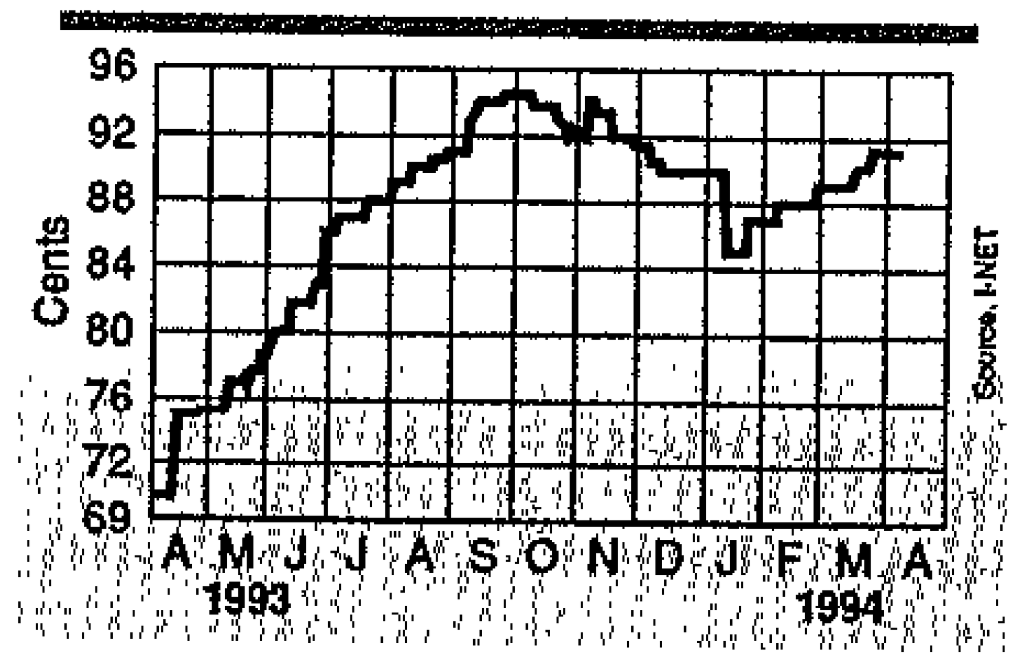
The performance of Cusaf's share price over the past seven months — from a high of 9 450c last September to 8 500c in January and now back up to 9 100c — suggests the market is having some difficulty adapting to the group's transformation in terms of risk profile.

Cusaf's transformation is from what was once regarded predominantly as a short-term insurer to the current situation where life profits make up a major portion of distributable income.

Clearly, the slide between September and January reflected fears of what rising crime and an unusually wet summer would do to short-term underwriting results. These fears were justified in that profits from Cusaf's short-term activities declined markedly from R29,5m to R19,1m. But the reaction was

FM

Commercial Union



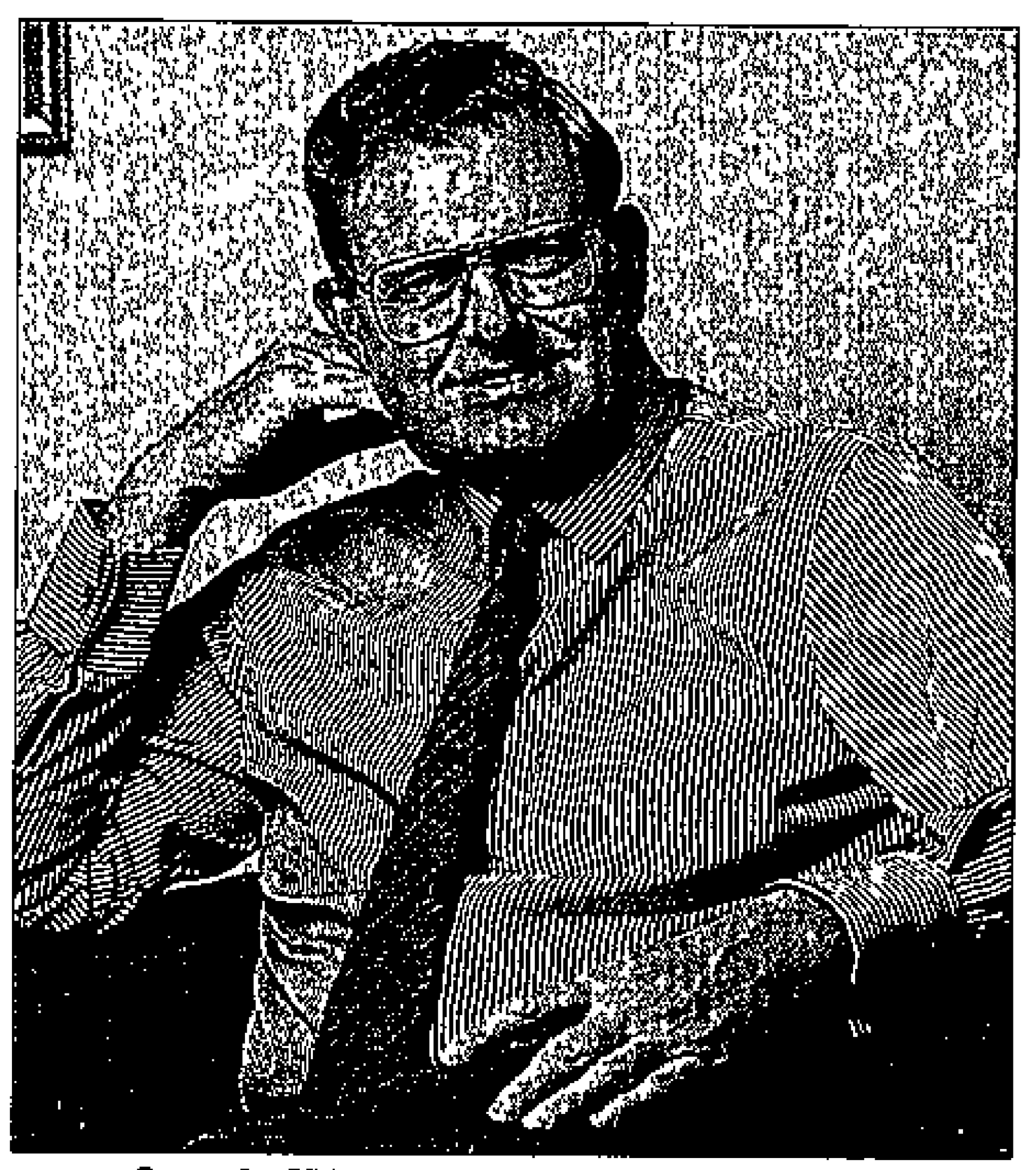
unrealistic in that it did not take into account the virtual doubling of income which would flow through from CU-Life and the other financial service interests (main CU Trade Finance).

The net result was a 9% improvement in EPS and the ability to increase dividends by 25% without crimping group resources despite the apparent decline in dividend cover from 3,7 in 1992 to 3,2.

Key to this is the fact that the equity interest in CU-Life results accrues to the holding company as a dividend. In 1993, this amounted to 228c per Cusaf share (up from 117c previously) and backed Cusaf's own 250c distribution to the extent of 91% (1992: 59%). The rest of the group needed to contribute only 22c to the payout of attributable earnings of 574c, and possibly equally important for growth prospects, could retain 96% of income to finance new business.

If one was to assume a conservative cover for CU Insurance and CU Trade Finance, the group could probably increase dividends by a further 50% within its existing earnings base without stretching resources.

Operationally, the results of CU Insurance were acceptable in the context of the industry. Notably, the underwriting account remained in the black despite an increase in the ratio of claims to net earned premiums from 69,9% to 74,2%, whereas SA Eagle, for example, incurred a loss on a claims to premium ratio of only 70,8%. This suggests CU is running a tighter ship in terms of overall costs and can compete profitably for business



Cusaf MD John Kinvig . . . *three profit pillars*

15/4/94

in what is still, in most areas, a highly competitive industry.

Aided by the rise in share prices and the drop in interest rates (which enhanced gilt values), shareholders' funds in CU Insurance rose 32%, enhancing the solvency ratio to 98,7% (1992: 75,7%).

At CU-Life the net taxed operating income rose 46% to R830m on a 56% increase in premium receipts. The only mildly negative aspect was that the bulk of new business was single premium: recurring premiums rose only 19% and, in relation to total premiums received, accounted for only 47% against 62% previously.

The third profit pillar is financial services, represented mainly by CU Trade Finance, a factoring and invoice discounting operation in which Cusaf has a 70% holding. This is a relatively new activity, having just completed its third full year of trading but, after a 130% increase in attributable earnings (net of minorities) it is gaining importance with a contribution of 9% of total group earnings.

Cusaf has ample scope to continue increasing dividends in real terms over the next few years. This alone should underpin the share price. Investment attractions may be further enhanced after a planned one-into-five share split (subject to shareholder approval at the AGM).

At a 2,7% dividend yield, Cusaf is expensive relative to the short-term insurance sector, against which it has traditionally been evaluated, but is still a bargain when cognisance is taken of the growing importance of its life interests.

Brian Thompson

SA EAGLE FM 15/4/94

Cost squeeze continues

Activities: *Short-term insurance.*

Control: *BAT Industries Plc through Eaglestar Insurance (58,3%).* (58)

Chairman: *J H Bishop; MD: P T Martin.*

Capital structure: *12,2m ords. Market capitalisation: R607m.*

Share market: *Price: 40,75c. Yields: 4,0% on dividend; 9,4% on earnings; p:e ratio, 10,6; cover, 2,3. 12-month high, 5 300c; low, 4 000c. Trading volume last quarter, 139 267 shares.*

Year to Dec 31	'90	'91	'92	'93
Total assets (Rm)	948	1 168	1 299	1 609
Solvency ratio (Rm)	82,6	90,1	94,5	117,2
Gross premiums (Rm)	729	882	905	1 021
Underwriting profit (Rm)	(34,8)	(0,8)	11,2	(4,9)
Investment inc (Rm)	52,4	90,4	79,8	80,8
Pre-tax profit (Rm)	12,1	82,0	87,3	73,8
ROE (%)	5,0	9,4	8,4	5,7
Earnings (c)	201	507	500	469
Dividends (c)	150	165	195	200
Tangible NAV (c)	4 001	5 366	5 934	8 218

Appropriately enough in the circumstances, the main theme of John Bishop's first annual statement as chairman of SA Eagle is change — political change in SA, the need for people and companies to adapt to this change; and, close to home, specific matters

Fm 15|4|94

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CUSAF Fm 15|4|94

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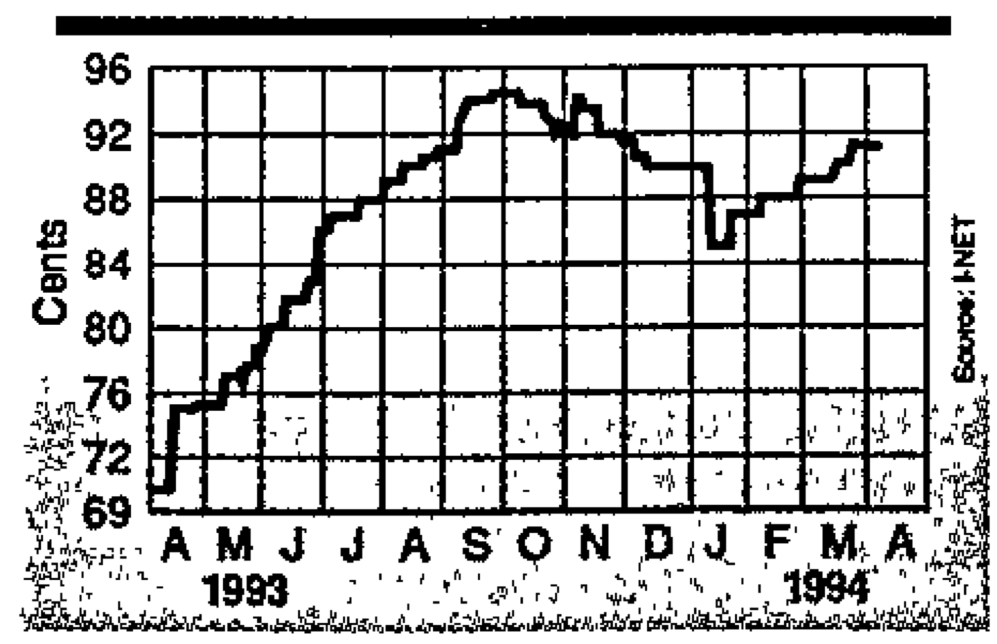
Fm

Commercial Union



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Cusaf MD John Kinvig ... *three profit pillars*

15|4|94

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Brian Thompson

'Good time to buy into funds'

Star 15/4/94

BY STEPHEN CRANSTON

The correction in the stockmarket is a good time to build up long-term exposure to equities through unit trusts, says Southern Life GM (investments) Carel de Ridder.

In the Southern unit trusts report for the March quarter, he says SA markets will remain in a state of flux for the foreseeable future because of political and economic uncertainties.

The market value of the four funds under management by Southern increased by R42 million to R379 million.

The best return came from the Mining Fund, which gained 48 percent in the 12 months to March.

It was followed by the broadly based Equity Fund at 26,2 percent, the Income Fund at 24,5 percent and the Pure Specialist Fund at 20,7 percent. (58)

The Equity Fund increased its exposure to diamonds by acquiring additional De Beers/Centenary shares.

The portfolio manager bought Samancor, Gencor, Kersaf, Voltex and Rainbow.

All Anglovaal loan stock was sold during the quarter and the number of Anglovaal N ordinaries was reduced.

The liquidity level in the Mining Fund was increased to 25 percent and Kloof and R150 gilts were added to the portfolio.

De Ridder says regulations now allow unit trust companies to invest to a limited degree in listed futures and options.

The Equity and Mining Fund managers took advantage of this innovation to hedge the portfolios by means of futures contracts.

Samancor, Grinaker, Reunert, McCarthy, McCarthy Retail, Speciality Stores and Storeco shares were bought by the Pure Specialist Fund.

The entire Cadswep holding was sold.

All gilts were sold in the Income Fund.

At quarter-end the fund only held liquid assets to avoid current volatility in the market.

Outflows still the bugbear — IDC

Star 15/4/94

BY DEREK TOMMEY

The outflow of capital remains the major constraint on the achievement of higher and sustained economic growth, says the Industrial Development Corporation (IDC), which provides finance for a wide range of manufacturing organisations.

It says South Africa is experiencing strong demand for its exports, but that the positive developments in foreign trade were completely outweighed by capital outflows of R16,3 billion last year.

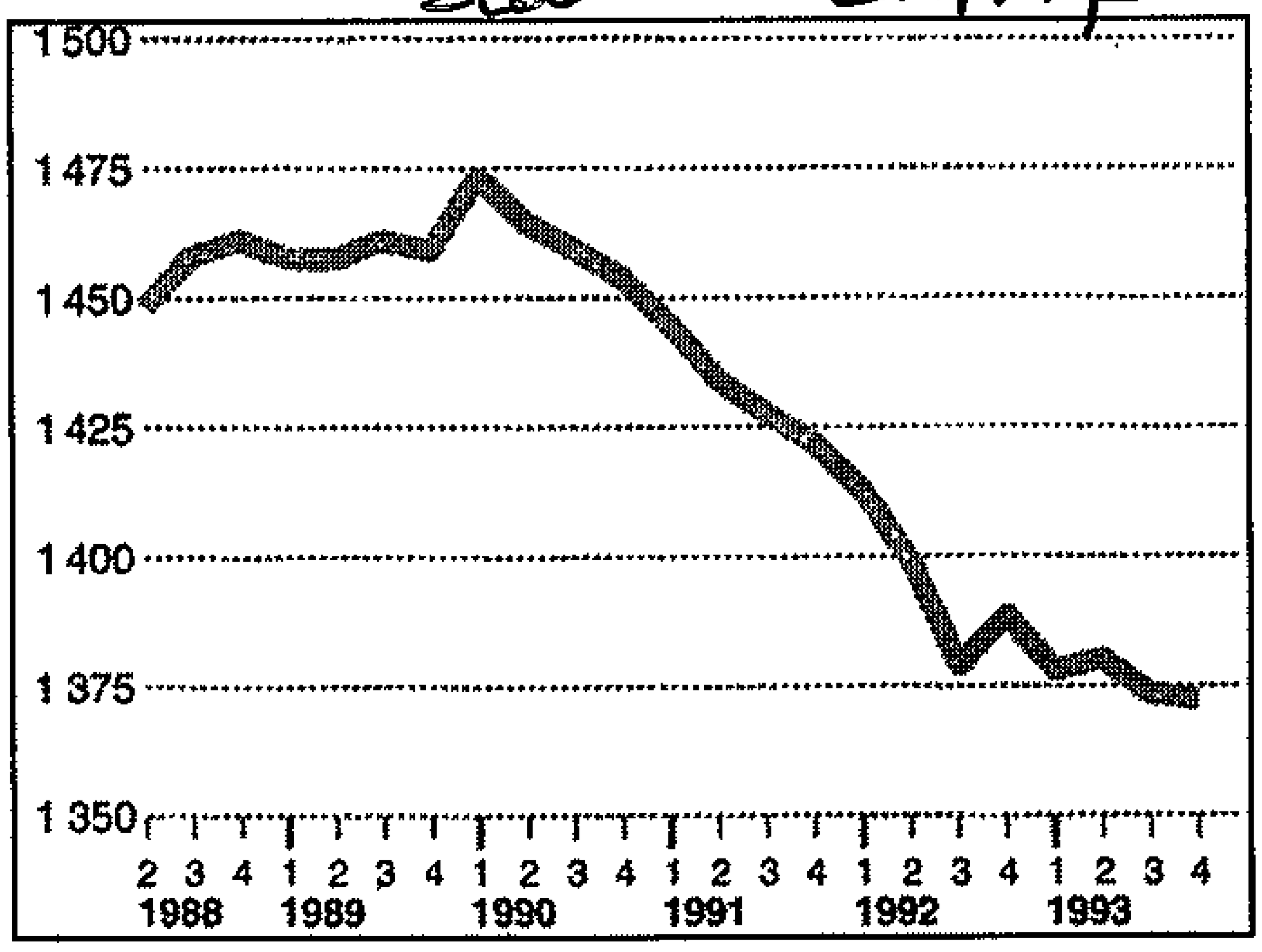
Consequently, gold and foreign exchange reserves declined and the authorities had to resort to short-term foreign borrowing to protect the reserves.

"South Africa thus remains in a precarious position regarding its gold and foreign exchange reserves," it says.

The IDC expects the economy to grow by 3 percent this year.

It says the economy improved significantly in the second half of 1993, with production increasing in most sectors of manufacturing, an improvement which is expected to continue this year. (58)

However, the recovery generally is at too early a stage and still too weak to give rise to higher employment.



The decline in overall employment in manufacturing last year was less severe than in previous years. Employment in a number of sectors showed a significant increase.

But the rate of retrenchment seems to be moderating.

Growth in agricultural production, exports and re-stocking by the business sector are the main reasons given for the increase in production in 1993.

The tentative expansion in consumption is also being supported by the lower inflation and interest rates.

It says the rise in the economy will be further sustained by the expected increase in fixed investment in manufacturing as a result of the establishment of a number of large projects. (This could be a reference to the IDC's own activities as it is believed to have several significant projects in the pipeline).

The export volume, excluding gold, grew 7,3 percent in the second half of 1993.

Although the increase in exports stalled towards the end of the year, it again resumed its upward trend early this year.

The depreciation of the rand became more pronounced last year and has continued into the current year.

It adds that the exchange rate is expected to continue to discount the inflation differential between South Africa and its trading partners and thus remain supportive of export growth.

Sage unit trust notches 63,9% return

58 CT 13/4/94

THE FOUR unit trust funds within the Sage stable performed well in the quarter to end March 1994.

Sage Resources Fund achieved a 63,9% total return over the last year, while the Sage Fund posted a total return of 27,8% against an inflation rate of 9,9%, Sage unit trust management said.

Sage Income Fund and Sage Financial Services Fund, launched in September last year, had total portfolio assets of R69,8m and R33,1m respectively at the end of the quarter under review.

The Sage Fund introduced four new investments in the March quarter, namely Amgold, Target, Servgro and Iscor, while the holdings in Rusplats, Foodcorp and Sappi were disposed of.

The Sage Resources Fund made new investments in Anamint, Joel, Amgold, Minorco and CMI, while the stakes in Randfontein, Engen, Delfood and Sappi were sold.

In the Sage Income Fund, exposure to longer dated stocks was reduced in anticipation of a rise in bond yields to reflect emerging economic trends.

● The market capitalisation of Syfrets unit trusts grew to R2,93bn during the year ending March.

Syfrets Trustee Fund registered a 31,1% return for the year.

Greater emphasis was placed on deeper cyclical and commodity-related stocks at the expense of defensive counters, Syfrets said. The Trustee Fund produced a quarterly income distribution of 0,77c a unit, taking the year's total to 3,68c a unit.

Syfrets Growth Fund, which returned 27,33% for the year, remained fully invested over the quarter with a direct exposure of 95%. A quarterly distribution of 2,26c a unit took the year's total to 10,13c a unit.

The Syfrets Income Fund and Syfrets Gilt Fund, both of which invest essentially in the money and capital markets, posted annual returns of 18,44% and 21,98% respectively.

The Income Fund declared a quarterly distribution of 2,9c a unit, taking the year's total to 12,82c a unit. The Gilt Fund's quarterly distribution of 28,38c a unit took the year's total to 125,36c a unit.

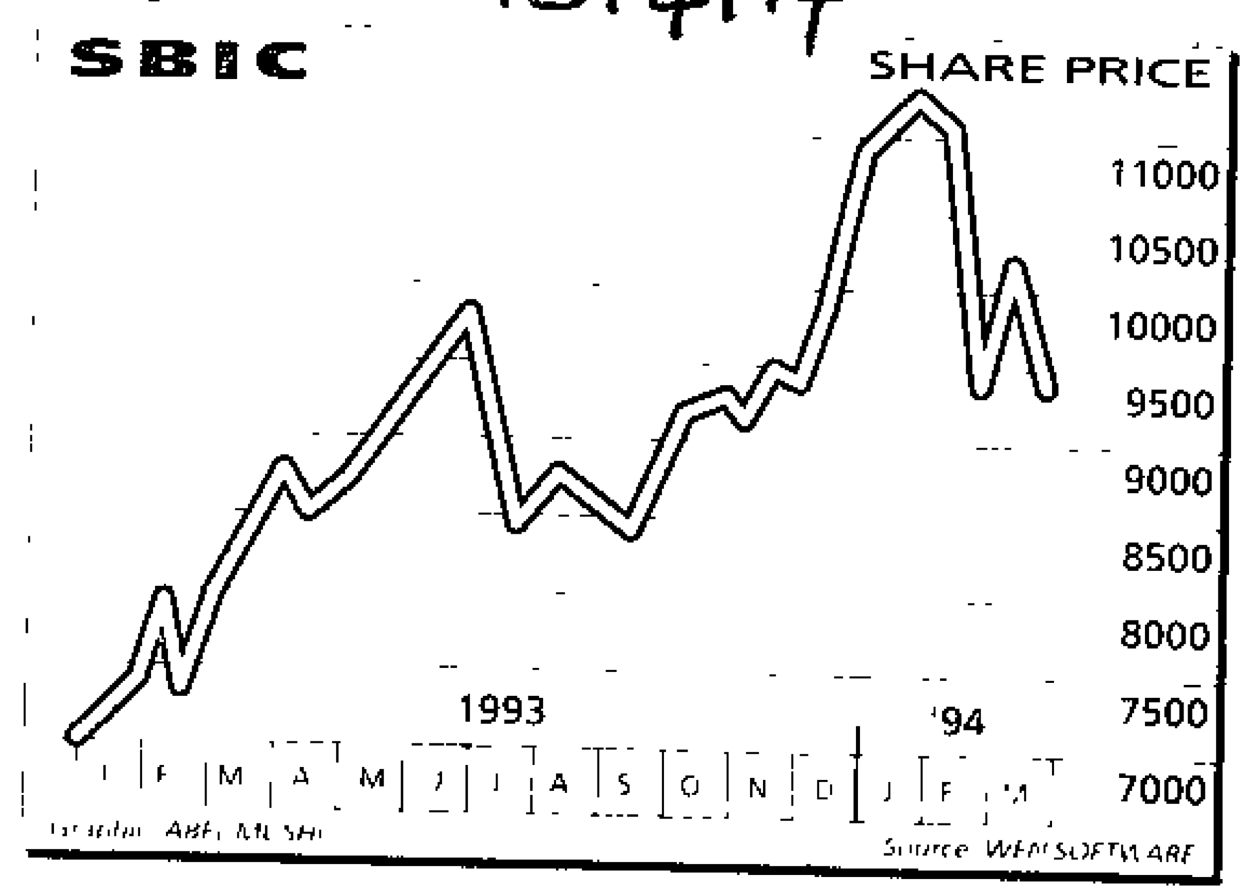
● The value of Composite Unit Trust Managers' All Share Index Fund rose to more than R32m in the three months to March 31.

An income distribution of 0,68c a unit was declared. — Reuter

Banks need to be bigger — Stanbic

Star 12/4/94

BY STEPHEN CRANSTON



Perceptions of excessive size and concentration of power in the financial services field need to be re-examined, says Standard Bank Investment Corporation chairman Conrad Strauss.

Writing in the Stanbic annual report for the year to December, Strauss says that the financial services sector has been honed by fierce domestic competition to very high levels of efficiency by world standards.

And the imperatives of global competition demand that South African financial institutions become larger rather than smaller. Ranked by assets, 240 banks in the world are larger than South Africa's largest.

"It is vital that a country that was once among the top 20 trading nations — and must be again if it is to fulfil its national developmental objectives — allows its financial institutions to develop on a scale commensurate with its international trading obligations," Strauss says.

Limited

Strauss, who is arguably South Africa's top banker, says that a more fruitful line of enquiry would be to examine ways in which the industry, as now structured, can meet the requirements of emerging markets as well as more established corporate and retail customers.

Banks have been severely limited in the extent of the services which they have been able to offer in developing areas.

The security situation has for several years prevented the establishment, or in many cases forced abandonment of retail outlets.

Standard Bank's main initiative last year to penetrate the black market was the Society Scheme group savings package, offering a convenient investment scheme for Stokvel club funds.

(58)

Its Community Banking Services Division focused on affordable housing finance and micro-enterprise lending and the bank was involved, through the Association of Mortgage Lenders in attempts by the National Housing Forum to resolve the country's complex housing issue.

Support

Stanbic also supported the efforts of other institutions such as the Community Bank and the Post Office Savings Bank, which are better placed to meet basic banking needs.

Strauss criticises certain proposals to regulate banking. In particular he says the implicit requirement to classify transactions on a racial basis is morally retrogressive, and the operational implications of complinace would be formidable.

A surprising feature of Stanbic's results was the strong contribution of African Banking Group, formerly ANZ Grindlays, confounding most analysts.

After a loss of R300 000 in 1992, the ABG contributed R40,9 million to taxed income. Results from Namibia and Zimbabwe were "especially pleasing."

Subsidiaries in Kenya and Uganda and associate banks in Nigeria and Ghana performed well, Botswana made a profit in only its second year of operation and Zambia had a record year.

The only disappointment was Zaire, which was only "satifactory" because of localised unrest.

Standard Bank opened a representative office in Maputo but owing to political unrest in Angola, plans for that country have been suspended.

Share price

Stanbic's share price has fallen from a recent high of R112 to R97,50 at it which it offers a p:e ratio of 14, ahead of the other major banking groups, but below certain niche players such as Corona-tion Syndicate, Investec and Board of Executors.

Stanbic has an image as the most competent and professional of the major banks, though the gap is narrowing as the rehabilitation of First National Bank, for example, continues.

Stanbic's cross-holding with Liberty Life will always give the bank a slight edge over competitors and its current price looks acceptable.

BUSINESS DAY, Monday, April 11 1994

58

Alert sounded on cheque, forex scams

ABSA has warned of a scam involving stolen cheques, and the police are seeking witnesses to a fraud involving false foreign currency transactions at Nedtravel.

Absa spokesman Kevin Mayhew said at the weekend that United Bank had warned companies that 170 cheques stolen from the bank were being used for purchases nationwide.

Although the cheques, stolen 18 months ago, had been stopped, at least 18 had already been used for purchases. They were ordinary cheques, but businesses were being led to understand that they were bank guaranteed.

"We believe the miscreants will not stop here, as they have already netted a tidy sum," said the bank's securities division senior manager, Roy Simpson.

The cheques were originally domiciled at Eastgate and in some cases have been altered to reflect a different domicile, with the word Eastgate blocked out.

KATHRYN STRACHAN

The SAP said on Friday that it was seeking witnesses in a foreign currency fraud case.

This case involved an amount of R113 000 which was stolen or defrauded by an ex-employee of Nedtravel during the period October 1991 to December 1992, the police said.

The suspect, who was subsequently arrested, received payments in cash from clients who bought foreign currency.

He pretended to his company that the client did not pay cash for the transaction, yet an invoice was issued, pending payment.

It appeared that the suspect was also stealing foreign cash and issuing fictitious invoices.

The names used on the invoice could have been taken from people who previously purchased foreign currency at Nedtravel, and police investigations indicated that many people might have been targeted.

Standard Bank sees home loan rate slipping 2%

Star 11/4/94

■ BY TOM HOOD

Cape Town — Standard Bank foresees home loan rates dropping another two percent after the general election and the presentation of the budget by the new government.

The cuts are based on the continued slide of inflation and improvements in the country's foreign reserves position.

A bond rate reduction would add much weight to the continuing containment of costs in the housing market, but is unlikely to spur any rapid improvement in house prices until the second half of the year, the bank says in its latest Property Profile.

Although an ANC election victory has been discounted by the residential property market, the likelihood of political volatility well into this year, coupled with low inflation and subdued growth in household incomes, is likely to hold prices down, Standard says.

Competition among the major banks in the bond market remains intense, especially since this constitutes the fastest-growing component of the credit market, says an article in Estate Agent magazine.

Mortgages as a whole grew at a robust 4,8 percent in the third quarter of last year, the highest rate of increase in the past two years, according to Standard Bank.

Of this growth, three groups registered more growth than the total did, with Stanbic growing 10,5 percent, FNB eight percent and the minor banks about four percent.

Property Profile says market share losses were registered by Absa (0,8 percent), Nedcor (0,3 percent) and NBS (0,1 percent). (58)

Stanbic added 4,5 percent of the market share to its books, followed by a 1,6 percent gain by FNB and a 0,9 percent gain by the minor banks.

This confirms the ability of the original banks to wrest market share, albeit from an almost non-existent base, from the original building societies.

"With no mortgage book to speak of two years ago, the rate of increase in market share of the minor banks has been the most rapid — 52,9 percent, compared with 36 percent and 17,8 percent in the case of Stanbic and FNB respectively."

Societies

Absa's market share, inherited from United and Allied building societies, dropped from 42,8 percent in December 1991 to 38,5 percent in September last year.

Reserve Bank figures estimate R91 billion was tied up in home loans by December 31.

Biggest lender, with 38,2 percent of the market, is Absa with R34,8 billion, followed by Nedcor (R17,3 billion), Stanbic (R15,9 billion), FNB (R9,8 billion), NBS (R7,6 billion), and others (R5,4 billion).

FM 8/4/94 (58)

COMMUNITY BANK

Complementary services

SA commercial banks have always seen the black consumer as a potentially profitable source of business. And they have been competing for years to carve out the largest slice of an ever-growing market.

They can expand into the bankable community and, through technological advances and marketing exercises, increase the dimensions of that community, but they aren't in a position to service the unbankable section of the population. Yet they see such a service as vital to the broader community. So they are playing a major role in promoting the newly formed Community Bank now seeking registration under the Mutual Banks Act. Community leader Cas Coovadia is CE and former Absa Bank group executive Archie Hurst is MD.

Tucker

The large banking groups are assisting with finance, secondment of personnel (mostly from Absa) and provision of infrastructural support, including commercial banking facilities. Nedcor, for example, has provided administrative staff. To avoid unnecessary costs and diversion of effort into administration, all computer services will be contracted out.

Among other organisations promoting the bank have been the Industrial Development Corp, the Development Bank of Southern Africa, Kagiso Trust and even the EC. The bank has received enough capital from various sources to finance its expected scale of operations for a long time.

Hurst says the bank has received a commitment in principle for R200m of finance from:

- The Development Bank — R110m loan at a 10% rate;
- IDC — R40m loan at 8%;
- Independent Development Trust — R25m in the form of equity;
- R5m in loans from each of four big banks;
- A minimum of R3m and maximum of R6m in the form of a loan from Stichting Doen, a development foundation of the Netherlands.

Community Bank trustee and newly appointed CE of Standard's E Bank Bob Tucker notes that the average cost of the capital available is around 8%.

The bank has a dual purpose, says Tucker. Firstly, it will mobilise small-scale savings within (essentially black) communities and extend loans to members of those communities for projects which would conventionally be regarded as nonbankable. Secondly, it will build linkages within communities that lack social cohesion.

In terms of the capital requirement imposed by the Banks Act, the Community Bank will be able ~~to lend~~ as much as R2,5bn — if the corresponding deposits are achieved. Current projections indicate that scale of lending is not likely to be reached within the first five years of operation.

The first core branch will open in Benoni in June — with a satellite branch in Daveyton, whose community will help promote and develop the deposit-taking and lending functions.

Local control over decision-making will be provided through a community liaison committee operating as the branch's executive committee.

A second branch will be set up in Athlone, Cape, and a third in Hillbrow. Much preparatory work has been done in areas such as Wattville, Johannesburg inner city, Berea and Yeoville.

The bank plans to expand gradually as the economy grows and the needs of its target community increase. ■

Spiralling crime worries insurers, says Gordon

BDay 5/4/94

CHARLOTTE MATHEWS

THE spiralling increase in crime, to a point where it appears to be virtually out of control in some areas, was cause for concern for the whole country and for short-term insurers in particular, Guardian National chairman Donald Gordon said in the group's 1993 report.

The obvious remedy was to increase premiums and deductibles, leading to a degree of self-insurance which in many cases would be more than consumers could afford.

"Unless an acceptable level of control by those in authority can be restored, greater hardship for all will be an inevitable consequence," Gordon said.

Guardian National is 45,2% held by Liberty Holdings and 50,7% owned by UK-based Guardian Royal Exchange.

In the year to December 1993, Guardian National reported earnings of 616,3c a share against 536,5c in the year to December 1992 and a dividend of 224,0c against 187,5c.

Gross premiums were R1,0bn (R773,2m) and net premiums R695,0m (R510,1m), on which an underwriting profit of R1,2m (R6,6m) was made. Claims represented 75,82% (70,61%) of net premiums, and expenses and commission were 17,27% (19,95%) of net premiums.

Gordon said although Guardian's net underwriting profit was only 0,1% of gross premium income, underwriting profit at gross level was substantially higher, confirming the soundness of the company's portfolio of business.

This indicated the positive results to reinsurers from their participation in the company's business, mainly because most of the claims in 1993 were retained for Guardian's own account. This meant the number and size of smaller claims grew.

58

The cost of Guardian's non-proportional reinsurance had not grown in 1993 to the extent it had feared, partly because of its favourable experience and partly as a result of new reinsurance capacity from Bermuda.

In June 1993 Guardian launched Guardrisk Insurance Company in conjunction with brokers PFV and MIB. Guardrisk, in which Guardian has a 45% interest, is a short-term insurer designing specific cover for major corporates. Although it did not make a substantial impact on the 1993 results, a better return was expected in the future.

Banks braced for black home loans

Star 14494

■ BY ANTHA DUIGAN

With the impending flood of housing loan applications for township residents, most financial institutions are gearing up their bond divisions to cope.

Although none of the banks are prepared to discuss the Minister of Housing's R90 billion scheme, describing it as a political hot potato, once the issue is resolved a lot more staff will be needed to deal with the thousands of expected loan applications.

Ideally, the staff will be made up of blacks who know and understand the needs and aspirations of the applicatants, can speak the same language and at the same time know how mortgages work.

How many people of this calibre are already working for the banks?

FNB's home loans division is working on strategies to cater for small to medium-sized home loans.

Senior home loans manager Andre Latre has two black managers busy planning and drawing up educational structures to make people aware of implications and responsibilities of home ownership.

They and their staff are working on planning strategies and designing educational literature describing what home ownership is all about, outlining the pitfalls and setting out how salary-earners must manage their money in order to meet their bond payments.

They are keen to ensure that expectations are not raised unnecessarily.

While FNB already has branches in a number of areas, including Vosloorus, Daveyton and Soweto, there are no mortgage departments in the branches yet.

Standard Bank has just announced the launch of its E-Bank, which will start trading later this year.

E-Bank will cater essentially for basic banking needs such as savings, transaction accounts and home loan finance.

Standard has no branches in the townships at the moment because of the violence. (123)

But E-bank will be opening branches in many areas previously inaccessible to Standard Bank. (58)

According to Denzil Busse, deputy managing director of Standard, E-bank is named for easy electronic, everyone and exciting.

It is expected that about 15 branches will be opening in the PWV area at the end of the year.

They will not necessarily be located in townships, but throughout urban areas in general.

They will cater for clients needing a high level of transactions.

The branches will be staffed by personnel to be recruited and trained between now and the opening.

The staff appointed will reflect the needs of the branches.

Training of blacks to handle black housing loans will take high priority.

Absa's national manager for mortgage liaison, Kenthy Pietju, says his department is working around the clock on strategies for black mortgages.

"We have a bond education column in the Alexandra Times in which we are trying to disseminate the information."

He agrees that it is important for black people to deal with these applications. He has two people reporting to him, but declines to name them.

The Fidelity Bank (formerly the Eastern Province Bank) has a niche section for business professionals.

According to Ian Austin, the human resources manager, the company is colour-blind, but low-cost mortages fall outside its business.

Financial services company formed

(58) ARG 2/4/94

Business Editor

THREE Cape Town-based insurance broking companies have merged to establish a Sky Market Financial Services (Pty) Ltd.

The new company includes Sky Insurance Brokers (Pty) Ltd, Market Financial Services (Pty) Ltd and Allan Walker and Associates.

The directors of the new company are John Druiff (managing director), Calie Blignaut, Peter Williams and Allan Walker. Wynand Malan is a non-executive director.

Mr Druiff said the new company would provide the same full spectrum of services as the large multi-nationals but on a much more personal level. This included everything from investments and asset management through to short-term and life insurance, medical cover, pension funds, claims handling and negotiation on behalf of individuals and corporations.

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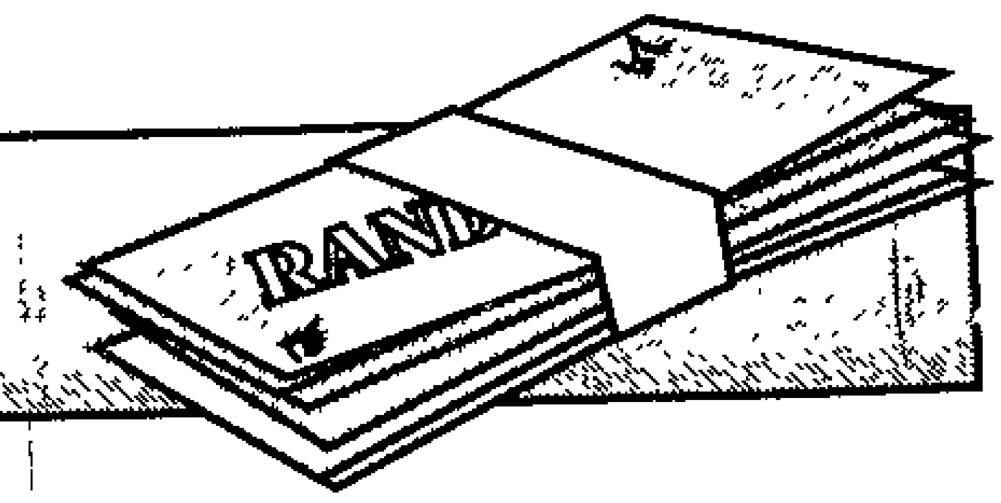

More loans for black business

Sowetan 24/5/94

By Mzimkulu Malunga

BLACK business' difficulty in raising finance could become a thing of the past when the National Enabling Fund gets off the ground in the post-elections era.

ANC's chief economist, Mr Tito Mboweni, says in the organisation's discussions with black business there has been an agreement for the establishment of an NEF which will guarantee loans given to black business by financial institutions. In addition to underwriting the loans given to black business, the NEF will back applications for loans.

(58)

Tito Mboweni ... telling financial institutions to eliminate racism.

He says the development of small business in this country should go hand in hand with the programme of black economic empowerment.

Mboweni promises that under an ANC government any form of discrimination by banks against black business "whether openly or indirectly" will have to be eliminated at all costs — even if it has to be backed up by legislation.

"The issue of lack of security for loans has been used as an excuse by banks to avoid giving loans to black business people," argues Mboweni. He is also quick to warn that black economic empowerment should not be restricted to the small- and medium-sized enterprises only. On training, Mboweni says while it is necessary to equip people with necessary skills, training must not be a prerequisite to get into business or raise finance.

"There are many successful black business people out there who did not have to go through the Wits Business School to start their businesses," he says.

Regarding the awarding of government contracts, Mboweni says such a process will be made as transparent as possible and will also be linked to companies' affirmative action programmes.

'Protea's future lies in direct marketing'

BDay 23/3/94

CHARLOTTE MATHEWS

THE interaction between technology, brokers and direct marketing is the future of the short-term industry, according to Protea Assurance executive director Jim Brayson.

Protea had rapidly become an active player in the field of direct marketing, Brayson said yesterday.

"We have worked effectively with major and minor brokerages in using the disciplines of direct marketing to the collective benefit of broker, insurer and policyholder."

"From January this year Protea Assurance has based the entire structure of its marketing development on a technological platform which sees direct marketing and the development of technology-driven broker alliances as part of a single process."

Under the new marketing strategy, Brayson had been appointed to head all the market development activities of the five companies now forming the Protea group.

He said the technology in which Protea had invested and which it was developing was yielding "enormous benefits", both for Protea's broker associates and Protea itself.

Allianz MD Alfred Gossner said direct marketing overseas had taken a substantial market share from brokers in many personal lines of business, although brokers still played an important role in commercial insurance.

The cost ratio of companies using direct marketing was usually below that of companies using brokers, which enabled them to compete on price. Other benefits of direct marketing were the ability to service customers faster, centralised location and the elimination of duplicate processing.

(58)

Gossner said the incidence of direct marketing of insurance was likely to increase in SA as either local or overseas companies exploited the gap in the market.

European banks cut exposure to SA

From LINDA ENSOR

(58)

CT 23/3/94

LONDON. — Some European banks have been reducing their exposure to SA by cutting back on their facilities and not rolling over loans, SA's financial representative in Europe, Gerhard Croeser said yesterday.

Swiss, German and Benelux banks in particular had been involved in this activity which had affected SA's reserves. For a variety of reasons capital outflows from SA soared to R16,3bn last year from R3,7bn in 1992.

Croeser based in Zurich, noted that generally the country limits imposed by European banks on their total lending to SA had been falling steadily for some time.

He said he had heard of banks which were no longer financing third country business out of South Africa. European banks had also been actively selling their SA indebtedness to new markets, particularly the US.

"Whether they are doing so in order to reduce their SA debt to zero over a protracted period of time or whether they wish to use the space created to do new business within their country limits is a moot point," Croeser said.

Several European banks had told Croeser they were selling their SA paper to do new business, while others said they wanted to lower their exposure in case the outcome of the SA situation did not meet up to their expectations.

US banks on the other hand have been more bullish.

Croeser said US banks did not have much exposure to SA because of sanctions and so had scope to take up SA paper.

Aggressive role

"Some US banks are trying to position themselves so that they can take an aggressive role in future."

At a conference yesterday organised by the Institute of Public Relations Anglo American public affairs consultant Michael Spicer confirmed that European banks had adopted a very bearish, conservative stance and were reducing their SA exposure.

They wished to be positioned in a way that allowed for maximum flexibility. He pointed out that a great deal of capital flight had been the repayment of debt.

Spicer emphasised that the key issue was to have a sound and stable economic policy environment together with political stability.

"If economic and political policies are not acceptable the money will go out."

Spicer said an attempt to tighten up on bureaucratic controls would not solve the problem. People of wealth would find ways and means of taking out insurance in times of uncertainty. He said a large number of foreigners were selling off assets and taking money out of SA.

● Earlier, ANC deputy chief representative in London Mandla Langa blamed laxness by immigration officials for the smuggling of money out of SA: "It is clear that the present state does not have the capacity or the will to deal with the problem."

Langa suggested that drastic measures might have to be taken to stem the capital flight, citing the example of Zambia which — when faced with runaway inflation and currency smuggling — had created a completely new currency and the calling in of the old one.

"There is something seriously wrong going on in Customs & Excise and Immigration which needs to be looked into," Langa said.

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—COMPANIES—

RMB Management maintains ranking

B/Day 21/3/94

CHARLOTTE MATHEWS

RMB Asset Management (RMBAM) has maintained its position in the top quartile of investment managers administering managed funds in the four years of its existence, despite taking on R9bn of underperforming assets from Momentum Life in 1992.

RMBAM executive director in charge of operations Richard Spilg said on Friday the latest Alexander Forbes survey showed RMBAM ranked third in performance among investment managers with a fund size of more than R1,2bn in the year to December 1993.

Its return on a single payment investment in that period was 39,8%. Momentum ranked fifth in the performance of investment managers with a fund size of under R1,2bn, with a return of 38,0%.

RMBAM is a wholly owned subsidiary of Momentum Life, which in turn is 68,2% held by RMB Holdings. When RMB Holdings bought into Momentum Life in 1992, Momentum's investment portfolio was placed under RMBAM, combining its R8bn of life assets and about R1bn of funds managed on behalf of pension and provident funds with the R1bn of funds RMBAM already managed.

Since the beginning of 1993, the value of the funds managed by RMBAM has risen to more than R15bn, including more than R2bn in new funds.

"RMBAM had built up a very good track record," Spilg said. "It was ranked first among independent fund managers by Alexander Forbes in 1992. But when Momentum's portfolio was taken over, the market said we were unlikely to be able to maintain that performance."

Spilg said the latest survey vindicated the fund. Not only had it maintained its own performance but it had brought Momentum Life's assets up to a similar level. (58)

RMBAM's objective was to keep the deviation in returns from its managed funds to a low level, now 1,8%, according to the Alexander Forbes survey. This meant all portfolios under RMBAM's management achieved a similar return.

Asked whether the movement of individual investment managers was likely to affect the performance of the fund in the future, Spilg said RMBAM had always followed a policy of offering incentives for good performance over longer periods.

The team had been organised into specialist areas, with investments headed by Rowan Hutchinson, marketing and administration headed by Spilg and the property portfolio administered by RMB Property Management. This meant fund managers could concentrate on the business of managing R15bn of assets.

Resources had also been added to the research side.

Old Mutual backs Transkei

S/Times (Buss)

By JEREMY WOODS

TRANSKEI is receiving a shot in the arm from Old Mutual, which is spending R9-million on property developments there. Old Mutual has long done business in Transkei and receives premium income of R78-million a year from it. 20/3/94

Old Mutual spokesman Vik Vikilahle says: "We have been in the region for 46 years and these developments reflect our confidence in Transkei's future." (58)

A R3,2-million office block has been completed at Old Mutual's Mount Frere branch. It includes offices and training facilities for Old Mutual staff. (103)

A total of R600 000 is being spent on upgrading and extending the branch office in Umtata.

A further R4,5-million is being spent on a development in Butterworth. It is due for completion this year.

A property project at Port St Johns will cost R550 000.

"These projects inject much-needed funds into the region's economy," says Mr Vikilahle.

"They not only help Old Mutual, but provide jobs, offices and shops for the community."

Pepkor, BOE in bank deal

(58) ARG 19/3/94

■ Christo Wiese may add banking to Pepkor's food and clothing empire in a complex deal with the Board of Executors.

BRUCE CAMERON
Business Editor

AFRICA's biggest retailer, Christo Wiese, appears to be poised to break into the financial services sector in a complicated series of deals which could give it control of a banking conglomerate with aspirations to be the biggest of the second line of banks.

The announcement by the Board of Executors this week that it was effectively buying the Anglovaal holding in BOE was called "the first step" by Pepkor chairman Mr Wiese.

He emphasised: "There are still a lot of bridges to be crossed."

The wide range of negotiations that have been under way this year hotted up this week with the BOE announcement of the restructuring of the ownership of the healthy finance house.

The next steps, in no particular order, could involve:

■ BOE buying Mr Wiese's recently acquired personal 30 percent holding in Boland Bank in return for the single biggest slice of BOE going to Mr Wiese or one of the companies in his Pepkor stable. This would give BOE a 60 percent stake in Boland Bank but Mr Wiese could well be installed as chairman of BOE;

■ A bid by BOE to take control of Saambou from Fedsure. BOE is already involved in the financial sector with Fedsure and BOE each holding a 30 percent stake in the the merged Port Elizabeth-based Fidelity Bank and Eastern Province Building Society;

■ An offer by BOE to buy assurance company AA Life from Anglovaal subsidiary Avins and to re-focus the assurer at the upper end of the market; and,

■ A joint venture with a major international bank either through BOE or Boland Bank or both to give the restructured finance house international capabilities.

Mr Wiese was staying tight-lipped about developments, saying he was waiting for other developments before he considered what action he would be taking.

In brief reaction to this week's Anglovaal deal Mr Wiese would only say: "It is the first step."

Although he was not prepared to give details of deals in the offing, BOE managing director Bill McAdam, who has a significant personal stake in the evolving developments, was exuding confidence about the future of BOE.

"Our ambition at BOE is to aspire to get to the top of the second league. However, we are driven by what is best for our shareholders and clients and not necessarily size."

In an obvious dig at its acquistive contender for the top spot, Investec, which a few years ago unsuccessfully attempted to take over BOE, Mr McAdam said that BOE would stick to its conservative policies and endeavour to grow by increasing its recurring business.

Aimed at the upper end of the market, both BOE and Boland are perceived as being Western Cape organisations with BOE having a Wasp (white, Anglo Saxon and protestant) profile and Boland firmly planted in Afrikaner-owned wine estate territory.

The evolving structure would break out of the Cape — redefining the finance house as a national institution.

The BOE net asset value on market value has grown from R1,20 a share in 1983 to a current estimated R13,00. Earnings per share have seen a 10-year average compounded growth of 28 percent going from 5c to the historic R1,20 with further strong growth anticipated in the current year.

This record has been based on some astute investments and a steady growth in business.

BOE makes no apology for its targeting of the upper end of the market with 75 percent of its income coming from what it terms first-class income — recurring, regular and growing fee income and collection commissions largely derived from assets under management, including raising fees, dividends and interest margins.

Another approximate 20 percent of income (second class) comes from less predictable, one-off income arising from transaction-based fees and the rest from what BOE terms third class income — equity accounted earnings from associate companies over which it can exercise significant influence.

The transactions to date are already putting some life into Boland which, with 89 offices and branches, has total banking assets of R4 billion against the R1,8 billion of BOE Merchant Bank.

Boland, which was also the target of an aggressive but unsuccessful takeover bid, by Absa Bank, has been a consistent but unspectacular performer over the years, trading before the recent deals at around R9,30 a share, well below a net asset value of about R11,70 a share. The share is now pushing a more respectable R14.

Further announcements could be expected over the next few weeks as the various counters are shifted around bargaining tables.

Mr Wiese confirmed in a recent interview with the Argus Business section that he sees Pepkor growing in concentric circles. The empire is already well established in food and clothing. If he adds banking he could give a new definition to the Lord of the Rings.

■ See graph on page 3

LIBERTY HOLDINGS LIMITED

("Liberty Holdings") Fm 18/3/94

(Registration number 68/02095/06)

(Incorporated in the Republic of South Africa)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 1993

(58)

A. Summarised Group income statement

	1993 Rm	1992 Rm	% change
Profit after taxation	700,0	589,0	+18,8
Minority interests	(295,5)	(246,3)	+20,0
Profit attributable to shareholders	404,5	342,7	+18,0
Dividends on preference shares	(8,8)	(12,6)	
Underlying profit attributable to ordinary shareholders (including equity accounted earnings)	395,7	330,1	
Profit attributable to ordinary shareholders (excluding equity accounted earnings)	270,1	216,2	+24,9
Number of ordinary shares on which earnings per share is based (000's)	45 846	45 709	
Underlying earnings per ordinary share, including equity accounted earnings (cents)	863,1	722,2	
Earnings per ordinary share, excluding equity accounted earnings (cents)	589,1	473,0	+24,5
Dividends per ordinary share, cash equivalent (cents)			
– Interim (paid 8 October 1993)	220,0	142,0	
– Final (payable 8 April 1994)	230,0	218,0	
Total ordinary dividends	450,0	360,0	+25,0
– Special anniversary dividend (paid 2 October 1992)	—	300,0	

B. Summarised Group balance sheet

	1993 Rm	1992 Rm
Interests of shareholders of Liberty Holdings	4 179,1	2 958,5
Interests of minority shareholders in subsidiaries	8 666,1	5 809,7
Total shareholders' capital and reserves employed	12 845,2	8 768,2
Long-term liabilities	2 839,9	2 570,1
Life funds	68 995,4	48 385,8
– Actuarial liabilities under unmatured policies	60 597,9	43 685,6
– Investment surpluses, development, stabilisation and other reserves	8 397,5	4 700,2
	84 680,5	59 724,1
Represented by		
Investments	83 729,4	58 855,8
Government, municipal and utility stocks	21 700,6	13 808,1
Debentures, mortgages and loans	1 423,3	1 330,9
Properties	12 019,9	10 425,8
Shares and mutual fund units	44 125,7	28 172,4
Deposits and money market securities	2 681,3	3 477,2
Life business acquisition premium	1 778,6	1 641,4
Fixed assets	205,3	184,7
Cash resources	1 015,9	1 036,3
Other current assets	2 243,5	1 954,3
Total assets	87 194,1	62 031,1
Current liabilities	2 513,6	2 307,0
	84 680,5	59 724,1

C. Notes

1 *Proportionate consolidation of Sun Life Corporation plc*

As a result of the new international accounting standard adopted by The South African Institute of Chartered Accountants regarding accounting for interests in joint ventures, and in view of the growing importance of The Liberty Life Group's 50% joint controlling interest in Sun Life Corporation plc, held through our United Kingdom subsidiary TransAtlantic Holdings PLC, the consolidated financial statements of Liberty Holdings and its subsidiary Liberty Life Association of Africa Limited for the 1993 financial year have been prepared on a basis whereby our 50% interest in Sun Life has been proportionately consolidated. The effect of this method of accounting is to include in the consolidated financial statements of Liberty Holdings and Liberty Life for the 1993 financial year our 50% attributable share of Sun Life's assets, liabilities and income statement items, which reflect our combined life insurance business both in South Africa through Liberty Life, and our economic interest in the United Kingdom life insurance industry through Sun Life. This change in accounting policy results in a dramatic increase in Liberty Holdings' stated total assets, which now reflects R87,2 billion and provides a realistic view of the Group's effective size, influence and importance in the international context.

2 *Changes in accounting policies*

Upon its flotation on The Johannesburg Stock Exchange, Liblife Strategic Investments Limited ("Libsil"), the 80% owned South African investment subsidiary of Liberty Life, which owns a significant part of Liberty Life's key strategic investments in leading South African industrial and financial companies, adopted, in terms of generally accepted accounting practice, a policy of equity accounting the earnings of its associated companies, being those companies in whose financial and commercial policies it, together with other companies in The Liberty Life Group, exercises significant influence and has an economic interest of not less than 20%. Liberty Holdings and Liberty Life accordingly adopted this policy and the earnings per share has been shown on two bases, viz the underlying earnings which includes equity accounted earnings and the earnings which excludes equity accounted earnings, the latter being the basis upon which Liberty Holdings' dividend policy is determined. Comparative figures for 1992 have been restated where applicable.

3 *Group Chairman's Statement*

Further details of the activities of Liberty Holdings and its subsidiaries are contained in the Liberty Life Group Chairman's Statement for 1993 which is being issued simultaneously with this announcement.

4 *Capitalisation share award and right of election to receive a final cash dividend in lieu thereof*

On 10 February 1994 the directors resolved to award capitalisation shares to ordinary shareholders of Liberty Holdings who were registered in the books of the company at the close of business on Friday, 25 February 1994 in lieu of a final cash dividend in the ratio of 1,18 new fully paid ordinary shares of 25 cents in Liberty Holdings for every 100 ordinary shares held ("the capitalisation shares"). Shareholders are entitled, and will be given the opportunity, to decline the award of capitalisation shares in respect of all or any part of their shareholding and instead may elect to receive a final cash equivalent dividend in respect of the year ended 31 December 1993 of 230 cents per ordinary share ("the election"). Documentation dealing with the capitalisation share award and a final cash dividend election was posted to shareholders on Thursday, 3 March 1994. In order to be valid, completed election forms will need to be received by the company's transfer secretaries, by no later than Friday, 25 March 1994.

On behalf of the board

D Gordon *(Chairman)*
F B Sher *(Managing director)*

Johannesburg
9 March 1994

Transfer secretaries

Central Registrars Limited
4th Floor, 154 Market Street
Johannesburg, 2001
PO Box 4844
Johannesburg, 2000

INCE

LIBLIFE STRATEGIC INVESTMENTS LIMITED

Fun 18/3/94

("Libsil")
(Registration number 83/06300/06)
(Incorporated in the Republic of South Africa)

58 232

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 1993

A. Summarised Group income statement

	Pro forma 1993 Rm	1993 Rm	1992 Rm
Income before taxation	145,9	**137,8**	124,2
Taxation	(8,5)	**(2,5)**	(2,8)
	137,4	**135,3**	121,4
Retained income of associated companies	217,4	**217,4**	188,4
Net income after taxation	354,8	**352,7**	309,8
Preference dividends	—	**(37,9)**	(55,5)
Net income attributable to ordinary shareholders	354,8	**314,8**	254,3
Number of ordinary shares on which earnings per share is based (000's)	558 000	**558 000**	558 000
Earnings per ordinary share, including equity accounted earnings (cents)	63,6	**56,4**	45,6
Earnings per ordinary share, excluding equity accounted earnings (cents)	24,6	**17,5**	11,8
Dividends per ordinary share (cents)	24,5	**12,0**	—

B. Summarised Group balance sheet

	1993 Rm	1992 Rm
Ordinary share capital and share premium	**955,0**	—
Redeemable preference share capital and share premium	—	434,5
Non-distributable reserves	**5 919,1**	3 545,4
Distributable reserves	**261,7**	231,2
Interest of shareholders of Libsil	**7 135,8**	4 211,1
Amount owing to holding company	—	1 078,4
	7 135,8	5 289,5
Represented by		
Investments	**7 130,4**	5 232,0
Interest in associated companies	6 816,5	4 555,9
Investments	313,9	276,4
Interest in fellow subsidiary	—	399,7
Current assets	**78,5**	68,0
Total assets	**7 208,9**	5 300,0
Current liabilities	**73,1**	10,5
	7 135,8	5 289,5
Net asset value per share (cents) **at 31 December 1993**	**1 279**	

C. Libsil's investments at 31 December 1993

Libsil which is 80% owned by Liberty Life Association of Africa Limited ("Liberty Life") holds the core of The Liberty Life Group's key strategic investments in certain leading South African industrial and financial companies comprising:

Company	Reference date for equity accounting	% of share capital	Number of shares held	Market value Rm	% of Libsil's portfolio
Standard Bank Investment Corporation Limited	31 December 1993	23,7	28 303 298	3 012,3	42,3
Direct and indirect interest in The South African Breweries Limited				2 545,8	35,7
Beverage & Consumer Industry Holdings Limited	30 September 1993	27,3	19 360 000	2 323,2	32,6
The South African Breweries Limited	30 September 1993	0,9	2 342 888	222,6	3,1
The Premier Group Limited	31 October 1993	23,4	19 360 000	1 258,4	17,7
GFSA Holdings Limited	Not applicable	4,6			
— ordinary shares*			279 608	29,9	0,4
— preferred ordinary shares*			1 747 550	188,8	2,6
Other investments and derivatives				95,2	1,3
				7 130,4	100,0

*The number of ordinary and preferred ordinary shares represents the equivalent number of ordinary and convertible preference shares respectively in Gold Fields of South Africa Limited attributable to Libsil by virtue of its interest in GFSA Holdings

D. Notes

1 *Listing on The Johannesburg Stock Exchange*
The issued share capital of Libsil consisting of 558 million ordinary shares of 1 cent each was listed on The Johannesburg Stock Exchange on 2 September 1993 pursuant to an offer by Liberty Life to its ordinary shareholders of 114 570 968 Libsil shares at R9,00 per share in the ratio of 50 Libsil shares for every 100 Liberty Life shares held, being at a discount of 10% to the net asset value on 21 July 1993 The issue was 99,5% subscribed and raised R1,03 billion for Liberty Life before expenses

2 *Pro forma income statement and results*
The pro forma income statement set out above has been prepared on the basis that the company had been restructured with effect from 1 January 1993 The results are not strictly comparable with the previous year in view of the restructuring of the company to facilitate its flotation on The Johannesburg Stock Exchange

3 *Earnings per share*
Earnings per share have been based on net income after taxation and after deducting preference dividends, calculated on the basis that 558 million ordinary shares had been in issue throughout the year

4 *Dividend policy*
As stated in the prelisting statement dated 4 August 1993, the first dividend of 12 cents per share takes into account substantially all net income accruing to Libsil, after deduction of retained income of associated companies, for the period from 1 September 1993

5 *Annual report*
The annual report and financial statements will be despatched to shareholders at the end of March 1994

E *Declaration of final ordinary dividend for the year ended 31 December 1993*

Notice is hereby given that final ordinary dividend No 1 of 12 cents per share has been declared in respect of the year ended 31 December 1993 payable to shareholders registered in the books of the company at the close of business on Friday, 25 March 1994

Dividend cheques payable in South African currency will be posted on or about 8 April 1994 Non-resident shareholders' tax at the rate of 15% will be deducted from dividends where applicable

On behalf of the board

D Gordon *(Chairman)*
A Romanis *(Director)*

Johannesburg
9 March 1994

Transfer secretaries

Central Registrars Limited
4th Floor, 154 Market Street
Johannesburg, 2001
PO Box 4844
Johannesburg, 2000

INCE

LIBERTY LIFE ASSOCIATION OF AFRICA LIMITED

FW 18/3/94

("Liberty Life")

(Registration number 57/02788/06)

(Incorporated in the Republic of South Africa)

PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 1993

(58)

A. Summarised Group income statement

	1993 Rm	1992 Rm	% change
Net premium income and annuity considerations	10 649,5	7 361,4	+44,7
Net income from investments	3 899,2	3 619,5	+7,7
Total income	14 548,7	10 980,9	+32,5
Underlying net taxed surplus (including equity accounted earnings)	638,8	539,2	
Net taxed surplus (excluding equity accounted earnings)	441,8	352,8	+25,2
Number of ordinary shares in issue (000's)	233 199	228 824	
Number of ordinary shares on which net taxed surplus per share is based (000's)	230 077	228 197	
Underlying net taxed surplus per ordinary share, including equity accounted earnings (cents)	277,6	236,3	
Net taxed surplus per ordinary share, excluding equity accounted earnings (cents)	192,0	154,6	+24,2
Dividends per ordinary share, cash equivalent (cents)			
– Interim (paid 8 October 1993)	80,0	54,0	
– Final (payable 8 April 1994)	84,0	78,0	
Total ordinary dividends	164,0	132,0	+24,2
—**Special anniversary dividend** (paid 2 October 1992)	—	100,0	

B. Summarised Group balance sheet

	1993 Rm	1992 Rm
Interests of shareholders of Liberty Life	7 184,1	4 989,3
Interests of minority shareholders in subsidiaries	5 278,0	3 520,4
Total shareholders' capital and reserves employed	12 462,1	8 509,7
Long-term liabilities	2 839,9	2 570,1
Life funds	68 995,4	48 385,8
– Actuarial liabilities under unmatured policies	60 597,9	43 685,6
– Investment surpluses, development, stabilisation and other reserves	8 397,5	4 700,2
	84 297,4	59 465,6
Represented by		
Investments	83 325,3	58 597,9
Government, municipal and utility stocks	21 690,2	13 797,5
Debentures, mortgages and loans	1 423,3	1 330,9
Properties	12 005,4	10 412,0
Shares and mutual fund units	43 746,5	27 938,9
Deposits and money market securities	2 681,3	3 477,2
Life business acquisition premium	1 778,6	1 641,4
Fixed assets	195,7	179,1
Cash resources	652,0	769,7
Other current assets	2 456,1	2 038,8
Total assets	86 629,1	61 585,5
Current liabilities	2 331,7	2 119,9
	84 297,4	59 465,6

C. Notes

1. *Proportionate consolidation of Sun Life Corporation plc*

As a result of the new international accounting standard adopted by The South African Institute of Chartered Accountants regarding accounting for interests in joint ventures, and in view of the growing importance of The Liberty Life Group's 50% joint controlling interest in Sun Life Corporation plc, held through our United Kingdom subsidiary TransAtlantic Holdings PLC, the consolidated financial statements of Liberty Life for the 1993 financial year have been prepared on a basis whereby our 50% interest in Sun Life has been proportionately consolidated The effect of this method of accounting is to include in the consolidated financial statements of Liberty Life for the 1993 financial year our 50% attributable share of Sun Life's assets, liabilities and income statement items, which reflect our combined life insurance business both in South Africa through Liberty Life, and our economic interest in the United Kingdom life insurance industry through Sun Life This change in accounting policy results in a dramatic increase in Liberty Life's stated total assets, which now reflects R86,6 billion and provides a realistic view of the Group's effective size, influence and importance in the international context

2 *Changes in accounting policies*

Upon its flotation on The Johannesburg Stock Exchange, Liblife Strategic Investments Limited ("Libsil"), the 80% owned South African investment subsidiary of Liberty Life, which owns a significant part of Liberty Life's key strategic investments in leading South African industrial and financial companies, adopted, in terms of generally accepted accounting practice, a policy of equity accounting the earnings of its associated companies, being those companies in whose financial and commercial policies it, together with other companies in The Liberty Life Group, exercises significant influence and has an economic interest of not less than 20% Liberty Life accordingly adopted this policy and the net taxed surplus per share has been shown on two bases, viz the underlying net taxed surplus which includes equity accounted earnings and the net taxed surplus which excludes equity accounted earnings, the latter being the basis upon which Liberty Life's dividend policy is determined. Comparative figures for 1992 have been restated where applicable

3 *Group Chairman's Statement*

Further details of the activities of Liberty Life and its subsidiaries are contained in the Liberty Life Group Chairman's statement for 1993 which is being issued simultaneously with this announcement

4 *Capitalisation share award and right of election to receive a final cash dividend in lieu thereof*

On 10 February 1994 the directors resolved to award capitalisation shares to ordinary shareholders of Liberty Life who were registered in the books of the company at the close of business on Friday, 25 February 1994 in lieu of a final cash dividend in the ratio of 1,15 new fully paid ordinary shares of 10 cents in Liberty Life for every 100 ordinary shares held ("the capitalisation shares") Shareholders are entitled, and will be given the opportunity, to decline the award of capitalisation shares in respect of all or any part of their shareholding and instead may elect to receive a final cash equivalent dividend in respect of the year ended 31 December 1993 of 84 cents per ordinary share ("the election") Documentation dealing with the capitalisation share award and a final cash dividend election was posted to shareholders on Thursday, 3 March 1994 In order to be valid, completed election forms will need to be received by the company's transfer secretaries, by no later than Friday, 25 March 1994

On behalf of the board

D Gordon *(Chairman)*
A Romanis *(Managing director)*

Johannesburg
9 March 1994

South African transfer secretaries

Central Registrars Limited
4th Floor, 154 Market Street
Johannesburg, 2001
PO Box 4844
Johannesburg, 2000

United Kingdom transfer secretaries

Barclays Registrars
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

INCE

LIBERTY INVESTORS LIMITED

("Liberty Investors")
(Incorporated in the Republic of South Africa) Fin 18/3/94
(Registration number 71/04020/06)

PRELIMINARY RESULTS FOR THE YEAR ENDED 28 FEBRUARY 1994

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A. *Summarised Group income statement*

	1994 R'000	1993 R'000	% change
Consolidated profit after taxation attributable to shareholders	**102 872**	87 799	+17,2
Number of shares in issue (000's)	**205 454**	204 854	
Weighted number of shares on which earnings per share is based (000's)	**205 068**	204 854	
Earnings per share (cents)	**50,2**	42,9	+17,0
Dividends per share, cash equivalent			
– Interim (paid 22 October 1993)	**12,0**	8,0	
– Final (payable 8 April 1994)	**14,0**	12,9	
Total dividends per share	**26,0**	20,9	+24,4
– Special dividend (paid 2 October 1992)	—	17,5	
– Non-recurring dividend (paid 11 December 1992)	—	30,0	

B. *Summarised Group balance sheet*

	1994 R'000	1993 R'000
CAPITAL EMPLOYED		
Share capital	**2 055**	2 049
Share premium	**106 736**	99 577
Non-distributable reserves	**2 317 146**	1 837 952
Distributable reserve	**423**	98
Interest of shareholders of Liberty Investors	**2 426 360**	1 939 676
EMPLOYMENT OF CAPITAL		
Investments	**2 421 022**	1 939 302
Net current assets	**5 338**	374
	2 426 360	1 939 676
Net asset value per share (cents)	**1 181**	947

C. *Notes*

1 *Earnings*

As announced in the preliminary results of Liberty Holdings Limited and Liberty Life Association of Africa Limited on 9 March 1994, The Liberty Life Group has changed the basis of accounting for its interests in associated companies from including only dividends in income to equity accounting their retained profit. The profit attributable to shareholders of Liberty Investors has been computed in accordance with the policy now adopted by The Liberty Life Group The comparative figures for 1993 have been restated to accord with the new presentation.

2. *Dividends*

As Liberty Investors distributes substantially all dividends received from its interest in Liblife Controlling Corporation (Proprietary) Limited, the Liberty Investors dividend reflects a similar increase to that of Liberty Holdings Limited where its cash equivalent dividend per share increased from 360 cents in 1992 to 450 cents in 1993, an increase of 25%.

3. *Increase in interest of shareholders*

The increase in the interest of shareholders from R1 939,7 million at 28 February 1993 to R2 426,4 million at 28 February 1994 reflects the appreciation in the attributable value of Liberty Investors' 50% interest in Liblife Controlling Corporation (Proprietary) Limited which owns 24 030 000 ordinary shares in Liberty Holdings Limited representing 52,2% of the equity share capital of that company. The market price of a Liberty Holdings ordinary share increased by 22,1% from R165,00 per share at 28 February 1993 to R201,50 per share at 28 February 1994

4. *Capitalisation share award and right of election to receive a final cash dividend in lieu thereof*

On 10 February 1994, the directors resolved to award a maximum of 2 157 263 capitalisation shares to ordinary shareholders of Liberty Investors who were registered in the books of the company at the close of business on Friday, 25 February 1994 in lieu of a final cash dividend in the ratio of 1,05 new fully paid ordinary shares in Liberty Investors for every 100 ordinary shares held ("the capitalisation shares") Shareholders are entitled, and will be given the opportunity, to decline the award of capitalisation shares in respect of all or any part of their shareholding and instead may elect to receive a final cash equivalent dividend in respect of the year ended 28 February 1994 of 14 cents per ordinary share ("the election"). Documentation dealing with the capitalisation share award and a final cash dividend election was posted to shareholders on Thursday, 3 March 1994 In order to be valid, completed election forms will need to be received by the company's transfer secretaries, by no later than Friday, 25 March 1994

On behalf of the board

D Gordon *(Chairman)*
F B Sher *(Director)*

Johannesburg
11 March 1994

Transfer secretaries

Central Registrars Limited
4th Floor, 154 Market Street
Johannesburg, 2001
PO Box 4844
Johannesburg, 2000

INCE

Business Report

Academic, bankers split over deposit insurance

(58) CT 18/3/94

By ARI JACOBSON

A "PRIVATE OPTION" of deposit insurance being mooted by the SA Reserve Bank has found support from US academic Hugh High. But commercial bank executives say this measure is "unnecessary" at big banks.

In its annual report for 1993 the Reserve Bank's supervision department mentioned that it might soon allow for individual investors to insure their deposits held at banks or "at an additional risk of no insurance, earn a higher return on their investment".

High, now resident at the University of Cape Town, warns that the general form of deposit insurance as evident in the US "created an incentive for bank managers to make questionable loans".

The result is self-evident in the collapse of, among others, the savings & loans institutions in the US, which will cost the taxpayer about $260bn, in a pay-back package to depositors.

High points out that a private form of deposit insurance in the US, is currently being debated to replace the failed version of insurance.

"The Reserve Bank proposal is generally sound but it should rather confine itself to the traditional role of central bankers (essentially the lender of last resort function) and not waste time insuring bank accounts."

He feels that private insurers would "out of self-interest monitor banks and make sure they are well-managed".

He adds that depositors could then decide on whether to opt for "fully insured accounts at lower returns, no insurance at higher returns or some combination thereof".

"This will increase competition because a smaller prudent institution would be confident about foresaking deposit insurance and offering investment returns on a par or higher than larger institutions."

He further suggests to avoid "hanky panky" at least 50% of the deposit insurance should be "written overseas".

First National Bank's senior GM Peter Thompson sees "no need" for deposit insurance as "its up to depositors to analyse a bank before depositing funds".

Investec's MD Stephen Koseff says that big banks with "high ratings and large capital reserves" do not require deposit insurance.

He points out that smaller banks would "benefit" from a form of non-compulsory deposit insurance, which would help them to attract deposits.

Financial industry under pressure

(58) WM18-24/3/94

Financial institutions are perceived as holding lots of the 'people's money'. Simon Segal looks at how they are adapting to changing conditions

PERHAPS more than any other sector, South Africa's financial institutions — from insurers to banks to retirement funds — are under immense pressure in South Africa's socio-economic transition.

As custodians of a large portion of the nation's savings (unlike many other countries the public sector has only a minor role) they are instinctively conservative.

Precisely because these institutions are perceived by the unbanked and uninsured to have so much of the "people's" money, expectations are for them to dole the funds out. Arguments around these conflicts of interest are simplified, emotions intensified.

South Africa's sophisticated financial system is considered a major asset and often cited as a advantage in attracting foreign investment. At the same time the financial industry is often criticised as being a constraint on reconstruction and investment.

The two largest black empowerment projects involve Metropolitan and African Life, two insurers from the Sanlam and Anglo groups respectively.

The run-ins between the civics and unions and financial community are in many ways irreconcilable.

They are a reflection of the gap between expectations and affordability that will plague the new government.

So, having already absorbed significant change South Africa's financial services industry is bracing itself for further "unprecedented" change.

A national survey by accounting and consulting firm Deloitte & Touche of 28 local financial service organisations concludes that "not only has the structure of the industry changed but so have the criteria for survival and success".

It finds the 10 most important issues identified by financial institutions are profitability and cost control, human resources, knowing your customer, information systems, product development, market expansion, political/economic, distribution, competition/deregulation and socioeconomic matters.

Compared to international findings, South Africa's financial sector is far more concerned with human resources (ranked ninth in importance by their international counterparts) and far less bothered about competition/deregulation (ranked fifth internationally compared to ninth in South Africa).

Deloitte still finds that all South Africa respondents recognise a marked increase in competition and expect this to continue. But it will not come from international sources — only 25 percent of respondents believe new international entrants pose a competitive threat.

The second most critical factor identified by international financial firms is risk management which has not been measured in the South African survey.

There is recognition (by 60 percent of respondents) of considerable focus on the unbanked and uninsured. Banks and insurers have not found cost-effective solutions to support these groups.

Most organisations with a retail component agree that the "emerging" market has yet to be translated into a meaningful part of their business.

"The 15 percent increase in the rating of importance for future market expansion for the banks highlights the banking industry's concern over future profitable growth."

On nationalisation, over 80 percent of respondents believe the issue is not affecting their strategic planning. Almost 80 percent of respondents believe there will be further mergers although there is little scope among the banks.

There is surprising ambiguity on future deregulation — 32 percent disagree and 36 percent agree that the financial services industry faces further deregulation.

"Many respondents question whether the financial services sector is undergoing reregulation as opposed to deregulation."

Deloitte expresses surprise that there is not more emphasis on technology. Those financial institutions that manage change most effectively stand to reap great rewards.

This requires flexibility and creativity without foregoing caution.

Finding such a balance and reconciling conflicting interests is the challenge.

■ Deloitte & Touche conducted in-depth interviews with chief executives and/or management teams at 28 institutions. The survey is,

Top-up riot cover cut out

CT 17/3/94

INSURANCE companies, some of them badly stung by last week's riots and looting in Bophuthatswana, are cancelling top-up riot cover throughout the country.

Protea Insurance Company and Guardian National Insurance began cancelling top-up cover yesterday The only other company offering the cover, Allianz Insurance, said it would make an announcement in 24 hours.

Protea Insurance's divisional manager, Mr Chris Fimple, said early estimates indicated there had been up to R250 million riot damage last week.

"We were badly hit and everything now depends on how quickly people can get back into business ... a final decision about whether cover will continue and on what terms will be made in the coming weeks."

Top-up cover is that over and above the insurance offered by the South African Special Risks Association.

Sasria covers loss or damage to assets as well as fixed charges such as rent, but it does not cover the loss of profits.

Mr Fimple said there was no limit in Natal/KwaZulu, "but we are looking very closely at our risks there".

The companies would pay all the claims based on the last week's violence, but might find "we have no reinsurance capacity left". — Reuter

Move to separate car theft policies denied

Own Correspondent

DURBAN. — Insurance companies have poured cold water on suggestions that they soon may be unable to provide theft cover as part of their normal motor policies.

They were responding to SA Insurance Association spokesman Mr Rodney Schneeburger's remarks earlier this week that because of the rising number of thefts, companies might have to provide cover as a separate policy at higher premiums.

SA Eagle managing director Mr Peter Martin said this had been discussed by insurance companies, but his company had no immediate plans to take this step.

It would be preferrable to address the problem of car theft through better policing and by tackling unemployment, he said.

A spokesman for Mutual and Federal said his company did not have plans to introduce separate theft cover, although this might have to be considered if the level of thefts of luxury cars persisted.

He noted that car thefts were not the sole reason for declining insurance results.

Mr Schneeburger could not be reached for comment.

Home loan arrears lift banks' total overdues

BiDay 16/3/94

58

GRETA STEYN

BANKS' total overdues increased more than 13% last year as a result of arrears on mortgage loans, figures released by the Reserve Bank's banking supervision department showed.

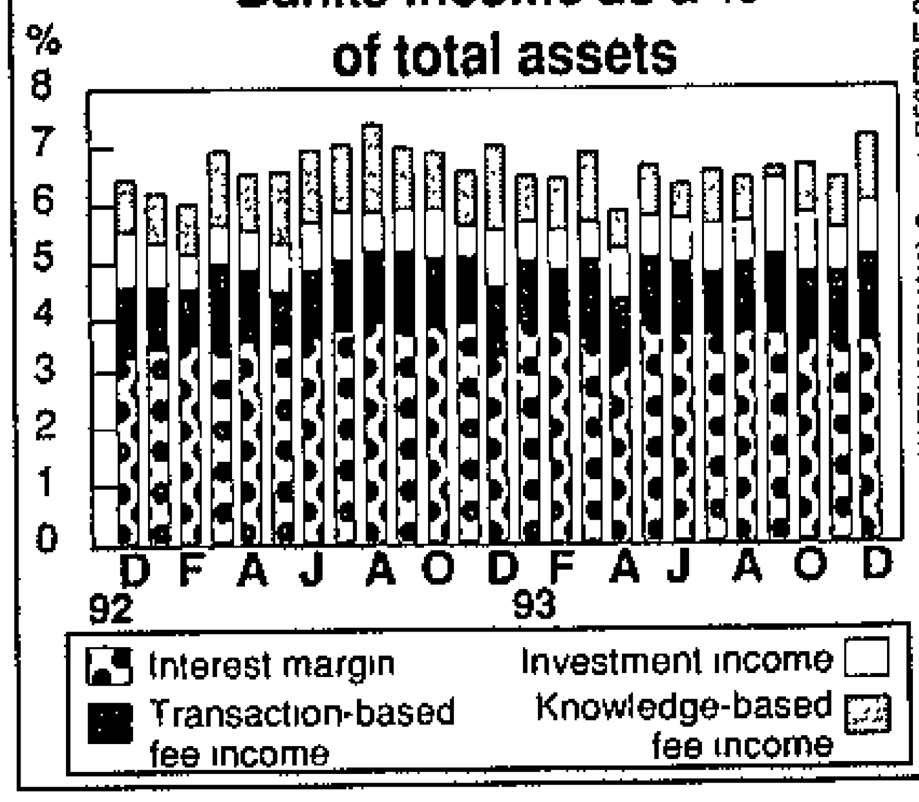
The Bank said in a report on banking supervision that overdues in mortgage loans rose more than 34% from the previous year.

The increase reflected the heightened risks banks were incurring as a result of the growth in mortgage loans, the state of the economy and the uncertain political situation. By contrast, overdues in instalment finance decreased considerably while those for other loans rose more than 17%.

The Bank noted the "potential" for concern that specific provisions for bad debts had not increased in direct relation to the increase in overdues during the past year.

Specific provisions for bad and doubtful debts had varied between 50% and 54% as a percentage of overdue loans during 1993 — much lower than the 60% in the last two quarters of 1992.

However, the reduction in provisions could be due to large amounts of bad debt being written off, leaving the remainder of the portfolio as higher quality assets that did not require large provisions. The Bank noted this explanation could not be confirmed as a result of inadequate disclosure.



The report noted all categories of interest income decreased during the year, except mortgage loans — reflecting a major shift in lending to home loans. The growth of about 11% in banks' loans and advances was explained by mortgage lending.

The Bank noted about 75% of operating expenses were covered by banks' interest margins, with the remainder financed from transaction-based fee income and investment income. Once bad debts are subtracted, banks' net profits effectively equal knowledge-based fee income. Banks were profitable only as a result of investment income and knowledge-based fee income.

● Comment: Page 16

R75m AVF deal frees BOE, Boland link

(58)

CT 16/3/94

By AUDREY D'ANGELO
Business Editor

A PROPOSED R75m deal giving control of the Board of Executors (BOE) to 15 of its top executives and the Durban-based Commercial Finance Co (CFC) will enable Anglovaal to reduce its stake in financial services.

And, Bill McAdam, CE of BOE said yesterday, it will also prepare the way for a closer association between BOE and the Boland Bank.

Pointing out that the two are complementary in a great many ways, he said a great deal of business could flow from the two Cape-based institutions moving closer together.

BOE director Phil Biden said that although Pepkor chairman Christo Wiese, at present the major shareholder in Boland Bank, had not been involved in the deal he had been aware of it and had been waiting for it to fall into place.

The deal has been structured by giving control of Anglovaal Finance (AVF), which currently holds 36,3% of BOE, to CFC and the 15 executives.

At present Anglovaal holds 59% of AVF, Amalgamated Banks of SA (Absa) holds 19,5% and the general public 21,5%.

The general public holds 39,7% of BOE, Liberty Asset Management 10,3%, the CFC group 8,9% and BOE executives 4,8%.

CFC and the BOE executives will buy up to 70% of all the issued shares in AVF for 82,18c per share. Anglovaal has agreed to sell 70% of its AVF holding to the consortium. Absa has agreed to sell 50% of its holding.

This gives the consortium 51% of AVF shares. McAdam will become chairman of AVF, which will be renamed BOE Corporation.

A statement issued yesterday said the offer price per AVF share was based on a value of R19 for each BOE share plus the value of net current assets of R6,25m.

The directors of AVF say they consider AVF's investment in AVF Insurance (Avins), which owns 100% of AA Life Assurance Association and 61% of Crusader Life Assurance — currently under provisional curatorship — will have "no value in the foreseeable future."

McAdam emphasised yesterday that the consortium would have no liabilities resulting from the Crusader Life debacle.

And he said, since AVF, under its new name of BOE Corporation, would retain 36% of BOE while CFC and the BOE executives had an unchanged shareholding, there would be no change of control and therefore no offer would have to be made to minority shareholders.

McAdam said he thought the deal was proof against any hostile intervention.

It would leave BOE more flexible and able to take advantage of opportunities. It already had some acquisitions in mind and he expected it to have a good year.

He said discussions had been held with Christo Wiese for about a year. A closer association with Boland Bank had been put on the back burner "but we shall be getting down to that in the next week or so."

Pointing out that both Anglovaal and Libam would still have a stake in BOE he said it was always an advantage "to have a big brother".

Top financiers call for central bank link-up

(58)

ARG 15/3/94

BRUCE CAMERON
Business Editor

SOUTHERN African central banks had to set up a formal structure as a first step towards financial integration of the region.

The formalisation of a central bank structure was mooted by South African Reserve Bank governor Chris Stals and Standard Bank chairman Conrad Strauss at a Financial Mail conference of central bankers at the Lord Charles Hotel at Somerset West today.

At an opening banquet last night Dr Strauss told southern African bankers including six central bankers that informal conferences such as the one being held should become unnecessary now that South Africa was finally ending its outcast status with the forthcoming elections.

And in a speech today Dr Stals said closer co-operation between central banks would have to be refacilitated by a uniform strategy.

"The integration of financial markets must first be preceded by some reduction in the existing divergencies in monetary policy objectives."

At this stage co-operation on a functional and negotiated basis between central banks of the region would be more productive than any premature efforts at financial integration.

"Central banks must first agree on what we cannot, or should not do, before we can proceed towards closer co-operation in what we can do in the financial market".

Dr Strauss warned the conference delegates that South Africa was unlikely to be a major source of capital for the region.

It would have to absorb most or all of the capital it could garner for its own needs, with employment and housing being the top priorities of almost every political party in the elections.

Internationally South and southern Africa were having to compete for attention as simply another investment opportunity within an increasingly dynamic, competitive and interdependent world economy.

He stressed that investment was not a privilege but an opportunity that had to be made attractive.

The developed world's willingness to engage in meaningful economic contact with the region would to a large extent depend on whether formal institutions for effective intra-regional co-operation could be established.

He suggested that a formal system should be set up between the central banks of the region but added that the private banking sector could also make a contribution.

He said that the banking community was "at the cutting edge of economic relationships with daily exposure to the problems of exchange controls, foreign exchange availability, currency fluctuations, trade and tariff barriers".

"We more than most others have an understanding of the advantages of regional of policy coordination and the disadvantages of the lack of it."

Dr Strauss said there was obvious potential for rationalisation or amalgamation of the two cross border organisations, SADC and the Preferential Trade Association.

The role of the South African-centred common monetary area and the customs union needed to address SADC concerns "that they better serve the needs of less affluent members".

Libvest rides high on Liblife

BDay 14/3/94

CHARLOTTE MATHEWS

LIBERTY Investors (Libvest), which has joint control of the Liberty Life Group, reported an increase in profits and dividends in the year to February 1994 in line with the solid results announced by Liberty Life last week.

Libvest's consolidated profit after tax rose 17,2% to R102,9m from R87,8m in the same period in 1993, which translated into earnings of 50,2c (42,9c) a share.

Cash equivalent dividends paid during the year — an alternative to the capitalisation awards — were 24,4% higher at 26,0c (20,9c) a share, mirroring the 25% growth in the cash equivalent dividends declared by Liberty Holdings to 450c from 360c.

The basis of accounting has been changed to reflect the change of policy in the Liberty Life Group. Libvest's comparative figures for 1993 have been restated.

Libvest owns 50% of the equity of Liblife Controlling Corporation (LCC) and the remaining 50% of LCC is owned by Standard Bank Investment Corporation. LCC in turn holds 52,4% of the shares of Liberty Holdings and Liberty Holdings has 52,6% of Liberty Life Association.

(58)

On the balance sheet, the interest of shareholders of Libvest lifted to R2,43bn from R1,94bn, reflecting the appreciation in the value of Libvest's interest in Liberty Holdings. The price of Liberty Holdings shares climbed to R201,50 a share at February 28 from R165 a year earlier.

Libvest shares closed unchanged on the JSE on Friday at R15.

S/Times Cape Metro

Experts predict cut in interest rates after April elections

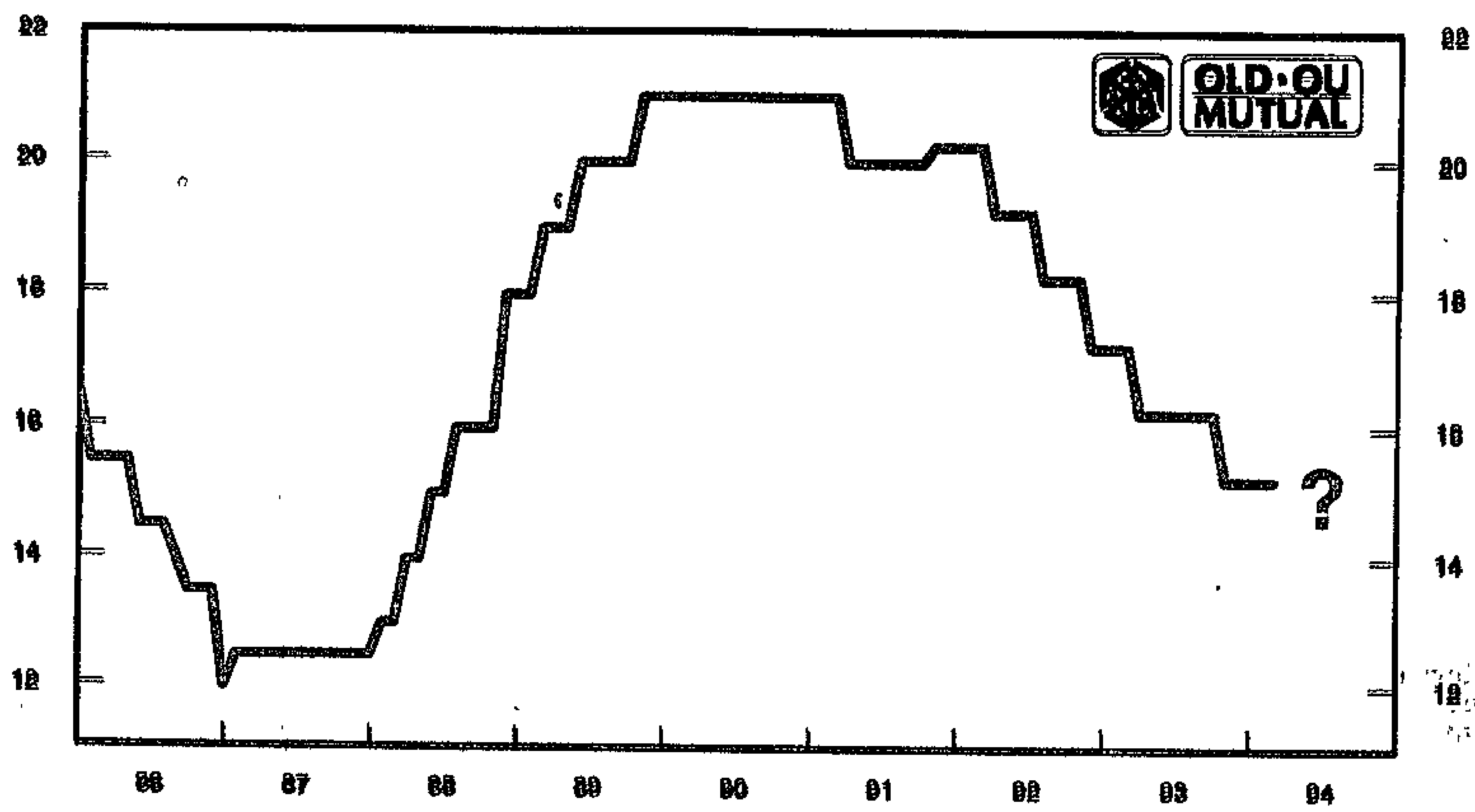
13/3/94

(58)

DR TERENCE MOLL

By JEREMY WOODS

Where now for the prime overdraft rate?



TWO of the country's larger financial institutions are forecasting lower interest rates after the elections next month.

A one percent cut in interest rates has been forecast after the election by Old Mutual Unit Trusts in its latest economic review.

The forecast has been made on the basis that the capital account of the Balance of Payments has stabilised and inflation remains subdued.

Meanwhile, Sanlam believes that interest rates will remain in a downward phase "for some time to come" because of sluggish credit, an expected increase in foreign reserves and a continued downward trend in inflation.

In the latest economic review from Old Mutual, economist Dr Terence Moll says predictions of lower rates are subject to increased foreign exchange reserves and declining inflation.

"We still believe there is scope for the bank rate to fall by up to two percentage points in this downcycle given high real interest rates and the need to support the economy in this difficult period.

"Therefore, if the reserves recover after the election and inflation falls to below eight percent at mid-year, interest rates should fall."

Sanlam says the balance of payments situation and the poor gold price is having "a curbing effect on a reduction in interest rates". Political uncertainty is also playing a significant role.

"We predict a fluctuation around current levels during the next few months, after which rates will move to lower levels in conjunction with a noticeable drop in the inflation rate and a possible increase in foreign interest in local stock."

SUNDAY TIMES, Business Times, March 13, 1994

Millions assured for good life in hard times under Liberty

S Times (Buss)

13/3/94


DONNY GORDON ... optimism and hope prevail

By TERRY BETTY

WHEN the going gets bad, people insure themselves.

This could partly account for 1993 being the best year in Liberty Life's 36-year history in spite of adverse trading conditions elsehwere.

Liberty Life and Liberty Holdings reached all-time highs on the JSE this week at R89,50 and R220.

Record levels of new business contributed to the life assurer's premium and investment income increasing by 32,5% to R14,55-billion in the year to December 1993. This is equal to R58-million each working day.

Liberty Life contributed 83% of Liberty Holdings' taxed earnings in 1993.

Liberty Holdings' earnings a share rose 24,5% to 589,1c. Dividends were 450c. Liberty Life and Liberty Holdings offer shares instead of cash because of the 15% secondary tax on companies applicable to dividends

Funds entrusted to Liberty Asset Management and Liberty Life Properties total R20-billion. They contribute to Liberty Life Group's assets of R106-billion under control.

Donald Gordon says in his chairman's statement that all sectors of the SA market surged in 1993, particularly in the last quarter.

In spite of difficult market conditions, Liberty's SA property interests showed satisfactory growth in income and capital value.

Consolidated net taxed profit of Liberty Life Properties was R10,1-million, compared with R9,9-million for the year before.

Mr Gordon says Liberty's flagship regional shopping centre, Sandton City, is trading well and retail facilities are being extended. An entertainment complex is being built in the centre and has been leased.

Guardbank Management Corporation, 50% owned by Liberty Holdings, reported R540-million worth of unit trust sales — 36% up on the previous year. This brought the combined assets of the four unit trusts under Guardbank management to R2,5-billion.

Looking at the investment background in SA, Mr Gordon says a more relaxed monetary policy may be necessary because inflation is likely to ease in the first half of 1994. Such a move would be positive for the economy in a time of political transition.

To encourage business, the financial sector and foreign investors, the economy should be "opened up to the level of the Western world standards".

SA should have the courage to dismantle exchange controls which discourage serious foreign investment here.

The biggest problem of the incoming government will be unrealistically high short-term expectations that need to be tempered.

The new government will have to follow free-market principles to meet the aspirations of the people.

Mr Gordon says that notwithstanding the unacceptable levels of violence, an aura of optimism and hope prevails as SA returns to the international community and receives a resounding welcome.

"This remarkable goodwill must be nurtured and responded to with great care and statesmanship," he says.

The economy is set to regain its momentum, particularly because International Monetary Fund and other international support has been made available to SA, bolstering fragile foreign-currency reserves.

The rise in the gold price from $333 at December 31, 1992, to $391 a year later improved SA's export earnings.

Growing confidence will result in demand, which will stimulate manufacturing and industrial output. But there has not yet been a significant increase in consumer spending.

Liberty notches up best year to date

B/Day 10/3/94

ROBYN CHALMERS

LIBERTY Life's success story continued in the year to December with a 24,2% increase in earnings and dividends.

Its net taxed surplus, excluding equity accounted earnings, rose 25% to R441,8m (R352,8m). This translated into a surplus a share of 192c (154,6c).

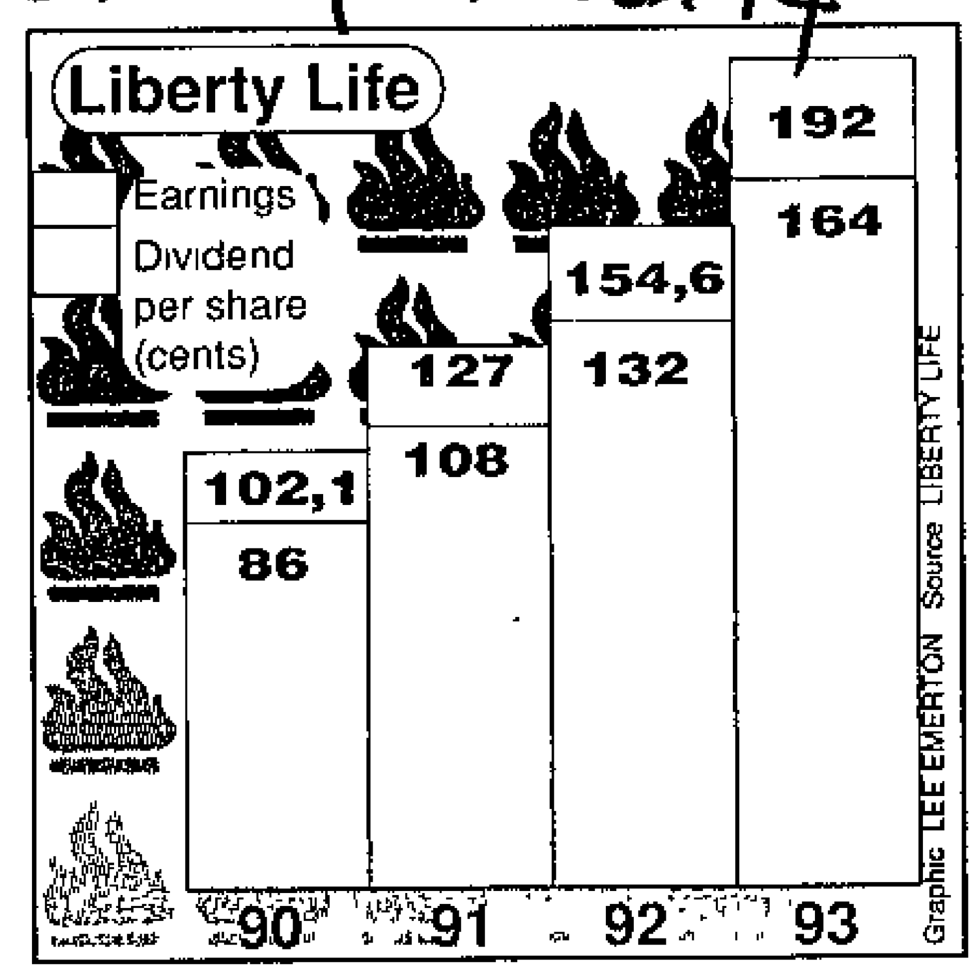
(58)

A total dividend of 164c (132c) a share was declared.

In a year chairman Donald Gordon described as "the most successful in the group's 36-year history", the life assurer saw net premium income leap 44,7% to R10,6bn (R7,4bn).

Net income from investments rose 7,7% to R3,9bn (R3,6bn), leaving total income a third higher at R14,5bn (R10,9bn).

New annualised recurring premiums, a key measure of the assurer's progress, reached a record R750m (R577m), while single premiums jumped 63% to R1,83bn (R1,12bn). New business rose 52% to



R2,58bn (R1,7bn).

Gordon said UK-based Sun Life saw strong growth, with new business volumes rising 25% to R535m (R429m). Single pre-

□ To Page 2

Liberty Life

B/Day 10/3/94

□ From Page 1

miums increased 59% to R11,2bn (R7bn).

In terms of accounting principles laid down by the SA Institute of Chartered Accountants, Liberty proportionately consolidated the figures of Sun Life with those of the assurer and holding company Liberty Holdings. This led to group assets exceeding R87bn, against the previous year's restated R62bn.

Gordon said Liberty remained the dominant contributor to the group's overall profits, contributing 83% of Liberty Holding's taxed earnings. The parent company posted a 25% gain in attributable profit to R270m (R216m). Earnings rose to 589c (473c) a share and a dividend of 450c (360c) a share was declared.

Liblife Strategic Investments (Libsil), listed on the JSE in September, posted a 24% rise in attributable income to R314,8m (R254,3m). Earnings rose to 17,5c (11,8c) a share and a dividend of 12c a share was declared.

(58)

Liberty Life held 80% of Libsil after a rights offer which led to R1,03bn additional funds being raised for the assurer.

UK-based TransAtlantic Holdings and offshore arm First International Trust both had a good year.

Other subsidiaries Liberty Life Properties, Guardian National, Guardbank Management Corporation and Liberty Asset Management all performed well, showing gains in net taxed profit.

Gordon said he had not given up his dream of diversifying into the North American market by acquiring a major assurer. He hoped to do this before the end of his five-year term as chairman.

Bumper year for Norwich and Liberty Life

ARG 10/3/94

58

Business Staff

SHAREHOLDERS of assurers Liberty Life and Norwich have been given a bonanza payout on the back of outstanding results for the year ended December.

Liberty's earnings are up 24 percent in what chairman Donald Gordon describes as the group's best year ever.

The dividend of 164c (132c in 1992) represents as usual 85 percent of declared earnings.

Norwich lifted its dividend 65 percent, from 52c to 85,8c a share, on earnings up nearly 60 percent to 129c.

Directors say good investment performances were the outstanding feature of the year, with Norwich's unit trust managing a return of 52 percent and the Managed Fund 48 percent.

Norwich's total assets are up 50 percent to R3,9 billion.

Liberty announced a change in accounting policy which swelled its assets to R87 billion, more than double the figure disclosed at the end of 1992, and well up on R62 billion when 1992 assets are determined on the same basis.

In one step Liberty has been able to show an asset base comparable with its much older rivals Old Mutual and Sanlam.

Liberty now proportionately consolidates its 50 percent share of British assurer Sun Life throughout the income statement and balance sheet.

Mr Gordon says the group has changed its policy in line with the new international accounting standards adopted by the SA Institute of Chartered Accountants and in view of Liberty's interest in Sun Life.

More than R14,5 billion worth of premium and investment income came into the group during the year, with more than 55 percent emanating from the United Kingdom.

Mr Gordon makes no secret of his offshore ambitions and says he would like to acquire a significant insurer in the United States before he "pulls up stumps" in five years' time.

Liberty has small holdings in a number of insurers around the world which could be the springboard for another major acquisition.

It has a 3 percent holding in the giant British composite insurer Sun Alliance (which has no connection with Sun Life) which could well be increased.

The group recently announced plans to float Capital Shopping Centres on the London Stock Exchange in April, which is expected to have gross assets of R4 billion.

Liberty Life ups earnings in 'best year'

58

CT 10/3/94

From ROBYN CHALMERS

JOHANNESBURG. — Liberty Life's success story continued in the year to December with a 24,2% increase in earnings and dividends.

Net taxed surplus, excluding equity accounted earnings, rose 25% to R441,8m (R352,8m).

This translated into surplus a share of 192c (154,6c). A total dividend of 164c (132c) a share was declared.

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Net income from investments rose 7,7% to R3,9bn (R3,6bn), leaving total income a third higher at R14,5bn (R10,9bn).

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Liberty Life held 80% of Libsil following a rights offer that led to R1,03bn additional funds being raised for the assurer.

Nedbank set to open office in Beijing

JOHANNESBURG. — Nedbank is to would open a representative office in Beijing, China on March 16 — establishing the first South African banking presence in the reforming communist country. 58 ARG 9/3/94

"This is part of our long-term plan to remain the major South African bank operating in Asia," Nedbank international division director Derek Muller said.

Nedbank is already well-represented in the Far East through its Hong Kong-based subsidiary NedFinance (Asia) and a representative office in Taiwan.

"Having been in business in Hong Kong for ten years as a trade finance and treasury operation, NedFinance already has a large client base which is set to expand with Chinese customers eager to participate in South African trade and investment," he said.

Nedbank's Beijing representative office would provide assistance and information to Chinese enterprises interested in South Africa as well as helping domestic firms to enter the rapidly growing market in China.

"The office in Beijing will facilitate two-way trade and investment between our countries and will complement the Chinese focus that our Hong Kong branch has already developed," Mr Muller said. — Sapa.

■ An Indonesian company is building the world's largest pulp and paper plant in Riau at a cost of some R4,95 billion, The Argus Foreign Service reports from Hong Kong.

A spokesman for Riau Andalan Pulp and Paper said the plant was expected to begin producing up to 2 400 tons of pulp a day from October and the paper-making section would be opened in 1995 with an output of 1 800 tons a day.

He added that the plant would use around 12 000 tons of wood a day.

Claims slash M&F's underwriting surplus

B/Day 9/3/94

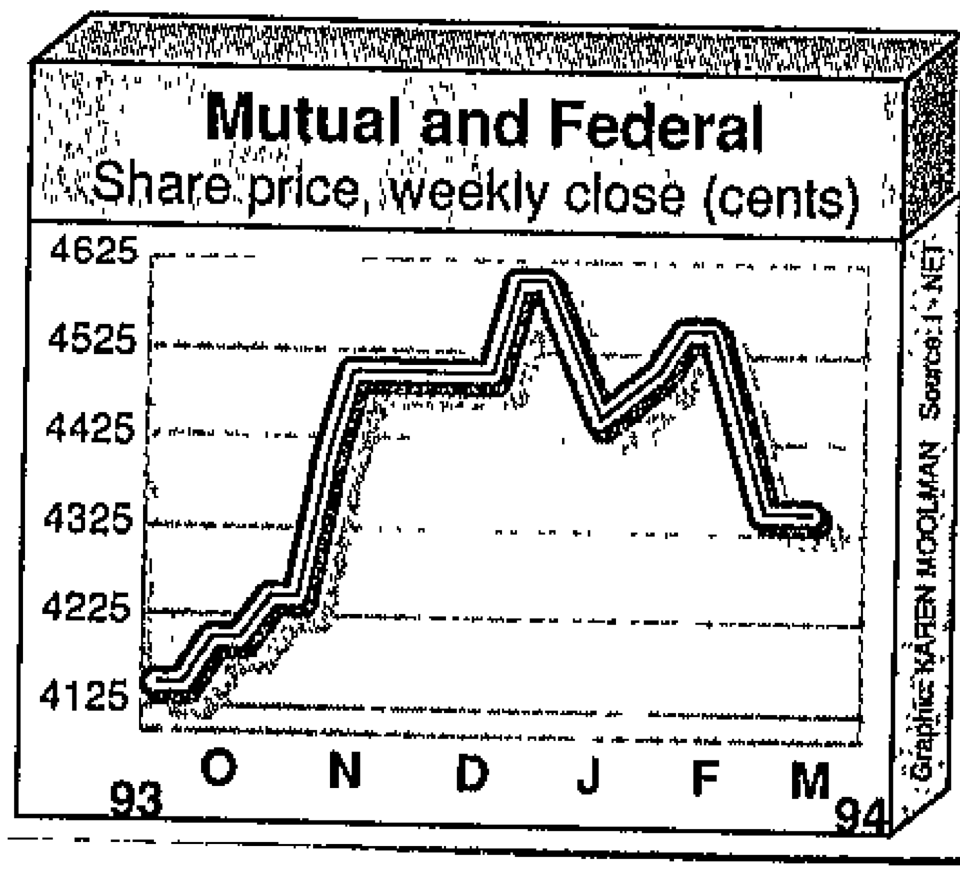
ROBYN CHALMERS

SHARP increases in crime, weather and motor-related losses saw short term insurance giant Mutual & Federal post a 64% plunge in its underwriting surplus to R12,3m (R34,6m) for the half year ended December 31.

Gross premium income grew a comparatively healthy 11% to R716,8m from R645,2m during the previous comparable period, while net premiums advanced 8% to R594m (R548,4m).

MD Ken Saggers said the business flowing from the demise of IGI had been modest. The premium growth was therefore organic in nature and was considered satisfactory.

Investment income declined marginally to R74,4m (R75,8m). Saggers said this was a result of the continued drop in interest rates and a raised level of investment in equity shares.



Pre-tax net income dipped more than a fifth to R86,7m from R110,4m during the previous interim period. The tax charge fell to R17,1m from R27,8m.

Saggers said the lower tax charge was the result of a reduction in the corporate tax rate during the previous financial year to 40% from 48%.

(58)

The group's net income was 7% lower at R69,9m from R75,2m. Earnings a share were down 16% at 148c (176c) and directors declared a 20% increase in the interim dividend to 36c (30c) a share.

Saggers said there was a marked deterioration in the motor account, and the number of stolen vehicles increased nearly 20%. A further disturbing trend was the increased incidence of fraudulent and arson-related claims.

"The welcome return to normal weather patterns in SA has seen a considerable increase in water-related losses, the cost of which doubled to R70m in the six months under review."

Saggers said the achievement of an underwriting surplus underscored M&F's prudent underwriting standards, but he warned that the volume of claims had continued to grow exponentially in the two months since the half year end.

Saggers said the volatile nature of the industry meant the results for the first six months were not necessarily indicative of the likely results for the remainder of the financial year.

Business Report

Mutual & Federal surplus plunges

(58)

CT 9/3/94

From ROBYN CHALMERS

JOHANNESBURG. — Sharp increases in crime, weather and motor-related losses saw short term insurance giant Mutual & Federal post a 64% plunge in its underwriting surplus to R12,3m (R34,6m) for the half year ended December 31.

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Metlife, Atlife trade at 12-month highs

B/Day

CHARLOTTE MATHEWS

AFRICAN Life and Metropolitan Life, the two life assurers that announced in the past few months they would be spreading their share ownership more widely in the black market, are both trading at or close to their 12-month highs. 8/3/94

African Life is now at a peak of 600c, a third higher than its low of 400c reached in September. Metlife is at R27, 50c below its high of R27,50 reached on December 31 but also a third above its low of R18 reached in May last year. (58)

At 600c African Life's dividend yield is 2,7% and Metlife's at R27 is 2,5%, both fairly close to the sector's average of 2,12%. African Life's earnings yield is 4,1% and Metlife's 3,9%, both weaker than the sector average of 3,04% and Liberty's 2,0%.

Analysts were doubtful, however, whether the policy of selling more of their shares to the black market was pushing up the share prices of the two companies.

An analyst said Metlife's attempts to sell its shares to black stakeholders had been "a bit of a damp squib".

The assurer announced in May its major shareholder, Sankorp, would sell 10% of its 40% stake to Metlife Investment Holdings (Methold), chaired by Nthato Motlana. But by November only R9m of the R140m of shares on offer had been sold — which Metlife MD Marius Smith said was in line with expectations.

By contrast, the analyst said, African Life's announcement that major shareholder Southern Life would reduce its holding from 76% to 25% and sell 51% to a black consortium headed by African Life director Don Ncube had ended months of uncertainty that had depressed the share price.

The analyst said African Life was a sound company and the market had confidence in its CE Bill Jack. Its rating, in view of the fact that it was only listed in 1990, was "not bad".

Both African Life and Metlife were "perfect new SA shares," the analyst added.

Another analyst said Metlife was an excellent company, undervalued at present, while African Life was "completely overrated".

The number of shares traded in African Life was small and it was not in any institutional portfolios, while Metlife had serious institutional links.

The analyst said Metlife's reserves were excellent, and this, together with its move away from Sanlam, was enabling it to penetrate A and B income markets. This was the reason why the share was climbing, rather than the marketing of its shares to black shareholders.

A third analyst said there was some foreign interest in the two shares, but the two main reasons why they were at their peaks was that they were benefiting from the strength of the market overall, and that there was potential for their markets to expand in the future.

Sanlam cool on top rating for A & G

Business Editor (58) ARG 8/3/94

ASSURANCE giant Sanlam is not falling over itself to welcome short-term insurer Auto and General into its fold of acceptable companies with which it will do business.

After listing the agressive, direct marketing insurer A&G in a confidential internal document as a company its brokers should avoid last year Sanlam was left redfaced last week when Republic Ratings upgraded A&G to a respectable "A" grade rating.

Sanlam general manager: policy services and administration Izak van Rensburg said today that the rating played a small role in Sanlam's decision on deciding with which companies it would deal.

It had little to do with the financial position of A&G, which last year had a premium income of R282 million and shareholders' funds of R112 million.

Mr Van Rensburg said other factors such as size, whether they are linked to Sanlam, ratings, all the financial aspects, claims records among other things were also taken into account.

"If a company is not on our list it does not imply the reasons are financial."

Mr Van Rensburg said when the Sanlam list was revised "we will take note of the new rating as well as other factors".

At the time when the warning not to deal with A&G was made to Sanlam brokers A&G joint managing director Nick Mew was told by Sanlam that the informal, low credit rating was the reason why A&G was not on the Sanlam list.

Shake-up seen for financial services sector

ARG 8/3/94 (58)

Business Staff

JOHANNESBURG. — The financial services industry expects further momentous change and challenges unprecedented in the its history.

This was one of the findings of a survey conducted by Deloitte & Touche's specialist financial institutions team, in association with Wits Business School, via interviews among 28 institutions.

Information technology was identified as playing a critical role in all the business issues facing the industry, which is also restructuring to meet the challenges of the new competitive environment.

The institutions rated the ten most important issues facing them as follows:

- Profitability and cost control.
- Human resources.
- Knowing your customer.
- Management information systems.
- Product development.
- Market expansion.
- Politico-economic factors.
- Distribution channels and sales tools.

A key challenge that therefore emerged was to integrate and align the business issues with the capabilities of technology.

■ Post-elections South Africa has the potential to become an interesting, profitable place in the arena of international banking — given a smooth process to democracy.

This is the view of visiting international banker and chairman of the Societe General, the fourth largest bank in France, Marc Vienot.

He was addressing a media breakfast held at Societe Generale South Africa Ltd's new offices in Johannesburg.

"The building confirms we are duly committed to South Africa." The bank started operations here three years ago and also has an office in Cape Town.

No surprises likely from Liberty

B/Day 7/3/94

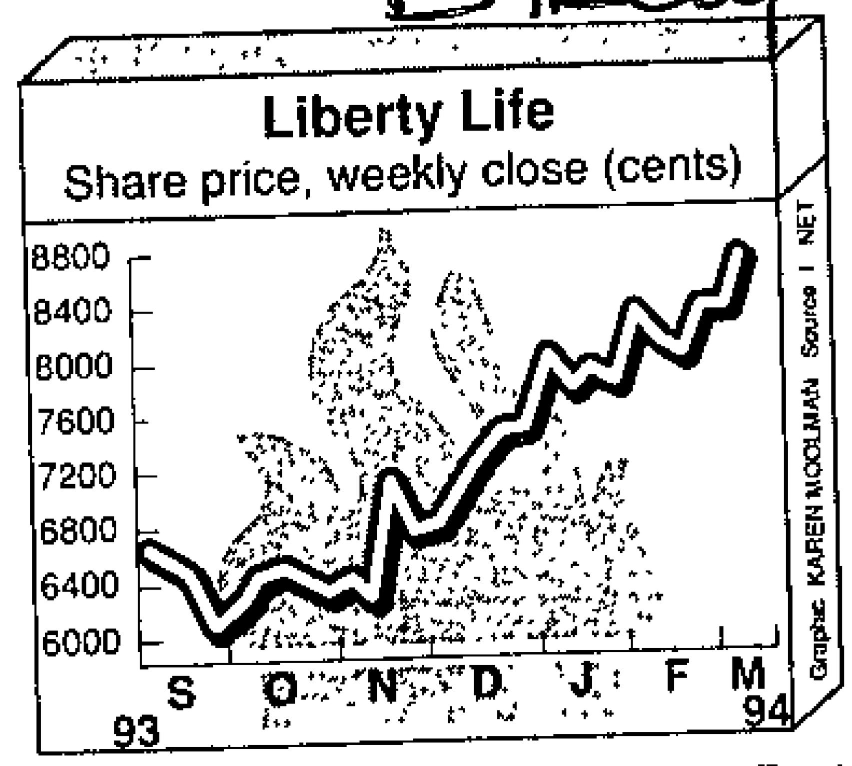
CHARLOTTE MATHEWS

NO SURPRISES are expected from life assurer Liberty Life's results for the year to December, due to be published this week, since it has already announced its new business figures and dividend for the year.

In January, Liberty said total new business in 1993 rose 52% to R2,6bn against 1992's R1,7bn. This included annualised recurring premium business of R750m and total single premium income business of R1,8bn.

In February it declared a capitalisation award of 1,15 new fully paid ordinary shares or a total cash dividend for the year of 164c — 24,2% higher than in 1992.

Analysts said there was no point in predicting the earnings a share figure since it was no indication of the actual performance of life assurers. Earnings a share did not reflect actual profits but a transfer from reserves, less expenses.



They agreed the low level of disclosure by life assurers meant annual figures conveyed little meaningful information about the business. One analyst said a more useful figure was reserves in the life fund, which was published only in the annual report.

Another analyst said the level of new business was interesting and Liberty's growth in 1993 had been quite good, particularly in medical insurance. Owing to the strength of its balance sheet, Liberty could afford to expand its market share without incurring new business strain.

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On the investment side, an indication of the performance of the portfolio was suggested by the returns shown in First Bowring's latest Investment Performance Survey. This showed Liberty's pension fund managers achieved a gross return of 36,2% in the year to December 1993 on a time-weighted basis.

Liberty's shares closed unchanged at R83,50 on the JSE yesterday, close to the year-high of R85,00 reached in January. At the current price the shares offer a dividend yield of 2% compared to the sector's 2,12%.

Fm 4/3/94

RMB HOLDINGS LIMITED

(Registration number 87/05115/06)
("RMBH")

58

• Earnings per share +39% • Dividend per share +38% • Capital and reserves +68%

PROFIT AND DIVIDEND ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 1993

SUMMARISED GROUP INCOME STATEMENT

	Six months ended 31 December 1993 (unaudited) Rmillion	1992 Rmillion	Year ended 30 June 1993 (audited) Rmillion
Net income after taxation and contingency reserve transfers	**31,4**	21,5	60,8
Outside shareholders' interest	**(11,4)**	(5,0)	(16,4)
	20,0	16,5	44,4
Income from associated company	**5,2**	–	–
Net income attributable to ordinary shareholders	**25,2**	16,5	44,4
Retained income at beginning of period	**5,2**	1,6	1,6
	30,4	18,1	46,0
Transfer to reserves	**(4,3)**	–	(23,2)
	26,1	18,1	22,8
Dividend	**(10,6)**	(5,8)	(17,6)
Retained income at end of period	**15,5**	12,3	5,2
Number of shares in issue	**72 975 824**	55 080 000	55 080 000
Weighted average number of shares in issue	**60 473 262**	55 080 000	55 080 000
Earnings per share (cents)	**41,7**	30,0	80,6
Dividend per share (cents)	**14,5**	10,5	32,0
Dividend cover (times)	**2,9**	2,8	2,5

SUMMARISED GROUP BALANCE SHEET

	31 December 1993 (unaudited) Rmillion	1992 Rmillion	30 June 1993 (audited) Rmillion
Capital and reserves	**617,0**	255,6	309,0
Outside shareholders' interest	**159,9**	96,5	153,2
	776,9	352,1	462,2
Deposits and other accounts, including contingency reserve	**3 744,5**	2 192,9	4 125,2
Securities sold under agreement to repurchase	**2 351,7**	–	4 147,8
Short-term insurance fund	**27,5**	–	30,8
Life fund	**9 207,5**	7 134,3	7 890,0
Shareholders for dividend	**10,6**	5,8	11,8
Acceptances on behalf of clients	**414,6**	608,2	334,1
	16 533,3	10 293,3	17 001,9
Investments, advances and trading assets	**13 761,5**	9 642,6	14 094,0
Securities purchased under agreement to resell	**2 305,6**	–	2 526,0
Fixed assets	**51,6**	42,5	47,8
Liability of customers under acceptances	**414,6**	608,2	334,1
	16 533,3	10 293,3	17 001,9

COMMENTS

INTRODUCTION

During the period under review, RMBH acquired a 20% interest in NBS Holdings Limited ("NBS"). The acquisition was funded by the issue of shares. The issue of shares, together with retained earnings for the period, increased capital and reserves by 68% from R462,2 million at 30 June 1993 to R776,9 million at 31 December 1993.

RESULTS FOR THE SIX MONTHS

Net income after taxation and contingency reserve transfers, attributable to ordinary shareholders of RMBH for the six months ended 31 December 1993, increased by 53% from R16,5 million in 1992 to R25,2 million in 1993

Earnings per share, including the positive effect of the NBS earnings, increased by 39% from 30,0 cents to 41,7 cents. Pro forma comparative earnings per share for the six months ended 31 December 1993 increased by 21% from 30,0 cents in 1992 to 36,3 cents in 1993.

PRINCIPAL OPERATING SUBSIDIARIES AND ASSOCIATES

Momentum Life Assurers Limited ("Momentum Life") and its other subsidiaries

Total premium income amounted to R701,0 million (1992: R622,8 million) for the six months ended 31 December 1993. The growth in new business was satisfactory despite the tight economic conditions prevailing in the country. The marketing division exceeded its production targets for the six months.

Total assets under management of the Momentum Life group increased by 21% from R15 100 million to R18 250 million over the six month period.

Rand Merchant Bank Limited ("RMB")

All divisions, including London & Dominion Trust which became a division of RMB from 1 July 1993, again performed satisfactorily and exceeded budgeted profits. Banking services, capital market and special projects made outstanding contributions to the bank's profit. RMB has maintained the high quality of its loan book in difficult economic times and has not pursued asset growth at the expense of sound credit criteria.

NBS

NBS is continuing to perform well and notwithstanding a possible narrowing in margins in the next six months, the group expects to report meaningful growth in earnings per share for the full year

TOTAL ASSETS

A foreign subsidiary company, which is a discount house registered with the Reserve Bank of Australia, concludes reciprocal purchase agreements in government and semi-government gilts with third parties as a short-term money trader. The aggregate value of these reciprocal purchase agreements are separately reflected in the group's balance sheet and is largely responsible for the decrease in total assets since the 30 June 1993.

PROSPECTS

All the companies within the group are cautiously optimistic and expect to report a real growth in earnings per share for the full financial year. However, the political climate and its potential impact on the economy remains the major area of uncertainty.

INTERIM DIVIDEND

An interim dividend of 14,5 cents per share (1992: 10,5 cents per share) which represents an increase of 38%, was declared for the six months ended 31 December 1993. The interim dividend is covered 2,9 times, which is similar to the dividend cover at 30 June 1993

The interim dividend was declared on 23 February 1994, for payment on 30 March 1994, to all shareholders registered on 18 March 1994 Non-resident shareholders' tax at the appropriate rate will be deducted by the company from dividends payable to shareholders whose addresses in the register of members are outside the Republic of South Africa.

By order of the board

P F de Beer FCIS
Secretary

2 March 1994

Registered office
25 Fredman Drive
Sandton
2199

Transfer secretaries
Fraser Street Registrars (Proprietary) Limited
2nd Floor, Sage Centre
10 Fraser Street
Johannesburg 2001

TRADITIONAL VALUES. INNOVATIVE IDEAS

JONSSONS

Momentum
Lewens·Life

FM 4/3/94

Momentum Life Assurers Limited

(Registration number 66/10753/06)

58

• Earnings per share +33% • Dividend per share +33%

GROUP RESULTS AND DIVIDEND ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 1993

SUMMARISED GROUP INCOME STATEMENT

	Six months ended 31 December 1993	1992	Year ended 30 June 1993
	(unaudited)		(audited)
	Rm	Rm	Rm
Net taxed surplus attributable to shareholders	**28,5**	19,6	53,0
Retained surplus at beginning of period	**18,3**	26,0	26,0
	46,8	45,6	79,0
Dividends	**16,1**	11,1	29,8
Transfer to reserves	**4,3**	–	30,9
Retained surplus at end of period	**26,4**	34,5	18,3
Number of shares in issue (million):			
Weighted average during the period	**134,1**	122,7	125,0
Ranking for dividend			
Interim	**134,1**	122,7	122,7
Final	**–**	–	134,1
Earnings per share (cents)	**21,2**	16,0	42,4
Dividend per share (cents):			
Interim (declared 17 February 1994)	**12,0**	9,0	9,0
Final (declared 27 August 1993)	**–**	–	14,0
Total	**12,0**	9,0	23,0
Dividend cover (times)	**1,8**	1,8	1,8

SUMMARISED GROUP BALANCE SHEET

	31 December 1993	1992	30 June 1993
	(unaudited)		(audited)
	Rm	Rm	Rm
Shareholders' funds	**484,6**	361,2	465,5
Excess of cost of investment in subsidiaries and joint venture over book amount	**(72,3)**	(57,6)	(73,7)
Outside shareholders' interest	**13,5**	11,0	13,6
Secondary capital of bank subsidiary	**22,9**	21,9	22,6
Deposits and other accounts	**2 802,7**	2 105,7	2 638,6
Acceptances on behalf of clients	**414,6**	608,2	334,1
Long-term liabilities	**21,0**	–	21,5
Current liabilities	**265,8**	91,9	234,3
Short-term insurance fund	**27,5**	–	30,8
Life fund	**9 207,5**	7 134,3	7 890,0
	13 187,8	10 276,6	11 577,3
Represented by:			
Investment assets	**12 510,1**	9 475,1	11 020,1
Fixed assets	**50,0**	41,9	45,5
Liability of customers under acceptances	**414,6**	608,2	334,1
Current assets	**213,1**	151,4	177,6
Total assets	**13 187,8**	10 276,6	11 577,3

Total assets under management	**18 250,0**	12 200,0	15 100,0

COMMENTS

RESULTS FOR THE SIX MONTHS

Net taxed surplus

Momentum Life Assurers Limited ("Momentum Life") performs full actuarial valuations at the end of each financial year. For the purpose of this interim report, the net taxed surplus from life insurance operations is shown at 50% of the level achieved for the preceding full financial year.

Results

The disclosed net taxed surplus attributable to shareholders increased by 45% from R19,6 million to R28,5 million. This increase is mainly attributable to the growth in the net disclosed income of Rand Merchant Bank Limited ("RMB") as well as the consolidation of the net income of Aegis Insurance Company Limited ("Aegis") for a full six month period for the first time.

Earnings per share increased by 33% from 16,0 cents per share to 21,2 cents per share.

Momentum Life

Total premium income amounted to R701,0 million (1992: R622,8 million) for the six months ended 31 December 1993. The growth in new business was satisfactory despite the tight economic conditions prevailing in the country. The marketing division exceeded their production targets for the six months.

Total assets under management of the group increased by 21% from R15 100 million to R18 250 million over the six month period.

Rand Merchant Bank

All divisions, including London & Dominion Trust Limited which became a division of RMB from 1 July 1993, again performed satisfactorily and exceeded budgeted profits. Banking services, capital market and special projects made outstanding contributions to the bank's profit. RMB has maintained the high quality of its loan book in difficult economic times and has not pursued asset growth at the expense of sound credit criteria.

Other subsidiaries

Aegis, RMB Properties (Pty) Ltd and Momentum Health Limited all performed in line with expectations.

RMB Asset Management (Pty) Ltd, which manages the investments of Momentum Life as well as the investments of other clients, was particularly successful in attracting new investment funds.

PROSPECTS

The group expects to report meaningful real growth in earnings and dividends per share for the full financial year. However, the political climate and its potential impact on the economy remains the major area of uncertainty.

INTERIM DIVIDEND

An interim dividend of 12,0 cents per share (1992: 9,0 cents per share) which represents an increase of 33% was declared for the six months ended 31 December 1993. The interim dividend is covered 1,8 times, which is the same as the dividend cover at 30 June 1993.

The dividend cheques will be posted on or about 30 March 1994 to shareholders registered in the books of the company at the close of business on 18 March 1994. Non-resident shareholders' tax at the appropriate rate will be deducted by the company from dividends payable to shareholders whose addresses in the register of members are outside the Republic of South Africa.

By order of the board

F J C Truter CA (SA)
Secretary

2 March 1994

Registered office: Momentum Park, 267B West Avenue, Verwoerdburgstad 0157 **Transfer secretaries:** Central Registrars Limited, 154 Market Street, Johannesburg 2001

JONSSONS

Fm 4/3/94

RAND MERCHANT BANK LIMITED

(Registration number 68/13988/06)
("RMB")

(58)

• Net income +22% • Capital and reserves +16%

PROFIT ANNOUNCEMENT FOR THE SIX MONTHS ENDED 31 DECEMBER 1993

SUMMARISED CONSOLIDATED INCOME STATEMENT

	Six months ended 31 December 1993 (unaudited) R'000	1992 R'000	Year ended 30 June 1993 (audited) R'000
Net income after taxation and contingency reserve transfers	**18 500**	15 200	44 000
Retained income at beginning of period	**1 838**	2 788	2 788
	20 338	17 988	46 788
Transfer to general reserve	**–**	–	(44 950)
Retained income at end of period	**20 338**	17 988	1 838

SUMMARISED CONSOLIDATED BALANCE SHEET

	31 December 1993 (unaudited) R'000	1992 R'000	30 June 1993 (audited) R'000
Capital and reserves:			
– primary capital	**199 689**	156 181	181 189
– secondary capital	**122 897**	122 249	122 570
Total capital and reserves	**322 586**	278 430	303 759
Deposits and other accounts including contingency reserve	**2 840 879**	2 142 592	2 677 642
Acceptances on behalf of clients	**414 620**	608 197	334 065
	3 578 085	3 029 219	3 315 466
Balances at banks and on call	**97 985**	328 488	126 252
Investments:	**42 802**	66 927	37 916
– listed gilt and semi-gilt stocks	**8 767**	45 167	11 133
– listed shares	**31 035**	15 844	23 800
– unlisted shares	**3 000**	2 812	2 983
– subsidiaries	**–**	3 104	–
Advances, bills discounted, trading assets and other accounts	**3 013 320**	2 017 188	2 808 075
Office furniture, equipment and motor vehicles	**8 204**	7 994	8 004
Fixed property	**1 154**	425	1 154
Liability of customers under acceptances	**414 620**	608 197	334 065
	3 578 085	3 029 219	3 315 466

COMMENTS

FINANCIAL RESULTS

Net income after taxation and contingency reserve transfers for the six months ended 31 December 1993 increased by 22% from R15,2 million in 1992 to R18,5 million in 1993. This increase is similar to increases in disclosed profits for the first six months of previous years.

All divisions, including London & Dominion Trust which became a division of RMB from 1 July 1993, again performed satisfactorily and exceeded budgeted profits Banking services, capital market and special projects made outstanding contributions to the bank's profit RMB has maintained the high quality of its loan book in difficult times and has not pursued asset growth at the expense of sound credit criteria.

DIVIDEND

The declaration of a dividend by RMB has been postponed, as this is more tax effective for the group. As a wholly-owned subsidiary of Momentum Life Assurers Limited, the postponement of the dividend has no material impact on either of the companies.

CAPITAL AND RESERVES

Total capital and reserves, excluding contingency reserve, increased by 16% from R278 million in 1992 to R322 million in 1993. RMB remains well-capitalised, with a risk-weighted capital/asset ratio of 8,8%. This is above the current Banks Act requirement of 7% and the minimum requirement of 8% by 1995.

PROSPECTS

Management is confident that RMB should achieve real growth similar to the first six months for the full financial year. However, the political climate and its potential impact on the economy remains the major area of uncertainty.

By order of the board
P F de Beer FCIS
Secretary

2 March 1994

Registered office
25 Fredman Drive
Sandton
2199

TRADITIONAL VALUES. INNOVATIVE IDEAS

JONSSONS

R260-m boost for black business

Sowetan 3/3/94

BLACK business is going to benefit from a R260 million investment fund from the United States government.

The fund, which is a partnership between the US government's investment arm, the Overseas Private Investment Corporation and a number of leading US companies, is aimed at the entire Southern African region with special emphasis on South Africa.

The Africa Growth Fund has been operational in other parts of sub-Saharan Africa for the past 20 years and is managed by a US-based financial institution, Equator Bank.

Equator Bank's senior vice-president, Mr Richard Bouma says the first phase of the AGF in Africa was highly successful.

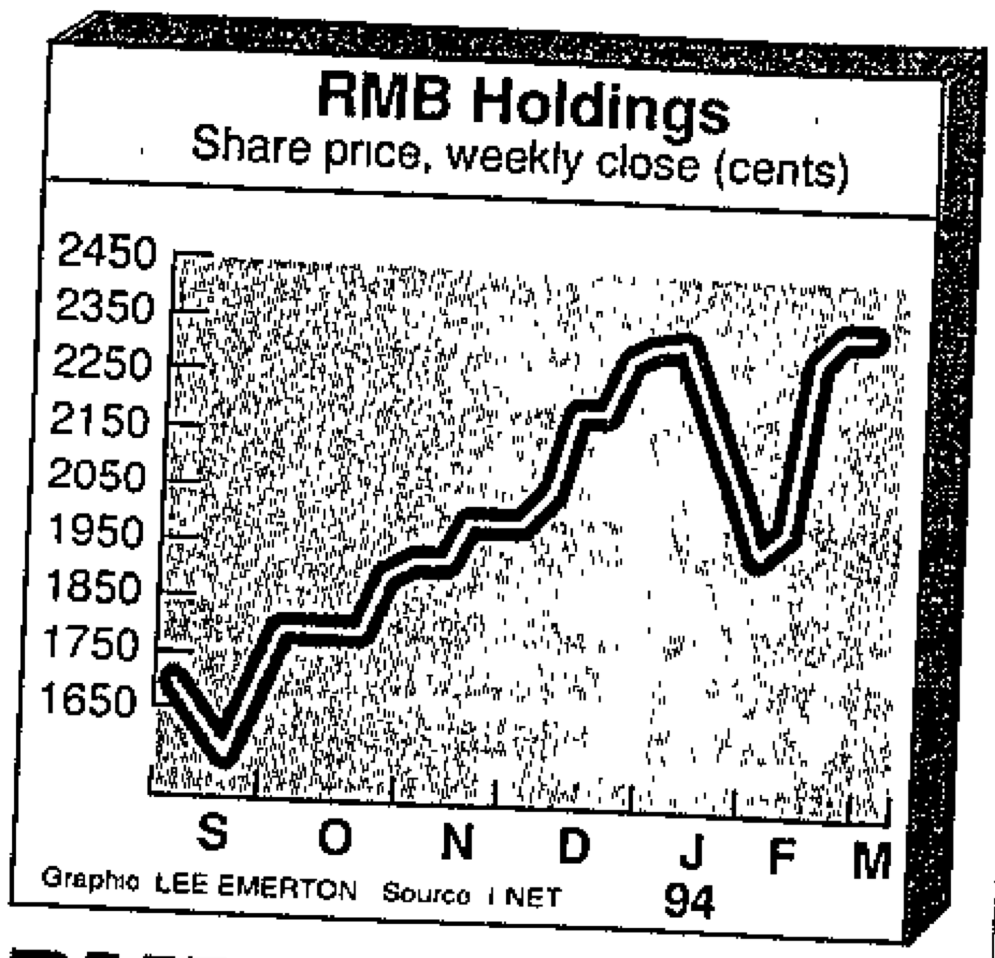
After a 10 day trip to South Africa, the Opic delegation announced the clinching of two deals involving US companies and local black business.

The first deal is a laundry franchise business that aims to establish 100 laundry centres in the townships.

The scheme is a partnership between African American businessman Mr Michael Giles and his South African wife, Ms Bernadette Moffat.

It is estimated that the venture could create about 2 000 jobs and will be financed to the tune of about R65 million by Opic and a number of local banks.

Also, a US-based computer firm CADscan has signed a letter of intent to join forces with the Durban-based black-owned entity, JBN Technology Services, to pursue markets in the electronics industry. (58)



RMBH posts 38% rise in dividend

B/Day 2/3/94

PETER GALLI

RAND Merchant Bank Holdings (RMBH) has posted a 38% rise in its dividend to 14,5c (10,5c) a share in the six months to end-December from a 39% increase in earnings a share to 41,7c (30c).

RMBH acquired a 20% stake in NBS in the period under review, which was funded by the issue of shares. If the acquisition had not taken place, earnings would have risen 21% to 36,3c (30c). The issue and retained earnings increased capital and reserves 68% to R776,9m (R462,2m) at June.

RMBH, whose main operating subsidiaries are Momentum Life Assurers, in which it holds a 68,2% stake, and Rand Merchant Bank, which is 100% owned by Momentum and NBS, reported a 46% rise in net income after tax and contingency reserve transfers to R31,4m (R21,5m).

Outside shareholders' interest more than doubled to R11,4m (R5m), but RMBH gained R5,2m in income from an associated company. This saw net income attributable to ordinary shareholders surge 53% to R25,2m (R16,5m). Existing retained income of R5,2m pushed this to R30,4m, while R4,3m was transferred to reserves and R10,6m was paid in dividends, leaving R15,5m as retained income. 58

Momentum Life increased premium income 12,6% to R701m. Earnings and the dividend were 33% better at 21,2c (16c) and 12c (9c) a share respectively. Assets under

☐ To Page 2

RMBH

B/Day 2/3/94 ☐ From Page 1

its management rose 21% to R18,25bn.

The group also has a subsidiary company — Australian Gilt Holdings — registered with the Australian reserve bank, which performed satisfactorily.

Rand Merchant Bank CE Paul Harris said all of RMBH's divisions had performed according to expectations and the present six months would be spent largely consolidating operations.

The group expected to post real growth in earnings for the full financial year.

Regarding Rand Merchant Bank's 10% stake in Sechold, Harris said this was always reflected at book value in its accounts. The 2,35-million shares held are reflected at a R3,50 price and the market price is more than R4.

☐ RMBH yesterday announced that short-term insurers Dewar Rand and Glenvaal had merged. The new company, Glenvaal Dewar Rand, would be one of the largest broking firms in the industry.

RMBH has held a 33% interest in Dewar Rand since 1985 and will acquire a 20% stake in the new company.

● See Page 7

Subsidiary provides the push for Momentum

B/Day 2/3/94

CHARLOTTE MATHEWS

MOMENTUM Life Assurers lifted earnings a share a third to 21,2c in the six months to December 1993 from 16,0c in the same period in 1992.

The increase reflected the growth in net disclosed income of 100%-held Rand Merchant Bank (RMB) and consolidation of 50%-held Aegis Insurance Company for a full six-month period for the first time.

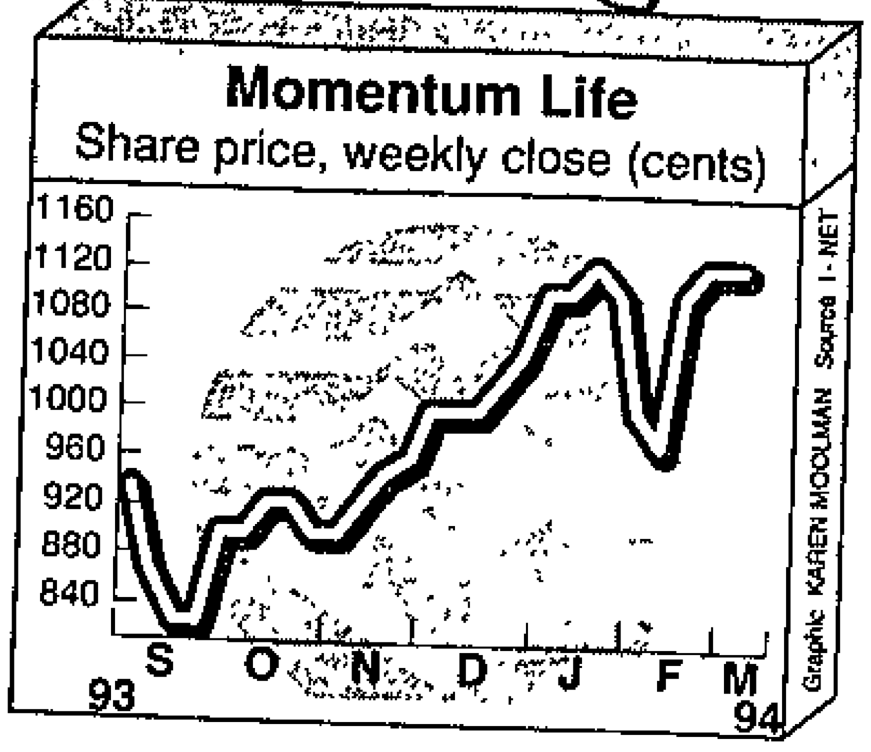
According to figures released yesterday, the net taxed surplus of R28,5m was 45% higher than 1992's R19,6m. An interim dividend of 12,0c (9,0c) a share was declared.

RMB reported a 22% increase in net income after tax and contingency reserve transfers to R18,5m from R15,2m, as all its divisions exceeded budgeted profits. Banking services, capital market and special projects made an "outstanding" contribution.

RMB postponed its dividend for tax reasons, but since it is a wholly owned subsidiary of Momentum Life, this had no effect on either company.

Total premium income of Momentum Life rose 12,6% to R701,0m from R622,8m on the back of a "satisfactory" increase in new business despite the recession.

Momentum Life executive chairman Laurie Dippenaar said the growth rate reflected the group's emphasis on quality business. This was shown also in the decline in the lapse ratio to below the industry average from above the average previously.



Total assets managed by Momentum Life rose one-fifth to R18,25bn from R15,1bn in the six-month period, boosted by the performance of RMB Asset Management.

The group was allocating an increasing proportion of its funds to research and development to create suitable products for a changing market. A recent substantial investment in technology had also improved the efficiency of the life business.

Retrenchments in the preceding financial year, with an investment in technology which had also kept staff numbers down, had kept the increase in costs in the six-month period to zero. Increased expenditure on advertising was planned for the second part of the year, but for the full year the cost increase was expected to be well below inflation. (58)

Dippenaar said better than budgeted performances from 70%-held Momentum Health, 100%-held RMB Asset Management and 100%-held RMB Properties in the second half of the year would also benefit Momentum Life.

Momentum Health had budgeted to be profitable after three years of operation, but was running ahead of budget. Although RMB Properties had not been expected to contribute during the past six months, it turned in a profit because of substantial reductions in the cost of operating the company.

Dippenaar expected Momentum would report real growth in earnings and dividends for the full financial year, provided political events did not adversely affect the economy.

Momentum's shares closed unchanged at R11,25 on the JSE yesterday, where they are close to their 12-month high of R11,50 reached on February 23, and nearly 50% higher than their year's low of R7,60 in March 1993.

COMPANIES

Miba repor[illegible] R64m

MERCHANT and investment [illegible] Holdings, created earlier this year [illegible] the acquisition of Prima Bank [illegible] said yesterday it would have total [illegible] and debenture capital of at least [illegible]

Miba bought existing merchant [illegible] Prima Bank, apart from its investment [illegible] Fulford Brothers Benefit Consultants [illegible] January with the intention of establish[illegible] a black-controlled merchant bank.

CE Tim Wood said the bank would con[illegible]tinue with its existing operations, [illegible] an additional focus on the merchant [illegible]ing needs of SA's black corporate commun[illegible]ity, international banking, and SA's [illegible] banking and investment role through[illegible] the African continent. (58)

He said Miba had the potential [illegible]late trade and investment in SA and [illegible] the continent.

It would also build up a foreign [illegible] department, he added, "and will [illegible]

[illegible] investors to black [illegible]

BDay 2/3/94

[illegible] would have cap[illegible] while the bank's [illegible] least R61m. Both these [illegible] increase by up to R20m as [illegible] were likely.

[illegible] stakeholders would in[illegible] South Enterprise and Invest[illegible] which would subscribe [illegible] equity capital, and Nether[illegible] Africa Finance Holdings, [illegible] for R10,5m.

[illegible] also raise between R20m [illegible] from local [illegible] debentures.

[illegible] of the board would be [illegible] directors would in[illegible] and former Prima [illegible] Mouton.

Business Report

MIBA gets R64m boost in capital

(58)

CT 2/3/94

By ARI JACOBSON

THE new black-owned merchant bank MIBA Holdings, reshaped out of Prima Bank, will have capital backing of R64m supported by overseas shareholders and indirectly has the backing of the industrial might of SA business, according to an announcement yesterday.

CEO Tim Wood pointed out yesterday that the bank would focus on developing the black corporate sector, international banking and investment in the African continent.

The capital structure could increase by a further R20m "as further debentures are likley to be issued," he said.

The holding company will have about 18,7% or R12m of the equity capital subscribed by a black-consortium called Africa South Enterprise and Investment Corporation (ASEICOL).

Investors taking up shares in ASEICOL include SA Breweries, Anglovaal, Nampak and UAL Merchant bank.

Africa Finance NV, registered in the Netherlands and representing overseas promoters, will subscribe for R10,5m of the equity capital.

A locally registered company, Hyde and Brooke, will subscribe for R1,5m.

In addition between R20m and R40m in secondary capital will be raised from local institutions, with Wood pointing out that "firm indications have already been received for R20m in debentures".

MIBA's board will be chaired by Don Mkhwanazi and will include Wynand Mouton, (MIBA Holdings' chairman) Ethelbert Cooper, Tim Wood, Wiseman Nkuthlu and Melvyn Antonie.

Earnings boost for Momentum

(58) CT 2/3/94

By ARI JACOBSON

ASSURER Momentum Life saw interim earnings jump 33% to 21c (16c) a share for the six months to December, backed by its all-round financial support from subsidiaries Rand Merchant Bank (RMB) and Aegis Insurance.

Better still, Momentum's executive chairman Laurie Dippenaar said that similar growth was projected for the full year.

The interim dividend is 33% higher at 12c (9c) a share.

Momentum's broad range of financial service products has been enhanced by its link-up with Rand Merchant Bank and its control, with NBS Bank, of Aegis Insurance.

But, because the group kept tight control over its core insurance business — total operating income rose by only 13% to R701m (R623m) in the six month period.

Dippenaar pointed out that costs had been contained through the efficient implementation of technology. "We are probably the most advanced insurers in the field of paperless operations."

RMB Asset Management, which absorbed the asset management division of Momentum Life in October 1992, helped boost the total assets of the group by 21% to R18,2bn (R15bn) for the six months to December.

The disclosed net surplus was 45% higher at R28,5m (R19,6m).

The Momentum share price has soared, almost three-fold, over the last year from R3,15 to its close yesterday at R11,25 a share.

RMB lifts income 22%

(58) CT 2/3/94

JOHANNESBURG. — Continuing its growth record, Rand Merchant Bank Limited yesterday reported 22% growth in net income for the six months to end-December.

Net income after tax and contingency reserve transfers rose from R15,2m to R18,5m.

RMB's trading activities also had another good year as a volatile market yielded trading profit opportunities.

RMB's total assets increased by 20% from R3bn at end-December 1992 to R3,6bn at end-December 1993.

There was no worsening of the bank's bad debt experience over the six months. Provisions remain well in excess of the targeted level of 0,15% of assets.

Several investment banking transactions occurred during the six months. RMB invested in what Harris describes as "seed capital" in a few ventures, one of which is the establishment of a new casino resort group.

In early 1994, RMB also took over the futures portfolio of the troubled Sechold group and the bank anticipates making a profit out of the process of unwinding the portfolio. RMB offered Sechold shareholders the chance to participate in the portfolio, but they declined.

● Holding company RMB Holdings lifted the interim dividend to 10,6c a share against 5,8c for the corresponding period the previous year following a 39% increase in earnings per share to 41,7c. The improved performance included the positive effect of the earnings of NBS in which it aquired a 20% stake during the review period.

● Sechold's deputy chairman Arthur Kelly said yesterday he had resigned from the group to pursue his own interests.

No liquidation in mind for life assurer Crulife

B/Day 11/3/94

CHARLOTTE MATHEWS

THE liquidation of Crusader Life (Crulife) was not contemplated, but the alternatives planned could not be disclosed at this stage, Crulife curator and Hofmeyr van der Merwe senior partner Billy van der Merwe said yesterday.

Crulife was placed under provisional curatorship last August after an outside evaluation. No financial details have been released, partly because the valuation was complicated by the number of policies cancelled or transferred after the curatorship order was announced.

Van der Merwe confirmed a news report yesterday, saying he believed no life assurer had ever been liquidated in SA and he did not think Crulife would be the first.

However, he could not say whether Crulife would be sold since the curators would put their suggestions to the Registrar of Insurance and would report on the court return date of March 29. "I cannot disclose our intentions without the permission of other parties involved."

Top Dog Nominees has not proceeded with an application brought last year for the liquidation of Crulife. It was understood that Top Dog Nominees was anxious for an inquiry to be held to investigate the activities of Crulife's management.

A second application, brought by Les Cohen of Westrust as liquidator of a company called DRBC Long-Term Finance, is attacking the validity of certain provisions in the curatorship order which, it is argued, are ultra vires. That hearing is scheduled to take place shortly.

Negotiations are under way with Anglovaal, the ultimate holding company of Crulife, and UAL, the marketer of an annuity policy with Crulife. An offer of about R30m to Crulife policyholders is rumoured to have been put forward by Anglovaal and UAL.

(58)

Van der Merwe said the two companies were still prepared "to put their hands in their pockets" and it was hoped a workable offer could be put on the table.

Nedbank to open Beijing office

58 7/3/94

JOHANNESBURG. — Nedcor Ltd's Nedbank said it would open an office in Beijing on March 16 as the first SA bank to be granted permission to establish a presence in China.

"The granting of the licence by China is seen as a show of faith in the political and economic situation in South Africa, and Nedbank is well prepared to invest its substantial resources and skills in the economic expansion anticipated through political settlement, the removal of sanctions and resumption of open international trade," it said in a statement.

Derek Muller, director of its international division, said the Far East was a major growth point with many opportunities for trade and joint ventures. China was seen as the Asian country with the most growth potential, he said.

Nedbank's office would facilitate two-way trade between the countries, he said.

Nedbank has been represented in the Far East through subsidiary Nedfinance (Asia) Ltd for the past 10 years. It has also had an office in Taiwan for the last three years. — Reuter

No liquidation for Crusader Life

(58)

CT 1/3/94

From CHARLOTTE MATTHEWS

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'Alternative plans can't be disclosed at this stage . . . '

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Van der Merwe said the two companies were still prepared "to put their hands in their pockets" and it was hoped a workable offer could be put on the table.

Mercantile notches 25% income growth

(58) CT 28/2/94

Business Staff

MERCANTILE Bank has reported a fifth year of sustained growth, with a 25% rise in net income after tax to R2,5m from R2m for the year ended December

The unlisted bank, which caters to niche markets, said net interest income had jumped 61% to R28m, compared with R17m in 1992.

Operating income was R34,5m (R23,2m). Provisions for bad and doubtful debts, expenditure and tax rose to R32m from R21m. Mercantile's net qualifying capital and reserves reached R23,2m (R13,6m).

The deposit book swelled 44% to R419m during 1993, while advances grew 39% to R340m from R244m.

MD Derek Cohen said he was satisfied with the results, especially in view "of the cautious stance necessitated by the previous shareholding" and the depressed state of the economy.

He said the withdrawal of IGI as a shareholder was the most significant event in 1993. "Our directors, management, and staff now control the bank, with 60,2% of the shares."

The bank had two new institutional shareholders, Prestasi Insurance Brokers with 10%, and The Hollard Insurance Group with 14,9%.

"The share transactions, which took place in the latter part of the year, were very much in line with our desire to optimise our spread of stakeholders and attract institutional investors, who also include Momentum Life with 14,9%."

Cohen said institutional shareholders provided more than just a sign of confidence "There are valuable opportunities to cross-sell products and services to each other's clients . and we intend capitalising on those opportunities," he said.

During 1993, and early in 1994, the Mercantile Group had made two important aquisitions — Wingate Finance and Central Registrars Apart from the mining houses, Mercantile Registrars was now SA's largest share transfer secretary.

Cohen said the acquisition of Central Registrars had quadrupled Mercantile's share-transfer secretarial business.

The marketing database was significantly larger and served 70% of the companies listed on the JSE.

A significant change for 1993 was Mercantile's facelift for Bifco, now known as Mercantile Savings and Loans. Cohen said Mercantile Savings and Loans, which was in the process of opening three more branches, served the blue collar market.

New-look Mercantile sustains strong growth

B/Day 28/2/94

MUNGO SOGGOT

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Cohen said the acquisition of Central Registrars had quadrupled Mercantile's share-transfer secretarial business. It was assessing developing into complementary areas and was also looking at new technological developments.

(58)

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A significant change for 1993 was Mercantile's facelift for Bifco, now known as Mercantile Savings and Loans. Cohen said Mercantile Savings and Loans, which had four branches and was in the process of opening three more, served the blue collar market, and illustrated the bank's philosophy of niche marketing.

Further growth had come from Mercantile's instalment finance book, which served the rental market for office equipment. Cohen said this side of Mercantile's operations doubled during 1993, making a "valuable contribution" to profit.

He said Mercantile continued to refrain from participating in the capital and derivative markets.

Solid growth at Commercial Union

BDay

CHARLOTTE MATHEWS

SHORT- and long-term insurer Commercial Union improved earnings 9% and dividends 25% in the year to December 1993 mainly as a result of strong advances in its life business, figures released yesterday showed.

Group gross premium income lifted 32% to R1,35bn from R1,02bn in 1992, of which 53% was contributed by the life company. New annual and single premiums in Commercial Union Life Assurance increased 69% to R467,2m (R277,5m) while gross premiums written by Commercial Union Insurance were 14% better at R634,2m (R555,9m).

Total income before tax lifted 11,5% to R103,7m (R93,0m) and the tax rate was virtually unchanged. Attributable income grew 9% to R80,2m (R73,5m) which translated into earnings of 801,6c (735,2c) a share. A dividend of 250c (200c) was declared for the full year. 25/2/94

Commercial Union Insurance reported a R19,1m underwriting surplus for the year, 35% lower than 1992's R29,5m surplus. Most of the decline took place in the second half of the year, when a R3,9m surplus was made against the first half's R15,2m surplus. This reflected an increase in crime-related claims in line with the experience of other insurers.

MD John Kinvig said the company would increase its motor vehicle premiums from March 1 by an average of 12% to 13% and was also looking at other classes of business.

Commercial Union Life Assurance came close to doubling shareholders' net taxed surplus to R22,8m from R11,7m in 1992 and total life assets climbed to R4,1bn from R2,9bn.

Kinvig said building up the life business would enable the group to produce less volatile results than could be achieved by the short-term business. However, no precise targets had been set. (58)

Commercial Union will be subdividing its shares on the basis of five for one and will be issuing the necessary circulars to shareholders in due course. The group's shares are 30% held by Absa, 36% by Commercial Union Assurance of the UK and 24% by Gold Fields.

Sentraboer takes private route?

(58) CT 28/2/94

By AUDREY D'ANGELO
Business Editor

REPRESENTATIVES of the 176 co-operatives who own agricultural short-term insurer Sentraboer — itself a co-operative — will be asked this morning to approve a scheme to turn it into a private company.

If they agree it may result in a JSE listing for Sentraboer, which the co-operative's GM (business development) James Hogg thinks may be in the middle of the year.

Hogg explained at a media briefing yesterday that although Sentraboer has had five record years in succession, which may make conservatively-minded members oppose any change, it needs more capital to achieve meaningful growth and expand into new business.

The agricultural co-operatives themselves cannot find an extra R100m to inject into it.

Hogg said that although Sentraboer is a very small short-term insurer in the total SA context, with about 2,1% of the short term insurance market, it is the leader in agricultural insurance. It provides cover for farmers' assets, such as property and machinery, not crops, and has 36% of this market.

It has a 45% solvency margin, well above the minimum required. And because most of its business is in rural areas it has escaped the worst effects of the rising crime which has hit other short-term insurers.

It has already expanded into the commercial and industrial market, mostly in rural areas. This now accounts for about 20% of its business and is the area in which management sees prospects for growth.

Hogg said it was intended that the existing members would retain control of the new company, which would be named Sentrasure, through a loose "voting pool", not a pyramid company.

It was intended to raise R50m in capital through the issue of shares. No price had been fixed for these yet.

It was anticipated that R30m would be raised through a rights issue to members.

Another R20m would be raised through a private placing.

Income surges for Commercial Union

(58)

CT 28/2/94

Own Correspondent

JOHANNESBURG. — Short- and long-term insurer Commercial Union improved earnings 9% and dividends 25% in the year to December 1993 mainly as a result of strong advances in its life business, figures released yesterday showed.

Group gross premium income lifted 32% to R1,35bn from R1,02bn in 1992, of which 53% was contributed by the life company. New annual and single premiums in Commercial Union Life Assurance increased 69% to R467,2m (R277,5m) while gross premiums written by Commercial Union Insurance were 14% better at R634,2m (R555,9m).

Total income before tax lifted 11,5% to R103,7m (R93,0m) and the tax rate was virtually unchanged. Attributable income grew 9% to R80,2m (R73,5m) which translated into earnings of 801,6c (735,2c) a share. A dividend of 250c (200c) was declared for the full year.

Commercial Union Insurance reported a R19,1m underwriting surplus for the year, 35% lower than 1992's R29,5m surplus. Most of the decline took place in the second half of the year, when a R3,9m surplus was made against the first half's R15,2m surplus. This reflected an increase in crime-related claims in line with the experience of other insurers.

Commercial Union Life Assurance came close to doubling shareholders' net taxed surplus to R22,8m from R11,7m in 1992 and total life assets climbed to R4,1bn from R2,9bn.

Kinvig said building up the life business would enable the group to produce less volatile results than could be achieved by the short-term business. However, no precise targets had been set.

Commercial Union will be subdividing its shares on the basis of five for one and will be issuing the necessary circulars to shareholders in due course. The group's shares are 30% held by Absa, 36% by Commercial Union Assurance of the UK and 24% by Gold Fields.

Community Bank set to open doors in June

B/Day 24/2/94

SAMANTHA SHARPE

THE Community Bank will open its doors for business for the first time in June in the troubled East Rand and certain areas in the Cape, said Community Banking CE Archie Hurst. (58)

The bank had started establishing new premises in these areas and was employing staff for the initial Watville and Athlone outlets, he said.

He said the required initial share capital of R200m was raised through the IDC (20%), Independent Development Trust (20%), Development Bank of SA (50%), five major SA banks and a Dutch-based organisation. The capital had been placed in the Community Bank Trust.

A prospective borrower would have to be a shareholder and saver in the bank. Becoming a shareholder would entail the purchase of shares in the bank for a nominal amount. Over time, shares would be transferred from the trust to the community, eventually placing total ownership in the hands of savers and borrowers.

Average mortgage loans would be for R25 000 while incremental loans would average R10 000, with subsidies channelled into equity, Hurst said.

He emphasised that the growth of the bank would take place on an incremental basis.

Hurst predicted a break-even point in terms of profit within six years.

The bank consisted of a trust and a foundation and would have head office branches and community outlets.

A top-notch computer system would be in place in the next month, he added. The design and implementation of the system had been outsourced to keep capital expenditure to a minimum, with none of the computer hardware owned by the bank.

The development of the bank was a reaction to the need for financial funding in low income, urban and rural communities. A community owned and managed banking institution, which catered effectively and sustainably for the focused savings and borrowing needs of these communities was the bank's vision, Hurst said.

Commercial banks had faced accusations of redlining areas, failing to channel black savings into black housing and not getting involved in areas where informal employment and underemployment were the order of the day, he said.

Products of the bank would include regular mortgage loans, incremental housing loans — loans funding initial construction of a building with the aim of future additions — loans to small businesses and personal loans.

The Times, Thursday, February 24 1994 13

TransAtlantic to raise £250m

(58) CT 24/2/94

Own Correspondent

JOHANNESBURG. — UK-registered life assurer and property investment company TransAtlantic Holdings, in which Libery Life has a 54% interest, is to launch £250m of 5,5% subordinated convertible bonds due 2009 with UBS as lead manager.

The company said yesterday the proceeds of the offering would be used to reduce TransAtlantic's floating rate borrowings and provide finance for its non-shopping centre property activities.

Results released yesterday show earnings were lifted 59% to 13,24p a share in the year to December 1993 from 8,35p in 1992 on a 20% increase in profit before interest and tax.

The figures include property investment income from Capital & Counties 4,6% higher at £71,0m (£67,9m), reflecting an improvement in income from shopping centres partly offset by a reduction in the commercial portfolio, and a 16,3% increase in TransAtlantic's share of Sun Life's profit before tax to £42,7m from £36,7m.

TransAtlantic has a 50% interest in Sun Life Holdings, which owns 100% of UK life insurer Sun Life. Sun Life reported premium income of £2,6bn in 1993, against £1,8bn in 1992, on which profit after tax was £54,5m (£46,7m).

TransAtlantic's profit before tax was £67,0m (£56,5m) and the tax charge was reduced to 20% from 34% largely because of the elimination of any charge for Advance Corporation Tax owing to the high take-up of scrip dividends. The dividend for the full year was held at 12,00p.

The net assets a share increased to 298p from 282p, reflecting property revaluation surpluses of £52,6m but excluding the increase in the value of TransAtlantic's share of Sun Life.

First International Trust, which has a 36,6% interest in TransAtlantic, released its year-end results in tandem with TransAtlantic. Earnings a share for the 12 month to December increased 16,7% to 32,1c (27,5c) with improved attributable income of R57,8m (R49,5m).

Total payout for the year increased to 15c (13c) a share. Shareholders will be offered a capitalisation share award in lieu of the cash dividend.

Opic in talks with banks on black loans

(58) CT23/2/94

Own Correspondent

JOHANNESBURG. — The US-based Overseas Private Investment Corporation (Opic) is to approach local lending institutions to investigate ways of allowing black entrepreneurs increased access to loan capital.

Opic's senior vice-president Richard Morningstar said yesterday that he was aware of the difficulty experienced by SA black entrepreneurs in obtaining loans from commercial banks.

Discussions on Opic guaranteeing loans for domestic enterprises would be held with different banks in the next few days to facilitate the establishment of joint ventures with US partners.

Morningstar is leading an Opic investment mission in SA for two weeks at the request of President Bill Clinton.

He said the corporation would also look at ways of extending the Africa Growth Fund to SA to invest in equities, a move which could inject millions of dollars into the country.

A growth fund paves the way for equity investments. Financial institutions, not only American ones, would be invited to participate in these portfolios.

The main criteria for equity investments would be the project's potential for advancing economic upliftment for disadvantaged communities, he said.

Morningstar refused to disclose more details on the proposed protocols, but said it would lead to investment of "millions of dollars." The proposed SA Growth Fund was expected to be announced next week by Opic's president Ruth Harkin, who will link up with the group later this week.

He said the timing of the mission was a recognition of progress made in establishing a non-racial democracy.

A total of 400 "matchmaking" meetings had been set up by Opic and the mission's co-sponsor US Agency for International Development between SA and US businesses. The mission's emphasis was on socially responsible criteria.

Opic insures US investments against political violence, expropriation of profits and currency inconvertibility in foreign countries for as much as $200m, and offers direct loans of up to $200m for small business projects.

"There's a lot of untapped potential in SA and this will increase substantially in the near future with the emergence of black enterprises," Morningstar added.

Protea profit up 50% despite rising claims

(58) CT 23/3/94

Business Editor

PROTEA Assurance Company today posts attributable profits of R19,3m for the financial year ending December 31, 1993 — an increase of almost 50% on the same period last year (R12,9m) in spite of rising underwriting claims.

A final dividend of 40c a share was declared, bringing the total dividend to 70c a share in the year to December 1993, against 60c previously.

The preliminary results include an underwriting loss of R4,1m (1992: R3,9m). Investment income increased by nine per cent to R28,5m (1992: R26m). Technology development costs were significantly reduced during the past year.

An increase in the life contribution to R2,4m was made as a once-off adjustment in anticipation of the restructure of the company's operations, which took place on January 1, 1994. Life profits were therefore brought into the current situation and the final figure of R2,4m consisted of R1,06m for 1992 and R1,35m for 1993.

Protea's managing director Andrew Tainton said: "Despite good trading conditions in the latter half of the year, short-term underwriting results deteriorated on account of rising incidences and claim costs. The underwriting loss was, however, curtailed by profitable financial insurance business written via our subsidiary, Phoenix Assurance.

"New short-term business gained in the last quarter of the year."

Solvency margin as a percentage of net written premium was 125,5%, compared with 98,5% at the end of last year.

● Shareholders agreed at a special meeting yesterday to the formation of three separate operating companies which would continue to be wholly owned subsidiaries of their company.

Chairman Denis Fletcher explained that proposed new insurance legislation would make it necessary to separate long and short term insurance business into different legal entities

The new companies are Protea Life, Protea Insurance, which will handle short term business, and Protea Investment Management.

Protea Assurance will become an investment holding company whose principal assets will be its shares in the operating companies

It was also unanimously agreed to introduce a share incentive scheme to attract and maintain high quality staff. This will be limited to a maximum of 500 000 shares, representing 6,4% of the company's issued share capital.

Guardian National drained by motor thefts, hijackings

Star 22/2/94

BY STEPHEN CRANSTON

A substantial increase in motor thefts and hijackings almost wiped out the R15,8 million underwriting profit that Guardian National enjoyed in the first half of its financial year.

Results for the year to December show that the underwriting profit for the full year was reduced to R1,2 million.

This was well down on the R6,6 million profit achieved in 1992.

Operations director Andy Jack says the claims experience varied considerably.

In the Cape and Natal there was little increase in claims and consequently premiums for 1994 have been left virtually unchanged.

But in the PWV, Guardian has been forced to raise motor premiums, off an already high base, by 20 percent, and household insurance by 15 percent.

(58)

Investment income was also under pressure, says MD Keith Nilsson, as interest rates fell and there there was reduced cash flow stemming from deteriorating operating results.

Nevertheless, investment income was up 4,8 percent to R64 million.

The highlight of the year's performance was a 34 percent increase in gross premium income to R1,035 billion.

This is partly attributed to organic growth, but also to the transfer of business arising from the interim curatorship of IGI, which added about four percent to the total.

Gross premium income has tripled since 1988.

Net premium income rose 36 percent to R695 million.

Nilsson is particularly pleased that expenses and commissions were kept down to 17 percent of net premium income — their lowest ever.

Keith Nilsson . . . investment income under pressure.

Pre-tax profit of R65,2 million was slightly down from 1992's R67,6 million, but there was a sharply lower tax rate, resulting from the R36,2 million tax-deductible transfer to the contingency reserve.

Taxed earnings were up 15,2 percent to R62,3 million. Earnings per share increased by 14,9 percent to 616,3c.

The dividend has been raised by 19,5 percent to 224,0c.

The balance sheet shows that the value of company investments on the JSE increased by R123,4 million over the year, which helped shareholders' funds to increase by 45 percent to R499,2 million.

The group solvency margin rose from 67,56 percent to 71,82 percent.

Reserve Bank denies ANC financial rands

CT 22/2/94 Own Correspondent 58

PRETORIA. — The Reserve Bank has turned down an ANC request for access to financial rands.

The ANC's treasury department asked the bank earlier this year to grant finrand access to the organisation to enable it to buy a building in Pretoria with funds that the ANC held overseas

It also requested the waiving of import duties on election materials.

The application was passed on to a TEC finance sub-council for consideration last month, and several TEC delegates were opposed to it.

However, the sub-council dropped the matter after the Reserve Bank rejected the application

Innovation pays off in new business for Charter Life

B/Day 2/12/94

CHARLOTTE MATHEWS

LIBERTY Life's wholly owned life assurance subsidiary, Charter Life, lifted new business in the year to December 1993 by 56% to R72,4m from R46,2m in 1992 as a result of product innovation, exploitation of market segments, successful relations with other financial institutions and investment performance.

Total premium income was 45,4% higher at R120,1m from R82,6m. The rapid increase in business was accompanied by a modest 6% rise in operating expenses and static staff numbers.

Charter Life specialises in providing cover for bank loans, mortgage bonds and leases, working only through financial institutions and selected brokers. Careful selection of business kept the company's lapse ratio for the year below 12%.

With assets of more than R450m and 150 000 policyholders, the company aims to be ranked in the top 10 in its market segment by the end of this year.

Charter Life chief operating officer Mike Jackson said one of its most successful products, which was currently making a small contribution to premium income but had great potential, was a scheme which allowed premiums to vary with a fluctuating sum assured.

This product applied to fluctuating sums such as an overdraft where, instead of paying a fixed premium which could leave a policyholder overassured when his overdraft fell, a factor was added to the interest rate. If the policyholder paid 16% on his overdraft, for example, he would be charged an additional percentage to cover the premium for his life cover.

Jackson said he was not aware that this product was available anywhere else in the market but it had been well received since its launch in 1991.

Another area where the company had been successful in the past year was in its investment performance, where Jackson said Liberty Asset Management had done a "superb job". (58)

The after-tax return for policyholders linked to the managed portfolio in the year to December was 25,02% and the five-year annual compound return after tax was 22,57%.

Since 1993 had not been a good year for vehicle leasing and home lending — a sector on which a large proportion of Charter Life's business was dependent — Jackson said the new business figures were particularly pleasing.

"We have developed the systems and the infrastructure and products to do even better in an economic upturn, and the signs are all there," he said.

Business Report

Perm to sell off repossessed homes

CT 18/2/94 (58)

Own Correspondent

JOHANNESBURG. — The Perm and the newly formed National Property Forum have signed a landmark agreement aimed at selling off the Perm's properties in possession, valued at about R500m.

Mango Tshabangu, manager of MHF Properties, a Nedcor division, said yesterday the selling off of the Perm's properties in possession stemmed from the organisation's objective of promoting home ownership in disadvantaged areas.

The sale would also assist in reducing the Perm's bad debts. Perm divisional director Hugh Maclachlan has said the properties in possession showed an absolute growth of 12,7% during 1993, but the rate of increase was 74% down on the previous comparable period.

Market analysts said the move was considered another step towards tightening control within the Perm, thereby boosting Nedcor's bottom line. Nedcor inherited the Perm's comparatively large black client base and a high portfolio of loans to black clients when it acquired the Perm.

Forum chairman Ockert Fransch said the sale of the properties by estate agents within the forum would help normalise disadvantaged areas, as well as having a positive impact on communities.

"We expect other financial institutions such as Absa, Standard Bank and First National Bank to follow the same route, and have held tentative discussions with several organisations," he said.

"Not only will this agreement give an enormous boost to unprivileged areas, it will go a long way towards alleviating the severe housing shortage in these regions."

Fransch said the forum had been given an open mandate to sell all of the Perm's properties in possession. The forum was formed last year to create a unified body of largely black estate agents, and will be officially launched next month.

The Perm would furnish the forum's members with the net realisable values of the properties, and estate agents would use these figures as a basis for sales.

Tshabangu said MHF Properties had been formed last year as a separate unit to house all the Perm's properties in possession. Those within MHF amounted to 20% of the Perm's home loan book in the township, valued at R2,3bn.

"Some of these properties have been on the books since 1989, and the Perm has been losing considerable amounts. Although we realise the margins on sales will be thin, we believe it is important that housing in townships be promoted."

INSURANCE FM 18|2|94

Summertime

Randburg-based agricultural insurer Sentraboer will pursue merger talks with friendly Free State co-operative insurer Sentraoes. Irrespective of whether the talks succeed Sentraboer will, however, proceed alone with plans for a JSE listing. (58)

If the merger takes place there will be gross premium income of about R450m annually. Without Sentraoes, Sentraboer can come to market with a gross premium income of R280m. The total for the short-term industry is about R10bn.

The main problem, it seems, is that Sentraboer and Sentraoes have similar (even

FM 18|2|94

shared) bases of farmer clients — but different ambitions. Sentraboer insures farming assets and, by arrangement, does not compete in the crop protection market dominated by Sentraoes.

Sentraboer's business is fairly stable while Sentraoes can see a claims ratio swing from 40% one year to 130% the next. Others, such as Commercial Union, have entered the crop protection market but CU has limited its exposure, while Sentraoes has almost all its exposure in crop protection.

Sentraboer wants a JSE listing because it needs to enlarge its capital. With a solvency margin of 43% it is comfortable but feels it must expand — which means enlarging the capital. Executive GM Pierre Maritz expects the JSE listing to be preceded by an injection of R50m from existing and new shareholders who will be approached via a private placing.

But Sentraboer will be in the uncomfortable position of being regulated through three Acts of parliament: the Companies Act, the Co-operatives Act and the Insurance Act. Sometimes these Acts seem to operate against each other.

In the structure proposed by Sentraboer, the 188 co-operatives it serves will automatically become shareholders in Sentrasure (the company intended for a JSE listing). Sentraboer will then be re-registered as a central co-operative to handle Sentrasure's agricultural business. Maritz says the legislation now allows for this. (58)

While continuing its ~~core~~ agricultural business, Sentrasure will diversify into a more general insurer. But, according to Sentraboer, most of its services will continue to be extended to farmers. ■

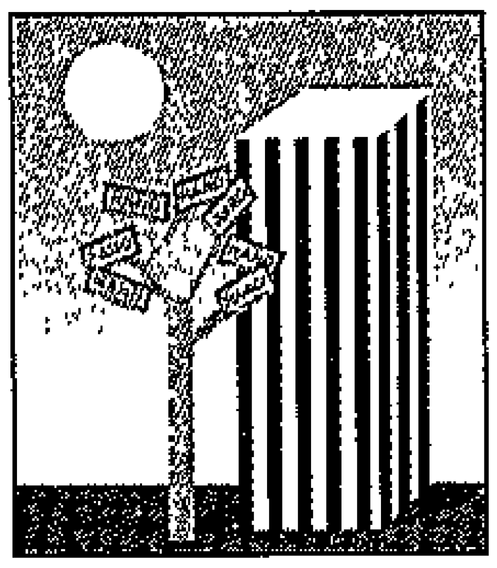
SANLAM

Fm 18|2|94

Turning the big ship around

New chairman Marinus Daling has a huge task in a fast-changing market

(583)



Big ships can be hard to turn. Sanlam is a big ship in SA's economic waters, probably third biggest now, with total assets of nearly R72bn. But, with the unbundling of Gencor and relinquishing of control of Metropolitan Life to black shareholders, it has been changing course with surprising alacrity.

Even the core life assurance business — with more than 3m policyholders and group scheme members whose annual contributions are R12,8bn, making it the biggest assurer by premium income — is facing a changing profile as it increasingly sources new business from the black market.

It also has a new captain at the helm, Marinus Daling, following the death of former chairman Pierre Steyn late last year. Daling has been with Sanlam for nearly 30 years and continues the tradition of Afrikaans chairmen since inception in 1918.

But his style of leadership, even in these early days of his chair, appears more open, certainly less formal, than the hierarchical, often authoritarian style of some predecessors. He also seems more open to change, saying if Sanlam, like any modern business, wants to remain successful, it will have to stay in step with market forces and the economic environment.

Daling this week, at Sanlam's 75th AGM, gave an indication of the future he envisages. Typically, his address did not just refer to Sanlam but to the whole economy.

Looking at what he considers the promise and uncertainty ahead, he told the future government a free enterprise system is the only way forward, criticising this government for past "impractical ideologies instead of sound economic principles."

He berated corporate SA for spending probably no more than 1% of salary bills on training and development of people, compared with about 5% internationally, called for the abolition of exchange control, told politicians to foster a climate of political tolerance, and outlined how Sanlam and the private sector could help achieve a stable democracy, healthy and growing economy, effective social order and become a player in world markets by the end of the century.

He dealt with change in broad terms, as chairmen at AGMs usually do. But a specific sign of Sanlam's direction could be the four new board members he introduced: UCT Business School director Kate Jowell, Grindrod chairman Murray Grindrod, Pepkor chairman Christo Wiese and David Brink, chairman of Murray & Roberts and Absa, as well as the new Sankorp CE. Too much is probably made of it, but at least three are English-speaking, and Wiese is so bilingual as almost to straddle the language groups. This follows the appointment of English-speaking Desmond Smith as MD a year ago.

Daling says the new directors are not necessarily there because they speak English, but because they reflect the changing market. In unconscious contradiction, he points out Brink is "an English-speaking Brink.

"Sanlam used to do a lot of business on sentiment. We don't shy away from our Afrikaans origins, but we no longer do business on sentiment. If you want to do business with the whole community, that community must be reflected on the board."

That's another contradiction — though about 40% of new business comes from English-speaking clients, 25% comes from blacks. Yet, to extend Sanlam's own rationale for "English-speaking" directors, there are no black directors. Daling counters that it's something Sanlam is moving towards, but appointments will be made on merit.

Sanlam's growing black market is reflected in its sales force — about 20% of salesmen are black. But it's not yet apparent in administration or senior management, something MD Smith says represents a challenge.

"A lot of people in the field have aspirations and are going into sales management, but I admit we don't see it in administration yet. We don't believe in tokenism or head hunting; so we have a grass-roots education programme, offering bursaries for school and higher education. That will be our source of black management."

Daling

The annual report indicates Sanlam is putting its money where its mouth is. In 1993, 4% of the total wage bill, about R40m, went on training and development. That's generally lower than the 4%-8% spent by companies in Europe but probably higher than the average in SA.

Sanlam's strength is its inflow of premiums, up 23% last year to R12,8bn. Assets remain less than Old Mutual's, a much older group, but holdings here are growing faster.

Smith is part of the change taking place in Sanlam. He admits the group was characterised by inflexible structures and autocracy. His style seems relaxed like that of a team coach rather than a director.

He says the environment embodies dynamic change. "Almost a third of new business in July came from products that weren't even on our books at the start of the year. We're going to see even more new product development, fuelled, among other things, by legislative changes taking place."

Smith expects black policyholders to keep increasing, which means Metlife will compete increasingly. Smith admits as much, saying that, as markets converge, groups such as Metlife will keep him alert.

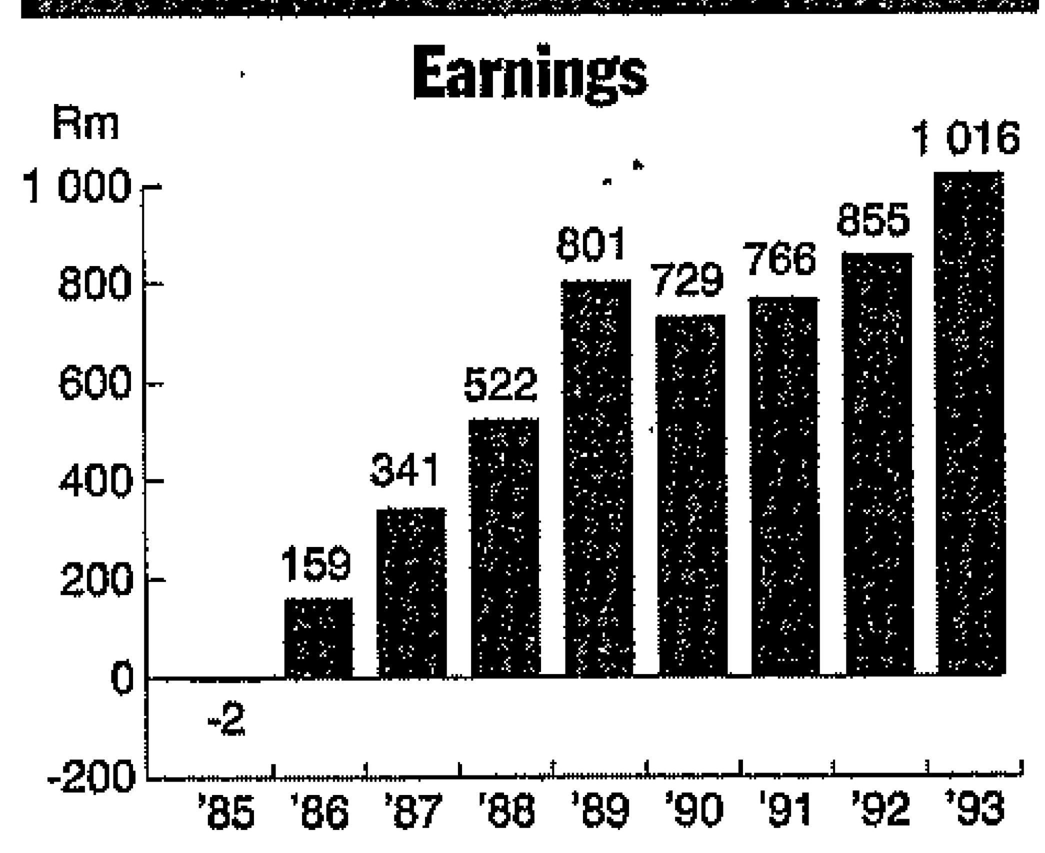
Of 1993 income of R17,3bn (premium and investment income), R7,1bn was transferred to policyowners' funds. The bulk of expenditure went on policy benefits (R8,4bn), with expenses held to a modest R739m, an increase of 12%. The rest, just over R1bn, went on sales remuneration and tax.

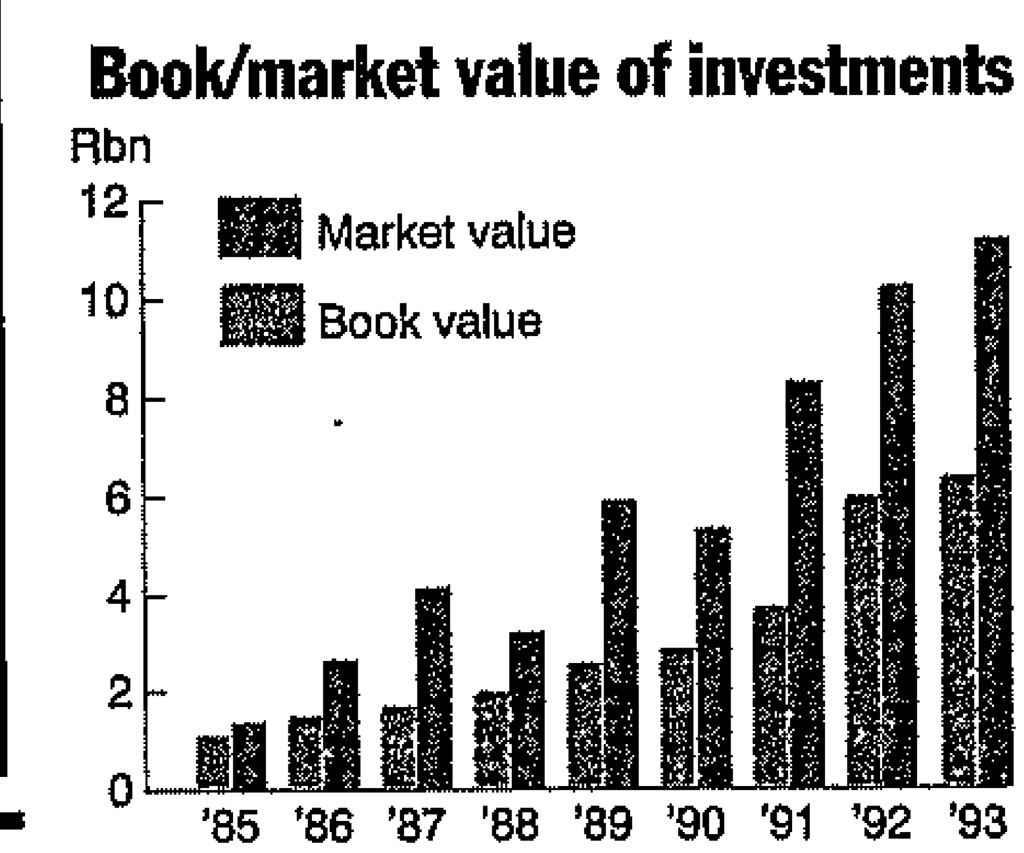
That grew policyholders' funds by nearly 20% to R70,6bn, favourable by industry trends. The transfer is not treated as profit but is accumulated to pay future benefits, expenses, sales remuneration and tax.

A breakdown of major investments is interesting. About a quarter of total assets are in shares, which, apart from Sanlam-controlled investments, include the main blue chips: Anglo American, De Beers, Rembrandt, Richemont and SA Breweries. Ex-

Continued on page 22

Increasing value: Sankorp's investments





Source: SANLAM

Continued from page 22

cept for Gencor, however, where the direct holding was cut to 33% after last year's unbundling, none exceeds 5% of total assets.

Investment in associated companies, on the other hand, which include Gencor, Santam, Senbel, Mercedes Infotech, Automakers, Fedservices and Plessey, make up only about a tenth of total assets.

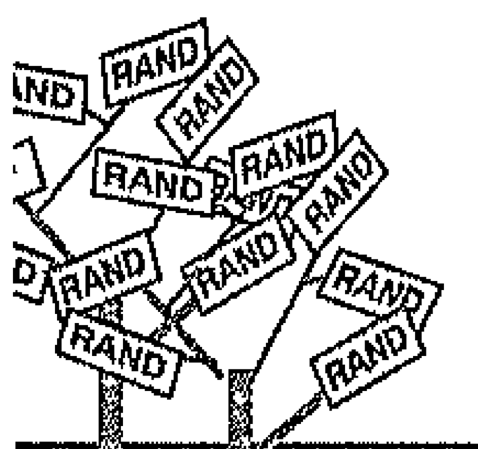
That would seem to indicate Sanlam's earlier foray into "strategic investments" is sometimes overstated. Sankorp, and the companies it controls, are evidently an important part of the investment strategy. But the bulk of its shares remains in the more conventional investment portfolio, the route followed by most big assurers.

Little wonder, though, that most attention is often on Sankorp and its strategic investments. The 1984 buying spree by Sanlam, a year before Sankorp was formed, raised eyebrows on the JSE. Many acquisitions were turnaround situations; some just didn't work, like engineering group Abercom and certain interests, notably Checkers and Rusfurn, inherited from Kirsh Industries.

Others have gone on to be market leaders. M&R was one of the controlling interests picked up in 1984, as was Malbak, which later absorbed Protea Holdings. Sanlam also bought management in 1984 — Daling was later to say one of the main attractions in Malbak was then chairman Derek Keys and CE Grant Thomas.

There were also the so-called "Afrikaner upliftment" groups, most obviously the giant Federale Volksbeleggings (Fedvolks), which after a dismal profit record over more than 10 years was delisted in late 1990.

Today Sankorp's portfolio has a market value of R11,2bn (see table). Equity-accounted earnings increased 19% over 1993 to just over R1bn. After a R2m loss when it was formed in 1985, earn-



Fm 18/2/94

Van der Merwe

Smith

Brink

(58)

ings from Sankorp's investments have grown at a compound average of 30% for the past seven years.

Daling says control was very much part of Sanlam's thinking when Sankorp was formed, partly because the assurer had a history of controlling big investments, like Bankorp, and it was felt that if something went wrong with an acquisition, it was important to be able to intervene.

"We have moved away from that completely; control is no longer an issue," he says. "Sankorp now wants a structure where management of the investments can add value, without interference, and, if necessary or possible, Sankorp will add further value."

Sankorp's future direction will now be guided by Brink, who finds himself in charge of an unlisted holding company influencing investments with assets of more than R100bn. Listed investments are well known and, after the reshuffle of Sankorp's portfolio, seem focused on their markets. There are also a number of significant unlisted investments, including Nissan (through Automakers), household appliances and consumer electronics group Tek, Siemens and wholly owned Plessey

Though Sankorp may not make many acquisitions, Brink expects underlying investments to remain on the prowl, especially for foreign acquisitions. "Sanlam has a huge cash flow and as competition increases, we will have to be aggressive to help Sanlam get a good return on its investments."

A continuing concern for Sankorp must be Absa. Brink also chairs the bank and it could be one of his biggest headaches this year.

But, he says, considering the difficulties of putting together different cultures and getting people to work as a team, he didn't think Absa's last results were bad, "though they were disappointing against the major competitors.

"Combining technology has also been a problem. Absa is still not running on a unified computer system, though it will be soon. We should start to see some efficiencies then," he adds.

Still, many analysts remain sceptical about Absa. Daling says Brink was identified for the bank's chair because of his success in building a top team at M&R. He'll have to draw heavily on those skills at Absa.

Daling noted at the AGM that one of the highlights last year was Sanlam's black economic empowerment exercise, whereby control of Metlife was transferred from Sankorp to Methold and will ultimately be controlled by black shareholders. It's a five-year process and so far sales of shares in Metlife have not been taken up all that enthusiastically, though Metlife MD Marius Smith says it's within target. Anglo American's response — transferring control of African Life from Southern Life to black shareholders — has been more direct and immediate.

But, with assets of R5,7bn and market capitalisation of R1,8bn, Metlife is a far larger, and potentially more influential, player in the black assurance market.

The Metlife deal can also be seen as Sanlam embarking on ideological programmes again. Daling, while emphasising the transaction was commercial, admits as much.

Interestingly, Sanlam is again using life assurance and contractual savings for corporate affirmative action, just as it did to mobilise Afrikaner investments in response to the "poor white problem" after World War 1. It's also following the example of Harry Oppenheimer when he helped Federale Mynbou gain control of General Mining in 1963. That grew into Gencor, the second biggest mining house.

Sanlam is also looking towards new markets, especially abroad. Daling says it has limited exposure to offshore investments and would like to make foreign acquisitions, possibly in life assurance

"We can't now because of exchange control I believe that exchange control will have to be abolished. Then, in time, Sanlam will be able to operate internationally."

He also leaves open the question of whether Sanlam will demutualise It isn't on the agenda now, he says, but he does not rule it out. Further black empowerment exercises could follow but Daling first wants to see Metlife become a blazing success.

He tends to take a long-term view on Sanlam's future — understandably, considering its size. That's why his speech this week focused on the end of the century. What seems vital, though, is Sanlam's willingness to change with the market It's not easy for a large group from a distinct cultural background, but, if anything will ensure its future success, ability to change will.

Shaun Harris

Growing in tandem: the mutuals' profit trends (Rbn)

OLD MUTUAL (Year ended June 30)

	1989	1990	1991	1992	1993	Average annual growth rate %
Total assets	42,1	52,6	62,8	74,2	84,0	18,9
Premium income	5,6	7,1	8,1	10,2	12,3	21,9
Investment income	2,8	3,6	4,1	4,6	5,1	16,4

SANLAM (Year ended September 30)

	1989	1990	1991	1992	1993	%
Total assets	33,1	38,1	50,8	60,1	71,8	21,6
Premium income	6,0	7,4	8,2	10,4	12,8	21,0
Investment income	2,5	3,0	3,4	4,0	4,5	15,9

Accounting practices may vary. The table is not meant to show strict comparisons, only general trends.

Source OLD MUTUAL & SANLAM

'Democracy needs prosperity'

Star 17/2/94

(58)

BUSINESS leader Don Ncube aims to help translate political freedom for blacks into economic freedom too, reports Thabo Leshilo

Don Ncube, the kingpin behind the acquisition by blacks of 51 percent control of African Life from Southern Life, is a strong proponent of black economic empowerment.

Ncube heads the consortium of business, church, trade union, stokvel and other bodies that recently clinched the R160 million deal with Southern Life. He believes that the biggest challenge facing South Africa is to ensure that democracy is translated into economic prosperity.

"Today, in 1994, there are enough black players in the political arena, and I believe they are doing a fantastic job in the transformation of South Africa to democracy. But I believe you have to look at economic enfranchisement (also). You cannot have democracy without prosperity, and I am here to find ways of translating freedom into prosperity."

He then focuses on empowerment, pointing out that black people are getting into the capitalist system. "But," he adds, "they are becoming capitalists without capital".

This, Ncube says, is mainly because of apartheid, which denied blacks a right to own the means of production and the opportunity to engage in capital formation. Such ventures as the Aflife deal, however, will serve notice that things are changing.

A former political activist, Ncube says the Aflife deal flows from his belief in the philosophy of Black Consciousness preached by the late Steve Biko.

"Black Consciousness gave me an ideology that can sustain me and make me focus," he says from his posh office at Anglo American Corporation, where he is the group's industrial relations consultant.

Ncube became involved with Black Consciousness while studying politics at the University of Fort Hare in 1968. He remembers with pride his part in the self-help projects among black people initiated by Biko.

Today, he has so many responsibilities he often has to work until the early morning just to keep up. Apart from Aflife, he is a director of both Anglo and Anglo American Industrial Corporation.

He also serves on, among others, the National Economic Forum, the Institute for Multi-Party Democracy, as well as the Anglo American and De Beers Chairman's Fund. As he puts it in tsotsi taal, the township lingua franca he picked up while growing up in Alexandra township: "Ek het baie juleit guys (I have a lot of work)."

But back to Aflife, which, he says, will help demythologise the perception that blacks cannot succeed in big business.

"You cannot take one instance like Shareworld (the collapsed entertainment complex near Johannesburg) and generalise. You cannot, when you see one black man urinate in the street, say that all black men urinate in the street. When a black person is not successful, you must hope that he is only down but not out. That he is going to arise from the morass".

He adds that the legacy of apartheid has been a lack of enough black role models in business.

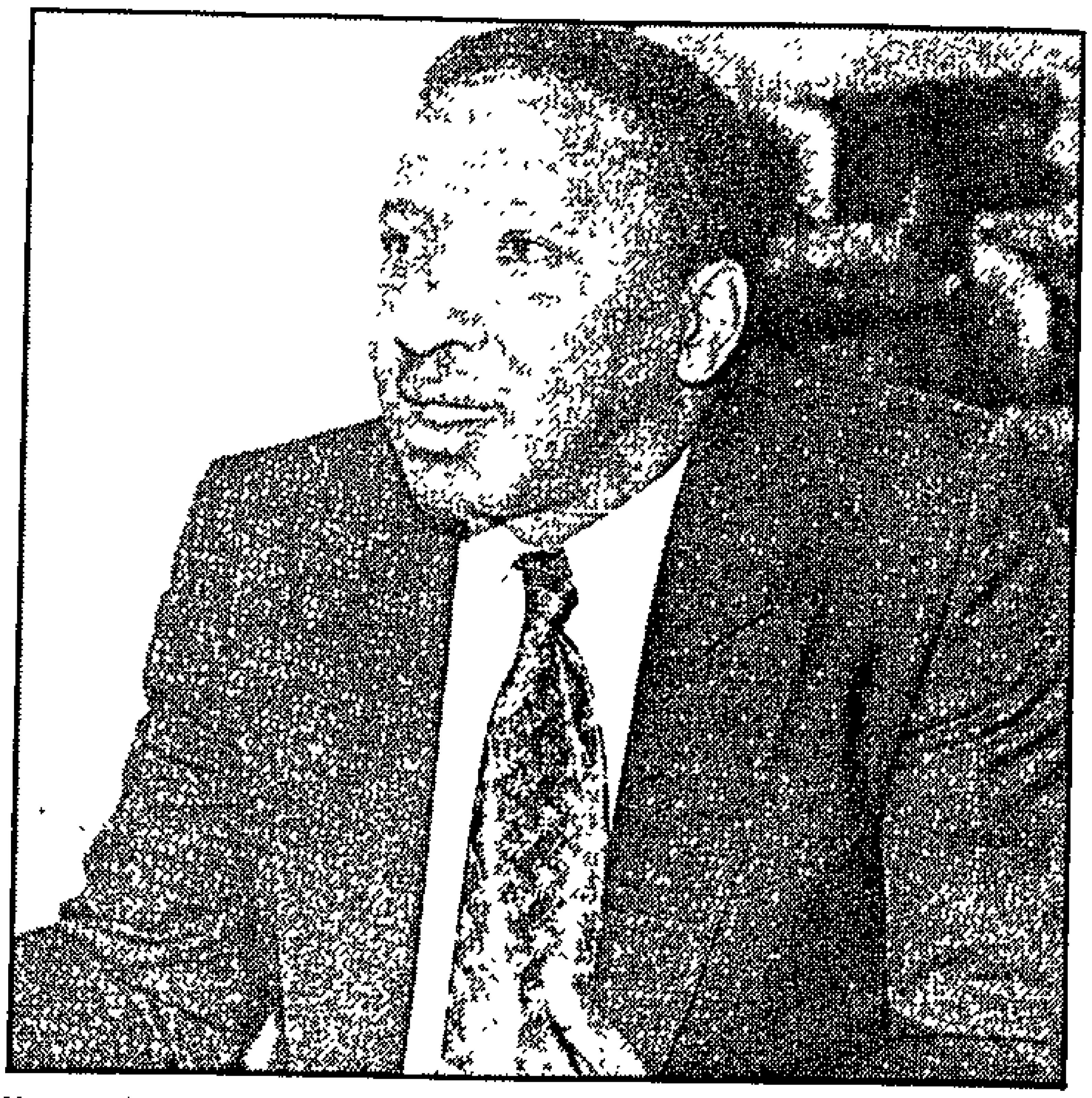
In his youth, the only people looked up to were doctors, lawyers and sportsmen — and gangsters.

Fortunately for him, he could look at the rich suburb of Sandton nearby and "see that life could be different".

He now lives in Sandton with his wife and three sons. He holds a BA in economics and politics from Fort Hare, and a masters degree in manpower studies from Manchester University.

Ncube says he wishes all black business initiatives — even those competing against him — success.

"My starting point is that their success is my success. If they succeed, their success is for the entire community."



"Freedom without prosperity is meaningless" . . . new Aflife chairman Don Ncube. PICTURE: PETER MOGAKI

SBIC earnings up despite bad debts

B/Day 16/2/94

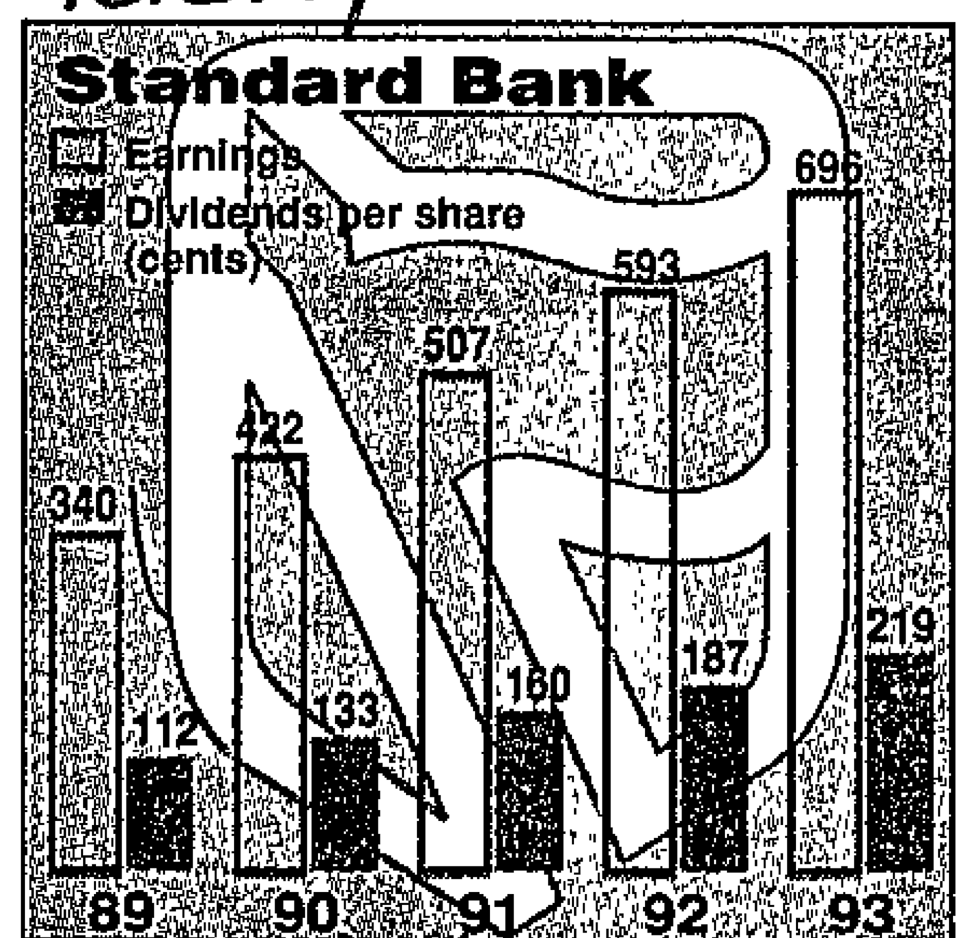
GRETA STEYN

A LOW tax charge and healthy interest margins offset a surge in bad debts to lift Standard Bank Investment Corporation (SBIC) earnings a share 17,4% in the year to December 1993. (58)

The group announced a similar increase in dividends to 219c a share, covered about three times. Earnings a share, which were at the bottom end of market expectations, were diluted by the higher number of shares after the rights issue.

For the first time, earnings from the London and African operations were included. The foreign operations income represented about 8% of the total.

Bad debt provisions rose more than 25%, which MD Eddie Theron described as "high and unacceptable". However, the experience was similar to the 1984-1986 period, which had been followed by a marked improvement as the economic upswing gained momentum. The bad debt figures included the failure of Time Holdings, as



Graphic KAREN MOOLMAN Source: I-NET

well as "significant personal distress", SBIC MD Mike Vosloo said.

A further element of concern on the income statement was the rapid rise (20,9%) in operating expenses. However,

To Page 2

SBIC

B/Day 16/2/94 From Page 1

Theron said the costs included the international operations in Africa and London, and the core rate of increase was lower. No similar one-off rises were expected in the current financial year, and costs should rise at a lower rate. (58)

Operating profit before tax was up only 12,3%, but a fall in the tax charge and a deferred taxation rate adjustment lifted the rise in taxed income to above 30%.

A further boost came from the share of income retained by associates, mainly Liberty Life.

On the balance sheet, advances rose a modest 9% which included a massive increase in home loans of 33%. Vosloo said other than home loans, the demand for credit had been "totally flat" but there had recently been signs it was perking up.

The surge in home loans represented some switching of other forms of debt into mortgage loans, a gain in market share and some growth in the market. The bank was nearing its "natural" market share and similar levels of growth were unlikely for the present year.

The group was well capitalised at 12,8% of risk-weighted assets which gave it scope to grow its balance sheet by R20bn, Theron said. Return on equity was up at more than 15% and return on assets was also higher at 1,23%.

Boland (58) bullish on growth prospects

ARCT 6/2/94

ALIDE DASNOIS
Business Staff

BOLAND Bank is expecting economic growth of 2,5 percent this year — and "responsible political behaviour" could lift the growth rate even higher, it says.

Commenting on gross domestic product (GDP) figures released yesterday, the bank said average growth of 1,1 percent in 1993 was the first positive growth figure since 1989.

The agricultural sector led the way with growth of nearly 18 percent for the year.

But all sectors except for construction and central government, contributed to the better results.

The primary sector (mining and agriculture) grew nearly 6 percent in 1993 while manufacturing showed an upturn from the middle of the year.

In the final quarter of the year, the agricultural sector grew nearly 88 percent, mining 2,5 percent and manufacturing 0,3 percent.

Bad debt squeezes Stanbic profits

58

MARC HASENFUSS
Business Staff

ARG 16/2/94

STANDARD Bank Investment Corporation saw a hefty 25 percent increase in bad and doubtful debt provision to R477 million as local banking operations experienced difficult trading conditions in the year to end December.

However, favourable interest margins helped Stanbic shrug off the heavier bad debt load to post a 33 percent increase in attributable earnings to R828 million in the 12-month period. The dividend payout was lifted 17 percent to 219c a share, covered 3,2 times.

Directors said results were enhanced by the inclusion — for the first time — of income earned by the group's African and UK operations.

Income from funds grew a slender 2 percent to R8,4 billion while interest expense dropped 6 percent to R5,3 billion.

This realised net interest income of R3,1 billion in the period under review — up 18 percent from last year's R2,6 billion.

Directors reported continued weak demand for credit throughout the year. Stanbic, however, did see a strong 33 percent increase in its home loan portfolio to R16 billion.

Fee related and other income came in 20 percent higher at R1,8 billion, bringing total income for the period up to R4,4 billion.

Operating expenses jumped 21 percent to R3,2 billion on the back of development and expansion of Stanbic's African and UK-based operations. These expenses limited the gain at operating profit level to 12 percent at R1,2 billion.

Bottom line was, however, bolstered by a static tax bill of R467 million, a R65 million deferred tax adjustment and a 57 percent increase in income retained by associates to R23 million.

■ Reduced financing costs and a tax fillip enabled **AECI** to report a 45 percent rise in attributable profit to R237 million for the year to end December.

SBIC earnings up despite 25% surge in bad debts

(58) CT 16/2/94

Own Correspondent

JOHANNESBURG. — A low tax charge and healthy interest margins offset a surge in bad debts to lift the Standard Bank Investment Corporation's (SBIC) earnings a share 17,4% in the year to December 1993.

The group announced a similar increase in dividends to 219c a share, covered about three times. Earnings a share, which were at the bottom end of market expectations, were diluted by the higher number of shares after the rights issue.

For the first time, earnings from the London and African operations were included. The foreign operations income represented about 8% of the total.

Bad debt provisions rose more than 25%, which MD Eddie Theron described as "high and unacceptable". However, the experience was similar to the 1984-1986 period, which was followed by a marked improvement as the economic upswing gained momentum. The bad debt figures included the failure of Time Holdings.

A further element of concern on the income statement was the rapid rise (20,9%) in operating expenses. However, Theron said the costs included the international operations in Africa and London, and the core rate of increase was lower. No similar one-off rises were expected in the current financial year, and costs should rise at a lower rate

Operating profit before taxation was up only 12,3%, but a fall in the tax charge and a deferred taxation rate adjustment lifted the rise in taxed income to above 30%. A further boost came from the share of income retained by associates, mainly Liberty Life.

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The group was well capitalised at 12,8% of risk-weighted assets which gave it scope to grow its balance sheet by R20bn, Theron said. Return on equity was up at more than 15% and return on assets was also higher at 1,23%.

Bad debt nips at Stanbic

Star 16/2/94

■ BY STEPHEN CRANSTON

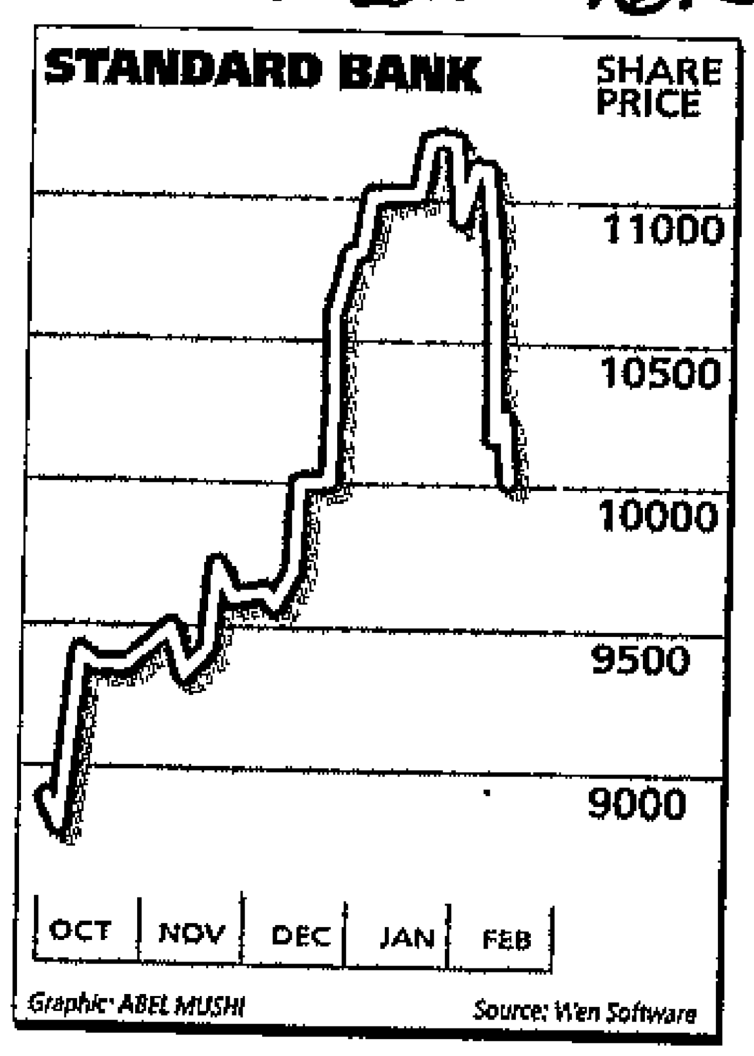
A flat market for credit and more bad debts ensured that Standard Bank Investment Corporation's (Stanbic) pre-tax profit increased by only 12,3 percent to R1,22 billion — a modest rise when compared with its historic record.

But a fall in the effective tax rate from 42,9 to 38,1 percent, a R62,5 million deferred tax adjustment and a 57 percent rise in the retained income of associates, principally Liberty Life, to R22,9 million pushed attributable earnings up 32,5 percent to R844,4 million. (58)

But when the higher number of shares in issue is taken into account, earnings per share rose by 17,4 percent to 696c and the dividend by 17,1 percent to 219c.

Group MD Eddie Theron says the increase in bad debt is a major cause for concern. The bad and doubtful debt provision increased by 25,4 percent to R477 million.

At 0,83 percent of total advances, this provision is higher than either FNB's 0,76 percent or Nedcor's 0,69 percent.



But Theron says bad debts are at the same level as they were in the 1984-1986 downturn and are expected to drop substantially in an upturn.

After taking the bad debt provision into account, interest income increased by 17,1 percent to R2,63 billion. Theron says he is pleased with the 20,4 percent increase in non-interest income to R1,81 billion, which he attributes to the expanded range of financial services the group offers, particularly in its new London subsidiary.

Operating expenses increased by 20,9 percent to R3,21 billion, boosted by the costs of African operations, acquired in late 1992, for a full year, and the cost of beefing up Standard Bank London, which now has a staff of 160.

Theron says about eight percent of group revenue is now derived outside the rand monetary area.

Advances and other accounts were up by nine percent to R55,93 billion.

Almost all of the increase is accounted for by the 33 percent advance in the home loans book to R16,2 billion.

Standard Bank MD Mike Vosloo says the home loan has been used for debt consolidation and that stiffer competition has made it more user-friendly product.

Standard now has a 19 percent market share in home loans.

Vosloo says that if this business is to reach the same level as its personal banking business, Standard will have a share of around 22 to 26 percent.

Absa sees 1994 house prices up

B/Day 15/2/94

ROBYN CHALMERS

FURTHER bond rate reductions after April's elections could boost real house prices 2% to 3% in 1994, says Absa in its latest Quarterly Housing Review.

The review showed a real decrease of about 2% in house prices in 1993 as average prices for small, medium and large houses rose 7,3%.

The bank expected the market to be quiet in the run-up to the elections but to harden thereafter, driven by bond rate reductions and a low repayment-remuneration ratio.

Indicators supporting this view were an upward trend in the house price-remuneration ratio, a continuing increase in the number of house plans approved and houses completed, and a bottoming-out in the average size of land for new housing.

The review said the rate of increase in building costs had declined from 14,4% in the first quarter of 1993 to 7,1% in the fourth quarter.

"This slowdown is the result of the still relatively tight conditions in the building industry, as well as the decline in the inflation rate in 1993."

Absa said the slowdown was reflected in the price difference between new and existing houses. This had decreased from 23,5% in the fourth quarter of 1992 to 13,3% in the last quarter of 1993.

Despite bond rates being approximately 1,6 percentage points lower than a year ago, the monthly repayment was almost the same at R1 668 against R1 682 at the end of 1992.

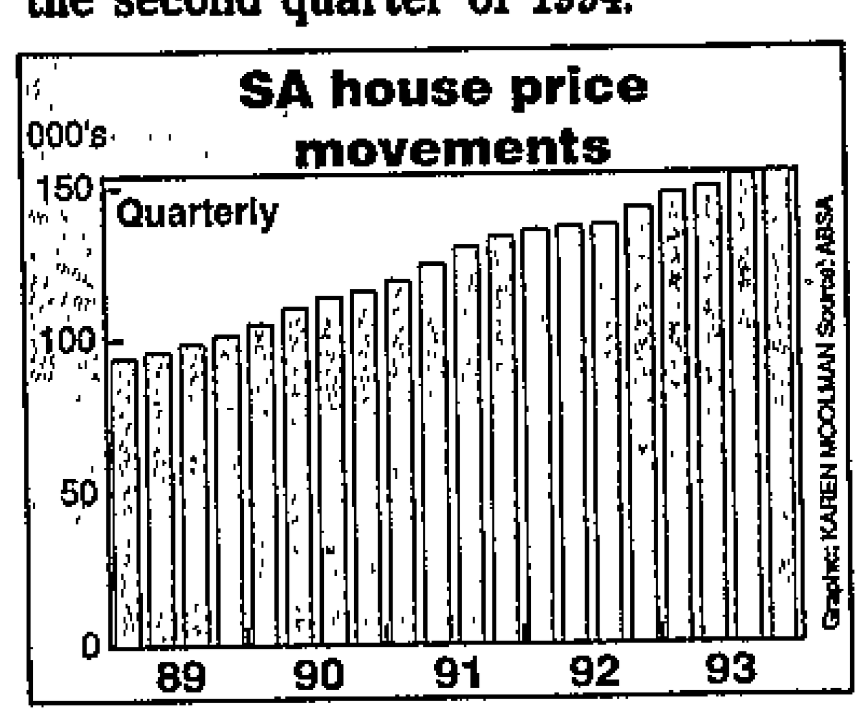
This was attributed to the higher average price of a medium-sized house compared with a year ago.

The repayment-remuneration ratio was still showing a declining trend and, according to latest available figures, was at approximately the same level as at the end of 1987. This was the result of lower bond rates and increased remuneration levels.

"Lower consumer price inflation, low M3 money supply growth and a slight improvement in the level of SA's gross gold and foreign reserves in October last year led to a lowering of the bank rate.

(58)

"Capital outflows are still large, placing the balance of payments under continued pressure. It is expected that further interest rate cuts, including bond rates, will only take place in the second quarter of 1994."



Standard Bank 'to shine'

SAMANTHA SHARPE

THE Standard Bank Group promised to show an "all round excellent performance" when it released its annual results today, with earnings growth expected to be above the industry norm at between 18% and 21%, analysts said yesterday. B/DAY

Earnings per share should reach between 700c and 705c for the year to end December, with forecast dividend payments in the 187c-220c range. 15/2/94

The group's share price has stabilised at R103 after running too fast over January when it reached a R112 high. It continued to offer fairly good relative value one analyst said.

Margins would be "very good" as a result of tight monetary policy, said Edey Rogers & Co analyst David Southey. Keeping lending rates high while money market deposit rates started to fall had widened the bank's margins. Resulting net interest income growth was likely to reach a strong 20% level, Southey said.

An excellent performance by Liberty Life would contribute to the healthy income figures. Provision for bad debts was, however, a key issue, which could swing the income total.

The lower corporate tax rate would also act as a boost to the income figures. This year's introduction of a secondary tax on companies would have only a marginal impact on earnings in the 1993 financial year.

One analyst warned that the bank's transactions involving the recently purchased UK merchant bank Brown Shipley and ANZ Grindlay's African operations could act as a negative factor. June's report of increased operating costs were largely attributed to the international aquisitions.

Foreign acquisitions had distorted asset growth figures, with UK assets increasing 248,9% in the year to June and African assets rising from nothing to R1,4bn. (58)

The bank's newly opened London office was also seen as a potential problem child, with the branch's contribution to income uncertain.

Further growth was expected for this year although results matching those expected for the 1993 financial year were unlikely.

Shake-up for Cape financial services sector

(58) ARG 15/2/94

BRUCE CAMERON, Business Editor

A MAJOR shake-up in Cape-based financial services is under way with the merger of Port Elizabeth's Eastern Province Building Society and Fidelity Bank while a deal is in the offing between a subsidiary of mining house Anglo Vaal and Cape-Town-based Board of Executors.

At the core of current deals being completed and under consideration is the Board of Executors (BoE), which is playing its cards close to its chest.

BoE, the financial services arm of conglomerate Anglo Vaal, AVF Ltd, which has a 36 percent stake in BoE, and the BoE controlled Commercial Finance Company (CFC) which is listed on the JSE's development capital Market (DCM) sector, have issued cautionary announcements to shareholders.

Spokesmen for the companies have declined to give any firm indication of the deal, but Anglo Vaal has already indicated in the wake of the collapse of AVF subsidiary Crusader Life last year that it wants out from the financial services industry. In its stable is AA Life which was recapitalised by Anglo Vaal last year.

It is understood that Anglo Vaal is intent on reducing its profile in the financial sector as "a shareholder of reference" to that of a minority shareholder.

This is likely to involve a complicated exchange of shares between AVF, BoE and CFC.

CFC is a Durban-based investment company controlled by BoE which has a cross holding in BoE.

There have already been a number of deals over the past few months involving BoE. Last year the merchant bank grabbed an effective 30,1 percent stake in Boland Bank when it secured 7,6 million convertible preference shares in Paarl-based Boland at the same time as Cape entrepeneur and chairman of Pepkor Christo Wiese took control of Boland, upping his stake from five to 60 percent.

Although a merger of the two Western Cape institutions is not likely, they have complementary services with one being in merchant banking and the other in retail banking.

At a special meeting in Port Elizabeth yesterday shareholders of Eastern Province Building Society and Fidelity Bank approved the merger of the two organisations.

BoE has a 30 percent stake in Fidelity Bank.

Speculation that Investec or its partner Fedsure could be making a grab for the Anglo Vaal stake in BoE was dismissed today. Investec has already once unsuccessfully attempted an unfriendly takeover of BoE.

The secretive BoE would only say today that it was "relaxed" about the latest negotiations.

The involvement of Anglo Vaal in the financial services industry cost it nearly R50 million last year after the collapse of Crusader Life. AVF director David Barber said today negotiations between BoE and AVF did not directly involve Crusader Life or AA Life.

He declined to give any further details apart from saying that negotiations could be completed within days.

money. Like a purse it can be locked to prevent others powerful telecommunicatio

Merger of Fidelity, EPBS gets the nod

CT 15/2/94 (58)

Business Reporter

PORT Elizabeth-based Fidelity Bank and EP Building Society (EPBS) shareholders voted overwhelmingly in favour of a merger between the two institutions yesterday — despite fierce opposition from EPBS employees.

Shareholders attended separate meetings in the city — at EPBS 99,2% of those present at the meeting voted in favour while the Fidelity meeting saw a 100% seal of approval.

EPBS employees are upset over the dismissal of 112 EPBS staff — more than 75 of them in Port Elizabeth. Previous figures indicated that fewer people would be retrenched.

The final yes nod by shareholders finalises the creation of the largest independant banking group in the Eastern Cape. The bank will operate as Fidelty Bank limited — a subsidiary of Fidelity Bank Holdings.

The Johannesburg Stock Exchange Listing has also been approved and from February 21 — "Fidelty" will appear on the listing in place of Fid-bank.

Fidelty will be listed with an asset base of R1,8bn and operating capital in excess of R120m.

The national network of 14 branches is linked to to Saswitch. The main shareholders are Fedlife and the Board of Executors.

Former Fidelity managing director Jules Langenberg now becomes the Chief Executive Officer.

The enlarged bank will have two managing directors reporting to the CEO — Trevor Jennings of the EPBS and Koos Roets of Fidelity.

Mr Langenberg said after the meeting yesterday that the new Fidbank was tailored to the 90's banking revolution which had shifted focus from large "unwieldy institutions" to faster, sleeker operations.

He assured shareholders that the current strong capital adequacy would not be eroded by the merger and that the same level of capital adequacy would be maintained.

"The EP has been restructuring for nearly two years to meet the demands of the Amended Mutual Building Societies Act and to increase the commercial component of its business.

"One of the amendments allowed mutuals to issue debentures and the EP was the first out of the starting blocks with a R25m issue to Fedlife."

The building society had acquired a 30% stake in Fidelity as early as 1987, but a decision not to follow the equity building society route had ended the realtionship.

Since its listing on the JSE six years ago, Fidelity Bank has shown exceptional growth — a strong indicator is the increase in the share price from R1,50 at listing to R13,50 at present.

INVESTMENT INDICATORS

SA Tai

Business Report

'Home banking looks set to take off'

ARI JACOBSON

CT 15/2/94 (58)

THE new era of "remote" banking has arrived, with branch networks giving way to Automatic Teller Machines (ATM) and sophisticated technology being used to service a client at home or at work.

In this new world, banks may rather search for linkups in the field of telecommunications and value-added networks, instead of the current method of expanding their presence through mergers and acquisitions in the financial services field.

British bank National Westminster has taken the lead in the "smart card" arena, with the introduction of the Mondex system, which should be viewed, according [illegible] the latest issue of the Economist, "as a clever [illegible] in of the humble telephone card"

It [illegible] nstead of holding telephone credits, Mondex [illegible] ash and can be used to pay and receive mone[illegible] a purse it can be locked to prevent others gaining entry."

The Economist continues that under this new system "a telephone number becomes the banks main address, with a customer able to summon anything from a statement, to cash, to an appointment with an investment advisor".

The new linkups would allow banks to adopt a supersonic approach to satisfying client needs through facilities such as electronic mail — so companies can make payments between themselves or even fax through a debit or credit order.

The end result is that each individual, through a powerful telecommunications network, could conduct the business of banking without ever setting foot in a bank.

Standard bank's deputy MD Denzil Busse points out that "already there are clients that are hardly visiting a bank — because of the electronic banking facilities available".

Add to this the possibility that certain bank products could be sold over the counter at retail outlets and the future of the traditional banking hall looks more and more bleak.

However, leading bank managing directors are not convinced that this means the demise of bank halls.

First National Bank MD Barry Swart said yesterday that "it is possible" to service clients through a retail outlet but added that "an interface with the customer is still paramount".

Swart added that using a chainstore "would work for limited facilities such as smart cards and insurance products".

"In the end the best way is undoubtedly through the banking hall," said Swart.

Nedcor has had some success in marketing insurance products through retail outlets, after its financial linkup with SA Breweries.

Chairman Chris Liebenberg was quick to point out that "we may consider having a suitable salesman selling our products at these outlets".

He pointed out that the "drawback" was that bank products "tended to sell better in their own environment".

Liebenberg added that the benefits included the ability to "develop new products" tailor-made for the mass market.

Busse mentioned that while remote banking would be sensible for "routine" transactions, the more sophisticated products "would require the banker and client to meet".

The Economist concludes that "each expensive branch could be replaced by dozens of unmanned kiosks, with only a few flagship outlets to remain to promote the sale of investment products and to reassure the customer that they were still dealing with banks".

Fedlife lifts income 41%

Star 15/2/94

BY STEPHEN CRANSTON

Fedlife lifted new recurring premium income 41 percent to R296 million in the year to December.

(58)

Single premium income was R329 million, giving total premium income of R625 million.

MD Morris Bernstein says he is satisfied with the contribution of both the individual life and group benefits divisions.

"It is particularly gratifying that the life division contributed over half of the new business, in line with the strategy of growing the individual life element of our business."

Bernstein believes the success was largely due to the excellent support of brokers. "We have always recognised the integral part professional intermediaries play in our business."

"I am encouraged that these results, together with a streamlined infrastructure as a result of a major re-engineering exercise undertaken in 1993, place Fedlife in a strong position to meet the challenges of the next decade," he says.

Sanlam bid to be affirmative

ARGT 12/2/94 (58) (176)

Black board members likely by year end

BRUCE CAMERON
Business Editor

SANLAM, founded as a bastion of white Afrikaner wealth, is likely to have its first board members of colour by the end of the year.

And, for the first time in its 76 years of existence there is likely to be an election contest for membership of the board of the giant life assurer when it holds its annual meeting on Wednesday.

The appointment of a person of colour to the board is another step in rapid changes being made by Sanlam.

The life office already has given effective control of its kid-brother Metropolitan Life to its majority black policyholders and has pushed ahead with a staffing policy that will bring the colour profile of its staff into line with its own policyholders.

The annual general meeting will have a slightly more com-

■ Blacks on the board is no longer unthinkable at Sanlam, and they could be there this year.

batative atmosphere than those in the past when National Party MP Theuns Appelgryn attempts to snatch one of the positions of one of four board members coming up for re-election.

Normally new board members are pre-selected by the existing board and the election at the annual meeting is a rubber stamp of the earlier decision.

But any policyholder of Sanlam and, for that matter Old Mutual as well, is entitled to seek nomination to the board.

Dr Appelgryn, a former mayor of Kempton Park, was appointed last year to inherit the Modderfontein seat of retiring Minister of Defence Magnus Malan.

However, Dr Appelgryn is unlikely to win in spite of gathering proxy votes from his fellow National Party MPs and a few others. The existing board is understood to have used its extensive influence to gather a few proxies of its own to ensure things go its way.

Dr Appelgryn has called foul, saying this is taking unfair advantage.

He also questions why the board has decided to allow two sitting directors, who come up for re-election, to be nominated again. The two — Dr Carel van Aswegen, chairman of short-term insurer Santam, and Pepler Scholtz, a former managing director of Sanlam — have to retire this year because of a 78-year-old age limit on board members.

It is understood, however, that the strategy is to use these two board positions to bring in blacks.

In an interview, Dr Appelgryn said he had no particular gripe with Sanlam, and was not dissatisfied with its performance. He felt he, as a young 52-year-old, could contribute to the Sanlam board. He is a former senior lecturer in the human sciences faculty at the University of South Africa.

Dr Appelgryn also feels that if the general meeting were held in Johannesburg he would win the contest.

At the general meeting at the Sanlam headquarters in Bellville on Wednesday, Mr Marinus Daling, former head of Sanlam's industrial arm Sankorp, is expected to be confirmed as the chairman of the life office. He was appointed by the board last year after the death of Pierre Steyn, who held office for less than a year.

This year, the chairman's report will be seconded by Rembrandt Group chairman Johan Rupert.

The Rupert empire has many interwoven business investments with Sanlam, but the relationship has sometimes been cool.

FM 11/2/94

SA EAGLE

End of the party

The short-term insurance industry has enjoyed three good years, largely thanks to the absence of significant natural disasters in SA (in general, the drought was not a disaster for insurers) but also because earlier big premium increases have adequately covered their claims experience. (58)

The favourable run could be at an end. SA Eagle, the first listed short-term insurer to report results this year, has declared an underwriting loss of R4,9m.

This does not necessarily mean all insurers will show underwriting losses. Partly because SA Eagle carries the bulk of its motor business on its own account (which makes up about 56% of total premiums), losses come straight off the bottom line and its underwriting cycle tends to be more volatile than some others.

For example, when the industry boomed in 1988 SA Eagle showed one of the strongest underwriting profits — of R38m. Two years

FM 11/2/94

later, when the industry was engaged in a damaging rate-cutting war, it showed one of the largest underwriting losses, nearly R37m. Though results to come may not show losses, SA Eagle's performance probably presages a downturn in the underwriting cycle.

(58)

Considering SA Eagle's respectable underwriting profit of R3,7m at the interim, the crunch came in the second half. MD Peter Martin confirms this, saying sharp increases in fire and motor claims, especially in the last quarter, were behind the loss.

That's going to result in premium increases. SA Eagle has already announced an average 10% increase in motor premiums. "We are trying to harden our commercial rates, up to an increase of about 25% if we can, but it's difficult. Rating in the industry is still keen, maybe at times irresponsible."

Adding to the bottom-line burden for groups such as SA Eagle are sharp increases in reinsurance premiums. "Disasters around the world (the full effects of the Los Angeles earthquake are still to be felt) and the absence of big claims in SA are making catastrophe reinsurers anxious. The industry here is being asked to contribute to reserves."

Martin says overseas reinsurers asked for increases of 20%-50% last year and want more this year.

At home, the weather could be turning against the industry. SA Eagle did not have much exposure to damage caused by the recent flood in Ladysmith but grey skies and heavy rain are making insurers nervous.

The underwriting loss aside, SA Eagle remains financially strong. Premium income is growing at a healthy 12,7%, investment income remains stable and the solvency margin — 117,2% according to the international calculation which the company adopted — is its highest ever.

But, at R52,50, the share, despite being close to its high for the year, has stagnated. It's at a price and ratings similar to when the annual report was reviewed 10 months ago. A yield of 3,8% makes the counter look attractive, especially as it now trades more than 50% below NAV, but who knows what may be in store for the industry in the year ahead. Apart from the vagaries of the weather, any rise in the already high level of crime could keep underwriting in the red.

Shaun Harris

Lyd Plat looks to up earnings

MARC HASENFUSS
Business Staff

(58) ARG 10/2/94

OLD Mutual's metals and minerals investment arm Lydenburg Platinum should show an improvement in interim earnings, chairman Mike Levett told shareholders at the AGM in Cape Town.

He expected earnings a share to be "somewhat up" in the half year to end April — mainly on the back of the declaration of a maiden dividend of 10c a share by Potgietersrust Platinum (PP Rust) for the six months to end December.

Lyd Plat holds 9,4 million shares in PP Rust at a market value of nearly R150 million as at the year to end October 1993 — considerably up on last year's market value of R61 million.

Lyd Plat's main investment is still its 10,6 million shares in Rustenberg Platinum (Rusplat), worth R708 million (previously R681 million) at end October.

Rusplat's interim dividend for the six months to end December was pegged at last year's level of 62,5c a share, Mr Levett reported.

The investment company's other platinum investment is a stake of 8,7 million shares in Lebowa Platinum, which had a market value of R14 million (previously R7 million) at year end.

The group's gold portfolio — consisting of Knight's Gold Mining — was little changed at a market value of R666 000. The group's 1,6 million shares in Genbel Investments grew 13 percent to R8,6 million at end October from last year's market value of R7,6 million.

Both Lyd Plat's mining exploration investments Lydenburg Exploration and Benguela Concessions showed marked gains in market value to R14,8 million (previously R5,2 million) and R1,75 million (R875 000) respectively.

Lyd Plat's total listed investments topped R896 million at the year end to October — 17 percent up on last year's market value of R763,8 million.

■ **Sunbop** pushed attributable profits up 22 percent to R134,5 million in the half year to end December as the effects of a full six months trading for the Lost City were felt at bottom line.

The dividend payout was increased by 17 percent to 75c a share.

The group achieved an enviable 72 percent average occupancy rate in spite of a number of additional rooms available at Sun City and the depressed state of the hotel industry.

■ **Haggie** experienced its worst trading year since listing in 1979, reporting a 40 percent crash in attributable earnings to R35 million for the year to end December.

The final dividend was cut 52 percent to 53c, bringing a total of 100c for the year — well down from last year's 180c.

■ Cement group **Anglo-Alpha** shrugged off poor trading conditions in the construction and building industries to report attributable profit up 47 percent to R76,7 million for the year end December 1993.

Operating profit rose 37 percent to R199,4 million (previously R145,9 million) off a modest 16 percent growth in sales as cost efficiencies from the previous financial year flowed through.

■ **McCarthy Retail** posted a better-than-expected 26 percent jump in pre-tax profit to R130 million in the six months to December.

McCarthy Retail's attributable profit for the review period climbed 13 percent R63,4 million. This was equivalent to earnings a share on a diluted basis of 32,8c (29,1c previously).

An interim dividend of 9c a share was declared, compared with the 8c in the first half of the previous year.

Call for joint effort in southern Africa

BDay 10/2/94

JOHN DLUDLU

THE African Development Bank has called for major regional economic integration in southern Africa. (58)

In a 52-page document, which noted a change in Africa's politics and the demise of apartheid, the Abidjan-based bank said economic integration would help member countries through co-ordinated investments in infrastructure.

Possibilities included a a regional power grid, a coherent regional airline system and co-operation in minerals, health and water management.

The breaking down of trade fortresses by member states in the region would increase production and trade. Trade liberalisation would stimulate larger investment flows.

The private sector had a key role to play in intra-regional and international trade.

The report suggested that the SADC, SA Customs Union and members of the preferential trade area rationalise their operations and intensify institutional co-operation to avoid duplication.

Strategy should be based on the principle of "equitable distribution of benefits" among the regional powers.

"Every country must be a net gainer," said the authors.

To achieve this, a detailed country-specific cost/benefit analysis would have to be compiled.

However, the implementation of the strategy would not be easy because of overriding national sovereignty. The tendency in SA was to turn inward and deal with issues of domestic integration in the post-apartheid era.

"Regional political leaders still have to appreciate that their prospects for mutually advantageous interaction with SA are better through regional rather than bilateral arrangements."

The trade pattern was complicated by bilateral tariff arrangements SA has with Malawi, Mozambique and Zimbabwe. Attempts at lowering trade tariffs had fallen behind schedule.

The release of the document coincided with a two-week visit to SA by the bank's senior researchers. They would compile a report on the local economy with a view to further involvement in SA.

Saambou beefs up capital base

B/Day 9/2/94

GRETA STEYN

SAAMBOU has strengthened its capital base by R40m, providing scope to expand its balance sheet as the demand for credit improves.

The small bank, which has been on a recovery track since making losses in 1991 and 1992, said yesterday it had issued R40m five-year convertible debentures. Saambou MD Johan Myburgh said this established a strong base for future growth. 58

He said the debentures were taken up by an independent investor in the capital market, but the rights to conversion were paid for by Saambou Holdings. "The issue of these debentures, together with our existing reserves, shifts our capital rating up to 8,1%." he said.

Banks are required to hold capital against their assets — loans — and in terms of the Banks' Act are phasing in to holding 8% of their assets in capital in the form of retained profits, equity or qualifying debt.

Saambou's share price has eased from the high of 115c touched in November last year to 103c.

Bank will ease housing backlog

BDay 9/2/94

THE Community Bank, to be launched in April, is expected to make inroads into the estimated 1,3-million housing shortage, but can not hope to eradicate the backlog, says MD Archie Hurst. (58)

Lack of financial institution funding has been one of the major obstacles to building low cost houses in black areas. More than one third of the R8bn invested by banks in affordable housing is estimated to be in arrears, making financial institutions reluctant to forward further finance without guarantees.

The formation of the Community Bank, which was allowed with the publication of the Mutual Banks Bill in Parliament late last year, followed a detailed investigation by the Community Banking Trust under the chairmanship of Ellen Khuzwayo.

The investigation was supported and assisted by the Council of SA Banks, whose leading members include Absa, Stanbic, First National Bank and Nedcor.

Although the bank was expected to bridge the gap between the formal banking sector and communities, Hurst told a banking conference last week its role should not be overstated. The bank's total advances were unlikely to exceed R3bn by the year 2000.

"This means that the bank cannot hope to satisfy the needs of millions of people who require access to the kind of banking services that will allow them to participate in property ownership," he said.

The Commercial Bank would continue to investigate ways of becoming more active in the low cost housing sector, but government participation would be vital as well.

Industry sources estimated that R32,5bn would be needed if the housing backlog was to be eradicated immediately, taking an average unit cost of R25 000.

Hurst has said the bank would be launched with capitalisation of R200m, and would have two distinct arms — community banking and a Community Bank Foundation.

The foundation would initially be grant funded by overseas agencies to the tune of R4m.

It would be an independent entity assisting the bank by paving the way for the establishment of branches in community areas.

Start-up products would be aimed at low income communities, in order to mobilise savings and provide housing finance to this sector of the population, said Hurst.

Insurer drops out of health market

CHARLOTTE MATHEWS

COMMERCIAL Union is withdrawing from the health insurance market and will no longer offer products such as Cumed and Cucare. BIDay

GM Derek Poole said yesterday the company's health portfolio, which it had offered for about two years, amounted to less than 1% of income.

The main reason for the move was that the loss ratio performance was not satisfactory. 8/2/94

"Other problems which we encountered were that the claims were more difficult to administer than we had initially imagined." (58)

Poole said there was no accumulated value in the health insurance policies and Commercial Union was able to withdraw fairly easily. Letters had been sent to insurance brokers.

Medical insurance to close

58 CT 8/2/94

Business Staff

COMMERCIAL Union is to cancel its health care product Cu-Care because of "massive losses", a release to policyholders said yesterday.

The Cu-Care product, aimed at the small entrepreneur, has run for three years and amassed 7 000 policyholders.

However, a spokeswoman for Commercial Union said that "after a one-year investigation" to determine its profitability, it was decided to cancel the product.

She said that the other option was to increase premiums to balance the losses made from too many claims.

An insurance broker pointed out that some of those insured by Cu-Care may find themselves unable to obtain medical insurance elsewhere, because their medical status had changed in the interim.

Sechold earnings plummet 700%

KELVIN BROWN

TROUBLED financial services group Sechold has disclosed it made a loss of R107,9m on its future positions, cutting earnings by nearly 700% to a loss of 238,3c a share in the six months to December.

This is the first time the company has disclosed the true size of the losses on its futures position, which triggered its recent takeover by Investec.

The losses — which were at the top end of market estimates — were made by subsidiary Securities Equities, which was apparently wrong-footed by the large JSE bull run at the end of last year.

Prior to this, the group had a good track record, achieving a compound annual growth rate in earnings a share of more than 21% in the previous five years.

The impact of the futures losses would have been much higher but for the significant contribution to profits by the bank's other divisions.

BDay

Excluding the futures losses, net income attributable to shareholders rose more than fourfold to R51,8m (R9,5m) in the period as all divisions turned in strong performances.

7/2/94

Sechold said it was unlikely that the first half showing would be repeated during the second six months. But it expected that "the banks will generate satisfactory profits during this period". This would cut the overall loss by the financial year end. The board said it would be "imprudent" to pay an interim dividend.

58

● See Page 7

Investec boosted by Sechold deal

GRETA STEYN B/Day

THE surge in Investec's share price to a high of R48 on the back of the Sechold takeover was underpinned at the weekend with the release of the financial effects of the deal. 7/2/94

According to a financial notice published today, Investec's earnings a share for the year to end-March 1993 would have been almost 15% higher at 202,7c if the deal had been implemented on April 1 1992. The effect is bigger on an undiluted basis (almost 16% higher). Net asset value would have been about 10% higher on a fully diluted basis. (58)

Investec's price is about 23 times earnings, which is expensive compared with blue chip banks, but analysts said projected earnings growth had justified the recent climb in the share. Investec's earnings growth has been higher than 20% a year.

Inhold, the holding company, would similarly have declared higher earnings a share and net asset value if Sechold's results had been included.

Board changes were announced at the weekend. The new MD is Investec stalwart Bernard Kantor, who replaces Arthur Kelly, the new deputy chairman. Investec MD Stephen Koseff becomes chairman while other board members include three Sechold representatives — Pat Abrahams, Danie Gouws and Eke Walker. Investec's new chairman, Hugh Herman, is also on the board.

Sechold's share price rose almost 13% on Friday to close at 310c — well off the low of 250c reached after disaster struck. This compares with the price of 152,5c a share paid by Investec, an offer to be extended to minorities from the beginning of March.

Coup as black group scoops up African Life

C/Press 6/2/94

58

A TAKEOVER by black businessmen this week has finally given life assurance company African Life a chance to live up to its name.

The business group represents professionals, trade union movements, the National Association of Stokvels, the Kagiso Trust and various church groups.

The group will have to raise R160-million to acquire 51 percent of African Life from Southern Life, which currently owns 76 percent of the life assurer. Other shareholders include African Life's staff, policyholders and the general public.

Southern Life intends holding a long-term 25 percent stake in African Life.

The group is headed by African Life director Donald Ncube, who will assume the chairmanship after the takeover.

He commented: "This is a business deal which will benefit everyone. It is a black economic enablement exercise but it is also driven by sound business principles. It will for instance give African Life the ability to grow much more quickly than would otherwise have been the case."

Shares are being bought at 470c each as was the ruling market price at the time of the publication of cautionary notice on Tuesday, warning shareholders that negotiations were taking place.

African Life boasts an excellent track record. Compound growth in premium income from 1986 to 1993 was 34 percent while compound growth in earnings a share was 28 percent. Total assets have grown a compound 22 percent over the same period, rising from R75-million in 1986 to R313-milion in 1993.

Commented Southern Life director and African Life chairman, Adrian Arnott: "This deal fits in with our strategic plan to place shares with people who can add value to African Life.

"For some time we've been trying to find suitable shareholders who would enable us to achieve management's vision of making the company a mirror of South African society. We've already achieved this with staff and policymakers."

African Life's chief executive Bill Jack said the company has up to now concentrated on selling individual savings and funeral policies and has not targeted employee benefits and scheme markets.

The involvement of trade unions, church groups and stokvels should facilitate expansion into group assurance and asset management business.

Jack anticipates African Life will design specific products to suit these interests with the help and input of the new shareholders.

Added Ncube: "The new shareholders will not only participate in the equity of African Life, but will also help create wealth through the company which can then be distributed back to the community."

Ncube mentions several reasons why African Life is a particularly appropriate vehicle for black economic enablement.

"For one thing, there's a sentimental attachment to the name African Life, but we are also comfortable with the ethos, culture and values of the organisation. It is a good reflection of the South African population in terms of race, sex and geographical spread."

Ncube said there would be no management changes following the change of control although the board of directors would be extended to include representatives from the acquiring consortium.

The group will hold their shares through a company to be formed. Certain pension and provident funds will hold their shares directly with voting rights vested in the new company.

TAKEOVER . . . Donald Ncube will be new chairman.

'Discriminatory' bankers slammed

Business Staff (58) ARG 5/2/94

COSATU has reacted swiftly and angrily to bankers' criticism of the ANC's draft Reconstruction and Development Programme (RDP).

Moses Mayekiso of the RDP's co-ordinating committee said yesterday there were no grounds for the statement by Piet Liebenberg, chief executive of the Council of Southern African Bankers (Cosab), that the RDP statement had been issued without prior consultation with banks.

He labelled the banks' reactions as a knee-jerk response to entering a new democratic order.

Mr Mayekiso also accused bankers of breaching an agreement not to talk to the press while discussions were in progress.

He claimed that bankers — especially home mortgage lenders, but also Cosab — had been consulted for more than a year on issues of legislative reform, to prevent the racially discriminatory practice of "redlining" (blanket bans by banks on mortgages to specific communities).

"Last week I spent several hours with banking industry leaders explaining the RDP proposals and asking for inputs," Mr Mayekiso said.

"I specifically asked them for suggestions so that we could go forward in partnership to end discriminatory banking practices.

"I suggested at the meeting that we invite Cosab to the discussions on the RDP and the paper presented by the SA National Civic Organisation.

"Despite my request for constructive suggestions, which I said could be incorporated into the final policies of both the RDP and future implementing legislation, I have received nothing in response."

Mr Mayekiso said bankers had moved backwards in recent months by redlining areas of the East Rand not necessariiy subject to violence and by introducing discriminatory loan rates for black homebuyers.

"Nevertheless, last week I asked each of the banks and the Association of Mortgage Lenders to work with us to develop a new relationship."

Mr Mayekiso said redlining was not uncommon in countries such as the US, where banks were required to disclose reasons for turning down loans and forced to expand their portfolios in areas which they ignored on racial grounds.

"In Zimbabwe the banking industry failed to expand its black business loan portfolio beyond 3 percent of loan assets during the first decade of independence. This recently resulted in a major government and small business backlash, which has soured relations and raised the spectre of much more severe regulation.

"It is crucial for us to avoid that fate here," Mr Mayekiso said.

New bank wary of Durban

(58) ARG 5/2/94

Weekend Argus Correspondent

DURBAN. — Political instability is keeping the first people's bank from opening in Durban.

The chief executive of the Community Bank Foundation, Cas Coovadia, said his organisation was concentrating on opening branches in metropolitan Johannesburg, Cape Town and the Border-Kei area, probably Butterworth.

Regional offices in the Peninsula and Johannesburg were expected to open in May.

Expansion into Durban was likely only later in the year.

"One of the reasons we haven't yet earmarked Durban is that Community Bank is a new initiative and the areas we establish in first have to be successful because they set the pace," he said.

"We are trying to look at launching where politics and other dynamics aren't too volatile. The Durban area is obviously volatile."

Mr Coovadia said a bank had to be non-partisan and it was felt in Durban that the new organisation "might have to balance Inkatha against the ANC and we really don't want to go into that".

Trustees of the Community Bank project were, however, exploring possibilities in greater Durban.

The organisation, capitalised with R200 million invested by a variety of development organisations, the Independent Development Trust, the Development Bank of SA and the Industrial Development Corporation, is in the process of registering as a bank with the Reserve Bank.

Its backers aim to provide savings and lending facilities for low-income urban and rural communities.

Its formation was made possible by the promulgation last June of the Mutual Banks Act.

Its shares will be held initially by its board of trustees.

Forty-nine percent will be sold to qualifying bank clients, with the trustees retaining 51 percent. The share prices has yet to be determined.

The trustees have been talking to target communities, including small businesses, trade unions, non-government organisations, civics and political groups.

Trustee Zohra Abrahams said commercial banks were helping set up operating systems for Community Bank. Commercial banking criteria would apply to depositors but qualifications for borrowers would be more closely allied to the stokvel system.

Canadian credit lines put in place

B/Day 4/2/94

MUNGO SOGGOT

CANADA signed lines of credit worth C$40m with four major SA banks yesterday.

Standard Bank, First National Bank (FNB), Nedbank and Absa each signed credit lines worth C$10m with the Canadian Export Development Corporation (EDC) at an offical ceremony in Sandton attended by Canadian International Trade Minister Roy MacLaren.

MacLaren said his trade delegation, which will now go to Cape Town, had chosen to visit SA before the elections because there was only a small risk that Canada would be forced to change its mind afterwards. "Whatever violence has occurred is not a deterrent to trade ... and in a post-election SA everything will get better."

EDC senior vice-president Robert van Adel said lines of credit with SA banks would be a "major vehicle to reach people in the private sector".

Absa and FNB agreed they would help small SA businesses position themselves for trade with Canada.

Van Adel said a "good deal of business" had been sewn up since the Canadian delegation arrived in SA. Newbridge Electronics had signed a joint venture agreement with local electronics group Centera, and Canadian telecommunications company SR Telecom had signed a contract for the supply of six major rural subscriber systems. SR Telecom would work with Plessey on the project.

Members of the delegation had received inquiries about the importing of Canadian cable equipment, trucks, and equipment for the manufacture of plastics.

Maclaren added that a deal in which the Toronto-based Dash aircraft company would supply 12 aircraft worth $150m to SA "would soon be put to bed". SA's infrastructure and excellent financial system made it a particularly attractive trading partner.

(58)

Last year The Economist's World in Figures said Canada was the world's eighth largest exporter, with 3,6% of total world exports.

SA vote at whale conference 'crucial'

MARIANNE MERTEN

SA's vote at an International Whaling Commission conference on a new whale sanctuary near Antarctica might be crucial, said the International Fund for Animal Welfare.

However, Sea Fisheries chief director Louis Botha said yesterday that SA would be only one of at least 30 nations deciding on the sanctuary in Mexico in May.

Botha said he would act on instructions from the new government in deciding which way to vote and did not want to pre-empt the recommendations of a working committee which are expected later this month.

SA already protected whales in its 200 nautical mile fishing zone.

Canadian credit lines put in place

B/Day 4.2.94

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ANC asks banks for input on plans

B/Day 4/2/94

GRETA STEYN

FORMER SA National Civic Organisation (Sanco) president Moses Mayekiso yesterday invited bankers to provide "constructive comments" on the ANC's reconstruction and development programme.

Mayekiso said there were "absolutely no grounds" for the statement by Council of Southern African Bankers CE Piet Liebenberg that the ANC programme neglected consultation. Liebenberg's comments were made at a banking conference in Johannesburg earlier this week.

Mayekiso, who has been nominated by the ANC for parliament, said the ANC proposals were discussed with the banks last week. He had not yet received any response to his request for suggestions from the banks, which he said could be incorporated into the proposals and in future legislation.

The sixth draft of the proposals would remain "more or less the same", but changes in emphasis were still possible if bankers' comments on the draft were "reasonable".

The ANC was consulting business, civil society and other interested parties to strengthen and clarify the issues in the proposals, although no amendments would be made to matters of principle.

Mayekiso said bankers had been consulted for more than a year on issues of legislative reform, specifically to prevent the "racially-discriminatory" practice of "redlining."

Bankers had moved backwards by redlining new areas of the East Rand which were not necessarily subject to violence, and by introducing discriminatory loan rates for black homebuyers, he said.

At last week's meeting, Mayekiso said, talks to resolve the crisis had been planned. These would involve Sanco, the Association of Mortgage Lenders (AML), the East Rand civic associations and bank managers operating in the region.

Mayekiso expressed disgust at the Standard Bank's "unilateral" withdrawal of a credit line to the pro-ANC Venda government while credit to government agencies was kept intact.

He again accused the banks of violating an agreement reached last year between Sanco and the AML, but said: "Whether the AML likes Sanco or not, we must communicate." Mayekiso said the ANC proposals could not be successful without the active co-operation of the private sector.

● Comment: Page 6

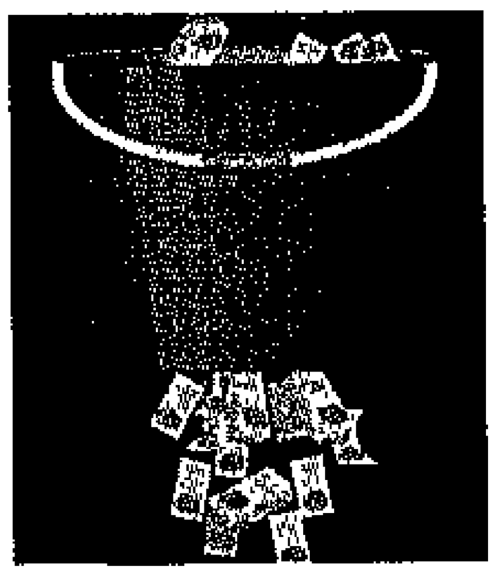
THE SECHOLD DEBACLE

Fm 11|2|94

Banking buy of the decade

Investec's lightning coup nets golden windfall

(58)



Evening, Tuesday January 11. In the boardroom of independent banking group Sechold, grim-faced directors receive the bleak news that one of its subsidiaries has incurred colossal losses. So large are they that Sechold's survival is in question. And the major shareholders decline to support management except through another banking group. As a result, Sechold is snatched by independent Investec in what must be the banking deal of the decade.

Louis Ehrlich, the short, bespectacled, fund manager who had carved for himself a reputation as one of the industry's best, tells fellow directors he is tendering his resignation and then recuses himself. He will have walked out of the meeting along the granite-floored corridor in the group's new and luxurious Georgian-style head office in Illovo, Johannesburg, to the central reception area of a building strongly suggestive of money and wealth.

Ehrlich didn't have long to wait. "Your resignation's been accepted," he is told. The next day he packs his boxes.

In the boardroom, the tension rises. MD Arthur Kelly, long associated with Sechold's apparently unstoppable success story, also submits his resignation. It isn't accepted, the market — uncharitably — says because a majority of his fellow directors thought he should not shrug off so lightly the responsibility for such a comprehensive disaster. Non-executive chairman Grant Thomas says that's untrue. "We felt Kelly was the best man for the job."

Events in the boardroom that night led directly to another director parting company. The meeting, which began at 5 pm, went on well beyond midnight. Mike Haskins, one of Sechold's founders and a non-executive director, requested a full independent assessment to determine what had happened. The board temporised, leaving Haskins angry and outraged. He subsequently resigned.

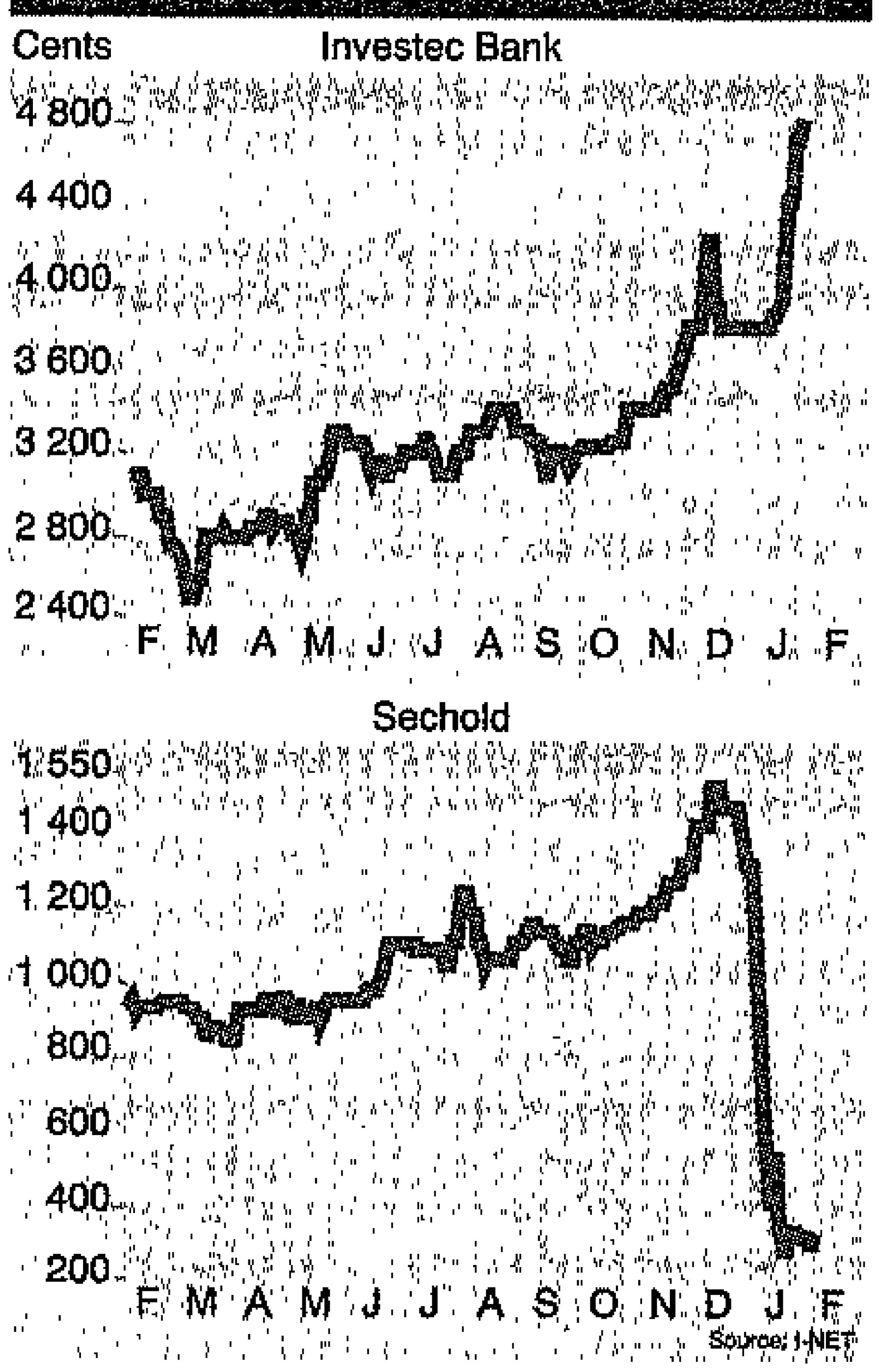
What actually happened? We shall probably never know all the details or full ramifications and extent of the extraordinary decisions which laid Sechold so low. But an attempt to piece together the puzzle reveals an overweening confidence by Ehrlich that he could read the future of the market. This was accompanied by a determination to wrest maximum profit from what he and some fellow-managers saw as a brilliant opportunity. That meant committing themselves — and Sechold — to a gamble which leaves other players in the futures market amazed (though this is with the benefit of hindsight, always an exact science).

We now know that Sechold's loss at the interim stage — the six months ended December 31 — is R56m. In notes to the interim results, the directors say losses on the futures positions were R108m, implying particularly good profits in other areas — notably banking — of R52m. This excellent result, an amazing improvement on the R9,5m in the first half of financial 1993 and R21,2m for the whole of that year, was devastated by losses from other areas, specifically futures trading.

Curiously, futures losses are shown as R112m pre-tax and a further R68m cost of cover. This throws a smokescreen around the actual futures exposure. To put it bluntly, it was a R180m loss pre-tax — a huge sum in anyone's book — though only R108m after hoped-for future tax benefits of R72m.

The effect on the balance sheet is cataclysmic. Shareholders' funds have plummeted from R73,6m in June to R17,5m — the line that really counts, because it shows how much wealth has been destroyed. It is all reflected in the share price: R11 at the end of the 1993 financial year (June), R15 as Christmas approached, culminating in Investec's takeover at R1,52 on January 17. A brutal commentary on managerial ineptitude.

The good and bad of it



Sechold had three operating constituents: Banking (four banking licences — Secfin, NDH, Securities Investment, District Securities); Portfolio Management; and Other — where the damage took place (Sechold Finances, Theta Securities, Securities Management and Securities Equities).

Rees

Kelly

An ebullient Bernard Kantor, Sechold's new MD, tells me Sechold's banking operations are "Superb. There's absolutely nothing wrong with the banks and their risk management systems." That is confirmed unanimously around the market.

The problem is Securities Equities (SE), described by one Sechold official as "operated by one man (Ehrlich) and a half-day assistant." SE, Sechold's vehicle for taking positions in the futures and options markets, was managed and operated exclusively by Ehrlich, who reported daily only to Kelly.

It's clear that Ehrlich believed — perhaps as long ago as last July — that the market was in a state of comparative neutrality. And Ehrlich, a man who isn't easily distracted, obviously convinced Kelly, because it's unlikely the operation could have been mounted without the MD's support.

Applying Ehrlich's conclusion that the market was unlikely to move significantly in any direction, SE freely wrote deep out-of-the-money call and put options. That means he bought and sold at particularly low premiums because he believed the market would remain stable. Ehrlich positioned his book so the premiums received would be highly profitable if the All Share index (Alsi) traded consistently between 3 200-4 800.

For some time, he was right. As each day came and went, the Alsi position must have lent increasing weight to his conviction the market was in neutral gear.

However, there is a downside to this happiness. It is that if you position a book — as Ehrlich did — without limiting the losses and, unthinkably, the market goes against you, you are by definition exposed to limitless losses. It is the kind of nightmare that

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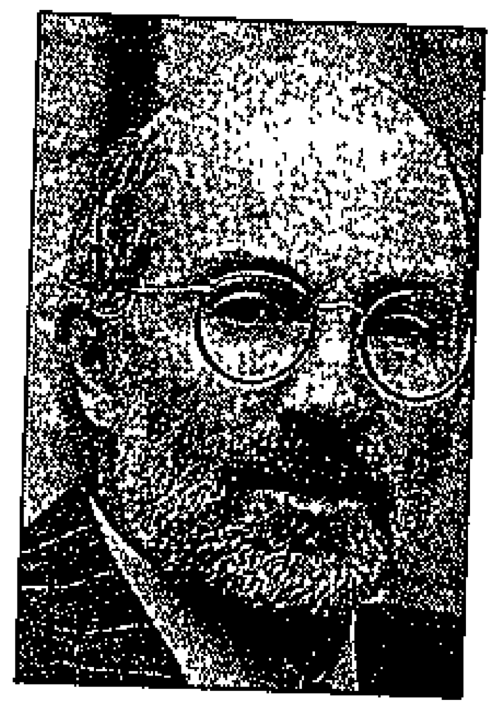
has fund managers reaching for Valium.

The technical name for this positioning of an investment book is — appropriately in this story — the Short Strangle. A stylised illustration (right) of SE's position defines the extent of Sechold's risk position.



Ferreira

Loubser

The quality, size and nature of SE's book cannot be determined; the position has been taken over by Sechold's clearing member, Rand Merchant Bank (RMB). Investec chairman Bas Kardol says it's for RMB to disclose the information; RMB MD Paul Harris says he can't reveal a position which was formerly Sechold's. While this speaks eloquently of a general refusal to divulge other people's business, it also illustrates how close-mouthed our financial community is.

Various sources suggest that Ehrlich's view extended, in the end, to something approaching 50 000 contracts (Thomas dismisses this as "nonsense"). For every point the market index moves, add (or subtract) R10. That means Sechold, if this information is true, was exposed to R500 000 for every one point change in Alsi. Extrapolated, it implies Ehrlich felt sufficiently confident to take a view on a R2,5bn segment of the market through a company with a market capitalisation of less than R500 000.

As I wrote some weeks ago, that is an act of true steel. Simply, he bought or sold contracts which would not be exercised if the index remained between 3 200-4 800, enabling his company to keep the premiums paid to it by investors who became entitled to buy or sell securities at predetermined prices at predetermined dates.

If the index moved outside the range in which the options had been written, these investors could claim the benefits attached to the underlying assets. Ehrlich's vulnerability arose because he did not choose to cover these transactions through countervailing positions.

After months of pedestrian performance, the market suddenly caught fire — and not in SA alone. Around the world, equities stirred, investors poured in, the great hunt for instant profit was on again. What gave others joy must have caused Ehrlich consternation.

Corporate businesses, properly organised, rarely give individuals the opportunity to sail off unsupervised in a particular direction. At Sechold, the culture created largely by Kelly was one of managing risk carefully, of examining positions with prudence and conservatism. "We pride ourselves," trumpeted Kelly in his report last year to shareholders, "on our understanding of risk and management of risk profiles." He has cause to be proud that his four banks are able to provide accurate balance sheets daily.

However, he also said "that opportunistic trading profits remain an important source of income." If only that had been tied to risk management discipline, Sechold would have escaped disaster. In the same report, Kelly says: "All trading assets are marked to market daily . . . exposure limits are reviewed daily by the operating subsidiaries."

In what seems an unconscious repudiation, Thomas tells me: "The extent of the positions wasn't communicated either to the board or to management. Instructions given either weren't implemented or couldn't be. Information provided was selective and misleading." This is a savage indictment, though Thomas adds that Kelly's risk management techniques were applied rigorously to the banks, if, sadly, not to other trading areas.

Conversely, Ehrlich claims he provided the board regularly "with various scenarios" which illustrated the effects of a range of different market conditions.

As Ehrlich prepared to depart for his year-end holiday, he consulted "a friend in another bank who was going to look after my positions." My information is that when Ehrlich revealed his positions, the reaction was unprintable. Nevertheless, Ehrlich left for the coast; Kelly went abroad, apparently unaware of the unravelling bogyman in his corporate cupboard.

Meanwhile, SA Futures Exchange (Safex) CEO Stuart Rees reportedly noticed unusually large margin calls against Sechold positions (margin calls are made daily by Safex to ensure the integrity of the market and its players). My information, not confirmed by Rees, is that he then involved RMB trading director Russell Loubser, who is reported to have been given categorical assurances by Ehrlich.

With increasing desperation, Sechold traders tried to cover the exposed positions. But it was a bad time. Many dealers and fund managers were lying on beaches or falling down ski slopes; the few who remained were quickly aware of Sechold's plight. Prices to be paid for covering exposure escalated rapidly.

Market sources persistently label Genbel as having cleverly positioned itself opposite Ehrlich's firmly held view of Alsi. Executive director Peter Cronshaw says: "Look, I honestly don't know what our position was in relation to Sechold. We conducted all our deals through Safex, so we wouldn't have any idea of the counter party. And if we did know, I wouldn't tell you."

Ehrlich returned to Johannesburg on December 23; Kelly flew out of London on Christmas Eve. "Arthur fixed matters on his return," says Thomas. "He bought enough options (at a price) to limit the loss."

An intriguing aspect of the affair relates to information leakage. Thomas says flatly that "information about Sechold's positions was leaked into the market regularly."

Ehrlich echoes Thomas when he says: "The market moved extraordinarily — 500 points in five days. At times the futures price opened close to 300 points above the previous night's close and then started driving the spot price. I have to say that as trading began in the morning, certain parties knew of Sechold's open positions the night before."

My understanding is that Safex intends to investigate all relevant SE transactions. This may not be the end of that story.

With millions wiped off the balance sheet, Kelly made a brave face of it. He announced a rights issue was being considered to restore the eroded capital base. That came to nothing, probably because the major shareholders were against pumping in more cash.

Their reluctance opened the door for Investec. A due diligence examination over a weekend, mounted with unprecedented se-

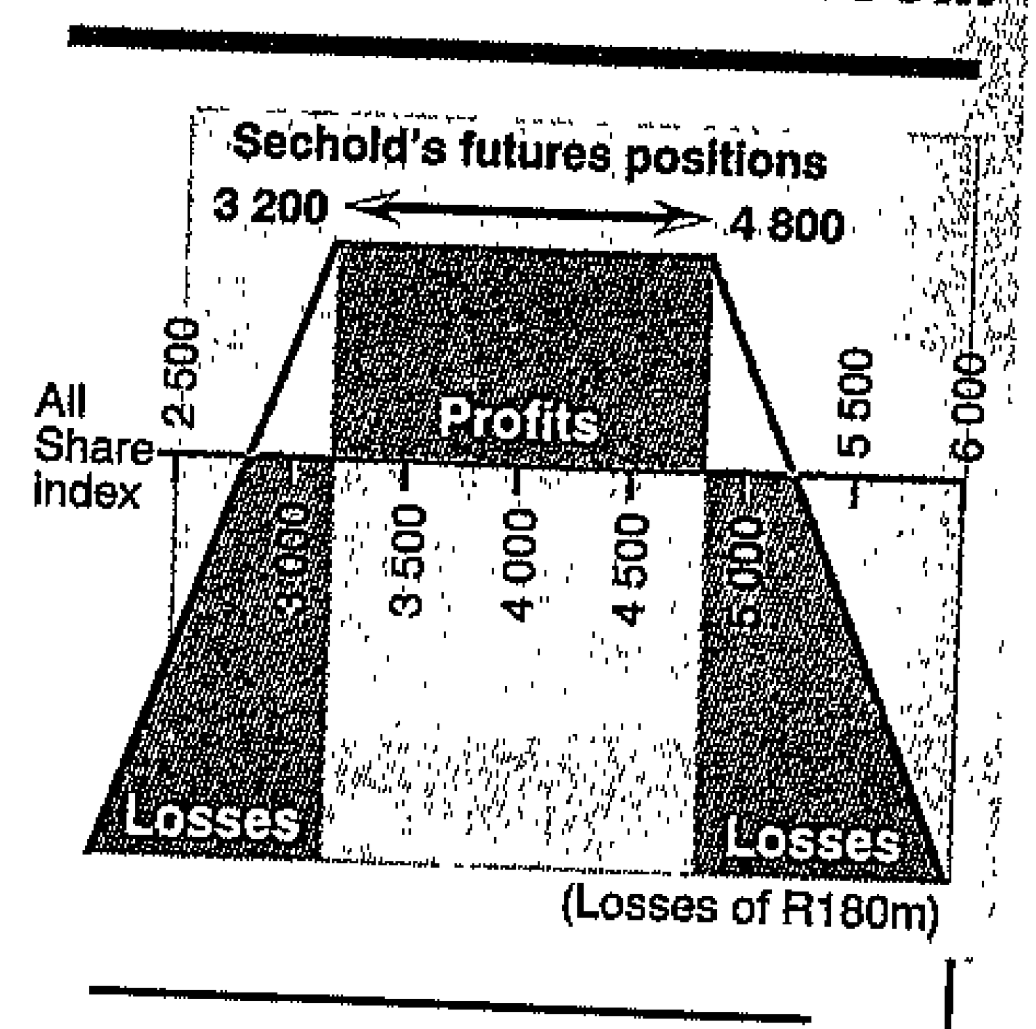
SHORT STRANGLE

The technical name for this positioning of an investment book is — appropriately in this report — the Short Strangle. A stylised illustration of SE's position defines the extent of Sechold's risk.

This is how to read the diagram. If the index remains between 3 200 and 4 800, SE stands to make substantial profits at the close-out date. It it falls below 3 200 or rises above 4 800, option buyers or sellers will exercise their rights at SE's expense.

To prevent that, SE should have covered this potential exposure at both ends through countervailing contracts. This would have reduced the anticipated profit if the market had remained stable but would have provided the safety net subsequently shown to be vitally needed.

The short strangle: an easy way to lose R180m



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verity ("I've never seen anything like it," says one witness), resulted in Investec offering what must have seemed a pittance. Market sources say MD Stephen Koseff and executive director Bernard Kantor executed the classic manoeuvre of giving Sechold's shareholders almost no time to accept before threatening to withdraw Investec's offer, which included a requirement that RMB should absorb Sechold's open futures positions. Interestingly, the *FM* learns that Investec undertook that Sechold would pay RMB R15m to walk off with its futures trading book — by that time neutralised by the covering that had taken place once the exposure was evident.

Sechold's Ehrlich resigns and recuses himself

In the end, Investec took Sechold for an effective R1,52 a share or a nominal injection of R125m. What's more, Investec is paying for it by issuing shares — in effect to the major shareholders of Sechold. That makes Investec's real exposure practically nil. Since then, Investec's share price has risen from R35 to R48. To cap it, Sechold is now R3, valuing Investec's holding at R240m, almost double the disguised capital injection. This makes it the deal of the decade.

However, there are some areas which may not be so satisfactory. The first is that SE's tax loss may have to stay where it is. Problems associated with using it elsewhere in Sechold may be insurmountable. Another is the extent of the due diligence investigation. Two days is hardly enough — even with a team of professionals — to ferret out everything. There may be some surprises to come. Lastly — and this is an observation only — I can't understand why Investec wants to duplicate what it already has. Chairman Bas Kardol says Investec doesn't mind healthy competition between its banks. Perhaps these caveats explain the reluctance of Sechold's most obvious suitor, RMB, to compete for its hand.

As the affair draws to a close, it is important for the financial community to take stock. Some lessons are already evident. The first is that the derivatives market took the disaster without a hiccup. This is an important consideration in a market that regularly writes futures contracts of R500m a day.

Another, of some weight, is the potential for conflicts of interest between clearing banks (members) and traders. RMB was Sechold's clearing bank but also runs an active and successful trading desk. Chairman G T Ferreira is adamant the bank operates a tight and exclusive "Chinese wall" which ensures that the clearing function — and the information that brings with it — isn't passed on, even inadvertently, to RMB's traders. Unfortunately, Loubser is RMB director responsible for clearing and trading; he also chairs Safex, and this triple combination has set tongues wagging.

RMB MD Paul Harris is incensed with this reference to a potential conflict of interest. "It impugns," he says, "the integrity of RMB and its management. Any suggestion that we breached confidentiality is market scuttlebutt and we resent it. We are prepared to open our books for inspection by a responsible, independent party. That will prove beyond doubt that this bank went out of its way to protect Sechold, not to damage it."

Third, though many brokers won't like this conclusion, it is plain the clearing members have an important role to play in maintaining the integrity of financial markets. In this instance, the problem was handled with minimum intervention by the Reserve Bank — indicative of growing financial maturity. And there is a strong suggestion — which Ferreira will not comment on — that RMB actually ensured Sechold's survival for a few critical days by covering the group against cash demands.

Fourth, the sufferers in this debacle were shareholders: depositors were untouched and the derivatives markets survived a baptism of fire without missing a beat. Questions hang over the role of the over-the-counter (OTC) options market, but this is an activity which has defied regulation elsewhere.

The bad news relates to the performance of Sechold's executive directors. Kelly cannot escape responsibility for a transparent failure to ensure his hands were around the business and for ensuring he received adequate and comprehensive information. He says he trusted too much; that is understandable but unacceptable in the context of a R180m loss. In these circumstances it is no surprise that Investec's Stephen Koseff is the new chairman, that Kantor will assume overall managerial control and Kelly has been "elevated" to deputy chairman.

In the end, Sechold was brought within an inch of collapse because it lost depositors' confidence. Whatever else, confidence remains the key to banking success. The moment the first doubt was expressed openly about Sechold, confidence seeped away. That loss of confidence had its roots in what Koseff describes as banking's biggest single cause of failure: over-exposure. It is a lesson which demands close attention. *David Gleason*

EMERGING MARKETS

The flavour of the moment

SA has been a beneficiary; but can the trend last?

When a stock market rallies by about 10% in a day — as Brazil's did recently — something other than a calm reassessment of that market's quoted companies is under way.

Brazil's market — and others across Latin America, Asia and eastern Europe — is rising on the weight of money flowing from New York and other big financial centres. Almost US$40bn went into stock markets outside the industrialised world last year.

A modest amount of that money came SA's way, but the country is starting to attract attention. According to JSE figures, in round terms about R3,2bn of fresh foreign portfolio equity investment came here last year. At the financial rand rate, that's probably only about $700m, less than 2% of the total international flow but enough to have a significant impact on prices in a market as illiquid as the JSE. Another R1,5bn came in through net foreign buying of gilts.

Whether in gilts or equities, of course, such inflows have no influence on the foreign exchange reserves, because of the financial rand system: they simply represent reshuffles of ownership of the existing pool of finrand. But they do affect the prices of existing securities, as they are a new source of demand. And this in turn helps to reduce domestic capital costs.

Already this year there are signs that the progress towards a new government is building the flow of investment money. Last

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METROPOLITAN LIFE
Fm 4/2/94

Gaining support

Sanlam's venture into corporate affirmative action with life assurer Metropolitan Life (Metlife) appears to be receiving some recognition from the market. (58)

The exercise, whereby Sankorp sold 10% of Metlife to recently formed Methold (with the option to increase the holding to 30% within five years), financed by the Industrial

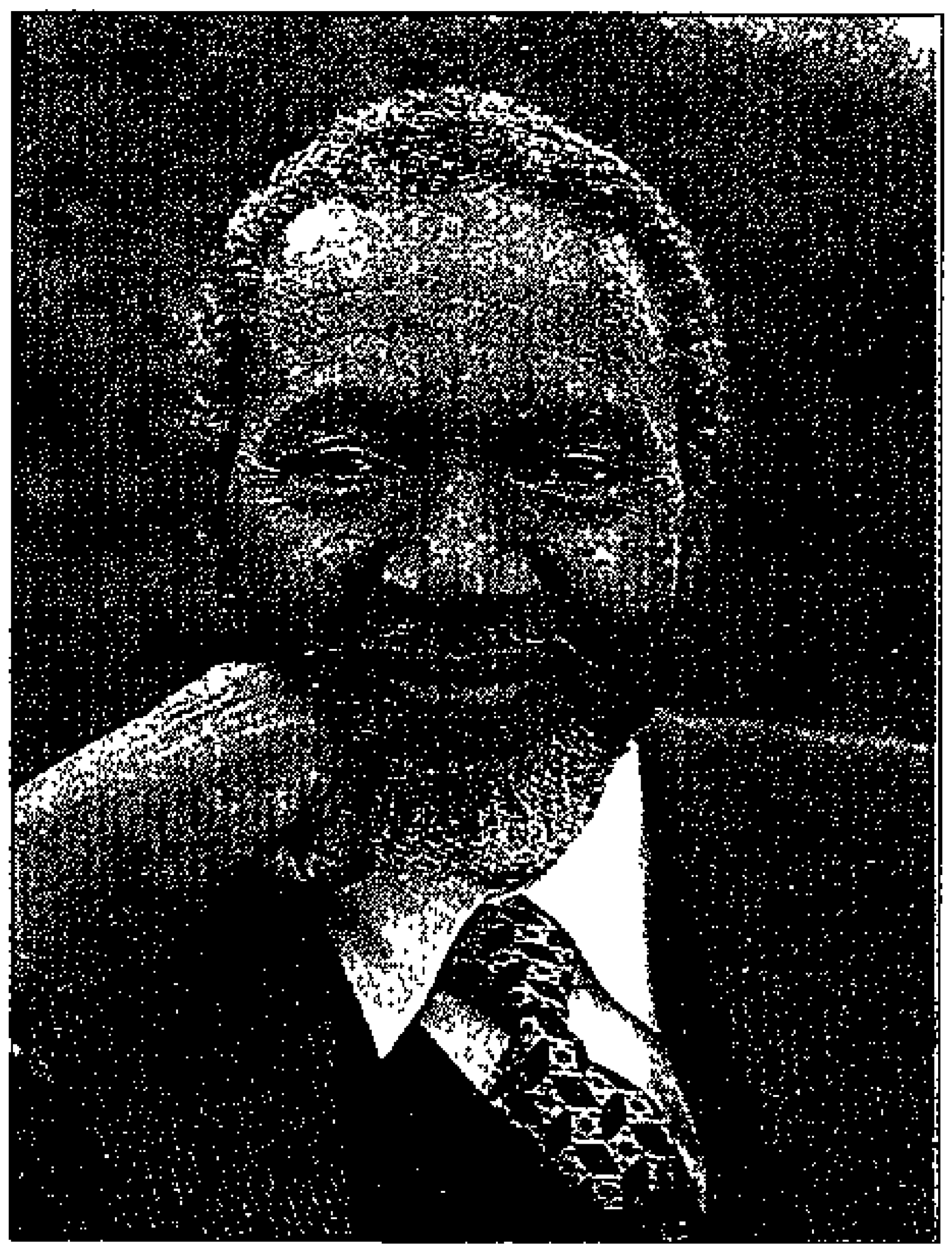
Activities: *Life assurance.*
Control: *Methold 10%; ultimate control Sankorp and Sanlam about 40%.*
Chairman: *N H Motlana; MD: M L Smith.*
Capital structure: *67,5m ords. Market capitalisation: R1,75bn.*
Share market: *Price: R26. Yields: 2,6% on dividend; 4% on earnings; p:e ratio, 24,8; cover, 1,6. 12-month high, 2 750c; low, 1 800c. Trading volume last quarter, 1,7m shares.*

Year to Sep 30	'90	'91	'92	'93
Total assets (Rbn) ...	2,99	4,12	4,81	5,73
Insurance fund (Rbn) .	2,74	3,66	4,29	5,14
Premium income (Rm)	546	703	816	1 001
Investment inc (Rm)	273	317	357	395
Operating exp (Rm) .	90	111	133	152
Earnings (c)	56,5	70	86	105
Dividends (c)	37	45	55	67
Tangible NAV (c)	199	426	458	496

Development Corp with the express purpose of selling the shares on to black investors, was announced last May.

That seems to be what pushed the share price up more than R2 within weeks, though it then drifted down to an annual low of about R18. What was needed was a solid set of results and Metlife provided these at its September year-end with premium income growth of 23% and a 22% increase in earnings and dividends. The share price responded by gaining about 44% to R26 now.

Metlife's results are largely in line with similar-sized competitors like Fedlife and



Metlife's Motlana ... *competitive returns must be earned*

Momentum Life. The strong feature was the growth in premium income, particularly after the more pedestrian 16% increase over the 1992 financial year.

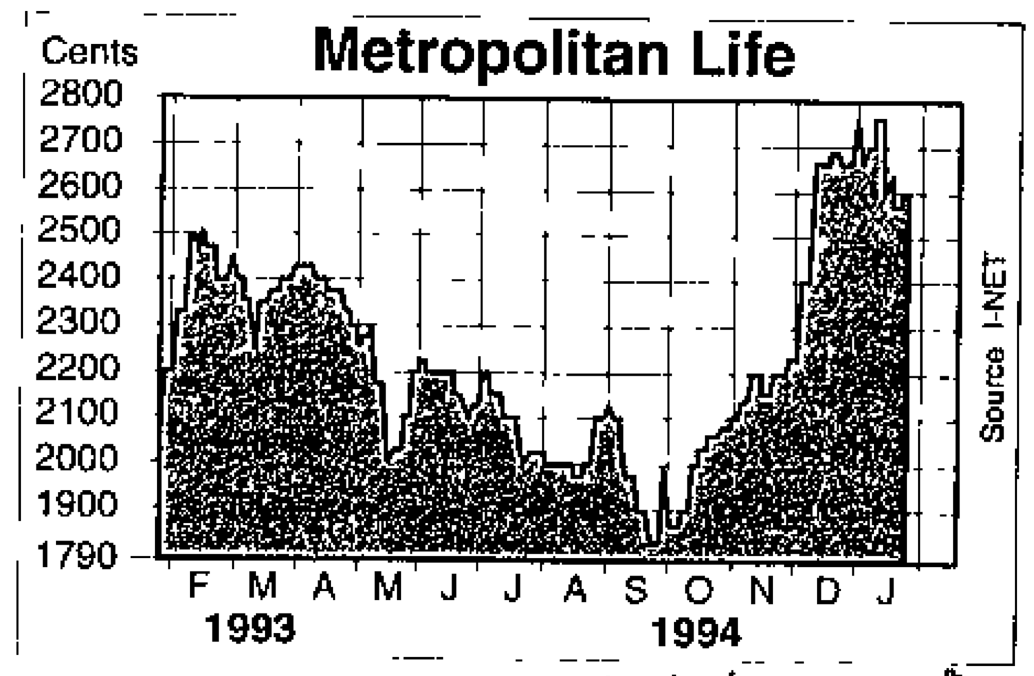
A breakdown shows single premium income from group business up more than 400% (individual business 29%). But single premium business is not that significant for Metlife, making up less than a tenth of total premium income of slightly more than R1bn.

The strength lies in the consistent increase in recurring premiums, particularly from individual business, which goes against the industry trend. MD Marius Smith attributes this to the success of Metlife's field agency force, which he says has done well over past years, but particularly since about June, when the Methold deal increased awareness and acceptability of Metlife's name in its target market (mainly black civil servants and professionals).

Increased business since June does not really impact on 1993 results but bodes well for this year.

"We are also getting increasing support from brokers. For example, in 1986 only 2,5% of our new business came from brokers; in the past financial year 18% came from this source," Smith says.

Operating costs, up 15%, seem under con-



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trol and, at 15,7% of premium income, reflect the lowest ratio for at least five years. The 11% increase in investment income compares favourably with Fedlife's 13% gain and Momentum's 8% decline.

Smith says the lapse ratio (like many life offices, it won't give figures) has been on an "extremely encouraging decline" for the past two-and-a-half years, partly from Metlife focusing on higher quality business.

Effects of the recession, however, are seen in the high rate of surrenders, up 55% on the previous year and representing more than a third of the R433m paid out to policyholders in 1993. While surrenders do not mean a financial loss to Metlife, they do represent business off the books.

As a company controlled by black directors, drawing business largely from the black market and destined to be controlled by black shareholders in about three years, chairman Nthato Motlana's views on calls from political groups for the insurance industry to invest funds under their control in social development projects are noteworthy.

Some groups sidestep the issue by talking about their fiduciary duty to shareholders and policyholders. Motlana sees two problems: "Assurance companies must continue to earn competitive returns on behalf of their clients or investment flows will be redirected and funds will no longer be available for these and other investments by the life companies."

And he says, while the life industry may have the funds available, assurers do not have the expertise or delivery systems to spend wisely in areas of social upliftment.

Strong gains in the share price put Metlife on a par with other players in the industry. It could have two advantages — with control being transferred to black investors, it could become one of the politically correct shares of the future. More importantly, Metlife's market has great future growth potential. The group performed well under difficult conditions last year but could take off if all goes well through the transition period ahead.

Shaun Harris

DATES TO REMEMBER

Last day to register for dividends:
Friday Feb 11: Af Lease 5c; Bloch 1,8c; Cityhold 1c; Elands 50c; Grincor 22c; Marcons 6,25c; Marshalls 13c; Natrust 8,8c; Prima ▲3,46c; S & S Hold 3c; Sovaal 270c; Stanprop ▲9,8c; Stocks 3c; Umdoni 5c; Vaal Reefs 710c; West Deep 305c.

Meetings:
Wednesday Feb 9: Lyd Plat (Pinelands); Malbak (Sandton); Math & Ash; Rhovan (Ord & S) (Bedfordview); Vestacor.
Thursday Feb 10: Rhoex (Bedfordview).
Friday Feb 11: Boardprop (Cape Town); Clegg; Prempharm (S).
All meetings are in Johannesburg unless otherwise stated.
S = Special meeting.
▲ = Per linked unit.

DEFINITIONS

Debt:equity ratio: All interest-bearing debt plus redeemable prefs less cash expressed as a ratio of total shareholders' funds.
Total shareholders' funds: The total of ordinary, minority and irredeemable preference shares plus all capital convertible into equity, less intangibles and adjusted for the market and/or directors' valuation of investments.
Capital employed: Total shareholders' funds plus deferred tax and long-term debt, plus all current liabilities — equal to total assets.
Shareholders' interest: Total shareholders' funds expressed as a ratio of capital employed.
Pre-interest profit: Pre-tax profit plus net interest paid.
Gross cash flow: Profit after tax and redeemable preference dividends, but before minorities, plus depreciation and deferred tax.
Interest and leasing cover: Pre-interest profit plus financial lease charges expressed as a multiple of net interest and financial lease payments.
Pre-interest margin: Pre-interest profit less dividend income as a percentage of turnover.
Stock turnover: Turnover divided by the year-end stock figure.

RESULTS AND DIVIDENDS

	Pre-tax profit Rm		Percentage change	Earned cents per share		Paid cents per share		Sector	Dividends		
	1992	1993		1992	1993	1992	1993		Amount cents	Register by	Payable about
Af Lease ... P	2,2	0,08	−96	17	(0,1)	17	5	Klerksdorp	—	—	—
Bloch ... I	0,63	0,58	−9	2	2	2	1,8	Dev Capital	*1,80	11.2.94	25.2.94
Femco Tech ... I	0,1	1,7	+1494	(3)	6	#	#	Electronics	—	—	—
Grincor ... P	43,0	35,7	−17	•75	•97	30	33	Ind Hold	†22,00	11.2.94	21.2.94
Marcons ... P	§1,4	§1,5	+4	12	12	11,9	12	Property	†6,25	11.2.94	23.2.94
Marshalls ... P	6,5	5,3	−19	38	34	24	25	Property	†13,00	11.2.94	23.2.94
Minvest ... I	2,6	5,2	+96	•20	•32	—	—	Diamonds	—	—	—
Natrust ... P	§2,6	§3,2	+24	9	11	7,4	8,8	Invest Trusts	‡8,80	11.2.94	25.2.94
Prima Prop ... I	□	§4,6	—	□	▲3	□	▲3,46	Prop Trusts	▲*3,46	11.2.94	25.2.94
Raptor ... P	2,7	3,0	+10	•83	•69	25	49	Dev Capital	‡49,00	25.2.94	4.3.94
Simmer & Jack ... I	(0,17)	(0,15)	—	(0,6)	(0,6)	—	—	Rand & Others	—	—	—
South Deep ... I	4,5	3,8	−16	11	9	—	—	Min Exploration	—	—	—
Southvaal ... P	142,3	236,7	+66	286	475	285	475	Klerksdorp	—	—	—
Stocks & Stocks Hld ... I	10,2	11,6	+15	8	9	2,5	3	Building	*3,00	11.2.94	25.2.94
Stocks & Stocks Ltd ... I	10,2	11,6	+15	8	9	2,5	3	Building	*3,00	11.2.94	25.2.94
Umdoni ... D	—	—	—	—	—	▲4,8	▲5	Prop Trusts	▲*5,00	11.2.94	25.2.94

P = Preliminary. I = Interim. * = Interim dividend. # = Dividend passed. • = Weighted earnings per share. † = Final. § = Net attributable profit after tax. ‡ = Annual. □ = Not comparable. ▲ = Per unit. D = Dividend.

ISSUES

COMPANY AND TERMS:	Last day to register	NIL PAID LETTERS: Listing begins	Issued	Listing closes	Last day for splits	Date offer closes	FULLY PAID LETTERS OF ALLOTMENT: Listing begins	Issued	Listing closes	Last day for splits	Shares listed	Shares issued	PRICES OF LETTERS (cents): Take up price	Price Jan 24	Price Jan 31
OZZ — Proposed rights offer: Details to be advised ...	4.2.94														
SENTRACHEM — Proposed rights offer: Details to be advised ...	4.2.94														

TransAtlantic floats company

CT4/2/94 (58)

By AUDREY D'ANGELO
Business Editor

TRANSATLANTIC Holdings (TransAtlantic) — the London-based investment group in which Liberty Life Association of Africa has a 54% stake — plans to float a major new £800m property company specialising in shopping centres.

It will be called Capital Shopping Centres (CSC) and will contain TransAtlantic's interests in seven regional and sub-regional shopping centres.

In a statement issued yesterday TransAtlantic directors said they would seek a listing for CSC on the London Stock Exchange in April.

The new company was expected to have gross assets of about £800m including property assets currently valued at £740m. The cost of the transfer of the seven major shopping centres from TransAtlantic would be funded mainly by ordinary shares and convertible unsecured loan stock issued to TransAtlantic.

Liberty's UK-arm in £800m deal

But, on flotation, CSC would raise about £150m of equity capital by issuing at least 25% of its enlarged share capital to the public.

The price of these shares would be determined after extensive marketing and road-show presentations.

TransAtlantic itself intends to raise around £200m of additional capital through a placing with international investors of longterm convertible unsecured bonds.

These funds will be used to repay the group's floating rate borrowings including those to be incurred in buying Sun Alliance's interest in The Harlequin shopping centre at Watford for £162m for transfer to CSC.

Following the flotation of CSC the funds will provide financing for TranAtlantic's non-shopping centre property interests.

Donny Gordon, chairman of Liberty Life and of TransAtlantic, will be chairman of CSC, which will be a separate company within the TranAtlantic group..

He said yesterday that CSC's flagship property would be the Lakeside Shopping Centre next to the M25 orbital motorway, directly East of London on the Essex side of the Dartford tunnel and river crossing at Thurrock, Essex, and "at the heart of one of Europe's major retail concentrations."

The Lakeside centre, together with the Harlequin and the Glades, Bromley, would provide CSC with "unrivalled access to the retail spending power of the enormous catchment area served by the M25."

Gordon said the flotation would give CSC independent access to capital. The flotation of CSC and the TranAtlantic fund raising were consistent with the long-term objectives of TransAtlantic.

SA Eagle's dividend survives industry woes

BiDay 3/2/94

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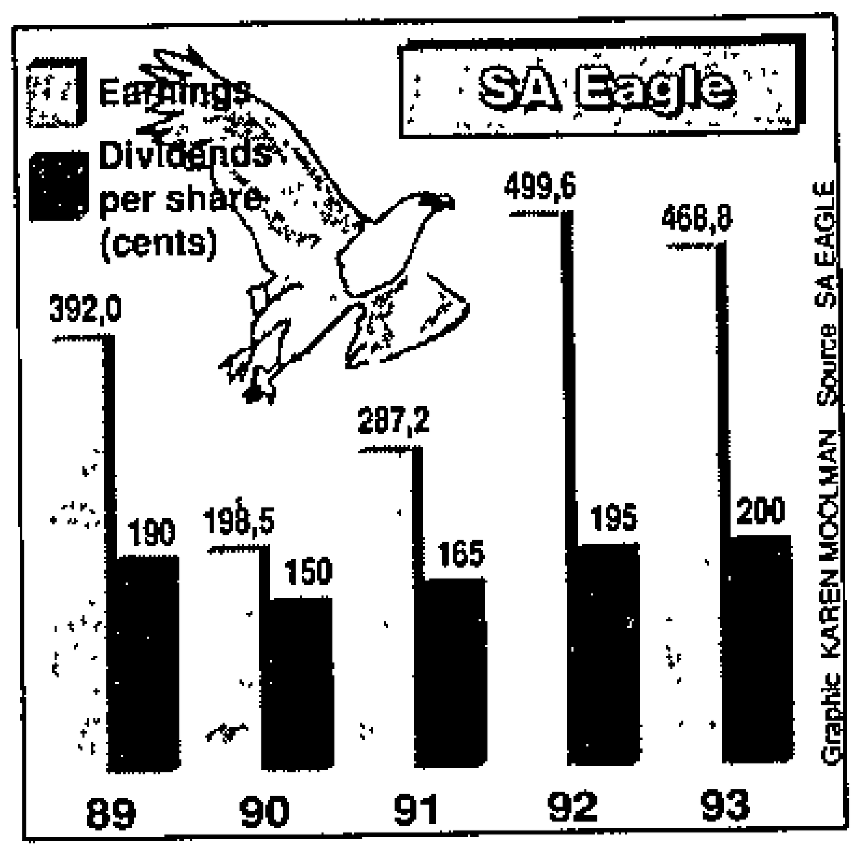
CHARLOTTE MATHEWS

SHORT-term insurer SA Eagle has maintained its final dividend at 120c a share in the year to December 1993, bringing the total dividend to 200c against 195c previously, despite the adverse underwriting conditions experienced in the second half of 1993.

According to figures released today, gross written premiums lifted to R1,0bn against R905m in 1992, but an underwriting loss of R4,9m — compared with 1992's underwriting surplus of R11,2m — brought operating income before tax down to R73,7m against R87,4m previously.

A lower tax bill, reflecting the lower company tax rate, and an abnormal tax credit of R4,3m brought income attributable to members to R57,1m (R60,8m). The abnormal tax credit represents an adjustment, arising from the lower tax rate, to the deferred tax balance brought forward from 1992.

Earnings a share before and after the abnormal tax credit were 433,8c (499,6c) and 468,8c (499,6c) respectively. Investment income lifted slightly to R80,9m, including a surplus on the realisation of investments of R9,1m.



In 1992 investment income was R79,8m, which includes a surplus of R16,5m. The group does not trade in equities but it occasionally sells some investments to improve the quality of the portfolio.

The surplus reflects the gains on equities and also the results of gilts trading during the year.

On the balance sheet, investments at market value climbed to R1,2bn from R899m, benefiting from the increase in JSE prices in November and December, while shareholders' funds lifted to R1bn from R722m.

The 1993 figures recognise the amended requirements of the Fourth Schedule of the Companies Act, effective from January 1, while the 1992 figures have also been adjusted in line with the new requirements.

SA Eagle MD Peter Martin said the underwriting loss reflected the sharp increase in fire and motor claims in the second half of 1993, especially in the final quarter. Rapid deterioration in these areas — mainly as a result of theft and hijacking, but also because of the escalating cost of road accidents — was directly responsible for the recently announced increase in motor rates.

In December SA Eagle announced its private motor and commercial vehicle premium rates would rise 10% from February 1.

Martin warned there had been a disturbing increase in fire claims in the final quarter which, together with higher reinsurance costs, would require an increase in fire rates, especially on the commercial account. An upward adjustment in rates would also be necessary in view of the continued high level of crime — burglary, housebreaking and increased robbery and fraud.

Martin said 1994 would not be an easy year but SA Eagle was well placed to take advantage of any upturn in the economy after the elections.

Reconstruction proposals alarm bankers

B/Day 3/2/94

GRETA STEYN

BANKERS yesterday sent a strong signal of protest to the ANC over its reconstruction and development programme's proposals to restructure the banking sector.

At a seminar on banking in Johannesburg yesterday, Standard Bank group economist Nico Czypionka said the proposals had "made my hair stand on end" and called on fellow bankers to contact the ANC to express concern.

Czypionka was referring to suggestions that banks be required to lend a rising share of their assets to small, black-owned enterprises and be forced to provide reasons for turning down loan applications.

He said the ANC should be told that the NP government had tried the route of controls over banks, with "messy" results for the economy. "To be blunt, the proposals are based on a fundamental misunderstanding of how the financial sector works." The programme was "a shopping list that, if added up, would blow the country's financial resources out of the water".

To the extent that it was financially and physically feasible, banks would push hard to address underdevelopment problems and play a part in dealing with apartheid legacies. They had to do this without deviating from the principles of sound business practice, he said. At this time of change, when new economic and other policies were being sought, banks had to make their voices heard. "I am not sure that we as bankers are doing this adequately and effectively. I get the strong feeling that this country's banks have sold themselves short — we are doing far more than we are being given credit for." (58)

Banks had a vested interest in the long-term prosperity of the country, and had taken active measures to support this with concrete actions. He cited the growing momentum of community banking operations within a number of banks, the Community

□ To Page 2

Bankers

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□ From Page 1

Banking Project, the negotiations between the Association of Mortgage Lenders and civic organisations, and involvement in the National Housing Forum. (58)

Council of Southern African Banks CE Piet Liebenberg said the industry was in the process of formulating a response to the ANC's policy statement. "The ANC's statement was issued without consultation. We will not be able to change much, if anything, in the reconstruction and development programme. But we intend to lobby, inform and debate the issues. We are pulling out all the stops," he said. He did not, however, believe nationalisation was a real threat to the industry.

Community Banking Project CE Archie Hurst said the most optimistic projections indicated that by the year 2000, the bank's total advances would not exceed R3bn. He urged commercial banks to keep exploring ways of being active at the bottom end of the market, while government involvement was also important. "It is our hope that through its efforts, the Community Bank will pave the way for commercial banks to become involved in this market."

● See Page 3

ANC's RDP makes bankers see red

(58)

ARG 3/2/94

CLAIRE GEBHARDT

JOHANNESBURG. — The ANC's draft Reconstruction & Development Programme (RDP) has been branded as an unrealistic shopping list which would "blow the country's financial resources out of the water".

The section on banking was "enough to make one's hair stand on end", Standard Bank group economist Nico Czypionka said at the 1994 Banking Industry Conference here yesterday.

Among other things, the draft programme states that commercial banks must, through legislation and incentives, be encouraged to make credit and other services available in low-income areas.

■ "Redlining" — blanket bans on mortgage bonds to specific communities — must be banned, and banks forced to provide reasons for turning down loan applications;

■ Interest rates must be kept low and banks must lend a rising share of their assets to small, black-owned enterprises;

■ They will also be required by law to report on their loans by race and gender, and their assets and liabilities by sub-region and sector; and

■ Locally controlled housing associations should take over properties in the possession of banks because of foreclosure.

Mr Czypionka called on the banking community, in the two months still at its disposal, to put forward its objections to the proposals or face being hit by lending directives derived from a complete misunderstanding of the banking sector.

"We must counter the ANC's perception that needs come first and that the financial sector will deliver — and if it doesn't deliver at the price that the particular sector can afford, then it will be forced to do so."

Mr Czypionka said the present government had also tried to impose lending controls, deposit rate controls and interest rate controls and had thereby destroyed the economy.

"Now the incoming government wants to do the same and no one in this community has told them that this section is rubbish, produced by academics who have never touched a real piece of banking paper in their lives."

Council of Southern African Bankers (Cosab) chief executive Piet Liebenberg said much of the RDP statement was "made from sheer ignorance and no real understanding of what the functions of banks are, how they work and what their responsibilities are".

He said the RDP statement had been issued without prior consultation with the banks, so it was quite unlikely that anything in the draft could be changed.

"But we have to lobby and inform and debate the issues which are essential for the proper performance of the banking industry," he said.

Mr Liebenberg said Cosab would be putting forward the industry's views to the ANC within the space of a month

The underlying message to the conference was that banks are going to have to lend to people they had never dreamt of lending to.

Chairman Jack Theron, chief executive of African Bank, said the financial sector would have to adopt new attitudes towards people who previously had not benefited from its services.

"The savings of that sector have seldom been placed at its own disposal in the past. They have been taken up in a general net and used to finance major corporations in other hands."

He said the long-term aim should be to ensure that the previously disadvantaged sector could compete with established institutions without the need to be protected by special privileges.

"The way towards that end must be one of affirmative action."

Derek Cohen, MD of Mercantile Bank, said talk of nationalising banks that needed Reserve Bank support was counterproductive.

Banks were unlikely to maintain existing credit lines when statements of this kind were made.

FM 7/1/94 (58)

INSURANCE

Crime hits profits

Police statistics confirm vehicle hijackings shot up in the last few months of 1993. Insurers have been hammered and several expect they will have to eat into investment income to compensate for losses on the underwriting account.

But insurers say they are trying to minimise increases to avoid losing market share. So 1994 premium increases will probably range from 10% to 20%. SA's largest insurer, Mutual & Federal (M&F), says its domestic policy rates will rise 10%-15%.

M&F MD Ken Saggers says about one in 10 vehicles reported stolen are hijacked. Police statistics are 802 passenger vehicles in September (against 535 in September 1992), 73 trucks and cargoes (37); in October, 663 passenger vehicles (341) and 51 trucks (30).

Saggers says other factors are affecting rates. "There is certainly an element of fraud and arson. Also, the heavy rains are having an effect. Though there have been no weather catastrophes, a 50 mm downpour in an hour can mean R3m-R4m in claims to us the next day. But we constantly fine-tune our rates according to claims experience and the cost of claims so that M&F will not need to make huge adjustments across the board."

SA Eagle has announced a 10% rise in most premiums and is negotiating up to 25% increases with some group schemes where the claims experience has been extreme. MD Peter Martin says a further increase may be needed later in the year. IGI's collapse has thrown R700m of premiums to other insurers and this has hardened rates, he says.

Reinsurance rates for catastrophes have risen sharply — some are 50% more. "We haven't had a natural disaster in SA since about 1987 but the reinsurers have been badly hit in other countries; so, effectively, they are making us pay upfront — going by the seven-year cycle, SA can expect, in statistical terms, a catastrophe around the end of the year."

Hollard Insurance's Rob Ward also believes premiums will rise 10%-15%. Having acquired all the annualised motor premiums of Wesbank and Absa schemes, transferred out of IGI and worth about R100m, Hollard gave an undertaking to hold existing premiums for six months. Says Ward: "That undertaking expires in March and we'll be revisiting those policies."

Guardian National MD Keith Nilsson says premiums on the motor account will increase 15%-20% from February and discounts for group schemes will be lower. ■

BANKING FM 7/1/94

Second incarnation

(58)

This week SA's first black-controlled merchant bank, Merchant & Investment Bank (Miba), opens its doors for trading from plush new offices in Rosebank, Johannesburg. Its capital base is expected to reach R47m.

The independent Prima Bank, established in 1988, is being absorbed into Miba and Prima shareholders will convert their stake into a 49% holding in the new bank. New shareholders will contribute R24m in cash — to be paid into Miba's equity base — in exchange for a controlling interest.

The funds, which will come from the SA Investment Corp (SAIC), a grouping of local businessmen, and from a number of businessmen from other African countries, will be channelled through Africa South Enterprise Investment Corp.

Local and foreign investors will contribute equally to SAIC's R24m capital injection into Miba. At least a portion of the R12m contributed by foreign interests has been brought into SA through the medium of the financial rand.

Foreigners are led by Liberian businessman Bert Cooper; local investors by Don Mkhwanazi, known to have strong links with the ANC. Mkhwanazi, who runs his own management consultancy business, was formerly head of the Black Management Forum and is a director of Metropolitan Life. In the wake of the absorption of Prima, Miba's board of directors is being reconstructed and it is possible Mkhwanazi will become the new bank's first chairman.

Prima MD Tim Wood — who was appointed only last month — will become Miba's first CEO. An American with 27 years in international banking, Wood was chairman of Citibank in SA in 1982-1985. He was recruited in July by local business interests to put the Miba deal together. He is determined, he says, to ensure the bank maintains an apolitical posture. "I know it's probably inevitable we will be labelled but we will do our level best to avoid being painted with any political brush."

Miba's capital base of R47m is likely to be supplemented soon by an infusion of secondary capital through the issue of R20m-R40m in debentures. Wood says details are still being finalised but the intention is to structure the debentures with an interest coupon related to prevailing market conditions, and to issue both redeemable and convertible instruments. It's intended the debentures will have a seven-year life.

Wood is reluctant to comment further but it is clear he expects strong support from local institutions. If the drive is successful, Miba's capital base will be close to the magical R100m considered the benchmark for serious competition.

Wood says Miba's intention is to build on Prima's base of trading operations and corporate finance activities. "What we intend adding on are an African trade initiative and, domestically, the sourcing of local partners for foreign investors," he says.

Miba will contribute to an expansion of SA's trade with the rest of Africa by providing a system of bonded warehouses in selected African countries; the effect will be to enable SA businesses to export with payment security, and Wood says guarantee insurance will be provided internationally.

Domestically, Wood says, Miba is exceptionally well placed to source local partners — given the bank's structure, many of them are likely to be black — for participation in joint ventures with foreign entrepreneurs.

What is clear is that the bank's shareholders are serious about money. It might make the competition think. *David Gleason*

MONEY SUPPLY

Lagging link

There is usually a close correlation between changes in economic activity and in the stock of money. But there was a departure from this pattern last year.

The GDP recovery in the first three quarters was funded largely by an increase in the velocity of circulation — the rate at which money changes hands. This rose about 10% in the first three quarters of 1993, according to the Reserve Bank, while growth in the broad monetary aggregate M3 rose only 3%.

M3 includes cash in circulation and all deposits of the domestic nonbank private sector. It is the counterpart of credit extended by banks to the private sector, net credit to government and net foreign reserves. Any increase in economic activity is usually accompanied by rising demand for credit, which is reflected in additional deposits with banks, thereby boosting M3.

One reason this failed to happen in the first three quarters of last year, says the Bank, was the high level of debt in the agricultural sector, which pulled the economy out of recession in the first and second quarters. Another reason was the overfunding of the government deficit which shifted deposits from the private sector to the government sector where it no longer falls within the definition of M3.

Other reasons the Bank gives are:

☐ The "increased flexibility in the use of mortgage facilities." Banks have been promoting revolving credit facilities, provided against the security of fixed property — technically mortgage loans. Surplus cash used to reduce this credit balance is not reflected in M3, unlike cash placed in savings deposits;

☐ Disintermediation. The wide margin between lending and deposit rates encouraged people to borrow and lend directly. Because the money bypasses the banks, it is not subject to the multiplier effect which comes about because banks are allowed to lend a multiple of the deposits they hold; and

☐ Regulatory changes to liquid asset and cash reserve requirements "which instigated the selling of certain bank assets to the nonbank private sector" where they no longer fall within the ambit of M3.

Now growth in money supply is picking up. After a deceleration in the 12-month growth rate, to 1,6% in July, it accelerated to

BANKING SUPERVISION

Letting light in upon the magic

FM 7/1/94 (58)

A measure of *glasnost* has come to SA's banking industry.

Changes to legislation relating to disclosure in financial statements, announced last year, come into effect this month. Section 5 of the Fourth Schedule of the Companies Act, which allowed banks to maintain hidden reserves, has been dropped. Like other listed companies, banks will now have to comply fully with the Fourth Schedule of the Act.

And new regulations, gazetted last week, have been introduced by the Department of Banking Supervision. They deal, among other things, with two issues regarded as priorities by supervisors internationally. One is the activities of companies within a banking group; the other is the scale of counterparty risk related to derivative transactions.

The new regulations, which require additional information on both issues, supersede existing guidelines, says Banking Supervision head Hennie van Greuning.

Consolidation of group financial information (particularly relating to foreign branches and subsidiaries) is designed to bring SA into line with the latest recommendations of the Basle Committee which co-ordinates banking supervision worldwide.

These were prompted by the closure of and scandal surrounding the Bank for Credit & Commerce International in 1991. The bank, based in Luxembourg, had a vast international network of companies. But, because the responsibility of regulators in the various countries was not properly defined, it escaped effective supervision. The Basle Committee is attempting to plug this loophole by clarifying principles for cross-border supervision.

Consolidated information will serve another purpose. It will provide regulators with a complete picture of the structure and capitalisation of a group, wherever it operates.

Bank holding companies may be involved in a variety of activities through their non-banking subsidiaries, which could affect their own viability. Or, alternatively, a bank may be vulnerable because of the activities of its holding company.

KPMG Aiken & Peat's John Louw says the impact of any losses suffered by non-banking subsidiaries of bank holding companies "could adversely affect the banking subsidiary — which prejudices the creditors and depositors. This moral hazard is the main concern."

Deloitte & Touche's Tim Store points out that, at present, information on any one group has to be gleaned from a close study of a variety of financial statements.

Banks are required to report to the regulators any activities they have formally underwritten. "The problem," says Van Greuning, "is that a bank may give a verbal guarantee to protect its own reputation should problems arise in a subsidiary." This means that, instead of acting as agents in the particular transaction, they effectively become principals. (Banks are allowed to act as agents in transactions other than money lending.)

The second major international issue is that of risks created by derivative trading (*Leaders* December 17). The topic acquired a high profile after Gerald Corrigan, formerly president of the New York Federal Reserve, called for greater regulation of banks' derivatives activities.

Though theoretically banks can hedge their risks through back-to-back deals, in practice they can't eliminate the risk of counterparty default. So SA regulators are now asking banks for more information regarding exposures to counterparties.

The information provided to regulators will not be available to investors or depositors. Nor do the new regulations explicitly give regulators the authority to act against offending banks. Van Greuning will have to depend on the power of moral persuasion to keep them in line. But Standard Bank GM Henry Shaw says banks are unlikely to ignore the views of the supervisors. Moreover, the new regulations are preparing the ground for legislation which will eventually consolidate supervision of the financial markets.

Van Greuning says the new regulations are intended to be cost effective — in that benefits to the system outweigh costs to the industry. And they are user friendly because the information required is that already provided in management accounts.

Recent changes reflect a shift in emphasis from regulation to disclosure and the quality of risk management.

Though Banking Supervision is only required to channel proposed amendments to regulations through the Standing Committee for the Revision of the Banks Act, Van Greuning says he made a point of going beyond the statutory obligations and consulted extensively with the industry. ■

FINANCIAL MARKETS

Potpourri

A rise in the value of the US dollar invariably means a fall in the dollar price of gold. But positive factors have supported the precious metal recently as the dollar rose against other currencies.

The US currency climbed from DM1,69 before Christmas to DM1,7425 on Tuesday afternoon; from Y110,65 to Y113,27; and from R3,375 to R3,404. Yet gold moved from its last London afternoon fix for 1993 of $390,65/oz, and a low just before Christmas of $386,60, to around $395.

The dollar's strength is relatively easily explained by improving perceptions of the US economy, while Japan and Germany are still trapped in recession. The source of gold's strength is more difficult to identify. On previous occasions it represented a hedge against inflation in industrial countries. But now unit wage costs are down and central banks committed to price stability.

Nevertheless, both fabrication and investment demand for gold rose in 1993. Frankel Pollak Vinderine economist Mike Brown says that a lot of funds have been buying gold as a hedge against exposures to other securities. "Demand and supply elements are favourable for a gold price of up to $410/oz. There's also a seasonal factor in that this is a popular time of year to get married in the East — so jewellery demand has increased too."

These same factors should prevent gold reaching the highs seen in earlier years. "By definition, the hedgers will take profits at certain levels," says Brown. Martin & Co's Carmen Maynard agrees: "There just isn't the lack of confidence in world currencies to justify gold soaring above $500/oz."

The stronger gold price and firmer dollar are a benign double whammy for SA, as depreciation of the rand boosts the income of the mines further.

Also working in SA's favour is that energy prices remain weak, with North Sea Brent crude oil still below the $14 a barrel level.

The rand is expected to fare well against the basket of currencies in the first quarter, says Mathison & Hollidge economist Tracy Ledger, "because of gains against third currencies, particularly the yen."

Ledger sees a depreciation for the year, on a trade-weighted basis, of 4,5%-5%, approximately in line with the producer price index differential between SA and its major trading partners.

UAL economist Dennis Dykes is less optimistic, putting the fall closer to 8%: "While the immediate pressure is off the balance of payments, and the current account is showing a healthy surplus, debt repayments under the 10-year debt conversions will peak over this year and the following three years. That, and a narrowing trade surplus as the economy picks up later in the year, could put pressure on the balance of payments. We would need to roll over some of that debt."

The financial rand discount should narrow once the foreign accounts at commercial banks are run down and more financial rands are bought on the open market. ■

P.T.07

Boland Bank at new high as Wiese takes control

B/Day 7/1/94

(58)

GRETA STEYN

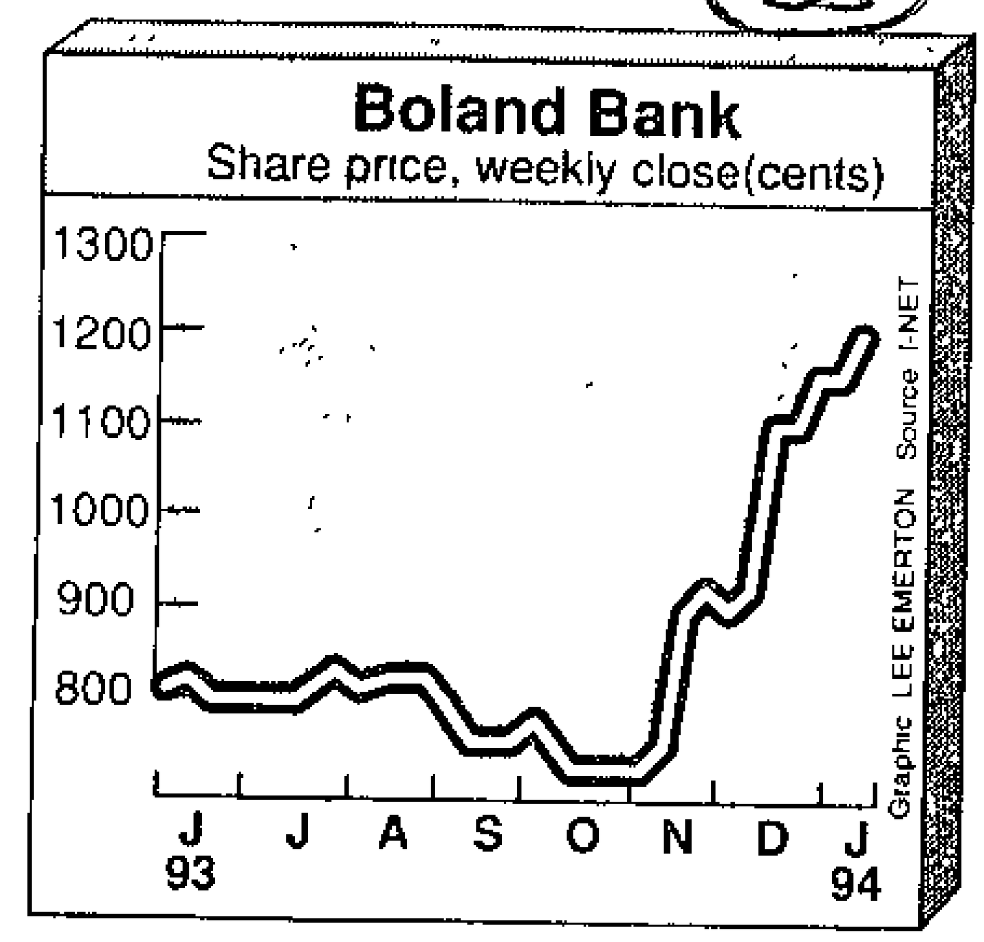
BOLAND Bank firmed 50c yesterday to a new high of R12 as demand for the share remained firm in the wake of Pepkor chairman Christo Wiese taking control of the bank and BoE increasing its stake.

The share has risen by 65,5% from its low of 725c in mid-October. Wiese took his personal stake in the bank from about 10% to more than 60% at below R10 a share. The continued appreciation of the share price after the announcements of BoE and Wiese's moves has raised the possibility of a third player in the market.

BoE and Wiese together control more than 50% of Boland's total permanent equity, and a formal link-up between the two would force an offer to minorities in terms of Securities Regulation Panel rules.

BoE MD Bill McAdam's statement that the two acquisitions were unrelated does not necessarily mean that Wiese and BoE will not work together formally in future. Analysts point out both said they would work closely with Boland's management, and it was clear the two were not in opposing camps. However, a formal tie-up would trigger an expensive offer to minorities.

BoE bought 7,6-million preference shares, which on conversion in 1996, will give BoE a 30% stake in the bank. After conversion, Wiese's stake will be diluted to 32% from the present 63%.



One analyst said the continued uptrend in the share price raises the possibility that a third player was in the market. A link-up with an overseas bank had been mooted.

Until Boland's "constitution" was changed in March, nobody could hold more than 10% of its issued shares. The major stakeholders at the time — Rembrandt, Sanlam, Absa and Momentum Life — have sold their shares.

Sechold admits to futures trading loss

(58) CT 7/1/94

From GRETA STEYN

JOHANNESBURG. — Small banking group Sechold suffered a "meaningful" trading loss in the equities futures market, chairman Arthur Kelly said yesterday.

The confirmation came as rumours about the loss battered Sechold's share price.

The share nosedived 12,5% yesterday to a R10,50 close — taking its plunge to 30% from its mid-December high. It was still off the R8,25 low reached about a year ago.

Kelly said subsidiary Securities Equities had suffered a sizeable loss in the futures market. He declined to say how much the loss was, but said it was meaningful.

He emphasised that the subsidiary was not a bank, and that the banks in the group had increased their profitability up to the end of December.

A board meeting would be held on Tuesday to approve annual results. A statement on the effects of the loss would be made a day later.

Kelly said: "We are confident Sechold will weather the storm. This is by no means a life-threatening event."

Market talk is that the futures trading team was wrong-footed by the major bull run on the JSE at the end of last year.

The futures market is highly geared and a big position in a market racing in the opposite direction could trigger millions of rands of losses in a short time.

It is understood Sechold was concerned that rumours about the loss could create trading problems for the group.

Small banks already pay a premium when dealing with major banks and face stringent trading limits imposed by the bigger players.

An exercise in "damage control" had started and representatives would explain the situation to major banks today.

Analysts said Sechold's track record had been good — in the year ending June 1993, it reported a 21,6% rise in earnings a share and a 31% return on average ordinary shareholders' funds.

It achieved a compound annual growth in earnings a share of more than 21% during the past five years, and institutional investors had increased their stake.

Threats as banks refuse home loans

8/D94 7/11/94

WILSON ZWANE

RETALIATORY measures to be taken by East Rand township residents against the decision by major banks not to grant them home loans would include the withdrawal of savings from the banks, the SA National Civic Organisation (Sanco) has said.

Sanco southern Transvaal general secretary Dan Mofokeng said yesterday: "If these institutions do not want to plough the residents' investments back into their areas, then Sanco will have no choice but to urge residents to take retaliatory measures."

Absa, Standard Bank, FNB and SA Perm this week said no financial institution was granting home loans to people living in Vosloorus, Katlehong, Thokoza and Tembisa.

The banks said violence in the townships made it impossible to service loans.

Mofokeng said the unilateral decision by banks to stop lending to residents of the four townships was a breach of an agreement between his organisation and the Association of Mortgage Lenders (AML). He said Sanco and the AML reached an agreement last year which, among other things, stipulated that there should be no prejudice against certain areas.

"In the light of the statements by these banks, Sanco will have to review its commitment to the agreement," he said.

Mofokeng said his organisation would negotiate with banks that had not decided to stop lending in the townships, with a view of dealing with them in the future.

"We are also in the process of setting up community banks. We will invest in these because they have our interests at heart."

Mofokeng also questioned the inclusion of Vosloorus and Tembisa in the list of of East Rand unrest flashpoints. (58)

"As far as we know, the trouble areas are only Thokoza and Katlehong," he said.

☐ SAMANTHA SHARPE reports that The Get Ahead Foundation continues to process Stokvel loan applications in the East Rand townships despite the violence.

The foundation is funded by foreign aid organisations to provide loans to borrowers unable to approach the major financial institutions. Foundation spokesman Sizwe Thati acknowledged that it could function only when the situation in the townships allowed.

"I've seen the bullet holes in the Katlehong branches," Thati said. He added that the foundation had to be "very cautious" when operating in the townships because of the risks imposed by the violence. At times members had been unable to make payments because of the physical danger involved in walking to a branch, Thati said.

E Rand residents to 'get even' with banks

CT 7/1/94 (58)

Own Correspondent

JOHANNESBURG. — Retaliatory measures to be taken by East Rand township residents against the decision by major banks not to grant them home loans would include the withdrawal of savings from the banks, the SA National Civics Organisation (Sanco) said yesterday.

Sanco southern Transvaal general secretary Mr Dan Mofokeng said: "If these institutions do not want to plough the residents' investments back into their areas, then Sanco will have no choice but to urge the residents to take retaliatory measures."

Urgent meetings would be held to discuss these measures, he said.

Absa, Standard Bank, First National Bank and SA Perm this week said no financial institution was granting home loans to people living in Vosloorus, Katlehong, Thokoza and Tembisa.

The banks said violence in these townships made it impossible to service loans.

'Failures prompt controls'

JOHANNESBURG. — The Policy Board for Financial Services and Regulation was looking into instituting capital requirements for investment business, Reserve Bank deputy governor Chris de Swardt said yesterday.

Addressing an annual banking conference in Johannesburg, Dr De Swardt said recent financial failures and investor losses had highlighted a gap in the regulation of the financial services sector.

He said the particular areas that could be regulated included securities and equities investment, investment advice and portfolio and fund management.

(58) CT 3/2/94

ANC banking plans slated

58

CT 3/2/94

Own Correspondent

JOHANNESBURG. — Bankers sent a strong signal of protest to the ANC yesterday over its Reconstruction and Development Programme's proposals to restructure the banking sector.

At a seminar on banking here, Standard Bank group economist Mr Nico Czypionka said the proposals had "made my hair stand on end" and called on fellow bankers to contact the ANC to express concern.

He was referring to suggestions that banks be required to lend a rising share of their assets to small, black-owned enterprises and be forced to provide reasons for turning down loan applications.

Consultation

Mr Czypionka said the ANC should be told that the NP government had tried to control banks, with "messy" results for the economy. The programme was "a shopping list that would blow the country's financial resources out of the water".

Council of Southern African banks chief executive Mr Piet Liebenberg said the industry would respond to the ANC's policy statement. "The ANC's statement was issued without consultation. But we intend to lobby, inform and debate the issues."

Community Banking Project chief executive Mr Archie Hurst urged commercial banks to keep exploring ways of being active at the bottom market.

● ANC acts to restore foreign confidence — Page 11

SA Eagle feels effects of crime

Star 3/2/94

(58)

BY JOHN SPIRA

Adverse underwriting conditions in the second half-year depressed SA Eagle's earnings for the 12 months to December to 433,8c a share from 1992's 499,6c.

The adverse conditions boil down to a sad commentary on the escalation of crime and violence which has become so characteristic of the nation.

The accounts reflect an abnormal tax credit, which, if included in earnings, boosts the per share figure from 433,8c to 468,8c.

The final dividend is unchanged at 120c for a total of 200c (200c).

The solvency margin is 117 percent, reflecting the group's financial strength.

Gross premiums written totalled R1,02 billion — 13 percent up on the previous year.

Investment income was higher at R80,9 million (R79,8 million), but the bottom line took a beating as a result of an underwriting loss of R4,9 million (underwriting surplus of R11,2 million in 1992).

The loss reflects a sharp increase in fire and motor claims in the second half, especially in the final quarter.

The directors say: "The recently announced increase in motor rates is a direct consequence of this rapid deterioration on this account. Thefts and hijacking of vehicles are the main causes, but road accidents continue to escalate in number and cost.

"The increase in fire claims in the last quarter is disturbing and, together with reinsurance costs, calls for an increase in fire rates, especially on the commercial account.

"The continued high level of crime — burglary, housebreaking and increased robbery and fraud — will require upward adjustments in rates."

Syfrets top of table in unit trust league

Star 3/2/94

BY DEREK TOMMEY

Syfrets is top of the table in the unit trust industry league. (58)

Last year, its trusts had a net inflow of R525 million, which was nearly double that of its nearest competitor.

Altogether, Syfrets captured 27 percent of the total R1,93 bilion net inflow into the industry, it reports.

Syfrets's unit trusts marketing manager John Karis says the strong showing is mainly the result of the good overall performance of its funds — particularly the flagship, Syfrets Growth Fund.

In the three years ended December, the growth fund's annual average growth rate was 26,8 percent.

This exceeds the 25,7 percent rise in the overall share index, the 21 percent return from general equity funds and the 11,9 percent increase in inflation.

In the five years ended December, the average annual increase in Syfrets Growth Fund was 28,5 percent, beating the 24 percent rise in the overall share index, the 23 percent return of general equity funds and the 13,2 percent rise in inflation.

Karis also attributes the inflows to the success of the Investor Series, a range of investment and retirement products underpinned by Syfrets unit trusts.

The customer service offered by the group is another reason for its success, he says.

A sophisticated, decentralised PC-based computer system has enabled Syfrets to grant clients electronic access to their unit trusts, speed up transaction time and pay income distributions into the bank accounts of unit holders within a mere seven days of the close of each quarter.

Southern retains 25% in R160m deal

Black group takes over African Life

BDay 2/2/94

(58)

CHARLOTTE MATHEWS

A CONSORTIUM of black investors has negotiated a R160m cash deal to buy 51% of the shares of life assurer African Life from majority shareholder Southern Life.

It was announced yesterday that the consortium, headed by African Life director Don Ncube, would pay 470c a share for the holding. This would leave Southern Life, which is 40% held by Anglo American Corporation, with a 25% interest in African Life.

Anglo American chairman Julian Ogilvie Thompson said the deal expanded blacks' active participation in the heart of the economy and Anglo fully supported the initiative.

The consortium includes African Life director Pat Bodasing, Nedbank corporate account manager Mutle Mogase, Free State and northern Cape YWCA president Ellen Blekie, Institute for Multiparty Democracy executive chairman Oscar Dhlomo and Nedbank's Nedenterprise division relationship head Jethro Mbau.

A new company, Newco, will be formed to hold the acquisition group's 51% stake. The remainder will be owned by the public, trade unions, Kagiso Trust, National Association of Stokvels and church groups.

Certain provident and pension funds will hold their shares in African Life directly and will have voting rights in Newco.

In terms of the agreement, the consortium has until May 31 to raise just over half the purchase price.

Ncube said the deal probably would be finalised sooner than that because the consortium would prefer it to be concluded before the April 27 elections and ahead of African Life's March year-end, so that the consortium could participate in the dividend.

Ncube will replace African Life chairman Adrian Arnott, and the composition of the board of directors will change to reflect the change of control, with half the posts going to the consortium.

African Life, which was listed on the JSE in 1990, provides life cover for more than 2-million South Africans. It is based mainly in the low income market and has a substantial proportion of black policyholders. In the six months to September 1993 its premium income was R74m and its total income R86,5m. Assets at March 1993 were R312,5m.

Ncube said the consortium was attracted to African Life because of the assurer's culture, its commitment to the black community, its name, staff and management.

"The transaction is very important because we believe it is a real deal — we will have effective control of the company, we are paying real money, in cash, and there is a spectrum of buyers representing the people of SA."

He said Newco would "be used as a vehicle for further ventures aimed at black economic enablement".

"These ventures will not necessarily be in the financial services field."

Southern backs black buyout of African Life

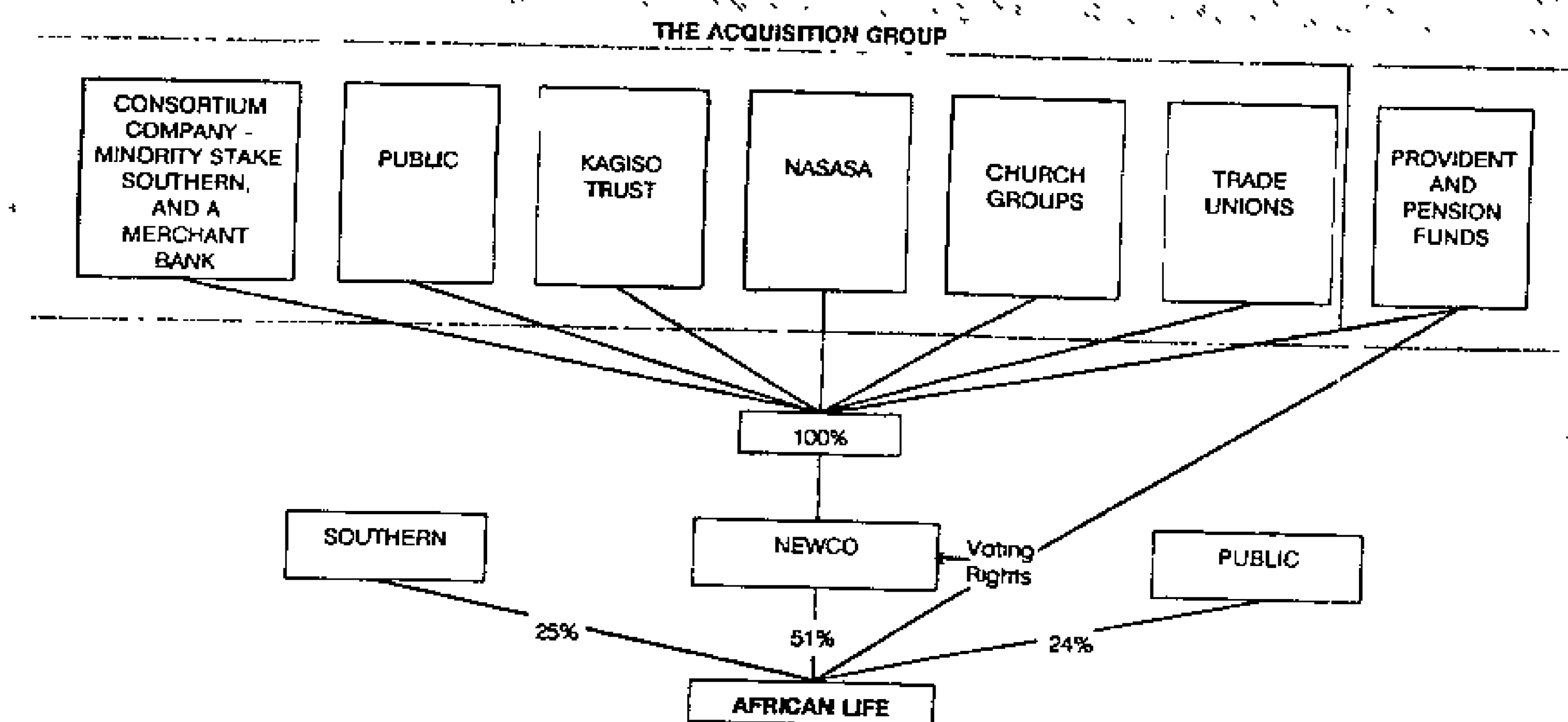
58 CT 2/2/94

By AUDREY D'ANGELO
Business Editor

A NEW acquisition group described as "representing the interests of hundreds of thousands of black South Africans" will take control of JSE-listed insurance company African Life in a R160m deal — and go on to diversify into other types of business.

The group includes black business and professional people headed by Southern Life director Donald Ncube — who will become the new chairman of African Life — trade unions, the National Association of Stokvels, the Kagiso Trust and some church groups.

African Life, which lifted total premium income by 45% to R74m and earnings by 23% to 11,1c a share in the six months to September, is 76% owned by Cape-based life assurer Southern Life.



NEWCO STRUCTURE ... This graph shows the structure of Newco which, in addition to taking control of Aflife, will be used as a vehicle for further ventures aimed at black economic enablement. The authoritative McGregor's Investment Handbook identifies Anglo American Corporation as the ultimate controlling shareholder of Southern Life, which will sell 51% of African Life to Newco.

In a statement issued yesterday Southern Life said it intended to retain a longterm 25% stake in African Life. It will sell the remaining 51% to the acquisition group at 470c a share — the ruling price when a cautionary announcement was made that negotiations were in progress.

The acquisition group will hold its shares through a new company to be formed (Newco). Some pension and provident funds will hold their shares directly, with voting rights in Newco.

Ncube said there would be no domination by any member of the acquisition group. Although shareholdings would differ, the voting arrangement within the consortium would be based on concensus.

But a group of black business and professional people headed by Ncube and including Oscar Dhlomo, Jethro Mbau, Mutle Mogase, Pharthabsing Bodasingo and Ellen Blekie will take a leading role in commercial decisions.

Yesterday's statement said Newco would "be used as a vehicle for further ventures aimed at black economic enablement.

"These ventures will not necessarily be in the financial services field. There could be opportunities within African Life's existing subsidiaries — Enterprise Magazine and African Life Homes, which is involved in the construction and marketing of houses and schools."

Ncube said that although the deal was "a black economic enablement exercise, it is also driven by sound business principles. It will, for instance, give African Life the ability to grow much more quickly than would otherwise have been the case."

He stressed that the consortium was happy with the present management of African Life. There would be no management changes although the board of directors would be extended to include members of the acquisition group.

A giant step for black community

Star 2/12/94

■ BY JOHN SPIRA

In a deal which takes non-tokenist black economic enablement a quantum step forward, an acquisition group representing the interests of millions of black South Africans is to pay R160 million for control of African Life. (58)

Kingpin is Aflife director Donald Ncube, who heads the acquisition group of black business and professional people, the trade union movement, the National Association of Stokvels, the Kagiso Trust and various church groups.

Ncube estimates that the group, buying 51 percent of Aflife, represents three million people.

Assuming each has five dependants, he sees benefits accruing to as many as 15 million South Africans.

The group will raise the R160 million (based on a price of 470c per Aflife share) to acquire 51 percent of the life assurer from Southern Life, which currently controls 76 percent of the equity. Other shareholders include Aflife's staff, policyholders and the general public.

Ncube describes the ramifications of the transaction: "This is a business deal which will benefit everyone. It is a black economic enablement exercise, but it is also driven by sound business principles.

"It will, for instance, give Aflife the ability to grow much more quickly than would otherwise have been the case.

"The new shareholders will not only participate in Aflife's equity, but will also help to create wealth through the company, which can then be distributed back to the community."

He says the consortium is happy with Aflife's management and that there will therefore be no management changes after change of control.

However, the board will be extended to include representatives from the acquiring consortium.

Ncube will be chairman when the transaction becomes unconditional.

Southern Life director and Aflife chairman Adrian Arnott says: "For some time, we've been trying to find suitable shareholders who would enable us to achieve management's vision of making the company a mirror of South African society. We've already achieved this with staff and policyholders."

Chief executive Bill Jack says Aflife had hitherto focused on selling individual savings and funeral policies.

It would now target group assurance and asset management business — a thrust facilitated by the fresh involvement of trade unions, church groups and stokvels.

The acquisition group will hold shares through a company to be formed (Newco).

Certain pension and provident funds will hold shares directly, with voting rights vesting in Newco.

Ncube says Newco will be used as a vehicle for further ventures aimed at black enablement.

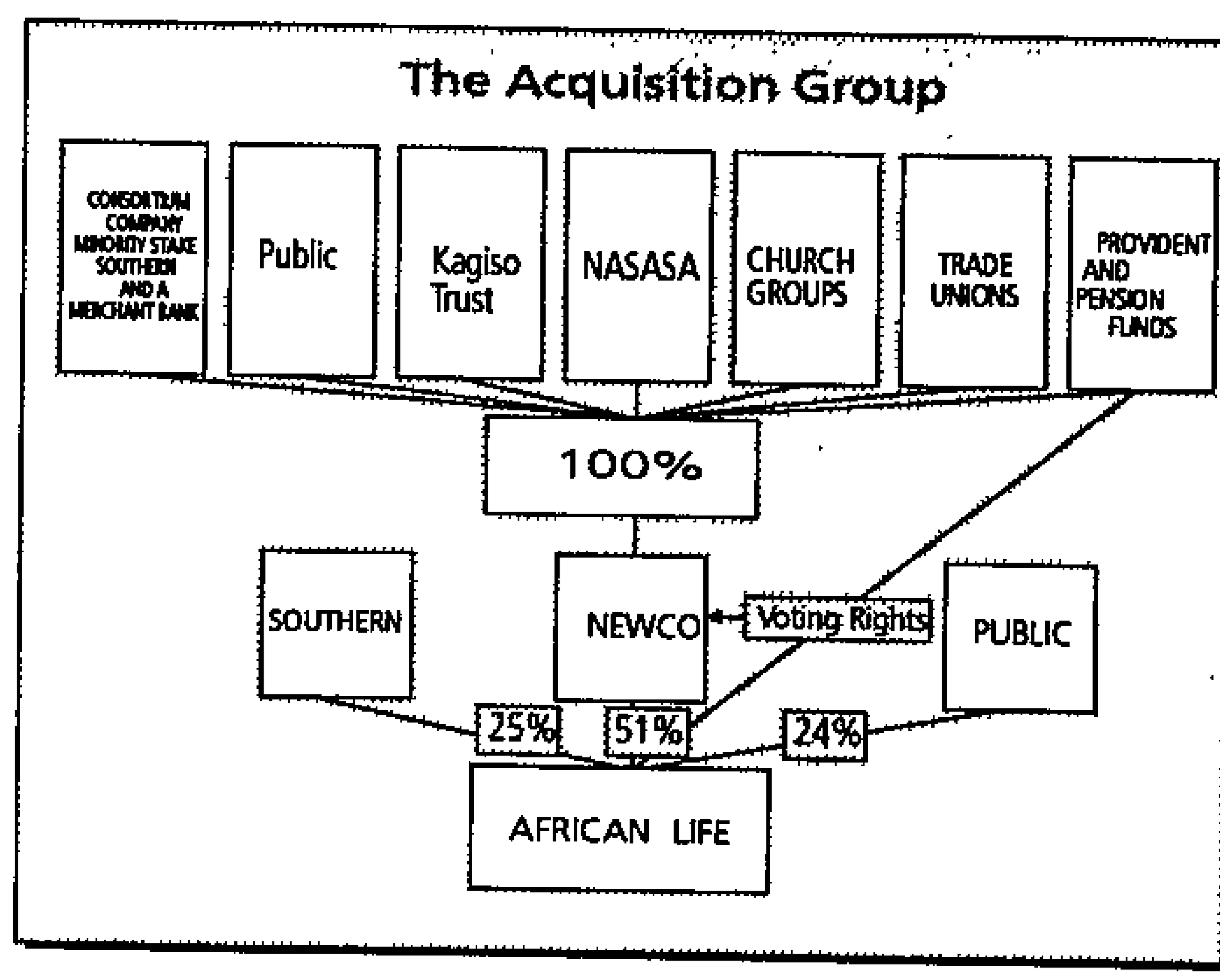
Anglo American, which has an important indirect stake in Aflife via its interest in Southern Life, is supportive of the deal.

Chairman Julian Ogilvie Thompson says: "This is a very important deal for South Africa in expanding active participation by blacks in the heart of the economy."

The JSE, too, has nodded approval.

When Aflife issued a cautionary notice, its shares were 470c. Since then they've added 12 percent following a prediction in The Star that the deal would take its present form.

Signing the deal (from left): Don Ncube, WA (Bill) Jack and Adrian Arnott.



Insurers change riot cover

CT 1/2/94 Staff Reporter (58)

THE cancellation notice for riot cover with some short-term insurers will be reduced from 30 to 14 days as overseas re-insurers become wary of increased violence in the run-up to the April elections.

A spokesman for Guardian National said yesterday that overseas re-insurers had insisted the cancellation period be reduced.

"It was a business decision. Obviously with the elections coming up they are a bit more anxious," he said.

He said this would not affect individuals and small companies covered for riot damage by the Sasria plan. This provided riot cover up to a maximum of R250 million, and was underwritten by all South African insurers and backed by the government

"We offer riot cover over and above that, mainly to big corporations which have assets worth more than R250 million. The reduction in the cancellation period will only affect big corporations," the spokesman said

Auto & General releases figures in new open policy

B/Day

CHARLOTTE MATHEWS

SHORT-TERM insurer Auto & General has issued abridged figures for the year to December 1993 as a first step in a more open policy for 1994. 3/1/94

Pre-tax profit was 63% higher at R31m (R19m), on premium income up 13% to R282m (R249m). Shareholders' funds grew nearly 50% to R113m (R76m) and its liquid assets climbed 44% to R163m (R113m). (58)

Auto & General is not listed and is not obliged to publish detailed results. However, MD Nick Mew said it would release more figures this week.

Auto & General, a direct telephone insurer, now has 159 000 policyholders. Mew said although there had initially been some scepticism in SA about direct telephone insurance, which had been very successful in the UK, this was "definitely being overcome".

Mew attributed the company's success to its risk-rating. He said in the low-risk category its premiums were the market's lowest, in the medium-risk category it was very competitive, and for high risks correctly rated.

Auto & General's rates increased about 14,8% from January 1 but Mew doubted they would increase again this year.

Recently the Financial Mail reported an apparent campaign of negative publicity against the company. However Mew said the company was going from strength to strength.

ANC assets threat 'no cause for alarm'

STimes (Buss)

By KEVIN DAVIE

LIFE assurers are making light of the ANC's threat to use prescribed asset requirements to compel them to invest in socially desirable projects.

They believe prescription will be unnecessary.

"I'm bullish that the industry can be part of the solution without prescription," says Sanlam managing director Desmond Smith. 30/1/94

Mr Smith says the new government could provide guarantees to reduce risk and secure market-related returns for investors.

The latest draft of the ANC's reconstruction and development programme says that if excessive risk aversion prevents major financial institutions from socially desirable investments, the government "should consider some form of legislative compulsion such as prescribed assets".

Mr Smith says financial institutions can play a useful partnership role with government so that money goes to needy areas.

Life Offices Association (LOA) figures show that assurers had assets of R235-billion last June. (58)

This included R122-billion in shares (including unit trusts), R13,8-billion in notes and deposits, R49-billion in public-sector stock and loans and R27-billion in property.

Assurers have R49-billion in government and parastatal stock.

Property was Sanlam's best-yielding investment last year. Only about 4% of Sanlam's property portfolio is unoccupied.

Mr Smith says stringent requirements have to be met before Sanlam makes new investments in property.

LOA director Jurie Wessels says it would be naive to believe that prescribed assets will not be on the agenda of the next government. Mr Wessels says that with prescribed assets will come a bureaucracy to manage expenditure.

"There is no shortage of money; there is a shortage of feasible projects. This can mean you get a pool of money which you can't spend. The bureaucracy then consumes the money."

The life business is looking to its Investment Development Unit (IDU) to assist through creating instruments to facilitate new investment in development.

Peter Barbe, formerly of BMW, was recently appointed chief executive of the IDU. He is under pressure from assurers to develop these instruments.

The IDU has with Eskom launched electrification participation notes to raise funds for the electrification of houses for low-income earners.

It is believed that the IDU is unlikely to launch development initiatives before the election.

Fraud delays Geis refunds

CIARAN RYAN

EXPORTERS face delays of up to nine months in receiving payments under the general export incentive scheme (Geis) as the Department of Trade and Industry clamps down on fraudsters. ST Times

A sharp increase in exports is also blamed for the delay. However, there are fears that some exporters could go under waiting for their money. 30/1/94

Dennis Jones of Prime Pine products, a timber exporter based in George, says he had to wait four months for a Geis claim of R450 000. His claim was settled after appealing to the Minister of Trade and Industry. He was told he would have to wait six to nine months for his claim to be settled.

A Department of Trade and Industry source says there are 4 000 backlogged Geis claims. Only 700 are processed each month.

"The delays are caused because of new measures designed to clamp down on fraudulent claims," says Mr Jones. "But in the process, law-abiding companies are being put at risk."

Deputy director-general for Trade and Industry Gerrie Breyl says: "It is indeed so that claims where irregularities are discovered or suspected could be delayed for many months. Processing has been slowed down by extra control measures."

Mr Breyl says the normal processing time for claims where no fraud is suspected has increased from the three months to four months.

Geis is expected to cost the fiscus R1,6-billion this year, but the figure could be higher because of the increase in exports.

Life Office chief warns of 'chaos'

CT 29/1/94 (58)

By ARI JACOBSON

SA has five years after the first democratic election to deliver to the less privileged communities "otherwise there will be chaos", warned Liberty Life vice-chairman Dorian Wharton-Hood yesterday.

He was speaking at a luncheon hosted by the Life Office Association (LOA) and attended by other industry leaders such as Sage Life MD Bruce Ilslsey and Metropolitan MD Marius Smith.

Wharton-Hood said that the change "in mindset" among politicians and businessmen was very encouraging.

"Big business is voluntarily engaging in projects it never dreamed of a few years ago."

Wharton-Hood went on say that there were signs that the politicians were starting to listen to businessmen and this was "tremendous for a healthy economic environment".

"I have a strong feeling of optimism gauging by the change in mindset," he said.

Wharton-Hood stressed that it was important for all local industry to invest in uplifting the economy.

Ilslsey said that "while there is the need to balance the risk and return on policyholder funds, the longer term gains of social investment will provide a far greater return".

On other issues pertaining to the life industry, they all concurred that rationalisation could soon lead to public sector pensions "falling into line with the private sector".

They also agreed that there were "ridiculous" anomalies in the respective tax structures which they thought may soon change.

The most glaring "anomoly" at present is that public sector lump sum payments are not taxable, while private sector pensions (above R120,000) are taxed.

Warton-Hood said that the rationalisation process in the life industry could lead to a "uniform" single tax structure for all pensions.

● In a discussion after the meeting, Ilslsey said that the Sage group had in recent times focused on a "supply side" approach to distributing its products.

He pointed out that a life product "was sold and not bought" and this required more "selective" targeting of products to prospective clients.

Nedcor to boost Cape operations

(58) ARG 29/1/94

MARC HASENFUSS
Business Staff

Nedcor is planning a stronger co-ordinated management presence in the Cape. This includes sending a managing director to oversee operations here and appointing a new MD for the Cape of Good Hope Bank.

NEDCOR is ringing the changes at its Cape-based operations with two key appointments this week.

Nedcor announced that Nedfin managing director Christopher Beatty would relocate to Cape Town to oversee the Cape of Good Hope Bank and Syfrets operations. He will serve on both the Syfrets and Cape of Good Hope Bank boards.

According to a group spokesman, the creation of this new position comes in light of a restructuring following the retirement of Nedcor chief executive Chris Liebenberg.

"We decided the group would benefit greatly if we created a strong, co-ordinated management presence in the Cape."

Nedcor also announced that Mike Thompson — managing director of BOE Merchant Bank and executive director of the Board of Executors — will join the Cape of Good Hope Bank next month as managing director

Mr Thompson will take over from Ron Rundle, who retires at the end of March this year

Mr Thompson and Syfrets' joint managing directors Ashton Dominy (head of investment and fiduciary operations) and David Rennie (property finance and property operations) will report to Mr Beatty.

Market talk is that Nedcor's steps to institute a joint reporting line to Mr Beatty has more bearing on Syfrets than on the Cape of Good Hope Bank.

Syfrets was the underperformer in the Nedcor stable in the year to September, with some hiccups in the property divsion after a portfolio reassessment saw additional provisions of R25 million being made.

In the reporting period to end September, Syfrets net income was cut 22 percent to R17 million.

Loss of key staff last year further also sent trembles through the financial institution and raised questions about staff morale.

Insurance sources, furthermore, speculated that the appointment of a 'big brother' in the Western Cape could be linked to recent utterances by Syfrets that heavier tax on retirement annuities was on the cards.

The sources said these remarks — which were immediately quashed by Old Mutual, Sanlam and the Life Offices Association — had annoyed Syfrets' ultimate controller Old Mutual.

Cape of Good Hope Bank, on the other hand, has flourished in its niche markets under Mr Rundle's guidance. Even after the Nedcor takeover the bank flaunted its independence, and the holding company seemed happy to oblige with a hands off approach.

A Nedcor spokesman believed Mr Thompson would enable the Cape of Good Hope bank to continue as a major force in the Cape banking arena.

"Not only is he a very experienced and able banker, but he is also the right calibre of person for this position, and will no doubt be a great asset."

ADB to send mission to SA

ет. 28/1/94

JOHANNESBURG. — The African Development Bank is sending its first reconnaissance mission to South Africa at the end of the month to compile a country economic report, the Devlopment Bank of Southern Africa here said yesterday. (58)

The AfDB's principial country economist for SA Dr Elfatih Shaaeldin will lead the mission to visit the Reserve Bank, the JSE, and research institutions and to meet with the private sector, labour, political parties and the government.

The country economic report would include a description of the scoio-economic structure, an analysis of available policy choices and assessment of external resource requirements.

The DBSA said the AfDB would use the report to compile a country project portfolio on SA which could attract AfDB project finance and technical assistance. — Sapa

COMPANIES BiDay 28/11/94

African Life discussions continue

CHARLOTTE MATHEWS

TALKS between African Life and a consortium of black associations aimed at increasing black ownership of the company were taking place but had not been completed, sources said yesterday.

The consortium is believed to include trade unions, the Kagiso Trust, the Zion Christian Church and the National Stokvel Association of SA. In 1992 African Life secured the business — including 200 000 policies — of the Zion Christian Church.

The negotiations centre on the sale of Southern Life's 77% stake in the life assurer, which has often reiterated its intention to encourage greater participation in the company by black shareholders.

African Life MD Bill Jack said yesterday he could not comment on "press speculation". The company issued a cautionary announcement last week warning that negotiations were taking place.

Stokvel association president Andrew Lukhele said he did not wish to comment on the rumours as negotiations were still at an interim stage. (58)

The Kagiso Trust and Cosatu referred enquiries to Aflife director and Anglo American alternate director Don Ncube, who said there would be a news conference next week.

Sun Life new business up 45%

B/Day 27/1/94

SUN LIFE Group, the UK assurer in which Liberty Life has an indirect interest, increased new business 45% to £329,9m in 1993 (£227,7m), according to figures released yesterday. (58)

Liberty Life has a 54% interest in Trans-Atlantic Holdings, which in turn has a 50% holding in Sun Life.

The increase is measured on new regular premiums plus one-tenth of new single premiums.

Total new premiums were 55% higher at £2,3bn (£1,5bn). Total single premium business rose 57% to £2,2bn (£1,4bn), with a particularly good performance from life assurance and annuity business and personal pensions. Regular premium business rose 25% to £106,7m (£85,6m), also helped

CHARLOTTE MATHEWS

by personal pensions. Both single and regular premium business saw a decline in the contribution from final salary and money purchase schemes.

Sun Life MD John Reeve said he was particularly pleased about new regular premium business. Sales of personal pensions had been initially helped by a campaign early in 1993 but had continued at high levels.

Reeve expressed caution about 1994 expectations.

"Our new business has more than doubled over the last three years, which is well beyond the performance of the market as a whole."

Liberty shares overshoot the market value factor

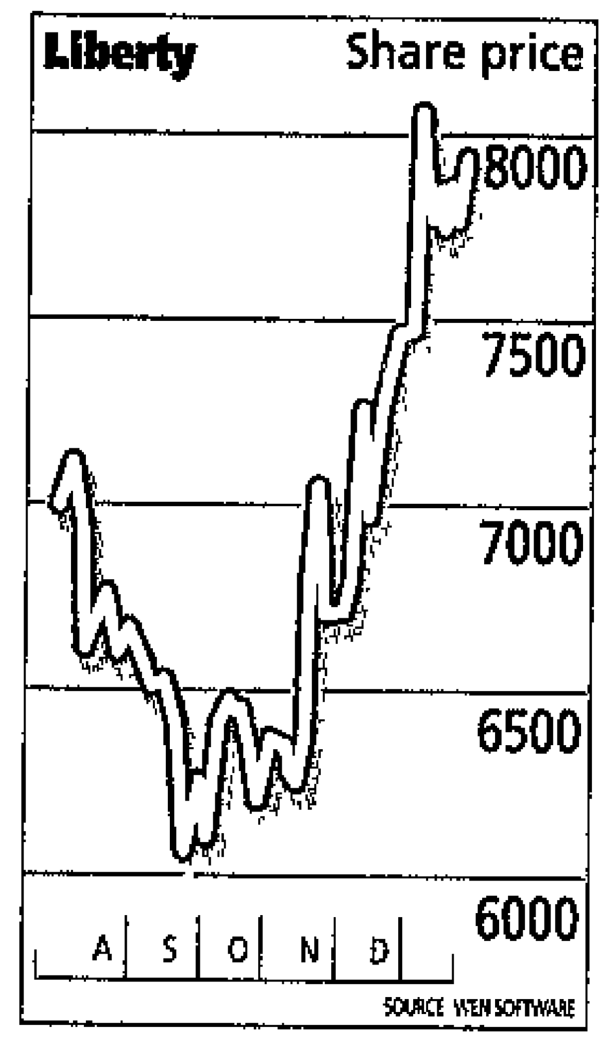
Star 26/11/94

(58)

■ BY STEPHEN CRANSTON

While Liberty Life deservedly holds a high rating it present share price looks too demanding and now was not the time to buy the shares aggressively, says Ian Christison, insurance analyst at stockbrokers Mathison & Hollidge.

Christison recommends buying the share on weakness, once there has been some correction in the share price.



Declaration

Christison says that the advanced declaration of a 160c dividend for the year to December puts Liberty on a two percent dividend yield, compared with a three percent yield which has been more usual in recent years.

He points out that Liberty has declared supplementary bonuses in one form or another but he recommends using these cherries on the top to write down notionally the cost of the share rather than to look on them as a permanent increase in the yield.

Liberty Life cannot be treated as a comnventional life assurer. Its subsidiaries, made up predominantly of its life activities, accounted for just 23 percent of its total investments in December 1992, its last published year-end results.

Christison suggests it should be treated as a control centre, designed to raise money as cheaply as possible and to invest it on a higher yield basis.

Life assurers, by the nature of their business, are an ideal vehicle for raising capital.

And the life business written in South Africa is the driving force of the whole group. Without this trunk, the branches would wither.

And this remains a very sound part of Liberty's business. Premiums written increased by 30 percent and this has been achieved in the face of a comparative decline in the pension fund business being written.

This indicates an increasing acceptance of the company's products in the general market place.

Exchange control 'need'

CT 25/1/94

Own Correspondent

LONDON. — Delegates at a high-powered United Nations-sponsored conference on sustainable economic growth and development in South Africa have reached consensus on the need to maintain exchange controls in the medium- to longer-term. (49)

SA's financial affairs ambassador Mr Gerhard Croeser said on the weekend there was also general agreement among delegates and speakers, who included Reserve Bank governor Dr Chris Stals, that the abolition of the financial rand should be dealt with extremely cautiously. (58)

He did not think the maintenance of exchange control would deter foreign investment if there was a guarantee that foreign investors could remit current income.

"Exchange controls per se are not a bar to investment," Mr Croeser said.

The financial rand system was a closed one which did not encourage foreign exchange and new investment. Getting rid of the financial rand system would encourage people to come into SA as investors.

UWC professor and ANC tax adviser Mr Lieb Loots said the first full budget of the new government would only be passed in March 1995

Unpaid workers vow to take revenge

S TIMES

By RYAN CRESSWELL

ANGRY workers have vowed to take revenge on a bank which lent money to their former employer who, they allege, owes them two months' pay.

Former employees of Thornville Abattoir and community members from the township of Hopewell in the Natal Midlands will gather on the property today to vote whether people should move in to the site to set up a squatter camp.

The community is holding Boland Bank, holder of a mortgage bond on the property, responsible for pay they claim is owed to 25 former employees.

They allege the bank allowed abattoir employees to work on the bank-owned property, knowing there was "something suspicious" about the farm manager, known as Anton White in Thornville, but as Anton Buchan or Anton Bakker in other places. 23/11/94

Mr White allegedly did not pay his staff for two months and was arrested on a fraud charge in November.

A spokesman for Boland Bank said the institution was aware of the workers' allegation that it should have "prevented" Mr White from hiring them and leading them to believe they would be paid, but that Boland Bank had no knowledge of their employment contracts or the terms.

The former assistant manager of the abattoir, Mr John Nortje, has become a spokesman for the employees and the community.

Mr Nortje claimed he had been told by a senior employee of the bank that it was aware Mr White was operating under a false name and had a false passport, but he had offered to buy the abattoir and was erecting buildings on it, so they took no action.

"Perhaps in a strict legal sense the bank does not owe the staff anything, but in a moral sense it certainly does," said Mr Nortje. 58

Mr Freddie Mkhize, co-ordinator for the Natal Regional Land Committee, said if the vote was in favour of a land invasion, people would start "putting up homes and ploughing".

Community banks to open in May

South 21/1 - 25/1/94

AN EXCITING new concept in banking that provides loans and empowers people in lower income brackets — community banking — is set to sweep through South Africa from May this year.

Essentially the concept means banks will provide opportunities for people to save their money in the knowledge that the bank will invest it only in their areas.

The community banks will lend money to low income earners who traditionally have not been able to get bank loans because they are considered too great a financial risk.

The idea for the community bank was originally floated by the ex-managing director of the Perm, Mr Bob Tucker, and development worker, Mr Cas Coovadia.

Said the new Chief Executive Officer of the Community Bank Foundation, Coovadia: "Just before he left the Perm about three years ago, Bob Tucker tried to turn it around so that more people were able to get housing finance. He brought this idea and his experience to the civic movement and the idea of the Community Banks was born.

"The strategies of the development group is to provide a mechanism for people to control their own finance."

According to Coovadia the money generated by a community needs to be used to develop that area. Out of this development will come the money to develop adjoining areas.

Every year black South Africans save about R14 billion in banks. Despite this, very little money gets back to them for development — only about R10-billion of the total R270-billion loaned each year.

Advocates of the Development Banks believe that banking and credit should not only be the right of the rich and have pledged to aid low income earners and people working in the informal sector in getting loans.

The banks will be kept fairly small so that staff can get to know customers and make decisions on loan applications.

People will have to save with a bank for at least six months before they can apply for a loan. It is felt this will ensure that anyone applying for a loan will have some banking experience and will understand the importance to both the bank and the community in repaying the loan.

The first office of the innovative scheme will be in Athlone, which will have two branches, one in Manenberg and one in Elsies River. Thereafter branches will be opened in Johannesburg and Butterworth in the Transkei.

The banks will be launched with capital of R200-million, provided entirely by South African sponsors.

"We did not go overseas for this money because we feel if the banks are to succeed South Africans need to show an interest in them.

"The Independent Development Trust, the Industrial Development Corporation and the Development Bank together have given us a 10-year loan at 8 percent interest," he said.

The money will initially be loaned to the board of 17 trustees who will use it to buy all the shares.

Thereafter each person who becomes a member of a Community Bank will be obliged to buy at least one share at a cost of about R20. This money will buy the shares back from the trustees and pay off the loan.

Through this the people of the communities will eventually own the banks.

(58)

Another part of the initiative is the creation of a Development Bank Forum funded by international development agencies.

"Before establishing an outlet the Forum will go into an area and build banking capacity. It will teach people how to save and how to budget to repay loans. It will provide back-up training to small enterprises and thereby empower them," says Coovadia.

"This will directly help the people and at the same time, because their businesses are running smoothly, reduce the risks to the bank."

BY SHANNON NEILL

SA race attitudes 'improving'

BOTH BLACKS and whites are becoming more confident this year will be better for them in money terms.

This is the findings of a Gallup Poll on socio-economic trends carried out by the Markinor Group among 800 whites nationally and 1 000 blacks in metropolitan areas last year.

The study shows 34 percent of blacks feel this year will be financially better. Whites were more cautious, 20 percent believing this year would have more financial promise.

"Clearly the expectation of a new black government in 1994 has given new hope to blacks," says Ms Christine Woessner, deputy manager of Markinor.

"However, among both race

Southbusine

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South 21/1-25/1/94

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BY SHANNON NEILL

Sage makes board changes

JOHANNESBURG. — Sage group said it had made major board changes in a restructuring designed to sharpen the focus of its core business in financial services and property, and to further strengthen management in these areas. (58) CT 21/1/94

Sage said in a statement it would streamline and reduce its head office activities and focus operating activities in two autonomous groups, wholly owned subsidiaries Amalgamated Insurance Holdings and Sage Property Holdings.

The move follows final consolidation last year of the group's interests in one listed entity and disposal of non-core interests. — Reuter

AFRICAN LIFE

FM 21/1/94

Black empowerment

58

Market talk has it that this week's cautionary notice by African Life (Aflife) indicates it is negotiating the sale of a block of its

FM 21/1/94

shares to a group of black businessmen.

This would not be the first such move by a life assurer towards black empowerment. Last May Sankorp sold a quarter of its 40% stake in Metropolitan Life (Metpol) to a new black-owned company, Metlife Investment Holdings (Methold), for R137m.

Methold has the option to buy a further 20% over the next five years. The Industrial Development Corp acquired the shares which were then to be sold on to Metlife policyholders, black pension and provident funds and the public.

58

Major step forward

For several years chairman Adrian Arnott has referred in his review to Aflife's intention to "encourage greater participation in ownership of African Life by black shareholders." In the latest report Arnott says "... a specific direction in this regard is currently being pursued. If it progresses as positively as we would hope, a major step forward will be possible."

Like Metlife, Aflife focuses primarily on the black market. MD Bill Jack declined to comment, saying only that shareholders would be informed as soon as possible.

Marylou Greig

Sappi sells paper firms

IN line with its strategy of concentrating on its core business of manufacturing high quality graphic and speciality papers in Germany, Sappi has announced the sale of two paper converting businesses which were acquired in the Hannover Papier deal in mid-1992.

Hannover Papier will invest the proceeds of the sales — more than R100m in its mainstream activities.

MD Franz Neudeck said the company will use the funds to consolidate and expand its position as one of Europe's major producers of coated paper.

The two businesses which have been sold are Sachsa Verpackung at Wida and Landre Papierwaren at Gronau in northern Germany.

The transactions are effective from January 1 1994.

Sanco to brief AML on plans for sector

From WILSON ZWANE

JOHANNESBURG — The SA National Civic Organisation (Sanco) will brief the Association of Mortgage Lenders (AML) on plans by the ANC alliance to regulate the financial sector when the two organisations meet next week.

The civic body would also raise the recent decision by Absa, FNB, Standard Bank and SA Perm to stop lending to residents of the East Rand townships of Vosloorus, Katlehong, Thokoza and Tembisa.

End boycotts

Sanco official Moses Mayekiso said the decision by banks was disrupting the "democratisation" of the financial sector, envisaged in the ANC alliance's reconstruction and development programme.

Mayekiso added that the decision also put his organisation in a tight corner. He said in terms of agreements reached at the national local government negotiating forum, Sanco was to call upon its constituencies to end bond boycotts.

"The decision by the banks make it difficult for us to convince people to regard banks as socially responsible institutions," he said.

He said Sanco would "introduce" the reconstruction and development programme to the AML next week The focus, he said, would be on sections of the programme which dealt with the financial sector

The ANC alliance has proposed, in its draft document on the reconstruction and development programme, that a range of measures should be put in place to prevent discrimination in the financial sector.

(58) CT 20/1/94

Reinvest

The proposed measures include legislation forbidding banks from discriminating against certain areas.

Mayekiso added that his organisation would approach the ANC and Cosatu with a view to working out joint strategies to force banks to reinvest in the four townships.

Sanco would also — jointly with the ANC and Cosatu — embark on campaigns aimed at forcing employers to get involved in efforts aimed at normalising the situation in Katlehong and Thokoza.

Sanlam's bonus rates down in '93

(58) CT 20/1/94

Business Staff

WHILE bonuses paid by Sanlam for its 1993 financial year have come down in nominal terms the real return to investors has increased.

Senior general manger for individual assurance, Walter Scheffler said that while bonus rates had come down in nominal terms, this was to be expected in the climate of lower inflation. The real returns had however increased.

Bonuses had exceeded inflation by 1,5% for ordinary assurance and 3,45% for retirement annuities. Present bonuses beat infaltion by 2,9% and 4,9% respectiveily, he said.

A total bonus of 14%, almost 5% above the inflation rate of 9,1% over the same period, was declared for retirement annuities in the Stable Investment Series.

The bonus rate for ordinary assurance in the same series is 12%, or nearly 3% above inflation as measured by the Consumer Price Index during this period. This rate was calculated after deductions were made for tax.

He pointed out that the rates did not apply to Sanlam's Market Value Investment Series as these invsetment were directly linked to the JSE through the various portfolios and as such fluctuated regularly.

COMPANIES

RMB foresees no capital needs

KELVIN BROWN

RAND Merchant Bank (RMB) is comfortably within the capital adequacy requirements for banks and a need for additional capital in the foreseeable future is not expected, says RMB executive chairman G T Ferreira in the bank's annual report.

"Should such a need arise, other forms of capital utilisation can be considered, such as the revaluation of assets currently shown in the accounts at cost."

RMB — a wholly owned subsidiary of Momentum Life — increased profit 24% to R44m in the year to June 1993.

The bank's total capital and reserves stood at R303,8m from R259,6m in the previous financial year.

The bank decided to postpone declaring of a dividend as the primary consideration was the optimisation of tax, he said.

But a dividend conservatively covered by earnings could be paid if circumstances changed later in the current financial year.

All the divisions of the bank performed well in the past financial year, Ferreira said. Margins were also reasonably good, compensating for the slackness in credit demand, he said. B/DAY

"The traditional banking activities of the bank had an excellent year, virtually achieving their objective of covering the total overheads of the bank." 20/1/94

The bank's total assets increased 12,4% to R3,3bn in 1993. ([illegible] 58)

It remained the bank's policy not to set asset growth targets but rather to concentrate on the quality of assets.

RMB resisted pressure to lower credit criteria to increase the balance sheet and decided it would maintain very strict credit criteria.

In 1993, bad debt write-offs amounted to less than the target of 0,15% of total assets. Management was satisfied with the level of provision for doubtful debts, Ferreira said.

Sanco to tell lenders of regulation plans

B/Day 20/1/94

WILSON ZWANE

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BDay 19/1/94

Township residents are bank customers too

(58)

WILSON ZWANE

I LIVE in Vosloorus — an East Rand township which, along with Thokoza, Katlehong and Tembisa, is a "no-go area" as far as the country's major financial institutions are concerned.

Absa, First National Bank, Standard Bank and the SA Perm recently announced that no financial institutions were lending in these areas because the violence there made it impossible to service loans. Not only were investments at risk, but property inspectors could no longer safely enter the areas.

Their announcement came as the SA National Civic Organisation (Sanco) appealed to banks to intervene and normalise the situation in the townships by, among other things, stepping up their involvement in peace moves and freezing interest payments on mortgage bonds on houses that had been vacated as a result of violence.

In response Absa made its position clear: "Financial institutions cannot play the role of peacemakers or law enforcement officers. We have to protect investors' money and the lives of our staff."

The banks' announcement came after scores of East Rand township home owners had tried — to no avail — to sell their properties.

Sanco says Vosloorus should not be lumped with Thokoza and Katlehong. There is relative peace in the area and commendable co-operation between the community and local hostel residents.

I know, because I live there.

A few months ago — long before the banks made their position public — I approached an estate agent in the township with a view to selling my house. I had found a buyer — a man from Thokoza sick of the unrest there.

The estate agent did not mince her words.

She said estate agents had been informed by banks that mortgage bonds were no longer to be granted to residents of Vosloorus because of the violence.

I lost the buyer, who went on to buy a house in the Boksburg suburb of Dawn Park.

The banks have now come under fire from Sanco, which says their position smacks of racism.

Sanco southern Transvaal general secretary Dan Mofokeng said it was unreasonable for the banks to expect the four townships' residents to bank with them if they refused to plough those investments back.

If the banks did not change their minds, Sanco would persuade residents to withdraw their investments and take them to banks which were not reluctant to lend.

The banks' move had done nothing to normalise the situation on the East Rand, he said.

Instead, it exacerbated the housing crisis, regarded by Sanco as one of the main factors fuelling violence.

Mofokeng also said the banks should not have taken the decision to withdraw from these areas unilaterally. A forum had been set up for civic organisations and the financial institutions to discuss problems.

Sanco also had an agreement with the Association of Mortgage Lenders, still in force, in terms of which no area was meant to be prejudiced.

This is not the first time banks have made residents angry.

For months, if not years, the civic organisations have accused banks of "red-lining" — prejudice against certain areas, mostly townships.

Former Sanco president Moses Mayekiso has accused banks of investing overseas instead of stepping up involvement in the townships.

He has mooted legislation which would force banks to conduct more business in the townships.

Even the ANC alliance has proposed, in its draft document on the reconstruction and development programme, that banks should be required by law to report on their loans by race and sex, their assets and liabilities by subregion and sector, their staff by race and sex, and the location of their branches and defaults by neighbourhood.

Only the unreasonable will expect banks to be amused by this proposal. But given that they do not have access to finance, most township residents feel discriminated against.

The banks claim to have the interests of their customers at heart. They will do well not to forget that township residents — who are located where they are through no fault of their own — are also clients, whose combined investments with the banks are substantial.

The banks' unwillingness to lend in Vosloorus has thrown my life into disarray. I had planned to leave Vosloorus, not because of unrest there, but because of a desire to be closer to my place of work.

The envisaged community banks, in which formal financial institutions will be involved, will hopefully provide a way out for people like me.

LETTERS

COMPANIES

Aflife stake for sale, say analysts

CHARLOTTE MATHEWS

AFRICAN Life remained tight-lipped about the reasons for yesterday's cautionary notice about negotiations but analysts agreed discussions were most likely to centre on a possible sale of part of Southern Life's 77% stake in the company to a black-owned organisation. (58)

In its 1992 and 1993 annual reports, African Life chairman Adrian Arnott referred to the company's efforts to encourage greater participation in the ownership of the company by black shareholders.

In the latest report, released in November, Arnott said "a specific direction in this regard is currently being pursued".

African Life MD Bill Jack said yesterday he was unable to comment any further on the notice but he hoped negotiations were close to being finalised.

Analysts said the most obvious purchaser of part of Southern Life's stake would be Thebe Investments, the ANC-linked investment company, but a Thebe spokesman said the company was not talking to African Life.

An analyst said Southern Life was likely to retain an interest in African Life but would probably halve its present controlling shareholding. BiDay 19/1/94

He said the move to widen the company's shareholding made good sense from both a political and a marketing perspective, since the company had a large number of black policyholders but no significant black shareholders. It would also benefit the present shareholders since the shares were tightly held.

A similar move was made by Sankorp in 1993 when it sold 10% of its 40% stake in Metropolitan Life to Metlife Investment Holdings (Methold), whose shares are in turn being marketed to members of the black community and selected institutions.

African Life shares closed untraded at 475c on the JSE yesterday, where they are nearly halfway between their 12-month high of 525c reached last April and 12-month low of 400c last September.

Annuity rates gap widens as downtrend continues

B/Day 19/1/94

CHARLOTTE MATHEWS

THE difference between lowest and highest annuity rates on retirement quoted for a lump sum purchase has widened to R163,14 in January from R105,52 in December.

Although two companies have raised their annuity rates and two have kept theirs unchanged, all other companies' rates have fallen, continuing the recent trend.

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The level of annuity rates is dependent on the long-term gilt market since gilts are the most suitable vehicle to underpin the long-term guarantee entailed in an annuity.

Gilt rates have fallen in recent months in anticipation of interest rate cuts and economists forecast at least a further one percentage point cut in 1994.

According to figures collated on January 14 by Computerised Pension Bureau, Fedlife, Norwich and Metropolitan continue to offer the highest rates for a lump sum purchase, on a compulsory basis, of a R100 000 annuity by a man aged 65 and three quarters, both on a nil and 10-year guarantee basis. Old Mutual, Protea and Momentum continue to dominate the lower end of the table.

Company	Nil year	Ten year
Fedlife	R1 438,93	R1 275,33
Norwich	R1 413,75	R1 281,71
Metropolitan	R1 387,61	R1 249,59
Southern	R1 359,50	R1 228,17
Sage	R1 329,66	R1 218,39
Liberty	R1 324,17	R1 198,33
Commercial Union	R1 310,44	R1 171,90
Protea	R1 291,11	R1 166,37
Momentum	R1 286,81	R1 168,97
Old Mutual	R1 284,91	R1 159,86
Sanlam	R1 275,79	R1 162,09

E. & O.E. Rates quoted at 14/1/94

Graphic KAREN MOOLMAN Source COMPUTERISED PENSION BUREAU

The rates are for a monthly payment in arrears.

Old Mutual chief actuary Theo Hartwig said there were two main reasons why Old Mutual's rates had been hovering at or near the bottom of the comparative table.

Old Mutual had changed its rates more often and was more committed to the annuities market.

"We are probably the quickest among the insurers to change our annuity rates. If we receive a single premium annuity, for example R100 000, the rates we quote are linked to the rate at which we can reinvest that money in appropriate fixed interest stocks. We are guaranteeing for the length of the contract that we will pay a particular sum and therefore have to invest in assets that give us the same security.

"We watch the interest rates that are available and reprice our annuities every week according to the current interest rates. Not all insurers do that. When interest rates fall, as they have done for the last six to eight months, the quickest company to reprice is usually the lowest. When interest rates were rising, our rates were ahead of most others'."

Old Mutual was able to reprice quickly partly because its systems had been set up to monitor interest rate changes and feed them through.

Hartwig rejected the suggestion that Old Mutual's rates might be low because it did not wish to compete for annuity business.

"We set our rates at a level where we make a tiny profit, but we don't make a loss," he said.

"It could be that other companies, which don't do the same volume of business in this market as we do, don't revise their rates as often, but it does not cause them to suffer the same degree of loss that we would if we priced at the same level.

"Definitely a lot of companies are not in the annuity market to the same extent Old Mutual is."

Investec buys Sechold Bank for R125m

By ARI JACOBSON

THE Investec group confirmed its position as the leading player in the derivative markets by swooping up troubled Sechold Bank for a price of R125m, by issuing 82-million Sechold shares.

Sechold was speculated to have lost many millions in the equity futures market, when call options sold, went against them.

In a statement yesterday executive chairman Bas Kardol said that a further 82-million Sechold shares would be issued (adding to the 24-million already in issue) and making up 78% of the niche bank's capital base.

Kardol added that the re-capitalisation offer had been accepted by institutional shareholders — Amalgamated Banks of South Africa (Absa), The Old Mutual, Rand Merchant Bank (RMB), Sanlam and Transnet Pension Fund.

The share swop is based on a price of 152,5c per Sechold share and includes the option of an Investec shares priced at R35. Minorities will be offered the same alternatives.

The deal is well-off the Sechold share price of some six weeks ago, at roughly R15 a share and is even at a discount of its trading price yesterday down R2, on the day, at R3,50 a share.

Kardol said that Investec had some 32 trading desks in the derivatives market and "the four well-run businesses in the Sechold group would complement the operation".

The futures portfolio, which caused Sechold problems, has been taken over by RMB and all Sechold's futures losses have been realised and settled in cash by Sechold.

(58) CT 18/1/94

"The remaining exposure has been hedged so that it is neutral to any major moves in the share market," RMB chairman GT Ferreira said in a statement.

"The management of the portfolio will be handed by RMB, until expiry of the futures contracts, and sufficient collateral margin has been received from Sechold and in return Sechold has been indemnified against any further losses," he said.

Sechold MD Arthur Kelly mentioned that "this move by Investec will be very important for confidence in the group and the futures market in general."

Kardol said that the position of Sechold employees would be cleared up by the end of the week.

Local Cape future market player Futureline director Andy Pfaff said that the latest move would "stabilise the market".

He was quick to point out that the strict regulations at the Futures Exchange prevented any defaults but "the bottomline is that now people will take a cheque from Sechold".

Investec remained untraded at R39 a share at the JSE close yesterday.

Star 18/1/94

Afsure nets major deal

BY THABO LESHILO

Black insurance company, Afsure, landed yet another lucrative deal when it closed a multi-million-rand contract with kaNgwane recently.

The deal to provide cover for eight town councils was sealed at the end of December and confirmed by Afsure deputy managing director Japie Moropa yesterday.

"The year surely started on a good note for us."

Other clients include the Southern African Black Taxi Association (Sabta), the Institute of Public Servants, the Road Freight Association, the Football Association and the National Soccer League.

Its funeral benefit scheme has more than 50 000 members.

The company was formed in 1988 by the Foundation for African Business and Consumer Services (Fabcos) in association with Louis Volks and Associates, former insurers to the taxi industry.

Japie Moropa . . . good start to the year.

PICTURE: SEAN WOODS

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Sabta and Fabcos hold 70 percent of the shares, while Louis Volks has 10 percent.

Businessmen Kehla Mthembu and Gibson Thula have 10 percent each.

Afsure employs 170 people at its offices countrywide.

"We consider ourselves a small insurer. That's why we do not try to bid for huge contracts we can't handle," said Moropa.

This made it imperative for black insurance companies to join forces and form a powerful group to compete with major rivals.

Another feather in the cap for Afsure came when the company was appointed by Windsor Insurance Brokers of London, insurers for the English premier soccer league, to be their official representatives in Africa.

So far, meetings have been held with the Confederation of African Football and other bodies to design insurance packages suitable for sportsmen.

"It's about time our teams realised the need to ensure their most valuable assets — their players," said Moropa.

Risk premium on mortgages possible

BIDay 17/1/94

DIFFERENTIAL home loan interest rates are on the cards. This could lead to high-risk home owners — often township residents — paying at least a percentage point more for their home loans in future.

All SA's major financial institutions have considered differentiating their interest rates on home loans to make them more risk-related. Most have delayed such a move because housing has become such a political and emotive issue. (58) (123)

SA Perm divisional manager Hugh Maclachlan said the Perm had gone the route of differential interest rates on home loans. "We make decisions on interest rates purely on the risk profile of the person, and this does not mean it is only township or squatter residents who pay higher rates. In certain circumstances, potential home owners may pay a rate which is more than a percentage point above the market home loan rate of 15,25%. We obviously cannot reveal how we determine the risk profile of applicants."

However, industry analysts said it was invariably potential home owners in black townships who were placed in the high-risk category because of the instability in these areas. Homes close to squatter camps could also fall into this bracket.

ROBYN CHALMERS

Absa, the biggest operator in the home loan market, had considered introducing a differential rate, but no decision had been taken. Mortgage loans assistant GM Barry Engelbrecht said there were practical aspects to such a move, including how banks assessed the risk of clients.

"Cognisance must be taken of the housing situation in SA. By the same token we must consider whether it is fair for a low-risk home owner to effectively compensate for the high-risk customer. We would like to see rates become more risk-related. Home loans are the only lending instrument where differential rates do not apply but it is a highly complex situation."

Engelbrecht said all the major banks gave concessions to low-risk customers who operated a cheque account and two other accounts with the bank.

A banking spokesman said civic organisations had already said mortgage rates were too high. "We believe that banks will charge a five- to six-point premium on high-risk clients in the long term. We would not consider implementing that at present as we believe there is a real threat

□ To Page 2

Mortgages

BIDay 17/1/94

□ From Page 1

of a backlash from the civics. Financial institutions collectively have around R8bn invested in the townships, of which one-third is in arrears, and we do not want to jeopardise this further." (58) (123)

JOHN DLUDLU reports that SA National Civic Organisation southern Transvaal deputy president Richard Mdakane said yesterday civics objected to plans to introduce differential home loan rates. "Our position is very clear — we want the financial institutions to assist us in increasing access to financial aid for all our people, especially the poor."

Representations would be made to try to block such a move. If these failed, "we will consider embarking on mass action to convince the banks not to go ahead with this discriminatory measure".

City outlets for Community Bank

(58) CT 16/1/94

By MAGGIE ROWLEY
Deputy Business

Group set to be launched on April 1

GROUND work for the Community Bank aimed at providing banking services for low income communities is proceeding well and the institution will open its doors in the Cape and Transvaal on April 1, trustee Zohra Ebrahim said yesterday.

The Cape's regional office will be opened in Athlone followed by branches in Elsies River, Guguletu, Manenburg, Nyanga and Maccasar during the later part of the year with recruiting of staff starting shortly, she said.

Application for registration of the bank is with the Reserve Bank and this was expected to be finalised next month, said Ebrahim.

The formation of the community owned bank, which is aimed at fulfilling the savings and borrowing needs of low income, urban and rural communities and empowering these communities through a process of capacity and institution building, was made possible by the passing of the Mutual Banks Act of 1993 which was promulgated in Parliament in June last year.

The Community Bank will be capitalised at R200m with the initial investment coming from the Independent Development Trust, the Industrial Development Corporation and the Development Bank of South Africa.

Shares will be held initially by the board of trustess of the Community Bank which will retain 51% of the shares with the balance of 49% being sold off to bank clients from the community.

Bank clients, be they individuals, trade unions or other groups, will be able to buy a Community Bank share, the price of which still has to be determined but could be as low as R10, she said.

Over the past couple of months intensive discussions had been taking place with representatives of the target communities, business, trade unions, non-government organisations, civics and political groups confirming the need for the bank's services.

The commercial banks, she said, were assisting the community bank in setting up systems.

By the end of the first financial year, four to six regional offices are planned as well as six to 10 outlets. These will grow to 25 branches and 125 outlets in the first five years when the bank aims to have an asset base of about R1,5bn.

Clients will have to save with the bank for six months before they become elligible for a loan. Loans will be concentrated in four areas — mortgage loans of up to R20 000, incremental housing loans, small business loans and personal loans at market related interest rates.

While the bank will be run on commercial lines, qualifying criteria for loans would be more flexible and community-tailored, similar to the guidelines employed by the stokvel system.

FM 14/1/94

Activities: *Short-term insurance.*
Control: *Sanlam 65%.*
Chairman: *C H J van Aswegen; MD: J J Geldenhuys.*
Capital structure: *72,3m ords. Market capitalisation: R766m.*
Share market: *Price: 1 060c. Yields: 4,7% on dividend; 14,3% on earnings; p:e ratio, 7; cover, 3. 12-month high, 1 125c; low, 755c. Trading volume last quarter, 773 000 shares.*

Year to Sep 30	'90	'91	'92	'93
Total assets (Rm)	710	932	1 171	1 373
Solvency margin (%) .	34,9	43,1	54,7	62,8
Net premium inc (Rm)	771	933	1 036	1 141
Underwriting profit (Rm)	2,1	12,4	51,6	61,3
Investment inc (Rm)	67,3	76,5	90,9	106,2
Taxed profit (Rm)	42,7	50,9	79,4	109,2
Earnings (c)	60,0	71,3	110,5	151
Dividends (c)	27	33	42	50
Tangible NAV (c)	379	565	787	992

(58)

SANTAM FM 14/1/94

Stretching prudence

(58)

This is a company whose results, frankly, are superlative. Looked at over a five-year period and it is hard to reach any conclusion other than that — in a difficult and competitive business — Santam is astutely managed.

The danger for any analyst, however, is that he will be carried away with enthusiasm. Short-term insurers have a nasty habit, just when you think it is safe to proclaim their triumph, of falling down in a heap; the message is to be cautious.

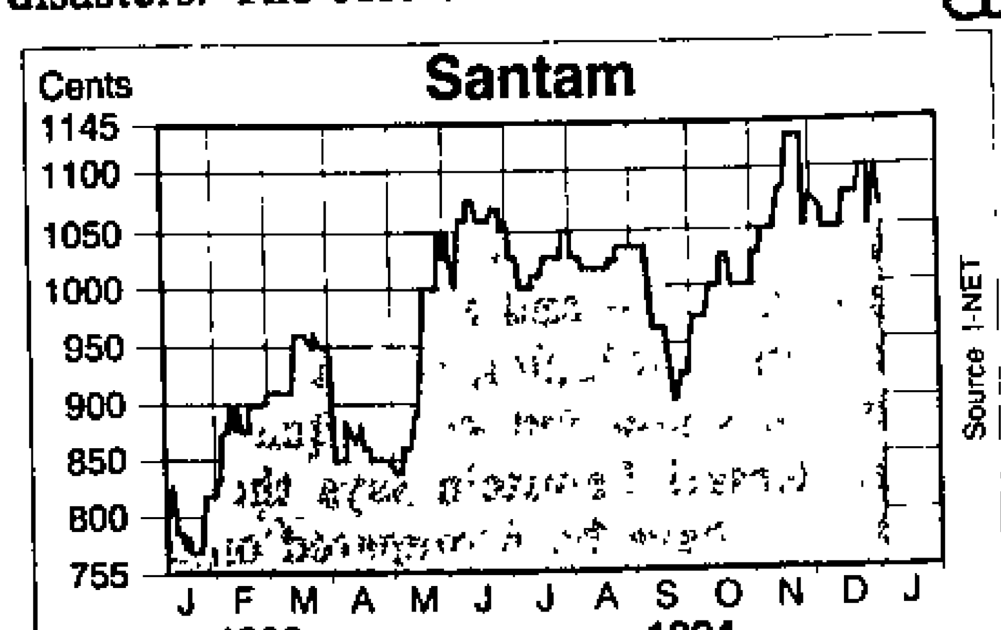
Still, not even that Cassandra-like warning can detract from the sparkling performance over financial 1993. The underwriting surplus and investment income rose 18% to R167,6m. A substantially reduced transfer to contingency reserves produced a pre-tax profit 33% better than 1992. Not surprisingly, the tax bill rocketed (though the effective rate declined to 28%).

Net attributable profit was R110,7m (1992: R80,8m) and this is where the company's natural parsimony is first felt. The dividend is pegged at R36,1m or 50c a share. That's a nice round number; it is a 19% increase over 1992 and it is where the *FM* suggested it should be.

However, that disguises the huge transfer to reserves of R72,9m, 66% of attributable profit. Total reserves now stand at R661m. It is right that managers should be prudent and laying up reserves for bad times is exactly that. Nevertheless, I feel bound to ask whether Santam's eggs aren't now larger than the nest.

On that basis, it's worth examining chairman Carel van Aswegen's latest statement. First, the negative aspects: He says that, against a background of zero economic growth, there was no expansion of the underwriting business. He notes particularly fierce competition in commercial and industrial markets and complains rates are still too low (a grouse all insurers have in common).

Then he says the industry has cause to be grateful for the absence of major natural disasters. The rest of the world has had its



FM 14/1/94

full quota of earthquakes, hurricanes, storms and floods. "For some years, SA has escaped this. But it cannot continue." We had all better take note. (58)

Van Aswegen ends his litany by telling shareholders the investment climate was negative (I hope he doesn't still think so) and he is very dubious about crime levels. Last year, Santam handled 266 000 claims and paid out R3,1m each working day.

What he doesn't say is that net premium income meant an inflow of about R4,6m a day — a case of selective presentation of information. And a lot of people are running around with matches, it seems. The number of large fire claims rose 49%. "Arson," says the chairman, "is not entirely absent but is sometimes difficult to prove."

An important aspect is that of third-party motor vehicle insurance (*Economy* December 24), traditionally parcelled out by the Multilateral Motor Vehicles Accident Fund (MMF). Financed by a levy on fuel, Santam currently gets the lion's share — 43% — of this lucrative business. However, that is being reduced from May 1 to a more modest 15%. In the absence of senior Santam officials, I am unable to quantify the impact on Santam's bottom line.

Positive features — and there are many — include the all important cost structure which, in Santam's case, is very good and highly competitive. The solvency margin may not be the best around but is so high as to put any doubts beyond question.

Santam is on a p:e of 7. That compares with M&F and SA Eagle with p:es of 13 and 12 respectively. I am at a loss to understand why this share isn't accorded a better rating — and so are my *FM* colleagues.

On the basis of continued improvements in investment income — the area which determines Santam's dividend policy — and applying the board's intention of increasing distribution by around 20% a year, the forward dividend yield is 6%. That says this share has some way to run, though the changes in motor vehicle third-party insurance may partly explain the market's shyness.

David Gleason

Buoyant 29,34% return from CGF

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Business Staff

THE socially responsible Community Growth Fund (CGF) which is controlled by seven major unions and managed by Syfrets Managed Assets put in a 29,34% return on a repurchase to repurchase basis for the 12 months to end December.

In the 18 months since the fund was launched by the unions, assets under management have grown to R70m

CT 14/1/94

Fund manager Guy Woolford said they had taken advantage of the weakness in the equity market in July and August, ahead of the run towards the end of the year, to increase the portfolio's exposure to the equity market from 32% to 65%.

He said considerable interest in the fund had been expressed by foreign investors following presentations being made by Tommy Olifant and Irene Barendila, a CGF director, to US and UK investors last year.

An income distribution of 8,86c per unit will be paid.

Tommy Olifant, chairman of Unity, the union controlled partner in CGF, said that the unions were delighted with the performance and were "proud that they had been able to prove that investment decisions and socially responsible actions combine well to provide excellent returns."

Morgan Stanley sets up $60m African fund with Standard Bank

BiDay 13/1/94

KELVIN BROWN

US INVESTMENT banking firm Morgan Stanley is to set up an African investment fund with SA's Standard Bank as the official advisor.

The Morgan Stanley Africa Investment Fund plans to raise at least $60m by offering 4-million shares in the close-ended fund at an average $15 a share. It will initially invest mainly in SA.

Standard New York, a wholly owned subsidiary of Standard Bank Investment Corporation (SBIC), will be the fund's investment advisor.

Morgan Stanley — regarded as a leader in emerging market funds — had managed assets of about $50bn at end-1993 of which about $4,5bn was invested in emerging market countries.

Morgan Stanley Africa Investment Fund portfolio manager Marianne Hay said yesterday a preliminary prospectus had been filed with the US Securities and Exchange Commission and Morgan Stanley would begin marketing the fund today.

"There is a lot of interest in the fund and we are hopeful that the money will be raised by the end of February with investment starting almost immediately."

According to the preliminary prospectus filed with the the US Securities and Exchange Commission, the fund would target the whole of Africa but concentrate initially on investing in SA securities. (58)

"Because of limitations on the fund's ability to invest currently in the securities markets of most African countries, it anticipates that for at least the first year as much as 50% or more of the portfolio's assets will be represented by issuers organised in SA."

Only SA, Mauritius and Morocco currently have the necessary custody arrangements that meet the requirements under US law for US investment in securities in foreign countries.

Over the next 12 months the fund hopes to expand its investments into other African countries as the necessary custody arrangements are put in place.

"Thereafter in view of the large market capitalisation of the SA stock market relative to other African stock markets, it is expected that under normal circumstances a lesser, but still significant, portion of the fund's assets will be invested in SA issues."

The shares will be approved for listing on the New York Stock Exchange once the share purchases have been approved to the initial buyers. The fund also plans to explore the possibility of listing its shares on one or more exchanges in Africa.

The fund will invest primarily in equity securities of public companies and sovereign debt issues. It may also invest up to 24% of its assets in unlisted shares.

Standard Merchant Bank MD Jacko Maree said SBIC would act not only as

☐ To Page 2

Morgan Stanley

BiDay 13/1/94

☐ From Page 1

advisor on SA investments, but on all the fund's investments in Africa. "SBIC provides banking and financial services in 11 sub-Saharan African countries." (58)

SMB would send a staff member to the US to help Morgan Stanley market the fund there. The fund would also target large US and European institutions that wanted to buy SA shares but did not know how to go about it.

Morgan Stanley is the second US investment house to show an interest in SA since sanctions were lifted last year.

Investec and Sanlam announced last November that they were looking at setting up a portfolio investment fund with Alliance Capital Management Corporation.

African Bank's founder says dream has paid off

Star 12/1/94

■ BY THABO LESHILO

Sam Motsuenyane, founder and chairman of African Bank, is a happy man. (58)

His dream of building the first truly black bank that would be a role model for black empowerment has paid off.

Established 19 years ago, the bank today enjoys encouraging growth and support.

It has R500 million in assets and had 52 percent growth last year.

The bank will soon resume foreign exchange transactions — a service suspended a few years ago because of the role of some bank officials in forex fraud.

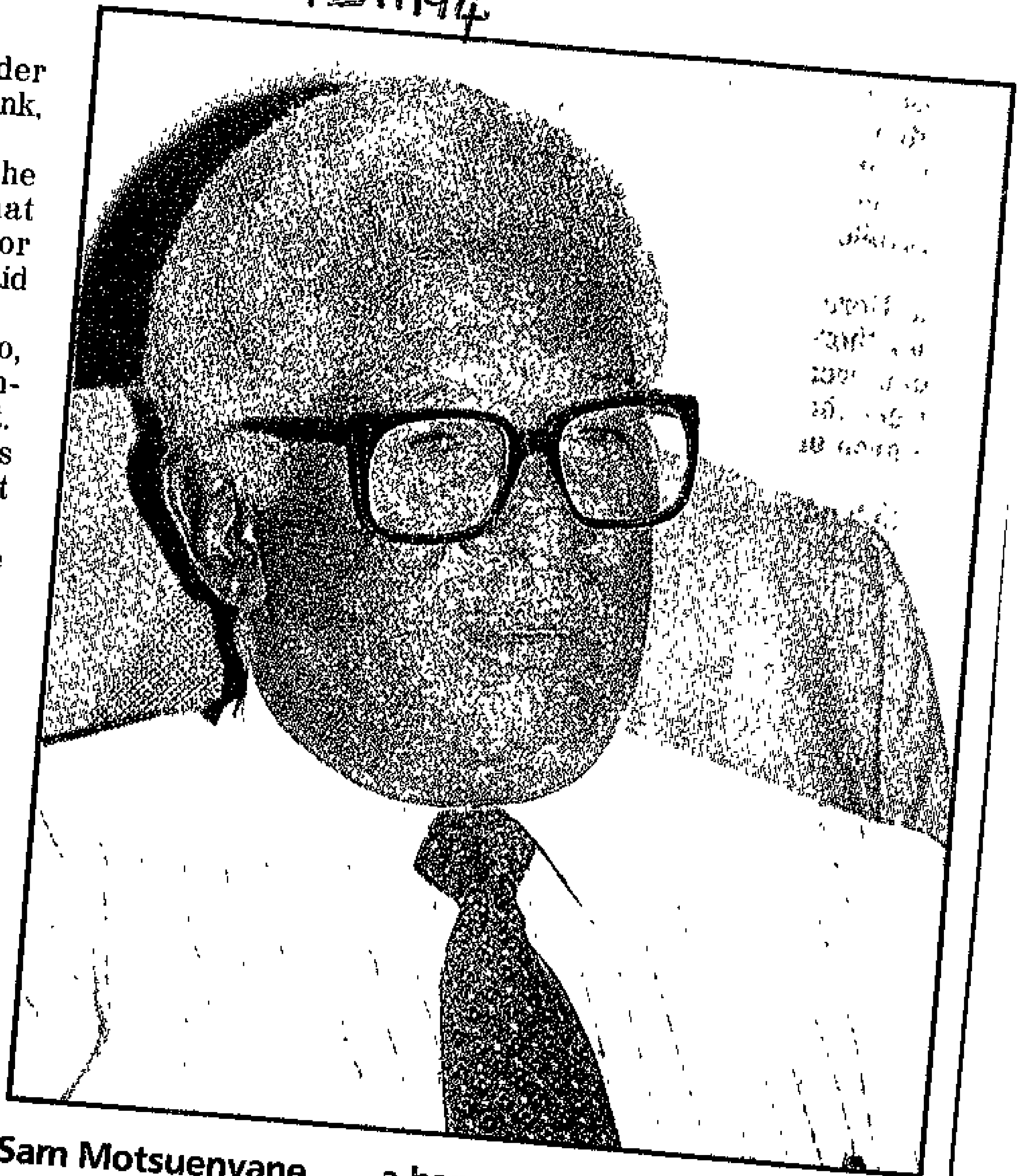
The move will help serve clients better and improve competitiveness.

"I would say that we have not yet reached the promised land — the land of milk and honey. We are steadfastly moving towards it," Motsuenyane said yesterday.

He said since turning the corner in 1989, the African Bank had expanded to 35 branches countrywide. More are being established to meet growing demand.

Because of the phenomenal growth, more shares are being offered to the public in order to maintain the required balance between equity and savings.

Motsuenyane said there was a lot of interest being shown — especially in the Eastern Cape and Northern Transvaal — in acquiring shares.



Sam Motsuenyane . . . a happy man. Picture Stephen Davimes

"We believe a lot of people in the urban areas, who are more sophisticated, look up to white institutions to serve their needs."

He said educated urban blacks were not interested in building black institutions and preferred white establishments.

The bank has embarked on a five-year strategic plan to change this and place itself at the forefront of financial institutions.

The plan involves issuing its first cheque book and becoming a member of the Clearing Banks' Association this year. Staff development will also receive serious attention.

Other plans include ATM and credit cards, establishing it as a mainstream bank.

Independence of Reserve Bank pivotal to growth

(58) CT 2/1/94

By MAGGIE ROWLEY
Deputy Business Editor

THE continued independence of the Reserve Bank was critical for future growth, says Rob Lee, senior portfolio manager with the Board of Executors.

In the company's latest Wale Street Journal, Lee says the credibility the Reserve Bank and its policy approach had built up with foreign investors was a huge plus factor for South Africa in terms of attracting foreign investment.

And it was his firm view that a decision to take away the Reserve Bank's independence would virtually eliminate the possibility of significant net inflows to South Africa for the foreseeable future and might well encourage continued outflows.

"Domestic investors would also take severe fright at such a change so that a great deal of the progress made in recent years in dampening inflation expectations would be immediately lost," Lee warns.

He said as such it was hoped that recent conclusions published by the ANC-aligned Macro Economic Research Group (MERG) that the SA Reserve Bank should be subordinate to the government so as to allow monetary, interest and exchange rate policies to be consistent with the democratic state's policies would be given little credibility.

However, he said there was a danger they would find favour with politicans hungry for power and frustrated by any shackles imposed on them.

While the economic case for an independent central bank was very powerful, the Reserve Bank would have to address public perceptions regarding it.

"Unfortunately the Reserve Bank's case for independence is politically weakened by the fact that it is an institution completely dominated by white males, mainly Afrikaans speaking.

"It is also perceived to have made little effort to adjust its personnel policies to the requirements of the new South Africa. This makes it a potential target of suspicion and vulnerable to the charge of being a creature of the apartheid system."

Lee argues that in order for the Reserve Bank to achieve its mission to protect the value of the rand, independence from the political process is essential because politicans "can rarely resist the temptation of taking the easy short term route".

"Throughout the ages political control of monetary policy has led to the debasement of the currency, financial instability and reduced long term economic growth.

"The previous governor of the Reserve Bank, Dr Gerhard de Kock played a crucial role in promoting the free market system in SA but his lack of independence from the National Party under former State President P W Botha contributed significantly to the extremely poor economic growth performance of the 1980s. This period was characterised by high inflation, currency instability and extremely volatile interest rate and economic cycles."

Lee says it would be extremely dangerous for the Reserve Bank's newly found independence to be taken away now.

"Belief in the sustainability of single digit inflation in SA has only recently achieved a measure of plausibility. The implementation of the MERG proposals would deal such positive expectations an immediate and fatal blow.

"Capital market interest rates would rise sharply, thus significantly damaging growth prospects as well.

He says while he is not an unqualified admirer of Reserve Bank governmeor Dr Chris Stals he believes he should be reappointed for a second term of office as an early decision on this matter would help steady confidence "at this critical juncture in our political and economic history".

Sanlam, UAL funds track the buoyant trend

CT 11/1/94 (58)

Deputy Business Editor

THE five unit trusts in the Sanlam stable provided returns for investors well ahead of inflation and varying from 23% to nearly 50% in the year to end December.

Sanlam Unit Trusts portfolio manager, Nel van Niekerk, said four of the Sanlam Unit Trust funds declared a record sum of R29,5m for their investors in the fourth quarter.

Sanlam Index Trust earned R19,9m for its investors, while Sanlam Industrial Trust declared R6,1m, Sanlam Mining Trust R1,8m and Income Trust R1,7m.

The Sanlam Index Trust put in a 35% return for the year on a repurchase to repurchase basis, the Sanlam Prime Growth Trust a 32% return, the Sanlam Trust a 29%, the Sanlam Industrial Trust 23% and the Sanlam Mining Trust 49%.

Income distributions declared for the unit trust funds are 24c per unit for the Sanlam Index Trust fund, 22,1c per unit for the Industrial Trust fund, 5,8c for the Sanlam Mining Trust fund and 2,8c for the Sanlam Income Trust fund.

● UAL Management Company funds also put in a good performance for the year to end December with the flagship UAL Unit Trust posting a 38,9% return on a repurchase to repurchase basis.

An income distribution of 28,35c per unit was declared for the last quarter, bringing the total distribution for the year to 101,39c per unit.

The strong gold market coupled with foreign buying boosted the performance of specialist UAL Mining and Resources Fund, which recorded repurchase to repurchase growth for the year of 53,4%. The fund declared a quarterly income distribution of 3,05c per unit.

The UAL Selected Opportunities Unit Trust put in a return of 31,8% for the year and the UAL Gilt Unit Trust a 26,2% return.

A maiden quarterly distribution of 49,29c per unit was declared to unit holders in the UAL Maximum Income Fund, which was launched in August 1993.

Manager of the UAL Management Company Vaughan Hebederden said the UAL Managed Fund Unit Trust, in existence for less than a year, has attracted investments of more than R174m and the UAL family of unit trusts now exceeds R2bn.

He said the total capital and income return to unit holders in the UAL Unit Trust over the past year had exceeded 38%, indicating a real rate of return, adjusted for inflation, of more than 28%.

The top five holdings of the UAL Unit Trust consist of Anglo's, JCI, Liberty Life, Nedcor and Amgold.

Afgen lowers income targets

CHARLOTTE MATHEWS

SHORT-term insurer Afgen, in which SA Eagle and Aegis together hold 62%, is holding its own after the restructuring in the second half of 1993, but its premium income targets have been revised downwards. BIBCM

SA Eagle MD Peter Martin said Afgen's main goal was not to meet a particular premium target but to cut down on its underwriting losses.

It was reported last year that the company planned to make R33m in premium income in the year to February 1994, but Martin said the elimination of lower quality business meant this target would probably not be met. 10/1/94

Afgen CE Khehla Mthembu was not available for comment last week.

Afgen was launched in 1992 on the takeover of about R30m of premium income and the licence of Business & Personal Insurance as SA's first black-owned, non-life insurer. It was 26,5% held by Foundation for African Business and Consumer Services (Fabcos) and 24,5% held by Future Bank. With about 50% of Future Bank, Fabcos held effective financial control of Afgen. Technical management was provided by SA Eagle and Aegis.

In the year to February 1993 Afgen's claims exceeded premium income and R2,5m was contributed by its shareholders, of which R1m was from SA Eagle and Aegis. Since the year end, the two insurance giants have put forward another R1,25m to enable Afgen to meet Insurance Act requirements, in the process taking temporary control. (58)

Martin confirmed the intention to attract new black capital to Afgen but said this was a longer-term goal.

"It is a case of first making sure that we have a firm foundation again, but it is still on the cards."

Martin said the R2,25m contribution, together with the original investment of R2,3m, represented the total investment of SA Eagle and Aegis to date. At this stage the two companies had not put a figure on how far they would be prepared to go to support Afgen.

"We have taken a lot of action to remedy the situation and are waiting for the next quarter's figures to see how they are doing," he said.

Measures included rerating accounts that were considered underrated and some of these were shed, partly because the new rates were unacceptable to the clients. Several staff members were retrenched and loss-making departments were closed.

Afgen's business focus is now personal lines insurance and small commercial underwriting. It also shares some of the black municipality business with the larger companies.

Although the collapse of short-term insurer IGI Insurance Company in the second half of 1993 meant other insurers scooped up the business, some of which brokers believed would have fitted in well with Afgen's profile, Martin said Afgen's management was cautious about the lines of business it wrote until it was sure the company was on a sounder footing.

Broker reaction to developments at Afgen was mixed. Some brokers said they were still not entirely confident about placing business with the company while others said it seemed to be making strenuous efforts and they would certainly use it in certain circumstances.

Martin conceded that gaining broker support would be an "uphill" battle. Brokers would be approached on the basis that Afgen had been completely refocused and had the support of Aegis and SA Eagle.

Absa predicts inflation of 6,5% by midyear

(58) CT 10/1/94

From MUNGO SOGGOT

JOHANNESBURG. — Inflation could drop as low as 6,5% by midyear, Absa says in its Quarterly Economic Monitor.

A fall in the consumer price index (CPI) inflation rate could be expected in April "as the inflation-increasing effect of VAT, which came into effect in April 1993, will then be neutralised".

But Absa predicted that both the CPI and producer price index inflation rates could rise to over 10% by the end of next year.

The bank said certain product groups still had higher inflation rates. Vehicle prices had risen 18,4% in the 12 months to October 1993, and vehicle running costs had climbed 17,7%.

Absa said a growth rate of at least 2% in 1994 could follow the projected 1% growth rate for 1993.

Looking further ahead, the report forecast a growth rate of almost 4% for 1995 "against the background of improved international growth and the demand-stimulating measures that can be expected from a new government".

However, capital market rates could fluctuate considerably with SA's political uncertainty.

As the markets might discount future government policy directions, Absa said capital market rates might not fall further and could begin rising in the coming months.

The report said the Bank rate could decline by a further two percentage points this year, but that the first decrease was not expected before the end of May.

Absa expected government expenditure for the financial year to exceed the budgeted amount by R4,6bn.

It was difficult to predict the future course of government finance, "as this is the one area where a future government is most likely to leave its mark".

Capital account prospects were also uncertain, "owing to potential political developments".

Absa predicted further capital outflow this year and in 1995, but said it would be less than last year.

The exchange rate of the rand should be fairly stable in the months ahead, the report said.

But, as the US dollar strengthened against other major currencies, the rand might decline against the dollar, remaining more stable against the other currencies.

Mercantile nets Central Registrars

(58)

CT 10/1/94

MERCANTILE Bank had bought Central Registrars from Absa for an undisclosed cash amount, it said at the weekend.

The deal had quadrupled Mercantile's existing share transfer secretarial business Mercantile Registrars, executive director Alistair Laughland said.

Outside the mining houses, Mercantile was now the largest share transfer secretary in SA.

The deal would see the share transfer business become a significant part of the group, but the group's pivotal point remained the bank, Mercantile Bank MD Derek Cohan said.

Laughland said the deal put Mercantile in a very competitive position, and it now had the size and market strength "to further develop our computer systems to minimise paper flows and reduce transaction recording time delays".

He said Central Registrars was three times the size of Mercantile Registrars based on the number of underlying shareholders.

It would be integrated gradually into Mercantile operations between now and mid-year. Absa would continue to use the services for an extended period.

Laughland said discussions between the two banking groups had started at director level last year. Mercantile's computer capacity would have to be increased, and it would spend about R2m on enlarged systems, he said.

The deal follows Mercantile's October 1993 acquisition of Wingate Finance.

Cohen said the bank was not on an acquisition trail, but it had identified certain areas of the market where it wanted to be involved, and had made suitable acquisitions.

FM 7/1/94

R1,1bn (1992: R845m), equivalent to a conservative 2,7% of gross advances against 1992's ratio of 2,45%.

(58)

Overall, FNB is well set to meet chairman Basil Hersov's forecast of continued real earnings growth this year — it has capacity to expand its lending base and demand for credit should pick up in line with the expected improvement in the economy if politics don't get in the way.

One slightly worrying point is that despite a seemingly favourable outlook the market's rating of the share is deteriorating on a relative basis rather than improving. A year ago FNB was standing at a 28% discount to sector leader SBIC based on dividend yields, but now the gap has widened to 36% with FNB rated on parity with Nedcor.

Brian Thompson

FIRST NATIONAL BANK

FM 7/1/94

Plenty of capacity to expand

(58)

Activities: *Banking and related financial services.*
Control: *Southern Life (24,9%); Anglo/De Beers (25,7%).*
Chairman: *B E Hersov; MD: B J Swart.*
Capital structure: *87,1m ords. Market capitalisation: R7,2bn.*
Share market: *Price: 8 300c. Yields: 2,8% on dividend; 8,6% on earnings; p:e ratio, 11,6; cover, 3,0. 12-month high, 8 550c; low, 6 025c. Trading volume last quarter, 524 382 shares.*

Year to Sep 30	'90	'91	'92	'93
Total assets (Rbn) ...	30,3	36,6	41,3	53,6
Advances (Rbn)	23,2	29,1	33,2	40,7
Deposits (Rbn)	26,6	32,2	35,1	47,4
Operating profit (Rm) .	832,7	908,5	1 106,1	1249,9
Bad debt prov (Rm)	294,3	262,9	347,0	343,6
Attrib profit (Rm)	329,8	385,1	478,9	688,1
Return on assets (%)*	1,09	1,05	1,16	1,16
Return on equity (%)*	18,6	15,6	14,6	14,9
Earnings (c)*	453	529	611	716
Dividends (c)	150	175	200	235
Tangible NAV (c)	2 438	3 391	4 190	4 813

* Excludes deferred tax adjustment.

There was a time, not so long ago, when periods of declining interest rates were considered bad news for banks: the margin between lending and deposit rates tended to narrow and profit growth was often sharply curtailed and could even turn negative.

However, the performance of the banking sector over the past year has tended to blow this theory out of the water. In FNB's case, growth in 1993 on almost every front — balance sheet as well as income statement — was significantly higher than in 1992. Furthermore, and almost as a contradiction, it ended 1993 with a greater capacity to expand than at the start of the year.

But it would probably be wrong to conclude on the basis of one year's results that the historical pattern between banking profits and interest rate trends has been completely broken. More sophisticated computer systems are undoubtedly providing management with a host of data that assists in more effective asset and liability management, thereby minimising the interest rate differential swings which previously affected profits. These benefits can be considered permanent, possibly even growing.

At the same time, though, the performance of large commercial banks has been materially enhanced by what is, one hopes, a nonrecurring factor — namely, the upheaval at Absa. This largely neutralised a significant chunk of potential competition and, with demand for credit slack, could hardly have come at a more convenient time. For FNB, the benefits were reflected in growth rates of 33% in deposits and 30% in total assets. Even accepting that these increases were enhanced (by about five percentage points in the case of deposits) by the first-time consolidation of UK merchant bank Henry Ansbacher, such growth could not have been achieved under more normal competitive conditions.

It was not, for instance, possible to achieve the same rate of increase in advances, which rose a more modest 22,4%. One consequence of this smaller proportionate gain is that the ratio of advances to deposits at year-end fell from 1992's record 0,93 to 0,86 — its lowest since 1989.

That indicates a useful capacity to expand lending within the asset base, while FNB's risk-weighted capital adequacy ratio of 10% — up from 9,8% a year ago and two percentage points more than will be required when these requirements are fully phased in by next January — underscores an even more useful capacity to expand the balance-sheet.

With interest rates droppings sharply last year, one of the more interesting aspects about FNB's performance was its ability to widen substantially its own rate differential between interest earned on advances and paid on deposits

Notwithstanding comment in the financial review that "while good interest margins were sustained they continued to narrow against those earned in previous years," the "trading margin" (defined as net interest income after doubtful debt provisions relative to gross interest income) actually rose from 25,5% in 1992 to 29,8%. This achievement is even more noteworthy when advances (which are the source of income) grew more slowly than deposits.

Main reason for this was a deliberate and aggressive shortening of both deposit and lending books, thereby improving repricing sensitivity and minimising the damage that might otherwise have been caused by declining rates. Notably, the main thrust behind last year's increase in advances was to individuals, where a R4,3bn increase (R2,2bn in home loans) accounted for 54% of the R8bn growth in gross lending.

If the same pattern applied to deposits, this would almost certainly have tilted the interest rate equation in favour of FNB, since individuals do not have the financial clout to demand (and get) the fancy packages available to corporate clients.

Superficially, it might seem strange in the circumstances that the provision for doubtful debts last year was decreased from R347m to R343,6m, despite the spurt in lendings. Management's comment is that implementation of a more sophisticated credit assessment system introduced over the past few years is bearing fruit.

This is no doubt true. But at a more practical level, the real reason for the reduction was a far more favourable experience with actual write-offs. These, net of recoveries of amounts previously written off, decreased from R193m to R43m. So despite the lower charge against profit, total year-end provisions rose by more than R300m to

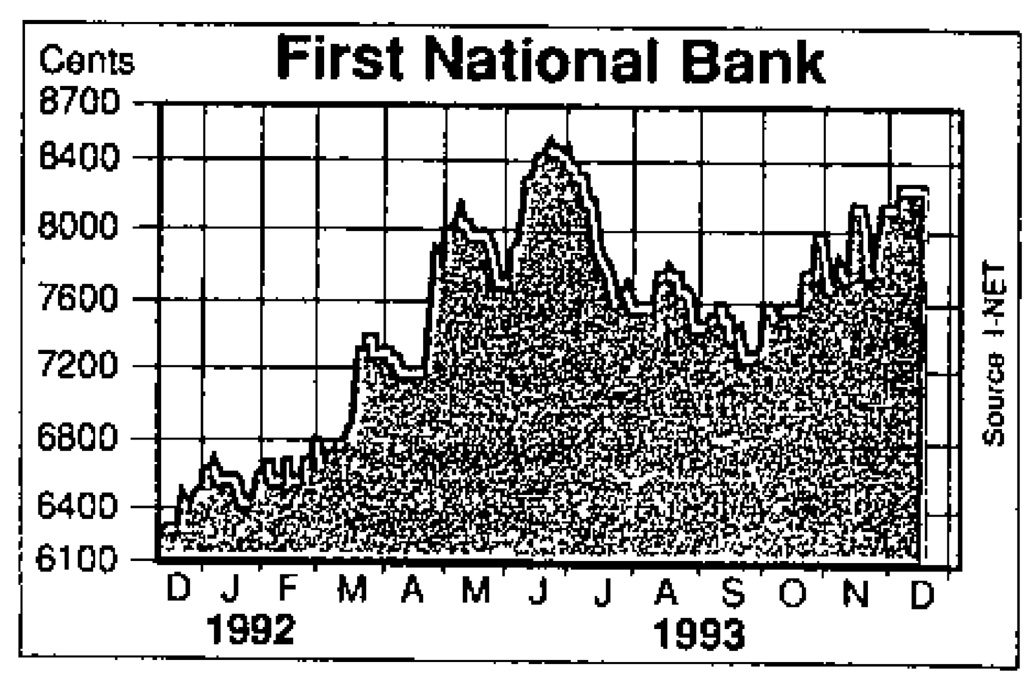
First National MD Barry Swart
... favourable margin pattern

FNB'S DIVISIONS

Net earnings/Return on assets

	1992 Rm	ROA %	1993 Rm	ROA %
FNB	373,9	0,83	527,3	0,94
FirstCorp	37,2	1,34	52,4	1,49
FNB Namibia	27,6	2,68	32,2	2,46
FirstTrust	9,6	9,00	10,5	8,33
FNB Botswana	—	—	6,8	1,65
Henry Ansbacher ...	—	—	5,4	0,22
FNB Asia	—	—	1,4	0,38
Associates*	13,7	4,32	21,4	5,41
Other	16,9	n/a	33,6	n/a
Group total	478,9	1,16	691,0	1,28

* ROA for associates based on total attributable earnings and market/directors' valuation of investments.



last year were about R500m. Of that, farmers received only R110m, from which the industry must also bear its costs. Tins cost more than the fruit and this year Sapco imported its requirements, presumably because local suppliers were too expensive.

Ed Hern, Rudolph analyst Sydney Vianello says Del Monte's operating profit has been seriously affected this year. "Margins have been impacted and competition in European markets is severe." Imerman denies this. "We have maintained our operating margins," he says.

Perhaps so, but there is still a large surplus in European markets and product prices remain under pressure, so financial 1994 could stretch the ingenuity of Del Monte's management even further. *David Gleason*

BROKERS' PORTFOLIOS

Leading the charge

The gold bull which started running again in the final quarter of 1993, as well as active foreign buying, resulted in a strong surge in equity prices towards the end of the year. That, in turn, meant a close finish to our 1993 brokers' portfolio competition.

An idea of how strongly the market finished the year can be gauged from the JSE All Share index, which appreciated by 43,2% over the competition period, roughly a year from December 1992 to December 15, 1993. That's the strongest annual gain the index has shown for a number of years and, against it, the 103,5% capital appreciation shown by Ed Hern Rudolph's winning portfolio is formidable *(see table)*.

But all portfolios in 1993's competition, in which six broking firms and the *FM* chose 10 fictional shares each, with changes allowed at mid-year, performed well, only one failing to outperform to All Share index.

To put 1993's results into perspective, the previous year's winning portfolio from the *FM* gained 44,4% against an All Share index, which declined by 6,4%. In 1993, all but one portfolio did better than that.

The finish to the 1993 competition was close, with just a few percentage points separating Ed Hern's winning portfolio from second-placed Anderson Wilson's, which gained 98,5%. The latter moved strongly into gold shares when changes were allowed at mid-year, a decision which came tantalisingly close to hitting the jackpot.

But Ed Hern's steadier performance through the year gave it the final edge The firm made the right adjustments to a well-balanced portfolio at the halfway stage, when it was ranked second with capital appreciation of 59%, just behind Martin.

This year, Ed Hern has again spread its portfolio over a number of industries, but seems to be taking a clear view on increased consumer spending, represented by shares such as CMH (motor vehicles), Spur, McCarthy (motor vehicles and furniture), Nampak and Waltons.

Anderson Wilson, once again, has nailed its colours largely to the mining mast, though it's also looking for increased building and construction activity with the inclusion of Goldstein, pyramid holding company to Group Five.

That's one of the themes common to most portfolios for 1994. Martin has selected Basil Read, Simpson McKie Gypsum and Concor, and Senekal, Mouton & Kitshoff has included M&R Holdings.

After gold's strong performance it's not surprising to see a number of mining shares included in portfolios, as well as Iscor, which has attracted attention with its recovery in 1993. There's a general focus on cyclical shares, which should do well if SA's economic recovery continues.

1993 RANKINGS

Portfolio	Appreciation (%)
Ed Hern Rudolph	103,5
Anderson Wilson	98,5
Martin	92,6
FM	89,3
Davis Borkum	61,3
Simpson McKie	48,2
Senekal Mouton Kitshoff	38,5

Not surprisingly, the return to favour of industrial counters has meant the exclusion, to a large degree, of financials. These were the mainstay of many portfolios during the recession, when banks and insurers recorded strong growth in earnings.

Some banks seem to have been selected this year as potential recovery situations. This kind of choice can be a gamble which can backfire. That, to take an extreme case, was demonstrated clearly last year by Martin bringing in IGI Insurance at the half-way stage when they were top of the rankings. The thinking was right, with IGI apparently offering turnaround potential, but when full details of the problems in the HCI group began to emerge, Martin's investment dropped from R7,50 to 40c a share.

The *FM* has chosen several shares which should benefit from recovery in the local economy (Malbak, Sentrachem, Morkels, Rainbow and Grincor); a financial services company with highly-rated management (Coronation); and some precious metal or commodity plays (Mid Wits, Samancor, Freegold and Northam).

Despite the buoyant market and positive outlook for industrial stock, selecting shares for 1994 is not easy. The outcome over the first six months could, once again, depend heavily on the performance of the gold price. There is also uncertainty surrounding the country's first nonracial elections. Abroad, there remains concern that world markets are too high and could crack.

Most broking firms have, therefore, taken a position, either on mining, cyclical stocks or those related to consumer spending. Some remain committed to the blue chips, a safe investment but, if 1993 is any indication, not the sort of portfolio likely to show the best appreciation.

□ *Readers should note that all these shares are chosen as part of an equity portfolio game. They should not be seen as recommendations or tips.* ■

READERS' PORTFOLIOS

Readers are invited to enter portfolios for the *FM's* 1994 readers' portfolio competition. The portfolio with the best overall capital appreciation over the year will win a case of champagne. The runner-up will win a year's subscription to the *FM*.

All you need do is submit a list of 10 shares in which a fictional R100 000 is invested. It's assumed the portfolio is fully invested throughout the year in equities. Results will be calculated according to share prices published in the first and last issues of *Business Day* for 1994.

Entries must be received by January 21. Please include a telephone number. Results of the 1993 competition will be published soon.

OPENING PORTFOLIOS FOR 1994

Anderson Wilson	Davis Borkum Hare	Ed Hern Rudolph	Martin	Simpson McKie	Senekal Mouton Kitshoff	FM
Harmony	Amgold	CMH	Minvest	Amgold	Gencor	Mid Wits
Western Areas	Anglo American	Unitrans	McCarthy Jnr CD	Western Areas	Genbel	Samancor
PP Rust	City Lodge	Spur	Coronation	Northam	ICH	Freegold
Anglo American	De Beers	Fedsure	CMI	Coronation	Kloof	Coronation
Boland Bank	Freddies opt	Rale	Onyx	Tongaat	Iscor	Grincor
Amic	Minorco	McCarthy Jnr CD	Basil Read	Romatex	Santam	Rainbow
SA Brews	Libsil	Nampak	Sappi	McCarthy	Boland Bank	Morkels
Goldstein	Powertech	TML	Servgro	Grintek	M&R Holdings	Northam
Farm-Ag	TML	Randfontein	Ellerine	Gypsum	Lenco	Malbak
Iscor	Foschini	Waltons	ICS	Concor	Remgro	Sentrachem

P.T.O.

Building on rock

FM 7/1/94

Agreement on a subsidy formula is a good start

Agreement has been reached between the Department of National Housing and National Housing Forum on an interim sliding scale for lower-income home subsidies.

The subsidy issue will lie at the heart of any new housing policy. These interim measures will gain important experience for any new government before it settles on a longer-term approach.

The agreement on subsidies between the forum and government, reached behind closed doors on December 7, appears to favour the recommendations on subsidy amounts as suggested by the forum (*Property* November 19). (58)

The scheme sets out three levels of income earners and puts maximum values on the houses to be bought:

- ☐ Those earning under R1 500 a month qualify for a subsidy of R12 500 to buy a house worth up to R20 000;
- ☐ From R1 501 to R2 000 — a subsidy of R9 500 for a home worth R25 000; and
- ☐ From R2 001 to R2 500 — a R5 000 subsidy on a house worth R45 000.

The interim scheme will be administered by the Department of National Housing (see diagram) under the direction of the new National Housing Board (NHB) and regional housing boards. But several practical cont.

questions must still be dealt with.

For instance, do beneficiaries of Independent Development Trust and other site-and-service schemes qualify for subsidies and, if so, how much? Will banks and other financial institutions act as agents in distributing subsidies? How will individuals and groups get access to subsidies?

While response has been positive to the basic concept of National Housing Minister Louis Shill's proposed mortgage indemnity insurance scheme, which attempts to address the shortage of end-user finance, serious problems remain.

In the event of bond instalments not being paid, Shill's scheme offers cover to lenders only if nonpayment is caused by political upheaval. The Association of Mortgage Lenders, in particular, believes this does not go far enough.

Apparently, the banks are not prepared to accept a government proposal that they should take a first-loss risk in the order of 20% of the total mortgage bond portfolio. This means the banks would have to accept the first 20% of any given loss; if a bank lost R100 000, it could claim only R80 000 from government.

They also want insurance cover to extend to three other possible reasons for defaulting on bond payments:

- ☐ Temporary loss of income due to unemployment;
- ☐ Unforeseeable events which cannot be predicted by lenders; and
- ☐ Construction defects.

It is also not yet clear who will pay for the insurance cover; and how the scheme will apply to people who are not employed in the formal sector and to those have already have mortgage bonds.

Like the NHB, each regional housing board will have 18 members. So far only the four chairmen have been named. As with the formation of the NHB, government and the forum will each put up six names and then negotiate the remaining six for each region.

To direct their actions over the next three years of office, the boards have been given a comprehensive list of guidelines. These include:

- ☐ Allocations of subsidies should be made directly to end-users, "except in special circumstances." Until now local and provincial authorities have been allocated subsidies for development. These State authorities will now have to consult local communities and then compete with private developers to get access to State subsidies;
- ☐ Emphasis should be on applicants with the least capacity to pay for their own housing needs; and
- ☐ The capital cost of bulk and connector services should not be recovered through the sale of the stand and should, therefore, be excluded from the end-user subsidy. These costs must generally be paid by the State.

Responsibility for financial accounting is to rest with directors-general at national and regional level.

The board's vice-chairman is Billy Cobbett of the ANC. He believes "it is important that the housing sector comes to terms with the new constitution. As with local government, most power in the housing arena will go to the regions — and it is at this level that housing delivery must be organised. In the medium term, a provincial Minister is likely to have more influence in getting houses built than a national Minister. The boards are important, therefore, as kick-starters of housing throughout the country, until the new provincial legislatures have both the capacity and desire to deal with housing directly — though they are not bound to."

How long will it take until the new provincial administrations are set up? Cobbett believes not long in the case of Natal and the Free State, because the boundaries will remain much as they are now, but in the Transvaal and Cape — to be split into four and three regions respectively — the process could take as long as 18 months. "A key role of the board will be to make sure that this process is not too disruptive to housing," says Cobbett.

Though a package must be put together to serve housing in the medium term, the interim subsidy scheme cannot be seen to compromise the elected National Assembly.

Cobbett believes that "institutional restructuring" might be necessary to make sure that when individuals receive subsidies they have matching finance. "The rationalisation of institutions and their respective roles is the single most important challenge facing the housing sector in the medium term."

As for how much money is in the National Housing Fund, the NHB has apparently asked for the information to be supplied to it for its next meeting.

The six working groups of the forum are set to reveal proposals on a medium-term national housing policy. The six areas of policy are: land & services; end-user finance; sector effectiveness; institutional restructuring; housing programmes (as part of national reconstruction and development); and hostels. Each group meets at a technical level first and then proposes policy options to the forum's co-ordinating committee. Once agreed, these options are negotiated by government and other key parties.

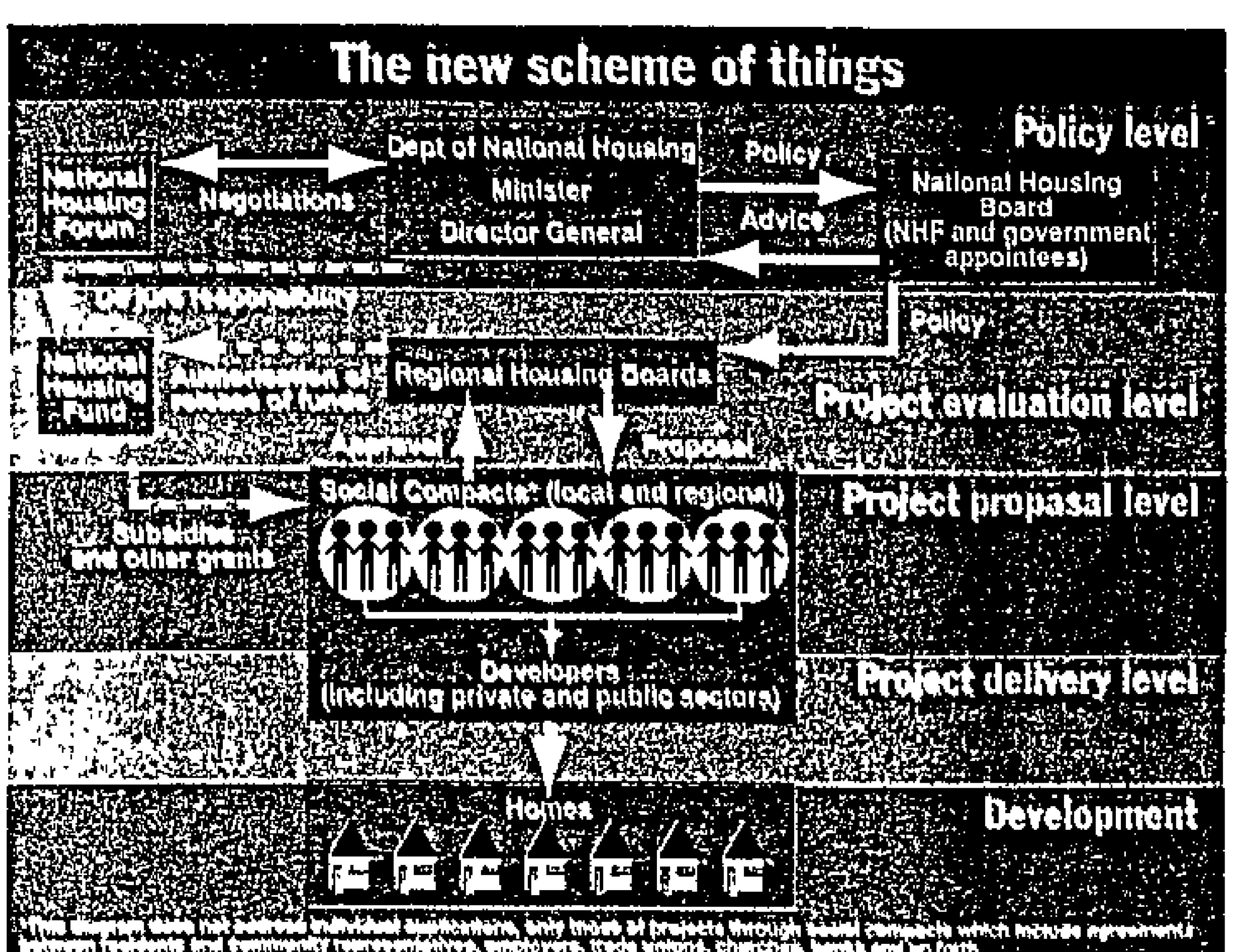
"Progress within the forum is encouraging," says chairman Eric Molobi. "In principle agreement has already been reached within the forum on an overall national strategy."

Until apartheid structures are phased out, and a national housing framework is established, the obvious danger is that fragmentation and confusion could add to the misery of the homeless.

Achievements so far are impressive, particularly in view of the political importance of the housing issue. The forum and government have done much to establish a practical framework despite a policy vacuum.

The agreements on subsidies, on the composition of housing boards and on the criteria for allocation of housing are causes for hope, not least because ideology has generally taken second place to practical consideration. They may well form the basis for a sensible, long-term national housing policy.

It is important to proceed with care. "Restructuring" of financial institutions, as advocated by the ANC, could well make it easier for poorer people to get finance for housing. But if the banks are pressured into making bad loans — in other words, to engage in bad business practice — the effect will be counterproductive and destructive to the economy as a whole. ■



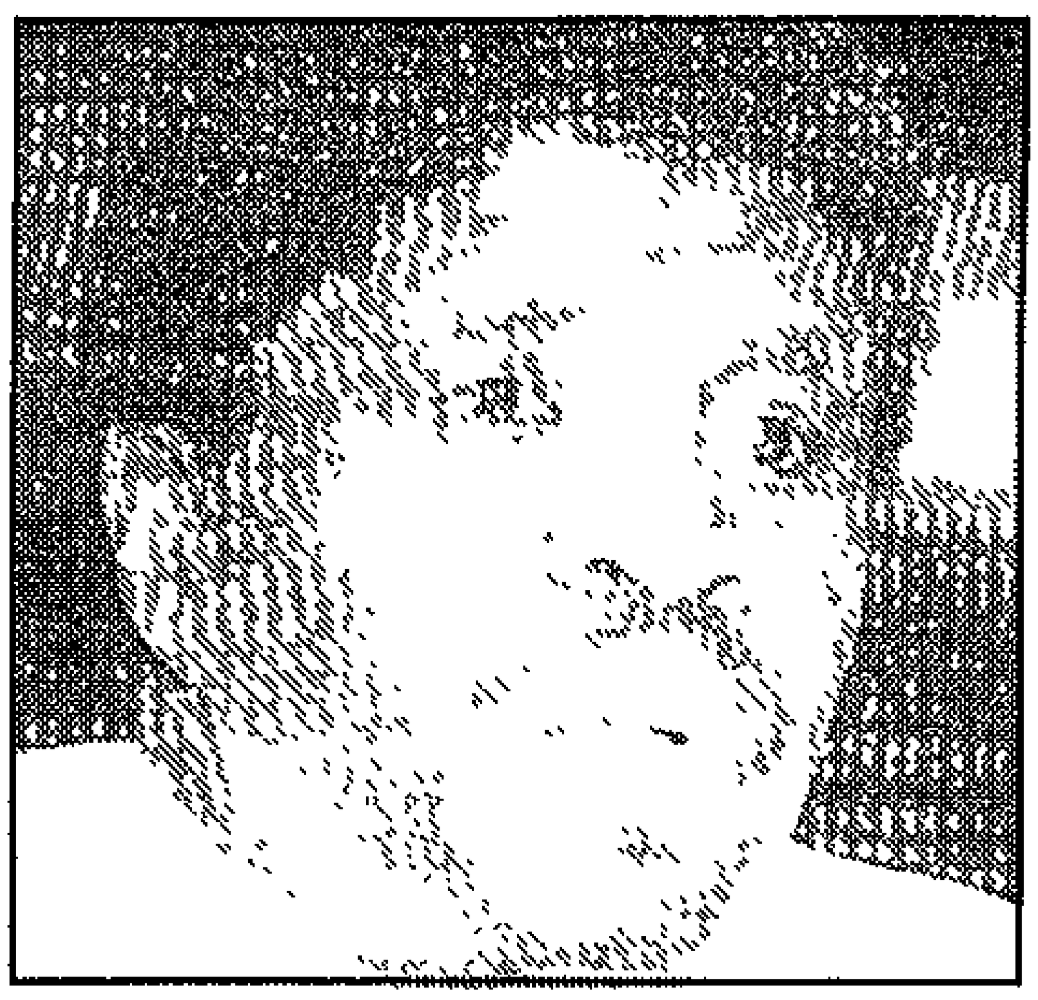
ial consortium will advance economic empowerment

Major new bank for blacks to be formed

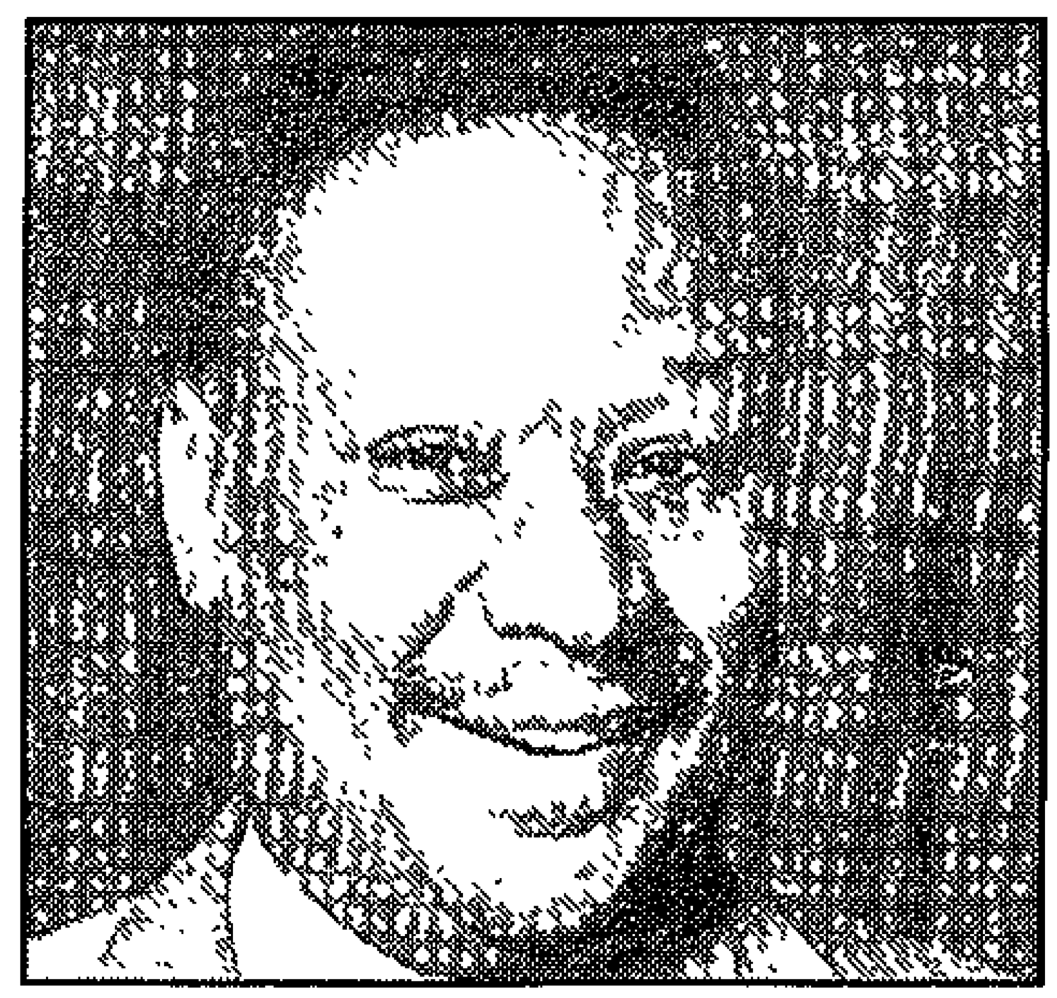
Sowetan 6/1/94

By Joshua Raboroko

■ **MEMBERS OF BOARD** Professor Wiseman Nkuhlu and Mr Don Mkhwanazi:



Professor Wiseman Nkuhlu



Mr Don Mkhwanazi

A BLACK consortium is to form a major new merchant bank called the Merchant and Investment Bank of Africa (MIBA).

The Johannesburg-based Prima Bank, which is an unlisted independent bank with 2,6 million shares in issue, has provided a catalyst for the new African Merchant Bank.

Prima said its entire issued share capital and that of its subsidiaries would be acquired by the consortium tomorrow when it acquires the issue.

The acquisition will be through the South African Investment Corporation (SAIC), whose joint controlling shareholder, Africa South Enterprise Corporation Limited (ASECL) will be a major investor in Miba.

ASECL represents a broad spectrum of black business institutions and investors.

Professor Wiseman Nkuhlu, current chairman of the Development Bank of Southern Africa, and Mr Don Mkhwanazi, one of the major promoters in the acquisition of Metropolitan Life by black interests, have been appointed directors of Miba.

Mr EJC Cooper, a foreign African businessman, is leading a group of international investors who will constitute the other controlling shareholder of SAIC.

The entire development is another step in the process of increasing black participation in the South African financial services market and in advancing black economic empowerment in the national economy, according to Miba's chief executive officer, Mr Tim Wood.

Wood, an American, who was recently appointed chief executive officer of Prima Bank, is an experienced international banker and headed Citybank's operations in South Africa in the early 1980s.

He said: "We are essentially going into a partnership with new shareholders to form a merchant banking structure that will serve the best interests of all South Africans."

(58)

Mkhwanazi, also a stern promoter of affirmative action in the corporate world, said the acquisition of the bank was an important step towards black economic empowerment.

He said for many years blacks had no access to financial loans resulting in their businesses going bankrupt..

"The bank will help provide money to our people who have been denied these opportunities in the past," he added.

Prima Bank's capital base will be increased by an amount of up to R24 million in the near term and the bank will change its name to Miba Ltd from tomorrow.

According to Wood, Miba will continue to do what Prima has being doing since its formation in 1988, but there will now be an additional focus on the merchant banking needs of the black corporate community, locally and internationally.

He believes that the bank the bank has great potential to stimulate trade and investment within South Africa and throughout the continent. "South Africa is the only country in Africa with a mature development capital market infrastructure," he said.

He added: "These resources must be used responsibly and creatively to uplift the economic involvement of all South Africans and positively influence economic development elsewhere in Africa."

Miba will focus on activities such as facilitating inventory trade financing, structured export trade strategies, bilateral trade and project-based trade promotion.

East Rand too risky, say lenders

Township anarchy halts home loans

B/Day 6/1/94

58

ROBYN CHALMERS

FINANCIAL institutions have stopped granting home loans to residents of East Rand townships because of virtual anarchy in the area.

Absa announced on Tuesday that it would not grant any new home loans to residents of East Rand townships, including Vosloorus, Thokoza, Katlehong and Tembisa.

Yesterday Standard Bank, First National Bank and SA Perm spokesmen said no financial institutions were lending to people in the area. They said the violence made it impossible to service loans.

An Absa spokesman said it was too risky to continue lending in the area. Not only were investments at risk, but property inspectors could no longer go there safely.

"Financial institutions cannot play the role of peacemakers or law enforcement officers. We have to protect investors' money and the lives of our staff."

The East Rand has become a virtual war zone in the past year. The Human Rights Commission reports that 1 318 people died in the area in the first 10 months of 1993, while 331 died in other PWV townships.

In the past two months, about 250 people have met their deaths on the East Rand in violent circumstances.

The banks have millions of rands in home loans invested in East Rand townships. Most loans are in arrears, and the banks see little hope of improvement in the short term.

Financial institutions have lost vast amounts because of bond boycotts and violence. Banking spokesmen estimated they have extended R8,5bn in mortgage-based loans to the black community, a third of which are in arrears.

As a result, they are reluctant to lend any more.

Standard Bank home loans divisional manager Duncan Reekie said financial institutions were unable to go through the processes that were necessary for granting new home loans.

"Property inspectors are unable to enter the area to examine a house. The unrest and violence also mean we cannot enforce our rights if customers do not pay their home loans," said Reekie.

Perm divisional manager Hugh Maclachlan said the situation was unmanageable. Financial institutions would not lend money where it was obvious they could not retrieve it.

However, he said the Perm's management was optimistic about the East Rand, which he expected to improve after the election.

"SA's massive housing shortage means there will be a huge demand for middle- to lower-cost housing in future. Values of these homes could increase across the board, and we expect the price of affordable housing to rise in the short term."

Unit trust fund investors handsomely rewarded

(58)

CT 6/1/94

By MAGGIE ROWLEY
Deputy Business Editor

THE strong performance of local financial markets in the last weeks of 1993 JSE indices reach record highs, resulting in solid returns for most unit trust funds.

In the 12 months to end December, NBS Hallmark General Equity unit trust gave a a return of 32,3% on lump sum investments.

Portfolio manager of NBS Hallmark Management Company Ken Burns said liquidity and gilts were reduced from 28% to 8% while exposure to mining was increased from 17% to 40%, industrials moved from 39% to 42% and gold increased from 2% to 8%. Exposure to banks and insurance remained at 10%.

In addition, holdings in Gencor were sold prior to the unbundling, Consol and Engen and invested in Freegold, Samancor, Minorco, Murray and Roberts, AECI, Fintec and Clinics. Its existing holdings in De Beers, Anglo and Amgold were also increased.

Burns said they would maintain a fully invested position in the short term.

● The NBS Hallmark Income unit trust, launched in October last year, declared a maiden quarterly dividend of 2,15c per unit.

● The four unit trusts in the Southern Life stable put in a good showing in the year to end December, particularly the Southern Mining Fund which yielded 59,9% for the 12 month period.

GM (investments) of Southern Life, Carel de Ridder, said the Southern Equity Fund returned 30,8% over the past 12 months, with the three-year return at 25,1% per annum and the five year figure 22,2% per annum.

Randfontein, Freegold, Mid Wits, Plate Glass, Da Gama, Elcentre, C G Sugar and Mobile CDs were added to the portfolio while further shares were bought in De Beers, Ofsil, Minorco, FNB, Dalys, Suncrush, Southern, Toyota and Mobile. The holding in Anglovaal was reduced and all shares in Amgold, Genbel, Consol and Safren were sold. Liquidity was decreased from 17,3% to 9,4%.

The Southern Income Fund ended its maiden year having attracted investments of R31,7m since inception and returned 26,8% for the year. The fund extended the maturity profile of its investments in long-term bonds and currently has 60,2% of its assets in this category, with the balance in liquid assets.

The turnaround in prospects for the mining sector led to a 59,9% return on the Southern Mining Fund, making up to a large extent for the losses of the past. Longer-term performance stands at 14% (three years) and 13,8% (five years). The stake in Gencor was increased while the entire holdings in Randfontein, Southvaal, Freegold, Kloof and Amgold shares were sold. Liquidity levels were increased from 18,6% to 25,8%.

The socially responsible Pure Specialist Fund yielded a return of 19,6% from its investments in selected market sectors and companies. Randfontein, ICH and Elcentre were added to the fund while Dalys and Suncrush were sold.

● Momentum unit trust posted a return of 42,3% for the year.

During the past quarter the fund reduced its holdings in Amgold and Anglo American and disposed of its holdings in Gold Fields.

Afrox and Malbak were added to substantially and a new addition to the portfolio was the J D Group.

Liquidity in the portfolio declined from 28,35% in the third quarter to 22,2% at December 31.

Mixed bag from Southern Life unit trusts

MARCIA KLEIN

SOUTHERN Life's unit trusts turned in a mixed bag of results for the year to end-December, with the mining fund showing a strong performance on the back of the recent bull run on mining shares. B/DAY

The Southern Mining Fund yielded 59,9% for the year to end-December, the Southern Equity Fund 30,8%, the Southern Income Fund 26,8% and the Pure Specialist Fund 19,6%. 6/1/93

Investments GM Carel de Ridder said the JSE and capital markets had surged on the continued strength of international financial markets and foreign interest in SA after the TEC was introduced.

The 59,9% return on the Southern Mining Fund, which reflected "a turnaround in prospects for the mining sector", made up for the losses of the past, De Ridder said. (58)

The fund increased its stake in Gencor, and sold its holdings in Randfontein, Southvaal, Freegold, Kloof and Amgold. Its liquidity level was increased to 25,8% from 18,6%.

The Southern Equity Fund reported a 30,8% return. It added Randfontein, Freegold, Mid Wits, Plate Glass, Da Gama, Elcentre, C G Smith Sugar and Mobile CDs to its portfolio. It increased its holdings in De Beers, Ofsil, Minorco, FNB, Dalys, Suncrush, Southern, Toyota and Mobile.

The fund reduced its holding in Anglovaal and sold all of its shares in Amgold, Genbel, Consol and Safren. Liquidity dropped to 9,4% (17,3%).

The Southern Income Fund ended its first year with investments of R31,7m and a return of 26,8%. It has 60,2% of its assets in long-term bonds, with the balance in liquid assets.

The socially responsible Pure Specialist Fund yielded a return of 19,6%. It added Randfontein, ICH and Elcentre to its portfolio, and sold Dalys and Suncrush.

R24m Prima payment due

B/DAY 4/11/94

JOHN DLUDLU

BLACK-controlled SA Investment Corporation (SAIC), which this week acquired control of independent merchant bank Prima Bank, was expected to pay R24m in terms of the transaction this month, Prima Bank CE Tim Wood said yesterday.

Wood, who has also been appointed CE for the new bank Merchant and Investment Bank (Africa) (Miba), formed as a result of the acquisition, said the money had to be paid by the end of the month.

Prima — an unlisted bank with 2,6-million shares in issue — announced at the weekend that its entire issued share capital, and that of its subsidiaries, had been acquired by local and foreign black interests through SAIC.

Miba would be 51%-black controlled and Prima would retain a 49% control stake in the new company as a result of its major asset — Prima Bank — being used as a vehicle for the recapitalised bank.

The bank would be run as a joint venture with Prima Bank Holdings' management and shareholders. The R24m was to be equally shared between the SAIC and its joint controlling shareholder, a local black consortium called Africa South Enterprise Investment Corporation. (58)

Wood said the international players, led by EJC Cooper, would make their payment this Friday, when the old Prima would officially cease to exist. The local group, led by ANC investment adviser Don Mkhwanazi, was to make its first payment of R2m on Friday, and the balance was expected by the end of January.

"We are looking at finding an underwriter for the black consortium's part of the portfolio," Wood said.

Several organisations — including the

☐ To Page 2

Prima

B/DAY 4/11/94

☐ From Page 1

Industrial Development Corporation — had been approached to underwrite the local issue of 600 shares for R20 000 each. No agreement had been reached yet. (58)

Wood was optimistic that debenture capital of between R20m and R40m would be raised from financial institutions. These would be listed on the JSE.

The bank would perform traditional merchant bank operations — with strong focus on the needs of the black corporate community — and would have an active investment role. It would promote trade with Africa by facilitating inventory trade financing, structured export trade strategies and project-based trade promotion.

Former Black Management Forum president Don Mkhwanazi and Development Bank of Southern Africa chairman Wiseman Nkuhlu have been appointed directors of Miba.

Foreign-held bank deposits take a dip

CT 4/1/94 (58)

From GRETA STEYN

JOHANNESBURG. — Foreign-held deposits in the money market fell from R11,1bn at the beginning of last year to R8,9bn in October as investors switched out of liquid assets into gilts and equities.

The Reserve Bank's latest survey of money and banking shows total bank deposits held by non-residents down by about R520m between September and October.

The monthly figures do not provide a breakdown between financial and commercial rand deposits held by foreigners, but bankers said the fall between September and October in total deposits held by non-residents suggested a further drawing down of the pool of finrand deposits in the banking system.

The last breakdown between finrand and other deposits (in the December Quarterly Bulletin) showed a clearly declining trend in finrand deposits. From R7,7bn in January last year, the pool had sunk to R4,5bn by September.

Dealers said finrand deposits in the money market were largely held by Far Eastern investors whose main approach had been to take a position on the currency.

Bank Governor Chris Stals has described the pool of bank deposits as "hanging over" the finrand market and putting downward pressure on the currency. Stals said the substantial size of bank deposits represented a ready supply of finrands which had helped meet new foreign demand for SA equities and gilts.

Analysts said the pool of deposits helped explain why the finrand discount had failed to narrow substantially despite a massive inflow (about R4,6bn through the JSE alone) of net investment in gilts and equities this year.

Strict funding deadlines for Prima Bank control

From JOHN DLUDLU 58

5/4/194

JOHANNESBURG. — Black-controlled SA Investment Corporation (SAIC), which this week acquired control of independent merchant bank Prima Bank, was expected to pay R24m in terms of the transaction this month, Prima Bank CE Tim Wood said yesterday.

Wood, who has also been appointed CE for the new bank Merchant and Investment Bank (Africa) (Miba), formed as a result of the acquisition, said the money had to be paid by the end of January.

Prima — an unlisted bank with 2,6-million shares in issue — announced at the weekend that its entire issued share capital, and that of its subsidiaries, had been acquired by local and foreign black interests through SAIC.

Miba would be 51%-black controlled and Prima would retain 49% control stake in the new company as a result of its major asset — Prima Bank — being used as a vehicle for the recapitalised bank.

The bank would be run as a joint venture with Prima Bank Holdings' management and shareholders.

The R24m was to be equally shared between SAIC and its joint controlling shareholder, a local black consortium called Africa South Enterprise Investment Corporation (Aseicol).

Wood said the international players, led by EJC Cooper, would make their payment this Friday, when the old Prima would officially cease to exist. The local group, led by ANC investment adviser Don Mkhwanazi, was to make its first payment of R2m on Friday, and the balance was expected by the end of January.

"We are looking at finding an underwriter for the black consortium's part of the portfolio," Wood said.

Several organisations — including the Industrial Development Corporation (IDC) — had been approached to underwrite the local issue of 600 shares for R20 000 each. No agreement had been reached yet.

Wood was optimistic that debenture capital of between R20m and R40m would be raised from financial institutions. These would be listed on the JSE in the future.

Mkhwanazi and chairman of the Development Bank of Southern Africa Wiseman Nkuhlu were appointed directors of Miba.

Black-controlled SA merchant bank

B/Day 3/1/94

A NEW merchant bank is to be formed next week through the acquisition of Johannesburg-based Prima Bank by a black consortium, which will increase black participation in the country's financial services market. (58)

In a statement, Prima said its entire issued share capital, and that of its subsidiaries, would be acquired by black interests with effect from January 7. It gave no details of how the deal would be financed.

The acquisition will be through SA Investment Corporation (SAIC), whose joint controlling shareholder, Africa South Enterprise Investment Corporation (ASEICOL), will be a major investor in the bank.

ASEICOL is a black investment company directed by businessmen such as Don Mkhwanazi, African General Insurance MD Khehla Mthembu and National Soccer League official Keith Kunene.

The new bank — to be called Merchant and Investment Bank (Africa) (MIBA) — effectively would be 51%-controlled by black interests, but would be run as a joint venture with current Prima Bank Holdings' shareholders and management.

According to the transaction, Prima would retain a 49%-control stake in the new company as a result of its major asset, Prima Bank, becoming the vehicle for the recapitalised bank.

JOHN DLUDLU

Prima — an unlisted independent bank with a total of 2,6-million shares in issue — recently acquired a controlling stake in Fulford Brothers Benefit Consultants, an independent pension fund administrator.

This will be the first merchant bank in which blacks have a controlling stake.

The deal comes a year after Prima tried to rescue ailing Cape Investment Bank (CIB). This led to an attempt by Picardi Holdings — one of the shareholders in CIB — to enforce a R10m claim against Prima. The Reserve Bank intervened by providing assurance to depositors, effectively preventing a run on the bank. CIB was liquidated last year.

The statement said the venture would harness the economic strengths and infrastructure of the new SA to promote African trade and develop African capital and investment markets.

Apart from traditional merchant bank activities, — which include corporatisation, commercialisation, privatisation, listing locally incorporated entities of African companies on the JSE and project financing — MIBA would have an investment arm. All existing Prima operations would be continued in the new structure.

☐ To Page 2

Merchant bank

B/Day 3/1/94

☐ From Page 1

Mkhwanazi, an ANC investment adviser, and Development Bank of Southern Africa chairman Wiseman Nkuhlu had been appointed MIBA directors.

It is understood that the number of black directors would subsequently be increased, and black "understudies" would be brought into key positions.

Leading African businessman E J C Cooper would head a group of international investors through SAIC.

To provide continuity, current Prima CE Tim Wood would retain his position as CE of MIBA.

The statement said Prima's capital base would soon be increased by up to R24m and debenture capital of between R20m and R40m was expected to be raised from SA institutions early this year.

These debentures would subsequently be listed on the JSE, and further debt capital might be placed overseas with international investors. (58)

Wood said the new structure would focus on the merchant banking needs of the black corporate community in SA, international merchant banking, and the integration of SA's leading banking and investment role in Africa. "MIBA is already arranging through an associated company a $50m facility to fund SA exports to the rest of Africa."

He hoped the transaction would enhance Prima's traditional business such as treasury operations, trading activities and fund management. Regarding trade with Africa, MIBA would focus on activities such as facilitating inventory trade financing, structured export trade strategies, bilateral trade and project-based trade promotion programmes.

Black consortium to buy up Prima Bank

(58) CT 3/1/93

From JOHN DLUDLU

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Rights issue for Sechold

(58) CT 13/1/94

BANKING group Sechold Ltd said it planned a rights issue to strengthen its capital base after incurring an after-tax loss of "less than R60m" in the six months to December 31, 1993.

Sechold said its securities equities subsidiary had suffered a "significant" loss in a March 1994 all share futures position. Adequate cover had been purchased to limit the loss which would be actively managed to maturity. Sechold added it was talking to major banks to address its severe liquidity position.

It said profits for the group's four core major bank subsidiaries had increased by more than 20% for the half-year and results would be announced before the end of January.