FINANCE - GENERAL

1994.

NBS HOLDINGS

FM 1/7/94

Steep pricing

NBS Holdings' share price has more than doubled since the annual report was reviewed a year ago, outstripping gains in the Banks' index and putting the share on a higher rating than the big four commercial banks. The share is expensive and the *FM* has noted that before but it seems to have little effect on investors who, over the past two months, have pushed the price to new highs. (58)

However, NBS has consistently met investors' expectations over the past few years. At

NBS's Gafney ... *growing from a diversified base*

FM 1/7/94

Activities: *Banking, investment, insurance, property development and related financial services.*
Control: *Norwich Life SA 22%.*
Chairman: *B C McCarthy MD: J W Gafney.*
Capital structure: *87,8m ords Market capitalisation: R2,9bn.*
Share market: *Price: R33 Yields: 1,8% on dividend; 5,4% on earnings; p.e ratio, 18,4; cover, 3,0. 12-month high, R34,50; low, R15,50. Trading volume last quarter, 1,2m shares.*

Year to March 31	'91	'92	'93	'94
Total assets (Rbn)	7,46	9,07	10,97	13,27
Advances (Rbn)	6,00	7,51	8,75	10,53
Deposits (Rbn)	6,88	8,25	10,01	11,51
Attributable (Rm)	56,3	73,3	91,3	144,5
Return on assets (%)	0,75	0,81	0,83	1,09
Return on equity (%)	15,0	15,8	16,0	11,1
Earnings (c)	96,6	115,6	137,6	179,1
Dividends (c)	34,5	40,0	46,0	59,0
Tangible NAV (c)	644	731	861	1 612

the interim, when a 20% increase in EPS pushed the share to R18, we noted the price was expensive relative to the sector and the market was clearly expecting a lot.

The full year's 58% increase in attributable income to R144,5m, diluted to 30% growth in EPS after the issue of 20,7m new shares to finance acquisitions, clearly met these expectations. Since preliminary results were announced early in May, the share price has gained about R15 or 83%.

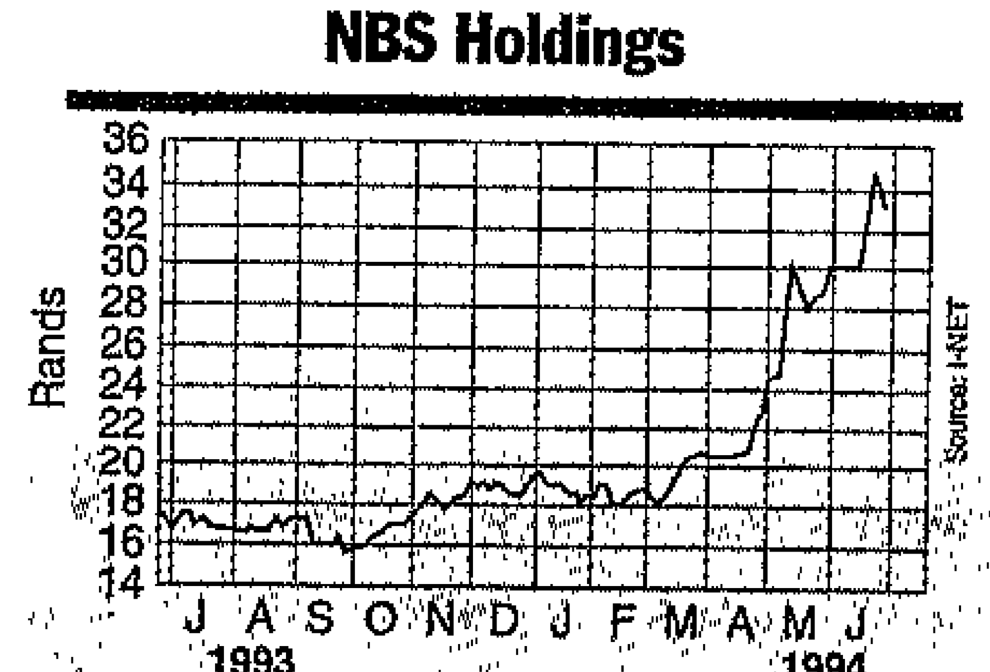
Though this growth is impressive, of equal importance is the earnings mix which NBS is starting to get. In line with its strategic plan, insurance now accounts for 21% (R30,7m) of earnings — up from 19% or R17,5m in 1993. MD John Gafney says the group is satisfied with the spread of earnings and believes it has established a diversified base from which to grow. (58)

The bulk of diversified earnings came from recent acquisition Aegis Insurance — NBS holds 47,5% — which, in its first full year's inclusion, contributed R14,5m. Old strategic partner Norwich Life SA (NBS holds 30% in a cross-shareholding which has Norwich with a 22% interest) contributed R7,7m, a 59% increase over the year.

Apart from the major increase in insurance-based earnings from associates, results of new share-swap partner RMB Holdings were included for six months. Chairman Brian McCarthy says unfunded income and income from associates now account for 32% of earnings.

NBS is also focusing on its own insurance interests. Earlier this year, approval was gained from the Registrar of Insurance Companies for NBS to extend insurance

NBS Holdings



FM

activities. Consequently, the original insurance company was split into two: NBS Life Assurance and NBS Insurance.

The short-term operation recorded an underwriting loss of R5,7m but Gafney says investment income increased substantially and resulted in net taxed income of R3,5m. He says the range of products is being expanded but that growth will be controlled and excess business which could place unnecessary strain on the company will be passed on to associate Aegis. 1/7/94

Product expansion is also taking place in the life company. Gafney says results were highly satisfactory, though it was considered prudent to retain capital in the life fund and there was no transfer from the fund to the income statement. (58)

Apart from insurance, NBS is exploring other new areas, such as the recently launched Phone Bank. It aims to reduce dependency on margin income and improve fee earnings and return on assets.

It has also bought out the 35% minority interests in Circle Risk Management for about R9,5m cash. That effectively makes the derivatives operation a division of NBS. Prospects appear to be good.

EPS growth of at least 5% above inflation is being targeted. That sounds conservative in the extreme. But the year ahead is not going to be easy. Margins are certain to come under pressure and inflation could rise. NBS forecasts average inflation of 10%.

It would be unrealistic to expect the share price gains seen in the past year, though, with some of the shine coming off the banking sector, NBS is sure to be one of the strong performers. Again, it must be noted that the share is expensive. But that's not likely to put off investors.

Shaun Harris

Third party 'can of worms' festers

Political Staff (58) ARG 1/7/94

THE "can of worms" in the Multilateral Motor Vehicle Accidents Fund continues to fester, according to the latest report of the Auditor-General tabled in parliament.

Basically, motorists' contributions to the fund have more than doubled from the 4c they paid to the fund for every litre of petrol bought in December 1991 to the 9c a litre they are paying now.

But the accumulated deficit of the fund has worsened from its April 30, 1990 figure of R1 663 930 000 to an April 30, 1993 accumulated deficit of R3 134 440 564.

This is the value of all third party accident claims on the fund at that date. They all have to be paid for eventually by motorists. The worsening figures probably mean a further rise in the price of fuel to pay a second time for official bungling.

For the 1992/93 financial year, motorists paid in R763 179 750 in fuel levies. In the 1991/92 financial year motorists paid in R489 147 884.

The fund used to be the responsibility of former Transport Minister George Bartlett. When he was succeeded by Piet Welgemoed, Dr Welgemoed described the state of the fund as part of "a can of worms".

In a bid to get the fund right, it was subjected to a probe by Mr Justice David Melamet and a special report by the Auditor-General on its 1991/92 financial year. Professional actuaries were brought in and it was added to the Auditor-General's list of state institutions to be audited.

Personal lines for Compass

CHARLOTTE MATHEWS

COMPASS Insurance, the new short-term insurer held 90% by Aegis Insurance and 10% by Sege-Alliance, opened its doors in July with about 90 000 policyholders previously with Aegis Insurance and SA Eagle. B/Day

These policyholders represent about R200m a year in premiums and are about 60% of the total business of brokers Prestasi, a Sege-Alliance subsidiary. 17 Aug

Compass Insurance MD Joseph Daly said last week the company would spend its first six months bedding down initial policyholders, getting systems in place and building up relationships with selected brokers.

The company would specialise in personal lines business in niche markets. Most of its present policyholders were A-income or what Daly called "solid B" group business, and it already had about 35% of the retired market. (58)

It aimed to net 5% of the R4bn personal lines market in its first year, growing to 12,5% within five years. Daly said Compass would aim for a JSE listing in about five years' time.

A major portion of the business had been reinsured, he said, and the administratively expensive claims operation would be carried out by SegeAlliance group company Statsure.

(58) CT 4/7/94

Southern sets trend on transfers

By ARI JACOBSON

SOUTHERN Life has set the trend for life assurers by declaring a detailed breakdown of its transfers to reserves in its annual report for the year to March 1994.

This is in line with the requirements of the Actuarial Society of SA, as financial institutions pick up on the movement to broader disclosure in their financial statements.

For the first time a "consistent" measure of assets and liabilities allows the increase in assets over liabilities, at Southern Life, to be recorded at R646,7m for the year to March.

The total surplus rises to R698m — when including dividend and capitalisation awards and after deducting the increase in share capital.

Internal reserves

The transfer to internal reserves, after accounting for distributable reserves, stood at R457,8m. This takes the total reserves of the Anglo-backed assurer to R1,8bn.

Meanwhile, Syfrets portfolio manager Guy Woolford, discussing the issue of financial disclosures at a conference this week, pointed out that financial information of a publicly-listed company should be made available to everyone, in financial reports, thereby preventing certain people from being privy to "inside" information

'MVA fund probe needed'

Political Staff (58) ARG 4/7/94

A COMMISSION of inquiry should be set up to look into the troubled Multilateral Motor Vehicle Accidents Fund, Joseph Chiole, a Freedom Front member of the national assembly, said today.

Motorists' contributions to the fund have more than doubled from the 4c they paid in for every litre of petrol bought in December 1991 to the 9c a litre they are paying now.

But the accumulated deficit of the fund has worsened from its April 30 1990 figure of R1 663 930 000 to an April 30 1993 accumulated deficit of R3 134 440 564.

This is the value of all third party accident claims on the fund at that date.

Sage Life 'confident' of growth amid change

B/Day 5/7/94

CHARLOTTE MATHEWS

THE YEAR ahead would be one of major changes and consolidation for Sage Life but it was well placed to sustain an attractive rate of organic growth, deputy chairman Gerard Steinmetz said in the group's latest annual report.

Former housing and public works minister Louis Shill returned to his post as chairman of Sage Life from June 1, while Steinmetz, who filled the chair for a year, became deputy chairman.

During the year the group made progress in implementing the final stages of the restructuring of the Sage Group.

The restructuring was aimed at consolidating the group's interests in one listing, disposing of non-core businesses and achieving a strengthened financial structure. Major benefits in all areas of the business were expected to follow in future years, Steinmetz said.

In the year to March, Sage Life increased its surplus attributable to shareholders 26% to R34,5m from R27,4m. Its excess of assets over liabilities according to the actuarial report was R412m.

Total premiums during the year grew 24,1% while annualised new business premiums, including single premiums, rose 34,8%.

A major contributor to Sage Life's growth in individual new business was single premiums, reflecting the success of its Living Annuity retirement product launched in the previous year. (58)

The level of surrenders and lapses throughout the life assurance industry remained a matter for concern, Steinmetz said.

In Sage Life, withdrawals and terminations in the employee benefits division showed a particularly large increase but the expected improvement in the economic climate was likely to reverse this trend.

Another area of concern was that proprietary life assurers were subject to a higher tax rate than mutuals because the proprietary companies had to continue paying Secondary Tax on Companies (STC) while the four-fund approach to taxing life companies was phased in.

STC is currently levied at 25% on any dividends distributed by companies, but mutual life assurers are not liable for STC because they do not declare dividends. Under the new four-fund tax system, which will be phased in over the next two years, proprietary and mutual companies will be taxed on the same basis.

"By being obliged to pay STC while phasing out the previous tax system, proprietary companies are subjected to an inequitably higher tax rate," Steinmetz said.

"Representations have been made to the authorities by the proprietary life companies but regrettably this matter has not yet been resolved."

COMPANIES

Metboard funds beat indexes

CHARLOTTE MATHEWS

RISING world growth and the demand for capital from the developing nations would continue to make equity and bond markets nervous and cash an attractive investment, Metboard Unit Trusts said in its review for the June quarter.

"We believe that superior returns are achievable from companies which are well placed in terms of the reconstruction and development programme (RDP), understand Third World markets and can benefit from a declining rand while still being internationally competitive," manager Stella Pengilly said. B1Day

Despite the recent nervousness on equity markets, Metboard believed there were no fundamental reasons for the market to fall. With year-on-year industrial earnings growth continuing at around 10%, there was still potential for a significant increase in share prices during 1994.

Metfund, Metboard's equity-related fund, made a return of 46,35% in the year to June compared with a return of 36,0% from the all share index in the same period. The Metboard Gilt Fund made a return of 24,12% in the year to June compared with 13,46% from the all bond index.

Metboard's High-Income Fund and Managed Fund were only launched in mid-February so annual performance figures are not available. The High-Income Fund declared a distribution of 2,85c a unit for the June quarter while the Gilt Fund declared a distribution of 3,57c a unit.

Metfund reduced its liquidity level slightly to 12% at the end of June. It bought commodity and RDP-related companies at the expense of financial groups, with some of its larger holdings now Bidvest Group, Specialty Stores, Anglo American, Investec Holdings, Sasol and Iscor. (58)

The Managed Fund reduced its exposure to long-dated bonds and now holds 68% shares, 4% short-dated bonds and the remainder in cash. The High-Income Fund focused on protection of capital in view of the volatility of the bond market and it held mainly high-coupon, short-duration bonds and fixed deposits. A similar strategy was adopted by the Gilt Fund. 5/7/94

African Life new premiums up 40%

B/Day 5/7/94

CHARLOTTE MATHEWS

LIFE assurer African Life's new chairman Don Ncube and Liberty Life chairman Donny Gordon would be part of a group of senior executives to visit the US to talk to investors, Ncube told African Life's annual general meeting yesterday.

Ncube said at recent discussions in London with Rothschilds and SG Warburg the news of the purchase of 51% of African Life by a consortium of black investors, Real Africa Investments, had been welcomed "beyond expectations".

58 (232)

African Life CE Bill Jack said the company's results for the first three months of the current financial year showed new business premiums were 40% higher than in the same period in 1993. Total premium income was more than 50% higher and overheads had risen 15%.

Jack said an opportunity arising from African Life's ties with Real Africa was the introduction of the National Stokvels Association's Funeral Benefit Scheme.

This was expected to show the same profile as the deal with the Zion Christian Church, which had introduced R12m in premium income and enabled African Life to increase benefits to policyholders.

African Life would have to increase its human and financial resources to respond to new opportunities in SA and beyond. "These opportunities are in markets similar to our own, with a mixture of First and Third World, where we can deliver value and volume," Jack said.

Star 6/7/94

Sage upbeat on prospects

Sage is budgeting for continued growth of its financial services division and higher profits in the property division.

Overall, the group should maintain a satisfactory trend in its results in the current year, the directors say in the annual report. (58)

Results were ahead of forecast — net earnings rose 23,3 percent to a record R61,8 million, while earnings a share rose 20 percent to 66,5c.

Over the past five financial years Sage has achieved a compound growth rate of 26,5 percent in earnings a share.

Dividends for the past year were 35c, 16,7 percent ahead of the previous year.

The directors say foundations are now set for optimising the expansion potential of the core businesses and achieving continued growth in both profitability and scope of activities.

The group generated total net taxed income of R196 million in the past year, R87 million produced directly by group companies and the balance by managed trusts. — Sapa.

Sage budgets for greater profit B/Day

CHARLOTTE MATHEWS

SAGE Group, the property, life assurance and financial holding group, was budgeting for continued growth in its financial services division and greater profit from its property operations, deputy chairman Gerard Steinmetz said in the group's annual report. 7/7/94

In addition to a number of wholly owned property and life assurance subsidiaries, the Sage Group owns 21% of Universa, which in turn owns 25% of Absa. (58) (232)

The contribution from these interests in the year to March fell slightly to 25% of the total from 28,1% previously but the life assurance and associated activities increased their share to 66,9% from 63,6%.

The group reported a 23,5% improvement in attributable earnings to R61,8m for the year as well as a 16,7% increase in the dividend to 35c a share.

Sage Life was expected to experience a year of major change and consolidation following the implementation of a business re-engineering project.

Boland Bank's shares gain

(58) ARG 7/7/94

☐ New shareholders give confidence

ALIDE DASNOIS
Business Staff

BOLAND Bank's rising share price shows that investors have reacted with confidence to changes in the bank's shareholding, according to chairman Pietman Hugo.

He said in the annual report the new shareholding had removed the question mark over the future distinctive identity of Boland Bank.

Retail supremo Christo Wiese bought 62 percent of Boland shares at the end of last year. Soon afterwards the Board of Executors snapped up 7,6 million convertible preference shares, giving it a 30 percent stake in the Paarl-based bank's issued share capital.

Since then the share price has risen from R9,20 to R13.

Mr Wiese had not yet given any indications about his plans for the bank. But, said Mr Hugo, the fact that Boland now had dominant shareholders who were able to determine its strategic direction should be positive for growth.

The higher level of economic activity should should boost Boland's financing growth and could help to reduce its bad debt burden, he said.

Bad debts eroded the bank's performance in the year ended March and profit increased hardly at all in spite of a 52 percent increase in operating income.

Mr Hugo said results in the current year should beat last year's R24,2 million.

Total assets topped R4 billion for the first time.

● Mr Hugo retires this month after 15 years as chairman of Boland Bank.

Market sentiment fragile despite govt assurances

By ARI JACOBSON

SA's financial markets floated in uncertain waters yesterday — digesting the news of a major switch in the Finance Ministry at time when the future path of overseas markets and gold bullion remained uncertain.

Across the financial spectrum — from foreign exchange to equities and through to long-dated stock the trend was down, even with high profile assurances from among others President Nelson Mandela and deputy Finance Minister Alec Erwin.

In addition SA Reserve Bank governor Dr Chris Stals stressed yesterday "there will be no changes at the Reserve Bank".

However the problems in the finance department were glossed over by the local share market yesterday, with a greater focus "on the Dow Jones than the Ministry," according to Investec Asset Management's MD Hendrik du Toit.

The Overall Index finished 47 points down at 5 404, the Industrial Index lost 47 points to 6 220 and the Gold Index shed 52 points to 2 121.

Du Toit said that the JSE could "bounce back" if Wall Street stabilised this week.

The New York exchange has already fallen about 9% since January to its current level of about 3 600.

The JSE has gone against the world trend rising in six months, to June, by about 18% to a peak of 5 785 on the Overall Index — then losing about 6,5% to its current level.

Board of Executors (BOE) portfolio manager Rob Lee felt that the US Federal Reserve would have to raise short term interest rates and this would knock Wall Street and in turn, the JSE.

Lee pointed out that there was "no good news around at present" and he anticipated the JSE "to drift lower".

However Ed Hern Rudolph would be treating the sale of "quality stock" as a buying opportunity according to Cape partner Johann van Zyl.

The talk out of the market was that Derek Keys would be taking up the chairmanship of a large London corporate, in the near future, which they described as "a nice semi-retirement position".

They said that Finance Minister-designate Chris Liebenberg's job would be "far easier" then that inherited by Keys some two years ago.

They pointed out that Liebenberg had about "three months" to familiarise himself with the hot spot — without the limelight.

(58)

However Personal Trust's Glenn Moore said that a "new element of uncertainty had been added to the share market" with the changes at top-level government.

(44) CT 7/7/94

He said that "control of government spending" was the crucial issue in restoring share market confidence.

Moore said that the inability to achieve this would lead to among others higher inflation and rising interest rates which he said was clearly reflected in an unsettled capital market.

Headline stock Anglos lost R3 to R225 and De Beers was R1,25 lower at R106,50, while Richemont shed R1 to R37,50.

However SA Breweries and Gencor were firmer — the former adding R1 to R88 and Gencor climbing 15c to R10,90

But Iscor lost eight cents to R3,42, Barlows fell 75c to R34,50 and Remgro fell 25c to R25.

Bank shares were also soft, FirstBank losing 25c to R21,50 and Stanbic losing R1,75 to R111, while Nedcor fell 50c to R32,50.

In golds, Kloof shed R1,50 to R55 and Freegold fell R1,75 to R64,75.

Problems facing Liberty's international bond issue

58 ARG 7/7/94

The Argus Correspondent

LONDON. — The resignation of Derek Keys, the weak US dollar and jittery global stock markets are causing problems for Liberty Life's giant international convertible bond issue.

Robert Fleming, the merchant bank holding presentations to sell the issue, aims at raising between $360 million and $500 million for Liberty. The interest rate and other details of the dollar issue are due to be announced on Tuesday or Wednesday of next week.

Ian Hannam, who is Robert Fleming's executive in charge of the issue, said that a presentation held yesterday was well attended by foreign institutions and brokers. Nevertheless, they were concerned about the resignation of Mr Keys, who is held in high regard abroad.

In reply to a question, Mr Hanman said that Mr Keys' resignation created far more uncertainty for potential foreign investors than worries about the sliding dollar and weak international bond markets. Even before Mr Keys resigned, however, independent dealers contended that the timing of the issue was surprising.

The yield on US bonds is the highest since early 1993 and the dollar has been sliding. Since the price of Liberty's shares are high, institutions will be wondering whether the conversion price into Liberty's equity will be that attractive.

It will thus be interesting to see how much of the paper will be placed. In present circumstances, the market will want a good return.

South African government and para-statal paper on international markets is trading at a premium of around 2,6 percent over other sovereign bonds. For two-year bonds issued in the European Currency Unit, the yield for South African government backed paper is thus around 10,6 percent and the issue is illiquid.

In March a £830 million London property issue of the Liberty group was a flop. Capital Shopping Centres, a new property flotation on the London Stock Exchange received a poor response from the investing public in a sliding sharemarket.

Trans Atlantic, Liberty Life's international vehicle owned around 74 percent of the shares and underwriters Robert Fleming and Morgan Stanley were left with a large porportion of the offer.

The Capital Shopping Centres issue was unpopular because analysts and the financial Press regarded it as pricey in an uncertain London share market. The market was also wary because it was offered only a minority stake in Trans-Atlantic's property interests.

SOUTHERN LIFE

Fm 8|7|94

Smoothing the way

58

The earnings trend remains as smooth as ever. Southern Life (Solife)'s EPS grew by 21,2% in the year ended March 31. It's the fifth year in a row that EPS have advanced by 19%-21,5%. This is no coincidence.

It is achieved through manipulating the balance remaining after the amount paid out for policyholder benefits and other expenditure has been deducted from income. This year, after deducting policyholder benefits of R2,4bn from the R4,25bn available for policyholders and reserves, R1,83bn remained for the Solife board to decide how it should be distributed to shareholders, the life fund and hidden reserves.

Fm 8|7|94

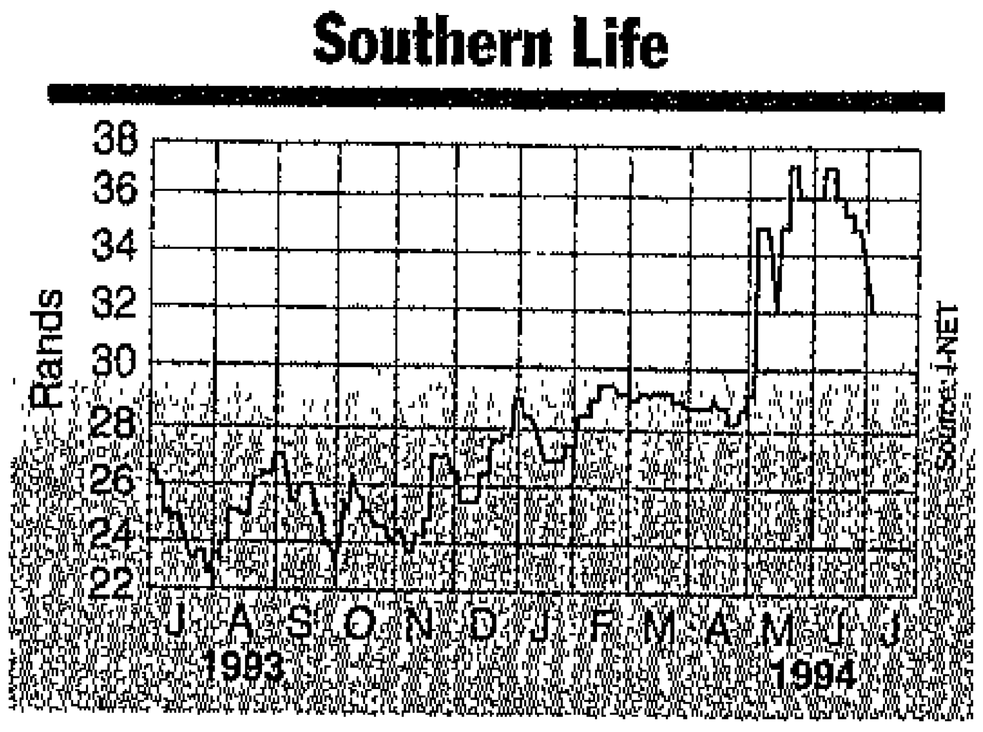
Activities: *SA's fourth largest life assurer*
Control: *Anglo American 40%; First National Bank 29,2%*
Chairman: *T N Chapman; MD. J R Calitz*
Capital structure: *173,2m ords Market capitalisation: R5,5bn*
Share market: *Price: 3 200c. Yields: 2,9% on dividend; 4,4% on earnings, p:e ratio, 22,7, cover, 1,5. 12-month high, 3 700c; low, 2 300c. Trading volume last quarter, 627 000 shares*

Year to March 31	'91	'92	'93	'94
Total assets (Rbn)	14,9	17,7	19,2	24,8
Premium inc (Rm)	1 853	1 998	2 613	3 609
Investment inc (Rm)	940	1 075	1 091	1 255
Taxed profit (Rm)	138,2	164,5	196,2	240,3
Earnings (c)	81,9	97,5	116,3	141
Dividends (c)	54,5	65,0	77,5	94,0

To calculate attributable earnings, the directors add about 20% to the previous year's figure In fiscal 1994 it was R240,3m, up 22,5%, giving EPS growth of 21,2%. The remaining R1,59bn — 71,5% up on 1993 — was transferred to life funds. This includes reserves.

Not that there is anything wrong with this practice. It is a conservative way to achieve a smoothed, constant earnings growth, while adding substantially to reserves in good years. But it is essential to look beyond EPS when evaluating the underlying performance. Given the way these accounts are presented, that is a complex matter for any outsider.

Southern Life



Solife is the first major life office to publish the new statement of actuarial values of assets and liabilities. It provides a more comprehensive insight into reserves and the financial structure. In 1994, the company earned a surplus of R698m, of which R240,3m was declared in the income statement as distributable earnings; R458m was transferred to inner reserves, which rose 33,6% to R1,8bn.

During the year Solife sold a 51% stake in subsidiary African Life Assurance with effect from March 31 to Real Africa Investments. It retains only 25%, so African Life's results were not consolidated in the 1994 results.

Judged by growth in premium income, Solife had a good 1994 year. It rose by 38% to R3,6bn. Single premium income was responsible for a significant portion of the upsurge, as it escalated by 125% to R1,84bn. However, a life assurer's progress is best judged by growth in recurring premium income — and this presents a different picture.

Southern Life's Neal Chapman ...
consistent bottom line

58

Excluding African Life's contribution, group individual life recurring premium income grew by only 1,6%. In the company, though, it advanced by 11,5%. Employee benefits recurring premium income fell by about 4% in both group and company. Recurring premium income in the company appreciated by 3,6% to R1,72bn, a relatively small advance that must be cause for management concern

MD Jan Calitz says the decrease on the employee benefit side stems from the poor economy and continued pressure from pension and provident fund trustees to keep their assets off balance sheet. Solife's policy is to increase premiums to maintain profitability. This resulted in some lost business but increased profits on business written.

Investment revenue rose by 12,3% to R1,2bn, which compares well with other life companies that have reported recently. Solife's equity portfolios did well Calitz says returns exceeded the return of the All Share index of 42,6%. That, by itself, is an impressive but passive statistic that indicates performance was significantly market-driven.

Total assets appreciated by 28,8% to R24,8bn. Shareholders' funds rose by 27,6% to R872m and cash available from operations grew strongly to R2,15bn from R1,2bn. Management deserves credit for holding the rise in company outgoings to 15,2% in the face of the significant rise in premium income.

The policy of offering shareholders bonus shares instead of cash dividends enabled avoidance of secondary tax on dividends. This boosted cash flow as well as amounts available for nondistributable earnings.

Solife has consistently produced real earnings growth of roughly 7% a year under difficult social and economic circumstances. It will be interesting to see if it can continue to produce EPS growth around 20% with the lower inflation rate.

Gerald Hirshon

MOTOR CLAIMS

Accident fund: Deficit runs to 10 figures

(58) ARG 8/7/94

The Multilateral Motor Vehicle Accidents Fund is something most people learn about only when they have to. However, it touches every motorist's pocket. Argus Correspondent MARTIN CHALLENOR reports.

EACH day, about 90 people lodge a claim with the Multilateral Motor Vehicle Accidents Fund.

They are claiming for medical expenses, and or damages and or loss of income suffered by them or their breadwinner or their dependants in a motor vehicle accident they were involved in.

The fund exists to cover the costs and losses people would not have incurred had it not been for vehicle accidents they were not responsible for, or were only partly responsible for.

Each day, motorists around the country contribute about R3 million to the fund to pay for these third party claims through paying an additional, built-in 9c on each litre of petrol bought and 5,8c on a litre of diesel.

As long as the money going into the fund matches the money flowing out, there is no problem. However, the costs of today's accidents will be paid at tomorrow's prices, and this could hold a time-bomb price shock for motorists.

People caught up today in accidents not solely of their own making have three years within which to consult attorneys and lodge a claim with the fund. Of today's accidents claims, 3 percent will be settled within 12 months, another 12 percent in the next year and another 20 percent in the third year. In the fourth year, 20 percent of the claims will be settled.

Some will go to court, adding to the delay. There is an eight-month waiting list for third party claims to be heard in the Pretoria Supreme Court and a 12-month waiting list in Johannesburg.

About 10 percent of the claims end up in litigation in court.

This all means it will be this day eight years hence before 98 percent of third party claims from today's accidents will be settled.

In this time, because medical costs are going up faster than other costs and because the courts are generous towards accidents victims — important factors when dealing with lingering medical costs and loss of earnings spanning several years — the fund finds that its claims payouts are increasing by about 20 percent a year in money terms.

This is reflected as a growing accumulated deficit, which is the amount of claims on the books that had still to be reported, proven and settled: they are in the pipeline. On April 30 1990 the accumulated deficit was R1 268 929 000. The Auditor-General said recently the April 30 1993 figure was R3 134 440 564. Although the 1994 figure has still to be finalised, it is likely to be about R3,5 billion.

The previous government was not concerned with the growing deficit. It was interested merely in how much the fund expected to pay out each year and gave it enough money to cover costs. In fact, the previous government's controls were so slack that it left room for crooked attorneys, insurance agents and doctors to rip off the fund in the face of weak management.

In an effort to put this right the previous government did appoint Mr Justice Melamet to look into the fund. Many of his recommendations are being put into practice, like a new board of directors from the private sector to replace the South African and TBVC director-generals of transports and a new chief executive officer, Willem Swanepoel.

Through a law passed in February last year, responsibility for the financial soundness of the fund was placed with the Financial Services Board, which is responsible for the supervision of all registered insurers.

Today the fund is a lot more healthy. It gets between R90 million and R95 million a month in fuel levies and is paying out between R75 million and R85 million a month in claims. This has enabled the fund to build up R600 million in assets.

Mr Justice Melamet said the fund should have enough money in reserve to cover a full year's payments and that the fuel levy should be increased each year. The last increase was in April 1993. It the fuel levy goes up now, at least motorists will know why.

One must ask, however, what would happen if South Africa entered another period of high inflation or the rate of motor vehicle accidents increased dramatically and the fund's payments began to far exceed the motorists contributions.

The new government, in the form of Transport Minister Mac Maharaj, must decide whether to turn the fund into more of a commercial entity or whether to continue with it as a social service.

One way of bringing the costs down would be for a limit to be placed on the amount of money accident victims could be paid out. This would mean equating the loss of a leg with a fixed number of rands, likewise a hand, pain and suffering and pegging peoples' anticipated earnings.

The previous government baulked at doing this, and asked the Law Commission to see if this kind of capping was a good idea.

If the government decides to make the fund more commercial, or if the amount of claims paid out start to go beyond expectations, it will be the motorists who will have to pay up.

on economic management by
which it can

nation were Mr Alec Erwin said yesterday dent Nelson Mandela has also would be stepping down.

Ball to head new bank

(58) CT 8/7/94

RETURNING ...
Chris Ball

Own Correspondent

JOHANNESBURG. — Former First National Bank managing director Mr Chris Ball has agreed to return to South Africa to head a new community housing bank.

The PWV Regional Community Bank was to be established as a funding agent for a housing plan announced yesterday by PWV Premier Mr Tokyo Sexwale.

According to the plan, 150 000 low-cost houses would be built, funded by the government, members of the Life Officers Association of SA and contributions from construction companies.

Mr Ball, 58, who would be the new bank's chief executive was embroiled in a squabble with former president Mr P W Botha in 1987.

Mr Ball left South Africa in 1989 to join the London-based Private Bank and Trust.

Mr Sexwale said yesterday Mr Ball was "just the man for the job".

● **Tokyo Sexwale unveils housing plans — Page 5**

RIEF CAR CAPE DANCERS BUSINESS

Shakeup in Finance: Ex Nedcor CE takes over from Keys

The banking bureaucrat

WM 8-14/7/94

Very much the professional banker, Chris Liebenberg is now in the spotlight. **Reg Rumney** reports on the former Nedcor chief executive

58

A SURPRISING if reasonable choice to replace Derek Keys, Finance Minister designate Chris Liebenberg, 60, is described by one fellow banker no less as "a rather grey individual".

The same man hastens to comment on his undoubted integrity and capability. Ex-chief executive of the Nedcor group, Liebenberg attracts the epithets "solid", "likeable", and "professional", as well as "colourless".

Another banker calls him a "banking bureaucrat".

Perhaps Liebenberg is unfortunate in stepping into the shoes of so formidable a personality as Keys, who would always have been a hard act to follow.

Yet the finance minister, particularly in this period where overseas markets are looking at South Africa with a critical, if not sceptical eye, is in the spotlight almost as much as the president himself.

Chris Liebenberg

If a banker was the first choice for the job, the industry might have settled on Standard Bank's Conrad Strauss, and outgoing and forceful, not to say imposing, personality rather than Liebenberg.

While not as unconventional or as well known as Keys, Liebenberg is certainly as popular and probably enjoys greater "political" credibility than Keys had as chief of mining house Gencor.

As head of Nedcor he was one of the first business leaders to involve himself in the Consultative Business Movement.

"He has been into the New South Africa for a long time," says a source involved in one of South Africa's many negotiating forums.

"He will have the same kind of diplomatic skills as Keys. He's very much a consensus man."

The Perm, part of the Nedcor group, is the only institution to have a big exposure to the black home-loans market.

"To talk about charisma is unfair," says stockbroker Frankel Kruger's David Shapiro.

"He hasn't got the same superstar status as Keys, but he did a very solid job at Nedcor. Together with Stals he will maintain the kind of discipline they need. You've got to give him a chance."

Like Keys, Liebenberg is a strong advocate of market-oriented policies linked to fiscal and monetary discipline. He is also said to be a "Stals man".

The lingering doubt is whether he will be as firm as Keys in pursuing his fiscal aims, and will not be more easily influenced.

Born on October 2 1934, Liebenberg retired from Nedcor this year after 42 years with the banking group. He became MD of Nedbank in 1988, and chief executive of Nedcor on the unexpected departure of Piet Liebenberg, to whom he is not related, in 1990.

Liebenberg summed up his philosophy in an early interview once as, "You will reap whatever you sow," and described his management style as that of "delegation and control."

The same interview showed the glimmer of a sense of humour, if not political correctness, in that Liebenberg described his "likes" as "quality, expertise, professionalism ... and pretty girls."

Married to Elly, he has two children, Andre and Deon.

Thebe moves into banking

S Times (Buss)

By TERRY BETTY

10/7/94

THEBE Investments is to move into merchant and investment banking services with Msele Finance Holdings.

The wholly owned Thebe subsidiary will have five divisions — two in investment banking and three in merchant banking services.

Litha Nyhonyha, Msele's general manager, says each division will be in partnership with a number of large financial institutions. "Instead of taking over an institution or starting from scratch we chose to build our capacity through partnership networks."

The partnerships are currently being finalised and he says the finance services group should get its merchant banking licence within five years.

He says less than R10-million will finance Msele Finance Holdings group. This will be provided by Thebe and the financial institution partners.

The merchant banking side comprises a capital markets division that will develop the capacity to raise and manage issues of public and quasi-public debt. It will eventually have a dealing capacity.

A second division will provide traditional corporate finance services, and a third will give structured finance in partnership with a major bank. Mr Nyhonyha says the banking partners will provide the finance and expertise while Msele will facilitate the transactions.

Under the investment banking banner, Msele will have a venture capital fund in partnership with an established bank to finance medium-sized black businesses. These must have had a good track record. (58)

This fund will require about R25-million capital.

A fifth subsidiary will focus on strategic investment opportunities and will require about R500-million. Mr Nyhonyha says Msele is talking to international franchises such as Kentucky, Pepsi and McDonald's. When these franchises invest in South Africa, Msele may get a stake.

He says the Msele Group has planned for its operations to develop over a five-year period to allow organisational capacity and maturity to grow, and to avoid overstretch.

This does not only mean being franchise owners, but stakeholders in the master franchise.

During the development phase Msele intends to establish a reputation as a credible manager of public debt issues; to do restructuring deals; attract finance for investment fund ventures and get a JSE listing for the investment fund.

It will also identify local investment opportunities targeted at black participation.

Msele is a Nguni word for an irrigation furrow.

Community Bank backlash

(58) CT 11/7/94

Own Correspondent

JOHANNESBURG. — The Community Bank has reacted sharply to PWV Premier Mr Tokyo Sexwale's announcement that a regional community bank would be set up to grant loans to low-income earners, saying the move undermined its existence.

Community Bank boss Mr Cas Coovadia said he was surprised at the initiative by the PWV government, which he said was taken without consulting his organisation.

Mr Coovadia said the provincial government's move to set up a regional bank was a blow as his organisation had been established — after three years of negotiations — to cater specifically for low-income earners.

He said he had asked for a meeting with Mr Sexwale before the announcement of the establishment of the PWV Regional Community Bank to discuss its role in the provincial Government's housing plan.

"Now a meeting between us and the PWV government is imperative," he said.

Local Government and Housing Minister Mr Daniel Mofokeng had said details of his government's housing plan would be announced after consultations with all relevant role players had been concluded.

Mr Coovadia's bank, a brainchild of veteran banker Mr Bob Tucker, has capital of R200m.

Thebe Corp forms merchant bank

(58)

CT 11/7/94

Own Correspondents

JOHANNESBURG. — Thebe Investment Corporation has formed Msele Finance Holdings Limited, a bank which would focus on merchant banking and investment banking services, Thebe said.

Announcing the formation of the financial services corporation, former Thebe GM Litha Nyhonya who is now GM and a director of Msele, said Msele would initially be a wholly-owned subsidiary of Thebe.

The subsidiary bank was at an advanced stage with the formation of "strategic alliances with established financial institutions".

He said the board was not ready to release the names of its financial partners at this stage.

The main board of directors included President Nelson Mandela's personal lawyer Ismail Ayob, Thebe MD Vusi Khanyile, New Age Beverages chairman and CE Khehla Mthembu, ANC economist Max Sisulu, former African Bank executive Jack Theron and Nyhonyha.

An official at the Registrar of Banks could not confirm that the bank had applied for registration.

It was also not clear how much the value of the assets was.

Nyhonyha said the merchant bank division would initially comprise three sub-divisions: capital markets, corporate finance and structured finance.

The capital markets sub-division planned to develop the capacity to raise and manage issues of public and quasi-public debt. "In addition a dealing capacity will be built over time to enable the participation in local capital markets, under strict controls."

Corporate finance would provide traditional corporate finance services and structured finance planned to undertake structured financial deals in partnership with established teams, Nyhonyha said.

Msele was intended to become a registered merchant bank within five years.

The investnment banking division would comprise two sub-divisions: A venture capital fund and Msele Fund Managers.

In the capital fund partnerships would be sought with banking groups to provide equity finance and support to primary medium-sized emerging black businesses with a track record.

The fund managers subsidiary was intended to manage an investment fund which would focus on strategic investment opportunities in corporate SA.

Thebe forms financial services institution

THEO RAWANA and JOHN DLUDLU

THEBE Investment Corporation had formed Msele Finance Holdings Limited, a bank which would focus on merchant banking and investment banking services, Thebe said at the weekend.

Announcing the formation of the financial services corporation, Former Thebe GM Litha Nyhonyha, who is now GM and a director of Msele, said Msele would initially be a wholly owned subsidiary of Thebe.

The subsidiary bank was at an advanced stage with the formation of "strategic alliances with established financial institutions". He said the board was not ready to release the names of its financial partners at this stage.

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Nyhonyha said the merchant bank division would initially comprise three sub-divisions: capital markets, corporate finance and structured finance. 11/7/94

Msele was intended to become a registered merchant bank within five years. (58)

The investment banking division would comprise two sub-divisions: a venture capital fund and Msele Fund Managers. In the capital fund partnerships would be sought with banking groups to provide equity finance and support to primary medium-sized emerging black businesses with a track record.

Nyhonyha said: "The creation of this group is in line with Thebe's commitment to make its vision of African economic empowerment a reality. It is also in line with the government's reconstruction and development programme policy framework which calls for broad-scale development within the SA financial system."

Joint ventures with foreign and local partners would provide staff and training for Msele personnel.

Nyhonyha said Msele would also secure a JSE listing for its investment fund, identify significant local investment opportunities targeted at black participation and to build a stable, cohesive core management.

Earnings and assets growth leaves Investec upbeat

YURI THUMBRAN

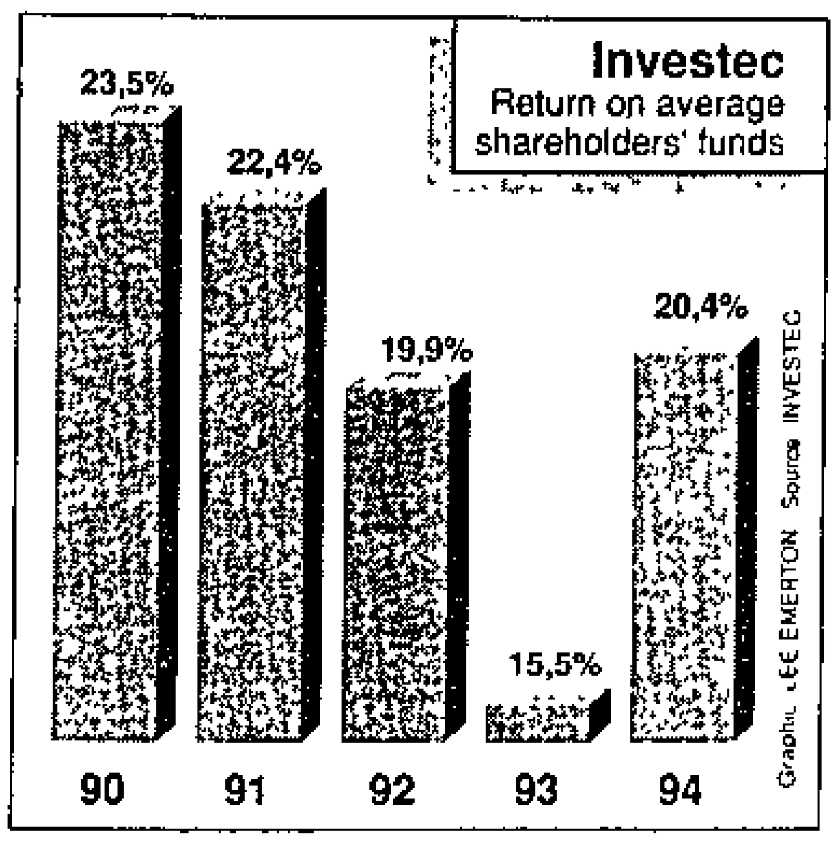
STRONG growth in earnings and assets had underpinned Investec's performance for the year to March, leaving the bank upbeat about the next fiscal year, it said in its annual report.

Chairman Bas Kardol said the bank's consolidation during the year — which included rationalisation, the purchase of Sechold, and expansion into new areas — should insure Investec maintained its record of consistent performance.

Net income was R95m (R64m), while provision for bad and doubtful debts rose to R34m (R32m). Income before taxation was R73m (R48m).

Earnings a share rose sharply to 246,2c (188,3c) and the dividend was 115c (90c), an increase of 27,8%, though cover rose from 2,1 times to 2,2 times.

The healthy position in which Investec finds itself was further reflected by the increase in cash and short-term funds which stood at R5,1bn (R1,7bn). This included short-term negotiable securities.



The Sechold acquisition accounted for the bulk of asset growth, which jumped 95,3% to R10,9bn.

The year also saw the downward trend in average shareholders' returns since 1990 halted, with returns jumping from 15,5% to 20,4%.

The strong growth in funds under management, from R10,1bn to R18,5bn, arose from internal growth of R3,7bn and R4,6bn from the Sechold acquisition. (58)

Strong performances by the merchant banking division's securities trading, project finance, corporate banking and emerging markets finance activities, the branches and Investec asset management also contributed to earnings growth.

MD Stephen Koseff said the group would capitalise on the strong positioning and profile it had achieved to maximise opportunities that might arise through the strong economic recovery that was expected.

He said income from associated companies rose 41,4% due to strong performances by Fedsure and Bidcorp and the acquisition of additional shares in both companies.

Solid returns from Southern

(58)

SOUTHERN Unit Trusts turned in a solid performance in the last quarter.

In a highly volatile market which saw the Overall Index strengthening by 10% and the bond index losing 4%, the Southern Mining Fund continued its strong growth, posting a 44,4% return for the year ended June 30.

Southern Life's GM (investments), Carel de Ridder, said the Southern Mining Fund's good performance was largely due to a strong recovery by the JSE mining sector. At June 30, liquid assets constituted approximately 12% of the Mining Fund, which grew from R32m to R37m. Over three years, the fund's return was 15,31% per annum.

The Southern Equity Fund performed at a rate of 31,5% for the year ended June and at 21,73% per annum over three years. The value of the fund increased by R77m to R367m over the quarter.

CT 14/7/94

The Southern Pure/Specialist Fund yielded an excellent 37,88% for the year. The portfolio increased from R15m to R23m. Liquid assets comprised 8% of the portfolio.

The Southern Income Fund currently holds all R55m in liquid assets. The return for the year end was 23,62% and the portfolio distributed 13,47c per unit to its unitholders in April.

OM funds top R6bn in assets

(58)

STRONG inflows and performance in the June quarter pushed Old Mutual Unit Trusts assets to the R6bn for the first time. All the funds beat their respective stock market indices.

"Investors switched back into equity funds during the quarter after investing in the Income Fund the previous three months and inflows totalled nearly R300m. This led to liquidity rising slightly for many funds by the quarter-end," says Adrian Allardice, senior portfolio manager.

Old Mutual's newest fund, Sentinel, a specialist retirement fund launched in March, ended the quarter on a particularly strong note. Assets rose from R23,3m to R87,7m. Liquidity stood at 40%.

The Investors' Fund performed well, showing an annual return of 37,27%. Liquidity increased to 7,9% at the quarter end.

CT 14/7/94

Growth Fund's liquidity was maintained at some 17%.

Top Companies Fund's liquidity stood at 7,5% and Industrial Fund's liquidity stood at 11%. Mining Fund's liquidity stood at 10,5% and Gold Fund's liquidity stood at 12,6%.

Income Fund's liquidity stood at 8,3%.

Liberty issue sets capital market record

(58)

CT 14/7/94

From JOHN CAVILL

LONDON. — Liberty Life yesterday blazed a trail back into the international capital markets for South Africa by raising $300m in convertible bonds — a record for any private sector issue by the Republic.

As forecast the 10-year bonds will pay a coupon of 6,5% — compared with the 7,4% yield on US Treasury 10 year paper — and are convertible into Liberty shares at R106,64 ,a premium of 10,4% over the recent average price.

Liberty also has a "Green Shoe" reserve of $60m to meet any further demand for the bonds. It will be open for a month and could bring the total to $360m. The bonds can be converted from the beginning of 1995 until the end of 2004.

While the potential issue is at the lower end of the $360m-500m range envisaged when Liberty launched it, Roddy Fleming, director of investment bankers Flemings, leader manager, said: "In present conditions — a weak dollar and bond markets — and after the shock of Derek Keys' resignation, it has been a fantastic success.

"Compared with other emerging markets this is five times the size any of them could have attempted."

Liberty chairman Donald Gordon said: "We are absolutely delighted. It all came together even though markets and the dollar were crashing about our ears and in the middle of everything we had the Keys issue.

"It was the biggest thing we have ever done and in some markets it was the first time SA had been sold as an investment."

With co-managers Merrill Lynch, the US securities giant, Nomura, Union Bank of Switzerland and Swiss Bank Corporation, Flemings, Gordon and a Liberty team went on a global trek to sell the issue to international investors.

"We had record turnouts at all the road shows — 34 in Singapore where I might have expected four. The levels of subscription were above expectations in Europe and the UK and excellent in Japan," said Fleming.

"The only slight disappointment was in the US where investors were still worried about the departure of Keys. People there were keenly interested but wanted to wait until the dust has settled on the change-over.

"From the point of view of Liberty and SA this has taken investors a long way up the learning curve. It will make people decide whether to invest in SA," said Fleming.

Analysts pointed out that the bonds were highly attractive. "There is no political risk because they are secured by Liberty's assets outside SA," said one.

"The yield differential — 6,5% on the bonds against 2,3% on Liberty shares in London — means that after two years buyers will have made up the conversion premium on 10,4% and the convertibles will virtually become equity."

Hosken's future on knife edge

MARC HASENFUSS (58)
Business Staff

THE future of Hosken Consolidated Investment (Hoskens) is balanced on a knife edge after the insurance group posted an ominous R39,5 million loss in the year ended March.

In addition, the group's current liabilities of R28,3 million exceed total assets of R25 million — but directors said trading could continue after an agreement was reached with bankers and major creditors.

However, matters still look precarious for Hosken, with directors warning that this arrangement could be varied at any time.

The agreement is mainly dependant on further developments in the pending litigation with Absa, which relates to a contested right in favour of Absa to sell 1,9 million Tollgate Holdings shares to Hosken at R14,38 each.

ARG 14/7/94

Meanwhile the R2,8 million damages claim against the group for alleged mismanagement of a pension fund had been settled.

Also, directors noted that investments totalling R5,8 million were written off in the year under review. The market value of Hosken's investments now stands at R32,4 million.

■ Hosken's subsidiary **Crendell Investment Corporation** plunged R25,2 million into the red in the year ended March.

In the period under review the group made provision to write down the value of its investments by a hefty R24 million.

A claim of R3,3 million over a property lease with Liberty Life was also settled.

■ **Saflife**, 24,2 percent held by Crendell and 10,6 percent held by Hoskens, managed to reduce its operating deficit of R4,4 million in the year ended March — thanks to a stronger second-half showing.

Directors said Saflife was adversely affected by the events at IGI Insurance (now under curatorship). IGI Insurance holds a majority 41,3 percent stake in Saflife.

"However, the position has stablilised and new business has begun to increase."

They added that the group's second-half performance showed a major reversal from the R10 million loss in the first half of the year. The operating surplus in the second half was R6 million.

Directors said the rationalisation late last year, together with the appointment of Investec Asset Management as fund managers, and encouraging growth in the equity markets, helped the group achieve substantially higher returns for policy holders and shareholders.

They are confident that the improvement in trading results in the second half of the financial year should continue in the current year.

A R8,8 million damages claim arising from an alleged mismanagement of a pension fund was settled in the period under review. The restructuring and refocussing of Saflife also saw write-offs and provisions reduce the value of investments by R32,7 million.

FM 15/7/94

BANKING

In the black

Two new financial service groups have been formed to bridge the gap between the black community and mainstream business.

One is Msele Finance Holdings, a Thebe Investments subsidiary that hopes to give a black-owned company a presence in merchant banking. It will not apply for a banking licence but will enter into partnerships with financial institutions in each merchant banking endeavour — capital markets, corporate and structured finance — and investment banking efforts like venture capital and fund management.

Says GM Litha Nyhonyha: "For instance, if our capital market division is involved with a particular product, it will be up to our partner to underwrite it."

When the bank seeks a licence in about five years' time, partners in each undertaking will be offered shares in the holding company.

Nyhonyha says this allows Msele to develop the skills of teams and work on projects with partners without the need for capitalisation. (58)

Msele's initial focus will be on foreign investors and developing emerging black businesses. The company will also help SA firms to find new opportunities in Africa.

Banking consultant Desmond Hudgson has reservations about the concept.

"The merchant banking sector is already competitive with a high level of expertise in existing banks.

"I doubt there is room for a new bank to come in and profit on the principle that it's pushing black empowerment — unless it hopes for guilt money or help from government."

The Community Bank, SA's first mutual bank, is also making its debut, opening its first branch in Benoni on Monday.

The bank must attract members who will buy shares in it. Membership will allow them to open savings and investment accounts and obtain loans — mainly for housing and small and medium-sized enterprises.

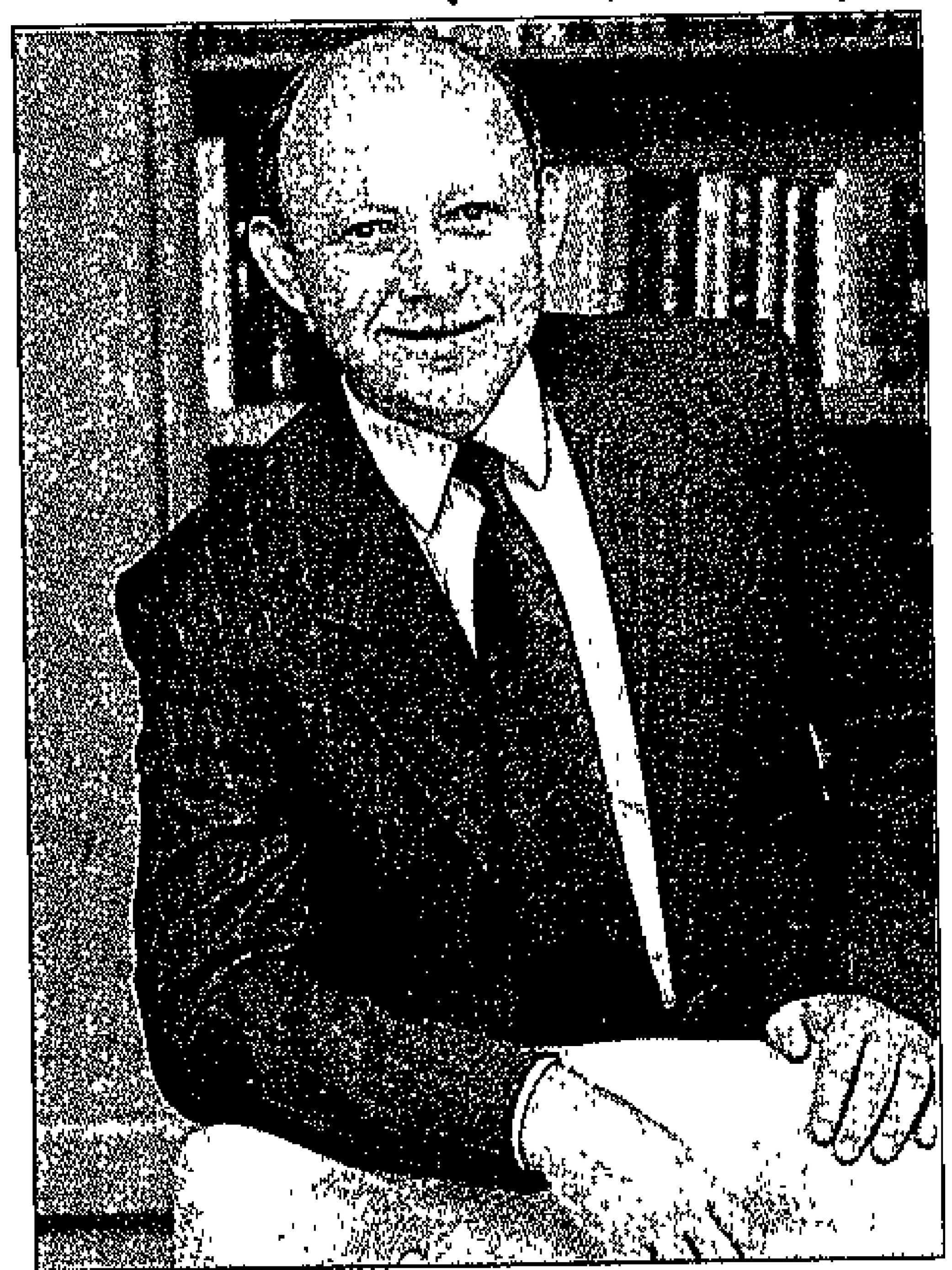
CE Cas Coovadia says the bank will have five branches at first, each with a number of community outlets.

"This will grow to about 20 branches and 100 outlets over the next few years. We have been building relationships for some time, running workshops with community organisations, developing a legitimate base and finding out what their financial needs are."

Coovadia stresses the Community Bank has nothing to do with the regional community bank which PWV premier Tokyo Sexwale hopes to set up with Chris Ball as its head. Critical of government getting involved in running a bank, Coovadia nevertheless says. "I believe government should be involved in helping disadvantaged communities gain access to financial services." FM 15/7/94

Hudgson has reservations about community banking in general: "Regardless of the structure of a bank, it will live or die by its ability to lend at a margin and recover the amount advanced. At the end of the day, a bank must still lend to creditworthy borrowers, which is why existing banks have difficulty lending to these communities." (58) ■

FM 15/7/94 (58)



ABSA's Brink . . . *returns lagging competitors'*

scribes the 2,5% decline in attributable income as disappointing, noting this is especially so as the previous chairman was confident, in last year's review, that earnings growth would be achieved.

Brink says the unchanged dividend reflects the bank's confidence in "a speedy return to earnings growth," but adds that this alone is nowhere near enough. "Absa's returns on assets and equity lag behind those of its competitors. This is reflected in the substandard rating of the shares on the JSE which, in turn, restricts strategic options available to the group."

He says it's imperative that Absa's ratios improve to levels similar to competitors, but warns this cannot be achieved overnight. "Testing targets have been set, though, to ensure the required performance is achieved over the medium term."

Another change being put into place by relatively new CE Danie Cronjé is a return to the strengths of the individual brands. He says the branding strategy played a major part in stabilising Absa's market share, arresting a decline over nearly two years. Cronjé adds that the implementation of stricter credit standards has improved the overall quality of the advances book.

A breakdown of advances shows the strongest growth coming from mortgages, up nearly 16% to R36,7bn, more than half total advances. Instalment finance grew usefully from R11,6bn to R12,3bn, but the remaining three categories — overdrafts & credit card accounts, foreign currency advances and other — all declined.

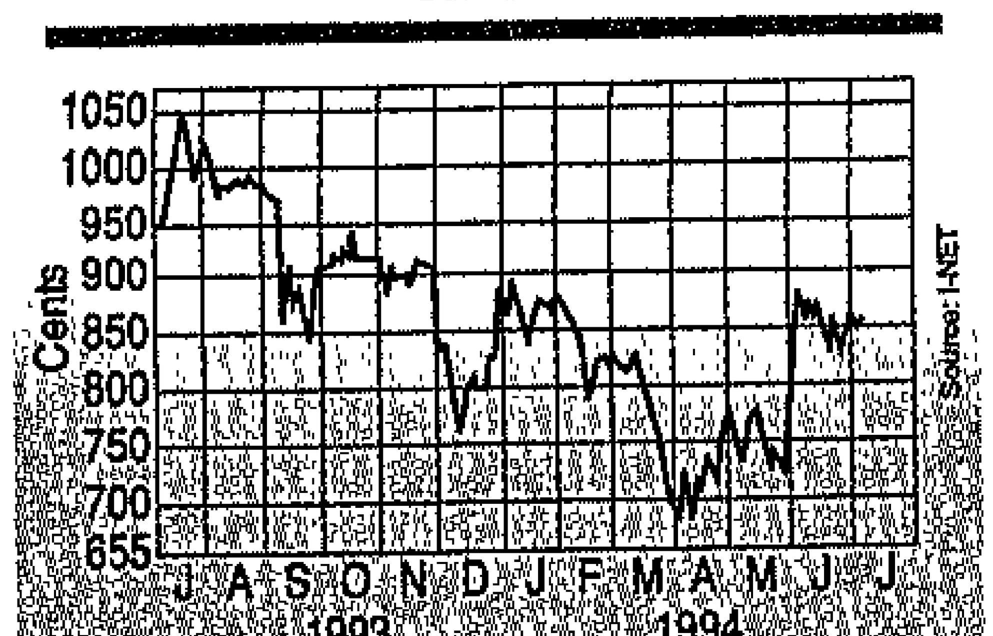
There are other problems Absa has to overcome. One is its image of providing poor service. Cronjé says this was partly a result of low staff morale after the mergers and rationalisation, though some analysts feel the real problem is a lack of good senior and middle management.

The market seems to have confidence in Brink and Cronjé, but the chairman and CE of a bank the size of Absa cannot do everything. Greater depth in management would probably offer them the support they need to get Absa back on track.

It's going to be a long haul, but Absa might just be at the beginning of a period of growth. It's unlikely to be spectacular, at least in the short term, but the share price should follow. Prospects for the share are probably as good as they have ever been since the Bankorp merger.

Shaun Harris

ABSA



Once the taxman has finished with your pay rise there won't be much left

W/E Star 16-17/7/94 (58)

Kiss your increase goodbye

AFTER bracket creep, the transition levy and inflation, things look rather gloomy for the taxpayer, writes LEIGH ROBERTS. Tax expert Matthew Lester (right) worked out just how little better off Joe Dinky would be after getting an increase.

MIDDLE and upper-income earners are in for yet another bout of tax abuse. The combined effect of the transition levy, inflation and bracket creep will have a crippling effect on their disposable incomes.

Salary earners, in particular, often bear the brunt of the taxman's need for extra funds — probably because of the quick and easy collection afforded by the pay-as-you-earn monthly deduction system.

The taxman's latest three-pronged barb means that the salary earner granted an inflation-based annual increase can almost wave his rise goodbye.

Tax expert Matthew Lester of BDO Spencer Steward has calculated the sums.

Take the case of Joe Dinky (Double Income No Kids Yet) who had a taxable income of R150 000 in the previous tax year. On March 1 this year — the start of the 1994/95 tax year — Joe was happy to receive a 7 percent cost-of-living increase.

How will his take-home pay be affected under the new scenario? See the table on the right. (For ease of calculation, pension, medical and other deductions are excluded.)

While Joe's annual salary might have risen R10 500, his taxation will have increased a staggering R8 194, leaving him with a mere R2 306 in his pocket — an after-tax increase of 2,37 percent. In short, says Lester, nearly 80 percent of Joe's increase will be gobbled up by the taxman. Unfortunately, the situation for Joe gets even gloomier.

Extra deduction

First, the levy due of R3 769 will be recovered in the seven months of the tax year to February 1995. In Joe's case, Lester says, that means an additional PAYE deduction of R613 a month.

Many companies are starting with the extra deduction a month earlier — from this month's pay packet — in order to lessen the dent in their employees' incomes.

The second blow is that the transition levy has been spread over two tax years, so extra tax will be have to be paid next year too.

Two-thirds of the overall 5 percent non-refundable levy, will be collected this tax year, with the balance due in the 1995/6 tax year.

For Joe, this means another payment of R1 845 in the first six months of the next tax year. Of course, if Joe receives his usual salary inflation increase (or if he gets a promotion with corresponding pay hike) he will pay more.

Lester says that even if the transition levy had not been imposed, most taxpayers would still end up paying more tax than they had paid in the previous year as a result of bracket creep.

The salary earner who is granted an increase could be pushed into the next tax bracket, which imposes a higher tax rate.

In the coming weeks, other aspects of the transition levy will be looked at, including legal ways to soften the blow. Next week: the issue of whether you should defer your retirement for a year or two to avoid incurring the levy on the taxable portion of your lump-sum receipts from retirement funds.

Where Joe Dinky's pay increase will be going

	1993/4	1994/5
Taxable Income ...	150 000	160 500
Tax per Tables	54 800	59 315
Transition Levy	—	3 679
Rebate	(2 225)	(2 225)
Total Tax	52 575	60 769
Take-Home Pay	R97 425	R99 731
Taxation Percentage	35,05%	37,86%

[redacted]

16/7/94 (58)

Province's housing finance scheme raises questions

A bolt from the blue

Star 16/7/94

WHY did the PWV government announce a proposal to launch a regional community bank to fund housing when a similar scheme, approved by the Government and banking community, is to be launched next week? LOUISE MARSLAND investigates.

PWV Premier Tokyo Sexwale's announcement last week of plans for financing new housing and jobs came out of the blue for the broader banking community, which had already pledged support for a similar scheme.

On Monday, in Benoni's Voortrekker Street, Community Bank's first branch will open its doors. The bank is to facilitate loans for housing in townships nationwide, making communities part of the process by giving them shares in the bank.

Registered by the Reserve Bank last week as a mutual bank, Community Bank will be opened officially by Housing Minister Joe Slovo next Saturday.

It is hoped that the scheme will act as a catalyst for the provision of funds for housing as well as bridge the gap between the formal banking sector and informal savings schemes such as stokvels.

The initiative was undertaken two years ago by Bob Tucker, former managing director of the Perm, and Cas Coovadia, former general secretary of Actstop.

The result was a report submitted to the Council of Southern African Banks (COSAB) for consideration in January 1993. COSAB pledged its support and seconded ABSA group executive Archie Hurst to manage the project.

Coovadia said the previous government, the ANC, Inkatha Freedom Party, trade unions, major banks and community organisations such as stokvels had been consulted extensively.

"This is the first institution to attempt to do banking on the scale we want, and the first to give ownership to its users."

Community Bank will operate on commercial lines with no direct link to the Government.

"The role of the Government should be to facilitate institutions that are accessing credit for poorer communities. People might not be as willing to repay loans to an institution perceived as Government-owned," he said.

Coovadia intends meeting PWV housing MEC Dan Mofokeng to get clarity on the province's regional bank scheme.

Four major banks — Standard Bank, First National Bank, ABSA and Nedbank — have each provided loans of R5 million, and NBS a R2 million loan, to help with initial operating costs.

COSAB general manager Nico van Loggerenberg said: "We provided the assistance to get the Community Bank established because it will provide a service to a certain sector.

"We also hope it will provide a bridge between formal and informal money-trading systems." He said his organisation had not been asked to become involved in any other mutual banking scheme.

How Community Bank will work depends as much on community goodwill as it does on traditional bank lending safeguards.

Community Bank will issue shares to communities, focusing on savings and borrowing needs. Before becoming eligible to apply for loans, people will have to prove creditworthiness and character by saving for six months at Community Bank outlets. (58)

Clients will be required to become members of the bank by purchasing permanent interest-bearing shares (non-tradable) at R20 apiece. These entitle members to vote for the appointment from the community of directors to the bank's local and main boards.

If a community manages to save R1 million, the bank will raise another R2 million in order to lend R3 million to that community. Savings targets will be posted outside outlets and at taxi ranks to get entire communities involved.

Housing loans will average out at about R30 000. There will also be enterprise loans of R500-R15 000 for people to start their own businesses, consumer loans to put the children through university, and ordinary savings schemes.

New black business giant born

Sowetan 18/7/94

■ STRONG FOOTHOLD 'First step to acquiring economic kingdom':

Sowetan Reporter

LEADING businessman Dr Nthato Motlana has spearheaded the formation of South Africa's new black-controlled business giant, New Africa Investments, with assets in excess of R7 billion.

NAI will have as its core an effective 30 percent controlling stake in Metlife, the country's fifth largest life assurer with assets of R7 billion, 52,5 percent of the *Sowetan* and seven percent of cellular network MTN. The company will acquire 100 percent of Prosper Africa, whose assets include a controlling interest in *Sowetan*. The deal, announced in Johannesburg on Friday, follows years of negotiations between Sanlam, Sankorp, Methold, Corporate Africa and the Industrial Development Corporation. Announcing the formation of NAI, executive chairman Motlana said the company would seek a strong foothold in the economy while remaining totally committed to black advancement at all levels.

(58) ~~(232)~~

"We believe that only through entrepreneurship, leadership and hard work will blacks inherit the economic kingdom. We do not want guilt offerings or handouts." The main shareholders will be Corporate Africa, a company established by Motlana and other black directors (51 percent), Sanlam-Sankorp (20 perent), the National Council of Trade Unions (13,7 percent) and Sefalana Employee Benefits Organisation (4,9 percent). In addition, NAI has a wide spread of 8 500 black shareholders, thus becoming the biggest black shareholding company in the country after NSB (6 000), African Bank (3 500) and Blackchain (1 400).

Proposed listing is first venture in racial partnership

Black conglomerate ushers in a new era

Star 18/7/94

58

BY CLAIRE GEBHARDT

The proposed listing of South Africa's first black industrial conglomerate, announced by Sanlam, Sankorp, Methold and Corporate Africa at the weekend, is in fact a first venture into racial partnership and co-operation.

Far from being a black consciousness development, it embodies the idea that the combined skills of all South Africans are needed for economic progress.

At the same time, it will give a significant boost to black economic empowerment and provide the vehicle for attracting foreign investment.

Executive chairman-elect, Nthato Motlana, told The Star in an interview: "We want to go into the future hand in hand with white partners."

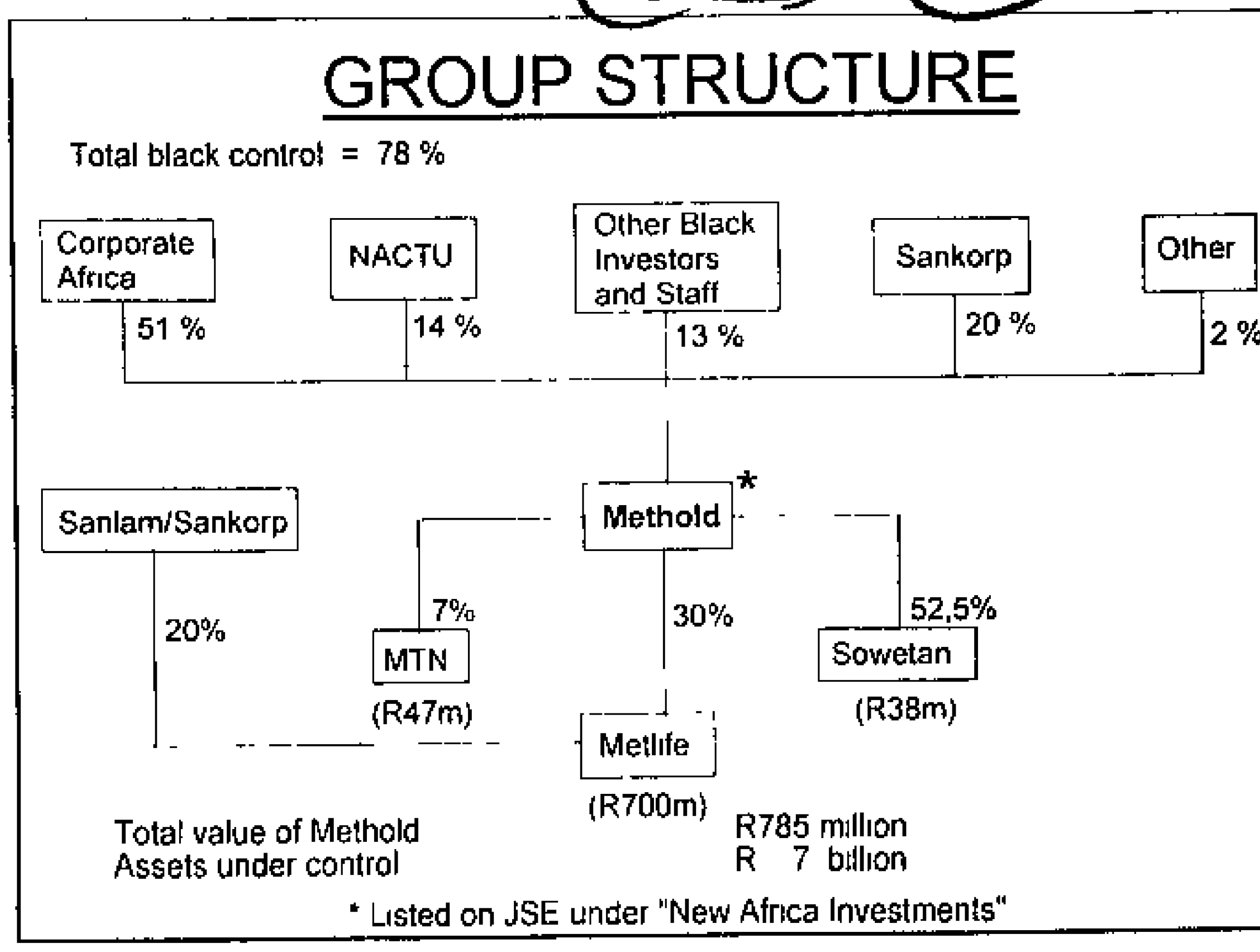
Nafcoc founder and long-time president Sam Motsuenyane will be the conglomerate's non-executive deputy chairman.

Overseas investors will be briefed tonight by a team of South Africans at an investment conference in New York.

In attendance will be 150 institutional investors from all over the world with funds of over $50 trillion at their disposal.

The R7 billion black-controlled group, Methold, to be renamed New Africa Investments Ltd (Nail) will have as its core asset an effective controlling stake in Metlife, South Africa's fifth-largest life assurer.

Nthato Motlana ... rolling back poverty.



The main shareholders will be Corporate Africa, a company established by Nthato Motlana and other black directors (51 percent), Sanlam/Sankorp (20 percent), the National Council of Trade Unions (Nactu — 13,7 percent) and Sefalana Employee Benefits Organisation (Sebo — 4,9 percent).

Nail also has a very wide spread of 8 500 black shareholders from all walks of life.

Motlana said the impressive trade union participation was a vote of confidence in black business.

Standard Merchant Bank's Robert Dow said the financing of the deal had been easy, with overwhelming acceptance from the market.

"No one turned us down, in fact we were over-subscribed — everyone we approached put capital into the structure."

Prior to the listing, Methold will increase its stake in Metlife from 10 percent to 30 percent and will acquire 100 percent of Prosper Africa, whose assets include a controlling interest in The Sowetan, South Africa's largest daily newspaper, and a material interest in the cellular phone network MTN, from Corporate Africa.

Motlana said Nail's strategy was to form black-led partnerships with industry leaders.

"We are seeking to gain a strong foothold in the economy, while remaining totally committed to black advancement at all levels," he said.

Nail's board of directors was representative of the hopes and aspirations of millions of South Africans from all sectors — businesses, trade unions and communities — he said.

"Our long-term goal is to roll back poverty, to generate jobs and to attain a standard of living commensurate with the resource base of our country.

"We don't want handouts or guilt offerings."

Control of Metropolitan Life (Metlife), a thriving life assurance company, was achieved through a transaction with Sankorp, the investment holding company of Sanlam — one of South Africa's most powerful life companies.

The second acquisition — control of The Sowetan — was obtained from Argus Newspapers, the largest English language press group in South Africa.

Motlana said that by working with local and international partners, a 20 percent stake in MTN, one of two cellular telephone networks in South Africa, had been acquired.

Motlana said other industry leaders had indicated that they would like to co-operate in similar partnership ventures.

Community Bank opens first branch

ROBYN CHALMERS

THE Community Bank yesterday opened its first branch in Benoni, providing banking services to low-income rural and urban communities. BDAY

Operations GM Ali Mokoka said the branch would officially be launched only on Saturday by Housing Minister Joe Slovo, but its doors were now open. 19/7/94

The bank would initially have five branches, each with several community outlets. This was expected to grow to about 20 branches with about 100 outlets over the next few years.

Further branches would be set up in Cape Town's Athlone suburb, Daveyton, Hillbrow and Johannesburg's CBD over the next three months.

But sources feared the new bank could be on a collision course with PWV premier Tokyo Sexwale's plans to set up a regional community bank as part of his scheme to build 150 000 homes a year. Sexwale's proposed bank would grant loans to people earning less than R1 500 a month or unemployed but expected to get work on the housing scheme. (58)

Community Bank CEO Cas Coovadia recently criticised the plan to set up a regional bank as a blow to his bank, as both organisations would be lending to the same target market.

Ball positive on bank role

From LINDA ENSOR

LONDON. — Former First National Bank managing director Mr Chris Ball, who is to head a new community housing bank, said yesterday imaginative proposals were required to meet the critical need for housing in South Africa.

Conventional methods would not produce the results, whereas the proposals by PWV Premier Mr Tokyo Sexwale would accelerate the process.

Mr Ball, 58, said it was understandable that people had doubts about the feasibility of providing thousands of houses in a short time span because these people had not seen the full mechanisms of the proposal as he had.

(58) CT 21/7/94

In the proposal a PWV Regional Community Bank would be established as a funding agent and 150 000 low-cost houses would be built within a year. This would be funded by R750 million from the central government and R4,5 billion from Life Offices Association members and direct contributions from construction companies.

The bank would provide housing loans to people earning less than R1 500 a month or to the 900 000 jobless likely to get work in the project.

Mr Ball, who leaves for South Africa today, said the first test site of the scheme had been initiated on Monday.

Shake-up imminent at Development Bank

CT 21/7/94 (58)

From GRETA STEYN

JOHANNESBURG. — Development Bank of Southern Africa CE Andre la Grange would cut short his leave tomorrow to join chairman Wiseman Nkuhlu in telling bank staff that "fundamental change must occur", Nkuhlu said yesterday.

A meeting of staff had been arranged to keep them informed of discussions with government on the bank's transformation. "We are aware of the need for rationalisation and for the bank to acquire a narrower focus. Changes are needed and they must be fundamental," Nkuhlu said.

His comments came in the wake of allegations by staffers that bank officials had planned to sabotage the RDP.

The allegations have added to the urgency surrounding a government investigation into the bank's role. Sources predicted that government was likely to announce steps to reform the bank within two weeks.

As a first step towards change, it was suggested that the provinces be represented on the new board. He would not be drawn on which other interest groups should be represented, other than to say it should be borne in mind that the bank remained a bank.

Nkuhlu said he would use the meeting to deal with staff fears about their careers.

Sources said it seemed unlikely that a new board would be in place for at least another two months.

Staff expect the bank's policy function to be scaled back considerably, with experts being seconded to government. The unit monitoring homeland finances was expected to be disbanded, as central government would keep an eye on the provinces.

● Acting CE Nick Christodoulou said there would be no witch-hunt against staff who had implicated senior staff in the alleged plot to undermine the RDP.

He said staffing matters would be left for the second phase of the restructuring process, but he did not foresee any large-scale redundancies.

A senior development agency source said the Cabinet would discuss at its next meeting the restructuring of the bank and other parastatal agencies, such as the Small Business Development Corporation and Industrial Development Corporation.

Keys upbeat on SA growth

JOHANNESBURG. — SA is aiming for economic growth of substantially more than 3% a year in the next five years, a rate not seen in as many years, Finance Minister Derek Keys said.

He told a US investor conference that in the process much would be done to reduce excessive government consumption spending which, at 21% of GDP, was one of the highest anywhere.

He added that an upturn in gross domestic fixed investment was evident in the second half of 1993, and there was every reason to expect it to gather momentum: "This has been achieved without any signal direct investment from foreign entrepreneurs. We would be daft to base our plans for a brighter future on such activity (although) it is welcome when it comes.

"The entire cabinet is seized with the importance of correcting defects."

Standard gets 'top three' credit rating

ROBYN CHALMERS

STANDARD Bank has emerged as one of SA's top three banks in terms of credit rating after receiving top notch short- and long-term ratings from Republic Ratings. B/Day

Republic Ratings director Dave King said the bank had qualified for the highest possible short-term rating of A1 and a long-term rating of AA. 21/7/94

"Standard is one of only three SA banks to qualify for this high rating. The other two banks are Nedcor and First National Bank."

He said the rating was awarded after intensive investigation into the quality and stability of the bank's asset portfolio, funding base and earnings stream. It also incorporated a detailed evaluation of the group's key risk management structures, technological infrastructure and competitive position.

"Standard's earnings have increased at a compound rate of about 25% a year over the past four years. With the improved economic outlook as well as the imminent implementation of its new systems, ongoing earnings growth should be facilitated by relative reductions in provisions and delivery costs," he said. (58)

CAPE

New syllabus for all pupils by January

JOHN VILJOEN
Education Reporter

(58) ARG 21/7/94

DEADLINES have been set for an urgent and wide-ranging school syllabus shake-up.

Work starts this month on proposals for what should be taught in the new South Africa and plans must be with the national education minister by September.

In the coming weeks, media advertisements will invite schools, parents, pupils and education organisations to help in drawing up the proposals.

National Education and Training Forum head Franklin Sonn said yesterday that the forum and the Department of Education had resolved to address syllabus reform urgently.

Teachers will be given temporary class material by the start of the new school year to replace apartheid-era textbooks.

The forum has recommended that no new textbooks be ordered until proposals on new subject material have been considered.

The ministry of education had accepted that although it was unrealistic to replace contentious textbooks in the short term, this should not impede progress in addressing syllabus reform, Mr Sonn said.

The government had accepted a forum recommendation that education stakeholder participation committees be established by the end of this month to co-ordinate comment on a core syllabus.

The government and the forum had agreed on deadlines for removing apartheid inequities from schools.

Proposals for a new syllabus must reach the minister of education by September. This will leave October and November to produce temporary teacher support material in time for the new school year.

This material would help teachers to remove inequities and correct contentious interpretations without interrupting teaching to replace textbooks.

Saambou predicts steady income growth

ROBYN CHALMERS

SAAMBOU Holdings expected to continue on its recovery path, predicting steady growth in income, the company said in its annual report. BDay

Group MD Johan Myburgh said the government of national unity was expected to have a positive impact on the economy. The benefits should become apparent in the second half of the year. 22/7/94

"The positive spirit which prevailed during and after the historic general election gives rise to a platform from which an increase in economic activity can be expected," he said.

The group posted solid results for the year to March, with attributable income soaring 54,4% to R19,3m, equal to earnings of 15,4c a share. A final dividend of 2c was declared, raising the total dividend 50% to 3c.

Total assets grew almost 20% to R5,1bn in line with Saambou's strategy of achieving real growth of about 7,5% a year. Provision for possible losses on advances and assets was further strengthened, and stood at R132,3m at the year end.

Myburgh said the organisation was continuing to eliminate non-performing assets, and commercial properties not providing an acceptable return were sold. (58)

Progress was made with the previously declared strategy of selling the stock of Saambou Wonings and its subsidiaries. Properties for development declined 18% in value to R74,8m.

"The group's insurance subsidiaries achieved an increase in income, but income from subsidiaries as a whole decreased. This performance could be positively influenced this year if the proposed subsidy and indemnity schemes envisaged for low-cost housing are successfully implemented," he said.

The capital position of subsidiary Saambou Bank was strengthened by R40m through the issue of convertible debentures. At year end, the group's available capital represented 8,7% of risk-weighted assets against a statutory requirement of 7%.

Banks in fresh bid to resolve mortgage issue

GRETA STEYN BIDay

BANKERS and housing officials will meet this week in a bid to iron out the differences that have delayed finalising the mortgage indemnity scheme — the key to banks' involvement in mass housing.

The scheme, which is intended to provide banks with insurance against default, was on the point of being announced several weeks ago when new differences surfaced between government and bankers. Sources said the main issue was the sharing of risk between government and the banks, with the latter asking for 100% cover for political risk while the Housing Department argued that government could not be that generous. 25/7/94

There was also a dispute over how to draw the line between political and economic risk, with some bankers arguing for wider cover. (58)

The Association of Mortgage Lenders will discuss these issues today. A spokesman for Housing director-general Billy Cobbett confirmed that a "workshop" with the bankers was scheduled for Friday.

Standard Bank spokesman John Holloway said the banks were eager to step up lending at the bottom end of the market, but were in an invidious position because they had been unable to take possession of properties in cases of default.

The indemnity scheme was intended to deal with this problem.

"But how do you define political risk? You cannot take a scissors and cut along a neat line," he said.

It is understood that an "all-embracing" guarantee, which would be in place for a short period until the market "normalised", has been proposed.

First National Bank spokesman Andre Latre reiterated the banks' commitment to finance low-cost housing, but said guarantees would have to be in place.

Banks could not be held responsible for defective housing, as suggested within the National Housing Forum, as housing was not their product.

Absa was not available for comment, and the Perm declined to comment until the Association of Mortgage Lenders' meeting had taken place.

Slovo in housing warning to banks

B/Day

Business Day Reporter

HOUSING Minister Joe Slovo warned leading banking institutions at the weekend that unless their reluctance to grant home loans to lower income groups changed, legislation may be introduced to change the situation.

Slovo, speaking at the opening of the first Community Bank outlet in Benoni, said he was concerned about the continuing reluctance of the major banks to grant housing loans to "ordinary people in ordinary jobs, with ordinary incomes".

"But should this reluctance become a permanent feature, then we are going to have to look for other ways to encourage banks to open their doors to the lower end of the market — if necessary through legislation." 25/7/94

He said it would ultimately be up to the major banks and lending institutions to help solve one of the country's most basic problems — housing.

Slovo also called for an end to rent and bond boycotts. (58)

"If we are saying to the banks that they must make themselves more accessible to the smaller borrowers and to ordinary people, then we have to be prepared to enter a social compact, which says that people will meet their bond repayments."

He said rent and service boycotts were understandable in the past, not just for political but also for economic reasons. "But the time is coming for everyone to accept that they have a responsibility to pay for their housing and the services they receive."

He said that while it was known that commercial banks and large institutional investors were not charitable institutions, the new SA demanded that they measured up to their social responsibilities.

He said the Community Bank would be a "trailblazer" in this area. It had a large role to play in demonstrating how access to credit could be liberalised and democratised.

He said the bank's priority would be to open the doors for the poor who were most dependent on small loans to own a home. The reality was that 60% of South Africans could not afford to buy a decent house.

The bank had held workshops in the community to explain its functions, the importance of interest and how bonds and loans worked.

He also criticised the shoddy work of many contractors, a fact which had become clear after the damage caused to homes during the recent storms in the Cape.

"Contractors, whether they are large or small, must know that they are not going to get away with this kind of shoddy work in the future. We are going to make quality control an issue in the interest of the consumer," he warned.

INVESTEC

FM 12/8/94

The fat lady's still singing

58

Activities: *Banking, securities trading, property and financial services.*
Control: *Investec Holdings 50%.*
Chairman: *B Kardol; CE: H S Herman*
Capital structure: *35,9m ords Market capitalisation: R2bn*
Share market: *Price: 5 700c Yields 2% on dividend; 4,3% on earnings; p:e ratio, 23,2; cover, 2,1. 12-month high, 6 350c; low, 3 000c. Trading volume last quarter, 347 000 shares.*

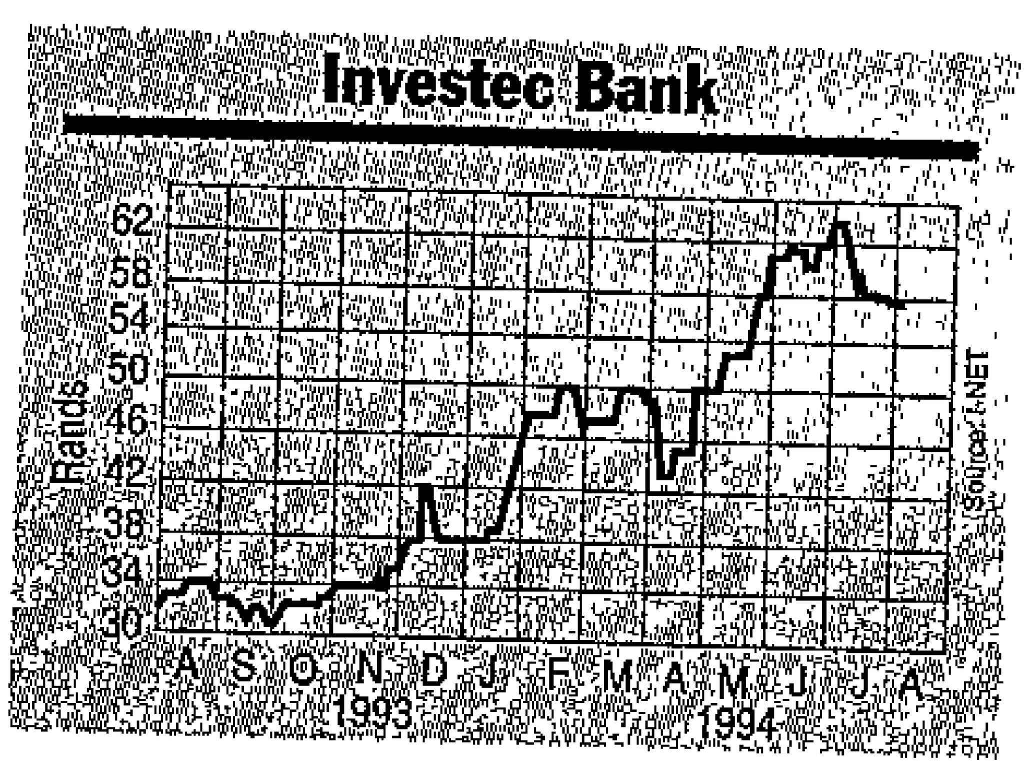
Year to March 31	'91	'92	'93	'94
Total assets (Rbn)	2,88	3,87	5,60	10,97
Advances (Rbn)	1,91	2,59	3,34	4,02
Attributable profit (Rm)	24,0	33,2	54,0	80,0
Return on average equity (%)	22,4	19,9	15,5	20,4
Return on risk-weighted ass (%)	*1,5	*1,4	1,8	2,0
Earnings (c)	120,0	152,0	188,3	246,2
Dividends (c)	56	70	90	115
Tangible NAV (c)	676	1 127	1 413	1 375

* Based on average total assets in 1991 and 1992

What shareholders see when they read Investec's annual report isn't exactly what they get. The truth is that inadequate disclosure by all SA banks over many years, followed in the last 12 months by a rush towards revelation, means what you thought you saw in the last annual report has turned into a chimera. In Investec's case this is accentuated by the recent purchase of Sechold.

And it all turns out to be good. EPS of 246c is 31% better than 1993 and the dividend of 115c is 28% improved. If you are an owner, it is a pleasure; if you're not, it makes you envious.

It is a group with an unusual history. Ten years ago it was possible to say cynically that it was run from a postbox in Amsterdam. However, consistent increases in earnings couldn't be ignored for ever: and it is a remarkable track record — 30c diluted EPS in 1985 on 6,6m shares, 224c this year on 47,4m ords diluted. Investec's



success comes as much from its leadership — at the top, its managers are hungry for success, low key and exhibit few signs of corporate middle age — as from its policy of hiring bright young executives and providing many carrots.

The question for Investec must be how it positions itself now to make the most of what happens over the next few years. It says unequivocally that it wants to be highly respected and the country's foremost merchant banking group. And it has certainly moved a long way down that road. Most important perhaps is its capital adequacy: its capital ratio now stands at nearly 16% and this puts it in the big league — along with the most prudently capitalised of the Eastern banks, better than many in the UK and leading the field here at home.

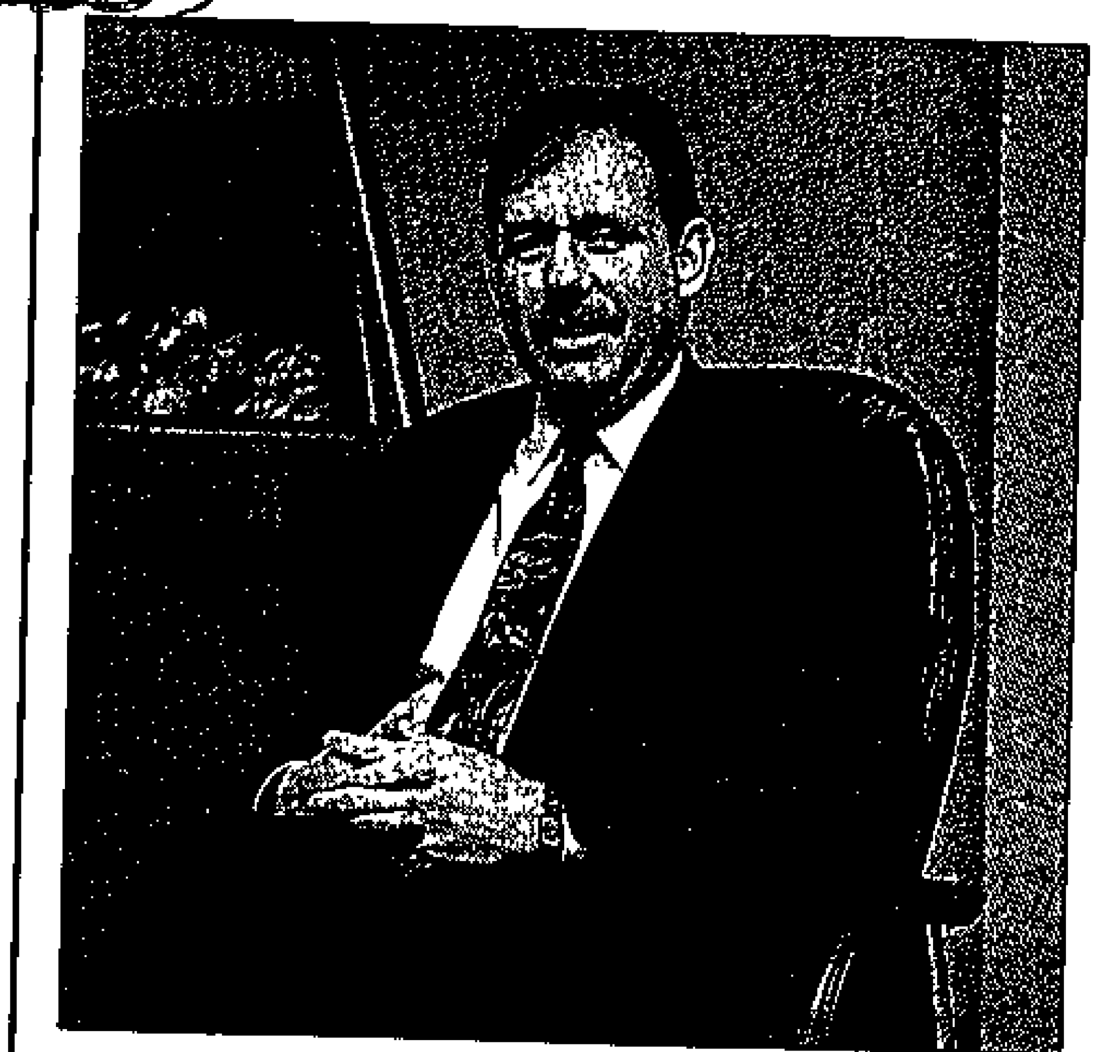
Second is the rights issue which raised another R307m in July (R177m in Investec Holdings (Inhold). What this makes clear is that Investec's managers — just as those at Liberty — are well aware of the advantages of operating from a large capital base. And they have been helped in this by the company's high p:e; servicing the new capital is less onerous at high p:es — in percentage terms, the money doesn't have to work as hard.

Investec draws most of its operating profit from personal banking — 53% last year. (Interestingly, its biggest cost was personnel — also 53%.) In past years Investec was able to generate revenue from writing deals at margins lower than those of its competitors. That's not so easy any longer. So it is apparent that the move last year into securities trading through the plum of Sechold, which fell so fortuitously into Investec's grateful lap, is one of two areas the group has targeted.

Sechold brings a massive tax loss to Investec's party: my guess is that the right thing now is for the group to pump a large bundle of the rights issue money into Securities Equities (where Sechold suffered those horrendous losses) so as to pass fat interest cheques — tax free — through to the bottom line.

Second, it seems Investec will increasingly address the international market. Already 44% of its income comes from foreign operations — principally Allied Trust, a modest banking operation in London which operates a special form of personal banking by post, and Integro, the institutional and private client fund management operation which Investec founder Ian Kantor runs out of Holland.

This is only surmise on my part, but part of Investec's strategy may well be to interest a major foreign bank in taking a stake — say a third — in Sechold (probably at a handsome profit). That fills a dual role for the foreigner: it provides access to local



Investec's Stephen Koseff *....turning to equities*

securities trading activities and a base from which to access SA's major corporates with international products.

Third are a variety of local possibilities. MD Stephen Koseff has trumpeted his displeasure — and Investec's — about the continued sanctity of the JSE, and he is leading the team of angry young bankers now threatening to establish a second exchange. In my view, he needn't bother: the JSE will be opened sooner than many think. When the barriers do come down, Investec will become a prime player in equities, probably making markets and guaranteeing liquidity in the most important blue-chip stocks.

Of course, it is always possible I am calling this wrong; however, I don't think the music has stopped yet. If you believe banking stocks have a place in your portfolio, this is a good counter to collect.

David Gleason

CLICKS FM 12/8/94

The burden of cash

Are the days of cash-across-the-counter trading numbered? Or is the current cash scarcity just a passing phase? Ask any retailer what was most difficult to pry from the average consumer over the past 18 months or so, and the reply will inevitably be — cash.

Almost without exception, cash-based retailers suffered a decline in real turnover growth in their existing stores during the period. Even among primarily credit-based retailers, the proportion of cash to credit sales fell.

The cash-based Clicks was no different. It grew turnover by 11,7% to exceed

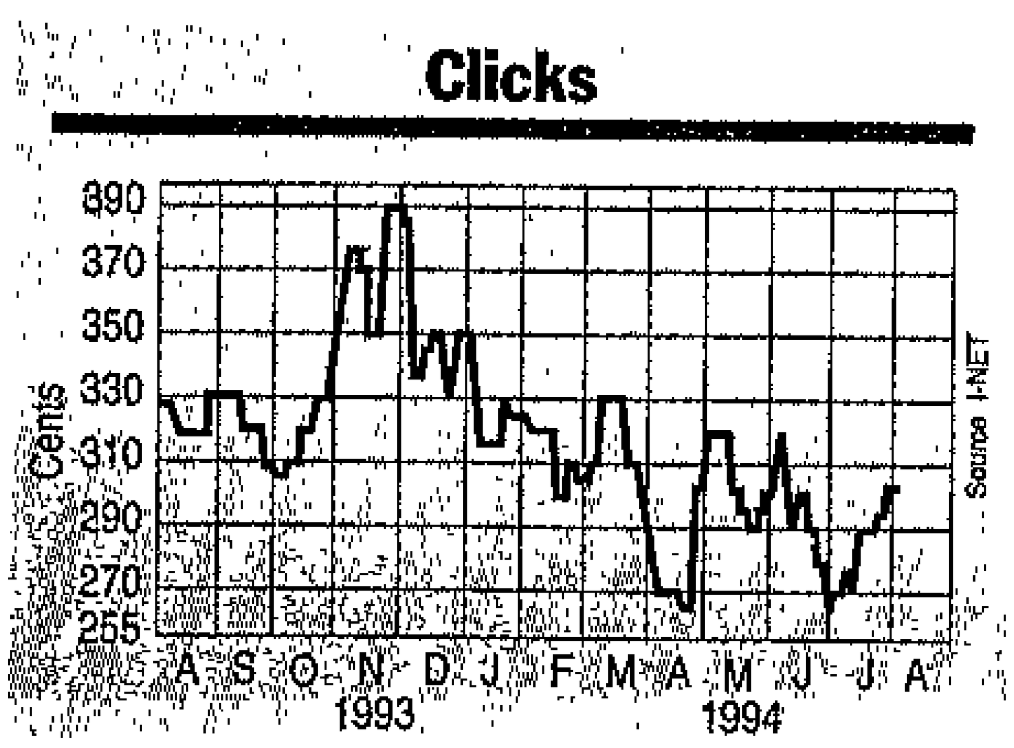
FM 12/8/94

Activities: *Retails toiletries, cosmetics, gifts and recorded music*
Control: *Score-Clicks 50%.*
Chairman: *G M Utian, CE: T C Honneysett.*
Capital structure: *226.6m ords. Market capitalisation: R691m.*
Share market: *Price: 305c. Yields: 1,2% on dividend; 2,9% on earnings; p:e ratio, 34,8; cover, 2,4. 12-month high, 390c; low, 260c. Trading volume last quarter, 3,5m shares.*

Year to April 30	'91	*'92	'93	‡'94
ST debt (Rm)	—	—	3,3	20,2
LT debt (Rm)	—	—	1,2	—
Debt.equity ratio	—	—	0,03	0,12
Shareholders' interest	0,41	0,49	0,46	0,44
Int & leasing cover	63	11,2	77	1,7
Return on cap (%)	21,2	†17,0	16,8	10,7
Turnover (Rm)	552	837	950	1 061
Pre-int profit (Rm)	41,4	52,9	55,1	40,4
Pre-int margin (%)	7,5	6,3	5,8	3,8
Earnings (c)	102,3	†108,1	137,9	8,77
Dividends (c)	43	†41	46	3,7
Tangible NAV (c)	330	579	660	73,4

* 14 months. † Annualised. ‡ Share split 10 times

R1bn, but budgets were not met and profit fell for the first time since 1989. The causes of this decline have been in place for some time. These include: the long recession; worsening unemployment; shrinking disposable income in the hands of all except the very rich; and the 40% increase in the Vat rate from April last year. Over the past



two years, the rate of inflation on prices of goods sold has fallen faster than has the rate of inflation of general expenses and overheads. Margin, especially in cash-based businesses, has been squeezed.

Clicks's financial results (like those of Pep Stores) show what can happen even to the best operators in such circumstances. Clicks's management can't be blamed much. The group's trading formulae, constantly updated and carefully monitored, have proved sound over many years.

However, costs might have been better controlled. Salaries and wages and other staff benefits rose to 66,8% (61,5%) of value-added. When weighed against profits, this suggests a marked deterioration in productivity/efficiency of people. Another factor that influenced margin was excessive shrinkage (theft) and robberies.

In a growing business that seemed to cope well with recession until fiscal 1994, fixed overheads are not eliminated quickly. Variable overheads can be cut more easily. But management, taking a long-term view, increased expenditure in this area to mod-

12/8/94

ernise the group by restructuring and investing more in information technology.

Investments include a sophisticated new Cape Town distribution centre for R20m; extensions to the head office; and computer, scanning and electronic point-of-sale systems. The resultant rise in borrowings boosted interest costs by R5m. This, and the 27% drop in operating income, depressed pre-tax profit by 36%. EPS declined similarly. (31)

Divisional performance is not disclosed. The Clicks chain opened seven stores and closed three, to take the total to 144. It's planned to open 10 new stores in financial 1995.

Diskom, in the low income end of the market, took most of the brunt of political instability and violent crime. It opened its 100th store, and 17 new sites are to come on stream in 1995. However, because of its market positioning, Diskom should be in the forefront of the upturn that is apparently starting with increased consumer demand in the lowest income group.

Musica opened another 26 stores. No mention is made of this chain's contribution to profits; group CE Trevor Honneysett says prospects for 1995 appear encouraging.

Financial director Peter Green says turnover in all three chains reached a low between October and January. Since March there has been a slow improvement, he reckons, because the group is cash-based. He believes current trends suggest the second half of 1995 will be better than the first, but is concerned that additional tax for the RDP could retard the recovery. And he feels that measures taken to prevent shrinkage and to curtail costs will improve margin.

The share, on an historical p:e of 35 and a dividend yield of 1,2%, is discounting a much stronger recovery than is being experienced now. Of the three chains, Diskom's improvement should be the fastest, but it's unlikely to be enough to push group earnings into a category that justifies such a high rating

In the long term, Clicks should again be one of the most profitable retailers. I am not alone in this belief, as shown by the share's bullish rating. *Gerald Hirshon*

GYPSUM INDUSTRIES

Positive strategies

FM 12/8/94

Manufacturing building products for the construction industry, which is only now emerging from the doldrums, should be a depressed business, producing poor or static results. This has not been the case for Gypsum (193)(32)

Last year, the gypsum and plasterboard maker put in its best performance since listing more than 40 years ago; operating margins widened from 12% to 18,1% and gearing was eliminated. (Notably, these increases were not off a low base.)

FM 12/8/94

Activities: *Mining and selling of gypsum and manufacture of rhinoboard and cornice for domestic and commercial ceilings and walls.*
Control: *B P B Industries Plc 50% (UK).*
Chairman: *P L Herring; MD. S G Snowden.*
Capital structure: *8,2m ords. Market capitalisation R205m.*
Share market: *Price: 2 500c. Yields: 3,5% on dividend, 11,4% on earnings; p·e ratio, 8,7; cover, 3,3. 12-month high, 2 500c; low, 850c. Trading volume last quarter, 32 000 shares.*

Year to March 31	†'91	*'92	'93	'94
ST debt (Rm)	8,0	17,2	15,7	0,1
LT debt (Rm)	46,8	15,5	0,4	0,04
Debt·equity ratio	60,3	36,9	11,4	nil
Shareholders' interest	0,45	0,44	0,54	0,62
Int & leasing cover	132	4,5	5,4	n/a
Return on cap (%)	18,0	13,6	14,8	23,3
Turnover (Rm)	n/d	n/d	199	216
Pre-int profit (Rm)	30,0	24,8	23,8	39,2
Pre-int margin (%)	n/d	n/d	12,0	18,1
Earnings (c)	195,2	120,5	112,5	285,8
Dividends (c)	60	45	60	87
Tangible NAV (c)	838	913	966	1 164

* 9 months to March 31 1992. † 12 months to June 30 1991

(193) (32)

The year-end March balance sheet showed net cash of R20m and, accordingly, interest income received accelerated from R583 000 to R2,4m. With a lower effective tax rate — 40% against 1993's 48% — this translated into a more than doubling of EPS to 285,8c off only a 9% rise in sales.

This result was partly because of strategies, including converting long-term debt to short-term to force early repayment. The cost base has been driven down — mainly through technological development.

Though stock rose only marginally last year, debtors grew 12% to R34m and creditors fell R16,8m to R22,8m. Debtors, contends MD Grant Snowden, "are very

Gypsum's Snowden . . . *debtors tightly controlled*

tightly controlled."

Management is planning significant capital expenditure (R31m) from existing funds

Farmers' borrowing up 6%

BDay 5/8/94

LOUISE COOK

COMMERCIAL bank lending to the farming sector reached R5,5bn for the 12 months to December, a 6% increase on the previous year, figures from the Agriculture Department indicate.

But lending levels slipped in the second half of the year, due largely to improved agricultural conditions.

The department's latest statistics show commercial bank lending accounted for 30% of the total R18,1bn industry debt, slightly beneath its contribution last year.

Standard Bank senior manager Rudi Wilsnach said the second half slip in commercial bank debt was due to improved agricultural conditions which had cut credit needs.

Overall farming debt to banks and other institutions was increasing, with Land Bank borrowings standing at R3,69bn for the 12 months to April, against R3,89bn last year.

Land Bank CE Dawie Maree attributes the slight rise to a general increase in the cost of commodities required by farmers.

Agricultural financing is currently under the spotlight with the new government looking for money to finance development farming.

Changes to the criteria used to allocate state land by the Agricultural Credit Board, the Agricultural Department's financing instrument, are expected.

Maree would not be drawn on the possibility of the Land Bank becoming involved in the financing of development farmers, which consists mainly of the black farming community.

He said the bank was represented on a government committee which was looking into the issue of future agricultural financing.

Co-operatives and control boards also borrow from the Land Bank. This debt amounts to about R4,5bn, up on last year's level.

Total farming debt — to institutions such as commercial banks, agricultural co-ops, Agriculture Department's Credit Board, private persons and the Land Bank — is 23% above the level five years ago.

Commercial banks remain the largest lender in the sector.

Of the 60 000 commercial farmers, statistics further show that most of them own assets of between R1m and R2m.

ort

SA banks gain ground on global players

(58)

By ARI JACOBSON

SA banks are steadily gaining ground on the big banks worldwide — with Stanbic the largest local institution in 175th position (previously 202nd) in terms of capital, according to the latest Banker Magazine. CT 26/8/94

However Stanbic is only 7% based on capital size and 4% when measuring asset size of the world's largest banks.

The Japanese dominate the banking sector, taking six of the top 12 positions based on size — with Japanese bank Sumitomo heading the list.

Other South African banks ranked, include Absa in 189th position, First National Bank (FNB) in 260th and Nedcor 324th.

SA has six banks in the top 1 000 and are considered to be fairly well capitalised but as a leading bank analyst points out "this is a necessity not a luxury because of the country's high inflation rate".

This is verified in that only five of the top 20 banks have capital to asset ratios in excess of 5% — all SA banks are above this ratio, he says.

He adds that these rankings highlight that SA banks are "small in world terms".

He says that "SA banks will need to be of substantial size to facilitate world trade and to compete in the technology race".

"Alternatively it is interesting to speculate on possible tie-ups between our banks and large overseas banks, especially with the aid of the financial rand discount."

Looking at the the local share market, the SA bank index is anticipated to rise by about 17% in 1994 and this should outperform the industrial index, according to this analyst.

In addition he says that bad debts are slowing because of lower write-offs and transfers to bad debts "should grow more slowly than the growth in volumes".

He points out that with a successful political transition the situation will be reversed in 1995, with industrial shares providing earnings of between 20% and 25%, while banks earnings will measure around 18%.

Banks open doors for poor

(58)

ARG 6/8/94

Standard gets ahead of possible legislation

BRUCE CAMERON
Business Editor

TOWNSHIP residents are finally getting a foot in the banking door, and affordable banking will be made available with the creation of two new banking networks.

The Community Bank opened its doors two weeks ago, and in October Standard Bank is to open one of its new E-bank branches in Cape Town.

Banks have been accused by civic organisations and the African National Congress of not catering for the needs of most South Africans.

The government has said it will consider legislation — based possibly on United States law — to force banks to change their policies if necessary.

A joint delegation of the Association of Mortgage Lenders (AML) and the South African National Civics Organisation has just returned from a study trip to the US to examine possible models.

And this week Housing Minister Joe Slovo and the AML agreed to set up a committee to investigate ways of providing the poor with loans.

Standard Bank has moved ahead of possible legislation by setting up its own E-bank.

The new bank was revolutionary in design and approach, chief executive Bob Tucker said at a function in Cape Town this week.

He gave limited details of his new "people's bank" at a meeting of the Cape Chamber of Commerce and Industry.

The basic approach was to "keep it simple" and user friendly.

Mr Tucker, who until recently headed the Community bank Project of the Council of Southern African Banks, said E-bank was not a community bank.

"It is something different. The community bank works with communities to build up institutions."

The E-Bank was not there to build up institutions, but to take banking services to the people. It was aimed at providing simple, cheap services to middle and lower-income groups.

Mr Tucker said it could be compared with a savings and loans institution. Products and outlets would be quite different from those provided by the existing mainstream banks.

The new bank was targetting a market of about seven million people. The intention was to gain clients by being:

To page 3

Bank branches to be franchised

From page 1

- User friendly;
- Non-intimidatory; and by,
- Ensuring the safety and security of its clients.

The E-Bank would be owned and capitalised by Standard Bank, but individual branches would be held in part-ownership on a franchise-type basis with members of local communities. Leaders in the communities were being identified.

The bank wanted to enter into a stable partnership with communities.

Mr Tucker said most of the banking would be done electronically, while staff would be used to do what they did best — help people.

E-bank, which meant "everybody's bank", would use the Standard Bank electronic network, but its systems would be different. (58)

Changes were being made to provide greater security in pin codes and cards, as well as physical safety at ATM points.

Banking hours would be more flexible to meet the demands of customers.

A new approach would be taken in the siting of the branches — near fleamarkets, for example. Traditionally banks had preferred to site outlets close to mainstream shopping centres. ARG 6/8/94

The first branches would open in Johannesburg in September and in Cape Town in October.

Banks again threaten to go ahead with second market

(58) ARG 11/8/94

□ JSE opposed to dual trading capacity, says president

BRUCE CAMERON
Business Editor

SOUTH African banks have again threatened to go ahead with a second stock exchange unless they are rapidly given full trading access to the Johannesburg Stock Exchange.

In a statement earlier this week the JSE agreed to speed up de-regulation with banks being allowed full membership within two years.

But the Council of Southern African Banks (Cosab) yesterday said it wanted full membership as soon as proposed legislation altering the structure of the JSE was approved.

Cosab general manager, communications Martin Milburn-Pyle said Cosab welcomed the statement made this week by the JSE committeee.

"This provides the basis for discussion between Cosab and the JSE."

However the implementation plan announced by the JSE appeared to follow the recommendations of the Katz Committee report on the opening up of the exchange "quite closely.

"While the recognition of full corporate membership is a positive development, there seems to be no reason why the implementation should not be allowed immediately upon the enabling legislation being granted."

Mr Milburn-Pyle said Cosab had already stated that it did not support the concept of two stock exchanges, but "if it becomes clear that the South African equities market is to remain out of step by international standards, we will have no option but to apply for a licence to establish a rival stock exchange".

Cosab would push ahead with its preliminary investigation into "establishing, a modern. technology-driven stock exchange".

The preliminary investigation should be concluded by the end of September.

"We will then be in a position to have meaningful discussions with the JSE during the last quarter of the year."

JSE President Roy Andersen said earlier this week the Stock Exchanges Control Act should be amended by parliament to allow stockbrokers to form limited liability companies.

"Immediately upon the Act being amended, the JSE Rules should be amended to permit brokers to sell up to 30 percent of such corporate entities to non-brokers. A year after the amendment to the Act this percentage should be increased to 100 percent and entities such as banks and foreign stockbrokers should be eligible to form new stockbroking companies that qualify for membership.

"The period of 12 months is designed to enable stockbrokers to prepare for the entry of new competitors to the market and for the JSE to amend its rules and systems to meet the needs of the new environment."

Corporate members such as banks would be able to trade in the deriviative markets.

The JSE and Cosab agreed in their respective statements that a major outstanding issue remained whether brokers should be allowed to act as agents and pricipals on the exchange.

Stockbrokers maintained that if trading was to be opened to all comers they would be unable to survive under current regulations, and would need permission to buy and sell shares to their own account.

Mr Andersen said the JSE remained opposed to dual trading capacity as it believed the existence of foreign exchange controls and the consequent illiquidity of the market would make price manipulation and front running more achievable in such an environment.

"Investor protection is best served by the retention of single trading capacity."

Stals defends Bank support of the rand

CT 11/8/94 (58)

JOHANNESBURG. — SA Reserve Bank governor Chris Stals said the Bank had consistently intervened in support of the commercial rand because there was no reason why its recent slide should continue.

Stals added the Bank aimed to "establish orderly conditions" in the foreign exchange market, in what he termed "short-term stabilisation operations". Asked if the intervention was a signal that the second tier financial rand would be retained, Stals said, "(It is) not intended to give any special signal."

He said the Bank had intervened in both the spot and the forward markets adding: "In the past month the bank has been a net buyer (of dollars) in the market, and not a net seller."

Analysts said the bank was trying to curb imported inflation, and was supporting recent signals about retaining the finrand.

An economist, who asked not to be named, said Stals had called certain parties together on Monday to "inform us what was happening . . . and there's more than you imagine going on."

"The financial rand will not be abolished soon, due to the consequences for the economy," he added.

Traders query the ability of the Bank to sustain intervention given the limited reserves which, although recently reflected a slight improvement, remain under pressure.

"It's deplorable. It (the Bank) has cost us billions since the April elections," said one. — Reuter

Fedsure shrugs off tough times

B/Day

SAMANTHA SHARPE

INSURANCE and financial services group Fedsure managed to outwit tough economic conditions and political turmoil to report a 21% increase in net attributable earnings to R30,6m for the six months to June.

The rise came on the back of a 25% increase in post-tax income to R38,1m and translated to earnings a share of 35,7c. 12/8/94

The board declared an interim dividend of 22,25c, but decided to award capitalisation shares in place of the dividend.

Members could elect to receive a cash dividend for all or part of their shareholding in place of the capitalisation shares, Fedsure said. (58)

Long-term insurance company and principle subsidiary Fedlife was the primary contributor to the organisation's solid performance, Group CE Arnold Basserabie said, with Fedlife raising gross premium income 36% to R892m.

"Fedlife introduced some new products which have been favourably received. We have also recently initiated revised premium rates on standard life contracts, making them highly attractive to our intermediaries selling the products," he said.

Total group assets rose to R9,7bn, 33% up from the same time last year.

Fm 5/8/94

58

BOLAND BANK

Looking for alliances

Activities: *General bank providing comprehensive range of banking and trust services*
Control: *C H Wiese 63%.*
Chairman: *P B Hugo. MD: G Z Liebenberg*
Capital structure: *13,5m ords. Market capitalisation. R161m*
Share market: *Price 1 200c. Yields 4,8% on dividend, 15,0% on earnings. p:e ratio, 6,6. cover, 3,1 12-month high, 1 450c. low, 725c. Trading volume last quarter, 105 000 shares*

Year to March 31	'91	'92	'93	'94
Total deposits (Rm)	2 741	3 029	3 169	3 457
Total assets (Rm)	3 293	3 496	3 708	4 000
Taxed profit (Rm)	17,0	19,0	21,8	28,9
Earnings (c)	126,4	*141,3	179,2	180,4
Dividends (c)	48	52	56	58
Tangible NAV (c)	995	1 018	1 918	2 041

* Expressed as 159,9c in 1993 income statement

Financial 1994 was a considerably more difficult year for Boland Bank than either the 51% increase in pre-tax income or the 40% rise in attributable income suggest. The static EPS (undiluted) is a better indicator of the performance.

The movement in the interest rate pattern, especially the one-percentage-point drop in the prime rate, during the year influenced both interest income and interest paid. Interest income on listed investments was much the same but it declined by 35% (R13,3m) on unlisted investments and by 4,5% (R21,1m) on advances. These negatives were partly because of a 66% (R9,4m) leap in dividend income from unlisted investments.

At the start of the financial year, R100m was raised through an issue of compulsorily convertible participating preference rights issue. This was needed to meet the capital ratio requirements of the Banks Act. These funds, received effectively from April 1, were immediately invested in other preference shares that yielded the same dividend as was due on the bank's prefs.

Though received as dividends, this income is included in interest income in the income statement, and is largely responsible for the large pre-tax profit appreciation. When the after-tax preference dividend payable by Boland is offset against after-tax income, net profit attributable to ordinary shareholders stays unchanged.

As far as ordinary shareholders are concerned, there was again no real earnings growth. Retiring chairman Pietman Hugo points out attributable profit failed to grow because of a specific credit exposure. This related to the liquidation of a client and required a R16m provision.

The bank's figures show conservative management of credit risks. Its discretionary financing portfolio grew by 7,3%. Yet its successful marketing campaign, reflected particularly in the 48% increase, to R496m, of the savings account balance confirms that some activities grew well.

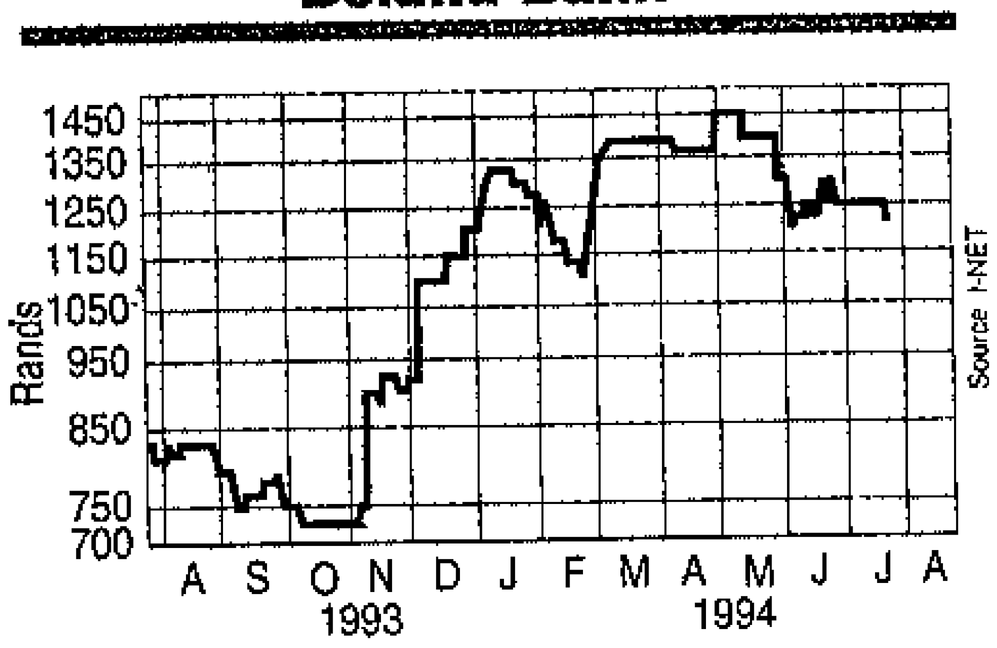
In late December Pepkor chairman Christo Wiese acquired 62% of the ordinary shares and control of the bank. Days later, The Board of Executors emerged as owner of 63% of the new convertible prefs. On the premise that The Board of Executors will exercise its rights to convert all its prefs into ordinary shares, Wiese's stake in the diluted equity will be 34,36% and The Board of Executors' 29,83%.

MD Gert Liebenberg says these new, dominant shareholders have removed any uncertainties arising from the previously diverse shareholding. They are, he says, well positioned to determine and motivate the strategic direction of the bank. Wiese contends that Boland can forge alliances with other financial groups to build a strong national and international financial services group. Liebenberg adds that a revival in fixed investment in SA promises accelerated profit growth for Boland

The share price moved from 800c to 1 450c in May before falling back to the current R12. Until May it showed relative strength against the Bank's index but has since weakened.

Boland's profitability has been lacklustre for years. With the change in controlling shareholdings, and prospect of announcements about new relationships, an investment could prove rewarding. *Gerald Hirshon*

Boland Bank



Boland Bank's Christo Wiese ... *new strategic ideas*

DEFINITIONS

Debt equity ratio: Interest-bearing debt plus redeemable prefs less cash expressed as 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.
Debt cover: Gross cash flow expressed as a multiple of interest-bearing debt.
Return on capital: Pre-interest profit as a percentage of capital employed.
Net asset value: Net assets attributable to ordinary shareholders after adjustment for market and/or directors' valuation of investments, less intangibles.
Return on equity: Earnings per share, based on weighted average number of shares in issue during the year, as a percentage of NAV.
Current ratio: Current assets divided by current liabilities.
Pre-interest margin: Pre-interest profit less dividend income as a percentage of turnover.
Capital commitments: Contracted and authorised capital expenditure commitments.
Market capitalisation: Number of ordinary shares and convertible preference shares multiplied by their latest market price.
Cover: Earnings attributable to ordinary shares divided by ordinary dividends paid
P:E ratio: The number of years' purchase of latest earnings per share represented by the current share price.

RMB HOLDINGS

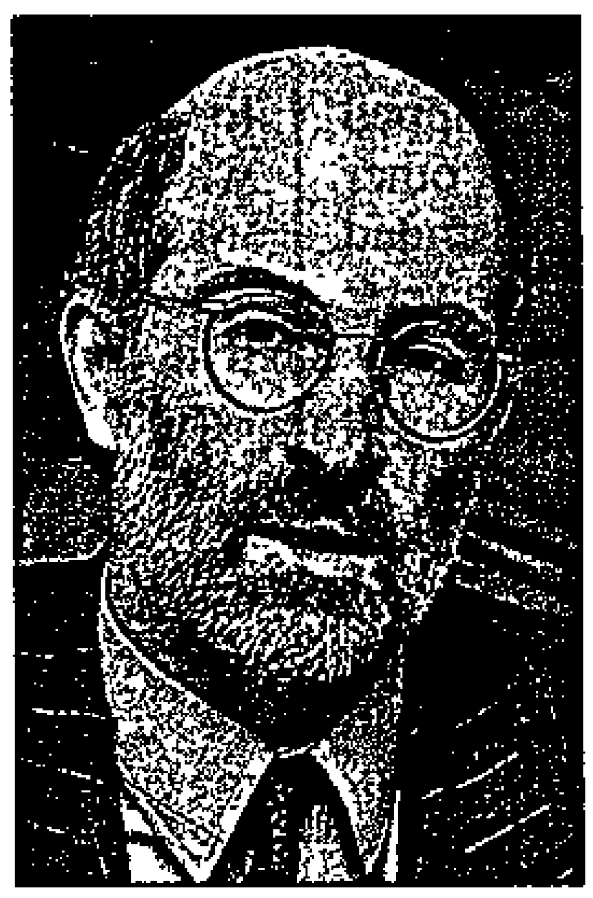
FM 19/8/94

Still value to be had

The shares are expensive but they deserve to be

58

RMB Holdings chairman G T Ferreira is wearing a tie with a gambling motif: playing cards and dice against a yellow background. It's probably not the sort of tie one would see on the director of a commercial bank, and it invites playful allusions to the fast world of merchant banking: is this what sometimes happens in the dealing room at Rand Merchant Bank? Or does the tie represent the possibility that the bank will put together a consortium to finance a casino, as reported late last year?



Ferreira

"I shouldn't have worn this tie today," Ferreira says. It's all right — Rand Merchant Bank (RMB) does not have a gambling image in the corporate world, and there's been little gamble for investors in ultimate parent RMB Holdings.

Since listing in November 1992, the share price has trebled. In a sector dominated by Liberty, RMB Holdings is now one of the top-rated shares, on a p:e ratio of 32,5 and dividend yield of 1,2%.

One of the few shares with a higher p:e rating, 35,7, is subsidiary Momentum Life, partly because of its strong turnaround since it was taken over by RMB Holdings two years ago and because some analysts believe the reserves in its life fund and its investments are undervalued. Also, Momentum owns the merchant bank, which must have a strong influence on its p:e.

The high ratings also indicate investors are expecting a lot and they shouldn't be disappointed when full-year results are published next month. Analysts are expecting RMB Holdings to increase EPS by between 36%-42%, Momentum by 30%-36%. Growth of RMB's taxed profit is unlikely to be below the 22% compound average of the past nine years.

Just two years ago, RMB Holdings consisted of a merchant bank and some associated investments. Ferreira says the bank was well placed in mature markets; the group needed to diversify.

Assurance was the first foray into the broader financial services industry and Momentum presented the opportunity, not only for the life industry but also property and asset management. Specialised health insurance followed.

Big deals continued: Momentum acquired joint control of short-term insurer Aegis with NBS; then the 20% share swap between RMB Holdings and NBS opened the way into retail banking. Synergy between the two is still being developed, though RMB Holdings is already making use of NBS's branch network. The enlarged client base offers benefits to both.

The next big thrust will probably be offshore, with RMB Holdings using subsidiary Australian Gilt Holdings to try and tap world financial markets, particularly in the East. Acquisitions have given RMB Holdings the muscle to move abroad, though a foreign partner is the favoured strategy.

RMB Holdings was expected to be a strong performer when it listed, but the share price performance over just 20 months has been remarkable.

When the group went for its listing, the usual reasons were given. But the key reason not stated in the pre-listing document was that Sage Group, then a 26% shareholder, was pushing for RMB Holdings to be floated.

"They didn't insist, but they argued that if we were quoted it would realise the value of their investment in us," Ferreira says. Also, with the acquisition of Momentum Life, RMB Holdings became open to influence from the market, placed as the holding company of a listed assurer which, in turn, had RMB as a full subsidiary.

RMB Holdings also didn't have much choice but to go for its present structure. When it bought control of Momentum from Rembrandt and Absa, it didn't have enough funds for the R181m price — the answer was to sell RMB to Momentum, 40% of the bank going to policyholders through the life fund, for R154m cash, and the remaining 60% to shareholders, settled by Momentum shares.

This has interesting, potentially valuable, implications for shareholders. "You can't dabble with policyholders' funds for strategic investments. So their interest is kept separate in the life fund, while the shareholders' 60% is used for these investments," Ferreira says.

That gives Momentum shareholders the benefit of 60% of RMB and nearly half of Aegis, jointly held by Momentum and NBS, with 47,5% each. Both are carried at cost — one reason analysts think Momentum's investments are undervalued.

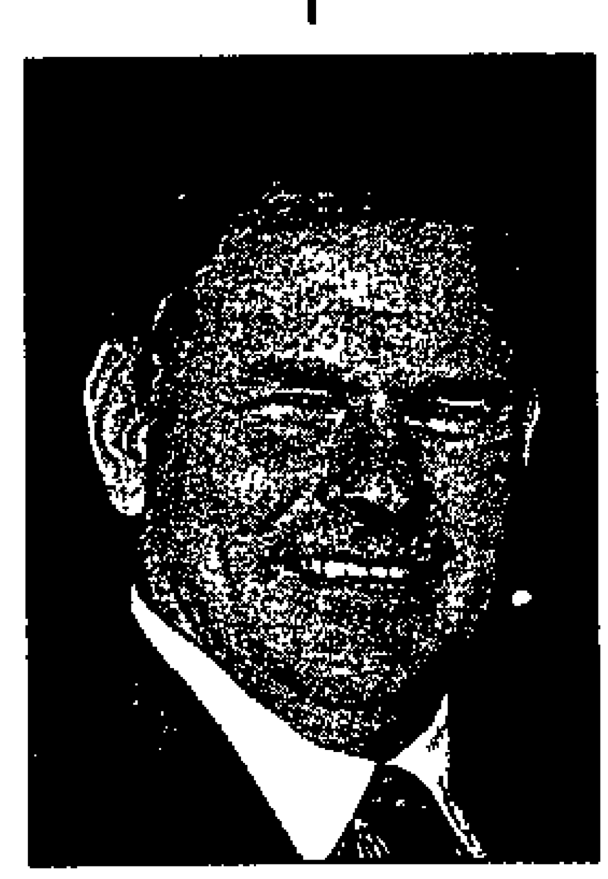
Apart from the life office, with its subsidiaries in property, asset management and health insurance, and the merchant bank, RMB Holdings holds a web of diversified interests spanning the financial services sector.

Associates Hollandia, one of the larger short-term reinsurers in SA, and recently merged Dewar Rand and Glenvaal, together one of the largest brokers, both had difficult years. Improvement is expected this year. But the real value of these holdings is strategic — they offer RMB Holdings an entry into one of the more specialised fields of the insurance industry.

Likewise, subsidiary Australian Gilt Securities (AGS), founded and developed by RMB MD Paul Harris in the late Eighties, is an important entrance point to international markets, in particular the East. This is where RMB Holdings will probably concentrate its international strategy. AGS has also increased profits over the past three years and is expected to post earnings growth again this year.

Locally, the most important investment is with NBS Holdings, after last year's 20% share swap between the Durban-based group and RMB Holdings. Again the alliance was precipitated by Sage Holdings. It needed capital to buy back its insurance interests from Absa, and was selling "non-core" investments. Barlows, which had a similar percentage holding in NBS, began its unbundling. "The timing was fortuitous, but we had a good relationship with NBS and discussions had been held on a more formal relationship," Ferreira says.

NBS has been one of the strongest performing shares in the banking sector and attracts top ratings, higher than the big four commercial banks, due to its superior growth. But RMB Holdings' 20%-interest in NBS also connects with the bank's vast shareholding network into the financial services industry, including Norwich Life, French Bank, Circle Risk Management, as well as NBS's own assurance, short-term insurance and property interests.



Dippenaar

Combined networks of the RMB Holdings and NBS alliance must stretch to every corner of the financial industry in SA. It reaches Australia and, indirectly, Europe through NBS's partnership with Banque Indosuez, a shareholder with NBS in French Bank.

Ferreira says the relationship is working well. RMB Holdings originally aimed its diversification into insurance, but when the opportunity came along it saw NBS as a good way to get into retail banking.

1918 94

The marriage offers benefits to both groups for referral of business and cross selling.

That's the top part of the structure. At the bottom lies RMB, the merchant bank Ferreira calls the "creative core . . . it's the seedbed for new ideas and opportunities for the bank, the group and our clients."

Founded by Johann Rupert in 1979, RMB has consistently grown profits over 15 years. At about the same time, Ferreira, Harris, Laurie Dippenaar (now chairman of Momentum Life and a director of RMB) and Jan Kitshoff (on the board of RMB and RMB Holdings) founded Rand Consolidated Investments.

In 1985, the two companies merged — since then, the average compound growth rate in taxed profts after contingency reserve transfers has been 22%. In financial 1993 taxed profits grew 24% to R44m — at the interim they were up 22% to R18,5m. RMB makes a lot of money, but exactly how has been difficult to analyse. The listing raised hopes that RMB's disclosure would improve. But disclosure was not much better.

Harris contends enough financial information is disclosed. "All we haven't shown is what we've tucked away," he says. Analysts would love to get their calculators around that, but there's little chance. They would also like to know bad debt provisions and capital adequacy ratios, which will be provided in the next annual report, Harris says.

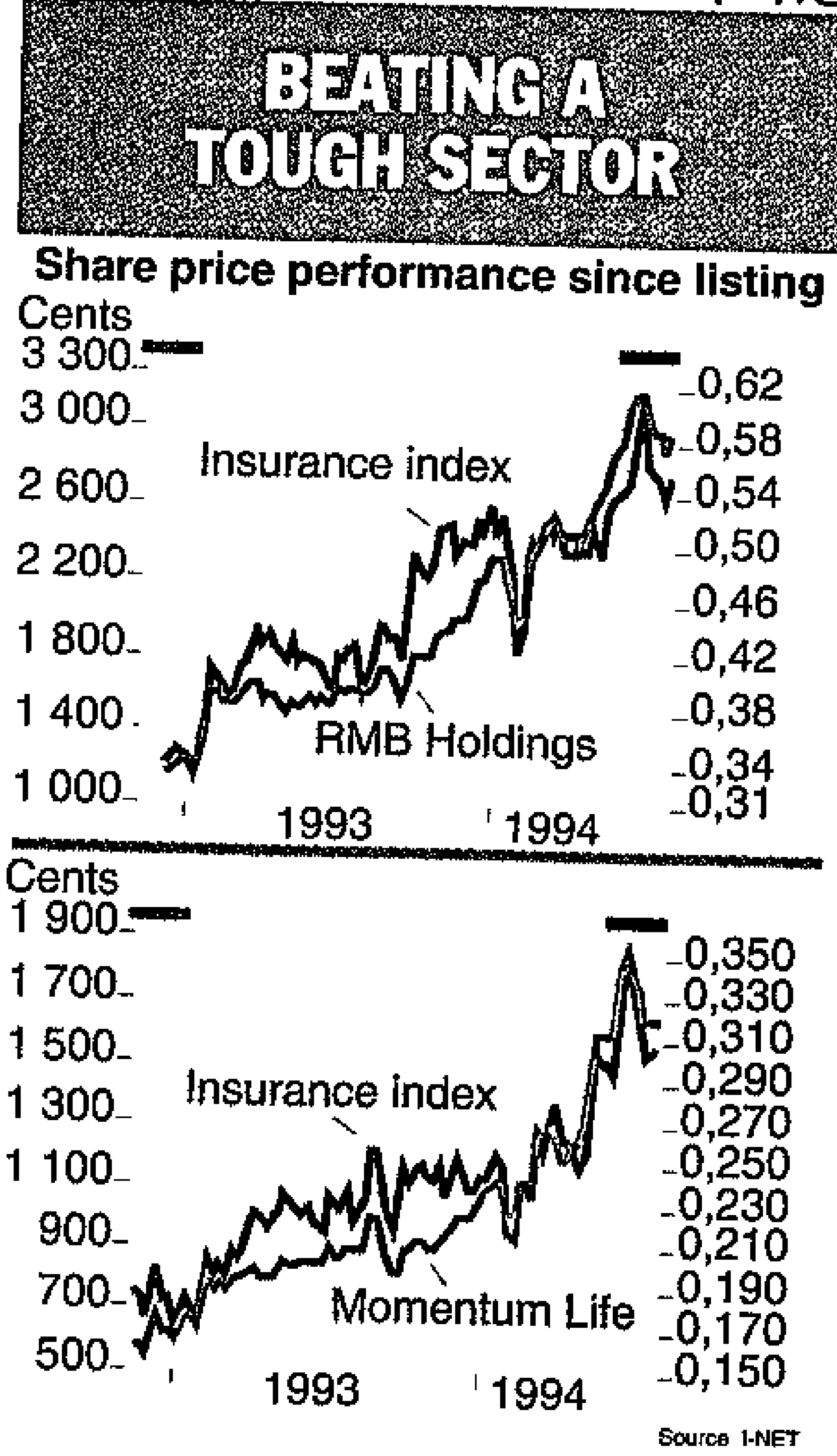
RMB is not the biggest merchant bank in terms of net income. Leading the field is probably Investec, declaring a taxed profit of R73,2m in its latest annual report. FirstCorp, UAL and SMB all made bigger taxed profits than RMB's R44m in 1993.

However Harris believes it's RMB's consistent, sustained profits over the long term which are important. Return on equity has been consistently high, between 28%-30% over five years.

Harris also emphasises strong risk management and credit criteria as strengths. "We are re-engineering our back office, keeping them up to date with developments in technology. Too often a bank does well, only to lose money on the administrative side," he says.

RMB is also looking towards the future, placing itself to benefit from new developments in SA and abroad. Harris believes a business is at its greatest risk of complacency when it is successful. "Our people are vital, so we emphasise hiring the best talent, and training."

A recent example of recruiting talent for the future is Neil Morrison (*People* August 12), formerly the ANC's adviser on financial services and now working for RMB. Morrison has a useful high profile overseas, but as a solid leftwinger he could prove particularly useful to the bank with his knowledge of government's Reconstruction & Development Programme, parts of which he drafted.



Harris also says the strong emphasis on training will fit in well with RMB's affirmative action programme. "We want to try and get away from the headhunting that goes on in this industry. We can develop our own home-grown talent."

Positioning itself for the future is important, but one would like to know how RMB makes its money now. It's known that banking, the traditional treasury activities, is the bread and butter that pays the overheads. It's also suspected that RMB's trading operations, in which it plays a dominant role in the futures market, had a good year.

(58)

Harris says that on average, over five or more years, RMB gets a roughly equal contribution from banking, trading and structured finance, though the performance of departments within those three divisions tends to fluctuate.

Dippenaar, who has run Momentum Life since the takeover, is more forthcoming with his figures. Of Momentum's R53m attributable income at year-end in June last year, R26m came from RMB (that is, the 60% of taxed profits which go to shareholders), R24m was contributed by life assurance, R4m by the joint holding (with NBS) in Aegis, R1,5m from RMB Asset Management, reduced to R53m by losses of about R2,5m from RMB Properties and Momentum Health.

Dippenaar cautions, however, that the earnings mix could look different when results are released next month. "RMB Asset Management will probably have the biggest jump in profits. Funds under management by the property company have increased, and it's growing, particularly on the property development side."

When RMB Holdings took over Momentum the assurer was still getting over the acquisition of the far larger Lifegro in 1989. Dippenaar says, perhaps generously, that most of the post-merger indigestion was over, but he took charge of a group with administration problems, a lack of focus and strategic planning, and with indifferent returns on investment.

What RMB Holdings did in effect was to break the company up, separating the underperformers, like property and merging them with their own interests. Dippenaar also introduced the profit centre philosophy which has worked so well for the merchant bank and narrowed its focus mainly to the A-income group. "We are now selling twice as many policies with 20% fewer people," he says. As soon as the market saw evidence of a turnaround — first interims after the merger recorded EPS growth of 21% — the share price climbed to new highs (see graph). RMB clearly influences its ratings, but Momentum now stands on a lower yield and higher p:e than a stalwart like Southern Life.

The emphasis is now overseas, where RMB Holdings is looking for possible new sources of business. It recently appointed Michael Brogan, a respected banker who has worked in Australia and Hong Kong, to head AGS and to be responsible for international planning for RMB Holdings. That points towards Asia and the Pacific Rim, regions in which Brogan has extensive experience.

Says Ferreira: "We are looking overseas. But if you want to do business internationally, where the competition is intense, it's no good sending in your B-team. We need our A-team here in SA, so it might be most sensible to start up trading in partnership with an international group."

Next month's results should reflect the full benefits of earlier acquisitions and alliances. Momentum will show a full year of results from Aegis, rather than the three months in financial 1993, and RMB Holdings will include the first year of attributable earnings from NBS.

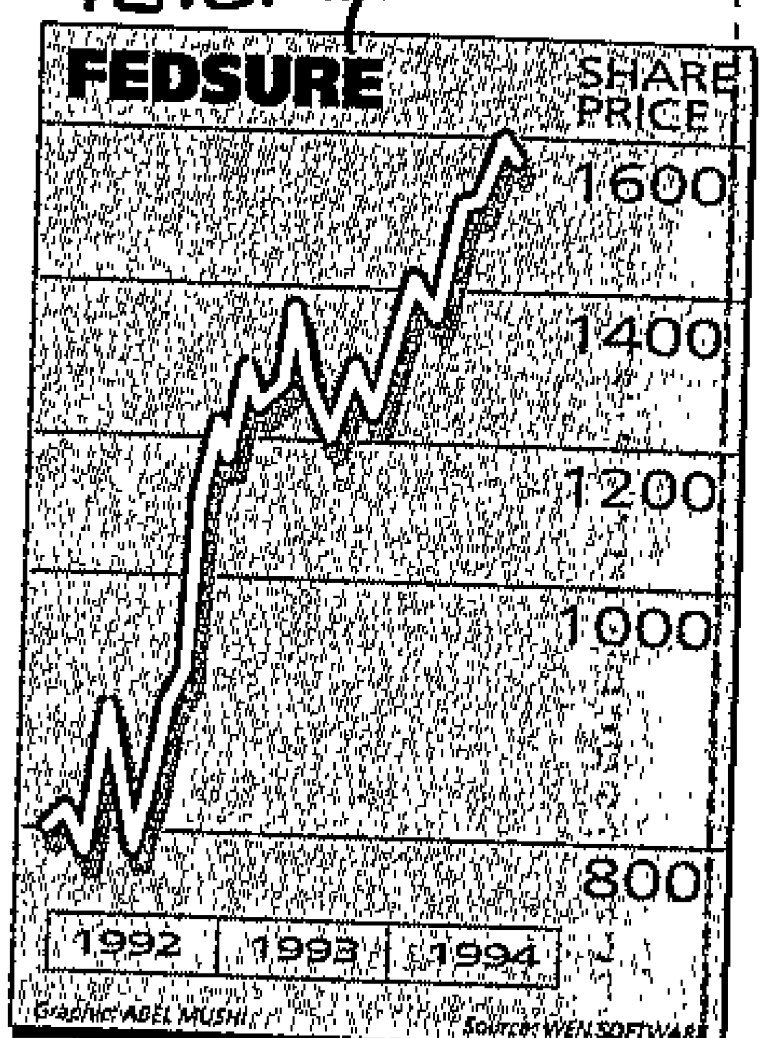
But apart from results, the market also attaches much importance to the less tangible quality of managment. So far, the market has not reacted to news that Ferreira is withdrawing from the daily running of the business. He plans to spend more time on his farm at Stellenbosch — more, one suspects, to get away from Johannesburg than the business — but says he will be at the Sandton head office at least one day a week. He adds that he has been able to phase himself out, with Dippenaar taking over the running of Momentum and Harris replacing him at the helm of RMB.

Both shares are expensive, but it's felt there is still considerable value. Better disclosure would make that value more apparent, though investors seem happy to support the shares. The coming results should vindicate their views. *Shaun Harris*

New business boosts Fedsure

Star 12/8/94

BY CHARLOTTE MATHEWS



A combination of growth in premium income and a good performance from all its investments boosted financial services group Fedsure's total funds by one-third to R9,7 billion in the six months to June 1994 compared with the same period in 1993.

Attributable profits grew by a quarter to R30,6 million on which earnings a share were 35,7c (29,6c).

An interim dividend of 22,25c a share, one-fifth better than in the first half of 1993, was declared.

It is the firm's policy to declare an interim dividend equal to half the full dividend for the preceding year because an actuarial valuation is not done mid-year.

Fedsure is the holding company of Fedlife, which has interests in Investec, Saambou, Fidelity, Unibank and short-term insurance through a 70 percent-held subsidiary, Fedgen.

58

Fedlife's gross premium income was 36,1 percent higher than last year, including a 21 percent rise in recurring premium income and a 74 percent rise in more volatile single premium income. Premium income growth was well above the 10 percent rise in expenses in the same period.

Fedsure CE Arnold Basserabie said in an interview the surge in single premium income arose from a better spread of business from the investing and insuring public, the group's competitive rates for annuity business and the introduction of new products.

The credit life and funeral businesses taken over from Saflife last year for R60 million had performed extremely well, Basserabie said. The group recently opened an office in Namibia, blending its existing business with the operations taken over.

Basserabie recently visited the US and UK where he spoke to analysts and potential investors. Although actual foreign investment flows into SA remained small, there was considerable interest in the possibilities of investing in SA companies, Basserabie said.

The group already has a few foreign shareholders and later this month will be launching an American Depositary Receipt (ADR) programme, promoted by the Bank of New York, in the US. This will facilitate US investors buying into Fedsure.

The advantages of an ADR programme are that it will spread Fedsure's shareholder base more widely and raise the profile of the company among investors and institutions, he said.

Fedsure shares were trading at R15,75 yesterday, where they offered a historical p:e of 25,2 against the insurance sector average of 20,4.

The shares are slightly below their recent all-time high of R16,00 but have risen steadily over the past few years, making good returns for investors.

African Bank slides R2,9m into the red

BDay 15/8/94

ROBYN CHALMERS

AFRICAN Bank moved into the red for the year to March, posting a loss of R2,9m after abnormal items stemming largely from increased provisions for advances.

The bank posted a profit of R4,4m for the 18 months to March 1993. Directors said difficult economic conditions meant borrowers had difficulty making "timeous repayments". An extensive exercise undertaken to ensure adequate provision for advances in arrears "resulted in abnormal additional year-end provisions of R6,2m".

Significant abnormal costs were incurred converting to a new computer system. The bank posted a profit of R2,5m before abnormal items.

(58)

Group assets grew 49% to R625,7m and the advances book increased 47%, primarily in the form of home loans. The directors were confident of a return to profit.

Sechold pays for derivatives foray

BDay 16/8/94

ROBYN CHALMERS

SECHOLD made a R193,8m attributable loss for the year to June, against last year's R23,6m profit, as the full effect of last year's disastrous foray into the derivatives market — which ultimately cost the banking group its independence — fed through to the bottom line.

The R198m loss incurred by the futures trading operation and a R19,9m bad debt written off against a loan marred an otherwise solid performance by the Investec-owned group's core trading subsidiaries.

The attributable loss was equivalent to a loss of 344,4c (100,3c profit) a share and no dividend was declared. (58)

Sechold chairman Stephen Koseff said the group's interim results — which disclosed a R107,9m loss on its futures positions — differed from the year end as account was taken of the tax benefit arising from the loss.

"The directors consider it to be more prudent to recognise the tax benefit of this loss only when realised. Accordingly, the deferred tax asset previously raised has been reversed," he said. No further adjustments or write-offs were expected.

Good first half trading conditions for subsidiaries NDH Bank, District Securities Bank, Securities Investment Bank and Secfin Bank contributed to a 49% hike in the group's operating profit to R119,5m.

Bad and doubtful debts absorbed R6,5m (R4m), and after taking other income and administration expenses into account, pretax profit almost doubled to R52m.

The write back of deferred tax left a tax bill of R2,4m, and higher preference dividends of R20,3m on newly issued preference shares led to profit before abnormal items of R29,2m (R24,6m).

The balance sheet was substantially boosted by factors including the injection of R125m by Investec when it acquired Sechold earlier this year and a rights issue in April which raised R123m. The balance sheet also benefited from a R160m increase in the group's preference share capital and the acquisition of minority interests in three banking subsidiaries. Sechold acquired the management-held minority interests in exchange for Sechold shares.

Ordinary shareholders funds rose to R224,4m (R83m) and total shareholders funds increased threefold to R424,4m (R143,3m). Koseff said as the bad and doubtful debts had now been fully written off and the four banks were trading well, a resumption of growth in earnings and dividends could be expected this year.

Africa Bank on track despite loss

Star

BY THABO LESHILO

Conversion to new computers and provision for doubtful advances saw African Bank post a loss of R2,9 million for the year ended March 31.

The bank, however, continued its impressive growth in keeping with its five-year strategic plan: Assets increased by an impressive 49 percent to R625,7 million.

The plan includes issuing its first cheque book as well as ATM and credit cards, becoming a member of the Clearing Bank's Association and seeking a listing. 16/8/94

The directors say the advances book increased 47 percent, mainly in home loans, which offer better collateral security than other lendings.

This year profit before abnormal items fell 14 percent to R2,5 million.

"Difficult socio-political and economic conditions persisted through the year and impaired the ability of some borrowers to make timeous repayments.

"An extensive exercise was undertaken to ensure that advances in arrear were adequately provided for".

58

Sechold back in the black

Star 16/8/1994

BY DEREK TOMMEY

An injection of R408 million has put banking group Sechold in the black again, after suffering a R199,7 million loss in the futures market.

The new capital boosted ordinary shareholders' funds at June 30 to R224,4 million (1993, R82,9 million) and total shareholders funds to R424,4 million (R143,3 million).

Chairman Stephen Koseff says Sechold has been restructured, leaving the four banking subsidiaries and Securities Equities to focus entirely on the securities markets.

The banks contributed to a 49 percent rise in operating profit to R119,5 million. Attributable profit before abnormal losses was R29,2 million.

(58)

Banks agree to provide credit to small farmers

TIM COHEN

CAPE TOWN — A presidential project to facilitate credit from commercial banks to small and micro farmers will be established, following successful negotiations between leading private sector banks and the Land Affairs Department. B/Day

Land Affairs spokesman Hellmuth Schlenther confirmed yesterday that parties involved in the "rural finance inquiry" had reached agreement on boosting loans to these farmers. 16/8/94

The decision follows months of discussion between representatives from the Department, commercial banks and rural organisations.

The inquiry was established to investigate ways of facilitating access to financial services for the poorest section of the rural population.

The project could involve changes to the mission statement of the Land Bank and changes to the methods commercial banks use in determining credit ratings for small farmers. 58

Apart from representatives from several banks, the National Land Commission, the Land Bank and the departments of Agriculture and Housing were included in the discussions.

Meanwhile, Land Affairs Minister Derek Hanekom said yesterday he had met representatives of tenant labourers and organised agriculture to hear their views on labour tenancy.

Hanekom said he was setting up a process to bring together all the parties involved to address the immediate problems facing farmers and labour tenants.

"I call on all parties to exercise restraint pending the envisaged process," he said.

Protea takes a mugging from crime

INSURANCE group Protea Assurance (Prosure) took a battering from escalating crime and fire losses to report an attributable loss of R3,35m for the six months to June, compared with a profit of R12,44m in the first half of last year. BiDay

The group, reporting for the first time since its restructuring in January, showed a 46% rise in net written premium income to R290,96m.

Prosure managed to declare an unchanged interim dividend of 30c, despite losses a share of 43c, compared with earnings a share of 158c at the same time last year. 17/8/94

SAMANTHA SHARPE

While short-term operations posted an underwriting loss of R15,9m compared with a deficit last year of R0,21m, the group's life company showed a 70% increase in net premium income to R69,5m. (58)

Protea Assurance MD Andrew Tainton said the deterioration in the short-term underwriting results was the result of escalating crime which affected motor, domestic and commercial business adversely.

An unusually large number of fires had also contributed to the underwriting loss, he said.

But "over the past six months we have seen an impressive increase in life single-premium business as well as an increase of 29% in recurring premium income," he said.

"This represents one of the highest rates in the industry and will ensure sustainable growth in the next trading period," Tainton said.

Prospects for improvement in the short term were doubtful, although he hoped the expected economic recovery would help reduce the current crime wave.

Investment performance showed a 35,8% growth in net asset value to R56,61 a share, Tainton said.

Record trading levels boost Liberty profits

CT 18/8/94 (58)

From SAMANTHA SHARPE

JOHANNESBURG. — Record levels of new business from life operations and buoyant trading conditions in the UK helped boost Liberty Life's attributable earnings 27,1% to R225m for the six months to June.

New business written by Liberty Life and wholly owned subsidiary Charter Life reported a record 64% increase to R1,7bn, with new annualised recurring premium income up 28% to R441m.

The half-yearly performance led to earnings of 96c a share compared with last year's 77,3c, and the declaration of a 20% increase in its interim cash dividend of 96c.

But terms of an award of capitalisation shares in place of the cash dividend would be announced early next month.

Liberty Life MD Alan Romanis said the wider Liberty Life group had been involved in an extensive capital raising exercise, resulting in fresh capital of about R5bn in the last year. The flotation of 80% Liberty Life-owned Libsil, involvement with TransAtlantic Holdings and flotation of UK-based Capital Shopping Centres had contributed R3,4bn to this.

The rest was made up by the recent issue of $360m convertible bonds and scrip dividends after last year's interims and dividends.

Romanis said the flotation of Libsil would provide a "bullish flow of funds" back into Liberty Life, augmented by the impact of scrip dividends issued.

Of the $360m bond issue about 20% had been ploughed back into SA, with the rest held offshore for the further use of Liberty Life in SA or for investment overseas.

Parent company Liberty Holdings reported a 21,3% increase in attributable profits to R137,9m, with earnings a share up 20,1% to 298,4c.

While an interim dividend of 264c was declared, Romanis said shareholders would be offered capitalisation shares in place of the cash dividend. The terms of the issue would be made known later.

Libsil reported income after tax of R72,7m and earnings a share of 13c. But the company's net asset value a share fell to 1 252c from 1 279c, following the general downturn in SA's share market, he said.

IDU projects set to boost development

CT 18/8/94 (58)

By ARI JACOBSON

THE Life Offices' newly created Investment Development Unit (IDU), with about five trillion in managed assets, would provide projects that would develop the community, said Southern Life's chairman Neal Chapman at its AGM yesterday.

Chapman was commenting after an interjection by SA Shareholders' Association chairman Issy Goldberg, who called for the immediate employment of R4bn to R5bn from the life office to be mobilised for housing "before it's too late to save the country", he stressed.

Chapman said that "extensive and ongoing discussions" were taking place between the IDU and community/business leaders.

However he said that there were no projects at a stage such that "they were crisped up and ready to go".

However he did say that the IDU was contemplating taking up a tranche in an upcoming Eskom bond issue.

Chapman said that the group was performing in line with internal targets for the first four months of the financial year to March 1995 and added that all divisions were performing well.

After the AGM Jan Calitz pointed out that the Southern Life of tomorrow would be aimed at empowering minority groups rather than providing token employment.

He pointed out that already 50% of support staff belonged to the black, coloured or Asian groups.

He said that although only 11% of Southern managers fell into those colour groups there is a full commitment to continue this process of assimilation.

Calitz added that First Link launched recently, as a combined effort between First National Bank, Southern Life and First Bowring, would be the springboard to take financial products into the lower income arena.

Thebe buys stake in Citizen Bank

JOHANNESBURG. — Thebe Investment Corporation, together with Firstcorp Merchant Bank, has acquired a controlling shareholding in JSE-listed Citizen Bank, which has successfully focussed on mortgage bond housing finance in the Eastern Cape.

A notice published yesterday states that subject to the necessary approvals, Thebe (80%) and Firstcorp Merchant Bank (20%) would together acquire approximately six million shares for a consideration of 310c per share, for R18,7m constituting 48% of the issued share capital of Citizen Bank Holdings Ltd.

(58) CT 18/8/94

An offer of 325c per share is to be made to minority shareholders. Thebe MD Vusi Khanyile said the acquisition was a significant step toward achieving Thebe's vision of black participation in mainstream business.

"Citizen Bank has an excellent core business and a clear niche in the Eastern Cape. Its management and its systems are sound," he said.

"The acquisition will allow us to develop the bank further, geographically and in terms of the scope of services which it offers however, the provision of housing finance will remain an important area of activity.

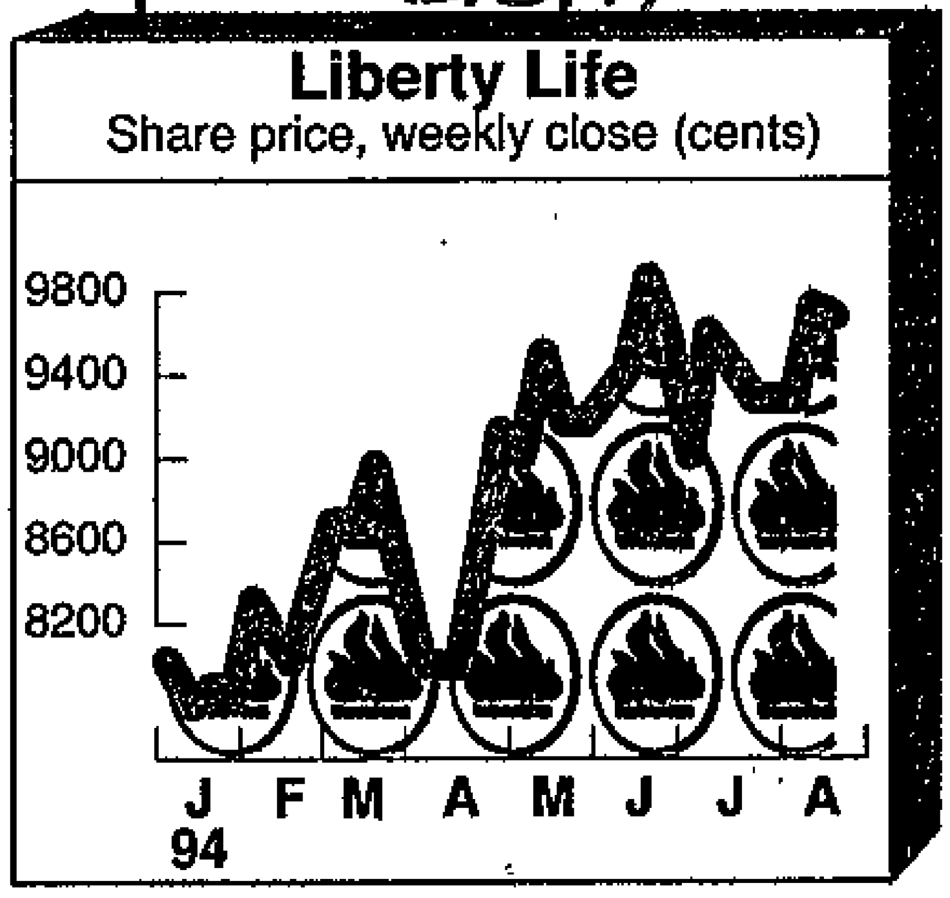
Citizen Bank chief executive Edgar van Deventer welcomed the acquisition, which will increase net asset value by some 59%, and earnings by 16%.

"The acquisition will give us a greater freedom to pursue our objective of achieving a reputable South African-owned bank to serve all the people of the country," he said.

UK operations boost Liberty Life

B/Day 18/8/94

SAMANTHA SHARPE



RECORD levels of new business from life operations and buoyant trading conditions in the UK helped boost Liberty Life's attributable earnings 27,1% to R225m for the six months to June.

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The half-yearly performance led to earnings of 96c a share, compared with last year's 77,3c, and the declaration of a 20% increase in its interim cash dividend of 96c.

But terms of an award of capitalisation shares in place of the cash dividend would be announced early next month.

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The rest was made up by the issue of $360m convertible bonds and scrip divi-

□ To Page 2

Liberty Life

B/Day 18/8/94

□ From Page 1

dends after last year's interims and dividends.

Romanis said the flotation of Libsil would provide a "bullish flow of funds" back into Liberty Life, augmented by the impact of scrip dividends issued.

Of the $360m bond issue about 20% had been ploughed back into SA, with the rest held offshore for the further use of Liberty Life in SA or for investment overseas.

He said Liberty had nothing on the cards regarding ventures in the US.

Parent company Liberty Holdings reported a 21,3% increase in attributable profits to R137,9m, with earnings a share up 20,1% to 298,4c.

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Libsil reported income after tax of R72,7m and earnings a share of 13c. But the company's net asset value a share fell to 1 252c (1 279c), following the general downturn in SA's share market, he said.

The group's First International Trust showed an increase in attributable income of 31,6% to R35,8m, boosted by the performance of TransAtlantic Holdings.

More fine results from Liberty Life

Star 18/8/94

The Liberty Life Group has once again produced a sparkling set of results for the six months to June.

On the back of record levels of new business written by its life operations and strong performances from its principal overseas investments, all group companies recorded handsome earnings gains.

Liberty Life's net taxed surplus increased by 24,2 percent to 96c a share. Total net taxed surplus was 27,1 percent up at R225 million. (58)

The interim cash dividend is 96c — 20 percent higher than last year's halfway payout.

Terms of an award of capitalisation shares (to both Liberty Life and Liberty Holdings shareholders) in lieu of the cash dividend will be announced early next month

Liberty Life's total asets grew from R86,6 billion on December 31 last year to R94,8 billion on June 30 1994.

Liberty Holdings' earnings were up 20,1 percent to 298,4c a share. Profit attributable to ordinary shareholders rose 21,3 percent to R137,9 million.

The interim cash dividend is 264c — 20 percent ahead of last year's.

Libsil's net taxed income inclusive of equity-accounted earnings totalled 38,5c a share — 13c if equity-accounted earnings are excluded. The interim dividend is 13c. Net asset value on June 30 was 1252c a share (1279c on December 31 1993).

FIT's earnings rose 31,1 percent to 19,8c a share, from which an interim dividend of 8c (7c) has been declared, mainly as a result of an excellent half-year for TransAtlantic Holdings Plc, in which the group has a 57,4 percent interest.

Crime wave impacts on SA Eagle

Star 18/8/94

SA Eagle, in company with other short-term insurers, has suffered from the rampant wave of crime sweeping the country.

Thus, in the half year to June, the group suffered a substantial underwriting loss of R43,1 million (profit of R3,7 million in the same period last year).

(58)

Investment income (which, however, included a net surplus on realisation of investments totalling R43,6 million) was R83,6 million, thereby enabling SA Eagle to generate attributable net income of R44,5 million (R31,6 million).

Earnings were 333,4c (224,8c) a share, from which an unchanged interim of 80c has been declared — a result, the directors say, of overall financial strength and the higher attributable income.

"The final dividend will be influenced by the results in the second half."

Net asset value was 8800,7c (6824,4c) a share and the solvency margin 107 (108,9) percent.

NP slams ANC bank proposals

CT 26/7/94

JOHANNESBURG. — Comments by Housing Minister Mr Joe Slovo that banks might be compelled to finance low-cost housing indicated that the African National Congress had not shed its socialist principles, the National Party said in a statement yesterday. (58)

Mr Slovo warned leading banking institutions at the weekend that unless their reluctance to grant home loans to lower income groups changed, legislation might have to be be introduced to twist their arms. — Sapa

Levy exemption call for retirees

(58) CT 26/7/94

By AUDREY D'ANGELO
Business Editor

SANLAM has appealed to the government not to take the 5% transitional levy from lump sums paid out from retirement funds, on the grounds that it would be unfair to those who retire in the year the one-off levy is made.

In a letter to the Minister of Finance, Derek Keys, Sanlam group benefits GM Francois Marais points out that "lump sums arising from retirement funds accrue in respect of many years of previous service — they are not earned in the year in which they are paid.

"The transition levy is a one-off levy on all income above a certain level earned during the one tax year (spread over two tax years for practical purposes).

"Lump sums arising from retirement funds clearly do not fall into this category as they are in fact income earned during a previous period but with payment deferred to the current tax year.

"It would be most inequitable to apply the levy only to the lump sums of those persons unfortunate enough to retire in this tax year while those who happen to retire a year earlier or later will not be taxed."

Marais also points out that the levy applies only to taxable income above R50 000 a year — or R175 000 for a married woman. "People earning less than these amounts are obviously felt not to be in a position to contribute to the levy.

"However, applying the levy to the taxable portion of lump sums arising from retirement funds will mean that some people with a normal income of less than R50 000 will also be required to contribute to the levy.

Contrary

"This is clearly contrary to the intention of the proposed legislation as it means that a portion of the lump sum which a low income fund member will need to support himself during his retirement wil be taxed at this higher rate."

Pointing out that lump sums paid to public servants on retirement are not taxable, Marais says applying the levy to lump sums paid to people retiring from the private sector "will only exacerbate the existing gross inequity in our taxation system."

Absa sees a growth rate of 2,5% for the current year

Star 28/7/94

■ BY CLAIRE GEBHARDT

Absa is forecasting a 2,5 percent growth rate for the economy this year.

The real gross national product (GNP) growth rate, however, could be higher, thanks to an expected further impovement in the terms of trade, says the group's quarterly economic monitor.

The terms of trade, having weakened by 13,4 percent from mid-1987 to the first quarter of 1993, have improved by 4,8 percent in the past 12 months to end-March.

"The 1994/95 Budget remains growth-stimulating, with an increasingly strong element of redistribution of income.

"For the time being the inflation rate is expected to remain at the lower levels."

Absa says the substantial declines in the net reserves of the past quarters are likely to level out and could even start rising again.

Other predictions are that both money and capital market interest rates should be more stable over the rest of the year, moving mostly sideways.

A slower decline in the external value of the rand is expected over the coming months, so that the real effective exchange rate may even rise moderately.

58

Focusing on the balance of payments situation, Absa says the seasonally adjusted surplus on current account deteriorated from R10,6 billion in the second quarter of 1993 to a mere R2,3 billion in the first quarter of this year.

An increase in the import bill of almost R10 billion contributed to this, it says.

"The volume of imports swelled by 8,1 percent over the four quarters to the first quarter of this year, while export volumes, gold included, rose by 4,2 percent.

"Export volumes, excluding gold, recorded a 10 percent increase."

Absa notes that the first quarter saw a further net outflow of long-term funds of R1,7 billion caused by a large payment under the debt-standstill agreement.

A net inflow of short-term capital of R572 million was recorded in the same period.

The net gold and foreign exchange reserves declined further — by R940 million in the first quarter.

This was considerably less than the large falls of R2,9 billion and R10,3 billion of the third and fourth quarters of 1993, it says.

"The effective exchange rate of the rand deteriorated by 8,4 percent in the first five months of this year."

This follows a decrease of 8,6 percent in 1993.

"The result is a 6,4 percent weakening in the real effective exchange rate of the rand over the 15 months to March 1994."

Absa notes that although this offers exporters a price advantage in international markets, it will no doubt also lead to higher import prices.

Turning to government finances, Absa says the net borrowing requirement of R29,65 billion announced in the Budget amounts to 6,7 percent of GDP and exceeds that of the previous year by 13,2 percent.

"The increase in the borrowing requirement is also higher than the expected increase in the nominal GDP, estimated at 11,7 percent," it says.

Absa predicts 2,5 percent growth

(58) ARG 28/7/94

CLAIRE GEBHARDT

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SAGE GROUP FM 29/7/94

Less debt, more focus

Activities: *Assurance, financial services and property.* (58)

Control: *Mines Pension Funds 25%; Sagecor 23%; Absa 17%; Financial Securities 9%.*

Chairman: *H L Shill.*

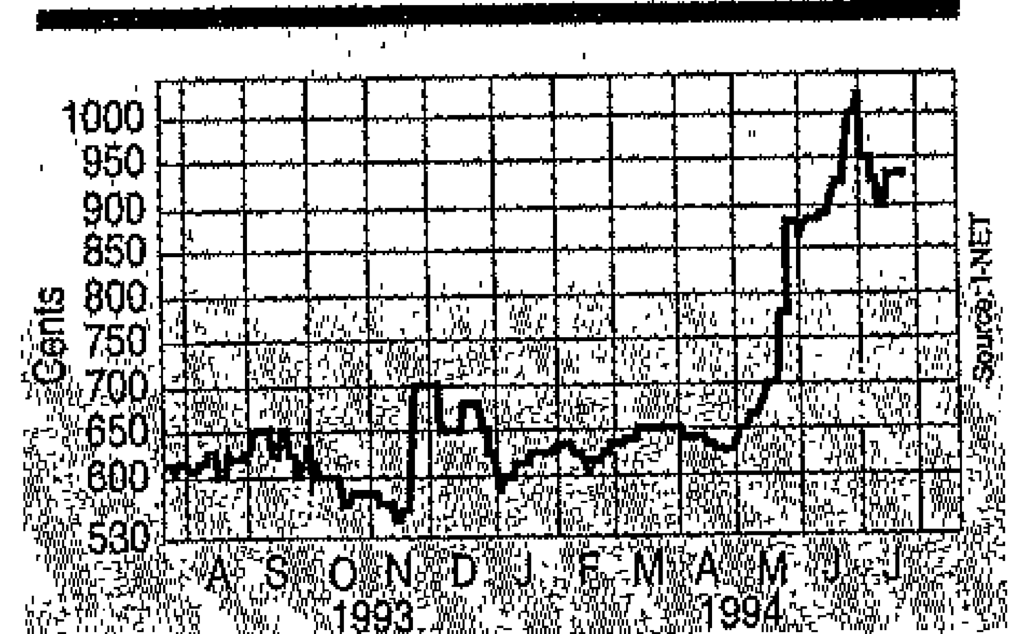
Capital structure: *86,8m ords Market capitalisation: R807,4m.*

Share market: *Price: 930c Yields: 3,8% on dividend; 7,7% on earnings; p:e ratio, 13,1, cover, 2. 12-month high, 1 025c; low, 550c Trading volume last quarter, 682 000 shares.*

Year to March 31	'91	'92	'93	'94
Total assets (Rbn)	2,56	2,96	3,52	3,87
ST debt (Rm)	1,1	133,8	154,0	43,8
LT debt (Rm)	0,1	124,2	149,5	151,5
Pre-tax profit (Rm)	75,7	78,1	90,9	104,3
Attributable profit (Rm)	42,8	43,4	50,0	61,8
Earnings (c)	†42,0	51,2	60,5	71,2
Dividends (c)	†20,8	25,0	30,0	35,0
Tangible NAV (c)	249	385	222	226

† 15-month period annualised.

Sage Group



FM 29/7/94

After his brief stint as Minister of National Housing under the old government, Louis Shill resumes chairmanship of a group in a financially stronger position then when he left just over a year ago.

The main improvements for Sage are a far more comfortable debt position and, with the earlier restructuring into a single listed group now more or less complete, the organisational structure and focus have been tidied up. After a period of flux, Sage now looks more like a group which knows where it is going.

The share price has responded, appreciating about 52% over the year, mainly since publication of preliminary results showed EPS growth of 17,7%, comfortably ahead of the forecast in the 1993 annual report.

But the increase in EPS would have been around 70% had Sage not taken a R28m extraordinary profit below the line, something the SA Institute of Chartered Accountants is trying to change to get accounting in SA more in line with overseas practices.

The item relates largely to a profit on a disposal and valuation of investments and subsidiaries. Shareholders might feel they are entitled to some of that profit. Instead, they had to settle for a dividend increase of 16,7%.

The extraordinary item helped swell retained earnings from R40,1m to R71,9m, after a R25m transfer to non-distributable reserves. (58)

Previous figures are comparable in the 1994 annual report (except for the first-time consolidated cash flow statement, where comparative figures are not given) and they reflect a strong operating performance. For the first time, Sage provides turnover figures in the notes, R830m, up 14,2% on

Sage's Shill . . . *group is financially stronger*

1993. For what it's worth, the pre-tax margin widened slightly to 12,6%, translating into a 14,7% increase in pre-tax profit to R104,3m.

Sage's balance sheet has strengthened considerably, with borrowings, including preference shares, down from R578m (when they exceeded shareholders' funds of R277,8m) to R314m, about 90% of shareholders' funds. Cash has increased from R137,2m to R151,1m.

Sage sold some useful investments to help lower debt — particularly RMB Holdings and Imperial — but executive director Bernard Nackan says this was within the strategy of focusing on core activities and disposing of non-core interests.

The major source of income remains life assurance through Sage Life Holdings,

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which contributed R58,1m to taxed profit, 66,9% of the total compared to 63,6% in 1993. (58)

Income from banking remained static at R21,7m (which is largely the investment in Absa and will probably end up in Sage Life's investment portfolio), while the property interests contributed slightly more, R7m compared to R6,2m in 1993.

Sage regained full control of Sage Life last year when it bought the outstanding interest from Amalgamated Banks of SA. Nackan says the relationship with Absa remains strong.

"They are an important investment for us (Sage has an effective interest in Absa of about 6%), Absa has a material investment in Sage, and we have excellent co-operation agreements which are working well."

Nackan says the group remains happy with Absa as an investment, particularly as they are predicting a return to real growth in profits.

He says Sage's forecast satisfactory trend in its results for the current year is on track. That could be boosted if the property interests benefit from an upturn in the property cycle.

Yet despite the strengthening of the share price, Sage is not getting the rating of comparable players in the insurance sector. Admittedly, the sector is highly rated. With Sage now looking more focused and backed by creditable results, there must be room for further rerating of the share. *Shaun Harris*

CORPORATE AFRICA/METHOLD/SANLAM Fm 29/7/94

Seeking a firm foothold

Will this exercise in black empowerment translate into good investment?

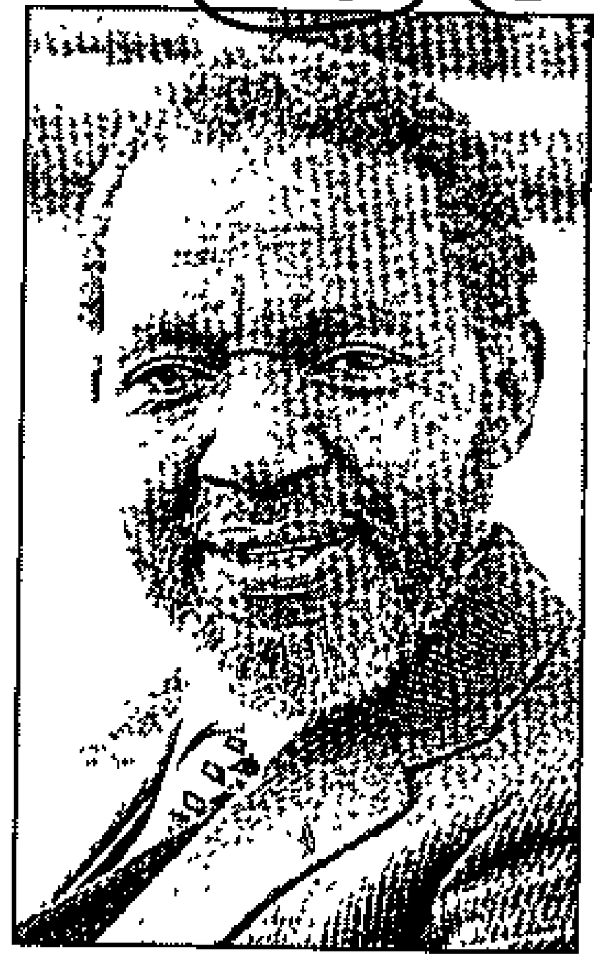
(58)

Methold and Corporate Africa chairman Nthato Motlana has firm expectations about the pace of black economic empowerment. He patently believes it should happen swiftly. Sanlam and others have gone to impressive lengths to fulfil this wish. But the route being taken raises questions: is this the best and most practical way of ensuring that blacks have a serious stake in the economy and in the free enterprise system? And are the resultant listed companies going to be attractive investments?

When the restructuring of shareholdings in the highly rated Metropolitan Life (Metlife) was announced earlier this month — in a scheme designed to place 78% of the shares in black hands and leaving the company 52% controlled by Corporate Africa — Motlana stated: "We do not want guilt offerings or handouts. At the same time, our goal is not a gradual bottom-up approach to economic advancement. We cannot wait decades to participate fully and effectively in the economic future of SA. Through New Africa Investments Ltd, we seek to gain a strong foothold in the economy."

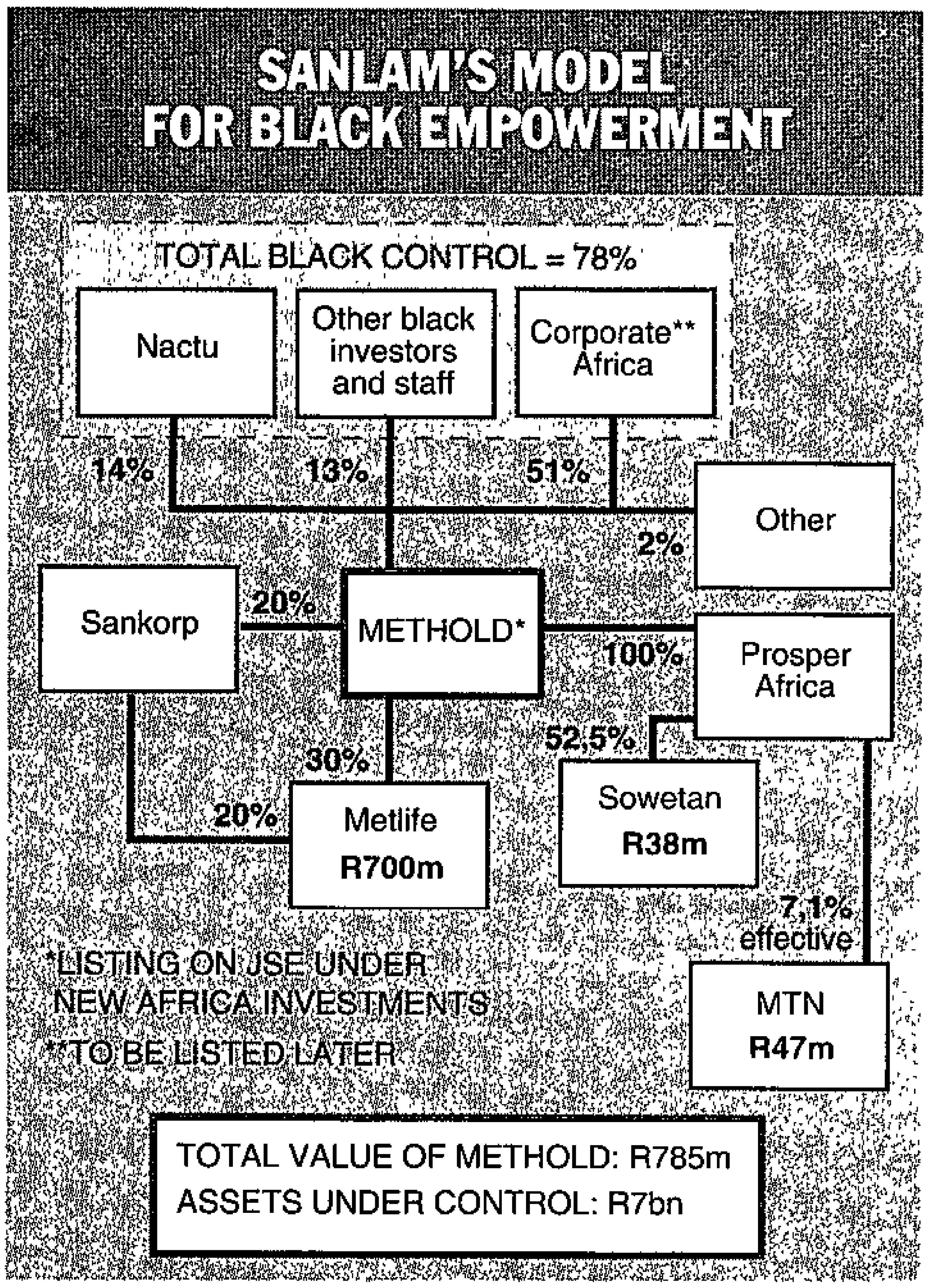
The proposed listing on the JSE of Metlife holding company Methold, whose name will be changed to New Africa Investments (NAI) next month, would represent an important step in this direction. Methold, with stakes in the *Sowetan* and cellular telephone company MTN as well as Metlife, will have a total value of R785m and control assets worth R7bn.

All this will have happened in little more than a year. In May last year, Sanlam and its unlisted subsidiary Sankorp, holding company of Sanlam's so-called strategic interests, launched Methold and announced its plan to place 10% (ultimately 30%) of its shares with black shareholders. Corporate Africa was launched in February this year, when it emerged with control of the *Sowetan* and control of 20% of MTN.



Motlana

Methold will suddenly have emerged as by far the largest black-controlled company listed on the JSE. Aside from the controlling stake held by Corporate Africa, which will itself be listed later, the new structure is intended to produce about 8 500 black shareholders in Methold.



Motlana and his colleagues have made it plain that this is just the beginning. In his NAI chairman's statement, Motlana offers further insights into his vision of the company's future: "We are working on similar investments with other large SA corporations. We do not mean to be passive investors. Our mission is to ensure black economic advancement by promoting black-led partnerships with leading businesses, to maximise black shareholder wealth and also to ensure that black entrepreneurship is fostered."

It is evident that NAI is intended to grow and diversify rapidly through acquisition. This would be a process of economic empowerment that would contrast sharply — though, perhaps, inevitably — with the approach adopted by the Afrikaners, who assiduously built up substantial stakes in the economy over decades. It was done deliberately and according to a plan; it involved the systematic mobilisation and investment of capital, with the resultant assets held across key sectors of the economy, in agriculture, industry and mining, tightly secured in ideologically acceptable Afrikaner hands.

A foundation stone in this was the formation in 1918 of the Cape-based life assurer Sanlam, which was to play a central role. In its early stages, Sanlam made slow progress; it took 18 years, until 1936, to develop annual premium income of half a million pounds, though this was doubled within each of the next five years. Different sources of capital were tapped with the launch, largely by Sanlam, of other financial institutions such as Saambou building society, the short-term insurer Santam and the investment company Bonuskor. Volkskas, later to become a commercial bank, was established by members of the Broederbond in April 1934.

Federale Volksbeleggings (FVB) was launched in the early Forties as the official investment company of the volk. Sanlam held control (the FVB directors were empowered to refuse transfer of shares) and it soon built up many direct interests in agriculture as well as numerous sectors of industry. Acquisitions certainly played an important part in the expansion of the assets Sanlam owned. If anything, these accelerated in the early Eighties, when the investment supremo Marinus Daling acquired companies such as Malbak, Messina/Nissan and Tradegro — and, later, Mobil.

But it had also made substantial investments over many years in developing and nurturing all its grassroots companies. And, more to the point, in developing a large resource of skills and entrepreneurial qualities within its own companies.

The effectiveness of the skills base was not always evident. In the case of FVB, for example, it often seemed to observers in the stock market that ownership of assets and turnover was more important than financial performance. This kind of criticism and the intrinsic fallacy in the strategy appeared to be accepted when Sanlam announced in 1990 that FVB was to be delisted; it was

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Boke mine (3% holding).

Of Billiton's other interests, nickel is high on the revenue list (7% of revenues last year), represented by the Colombian Cerro Matoso project in which the company holds 52%. Production from Colombia could be applied in SA's Columbus stainless steel project (in which Gencor holds a one-third interest) and SA's better grade nickel could be exported.

Smith

Gold production is a modest 9% (from Indonesia's Prima Lirang and Ghana's Bogosu mine) but that will be bolstered by the contribution to come from Sao Bento (Brazil, 82%). The rest of Billiton's assets are concentrated in zinc and copper, mostly at Selbaie in Canada.

While all this is of interest, it tends to divert attention from Billiton's rotten last few years, in a period of disastrous aluminium prices. In 1989 the company produced pre-tax and interest profit of $346m; by 1992 that had turned to a loss of $17m, and last year the loss was $3m. Cynics will be excused for pointing to this track record as a good reason for Shell's decision to divest, a proposition probably far off the mark.

After months of complex negotiation, Gencor's team struck an acceptable deal last November. Once that was done, certain Billiton assets which Gencor couldn't afford to finance were shed; included in the disposals are Collahuasi, the 4 600 m-high Andean copper prospect held with Falconbridge and Minorco (through copper producer Mantos Blancos); and Boddington, the biggest of the Australian gold producers. And Billiton's loss-making downstream operations have been similarly avoided. Cutting its coat according to the cash available has ensured that the final purchase price is one Gencor can afford to pay.

And, coincidentally, November marked the nadir of the aluminium price, which touched a low of $1 040/t; since then, it has climbed steadily. It means that Gilbertson has bought, as it were, into the money and at a low price: he is already showing profits on November's number.

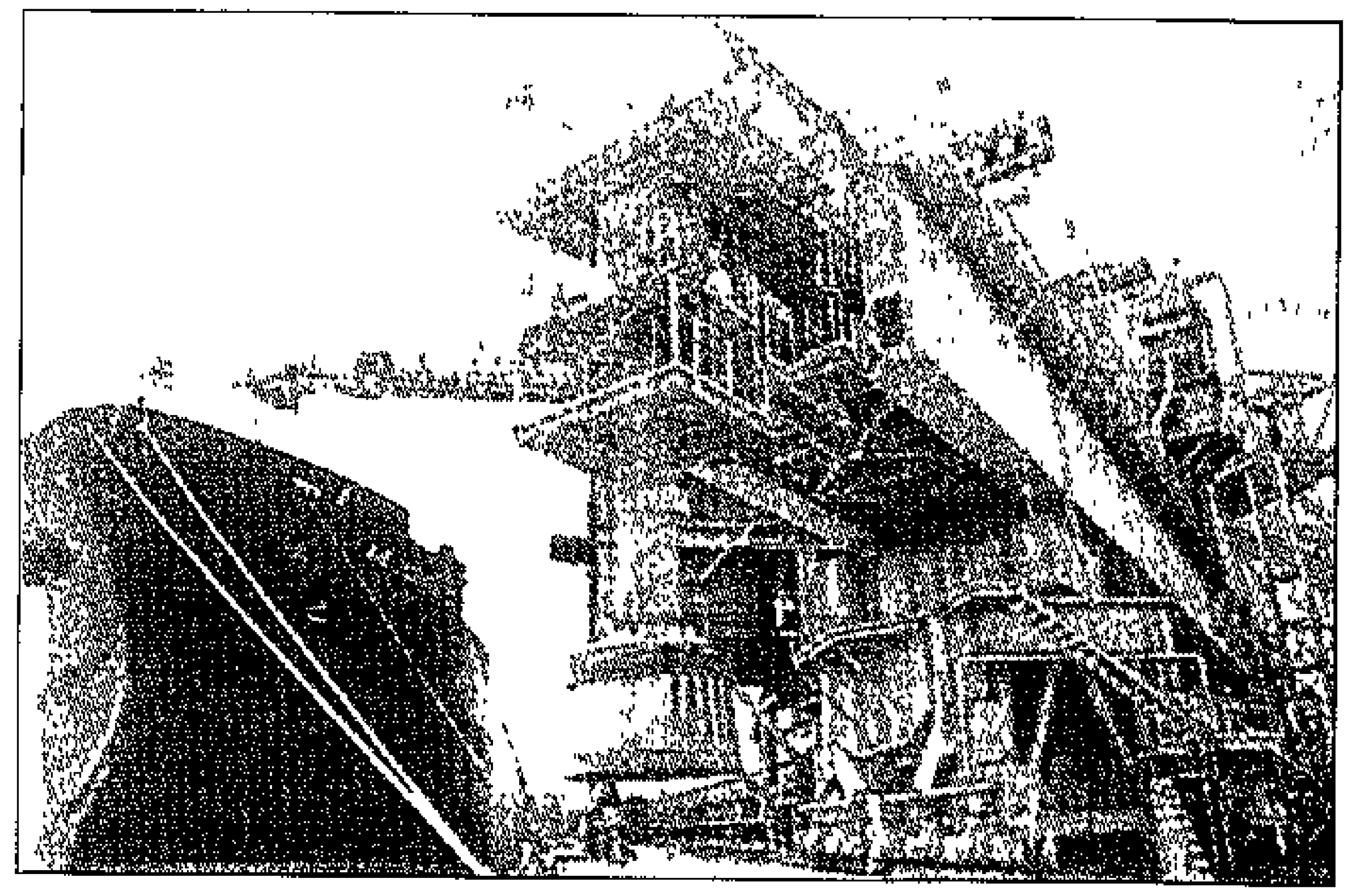
However, that detracts from an area of real concern: the likely performance of aluminium. In discussion with the *FM*, base metal industry research group Brook Hunt's Huw Roberts makes it clear that though aluminium is a metal with good demand prospects, ominous warning signals abound. Reviewing the immediate past, Roberts says the shock to the system came when the second largest producer and major user, the CIS states, "experienced a sudden, catastrophic fall in demand . . . 2 Mt of demand was wiped out, as it were, overnight when funding was slashed for the primary user, the Russian air force. Internal demand for industrial usage collapsed; for example, orders for machine building fell 45%."

These events led, despite Western trading intervention, to an unprecedented stock of aluminium overhanging world markets. These stocks now stand at 2,6 Mt, alarmingly large and certainly big enough to prompt urgent agreement among major producers (achieved on a governmental level to avoid anti-trust allegations).

A Memorandum of Understanding concluded in Brussels in October and confirmed in Ottawa resulted in co-ordinated production cuts: between October 1993 and September 1995, the intention is for Western producers to reduce output by 1,5 Mt and the CIS by 500 000 t. In fact, the reduction is probably about 800 000 t.

Nevertheless, despite missing the desired reductions in output, producers have certainly succeeded in moving the price, now 50% higher than six months ago.

The question is whether current prices can be sustained. For Gilbertson, an important issue is whether to hedge forward a part of Billiton's material (in most cases, the company's joint venture arrangements provide for it to receive a proportional share of production, but not dividends).



Billiton in Brazil . . . *all on a big scale*

He says that forward selling a portion of Billiton's production for two years will guarantee the loan repayments schedule, so it is a tempting alternative.

Four final issues need to be considered. The first is that Billiton and Gencor between them occupy an unusual position in world aluminium. It is an industry dominated by majors such as Alcoa, Alcan, Reynolds, Pechiney and Norsk Hydro; and all are paranoid about protecting the security of aspects of their individual technology. It is a syndrome which leads to suspicion and distance.

Unusually, Billiton spans these global divides: it is in bed in various ventures with Alcoa, Alcan and Reynolds; Gencor is using Pechiney technology for its Alusaf expansion. And it leads to the conclusion that Billiton-Gencor is in an extraordinary position to provide bridges for an industry whose penchant for suspicion often encourages it to shoot itself in the foot.

In short, Billiton can provide acceptable and neutral industry leadership in crucial areas such as production quotas.

Second, there is the little matter of Alusaf's role in all this new arrangement. Alusaf's massive Hillside smelter project (R2,7bn) will turn it into one of the world's biggest aluminium producers. Combined with Billiton, it makes the group a formidable competitor.

It seems, therefore, that Gilbertson, probably quite soon, will seek to spin off Billiton's aluminium assets and put them — with Alusaf — into a new world-class aluminium company, listed on the major exchanges. Gilbertson won't be drawn on this but it is an assumption given weight by Davis's statement that Gencor will want to renegotiate the Billiton financing package soon.

Third is the short-term impact Billiton will have on Gencor's fortunes. Some analysts believe putting Richards Bay Mineral Sands into the Billiton pot will damage Gencor's bottom-line earnings: last year Richards Bay contributed 5,7c to Gencor's EPS.

Frankel Pollak research director Peter Davey disagrees. "I think Billiton will contribute immediately," he says. And the method of putting Richards Bay into Billiton will leave the dividend stream to Gencor unaffected, so Davey expects Richards Bay to contribute 8,5c this year to Gencor's EPS of 37,5c (reduced on 1993 because of a 10-month year).

Finally, there's the issue of where Gencor will be positioned at the turn of the century. Gilbertson wants Gencor to be an undisputed world player, first in ferro-alloys, second in platinum and mineral sands, third in gold and in the top 10 parade in aluminium, stainless steel (Columbus), coal and nickel. Billiton is an integral part of that vision, though Gilbertson is the first to admit it's taken an unconscionable time.

"The only reason he's persisted with Billiton," says a fund manager, "is to satisfy his ego." Used in this sense, ego is pejorative; it is an accusation frequently levelled at Gilbertson. "It's a good job he has (a big ego)," responds a senior broker. "It's the only way to get Gencor moving. Beside, no-one complains now about Donny Gordon, do they?"

Gencor's move to establish itself as a significant international resource group is the first major deal to be announced since SA returned to the world community.

If it sets any precedents, the most important is that SA businessmen are once again proving themselves worthy competitors in the biggest arena.

David Gleason

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later dismantled, with parts going to Malbak and Murray & Roberts and the rump relisted as Servgro.

At the same time, though, valuable managerial resources were developed. When General Mining & Finance Corp (GMF) was acquired from Anglo American Corp in 1963, it was not bought directly by Sanlam but by Federale Mynbou, which had been formed out of the mining interests of FVB and Bonuskor. As the purchaser, Fed Mynbou was bringing to the GMF party something more than a dividend funnel. It could also contribute specific management and leadership. GMF flourished, and in the Seventies it acquired Union Corp, to emerge as the second largest mining house.

A comparison between the economic empowerment of Afrikaners and blacks should not be stretched too far. Circumstances are different. But it does offer interesting pointers — and also highlights some central dilemmas.

It is widely agreed that blacks will have to attain a real stake in the free enterprise system if they are to accept a market economy. Those who sought to carve out economic stakes for Afrikaner interests in the Thirties and Forties had to fight their own struggles against ideological resistance to capitalists and "Hoggenheimers". Capital was not raised as easily as hoped. And Volkskas, when it became a commercial bank, faced hostility from the established commercial banks, who refused to clear its cheques.

Eventually, Afrikaners largely accepted capitalism. But it involved a learning process, with successes as well as the failures that are integral to a creative free market system. Now, given the political and other constraints, there isn't enough time for the slow approach.

The Methold arrangement illustrates how quickly progress can be made once the will is there. It has been made possible not only because there were willing and co-operative sellers in Sanlam, Argus Newspapers and the owners of MTN. It is also heavily dependent on creative financial engineering, with extensive use made of unlisted pyramiding and nonvoting shares.

These are anachronistic devices which have worked well in the past — Rembrandt and Anglovaal offer examples — but which fly in the face of modern market practice, both in SA and overseas, and which would hardly gain much acceptance in other circumstances. Indeed, pyramids simply are not allowed in London.

In this case, though, the point of the exercise from the standpoint of the vendors is not merely to sell an asset, but to create a structure where black organisations or individuals visibly hold substantial or controlling stakes at the top and are enabled to finance the purchase as easily as possible.

In the case of the *Sowetan*, Motlana's Corporate Africa holds 70% of holding company Nafmed, which, in turn, has 75% of New Africa Publications (NAP), whose sole asset is the *Sowetan*. Argus Newspapers has 30% in Nafmed and a direct 20% in NAP (enough to block special resolutions if necessary), with a further 5% held by an employee share trust. (58)

Corporate Africa's 20% interest in MTN is held through three unlisted pyramids. Funding was through a combination of equity and some debt, with the interest on the latter capitalised and payable later, presumably when dividends are flowing from MTN.

For the Methold restructure, which will see these two holdings moved under Methold, a total value of R85m was placed on the stakes in the *Sowetan* (R38m) and MTN (R47m). Standard Merchant Bank's Roger Jardine says the valuations were done by three banks, SMB, RMB and Absa Merchant Bank. Jardine says Corporate Africa elected to accept the lowest of them, which had been calculated by SMB acting as an independent adviser.


Daling

Corporate Africa will sell its *Sowetan* and MTN stakes down to Methold for R85m, to be settled by issue of Methold shares, and it will acquire further shares in Methold to lift its total interest in that company to 52%. To finance the purchase of the additional shares, Corporate Africa has already placed enough of its own equity to raise R235m *(FM* July 22). Bodies that have invested in Corporate Africa in this leg comprise black pension and provident funds (R45m), local institutions (mainly funds managed by SMB, RMB Asset Management and Transnet Pension fund) and foreign institutions (mainly Morgan Stanley's New Africa Investments).

In the first announcement last year of the plan to use Metlife as a black empowerment vehicle, Sanlam did not intend to retain an interest in Methold. It will now have 20% of Methold, as well as a direct 10% in Metlife. Sankorp senior investment manager Anton Roets says the intention now is to keep the Methold stake at about 20%. Though Metlife, considered a crown jewel in the Sankorp portfolio, still accounts for about 90% of the portfolio, he says, the Methold board has a mandate to expand actively. "This is a black empowerment exercise," he says. "But we think it will be a good investment which will acquire other assets on attractive terms."

There were other changes of thinking along the way. One was the lead role now being given to Corporate Africa. Initially, it was thought that the black shareholding could be widely spread among organisations such as pension funds and trade unions, as well as individual shareholders. That much is being done. The 78% black shareholding includes the trade union grouping Nactu (13,7%) and Sefalana Employee Benefits Organisation (Sebo) with 4,9%, as well as some 8 000 individuals.

There are obvious advantages in bringing in all these; for trade unions, for example, it could bring useful exposure to capitalism. But Sankorp and its advisers apparently concluded that in the end the process would not work, or would take too long, unless a group of high-profile and credible black individuals could be seen to take control.

This is happening in the form of Corporate Africa, whose directors comprise about half a dozen blacks who carry many of the right credentials — though their experience in running large companies is more limited.

About 80% of the shares are currently held by Corporate Africa Holdings (Pty), of which NH Motlana & Sons (Pty) has 55% with other directors holding the balance. Standard Bank interests or funds managed by them are said to have the other 20% of Corporate Africa.

Motlana (69), who is a medical practitioner, thus emerges as the controller and driving force in the company. He has strong links with the liberation movement.

Elsewhere on the board, deputy chairman Sam Motsuenyane has the longest track record in business. Enos Mabuza is on the boards of numerous public companies. Franklin Sonn, Rector of the Peninsula Technikon but soon to take up a full-time appointment as exective director of Corporate Africa, has up to now been most prominent as an educationist. A man of some influence as an adviser at the company is Jonty Sandler, who was founding member of the Shareworld entertainment complex, a project that was liquidated in 1990.

It is difficult at this stage to see that Methold at the listing next month (which will not entail a public offer) will amount to much more than a dividend funnel plus the opportunity to trade its shares at a market price. It should be well placed to make further acquisitions through share issues. Motlana and his colleagues will probably help to find the opportunities and open doors. Motsuenyane referred last week to sectors such as food, industry and mining.

It makes Methold sound like a classic if rather outdated conglomerate: pyramided, acquisitive, diverse, unfocused. And, though it will be in the industrial holdings sector, until the roles of the Corporate Africa directors are more clearly defined, it may well be regarded by investors as essentially an investment trust — a kind of share which trades at a discount to asset value.

This leads to the question: what will the Corporate Africa directors as individuals be bringing to the party, other than partnership and the ability to facilitate acquisitions and thus spread black share-ownership more widely? Political and social acceptability may be necessary in a black empowerment exercise. But these may not be sufficient qualities in controlling/owner shareholders to produce and sustain an attractive investment over time.

Andrew McNulty

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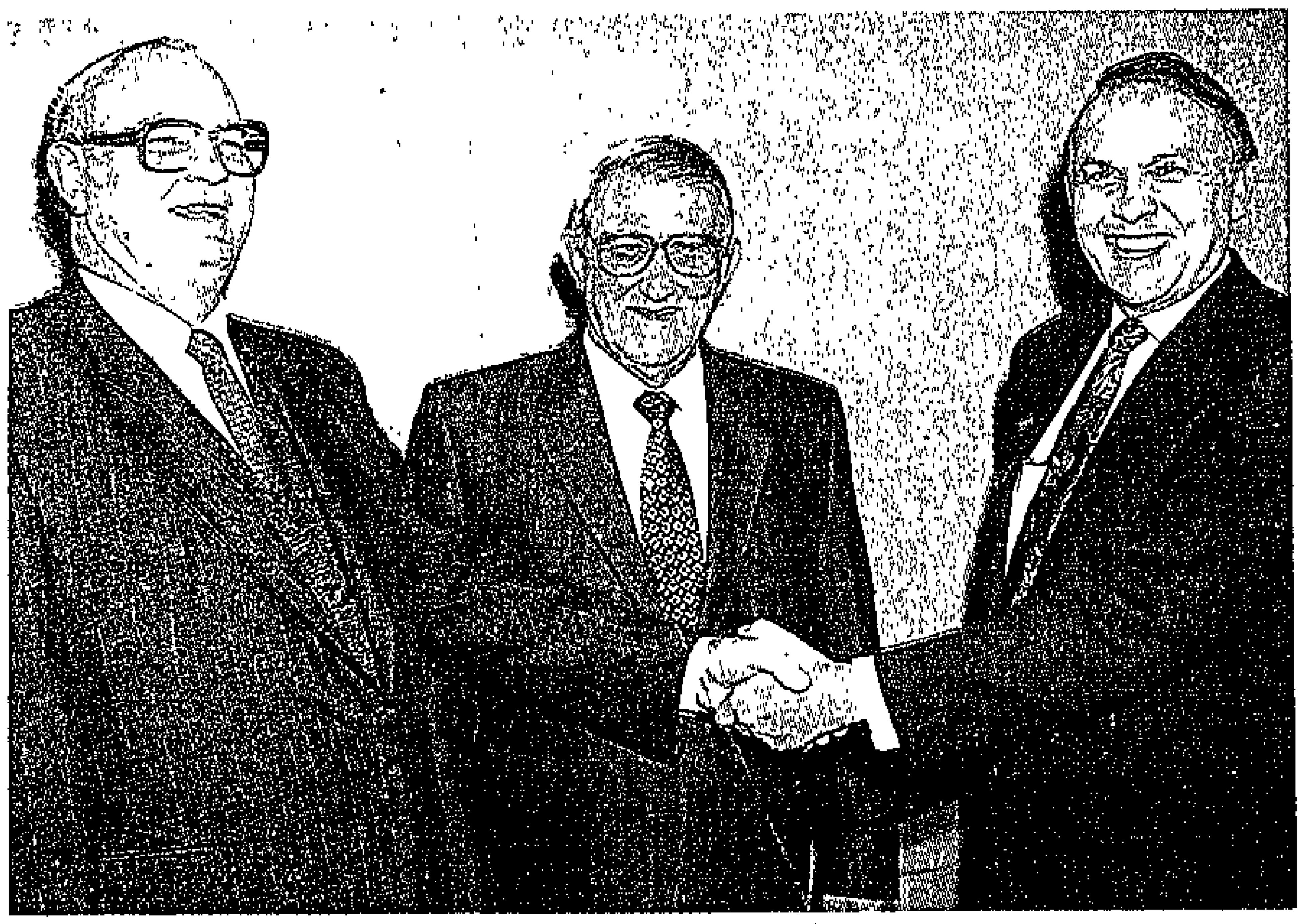
By ARI JACOBSON



IN THE HOT SEAT... New Boland Bank chairman Christo Wiese (left) is congratulated on his appointment by the bank's MD Gert Liebenberg (right), with outgoing chairman Pietman Hugo overseeing proceedings. Picture: ARI JACOBSON

Boland Bank hits the alliance trail

(58)

CT 29/7/94

BOLAND Bank would stride ahead and "seek alliances" both locally and abroad, its new chairman Christo Wiese told a packed audience of investors at its AGM in Paarl yesterday.

Wiese, also chairman of retailer Pepkor, was voted in at an earlier directors meeting to replace retiring chairman of the bank, Pietman Hugo.

"The walls are down and the world is suddenly a very small place," said Wiese.

Wiese added that the "natural development" of links with the rest of the world would mean the group would be willing to grow in Africa as happily as into Europe.

He pointed out that Pepkor and Boland Bank already enjoyed a "long relationship" and this would evolve in line with the global trend of stronger links between financial institutions and retail organisations.

Wiese said that there were also "excellent synergies" between Boland Bank and Board of Executors (BOE) "considering the complementary nature of the different businesses".

Wiese is currently the largest stakeholder in Boland Bank Group with a rough 32% stake of its total share capital, with BOE holding the equivalent of about 30% of group's underlying capital base.

"The bank realises that size is important and that will mean searching for alliances in areas of co-operation with other financial institutions.".

He said there were "no plans" as yet to launch Boland Bank into Europe — to support Pepkor's European expansion through its recent acquisition, Brown- & Jackson (B & J).

He mentioned that regional growth was also a priority and the bank would aim to extend its influence into sub-Saharan Africa.

"We (Boland) want to be here, there and everywhere," he concluded.

Wiese will be looking to lift future attributable profits a little higher than the slight move to R24,2m (R24,1m) for the year to March 1994.

● Favourable spinoffs from Boland's associations with among others Wiese and BOE has helped lift the share price about 45,5% over the year, to its close out yesterday at R12 a share.

Sanlam pumps R50m into Lenco expansion

BDay 29/7/94

EDWARD WEST

CAPE TOWN — Sanlam had pumped R50m into clothing and packaging manufacturer Lenco to fund its expansion and the acquisition of three businesses, including an Australian packaging operation, executive chairman Douglas de Jager said yesterday.

The allotment of 4,5-million new ordinary shares to Sanlam at 1 100c was approved at Lenco's annual meeting yesterday.

"Aside from the acquisitions, the funds will be used for expansion of Lenco's operations without compromising targeted gearing levels," De Jager said.

Lenco was attracting significant interest from Cape investors after Rembrandt acquired about a third of its share capital in the past financial year. This was reflected at Rembrandt's annual meeting this week when chairman Johann Rupert commented that Rembrandt would have bought a bigger stake in Lenco had this been possible.

De Jager said that since the year-end Lenco had bought 60% of Olympic Flair, a Cape-based manufacturer of branded women's footwear, and a 50% stake in a grassroots business producing specialist tourism software which would be sold to travel agents.

The company, Leisure Plan, had secured contracts with travel agents with branches worldwide. Packages for other markets were being developed.

Lenco's exposure in this company was R3,2m, but substantial yields were expected in the short term, De Jager said.

Four months into the new financial year the clothing and packaging division was trading ahead of budget. All operations in the footwear division were fully loaded for the season. (58)

The housewares division operated below budget in the first quarter following poor production efficiencies, election stayaways and lower consumer demand.

At its annual meeting, Lenco Investment Holdings approved the allotment of 3,39m shares to Sanlam at a price of 733c each, which would dilute Lenvest's controlling interest in Lenco to 50,2% from 50,3%.

Lenco achieved 18% growth in the past financial year, with turnover rising R672m and operating profit 24% to R73m.

The company bought out minorities in Amshoe during the year and a rationalisation programme involved the closure of a loss-making plant.

Analysts expect earnings in the region of 80c and a 20c dividend for the current financial year.

Boland Bank plans expanded operation

BIDay

EDWARD WEST

CAPE TOWN — Boland Bank planned to expand operations through alliances with local and international institutions, without changing the bank's identity, new chairman Christo Wiese said yesterday. 29/7/94

In an interview after the annual meeting and the retirement of the previous chairman, Pietman Hugo, Wiese said that with the shifts in the structures of financial institutions over the past few years, the size of an institution had become an important issue.

Paarl-based Boland Bank, with 92 branches countrywide, was a relatively small bank and Wiese said expansion was seen as a natural step. (58)

The bank was well equipped and established in its niche markets, and he was optimistic about its future development.

Co-operation between Boland and Pepkor, of which Wiese is also chairman, was already more loose.

There were synergies in the complementary activities of the bank and Board of Executors, which took up a stake of about 30% in the bank in December.

Referring to current labour disruptions, he said as far as the foreign investor was concerned, SA was going through a trial period and "every single action and reaction in business in SA is coming under much greater scrutiny than ever before".

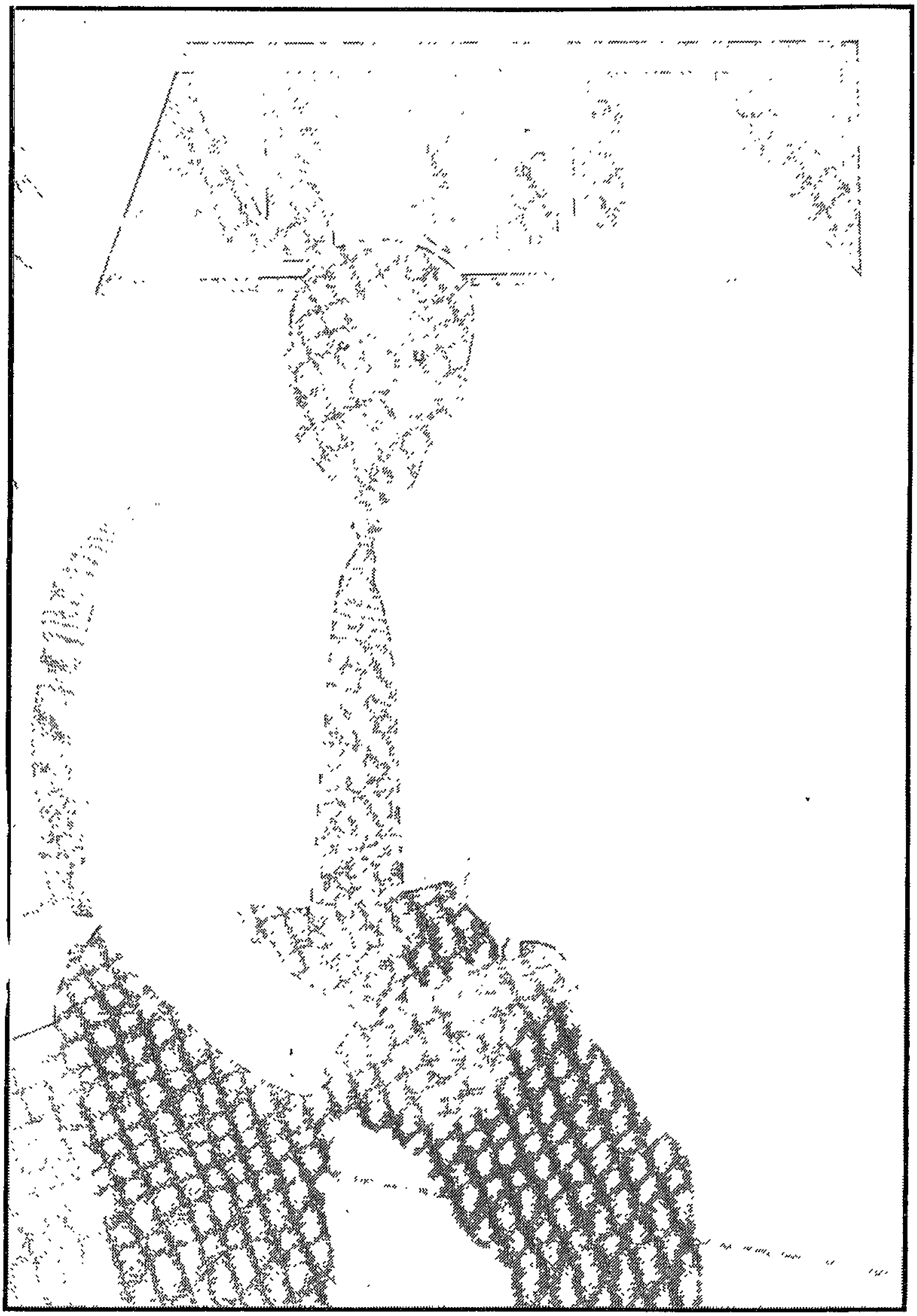
"The window to the world has opened and SA cannot hide anymore. On its own, SA will not make it.

"All SA businesses should accept they have a leading role to play in both the country and sub-Saharan Africa."

There was speculation this week that the board would be restructured once Wiese took over the reins, but at the annual meeting directors were reappointed with two directorships left vacant.

Hugo said the bank profit results for the first quarter of the 1994/95 financial year were promising, and unless interest rates changed unexpectedly, an improvement in the bank's results could be expected for the year compared with the previous year.

In the year to end-March undiluted earnings a share had slipped slightly to 179,2c a share compared with 180,4c a share the previous year.



CARVING A NICHE . . . chief executive Vusi Sithole, who believes Afgen has the edge in an emerging market

Restyled Afgen heads for recovery

SOUTH Africa's only black managed short-term insurance company, Afgen, is set to carve its own niche in emerging markets after undergoing drastic surgery, writes ZILLA EFRAT.

Chief executive Vusi Sithole says for the first time in three years Afgen expects to turn in an underwriting profit within the next year.

This follows a year and a half of downsizing, "painful" retrenchments, shedding unprofitable business and correcting its premium rates.

Mr Sithole, who took over Afgen's reins in March this year, says the aim is to lay a solid foundation for growth. He says Afgen grew too quickly after being formed in 1991. It often secured high-risk businesses in an attempt to take on local giants and had no infrastructure to handle this unplanned expansion.

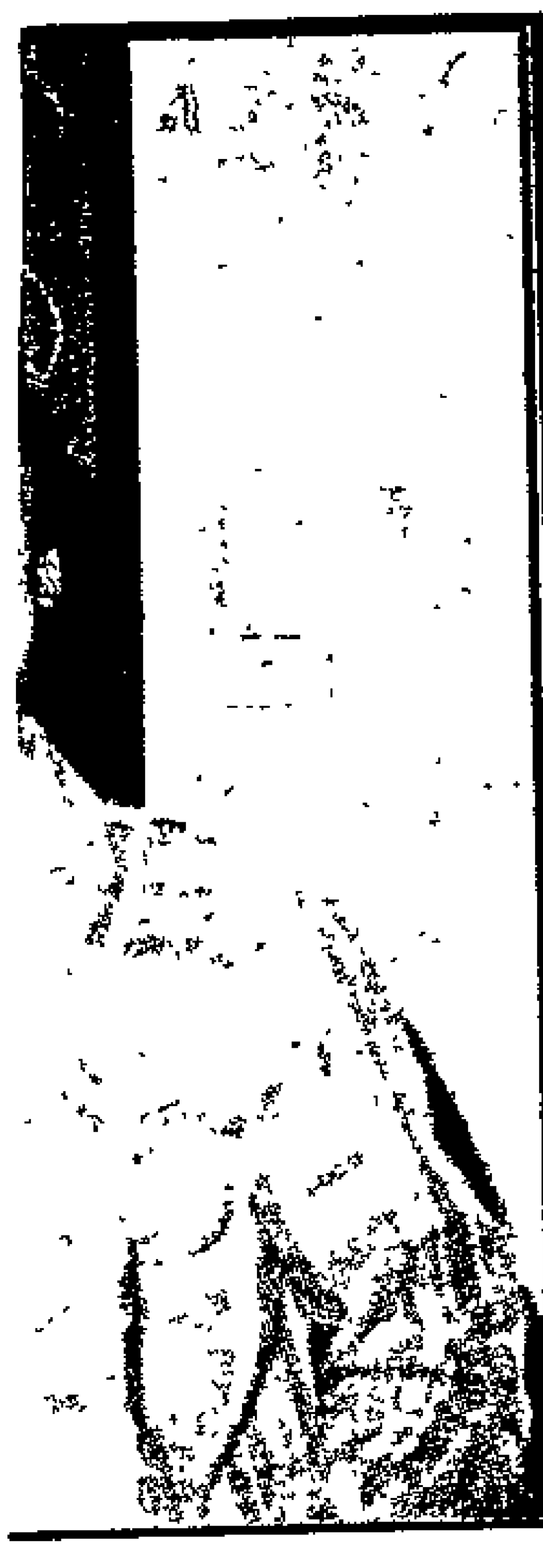
As cracks started appearing, two of Afgen's large shareholders, Aegis and SA Eagle, stepped in with management assistance. 58

They also recapitalised Afgen in a move that has temporarily made them the controlling stakeholders. Moves are afoot to return majority control to Afgen's other main shareholders, Fabcos and Future Bank.

Mr Sithole says: "Afgen was not formed to be just another insurance company, but to create its own niche in the emerging market."

This market should grow as black entrepreneurs increasingly realise their need for insurance. In the meanwhile, Afgen will consolidate it base in the traditional coporate market.

y ● MVA's underwriting loss down



r Hunter Sixpence of
Force in Kimberley.

Car accidents fund is 'broke'

Sowetan 11/8/94

THE Multilateral Motor Vehicle Accidents Fund is "technically insolvent" to the tune of R3 134 billion, fund chairman Mr DJ Malan said in the MMF annual report tabled in Parliament yesterday.

The R136 million underwriting loss for the year 1992-93 showed a marked improvement on the R895 million loss from the previous year.

The fund held readily realisable investments of R287 million, which meant there was no immediate danger of not being able to meet its cash requirements. A number of steps had been taken to implement the recommendations of the Melamet Commission into the MMF and improve the management and financing of the fund. These included:

- The strengthening of senior management by the appointment of a chief executive officer, an accountant, an advanced actuarial student and an attorney as a claims executive;
- Inspectors had been appointed to audit the claims-handling functions of the MMF and its agents;
- A computer system had been installed to help the fund and its agents in claims management, to detect fraud and to compile meaningful statistics; and
- The MMF's investment policy had been reviewed and placed on a sound footing.

Possible solutions lay in increasing the Fuel Levy and limiting the benefits paid by the fund. "Since April 1993 the Fuel Levy was increased which has resulted in a positive cash flow," he said.

Motor Accidents Fund 'insolvent'

NATIONAL ASSEMBLY. — The Multilateral Motor Vehicle Accidents Fund was "technically insolvent" to the tune of R3,134 billion, fund chairman Mr D J Malan said in the fund's annual report tabled in Parliament yesterday. (58)

The R136 million underwriting loss for the year 1992/93 showed a marked improvement on the R895m loss from the previous year. 27/1/8/94

The fund held readily realisable investments of R287m, which meant there was no immediate danger of the fund not meeting its cash requirements.

Steps had been taken to improve the management and financing of the fund. These included:

- The strengthening of senior management by the appointment of a chief executive officer, an accountant, an advanced actuarial student and an attorney as a claims executive;
- A team of inspectors to audit the claims-handling functions of the MMF and its agents;
- A computer system to help in claims management, to detect fraud and to compile statistics, and,
- The fund's investment policy had been reviewed and placed on a sound footing. — Sapa

Absa poaches treasury GM from JCI

From GRETA STEYN (58) CT 2/8/94

JOHANNESBURG. — Absa has poached JCI's group treasury GM JP van der Walt to head its treasury in a shake-up of its domestic and international market operations.

Van der Walt confirmed he had joined SA's largest banking group yesterday after more than 13 years at JCI. "Absa made me an offer which I accepted. The planned unbundling was not the reason for leaving JCI, but had an influence on my decision."

He faces the daunting task of mending Absa's battered image in the markets.

Its treasury operation, the heart of any banking group, is seen as fragmented and it is understood it was felt an outsider would be better suited to giving direction.

The new management structure sees Van der Walt take control of domestic and international operations. Domestic treasury GM Fanie Leach and international head Autrey Wilke now report to Van der Walt, instead of to the operating executive of treasury and international banking services Doug Andersen. Van der Walt reports to Andersen.

Thin returns for Prima depositors

(58) CT 2/8/94

From AMANDA VERMEULEN

JOHANNESBURG. — Prima Bank, which has blamed its liquidity problems on an unfavourable credit rating, did not have sufficient funds to refund R190m of the R218m customers had deposited in its vaults, the bank's curator, Tim Store, said yesterday.

The bank was also unable to pay interest on the deposits from July 1, he said. Depositors who had elected to receive interest on the maturity of their deposits would be paid the accrued interest to June 30.

Store said that the amount retrieved in dismantling Prima — part of which would be acquired by Unibank — depended on revenue raised by asset sales.

However, he was confident clients with unsecured deposits would recoup at least 50c of every rand. The bank has more than 200 depositors and about 50 creditors.

One of the bank's largest assets was a timeshare development on the Wild Coast, but its value had not been established.

When the bank went into curatorship in May, CE Tim Wood said its liquidity problems stemmed from a Republic Ratings credit assessment, which classed Prima in the speculative range after an investigation disclosed accounting problems and non-performing assets.

Prima was the first casualty of the Reserve Bank's hardline position on rescuing insolvent banks. Banking sources said the Bank had decided not to rescue Prima because it did not represent a threat to the banking system.

Manuel moots one-off tax 'indemnity'

Political Correspondent

TRADE and Industry Minister Trevor Manuel, yesterday mooted the possibility of a "one-off indemnity" for large, medium and small companies who were "past tax violators" and were "still outside the tax net".

Beyond this initiative, he added: "Tax evaders will be dealt with, with a firm hand".

Speaking during the second reading debate on the Budget, Manuel said South Africa would have to spend more on revenue collection which needed to draw on the "best pool of skilled professionals".

He said a special task force of investigative auditors would have to be established, if necessary "outside of dictates of the Commission for the Public Service".

Manuel said the performace of customs officials would also have to be improved — "leakages are severe".

The Minister said that if the government was to be true to the mandate by which it was elected, "we must ensure that this country and government does not live beyond its means".

He said recurrent expenditure was already extremely high.

"It is fairly easy to borrow. It will be increasingly difficult to pay back — every cent borrowed today, taxes the generation of tomorrow".

● Speaking during the same debate, ANC secretary-general Cyril Ramaphosa said South Africa did not want investors who were looking for a "strike-free" environment which would lead to the exploitation of workers.

Ramaphosa said the investors South Africa wanted were those who supported the broad economic polices of the government and wished to invest because they know they are coming to a country with modern labour laws.

The ANC secretary-general said that his organisation was committed to maintaining fiscal discipline "as we are concerned with sustainable development.

"We do not want short-term considerations to undermine the credibility of our long-term RDP." (58)

Ramaphosa said the ANC was concerned about South Africa falling into a debt trap and recognised the need to lower the deficit in the next few years in order to reduce the interest burden.

He said the ANC was committeed to creating "an investment-friendly climate and for the economic policy to be credible, consistent and geared to promote stability.

CT 2/8/94

"Private investment is the critical factor for equitable growth, and unless and until we convince both domestic and foreign investors that this is a land where their investments are safe from political risk and interference, we will not succeed in getting them to invest in this country."

Unibank to secure R50m Prima assets

BDay 2/8/94

AMANDA VERMEULEN

ASSETS owned by Prima Bank, placed into curatorship in May, would be taken over by Unibank, Prima curator Tim Store said yesterday.

Unibank MD Gerrit van der Merwe said the acquisition of R50m of Prima's assets and an equal amount of liabilities would take effect from November under Section 311 of the Companies Act.

Unibank shareholders had been informed of the decision to absorb part of Prima, and had given permission last week for a rights offer to raise R15m to coincide with the takeover.

Van der Merwe said the bank would also complete the acquisition this week of a mortgage book from one of the major insurers, adding an additional R50m to the bank's total assets of R631m.

The combined sum from the Prima takeover and the mortgage book acquisition would see Unibank's total asset base rise to R740m by the end of the year.

Van der Merwe said the decision to acquire Prima was based on the two banks having a number of common clients, and Prima's involvement in asset-based finance activities, one of Unibank's core businesses.

58

Prima had said at the time of its curatorship that its liquidity problems stemmed from a speculative rating awarded by Republic Ratings.

On-premises investigations by Republic had revealed that 30% of the bank's portfolios had not been performing, and that accounting problems had developed.

Republic said that it had initially held back on the rating because Prima said negotiations with a consortium, financing the establishment of Merchant and Investment Bank Africa (Miba), were in progress.

The deal — said to be worth R70m — fell through, partly due to the speculative rating, but also as a result of the court action brought by former Cape Investment Bank CE Jan Pickard to block it, sources said.

But industry sources said the negotiations with Miba Holdings, which would have seen the purchase of Prima Bank from Prima Holdings, would have represented a capital injection of only R12m, not sufficient to rescue the ailing bank.

Rise for Standard Bank Investment

BiDay 3/8/94

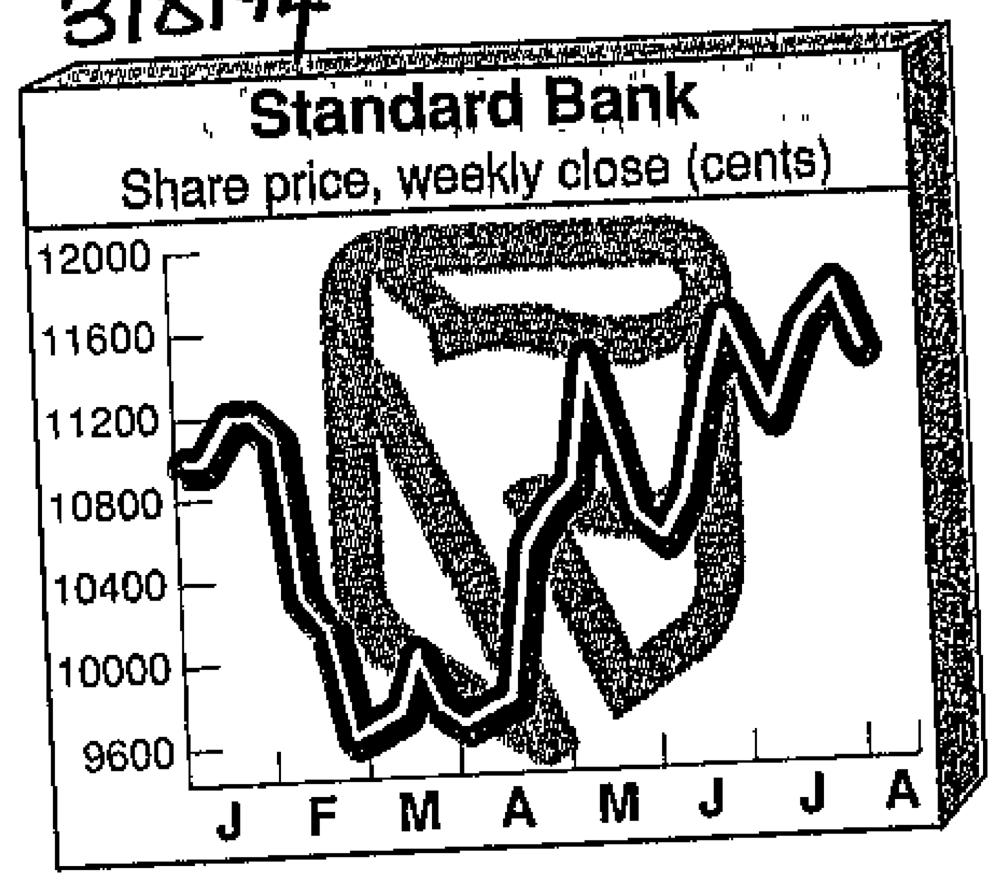
SAMANTHA SHARPE

STANDARD Bank Investment Corporation posted a 17,6% rise in earnings to 401c a share for the six months to June as lower bad debt provisions and a strong performance from other operating income helped offset pressure on margins.

An interim dividend of 73c a share was declared, 17,7% higher than last year's interim dividend. (58)

Growth in net interest income was relatively slow following the low rate of increase advances in the second half of last year. However, operations in London had seen a turnaround in profit.

Group MD Eddie Theron said the large London commitment meant the London operation could make a fairly big contribution to facilitating trade between SA and Europe. Acquisitions in Africa had also done well and would provide spin-off benefits for the London operation. It would be essential for the group to estabish a strong presence in Hong Kong and New York.



The reduction in bad debts was a function of improved business conditions and in line with the trend among most banking groups, which had also reduced their bad debt provisions.

Total assets increased 17,9%, with continued growth in mortgage lending and

□ To Page 2

Standard

BiDay 3/8/94

□ From Page 1

some improvement in the demand for traditional lending products. This had resulted in an increase of 11,2% in advances in the first half of the year. While there were signs of an uptick in credit demand, it was "nothing to get excited about". (58)

Operating expenditure for the group's SA operations was kept to a growth rate of 12,6%. However, expansion and development in other African operations and in the UK kicked operating expenditure to 15,6%.

The premium and goodwill paid for strengthening the capital base of the London operation and on the acquisition of Ayrton Metals were the major culprits behind an extraordinary charge of R31m.

Operating profit before tax rose nearly 15%, but after-tax profit showed an increase of 16,9%. A R27m charge was made for the transitional levy, which would not be considered an extraordinary item.

Benefits from the reduction in company tax would kick in only on the 1995 income statement. "Changes to taxes announced in the Budget would have a negligible effect on results in 1994."

The group reported return on equity up at 17,3% and a 1,28% increase on return on assets. The bank expected earnings for the full year to outstrip those for 1993, spurred by expected benefits from higher economic growth, improved investor confidence and consumer demand. However, the rate of earnings growth was unlikely to exceed last year's level.

Earnings and dividend show 18 percent rise

Solid improvement at SBIC

Star 3/8/94

BY CHARLOTTE MATHEWS

Total income earned by Standard Bank Investment Corporation (SBIC) in the six months to June improved by 15,4 percent over the first half of 1993 on the back of moderating bad debts and a strong performance from treasury-related activities.

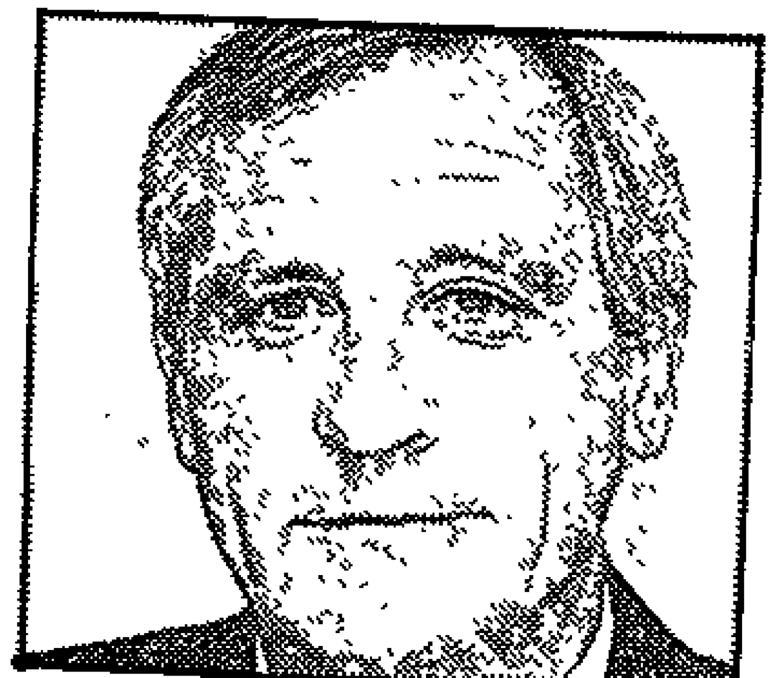
Earnings lifted by 17,6 percent to 401c (341c) a share, with the interim dividend up by a similar rate to 73c (62c) a share.

Total income was R2,5 billion (R2,2 billion in the same period in 1993).

Other operating income, including some foreign exchange transactions and other services, lifted by 23 percent.

Consolidated net taxed income rose by 17 percent to R482 million from R412 million after a lower tax rate and higher profit from associates.

Chief executive Eddie



Eddie Theron . . . so many opportunities.

Theron says the rise in total lending included an increase of 12,1 percent in other loans and advances over the same period in 1993, reflecting improved demand for traditional lending products.

Mortgage lending continued to rise, but at a slower pace. SBIC estimates its current share of the market at 20,5 percent.

The bad and doubtful debt provision fell by 15 percent to R186 million from R220 million.

Theron says the trend evident from SBIC's own figures and those of Nedbank is definitely down.

The breakdown of bad debts remained the same — mostly in smaller accounts.

An extraordinary item of R31 million was incurred on strengthening the capital base of the London operation and acquiring platinum dealer Ayrton Metals.

Theron says the involvement of banks in precious metals transactions arose because such deals invariably gave rise to currency transactions, where the banks offered price protection to the producer.

This meant banks become involved in options and futures.

Operating expenses in SA operations grew by 12,6 percent, but total costs were 15,6 percent higher as a result of expansion and development in other African operations and in the UK.

"But where expenses are concerned, there are so many opportunities at the moment that require investment in human and technical resources that the task of balancing further cost increases against potential revenue flows is becoming more difficult."

Theron says the London operation saw a turnaround in profitability from a small loss last year.

(58)

"This is important from our perspective because it was a big commitment," he says.

"It is now in a situation where it can make a meaningful contribution to facilitating trade between SA and the rest of the world.

"The contribution it has made to our trade and investment flows means we now believe it is essential to establish a presence in Hong Kong and New York."

The African banking network also did well. It not only returned good profits, but also had spin-off benefits for SBIC's operations in the UK and SA.

Theron says the group is well-positioned to benefit from the higher growth expected to result from improved investor confidence and consumer demand.

However, its rate of earnings per share growth was not likely to exceed 1993's.

On the likely direction of interest rates, Theron says whereas several months ago there had been consensus that rates were headed down, recent concerns about reserves and money supply meant there was no longer such consensus.

SBIC shares closed unchanged at R114 yesterday, having shed R3 earlier in the week, and are currently below their 12-month high of R118.

At a P/E ratio of 16, the shares appear well rated against other major banks.

Banks defend lending stance

(58)

CT 4/8/94

By MAGGIE ROWLEY

THE banking industry was standing on the threshold of addressing the banking needs of the largest number of potential new customers in the history of SA, Piet Liebenberg, CE of the Council of SA Bankers (Cosab), said yesterday.

In an address to the second annual retail banking conference in Johannesburg, Liebenberg said Cosab had already gone some way towards researching the needs of the currently "unbanked" population and its members had provided the resources and infrastructure for the Community Bank.

However, he pointed out that 80% of the SA population was underprivileged and banks could not address their needs without government assistance.

"If these people can't repay their loans it will have a vast effect on the bank portfolio in the country. South African banks simply cannot absorb an 80% drop in their portfolio."

Liebenberg said that the confidence of depositors was vital.

"Banks do not use their own funds. They invest in loans and advances with the money of depositors and savers. Consequently risk assessment is vital and banks cannot invest in imprudent high risk ventures."

Profitability of the banking industry, he said, was not yet 1% of total assets after tax nor was it 15% on equity after tax. Total assets of the SA banking industry were of the order of R300bn.

The minimum return on equity, he said, should be inflation plus 10%.

● The crisis facing the low-income housing market, which falls outside the ambit of commercial and community banks, would be on the list of priorities in today's meeting between Housing Minister Joe Slovo and a delegation of bankers, government said yesterday.

Government was keen for the Association of Mortgage Lenders to take some responsibility for providing housing to low income earners.

AfDB loans likely once SA signs up

(68)

By AUDREY D'ANGELO
Business Editor

SA COULD be in line for loans totalling R3,6bn from the African Development Bank if it joins the organisation, the bank's president, Babacar N'diaye, said this week.

CT 4/8/94

And SA companies could earn 25% of the R11bn which the bank has allocated for projects in East Africa and Southern Africa this year.

"SA companies are particularly well favoured for projects in East and Southern Africa because SA involvement will reduce the global costs of these projects."

Angela Self of the Africa desk of the SA Foreign Trade Organisation (Safto) said that loans from the African Development Bank were made to the governments of member countries to pay for projects which were carefully vetted by the bank. The projects were put out to world tender.

She said that, although publicity had been given earlier this year to the bank's difficulty in getting loans to some member countries serviced, "it still has a triple A rating."

It is funded by governments and international organisations.

But, she warned, it takes several months for loans to be approved and the money to become available over a period of time. "There are usually feasibility studies for each project."

Wesgro GM (international) David Muirhead said he expected the SA government to take its time in deciding whether to join the African Development Bank, which would be necessary to qualify for loans. "There are liabilities as well as advantages in membership and one thing this government has shown is that it will not be rushed into these decisions."

Politicians warned: Leave banks alone

BRUCE CAMERON
Business Editor

58 Argus 4/8/94

THE banking structure of South Africa would be seriously undermined if political or legislative pressure was placed on the institutions to take unwarranted risks.

This warning came from Council of Southern African Bankers (Cosab) chief executive Piet Liebenberg at a conference in Johannesburg yesterday on the heels of further criticisms from politicians that banks were not making sufficient money available to the lower paid.

Mr Liebenberg said it was "vital" that banks maintained the confidence of depositors.

"Banks do not use their own funds. They are not trying to be impossible or difficult — they are trying to be good business institutions.

"Banks invest in loans and advances with the money of depositors and savers. Therefore risk assessment is vital.

He said banks could not invest in imprudent high risk ventures as this would drive away depositors.

"If there are no deposits, then there are no loans."

Mr Liebenberg said the expectations about banks were extremely high, but the knowledge about what banks could do was very low.

He conceded that a reason for this was a lack of proper communication in the past about the banking industry.

"The banking industry needs to engender a more favourable impression in the market place.

"Certain criticisms of the industry and our previous inability and reluctance to respond in a collective and pro-active manner have given rise to some of the misconceptions and negative perceptions that exist."

He said the banking industry controlled assets of R300 billion and employed 120 000 people with a huge and effective infrastructure of branches and equipment, which included 100 000 point-of-sale terminals and 6 000 ATMs.

Mr Liebenberg said the banks had taken steps with the drafting by Cosab of a code of good banking practice and self-regulation to "provide a firm foundation on which banks can build a positive image".

Individual banks were preparing their own internal codes of conduct using the Cosab code as a basis as part of the "urgent need for more self-regulation".

Modern banking was a highly complex discipline that required integrity, innovation and "a clear insight into the needs of the community it serves."

The industry was based on trust and credibility.

Slovo, banks to discuss low-income housing

B/Day 4/8/94

SAMANTHA SHARPE

THE crisis facing the low-income housing market, which falls outside the ambit of commercial and community banks, would be on the list of priorities in today's meeting between Housing Minister Joe Slovo and a delegation of bankers, government said yesterday.

Government was keen for the Association of Mortgage Lenders to take some responsibility for providing housing to low income earners. This group failed to qualify for assistance from commercial institutions because of the high risk associated with lending to them.

But members of the banking fraternity said that was government's burden.

Banks have traditionally kept their mortgage lending to markets where people earned between R1 500 and R3 500 a month, a bracket that excluded the bulk of those desperate for housing.

The recently formed Community Bank, while not averse to lending to those earning less than the R1 500 ceiling, would require some time before being able to extend lending to those falling into the low income bracket, it said yesterday.

Community Bank MD Archie Hurst said that would create a delay when the demand for housing could not be met by any financial institution.

Bernhardt Dunstan & Associates director of corporate housing policy Paul Hendler suggested that the "mortgage finance impasse" would take about 12 months to resolve.

Speaking at a retail banking conference yesterday Hendler suggested a model for short-term lending through an intermediate financing mechanism involving corporates as lenders. (58)

This would see companies set up a subsidiary which would borrow from banks at the BA rate and then lend to employees at the same rate plus a small premium.

He stressed that the proposal was an interim one and there would be a negotiated transfer to a conventional bond in a new housing dispensation in the near future.

"Banks would find this approach attractive because it guarantees their investment, while other guarantees are in the process of being negotiated.

"A proactive approach by companies takes some of the heat off the banks by removing them as the target of people's hostility about housing."

Commercial Union knocked by crime wave

B/Day 5/8/94

SAMANTHA SHARPE

INSURANCE group Commercial Union's net income plummeted nearly 50% to R16,3m for the six months to June compared to June last year, squeezed by underwriting losses of its short-term insurance company.

The group's gross premium income slipped to R700,6m from R708,5m, with net premium income down to R559,6m compared with R566,7m in June last year. (58)

Commercial Union Insurance reported an underwriting loss of R21,4m compared with a surplus of R15,2m last June. But the company boasted a disclosed surplus attributable to shareholders of R7,9m, a 32% increase on June last year.

Commercial Union Life investment income rose 14% to R140,2m.

The group declared an interim dividend of 16c, unchanged from the same time last year. But it warned that the figures were not directly comparable because the group had implemented a five-for-one share split in May.

Group MD John Kinvig said the dividend had been maintained despite the deterioration in the short-term insurance underwriting results of Commercial Union Insurance.

"The group has strong resources and Commercial Union Life and other subsidiaries and associates performed profitably over the period."

"The significant deterioration in the short-term insurance underwriting results follows a severe escalation in criminal activity, coupled with other adverse claim trends which first emerged in the last quarter of 1993 and which continued strongly into 1994," Kinvig said.

"Theft of motor vehicles, in particular the hijacking of luxury motor cars, has impacted severely on the underwriting performance of Commercial Union Insurance," he added.

LOW-COST HOUSING

Fm 5/8/94

Government, banks draw closer

(58)

Government and the Association of Mortgage Lenders (AML) appear to be moving closer together on the crucial issue of covering banks' potential losses in lending in low income areas — a matter which has been frustrating the provision of bank finance for low-cost housing.

The two parties have been discussing a Mortgage Indemnity Scheme (MIS) for about year.

What is envisaged is essentially an insurance company capitalised by government or foreign aid finance and maintained by premiums paid by borrowers. The scheme should give banks a margin of comfort over their lending in low income areas. Statistics show that about 14% of properties financed in the townships have had to be repossessed over the past five years.

Billy Cobbett

Denis Creighton

The major stumbling blocks in the negotiations have been the extent of insurance cover government should offer banks in the event of the nonpayment of bonds and an inability to repossess properties where a bond default has occurred. Another has centred around the size of the insurance premiums to be paid by borrowers.

Last Friday, National Housing Department director-general designate, Billy Cobbett, met with an AML delegation to initiate the first round of direct talks. A meeting between Housing Minister Joe Slovo and the AML is expected to follow soon.

The extent of MIS cover on unpaid monthly interest payments was expected to be one of the subjects up for discussion in the first round of the talks. Also covered would be the cover banks would be entitled to in the event of their being unable to take possession of a property in default due to a breakdown in the legal process. The current thinking is that the MIS should cover the bank's losses should it not be able to repossess the property before a sale in execution, or at the sale.

Denis Creighton, MD of the Perm's PIP division MHF Properties and an AML delegate to the talks, says he hopes the indemnity will cover not only the actual loan which has been defaulted on, but also interest payments of up to 12 months on the bond, as well as foreclosure costs.

Says Creighton: "We are prepared to take the commercial risk of possible losses as a result of a variance in the property value, but we cannot compromise on secured lending."

How significant is the loss in value if the scheme covers the amount of the loan?

Creighton says: "A prudent structuring of the loan would ensure recovery of the value in most cases if we are able to get access to the property. We are prepared to negotiate some loss sharing — provided the initial capital is fully covered."

Under normal conditions, he says, the loan could increase by the amount of accumulated interest and foreclosure costs, which a bank would expect to be covered by the (rising) value of the property. In an abnormal situation, where properties are depreciating in value, the losses could be real. "We have been negotiating with government at a technical level and have resolved most of the issues but we have never finalised the package, either with the previous or current government. We are prepared to go in there now and try to find one another."

Creighton says that as far as the banks are concerned, "the risk (of lending in the low-cost housing market) is not insurable on a commercial basis. Therefore, government must stand behind the indemnity."

Another important issue is the market in which banks are expected to operate. Cobbett wants banks "to go as low as they can," but Creighton sees the ceiling as "the R1 500-R3 500/month income bracket, and possibly lower" — provided the mortgagee can demonstrate "stability of employment, regular income and earns above the subsistence level."

Creighton says he was surprised to learn that the recently opened Community Bank was targeting mainly the R1 500-R2 500/month housing market and not lower income earners. "It seems that we are going to repeat the same mistakes we made in the early Eighties where assistance was not forthcoming in the lower end of the market, where the bulk of the need is. It's easy enough to gravitate upwards in lending," he says (see Community Bank).

No doubt the fact that 65% of the low cost housing market continues to be ignored by banks in whatever form is at the heart of government concern. Subsidised rental is probably the most expensive form of tenure. ■

TIMESHARE

Make or break rescue

Timeshare owners have been called upon once again to put up money over and above their original timeshare purchases to salvage their rights in a faltering scheme.

The latest timeshare casualty is Ngwenya in the Eastern Transvaal near the Crocodile Bridge entrance to the Kruger National Park.

The developer, Ngwenya International, was placed in provisional liquidation in February and now the resort's roughly 1 300 timeshare owners have learnt that the land on which 30 timeshare units have been built — the developer was entitled to build up to 100 — was never transferred to the two shareblock companies they purchased their timeshare weeks from.

The executive director of the Timeshare Institute of SA, Peter Erasmus, says he understands transfer was orginally delayed because of difficulties concerning servitudes. Once these were overcome, the third bondholder, Alpha Bank, went into liquidation and the curator refused to give consent to the transfer.

According to a letter to shareholders dated May 11, the developers claim they applied for liquidation because they could no longer service the interest on the bonds over the property. Standard Bank holds the first and second bonds.

A director of the development company, Marius Labuschagne, says the bond default came about because of "the deteriorating economic situation which had caused timeshare sales to dwindle to a trickle". However, one source says Labuschagne stopped the marketing programme in November last year.

A number of offers to purchase the property have been made to the liquidators, Andrew Wilkens of Deloitte Touche and John Fourie of Antrust.

One, from John Hume who runs Garden

Continued on page 51

R11,5-bn payout by OM

(58) ARG 23/8/94

BRUCE CAMERON
Business Editor

OLD Mutual enters its 150th year managing assets worth a substantial R128 billion, confirming its place as the largest life assurer in Africa.

Since 1986 assets under management have leapt from R18,7 billion to the R128 billion, while annual premium income paid by policyholders has gone from R2,2 billion to R14,9 billion over the same period.

Old Mutual chairman Mike Levett said after adjusting for inflation, assets under management had grown by 12 percent a year for the past 10 years.

The total figure of assets under management goes up to R139 billion if the offshore assets managed by Old Mutual are included in the total.

And as a result of the investments of policyholders Old Mutual paid them or their beneficiaries R11,5 billion for the year ended June 30, 1994.

Mr Levett said this broke down to benefits of R45 million being paid out every working day.

"This record payment is more than 39 percent up on last year's figure and is 19 times more than was paid out 10 years ago."

Mr Levett said it was significant that most of the payments were made during the lifetime of members.

Of the total payments R1,7 billion was paid out in death and disability benefits.

"We are doing the job we started in 1845 — to help people plan greater financial security for themselves and their families in the event of death, disablement or on reaching retirement."

At the same time the long-term savings of policyholders were being mobilised for investment in suitable areas.

In premium income, growth had been nearly 22 percent up from R12 billion to R15 billion with a 32 percent increase in single premiums.

Mr Levett said the 15 percent increase in recurring premiums from individuals and groups "reflects our acceptability in the market place and the confidence in our investment products".

He said that in spite of the growth expenses had been limited to 15 percent against 14 percent for the previous year.

"This indicates we operated efficiently through tough and uncertain times."

Mr Levett attributed the success to "innovative product development and short and long term marketing strategies and an excellent track record for investment performance".

The accrued average return of individual life linked portfolios managed by Old Mutual grew by about 25 percent last year with balanced portfolios up by 32,8 percent and equity portfolios up 36 percent for the year.

Business Report

M&F hard hit by increase in crime rate

CT 24/8/94

By AUDREY D'ANGELO (58)
Business Editor

SHORT-term insurer Mutual and Federal was hit by rising crime — particularly car thefts — in the year to June 30.

MD Ken Saggers said motor vehicle thefts alone were expected to cost the industry R1bn this year.

Although gross premium income rose by 13% to R1,6bn (R1,4bn) the underwriting surplus plummeted by 87% to R8,5m (R66,6m). Earnings at share level fell by 27% to 256c (353c).

But the final dividend has risen by 21% to 69c (57c) a share making a total of 105c (87c) for the year.

Saggers pointed out that the solvency margin remained very strong and was in excess of 190% at the end of the year, with total assets now exceeding R3,6bn.

Net premiums rose by 12% to R1,3bn (R1,2bn). But investment income was 5% lower at R140m (R147,2m). A tax bill of R27,9m (R47,8m) reduced net income to R120,6m (R166m).

An extraordinary item — a deduction of R6,2m from the opening balance of the deferred tax asset as a result of the lowering of the company tax rate — reduced net income further to R114,4m (R158,6m).

Saggers said that in spite of the lower profits he was satisfied with the group's results in a most difficult trading environment.

"The past year has been one of the most challenging in the history of the SA short-term insurance industry and I am particularly pleased that we have managed to record a modest surplus on the underwriting account."

Margins had been under pressure for a number of reasons including wet weather which had cost an additional R70m in water related losses and a rise in the number of industrial fires — many started by arsonists.

But the greatest concern was the escalation of crime to unprecedented levels, with hi-jackings accounting for one in every 10 motor vehicles stolen.

Saying this illustrated "the current ineffectiveness of law enforcement in SA today," he appealed to the authorities to tackle crime urgently.

Metlife name change

(58) CT 24/8/94

METLIFE Investment Holdings will change its name to New Africa Investments (NAIL) after shareholders voted in support of the transactions that will culminate in the listing of SA's largest black controlled company on Monday.

Nail ponders 20% stake for Cosatu

BDay

YURI THUMBRAN

NEW Africa Investment Limited (Nail), the black business conglomerate to be listed on Monday, was discussing selling Cosatu up to 20% of its equity, executive chairman Nthato Motlana said yesterday.

Motlana said a deal had not yet been finalised. However, the move would be an important step in broadening black ownership of the company, he said.

Cosatu was likely to obtain the shares from Corporate Africa, which currently holds 51% of Nail, and from 20% owner Sankorp.

The union organisation had previously asked for 51% of Nail, but this was turned down, Motlana said. Instead negotiations were centred on a 10%-20% stake, which would cost between R30m and R60m.

He said Nail, which controlled R7bn in assets, was talking to unions to attract their pension and provident funds and so extend black holding of the company.

SA's second largest labour movement, the National Council of Trade Unions (Nactu), already has a 14% stake in Nail. (232) (58)

There were no details on what board representation Cosatu would be entitled to, but Nactu's 14% stake had given it the right to two seats on the Nail board. 26/8/94

Sankorp CE Attie du Plessis said it was important to have Cosatu as a partner in the venture, as it was a major force in SA.

Sankorp's 20% stake could be sold within five years to Corporate Africa to expand black ownership. Du Plessis said he hoped that a deal with Cosatu would be clinched soon.

Nail said it would also spread equity to 1 000 entrepreneurs in Corporate Africa and through Nail to a further 250 000 individual shareholders.

Motlana was quick to reassure investors on the role of unions in the company, saying Nail would not enter disputes between management and the workforce.

The company's major investments are stakes in Metlife, the Sowetan newspaper and the MTN cellular network, though it has made it clear it plans to expand its media interests.

Earlier this week, it forecast a 19% rise in pro forma attributable income for the year to September to R19,9m on turnover at R80,3m (R71,5m).

Scrapping SA's dual currency: Wasteland or wonderland?

(58) WM (BM) 26/8-1/9/94

Duma Gqubule reports on the likely effects of the scrapping of the financial rand dual-currency system

WHAT would follow if South Africans woke up one day to find that the financial rand dual-currency system had been scrapped — an economic wasteland or a wonderland of foreigners queuing to invest in the country?

The Reserve Bank's Callie Hugo gives the official view. First, he says, media reports that the bank's governor, Chris Stals, had said interest rates would have to rise to 30 to 40 percent (if the financial rand were to be abolished) are untrue. The bank believes that the percentage increase in interest rates will roughly match the discount between the commercial and financial rands.

Secondly, the bank estimates that foreigners have invested about R65-billion in the country using the financial rand. This money could leave the country if the financial rand were to be abolished.

"We cannot say with certainty that any capital will leave the country. Our concern is that the bank has sufficient reserves in case there are capital outflows. As a central bank we have to consider the possibility of a worst-case scenario occurring," Hugo says.

What do the foreigners think? Jon Bergtheil, a South African who worked as a fund manager at Southern Life before joining London broker James Capel in 1987, is one of the foreign investors Hugo says could withdraw their money if the financial rand were discarded.

James Capel is the largest offshore trader in South African bonds and shares. From its offices in the City (London's financial district), the firm trades in South African bonds and shares worth billions of rands every year.

For their efforts, Bergtheil and his team were recently voted the top stockbrokers in London when it comes to the quality of research on South African bonds and shares, according to the prestigious *Extel Survey* of international fund managers.

With speculation rife recently that the financial rand will be abolished, Bergtheil has been spending more time pondering the likely effects of an end to the days of the foreign investment currency.

He explains that the financial rand is essentially an incentive for foreigners to invest in South Africa, but a disincentive for them to take their money out.


Chris Stals

"When a foreigner buys South African bonds, he does so using the financial rand, which is about 25 percent cheaper than the commercial rand. When he takes dividend payments out, he is allowed to do so using the commercial rand. The net effect is that the yield foreigners get (of about 20 percent) is roughly 25 percent better than the 15,6 percent South African investors get."

Bergtheil says one cannot predict with certainty what would happen if the financial rand were to be abolished, but he believes the following is a likely scenario if the announcement were to be made this weekend:

- **17H00, Friday, August 26:** Stals makes the long-awaited announcement after financial markets have closed.
- **09H00, Monday, August 29:** Pandemonium breaks out on the bond market as foreign investors suddenly find themselves without a yield commensurate with the risks they are taking investing in an emerging market whose government's economic policies are still not clear.
- **09H01, August 29:** Frenzied trade in bonds and shares begins, but most of the action is in equities. Foreign investors offer their loan stock to domestic investors and an intriguing tussle between the two parties begins. A lot depends on how keen domestic investors are to take the loan stock being offered.
- **15H00, August 29:** Long bond rates break through 16 percent, but a lot of stock is still on the market.
- **Two days later:** Yields appear to have settled at around 18 percent, a level which market players believe will be the benchmark for the next six months. Foreign selling has subsided because yields are at a level commensurate with the country's risk profile. The net result: a short, sharp shock which has pushed rates from 15,6 percent to about 18 percent.

"In the worst case, it would take a week for the market to settle at such a level," Bergtheil says.

On the share market, there would not be any major shocks. Foreign investors in equities would view the developments as positive and some sectors (big exporters) would gain. The rest of the equity market would benefit mildly from the expected higher rate of inflation.

"There is a perception that inflation is good for equities," Bergtheil adds.

Other effects of abolishing the financial rand are: a depreciation in the commercial rand exchange rate (10 percent?); a higher inflation rate (two percent?); higher interest rates (three percent?); higher cost of servicing government debt; improved exports (the current account recovers, as do the reserves); and more expensive imports at a time when the economy is recovering and needs imported capital equipment.

The big unknown is how much selling will occur before yields for foreigners return to a level commensurate with the country's risk profile, but it is unlikely to be significant.

"Many of these investors have been in the country for many years. Why should they dump bonds when the financial rand is abolished when there have been so many other opportunities to do so?" a bond trader asks.

Is this a worthwhile price to pay in the hope of attracting more foreign capital?

Bergtheil thinks so: "There will always be a short-term shock in such cases, but the country will benefit in the medium term. It should be done sooner (before the end of the year), rather than later. The market is expecting it anyway.

"The uncertainty and resulting guessing games based on rumours are not conducive to attracting foreign investment. Better to bite the bullet now and settle down to business. Now is probably the best time to do away with the financial rand because the economy is at a favourable stage in the inflation cycle when expectations are still relatively low. Exchange controls on residents could be lifted later," he says.

What do local investors think?

The case against lifting exchange controls now is argued by Southern Life economist Sandra Gordon: "The goalposts for attracting foreign investment have been shifting all the time. First it was the election, then it was the budget. Now it is the financial rand that is supposed to be preventing foreigners from investing. If it were to be abolished, who knows where the next goalpost would be? Maybe foreign investors are waiting for the new government to establish some sort of track record.

"Stals has spent so much time trying to contain inflation, it would be a pity for all his efforts to go up in smoke. Many governments in the rest of the world have preferred to go through a process of adjustment — privatisation, containing growth in government spending and reducing budget deficits — before embarking on foreign exchange market liberalisation. We should rather liberalise from a position of strength."

The case for scrapping the financial rand is argued by Ed, Hern, Rudolph economist, Nick Barnadt. He says talk of billions leaving the country is nothing but a scare story. "The inflationary effects of an exchange rate depreciation have been exaggerated while the beneficial impact on the reserves and the country's deteriorating balance of payments position have been understated. Stals' strategic mistake was to stake everything on protecting the external value of the rand."

Whichever way, speculators on the foreign exchange and bond markets are bracing themselves for some interesting times in the months ahead.

Remember John Major and his futile battle against the European Exchange Rate Mechanism in 1992? International currency speculator George Soros may have started betting against Stals holding the fort for very long.

NEW REPUBLIC BANK

Fm 26/8/94

Earnings dilution

(58) (282)

Activities: *Retail and corporate banking*
Control: *Merhold Investment Corp 42%.*
Chairman: *Y M Paruk. MD: M Mia.*
Capital structure: *24,7m ords. Market capitalisation: R112m.*
Share market: *Price: 450c. Yields: 2,7% on dividend; 12,2% on earnings; p:e ratio, 8,2; cover, 2,9. 12-month high, 525c; low, 375c. Trading volume last quarter, 72 000 shares.*

Year to March 31	'93	'94
Total assets (Rm)	503	1 154
Deposits (Rm)	457	1 050
Advances (Rm)	408	983
Pre-tax income (Rm)	6,9	14,8
Attributable (Rm)	3,5	11,6
Return on equity (%)	19,3	16,4
Return on assets (%)	0,8	1,2
Earnings (c)	61,1	54,9
Dividends (c)	19	19
Tangible NAV (c)	313	341

Maiden results since listing in February are heavily influenced by New Republic Bank (NRB)'s acquisition last year of Merchant Trade Finance (MTF) from major shareholder Merhold.

Fm 26/8/94

(58)

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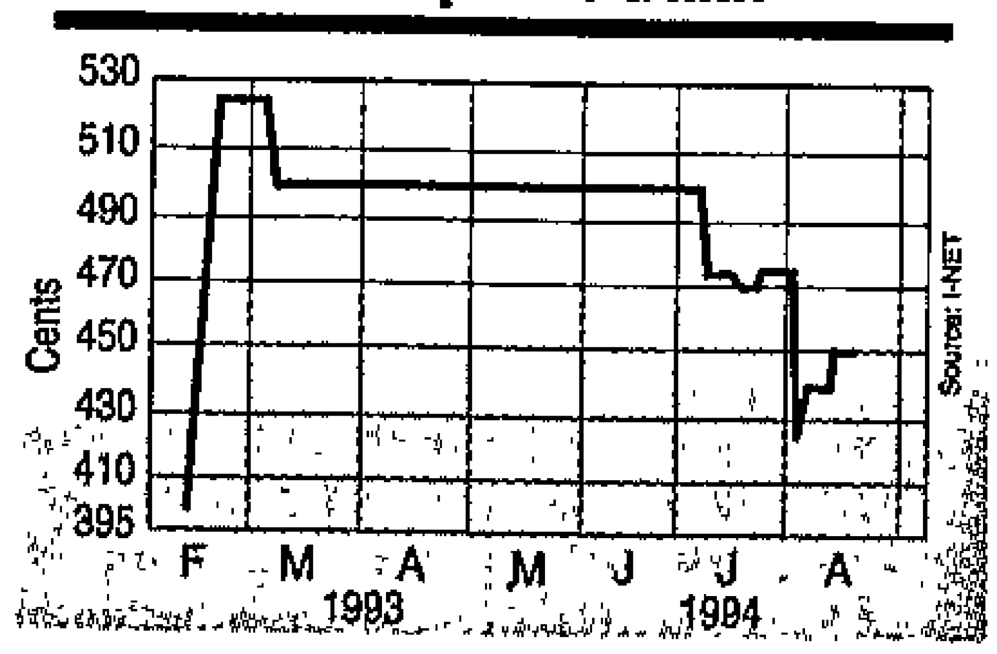
Assets grew 129%, mainly from the increase in advances represented by the acquisition. Some 42% of advances are represented by trade, factoring and working capital finance from the MTF business. Similarly, specific and general debt provisions increased 47% to R6,6m from the increased advances represented by MTF.

New Republic Bank



Net interest income also more than doubled to R47m from MTF. And since the acquisition was settled by the issue of 14,2m new NRB shares (as well as a R17,5m rights issue last year), the 229% increase in attributable earnings was diluted to a 10% decrease in EPS. The dividend was maintained on cover which reduced from 3,2 to 2,9 times.

Incidentally, another spin-off of the MTF deal was that Merhold paid its chairman Christopher Seabrooke a R2m restraint-of-trade. Now Seabrooke is also deputy chairman of NRB. It's odd that he received a R2m restraint-of-trade for selling a business to a bank which he effectively helps oversee and is effectively controlled by Merhold. Did anyone really think he was going to act in competition to his own interests? It looks remarkably like someone paying himself not to interfere in his own business.

Returning to NRB, the inclusion of MTF in financial 1994's results obviously skews year-on-year comparisons. Return on average shareholders' equity, regarded as one of the more important ratios for small banks and merchant banks, has declined, but return on assets is up. And the balance sheet looks sound, with cash holdings of R95,6m (R50,1m) and a capital adequacy ratio of 10,7%, comfortably ahead of the 8% which will ultimately be required.

Yet the market has not warmed to the shares since they were listed. First trading set a high of 525c — since then they have drifted steadily down. It would be unfair to expect the sort of returns from NRB that one sees in the larger merchant banks, but even a similar organisation like Fidelity Bank is getting a 2% return on assets, compared to NRB's 1,2%.

It's also likely that NRB's ratings are influenced by Merhold, listed in the same sector. Since reviewing Merhold's annual report in May, its share price has declined from R4 to R3,20. Its p:e of 5,4 is one of the lowest in the sector.

MD Mac Mia believes the possible influence is irrelevant, pointing out NRB is not a subsidiary of Merhold. That's true, but a link between share price performance is discernible among other listed groups with a smaller shareholding.

NRB believes it is positioned to take advantage of its market niches, mainly asset financing for small- to medium-sized business and the professional market and improve returns over the next few years. Directors caution, though, that expected growth in attributable income may be affected by the increased shares in issue.

Mia says benefits of the acquisition should start to be seen in the next 12-18 months.

It would be encouraging to view this as a possible growth stock, but investors may need a longer track record which shows bottom-line growth and improved ratios before considering the shares. *Shaun Harris*

Clouds beginning to lift for poorly regarded Absa Bank

Star 29/8/94

BY CHARLOTTE MATHEWS

A long-delayed re-rating of Absa shares has been taking place over the last few months. Since the beginning of August alone the shares have lifted by 12,5 percent to R10,75.

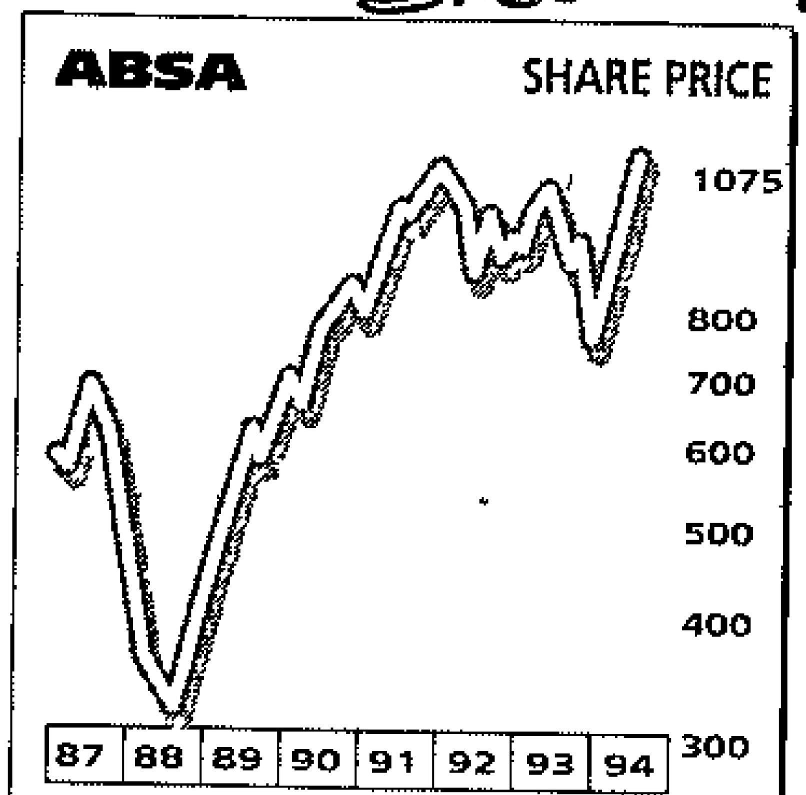
Absa has been the poorest performer of the major listed banking shares.

Its P/E ratio, at about 9, compares with Nedcor's 13 and SBIC's and First Bank's 14,5. At the same time, Absa shares are very active, turning over about R46 million a month against SBIC's R38 million.

The reasons for the bank's poor performance are historical.

In 1992 it bought Bankorp, a costly and problematic acquisition which eroded Absa's own capital base. Its market share has been shrinking and its bad debt provisions are higher than its competitors'. It has also had changes at senior management level.

For the year to March it reported a 2,5 percent drop in bottom-line profit to R666,4



Graphic ABEL MUSHI Source WEN SOFTWARE

million and an unchanged dividend.

According to an analyst, negative publicity over the past year had probably influenced many small shareholders, who were inclined to sell without realising that bank shares are a long-term investment.

"Now what we are seeing is a recovery to fair value," he says. "I think there has been a realisation that the shares have been oversold against the other banks.

"At the share's low of about 670c three or four months ago, institutions realised there was good money to be made."

He says it is unlikely the shares are moving on a major transaction pending because even if there were any sizeable deals they would not have an impact on the share price of such a large institution.

Other analysts say the share is being re-rated on better prospects because analysts have been talking to management to get a feel for results for the six months to September. (58)

Bad debt provision is expected to be lower than before and as a result earnings could possibly rise by about 12 percent — not spectacular, but certainly a turnaround.

On that basis, one analyst says, the shares could go up to R12 in the weeks ahead of the interim figures.

However, another considers it would be better to wait until release of the interims.

There has been no concrete reason to justify a re-rating yet, he says, and in that case the current share price is about right.

Investec's star shines in banking industry analysis

SAMANTHA SHARPE

THE bright star of the banking industry — Investec Bank — could expect real annual growth in earnings and dividends of between 5% and 10% in the next few years, banking analysts said yesterday. B| Day

But they warned of greater volatility in the profitablity of its books because of the nature of its operations and the increase in importance of trading income.

Income from abroad was expected to grow significantly as a proportion of total income. 31|8|94

Absa was likely to take at least three years to match the targeted growth forecasts of earnings and dividends a share of its major competitors, Standard Bank Investment Corporation (SBIC) and First National. 58

But Absa's image would probably improve significantly, with a moderate turnaround in profit performance in 1995 and even stronger profits in 1996, they said.

While First National's growth in earnings and dividends a share would overtake SBIC's in the next two years, it was expected to come in alongside its competitor in the longer term, with a forecast of growth in earnings and dividends a share of between 5% and 8%.

Also sharing a range of 5% to 8% in earnings and dividends a share in the longer term was NBS Holdings.

But the bank had the ability to outstrip the earnings and dividends growth of any other bank in the next two years, with expansion of its asset base at a higher rate.

Nedcor's earnings a share in the year to September could receive a boost from interest income from tax-based leasing projects written during previous years.

But expenditure on information technology would dampen earnings growth in the next three years, with targeted growth in dividends and earnings a share expected at between 4% and 7%.

Edey, Rogers and Co analyst David Southey said the drop in the corporate tax rate to 35% would provide a material boost to the banks' profits.

Fedsure branches out in US, as foreign banks eye SA

(S8) CT 1/9/94

JOHANNESBURG. — Fedsure is to expand its shareholder base abroad through the establishment of sponsored American Depositary Receipt (ADR) facilities by the Bank of New York.

This makes Fedsure the first financial services institution to be traded in New York and the second SA company to establish sponsored level 1 ADR facilities.

The company said yesterday ADR's represented an opportunity for US pension funds, institutional portfolio managers and retail investors to diversify their investments internationally.

The ADR's will be traded on the over-the-counter market in New York.

"While expanding our shareholder base internationally Fedsure will be providing overseas investors with what is considered to be competitive returns and attractive growth prospects," said Fedsure Group chief executive Arnold Basserabie.

"Fedsure can now access larger capital markets and establish relationships with international investment houses.

Meanwhile Christo Wiese, acting registrar of the Reserve Bank said SA could well clear the way this year for foreign banks to set up branches in the country.

Wiese said foreign banks had recently shown keen interest in South Africa and most saw the country playing the role of a hub for regional operations.

Proposed amendments to legislation, designed to allow foreign banks to set up branches, will be submitted to a Cabinet committee for review and he expected changes could be tabled in Parliament later this year for approval.

"We envisage, barring no unforeseen circumstances, that foreign banks will then be able to open branches.

"That will open the way for a lot of banks which have shown interest here," he said, adding such interest had been widespread, ranging from Europe, Asia to the US.

Currently, foreign banks may establish a presence only via a representative office, a fully capitalised subsidiary, or through purchasing of a stake in a local deposit taking institution.

Unlisted bank to increase capital to R74 million with new shares

(58) ARG 1/9/94

ALIDE DASNOIS
Business Staff

UNLISTED Mercantile Bank is to increase its capital to R74 million through the private placement of new shares.

The shares have been taken up by NSA Investments, which will up its holding from about 15 percent to 20 percent, by Sanlam, by Hollard Holdings and by private investors. After the placement, a total of 49,75 percent of equity will be held by directors and management, 14,9 percent by Hollard, 10 percent by Sanlam and 5,3 percent by Prestasi.

The injection of capital will bring Mercantile Bank's capital adequacy ratio to 18,99 percent.

Mercantile's capital was last increased in March, from R23,1 million to R33,2 million.

■ Industrial engineering group NEI Africa turned a R4 million loss into a R4 million profit in the six months ended June, after selling non-core businesses.

Turnover dropped by a fifth to R196,3 million after the disposal of Propower and A G Walker, but operating profit climbed by a third to R8,5 million.

Net financing costs halved after a rights issue at the end of May, which raised R29,8 million. Gearing is down to 50 percent.

NEI Africa Holdings, whose sole investment is 53,3 percent of NEI Africa, made a R2,1 million profit after 1993's R2,1 million loss. The group was recently awarded two multi-million-rand contracts in Africa, one in Kenya and the other in Zimbabwe, and is well placed to meet the industrial power needs of the Reconstruction and Development Programme, directors say.

■ **Charlotte Mathews** reports from Johannesburg that the AGMs of the three companies in the Caxton stable - **Solchem, Caxton and CTP Holdings** - went off yesterday without queries from shareholders on the possible acquisition of Penrose.

CTP Holdings issued a cautionary notice last week saying it was exploring the possibility of acquiring the business.

CTP chairman Edwin Jankelowitz said auditors were investigating the business. After that, CTP would conduct its own probe, so it was impossible to say anything until then.

Penrose recently issued a notice that there was a dispute among board members over the direction of the company.

Three Penrose directors subsequently took steps to remove chairman Albert Alletzhauser and his brother, Eric, from the board.

■ The expansion of its manufacturing operations, increased overseas earnings and the success of its niche stores pushed up profits from **Tiger Wheels** by 72 percent to R9,4 million in the year ended June.

Capitalisation shares in the ratio of three for every 100 held, or a cash dividend of 10c (6c), have been declared. Chief executive and joint chairman Eddie Keizan says the group is budgeting for higher sales and earnings in all divisions in the year ahead.

■ Republic Ratings has given **Standard Merchant Bank** a "stand alone" rating of A1 and a "with support" rating of A1" — the highest possible — for its capacity to repay short-term borrowings.

Republic director Dave King said the rating was accorded in view of SMB's conservative-risk management procedures, high-quality asset base, well-hedged funding and trading portfolios, soundly-structured balance sheet, significant recurring-income base and strong profit record.

RMB

BDay 2/9/94 From Page 1

international merchant banks charged far higher fees than their local counterparts, making SA banks more competitive.

As far as trading was concerned even the largest competitor was a client and new players could only add to the size and liquidity of the market. The group would be taking stock of its international strategy and was looking to the Far East, London and possibly the US. (58) (222)

Ferreira was satisfied that for the first time the bank had covered operating expenditure of R75,73m (R69,17m) with its net interest income after provisions for bad debts.

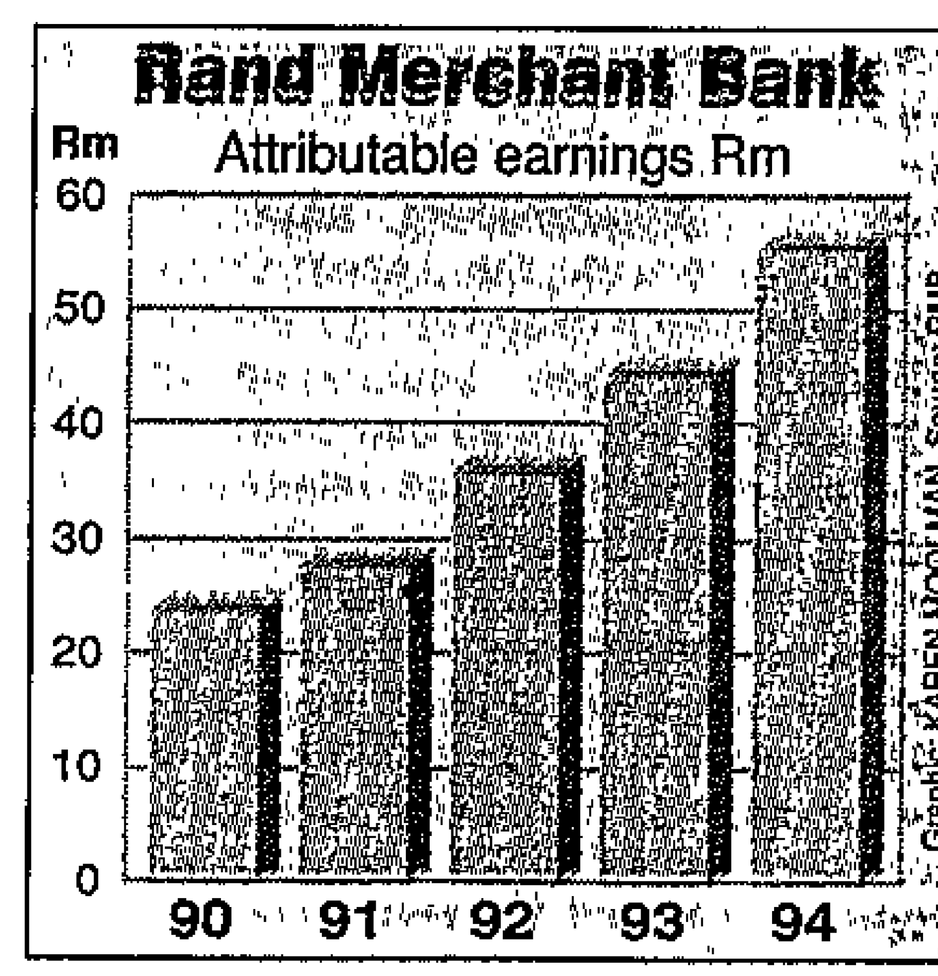
While return on equity had fallen short of expectations of between 28% and 30%, this was because of an increase in primary capital of 58% flowing from new disclosure requirements, he said.

The bank had postponed a dividend declaration because of adverse tax consequences. As a wholly owned subsidiary of Momentum Life this had no material impact on RMB or its holding company.

Rand Merchant Bank lifts income

BDay 2/9/94

SAMANTHA SHARPE



RAND Merchant Bank (RMB) lifted attributable income 25% to R55,1m for the year to June, in spite of doubling its bad debt provisions.

The Momentum Life subsidiary — going for full disclosure for the first time — said the bad debt figure of R24,44m showed its highly conservative view, representing more than 1,5% of total advances. RMB's bad debt write-off had averaged R1,8m a year for the past seven years.

The increase in bad debt provisions far outstripped the bank's growth in bank advances, which suffered in a climate of depressed demand. Its corporate clients were relatively cash flush so lending opportunities were scarce.

Growth was sourced from a 41% surge in net interest income to R100,56m and an increase in investment and other income to R81,33m (R65,57m). (58)

RMB MD Paul Harris said the bank had traditionally sourced one third of profit from banking activities, another third from trading and the rest from structured finance activities and fee income, with this trend set to continue.

Corporate finance had performed well and was set to show strong advances next year because of involvement in the First Wesgold takeover of Randgold, the Randcoal/Trans-Natal merger and the formation and listing of New Africa Investments.

RMB Holdings chairman G T Ferreira said RMB as a merchant bank had to acknowledge the threat of international competition, which would come as foreign banks entered SA.

But in terms of corporate finance the

To Page 2

RMB beats target figure

Star 2/9/94

BY CHARLOTTE MATHEWS

Rand Merchant Bank (RMB), an unlisted subsidiary of Momentum Life, improved taxed income 25 percent to R55,1 million in the year to June — well above its target of 20 percent.

Net interest income grew 41 percent to R100,6 million, while income from investments was 24 percent higher at R81,3 million. Operating expenditure rose only 9,4 percent.

Some R24,4 million was provided against bad and doubtful debt, more than double 1993's R11,5 million.

Executive chairman GT Ferreira said yesterday the provision bore no relation to the bank's experience or the quality of its book, but it was considered prudent to make the provision sizeable.

The tax rate rose to 33 percent from 22 percent since it varies according to the bank's activities.

No dividend has been declared because of adverse tax consequences. Momentum has no particular requirement for cash from RMB.

The group's primary capital grew 58 percent to R286,7 million as a result of the transfer of a R46,6 million contingency reserve from profits made in previous years, the contribution from 1994's earnings and a foreign currency translation reserve of R3,8 million.

The risk-weighted capital adequacy ratio exceeds the statutory minimum of 8,5 percent required from January 1.

The taxed return on average primary capital was 24 percent, down from 28 percent, as a result of the one-off transfers to primary capital which grew faster than earnings in 1994.

A possible further R60,5 million could be contributed to the balance sheet by unrealised surpluses on long-term investments.

Ferreira said all the group's divisions had contributed to profit growth. In 1994, as in previous years, about one-third of profits were generated by banking activities, one-third by trading and the rest by structured finance activities and fee income.

At the same time last year RMB held 10 percent of Sechold, which in the intervening period lost R200 million as a result of unauthorised positions taken in the futures market.

(58)

After Investec's takeover of Sechold, RMB's holding was diluted to about 1,5 percent at present. This investment was carried in RMB's accounts at book value and although the unrealised surplus declined, the market value of the investment at year-end was still higher than book value.

RB intervention halted rates cut

(58) CT 3/9/94

By ARI JACOBSON

SA banks may have cut their prime overdraft interest rate if the SA Reserve bank had not intervened midweek and extracted R3bn from the money market through a special treasury bill tender. First National Bank's (FNB) money market manager Mike Law confirmed yesterday.

Law explained that the money market would have "otherwise been in a surplus", which is a far cry from the rough R7bn shortage prior to the election.

The prime overdraft rate (currently at 15,25%) is the rate that banks lend money to their best customers, via among others overdraft facilities.

The increased funds into the money market have come from SA banks tapping into credit lines now extended from overseas, rising foreign investment, local funds (kept under mattresses) returning to the banking sector and more recently coupon payments on key government stock.

Law said Reserve Bank governor Chris Stals had "killed two birds with one stone" stalling inflationary pressure by taking liquidity out the system while, at the same time, looking to collect funds at a cheaper rate than in the high-priced capital market.

Law also pointed out that the money market "remained static" when key capital market stock soared over the 17% level — a clear indication that the sharp rise came from "rumour-mongering rather than economic reality".

A capital market dealer mentioned "the rumours have been extinguished and this is clarified by the strong demand from institutions, banks and foreign investors at these levels".

A Reserve Bank capital market source said "these are the true holders of government stock we have been hoping will buy, unlike the jobbers that have just accentuated speculation".

She added, "the capital market is in a bear phase. It's the classical economic scenario brought on by a scarcity of long term capital as the economy recovers. However we have witnessed a capital market crash this year and so rates could still strengthen."

And for the first time since the election — SA's financial markets closed at the weekend no longer awash with rumours.

Take the rand/dollar commercial rand exchange rate which was running away to the R4/$ level. The Bank stepped in and the currency is now trading happily at about R3,58/$.

As a chief currency dealer put it "nobody would have thought the Reserve Bank could change bearish perceptions — hats off to them".

He added, "a while back the talk was of a single currency at R4,20/$ to R4,50/$ in the near future — today it's more like the R3,70/$ to R3,80/$ and further down the line."

One rumour that lingered into the weekend was that most senior staff at the Reserve Bank took yesterday off.

"Don't you think they deserve it?" said the secretary to Andre Kock, the head of the Bank's capital and money market.

BUSINESS *with Ali Mphaki*

Bank rolls up

Loans to help hawkers

CIPRESS 4/9/94

(58)

LIFE will become a little easier for Johannesburg's hawkers on Wednesday – when the African Council for Hawkers and Informal Business (Achib) opens its first mobile bank for hawkers.

Achib launched similar mobile banks in Durban and Empangeni in Natal last year and – thanks to their popularity and success – hopes to have several mobile banks throughout the country soon.

"The mobile bank will offer loans ranging from R100 to R500 to help hawkers buy their stock," said Achib president Lawrence Mavundla.

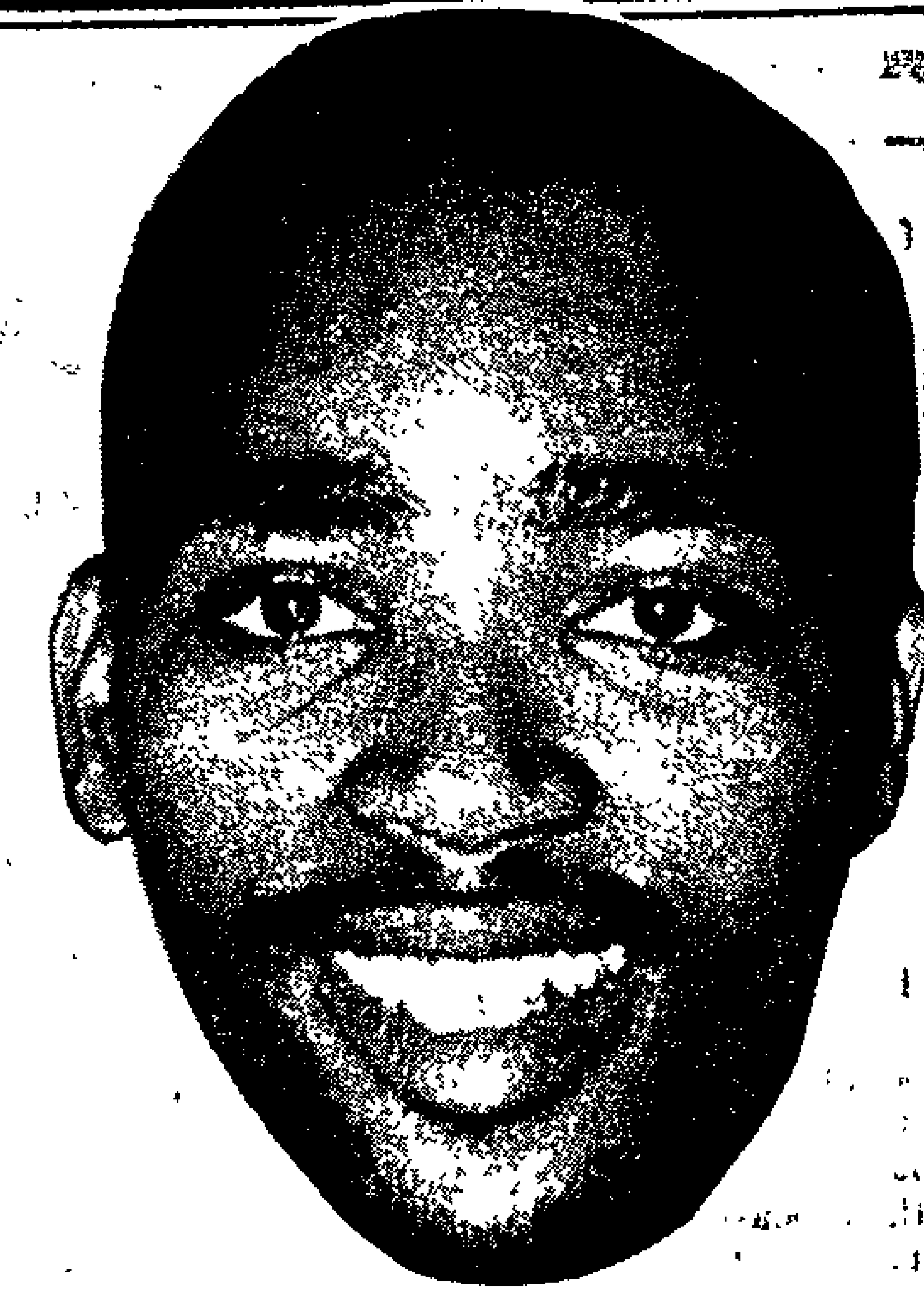
"The loans are payable within a week – and so far where we've been using this system, we've not experienced serious problems when it comes to repayments."

Mavundla said the mobile bank would be situated opposite Shell House between Plein and Klein streets.

Various speakers have been invited to the opening, including PWV Premier Tokyo Sexwale and Minister without Portfolio Jay Naidoo.

Johannesburg hawkers will get yet another facility when the bank opens – next to it will be the city's first storeroom where hawkers can store their wares overnight.

Meanwhile the 52 000-strong Achib grew 60 000 stronger with the affiliation of the Western Cape Hawkers and Informal Business last week. Affiliate president Khaya Mqhayisa will automatically become the Achib Western Cape president.



FAST MONEY ... Achib's new mobile banks are a hit with hawkers, says Achib president Lawrence Mavundla.

R40m injection for Mercantile Bank

(58)

CT 5/9/94

JOHANNESBURG. — Major groups including NSA Investments, Sanlam and Hollard Holdings have invested more than R40m in Mercantile Holdings, the owner of Mercantile Bank, a spokesman said at the weekend.

Mercantile Bank MD Derek Cohen said the investment would lift the bank into a new league and proved there was a strategy for small bank success.

"We found it by focusing on niche markets that have never captured the enthusiasm of larger banks."

NSA are now 20% shareholders, Sanlam 10%, Hollard 14,9%, Prestasi 5,35% and directors, management and associates 49,75%. Cohen said the new injection of funds would bring Mercantile Bank's net qualifying capital to R74 137 000. — Sapa

RB moots bank deposit insurance scheme

58 CTS 9/94

Own Correspondent

JOHANNESBURG. — The Reserve Bank, commercial banks and the private sector will join forces to try to protect the small depositor from the threat of bank failure, possibly through a deposit insurance scheme.

The scheme will be designed to protect the unwary depositor who has neither the skills nor the information required to judge the riskiness of a bank's activities. It will be tackled by a task force established at a Reserve Bank workshop at the weekend.

Reserve Bank Governor Chris Stals said at the workshop the establishment of a workable deposit insurance scheme would undoubtedly support the objective of overall financial stability.

He said a market could easily be contaminated by one rotten element. While markets were inclined to weed out the weaklings, this often caused great pain for other innocent and healthy participants.

"The need for deposit insurance in a market economy arises mainly from the weaknesses of certain members of the system that may lead to the contagion of the total system," he said.

While it was often expected that the central bank should use its macroeconomic operational instruments for microeconomic objectives, such as rescuing an individual bank, this was not always effective in achieving financial stability.

It was true that people should take responsibility for deciding how and where to invest their savings, but many depositors lacked the skills or information to judge which banks were sound. There was a clear need for additional national protection of unwary depositors, he said.

The committee would also call for input from the Life Offices' Association, Financial Services Board as well as representatives of the unit trust and short-term insurance industry.

The committee would decide who would own and organise the proposed scheme, which types of deposits would be insured and how it would be funded.

Stals said the committee would also investigate the scope of coverage and the type of institutions which cover would be provided for.

Boland Bank looks at insurance ties

BiDay

SAMANTHA SHARPE

BOLAND Bank would consider establishing closer ties with an insurance group as part of its plans to strengthen its position in banking, the bank said yesterday.

MD Gert Liebenberg said Boland could also become a niche player in specialised markets using, for example, its highly sophisticated computer system as a base.

The entry of overseas investors and banking institutions into the local banking sector was another possible avenue of exploitation, he said. 8/9/94

Pepkor chairman Christo Wiese, who took control of Boland in December, said recently that the size of a financial institution had now become an important issue.

Boland's attributable earnings rose 40% to R33,66m for the year to March on the back of strong growth in the group's net interest income. (58)

The group reported earnings a share of 180,4c compared with 179,2c at the same time last year, with a dividend of 58c (56c).

Boland's share price was last trading at R15, off its August high of R15,25 but more than double last October's low of R7,25.

Bank for hawkers

Sowetan 8/9/94

Sowetan Reporter

THE PWV provincial government was looking at finding solutions to the problems facing the small business sector in the province.

Speaking at the opening of the "Hawkers' Bank" in Johannesburg yesterday, PWV premier Tokyo Sexwale said his government planned to build a trade centre for small business in the city.

He said the centre would make its easy for the informal sector to ply their trades without harassment and intimidation from big business.

The bank, the brainchild of the African Council of Hawkers and Informal Businesses, is sponsored by the Anglo American and De Beers Foundation Fund and will make loans of between R100 and R500.

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Sexwale suggested a committee be formed to deal with problems facing the informal sector.

The informal sector was a key component of the Reconstruction and Development Programme because it helped to create jobs for thousands of unemployed people, Sexwale said.

Japanese banks plan role in SA economy

(58)

The Argus Correspondent

LONDON. — Nomura, Japan's biggest investment bank, is seriously considering buying a stake in a local Johannesburg broker.

The giant securities house clearly believes that South Africa has prospects. If it chose not to become a direct shareholder in a brokerage firm, it would open a representative office in Johannesburg.

Nomura is among the top five underwriters on international markets. The other three major Japanese investment banks, Daiwa, Nikko and Yamaichi, also intend playing a role in raising finance for the South African public and private sectors, and investing in the Johannesburg capital market.

Daiwa, the second biggest securities house, has already published a major report on the South African economy for its clients. It concludes that South Africa is "underborrowed" and it and Nomura want to be among the lead underwriters in future foreign borrowing, investment programmes and project finance.

Yamaichi, another leading securities firm, is raising finance for Cape Town's Capricorn Initiative in conjunction with National Leasing and Finance, a UK company. Capricorn is a Research and Industrial Park that will combine light industries with a training centre for blue collar workers.

ARG 8/9/94

The first phase of this development requires R55 million and the total cost of infrastructure will be R275 million, according to National Leasing directors. The two companies are offering a mix of equity and bonds to international investors, including Japanese companies and individuals.

A mere fraction of Japan's huge savings would be a welcome boost to the South African economy. The current account surplus on Japan's balance of payments in the past twelve months was $130 000 million. Japanese life insurance companies' cash positions are estimated at more than $100 000 million.

Statistics of the Bank of Japan illustrate the importance of Japanese funding. From an annual peak of around $90 000 million in the mid-eighties, Japanese net purchases of foreign bonds slid two thirds to $30 000 million in 1993. Last year $15 000 million of Japanese money was invested in world markets.

Stals bets on rands and wins

Rumours of the demise of the financial rand system are greatly exaggerated, reports **Duma Gqubule**

(58) WM (BM) 9-15/9/94

A RESERVE BANK masterplan has caused currency speculators to burn their fingers and lose billions of rands betting against the rand over the past couple of months.

Governor Chris Stals this week laughed at speculators who had put wagers on the commercial rand continuing its headlong slide against the dollar as pressure mounted for the bank to scrap the financial rand dual currency system.

The finrand, as it is known, protects the reserves of the country by sterilising outflows of foreign capital. Non-residents who invest in South Africa use these special rands, a pool of which has been created by foreigners disinvesting. While non-residents should find the cheaper finrand attractive, it has many disadvantages, not the least of which is that inflows of money via this route do not build up the capital in the country, but only soak up the outflow of capital.

Stals also issued a warning to the speculators: "Nobody is going to force the bank to scrap the financial rand before the right conditions exist, especially now that our reserves are on the rise again and the market is flush with dollars.

"We are making profits in our dealings in foreign exchange markets at the moment while they are losing money. The financial rand exchange rate must first come towards that of the commercial rand and not the other way round. In that way there will be less room for speculators and the pain ordinary South Africans will have to bear when the finrand goes will be reduced."

Stals said the bank had anticipated an outflow of short-term capital in the months leading up to the April election which would result in a sharp depreciation in the value of the rand against the dollar and other currencies.

These outflows would stabilise after the election, resulting in the rand gaining value against the dollar.

"We could have done nothing and allowed a sharp fall in the currency's value which would be followed by a sharp appreciation after the election. Instead, we decided to supply the market with dollars before the election and buy them back after the election to smooth out expected volatile fluctuations in the rand's value during the transition.

"Between end-August and May 10, the bank borrowed dollars worth R7,4-billion to prop up the rand, but the currency still depreciated sharply against the dollar. The fall would have been much sharper had the bank not intervened.

"We could have been wrong, but the plan worked out quite well because short-term capital outflows have

■To PAGE B2

P.T.O.

The bank for the masses

LENORE OLIVER (58)

Weekend Argus Reporter ARG 10/9/94

THE Western Cape's first Community Bank — and the second in South Africa — will be opened by Minister of Trade and Industry Trevor Manuel in Athlone today.

Branches will be opened in Elsies River in November and in Guguletu next year. Elsies River and Guguletu will serve as outlets for the Athlone core branch.

The bank aims to provide banking services to low-income communities who are unable to secure banking services.

"Our vision is to be a community-owned and managed banking institution catering for the savings and borrowing needs of lower-income urban and rural communities. We would like to break the barriers which prevented formal banking from efficiently servicing low-income communities," said chief executive officer Cas Coovadia.

The bank is aimed specifically at:

- Unbanked lower-income people;
- Banked lower-income people requiring banking facilities in their community area only, but where formal banks are unrepresented; and
- Banked lower-income people who will also save with Community Bank to qualify for a housing loan or small enterprise finance.

For clients to be given ownership they are required to purchase at least one share when they join the bank.

Clients are allowed to apply for loans only after they have saved at the bank for six months and only after the bank has established a suitable record of the members' ability to sustain saving.

Analysts plump for NBS

Star 12/9/94

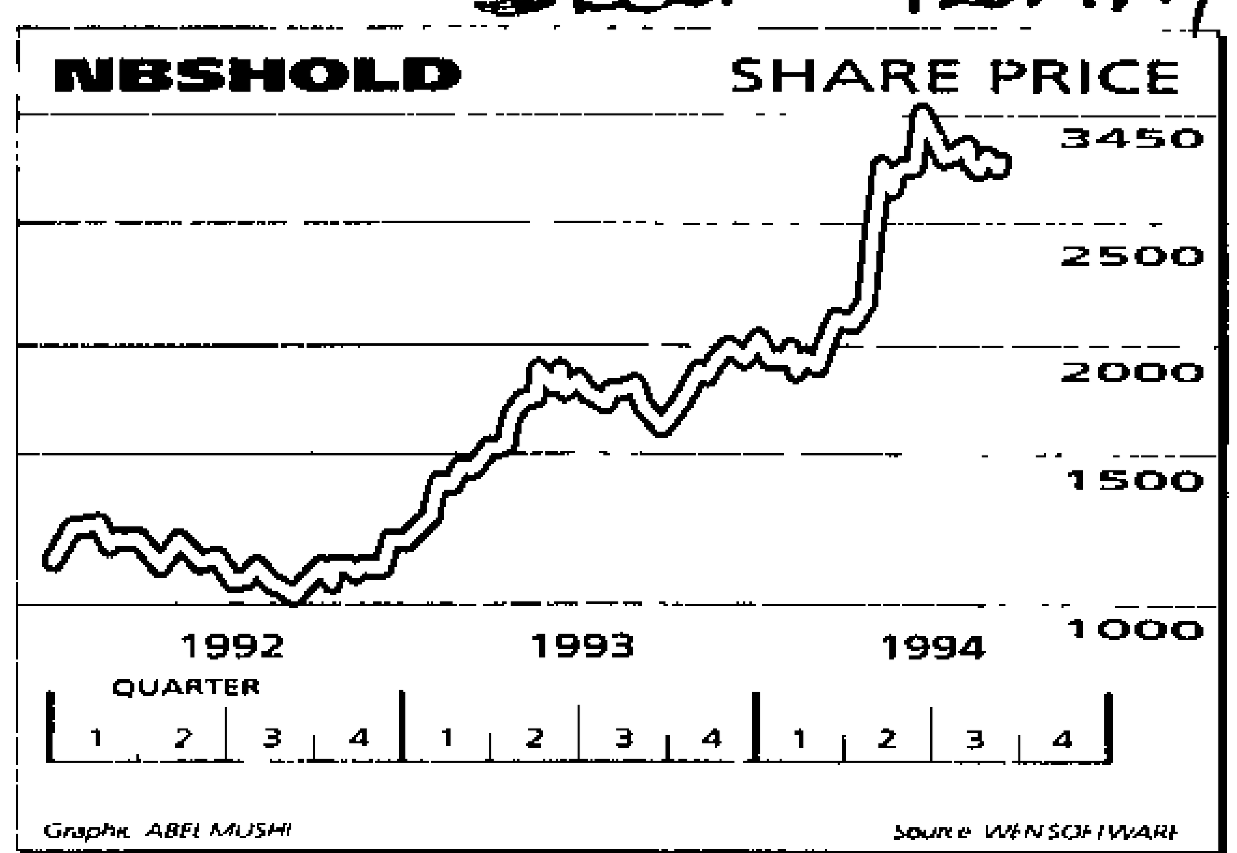
■ BY CHARLOTTE MATHEWS

Diversified banking and financial services group NBS Holdings, now trading below its all-time peak of R34,50, continues to promise excellent growth prospects and could be a buy at this level, analysts say.

At their current price of R30,25, the shares show a P/E of 16,9, above the blue chips in the bank sector. SBIC's P/E is 13,4, Nedcor's 12,5 and First National Bank's 14,3.

This has led some observers to argue that NBS is expensive for a small bank.

However, analysts say if not already a blue chip, NBS probably ranks as a "pale blue". Its compound earnings growth over the last five years has been 26,5 percent, compared with SBIC's 20,9 percent, Nedcor's 17,7 percent and FNB's 22,8 percent.



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If NBS sustains its rate of earnings growth — according to one analyst profits in the year to March 1995 are expected to be 25 percent better — it places the company on a forward P/E of about 13.

However, one analyst has expressed reservations about the group's long-term growth.

"It did very well on a simple building society formula, where sophisticated systems are not needed. Now it wants to expand in corporate lending it will have to incur costs and I am doubtful whether they can keep on growing."

Ed Hern, Rudolph analyst Alan McConnochie disagrees. He says the group's growth is likely to be in its niche markets of home loans and lending to small and medium corporations.

This will not require significant expenditure to cater for computer systems for activities such as foreign exchange or cheque accounts.

He views NBS as the cheapest point of entry into the RMBH group (the two companies have a 20 percent crossholding) and points out that the high percentage of income NBS receives from its insurance investments and operations helps to justify a high market rating.

At their current level, the shares reflect negative market perceptions about fraud charges against a senior employee relating to loans of about R55 million.

However, NBS MD John Gafney said in July that any potential loss would be covered by insurance and it would not materially affect group earnings.

An analyst suggests the shares could easily go up to R35 or R36 in the near future.

More fundamental reasons aside, speculation ahead of its results for the six months to September alone is likely to push the shares upwards.

Private deposit insurance punted for banks

By ARI JACOBSON

CT 12/9/94

A PRIVATE option of deposit insurance for banks is the only workable solution to protect depositors against bank failures, according to University of Cape Town (UCT) Doctor of Economics Hugh High.

High delivered a paper supporting this type of deposit option at a SA Reserve Bank think-tank held recently, where representatives of among others the Bank, commercial and merchant banks, consumer groups and the academic world were present.

A task force was appointed to undertake further research towards the optimal way of protecting depositors.

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High, a US academic now resident in SA, argued that a "general form" of deposit insurance previously available in the US "allowed bank managers to make questionable loans and undertake risky business — with tacit support of the Federal Reserve's deposit insurance scheme".

The result, he said, was self-evident in the collapse of the savings & loans institutions (S & Ls) in the US which was costing the taxp· yer some $260bn in a payback package to depositors.

High said that the only way to prevent abuse of a deposit insurance scheme was via the private insurance option, currently under an advanced stage of debate in the US, Germany and France as "the wave of the future".

High explained: "Private insurance will mean that a certain proportion of a bank's liabilities (deposits) will be covered by a reputable local insurance company (through possibly a specialist division)".

This had already proved successful in the US with specialist insurer Depositsure.

The cost of this insurance was passed on to depositors in the form of lower interest rate returns on deposits, he said.

Depositors were able to opt for "fully insured deposit facilities at lower returns, no insurance and higher returns, or some combination thereof".

For the deposit insurance system to remain "waterproof" High further suggested that as much as 50% of the deposit insurance taken out should be written overseas.

He felt that the local and overseas insurers together would "out of self-interest monitor banks and ensure that these institutions are well-managed".

High stressed that "the Reserve Bank can then focus on its traditional role as a central banker, essentially the lender of last resort function and not waste time overseeing bank deposits".

"At the moment big banks enjoy a backdoor subsidy based on the 'too big to fail doctrine'. Take for instance the loan at virtually zero percent to failed bank group Bankorp, while Pretoria Bank, Alpha Bank and Cape Investment Bank were all allowed to be liquidated.

"When I first started speaking at the workshop, the idea was met with general non-acceptance — but by the end of the paper there was far more support for the concept".

Stals warns against 'instant' lifting of controls

THE Reserve Bank would be unable to support the market without up to R30 billion in reserves if foreign exchange controls were scrapped instantly, Reserve Bank governor Dr Chris Stals said yesterday. (58) CT 14/9/94

Spelling out a four-step programme of exchange control abolition, Dr Stals told Parliament's joint standing committee on finance a healthy reserves cushion was needed to protect SA from potential capital outflows of between R5bn and R10bn.

With insufficient information on investors' reactions, the instant scrapping of controls would be a dangerous gamble akin to "jumping off a cliff", Dr Stals said.

"It is not right to talk about foreign exchange controls as if they can just be abolished."

Dr Stals recommended a gradual phasing-in, targeting, in order, the finrand, non-SA residents' investments, residents' external investments, emigrants' blocked funds and forex market operations.

Large capital outflows unbolstered by reserves could lead to a substantial reduction in liquidity which, together with speculation, could cause interest rates to rise above 30%, he said.

There was also little prospect of large investments coming into the country just because controls had been lifted.

A gradual phasing out of controls was preferable on the back of positive balance of payments policy, healthy reserves, and an expansion of foreign debt to around 40%.

Once the finrand had been scrapped, with minimal disruptions in the forex market, gradual concessions in other investment areas could be phased in.

With regard to the gradual phasing out of controls, Dr Stals said "we may be in a better position within the next 12 months".

He also said that a BB international credit rating would not be a disaster for the country.

BUSINESS

Plan to link markets in Africa progressing

CHARLOTTE MATHEWS (58) ARG 15/9/94

JOHANNESBURG. — Discussions with four African stock exchanges on exchanging personnel and technical expertise are progressing, says JSE president Roy Andersen.

A formal technical assistance agreement would be signed shortly with the Nairobi Stock Exchange.

The main contribution made by South Africa to this agreement and others to come would be technical, and particularly computer expertise.

Several African countries, on the other hand, were more experienced than South Africa in popularising shareholding.

Mr Andersen said the ultimate goal of the African Stock Exchanges Association (Asea) was to harmonise listing requirements among various exchanges with a view to regional listings.

At present investment was barred by exchange controls in most African countries.

Regional listings could only be achieved if these controls were lifted.

Asea's second conference was to be held in Johannesburg from October 25 to 28 with "Building African Capital Markets Together" as its theme.

Deputy Finance Minister Alec Erwin would open the conference. Guest speaker at the banquet would be deputy President Thabo Mbeki.

Asea has 17 members, including the JSE and the exchanges of Nairobi, Nigeria, Zimbabwe and Namibia.

Minorities in Saflife hold out in confused deal

(58) ARG 15/9/94

The Argus Correspondent

JOHANNESBURG. — Saflife shareholders could be forgiven for feeling confused about the exact offer they are being made in terms of last week's announcement and the reason for it.

A consortium, including senior management of Saflife, as well as Larry Nestadt, Errol Grolman and Gary Burg, has acquired an option from two of Saflife's majority shareholders, IGI and Crendell, to buy half the Saflife shares.

This means a similar offer has to be made to minorities, but 37,5 percent of minorities have said they will not accept it.

After the deal IGI will have no further interest in Saflife, but Crendell will retain about 15 percent.

Shareholders who grant an option to the consortium to buy their shares will receive 20c immediately for the option and between R1,20 and R1,65 for their shares when the option is exercised.

The exact price at which the shares will be bought will be determined by a formula based on the 90-day moving average price of Saflife shares on the day before the option is exercised.

This was done because the share price has fluctuated markedly in the past year and it was intended to give shareholders fair value. The consortium must exercise its option by September 1, 1995.

The deal means the consortium would be liable to pay a minimum of around R26 million and a maximum of around R34 million to acquire 62,5 percent of the company if all minorities accept.

Saflife chief executive Ben Gildenhuys, who forms part of the consortium, said the consortium had every intention of exercising its option.

Mr Gildenhuys said the reason for acquiring an option rather than making an outright purchase of the company was that "there are some considerations that need to be attended to and other deals that need to be finalised".

It is a matter of tying up loose ends rather than a lack of confidence.

The reason the deal had been concluded now was that there were other potential buyers for Saflife, whose price was not acceptable to IGI's curators.

The bank that will aid the poor'

Sowetan 15/9/94

By Mzimkulu Malunga

THE financial woes of the poor could come to an end if the three-month-old Community Bank has its way.

Established in June, the bank has already opened three branches — one in Cape Town and two on the Reef. There are also prospects of opening another one in the Eastern Cape soon.

The Community Bank Trust, as the bank is formally registered, is comprised of two institutions.

One is a mutual bank, which has the same facilities as an ordinary bank. The only difference is that the focus is on the low income groups.

The second is a non-governmental organisation which will carry out developmental work.

The Community Bank Foundation, as the NGO is called, will be funded through grants from the European Community, the United States Agency for International Development and various Western governments.

"The Community Bank wants to break the barriers between the low income groups and the commercial banks," says the banks chief executive Mr Cas Coovadia.

Ishmael Mkhabela

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The CBF's major objective is to raise communities to be able to help themselves.

Initial capital of R200 million has been raised from the Industrial Development Corporation, the Development Bank of Southern Africa, commercial banks and the Independent Development Trust to get the mutual bank of the trust going.

Prospective borrowers are required to save with the mutual bank for six months before they can borrow.

Each branch of the mutual bank will administer numerous outlets. The outlets will be run by the communities in which they are situated through a board elected by the same community.

Serving on the board of the Community Bank's outlet will be voluntary, says Coovadia.

The bank will lend money to people buying houses worth not more than R30 000. It will also give personal and business loans not exceeding R15 000.

Asked about the risks involved in lending money to people who could not provide security, Coovadia said the fact that the institution would be people-driven reduced the risk.

Currently the trustees of the bank hold all the shares in the institution on behalf of the community. These shares will be sold over time to the people.

Already the bank has about 400 individual shareholders who have bought shares for about R200 000, says managing director Archie Hurst.

There is no limit on the number of shares an individual can purchase. But each shareholder will be entitled to one vote irrespective of the value of his shares.

"This is aimed at protecting other shareholders," says Hurst.

Coovadia says the aim is to have all the shares owned by the community.

Another objective is to have 20 branches nationally to overseer about 150 community outlets by 1999.

He thinks the bank will have assets worth R1,5 billion by 1999 and will be employing more than 1 500 people. The institution presently has 70 employees.

On the confusion that followed the PWV's premier's plans to form a community bank, Coovadia says he is due to meet the Mr Tokyo Sexwale and his MEC for housing Dan Mofokeng to resolve the issue. He describes the threat to form a rival community bank as the "symptoms of transition".

"Mr Sexwale is aware of the existence of the Community Bank," says Coovadia, who hopes that the PWV government will cancel plans to form a community bank to drive its ambitious housing programme.

The Community Bank is the only bank registered under the mutual bank legislation.

"We are the only ones who have the right to use the name Community Bank," he says.

Coovadia says his institution has no qualms in working with any institution doing development work in the PWV.

The board of trustees of the Community Bank Trust is chaired by a long standing community leader Dr Ellen Khuzwayo.

The board of the banking arm is chaired by former United Democratic Front activist and lawyer Yunus Mahomed.

Former president of the Azanian People's Organisation Ishmael Mkhabela chairs the board of the Community Bank Foundation.

LAUNCH: Officials at the Community Bank launch recently were Mr Clive Stuurman (development officer), Ms Zohra Ebrahim (trustee), Mr Cas Coovadia (chief executive officer), Mr Karl Mudenda (Athlone branch manager) and Mr Archie Hurst (managing director)

Community bank opens in Athlone

Southeaster (suppl to South)

BY WAGHIED MISBACH

LOW INCOME families not catered for by big banks can now save their money at the Community Bank which opened in Athlone this week.

Households with an income of not less than R1 200 a month will be able to deposit their money with the bank, said chief executive officer Mr Cas Coovadia. 16/9 - 20/9/94

Every person who wants to save with the bank will have to buy a share worth R20. This will ensure that the community own the bank, said Mr Coovadia. (58)

However, shares cannot be traded or sold and shareholders will not earn a dividend or income from the share. Depositers will earn interest on the shares, and will only be able to sell their shares back to the trustees.

The trustees currently have R200 million in shares to sell to depositers.

The development section of the bank will raise money through grants to empower disadvantaged communities.

The bank will provide loans for housing, small business and personal loan. Mr Coovadia said the bank will provide loans to people without security only if they have excellent character references from their communties. People who want to buy houses in the R30 000 range will be targeted.

The smallest loan will be R500. Bank charges will be slightly less than that of normal banks.

The first branch of the Community Bank opened in Johannesburg on July 23. The Athlone branch was the second one to open.

Outlets for Elsies River and Guguletu and a branch for Mitchells Plain are being planned.

Mr Coovadia said that the bank plans to have 20 branches with between 100 to 150 outlets, and to employ 1 500 people, in five years time.

RMBH likely to show good growth

BDay 19/9/94

SAMANTHA SHARPE

A FULL year's results from Rand Merchant Bank Holdings (RMBH) share-swap partner NBS and its stake in Aegis would give a solid boost to the financial services group's results, analysts said at the weekend.

They expected "very good growth" from RMBH and subsidiary Momentum Life, with the group forecast to show earnings growth of between 34% and 40% for the year to June, compared with growth of 20% in June 1993.

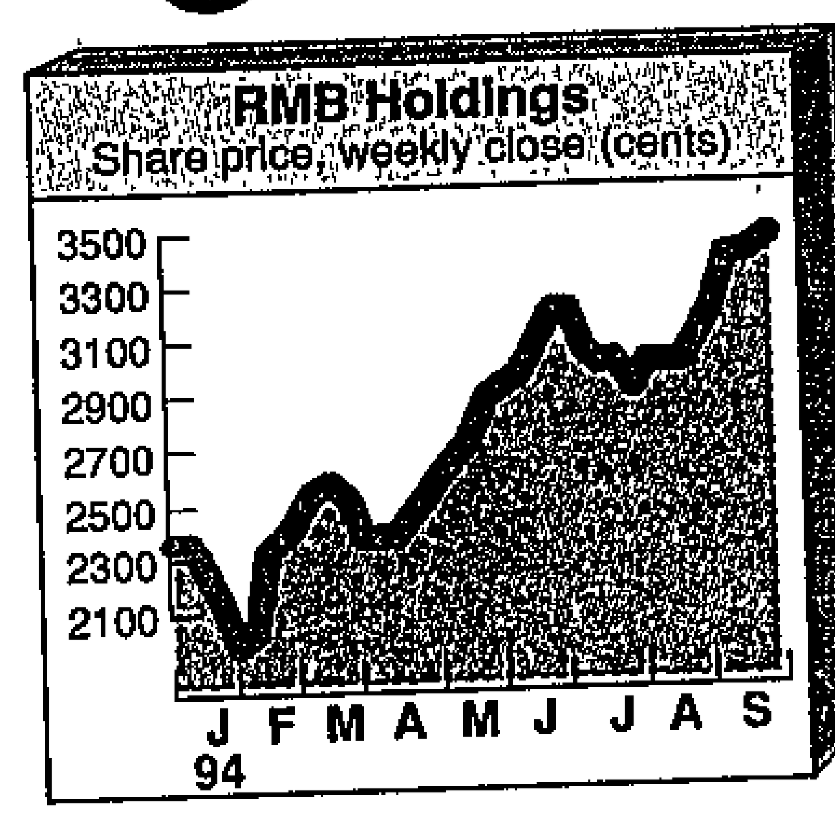
This would mean a final dividend of between 43c and 45c compared with 32c at the same time last year.

Momentum was forecast to show earnings growth of between 30% and 32%. Tomorrow's results would, for the first time, incorporate a year's gains from RMBH's 20% cross-shareholding with NBS, which came into effect in July last year.

The 1994 earnings would also reflect a full year's income from short-term insurance company Aegis compared with the three months' net income included in last year's results and would be sure to kick in to RMBH's bottom line.

An analyst said the group was a good fit for the trading bank mould and with international changes it could only benefit from being in the merchant banking business.

The group's merchant bank, RMB,



recently reported a 25% increase in attributable income to ~~R55,1m for~~ the year to June. 58

Edey Rogers analyst David Southey said the group's Australian operations would probably support growth in earnings a share of about 40% to 113c a share.

But better-than-expected profits from subsidiary Australian Gilt Holdings — registered with the Australian Reserve Bank — could knock this up higher.

RMBH reported a 38% rise in its dividend to 14,5c a share for the six months to December from a 39% increase in earnings a share to 41,7c. Net attributable income surged 53% to R25,2m. Momentum Life raised premium income 12,6% to R701m for the same period, with earnings a share up 33% to 21,2c and the dividend up 33% to 12c.

SBIC's funding road show

(58) CT 22/9/94

JOHANNESBURG. — Growing interest in SA's banking sector by international investors could lead to Standard Bank Investment Corporation (SBIC) raising cash abroad to fund the bank's international expansion.

SBIC financial services GM Henry Shaw said yesterday the interest had prompted the group's international road show, set to begin on Monday.

Sources said the team would be visiting institutional investors in the UK, Europe and the US to find out their views on a possible debt or equity offering.

The aim would be to place the bank in a financial position to take advantage of international opportunities. The primary focus would be to cater to the needs of SA corporates as they entered the international arena.

COMPANIES

Momentum profits from RMB's focus

S Times (Buss) 25/9/94

By JULIE WALKER

MOMENTUM Life got into the swing of things during the financial year to June 1994. A net taxed surplus of R81,4-million was 54% higher than the previous year's and earnings a share were lifted by 43% to 60,6c.

Momentum is the country's only life office to be controlled by a banking institution — RMB Holdings, which reports its earnings this week. It has been in the RMB Holdings stable for two years, during which profitability has been the focus.

Laurie Dippenaar, Momentum's executive chairman, says three factors have contributed towards the progress: sales have improved while quality of business was maintained, administration is far more efficient — a National Productivity Institute award bears testimony — and thirdly, asset management is thriving.

Total premium income grew by 17% to R1,3-billion.

Mr Dippenaar says new single-premium income has improved by 83% and new recurring premium income by 97% in the year to June 1993 because the quality of service Momentum provides to brokers is so much better.

Turnaround times on new business applications have been shortened to a point where 99% of all applications are dealt with in one working day.

Similar efficiencies have been achieved with other transactions such as changes, amendments, claims and surrenders. Mr Dippenaar says the policy lapse ratio has been halved and now falls below the industry average.

Off-balance sheet funds under management at RMB Asset Management have grown by 71% to R6-billion, reflecting existing asset appreciation and new business won, notably as fund managers. Rand Merchant Bank, owned by Momentum, raised its net income by a quarter to R55-million, Momentum Health looks healthy although new business strains will oblige it to raise capital by way of a rights issue to its shareholders.

Aegis was owned for the full year, although underwriting exposure will take its toll this year, and RMB Properties turned around.

Property developments for third parties were also completed profitably.

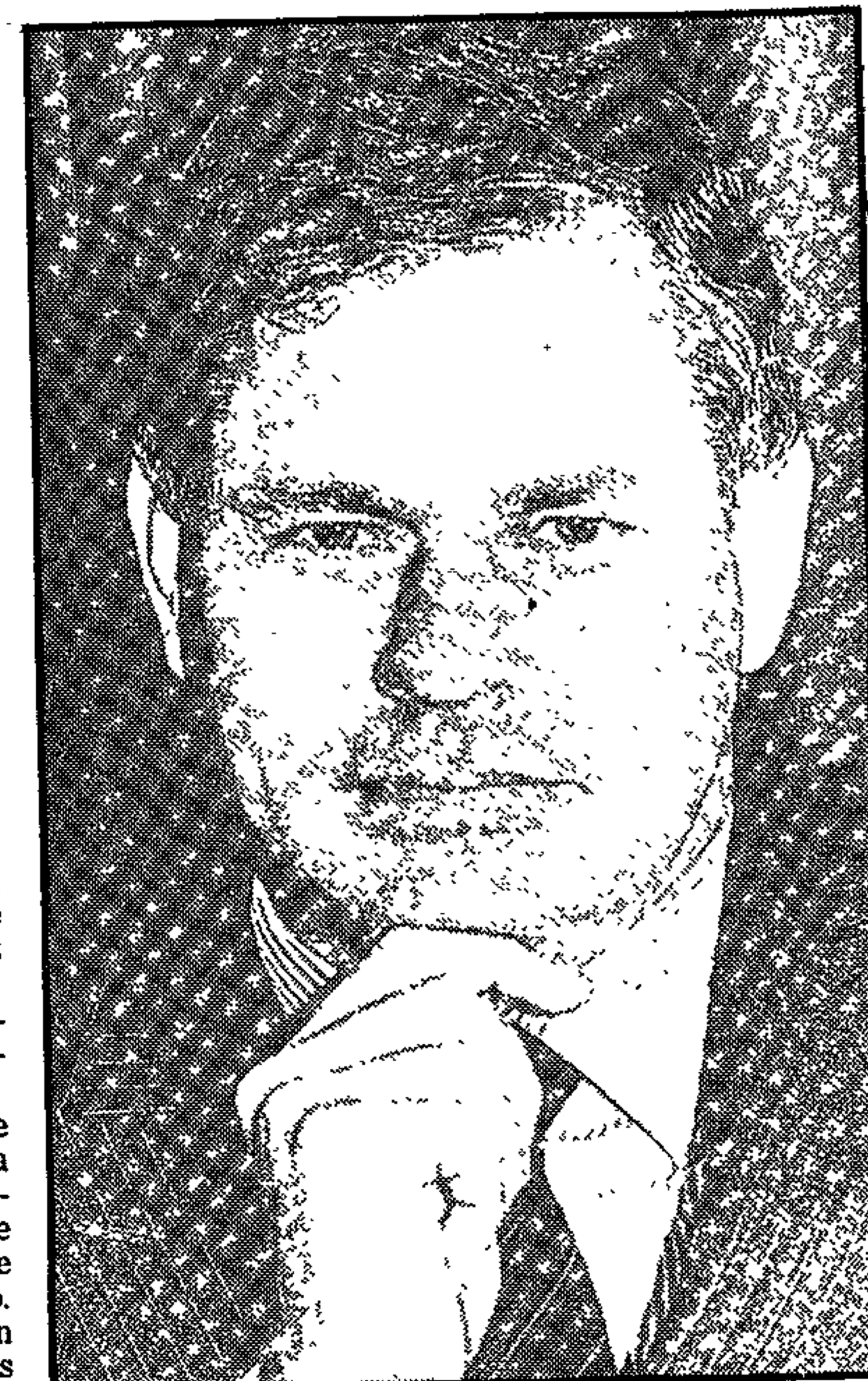
Momentum has a sound actuarial surplus; details will be disclosed for the first time in the annual report in line with statutory requirements. (58)

Mr Dippenaar says ambitious targets have been set for both Momentum Life and Momentum Health with regard to new business, which have been met in the first quarter of the current financial year.

The group's unit trust activities are also being expanded.

A dividend of 32,5c for the year puts Momentum on a yield of 1,6% and a price-earnings ratio of 33 at the current R20. The share price was 825c a year ago.

Momentum has been among the top performers since RMBH took control at a price of 440c in 1992.



LAURIE DIPPENAAR: Momentum executive chairman

Momentum posts upbeat earnings rise

(58) CT 26/9/94

By ARI JACOBSON

FINANCIAL services group Momentum Life increased earnings by 43% to 60,6c (42,4c) a share for the year to June, boosted by buoyant new business.

A final dividend of 20,5c (14c) pushed the total dividend a share increase up 41,3% to 32,5c (23c) a share.

Subsidiaries under the Momentum banner are Rand Merchant Bank (RMB), including RMB asset and property management companies, Aegis short term insurance and Momentum Health.

The group's asset base grew in the year to June by 35% to R20,4bn (R15,1bn).

Executive chairman Laurie Dippenaar attributed the success to the group's strategic "repositioning" into the upper end of the market.

He pointed out that "some 65% of policies are now sold to A-income group customers".

Dippenaar added "our success is as a result of our focus — we no longer dissipate the group's efforts across a broad base".

In this manner annualised new recurring income increased by a massive 83% and single premium income by even greater 97%, compared with the previous financial year.

Total premium income increased by 17% to R1,3bn (R1,1bn) in the year under review.

Service is also high on the list of priorities and, as Dippenaar says, "99% of all policy applications are completed within a day of receipt of the application".

He stresses that "good service attracts new business".

The overall performance was well-supported by RMB — with the bank delivering R33m in profits to Momentum. RMB is 60% owned by Momentum.

The asset division's funds under administration grew by 71% to R6bn (R3,5bn), which had a knock-on effect on Momentum's profits. However the property division turned in a loss.

Momentum Health also boosted "premium performance", with its Discovery Medical insurance package chalking up R90m in annualised income.

Dippenaar concludes: "The first quarter of the new financial year is indicating that we are still on track to report considerable gains in life assurance business — while maintaining control over the quality of asset growth".

Aegis income helps to lift Momentum earnings

BDay 26/9/94

SAMANTHA SHARPE

MOMENTUM Life Assurers posted a 43% rise in earnings to 60,6c a share for the year to June, boosted by a full year's income from subsidiary Aegis.

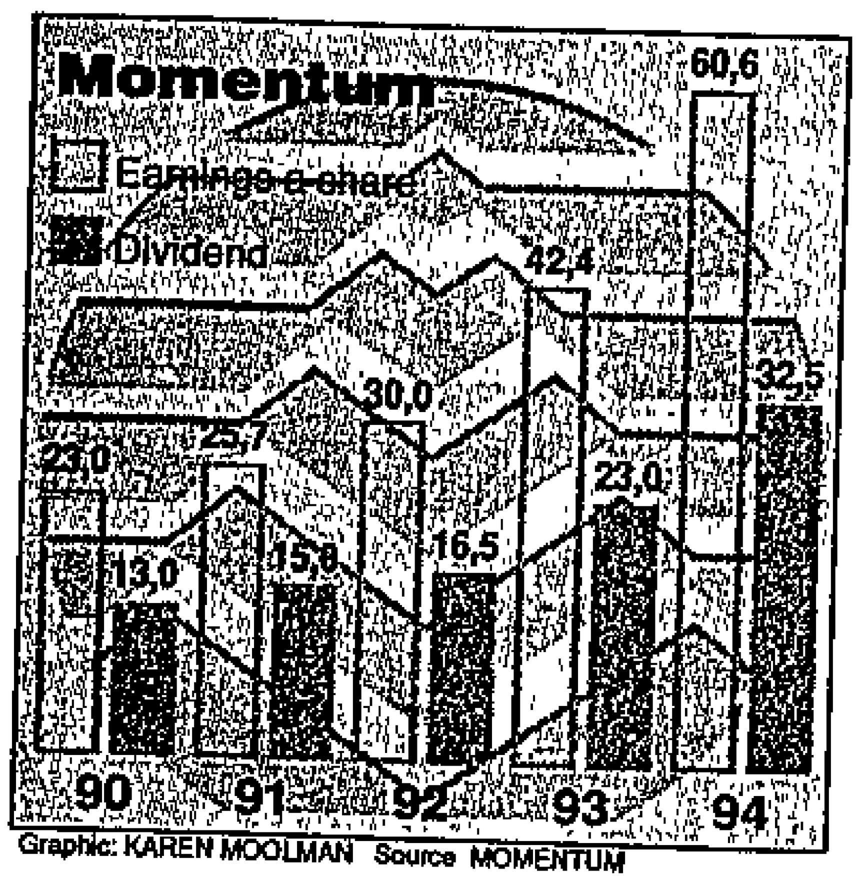
The group's net taxed surplus accelerated 54% to R81,4m, with the improvement in life insurance and asset management earnings the major culprits behind the rise.

Total premium income rose 17% to R1,3bn. The launch of several products and improved service saw new recurring and single premium increase 83% and 97% respectively compared with the previous year.

This translated to a total dividend of 32,5c, up 41% from last year.

Momentum Life CE Laurie Dippenaar said the average premium size was up 45%. This had a very positive effect on operational efficiencies, and was complemented by a lapse ratio that had halved to well below the industry average.

Other operational efficiencies en-



Graphic: KAREN MOOLMAN Source MOMENTUM

sured the increase in management expenses was kept to less than 1%.

Momentum MD Neil Krige said ambitious targets had been set for new business premiums for Momentum Life and its subsidiary Momentum Health. (58)

"Based on the results for the first quarter of the 1995 financial year they are on track to meet these targets, with Momentum Life expecting further improvements in operational efficiencies in 1995," Krige said.

Momentum subsidiary Rand Merchant Bank's 25% increase in profits to R55,1m for the year to June filtered through to the life assurer's bottom line. RMB's contribution and the income from short term insurer Aegis — Aegis's earnings were accounted for a full year for the first time — were responsible for about half Momentum's incremental increase in profits. Subsidiary RMB Properties succeeded in turning a loss in 1993 into a profit for 1994.

Dippenaar said RMB Properties had also completed a number of profitable investments for third parties, and these had contributed to their sound performance.

Momentum Health's performance, which had completed its second full year of business, was "pleasing and in line with the original business plan".

A flow of new business was expected to continue at the current level and Momentum Health would probably raise additional capital by way of a rights issue this year.

It all comes together for Momentum Life

Star 26/9/94

BY CHARLOTTE MATHEWS

In the year to June everything came together for Momentum Life Assurers, chairman Laurie Dippenaar said at the weekend on announcing a 43 percent rise in earnings a share to 60,6c.

Earnings growth was achieved despite an increase in the weighted average number of shares in issue.

Group net taxed surplus grew by 54 percent to R81,4 million.

The dividend is up 41 percent to 32,5c on a slightly increased dividend cover at 1,9 times from 1,8 times.

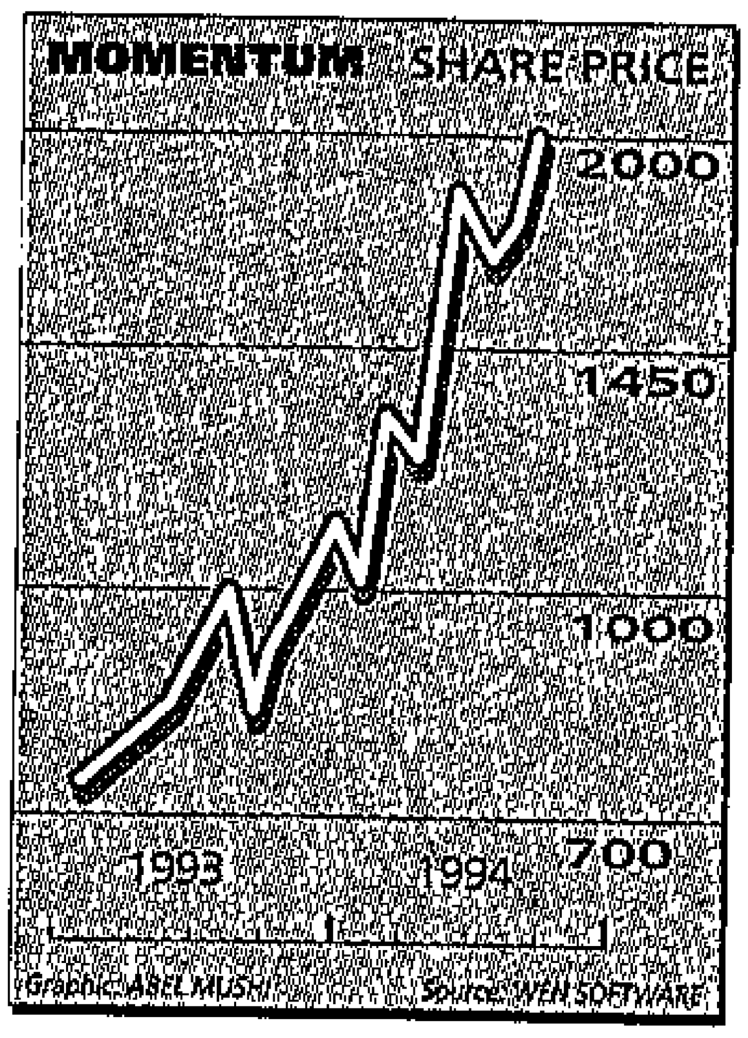
Dippenaar said a policy on the level of cover would be established but it would not deviate significantly from the current level.

58

The group, which includes a wholly owned Momentum Life, 70 percent of Momentum Health, 50 percent of short-term insurer Aegis and 100 percent of Rand Merchant Bank, RMB Asset Management and RMB Properties, now has R20,4 billion of assets under management.

Dippenaar said the actuarial statement, which would be published in the annual report, would show a 21 percent increase in the surplus of assets over liabilities.

On the life side, new recurring premium as well as single premium business grew strongly, with annualised new recurring premium business 83 percent higher and single premium income 97 percent above the previous financial year.



Total premium income rose 17 percent to R1,3 billion.

Dippenaar said the lapse ratio had improved to about half the industry average, on any measurement, on tighter control of business written.

About 64 percent of business was now sourced from the middle-to-upper income market.

Momentum Health, now in its second year of operation, performed in line with its original business plan. Its products had been well accepted by the market, and the flow of new business was expected to continue at the current level.

The contribution from Aegis was R14,4 million. This was above the previous year because earnings were accounted for a full 12-month period for the first time.

Poor underwriting results being seen across the short-term industry were likely to affect Aegis's contribution in 1995.

RMB Asset Management continued to attract new funds, with the value of funds managed on behalf of clients up 71 percent to R6 billion for the year.

RMB Properties, which generates its income from management fees, property development and, in conjunction with RMB, structuring property finance, showed a turnaround from a loss in 1993 after a reorganisation.

RMB recently reported a 25 percent growth in profit to R55,1 million, of which R33 million was attributable to Momentum Life shareholders.

Dippenaar said the group intended to grow its unit trust side in the next few years. In the coming year, it would be difficult to maintain a growth rate of 43 percent, but he believed profit improvement would be satisfactory.

Southern Life set for Namibian listing

CT 29/9/94 (58)

Business Staff

SOUTHERN Life will be listed on the Namibian Stock Exchange in Windhoek on Wednesday, (October 5) MD Jan Calitz announced yesterday.

He said Southern Life's direct investments in Namibia were worth more than R120m and it was intended to increase these in the near future.

Southern Life was committed to Namibia and wanted to make its shares readily available to Namibians. "By listing in Namibia we are committing ourselves to the longterm future of the country.

"Namibia offers us an additional market in which to trade our shares and this will, in time, give us a broader shareholder base."

Southern Life will be the 12th company to be listed on the NSE, which opened in October 1992.

Southern Life was listed on the JSE in August 1985 in a listing which was more than 12 times over-subscribed.

● Meanwhile the NSE will today celebrate raising more than Nam$100m of new investors' funds this year when Namibian Minerals Corporation shares are traded.

Namco would be the 11th company to trade on the NSE. It attracted wide interest for its shares when they were offered earlier in September at Nam$9,25 a share. The offer raised more than Nam$22m.

Namco is exploring off the coasts of Namibia and South Africa.

Mineral diamonds from the west coast of Southern Africa are the most preferred diamonds in international production, said Namibian Minerals Corporation (Namco) chairman Alastair Holberton at an Investment Analysts presentation yesterday.

Holberton was speaking prior to the listing of the group.

He said that diamond cutters in the so-called world diamond centre situated in Antwerp, Belgium — preferred mineral diamonds because there was minimal wastage and was "easily shaped" in the production process.

Holberton was confident that Namco's diamond concessions of the west coast of Southern Africa could contribute 3% to 5% of world gem diamond output by 1995.

He said that Namco was hoping to list on the JSE once the SA Reserve Bank provided the necessary permission and so complement its other listing in Vancouver, Canada.

SAAMBOU

Recovery continues

58

Saambou's results for financial 1994 consolidate the strong turnaround in this bank over the past two years. Asset growth of

COMPANIES

30/9/94 (58) FM 3(

Activities: *Banking and financial services.*
Control: *Fedlife 38,4%; Metropolitan Life 11,8%.*
Chairman: *H A Sloet. MD: J P Myburgh.*
Capital structure: *125m ords. Market capitalisation: R288m.*
Share market: *Price: 230c. Yields: 1,3% on dividend; 6,7% on earnings; p:e ratio, 14,9; cover, 5,1. 12-month high, 240c; low, 85c. Trading volume last quarter, 7,9m shares*

Year to March 31	**'91**	**'92**	**'93**	**'94**
Total assets (Rbn)	4,20	4,27	4,34	5,15
Advances (Rbn)	3,08	3,58	3,72	4,37
Pre-tax profit (Rm)	(25)	(66)	25	34
Taxed profit (Rm)	(27)	(68)	16	22
Earnings (c)	(26,4)	(59,0)	10,0	15,4
Dividends (c)	6	nil	2	3

18,6% — compared with 1,7% last year as the group shed nonperforming assets — coupled with a 54,4% increase in EPS and 50% increase in dividends on higher cover is a generous reward for investors who backed the share in the lean years of 1991 and 1992.

With this kind of growth, it's not surprising that the share price has risen from 85c a year ago to R2,30. But, to put Saambou's results into perspective, it must be remembered that this is still a recovery situation. In 1990, before earnings plunged into the red, Saambou was posting a taxed profit of R25m and EPS of 29,6c.

Group MD Johan Myburgh is targeting EPS growth of around 46% this year, to 22,5c a share. He has made longer-term projections as well, aiming at EPS of 55c in March 1999.

With a strengthened balance sheet, improved quality of assets and in a market which saw interest margins widen over the second half of the financial year, Myburgh's projections appear on track.

But rapid growth of this sort must be tempered with caution. Investors would probably feel more comfortable with a larger capital base. Despite raising R40m through convertible debentures earlier this year, Saambou's 8,7% capital: risk-weighted assets ratio is low considering the recent pace of asset growth — even for a bank of this size.

Myburgh is comfortable with the bank's capital position. He says Saambou is in a segment of the market (it targets salaried individuals and pensioners) where growth can be managed. And it is not expected to pay normal corporate tax for the next two years as it uses assessed losses of R130m. He adds that pre-tax income can be used to bolster reserves.

A general risk provision has been created, which now houses R17m compared with last year's R6m.

"This should ensure sufficient capital for the next two or three years. However, we are considering strengthening the capital base further through the issue of debentures," says Myburgh.

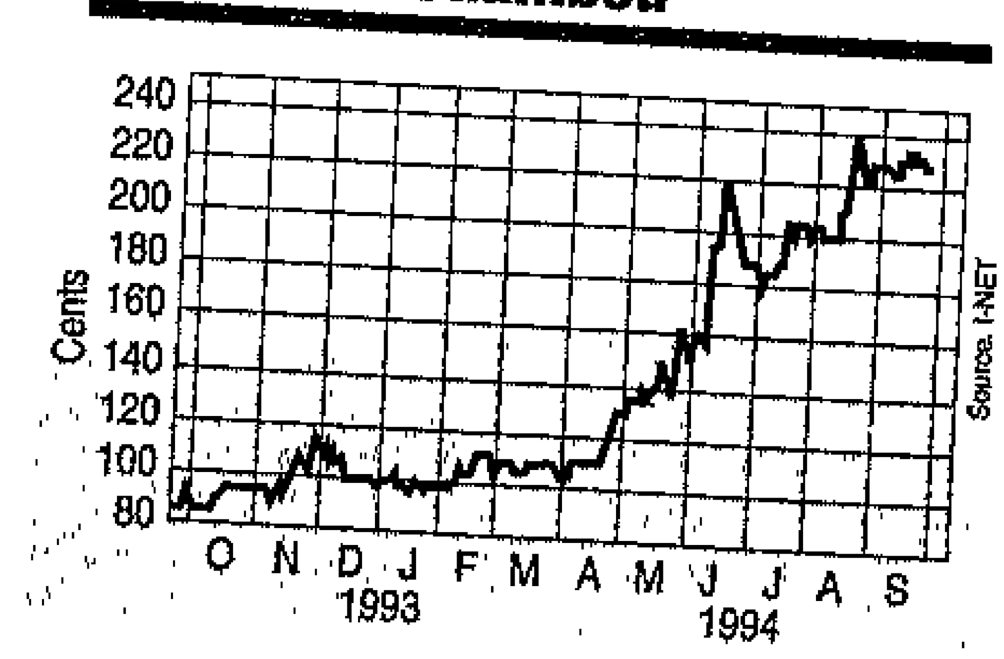
Expenses seem well under control. Operating expenditure of R155,5m has declined by 4,7% and operating income has risen 12% to R245m. Home loans continue to make up the bulk of advances, about 81%, but, in line with a programme to achieve a more balanced spread of income, these advances grew by 16% against an overall 17,3% increase in advances.

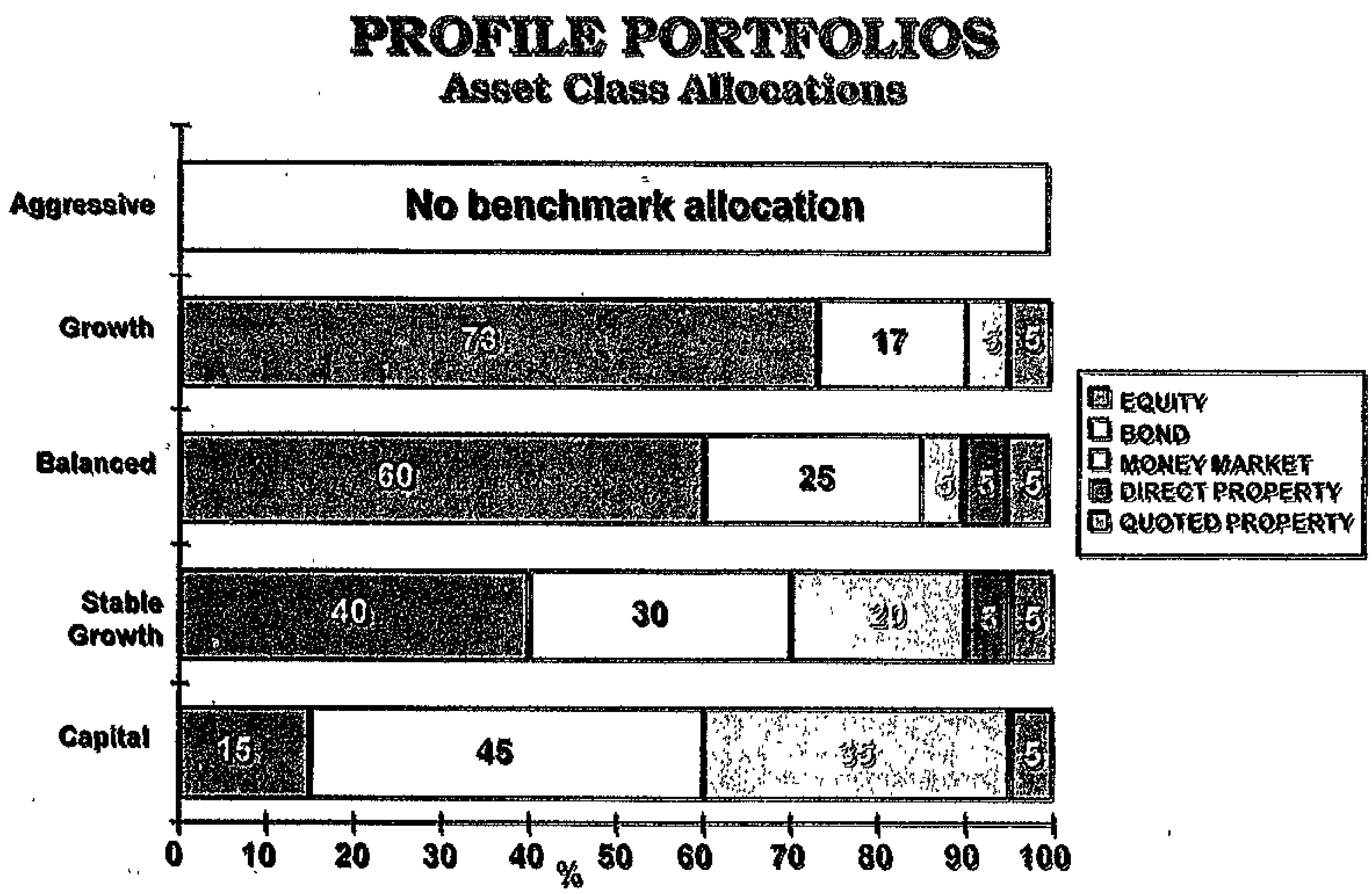
On present ratings, the share is expensive, though some investors have clearly taken Myburgh at his word and are backing the counter on next year's expected increase in earnings. If Saambou can show sustainable earnings growth and continue to eliminate nonproductive assets, mainly in property, it could become one of the top rated banking shares.

The *FM* often takes banks to task for poor disclosure. In this respect, it is encouraging to note the amount of useful information provided in Saambou's annual report, which is at least on a par with the big banks and far better than most of the small banks.

Shaun Harris

Saambou





WIDE EXPOSURE ... Old Mutual has set up five new market-linked portfolios for retirement funds with varying exposure to the equity market.

Old Mutual launches subsidiary

58) CT 30/9/94

Business Editor

OLD Mutual has set up a separate subsidiary — Old Mutual Asset Managers (OMAM) — to specialise in market-linked investment portfolios including unit trust and segregated retirement fund assets, medical aid funds and other trust funds.

And it has developed a new range of five market-linked investment vehicles for retirement funds. Each has a different level of risk and possible return.

Garth Griffin, GM of Old Mutual Employee Benefits and OMAM senior executive, said at a media briefing yesterday that OMAM "facilitates the development of a distinct investment philosophy and focus which is sensitive to the differences between long term life insurance and funds managed on behalf of clients, like retirement funds."

He said differences had been accentuated by the introduction of the Four Funds tax approach which distinguished between life funds and those managed on behalf of clients.

OMAM is a registered portfolio management company with more than R35bn in assets under management.

Old Mutual's life fund investments, with assets of around R90bn, fall outside the scope of OMAM and remain under the supervision of GM (investments) Johannes van der Horst.

OMAM will have access to the expertise of UK-based Old Mutual International Asset Managers (OMIAM).

"Through Old Mutual's international asset management operations OMAM has well established links with overseas markets and is ideally placed to take advantage of this country's integration into the global economy," said Griffin.

RMBH posts 60% rise in earnings

Star 3/10/94

■ BY CHARLOTTE MATHEWS

Rand Merchant Bank Holdings (RMBH) achieved a 60 percent leap in earnings a share to 128,9c in the year to June, compared with 1993, on a good performance from all underlying companies.

RMBH owns 20 percent of NBS and 68 percent of Momentum Life, which in turn owns 100 percent of Rand Merchant Bank.

In addition, RMBH has holdings in trust company London & Dominion Trust, Australian Gilt Holdings, reinsurer Hollandia and insurance brokers Glenvaal Dewar Rand.

The group's attributable income more than doubled to R94,2 million from R44,4 million, on which a dividend of 51c (32c) has been declared.

The figures include 54 percent growth in profit from Momentum Life, announced two weeks ago.

(58)

There was a 25 percent improvement in earnings from Rand Merchant Bank, which reported figures in August.

NBS Holdings, which is equity-accounted in RMBH figures for the first time, lifted profits by 58 percent.

RMBH gets boost from associates

BDay 3/10/94

SAMANTHA SHARPE

RAND Merchant Bank Holdings (RMBH) more than doubled attributable earnings to R94,2m for the year to June after healthy contributions from subsidiaries Momentum Life and Rand Merchant Bank.

The first time inclusion of associated companies NBS, Hollandia and Glenvaal Dewar Rand contributed R31,7m to the financial services group's bottom line and helped lift net income to R95,5m compared with a previous R44,4m.

The surge in attributable income boosted earnings a share 60% to 128,9c, beating market expectations of growth in earnings of between 30% and 40%. The dividend rose to 51c (32c).

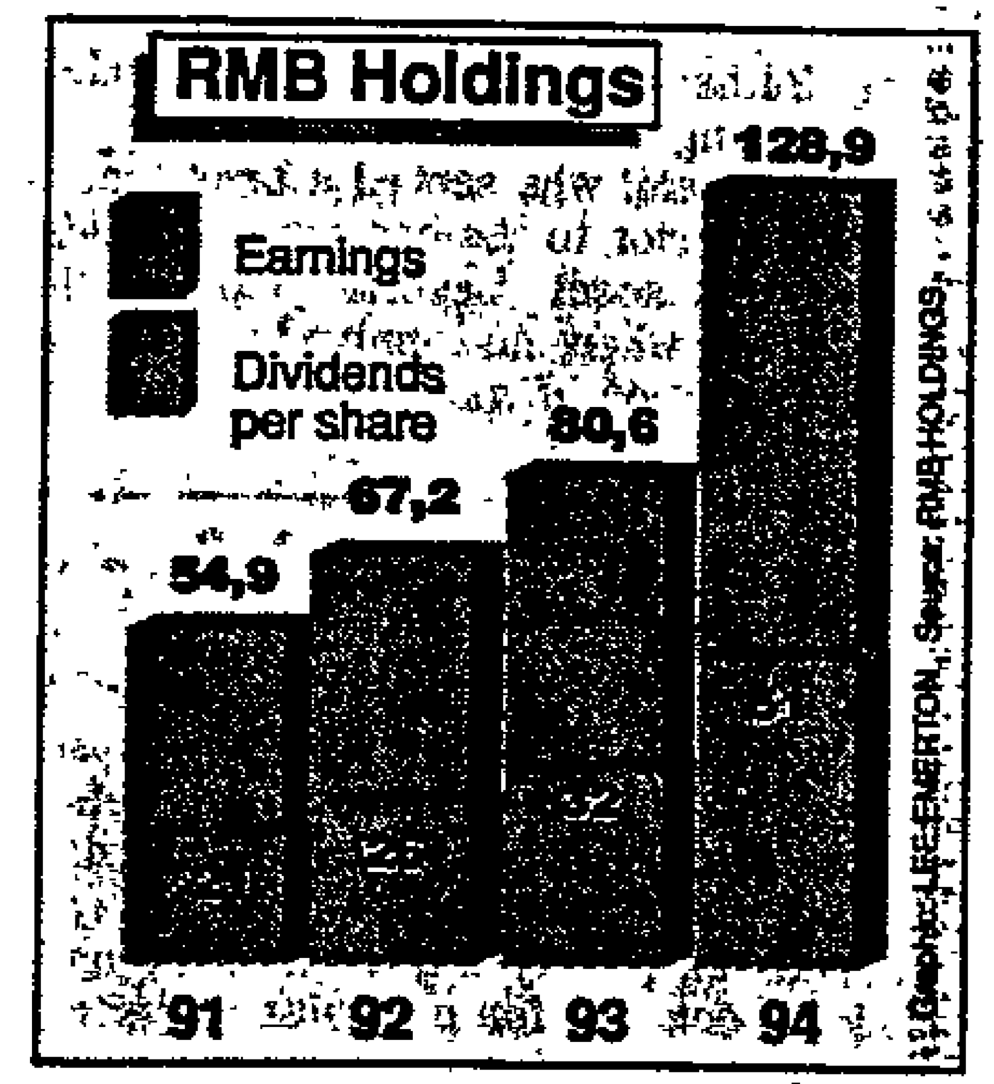
RMBH said it had gone through a period of consolidation following the unusually large number of acquisitions and restructuring in the 1993 financial year.

The year to June saw only one merger, between Glenvaal and Dewar Rand, which resulted in the creation of the fifth largest insurance broking group in SA.

58

RMBH director Paul Harris said the 71%-owned Australian Gilt Securities remained a small contributor but was a launching pad to the international arena.

Subsidiary Momentum Life reported a 54% increase in net taxed surplus to R81,4m earlier this month, with the contribution of merchant banking acumen to the management of the life assurer a critical ingredient to its success.



The inclusion for the first time of a full year's earnings from short-term insurer Aegis boosted Momentum's bottom line.

Momentum Assurers benefited further from the solid performance of its wholly-owned subsidiary Rand Merchant Bank, which lifted attributable income by a quarter to R55,1m for the year to June.

NBS Holdings, the second largest contributor to profits, gained from the gearing effect of its share swop deal with RMBH. NBS reaped the benefits of healthy interest margins to report a 30% increase in earnings to 179,1c a share for the year to March.

Its bottom line included income from investment in associate companies.

the back of a "leak of information" ... which ... curred in SA by about mid-June 1988", the report matter.

RMBH nets 113% income growth

(58) CT 3/10/94

By ARI JACOBSON

RAND Merchant Bank Holdings (RMBH) boosted attributable income by 113% to R94,2m (R44,4m) for the year to June, thanks to weighty contributions from underlying operations Momentum Life and Rand Merchant Bank (RMB).

The directors went further to stress that this diversified financial services organisation was "compiling a strategy on international expansion, laying guidelines for action should foreign opportunities occur".

The group declared a dividend 59% higher at 51c (32c) a share — which translated into a dividend cover of 2,5 times. It should be mentioned that most financial service groups are aiming for a dividend cover of about three times.

However RMBH's diversified portfolio, which includes its 20% stake in NBS Holdings, reveals a solid asset portfolio across the broad spectrum of financial services.

Momentum recently announced a massive 54% growth in its net tax surplus to R81,4m, while RMB lifted its taxed profits by 25% for the year and NBS Holdings continues to produce the goods — being the second largest contributor to profits of RMBH, after the life arm.

Momentum has been a success story based on "the application of merchant banking acumen to the management of the life assurer — this has improved efficiencies and realised a rapid growth in business," says the RMBH directors.

They add the revitalised performance comes on the back of a more focused approach, with products now targeted at the upper end of the life assurance market.

Smaller contributions to RMBH's bottom line came from share stakes in Australian Gilt Holdings (AGH), reinsurer Hollandia and insurance broker Dewar Rand.

AGH founder Paul Harris mentions that "the business must be seen as a launchpad into the international arena". Currently situated in Sidney — AGS is now ready to expand into the Pacific Rim.

Short insurer Aegis also raised the profits of the holding company but this largely came about from the structuring of the acquisition, rather than "the nominal profit yielded by Aegis," say the directors. Highly rated Momentum shares were used to finance the deal, they say.

Even with the increase in the capital base of RMBH, with the new acquistions on board, earnings a share still grew by 60% to 128,9c (80,6c) a share.

The directors conclude: "With no further acquisitions, the RMBH base will continue to strengthen and RMBH will realise real growth in 1995".

On Diagonal Street, RMBH shares have more than doubled over the last year to the current trading price of R34,75 a share.

SHARESPOT

Shipping group in banking venture

B/Day 5/10/92

SAMANTHA SHARPE

DURBAN-based shipping group Grindrod Unicorn (Grincor) and financial services group Russell Marriott and Boyd Trust (RMBT) had banded together to establish a new force in the merchant banking industry, RMBT said yesterday.

The group would start out with initial capital of R25m funded jointly by RMBT and Grincor.

The new bank's CE Kevin Moore said Marriott Merchant Bank would focus on the industrial markets in KwaZulu/Natal, although it had financial services offices in Johannesburg and Elangeni.

Moore said the creation of the bank had been driven by the demand of its own client base, with assets under management of about R2,5bn warranting some form of banking status for the group.

Any financial services institution handling assets of this size required some form of "licence" and authority to establish a bank in terms of the Banks Act was a means of accomplishing this, he said.

While there were no immediate plans for a listing, a decision to do so would be driven by the bank's need for capital and the choice of public or private funding would be made three or four years down the line, he said.

He said the birth of the merchant bank had resulted in a change in the structure of RMBT, with RMBT Holdings and Grincor holding a 68% and 32% share in Marriott Holdings. (58)

Marriott Holdings would in turn hold a 100% stake in Marriott Merchant Bank.

Grincor chairman and chairman of the new Marriott Holdings group, Murray Grindrod, said the investment was a sound long-term one, but was unlikely to have any material effect on earnings a share or net tangible asset value in the current financial year.

The strategic diversification of the shipping and transport group into merchant banking and property services was in line with international trends in shipping.

Marriott Holdings CE Michael Mun-Gavin said the development was a natural extension of the range of financial services currently offered by RMBT.

Mun-Gavin said he was confident the new merchant bank would be able to provide specialist services, focusing on the property industry and related asset and fund management services.

The developments were a milestone in the growth of the RMBT group whose origins dated back to 1862.

COMPANIES

FNB Botswana buys out rival

SAMANTHA SHARPE

FIRST National Bank had strengthened its foothold in southern African through the aquisition of the largely Zimbabwean state-owned Zimbank Botswana, the bank said yesterday.

FNB subsidiary FNB Botswana said it had taken over all the assets and liabilities of the bank, which was operating at a loss, for a "nominal" amount. BiDay

FNB senior GM and FNB Botswana chairman Peter Thompson said while Zimbank had been operating at a small loss, the major culprit behind the loss was high bad debt provisions.

He said Zimbank had stopped trading with effect from October 1, with all its assets and liabilities transferred to FNB Botswana. But the bank's shell would continue to exist.

The Zimbank takeover would allow FNB Botswana to increase its market share, he said. It would also mean the bank could absorb Zimbank's skilled staff, a scarcity in Botswana, into FNB Botswana.

The transfer of staff would facilitate the growth of FNB Botswana, he added.

Cyrian Tambo, former MD of Zimbank Botswana, said recently the bank was up for sale because of changes in its corporate strategy. This was brought about by changes in SA, he said. 7/10/94

"Zimbank was set up four years ago to exploit the banking opportunities that were being created by the increasing trade between Zimbabwe and Botswana," Tambo said. (58)

The political changes in SA would see a boost in trade between Zimbabwe and SA, to the detriment of Botswana, he said.

He said the economy was already overbanked and the presence of FNB Botswana and Zimbank Botswana was unsustainable.

FM 7/10/94 (58)

MUTUAL & FEDERAL

Smoothing the cycle

FM 7/10/94

Activities: *Short-term insurance.*
Control: *Mutual & Federal Investments 80%; ultimate control is with Old Mutual.*
Chairman: *M J Levett. MD: K T M Saggers.*
Capital structure: *47,2m ords. Market capitalisation: R2,55bn.*
Share market: *Price: R54. Yields: 1,9% on dividend; 4,7% on earnings; p:e ratio, 21,1; cover, 2,4. 12-month high, R55; low, R41. Trading volume last quarter, 295 000 shares.*

Year to June 30	'91	'92	'93	'94
Total assets (Rbn) ...	2,1	2,5	2,8	3,7
Solvency ratio: (%) ...	126,7	146,5	164,3	204,4
Net premiums (Rm) ..	1 014	1 098	1 229	1 379
Underwriting prof (Rm)	19,0	52,5	66,6	8,5
Invest income (Rm) ..	118,2	143,9	147,2	140,0
Pre-tax profit (Rm) ...	145,4	196,4	213,8	148,5
Earnings (c)	217	297	353	256
Dividends (c)	52	68	87	105
Tangible NAV (c).....	2 751	3 431	3 912	5 568

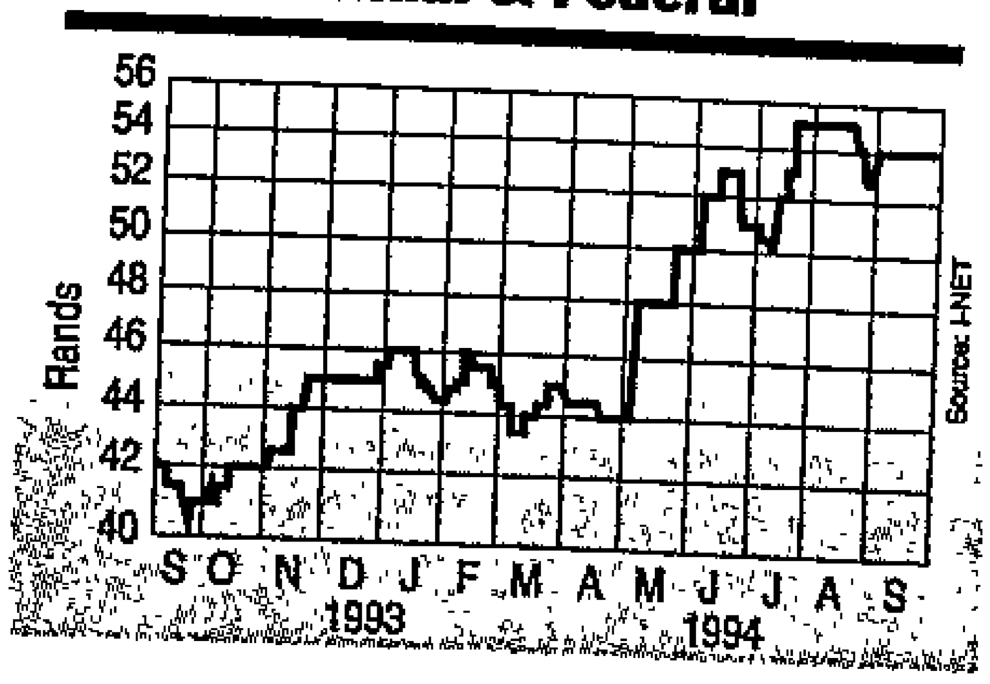
With all the listed short-term insurers who have reported results so far this year showing underwriting losses, Mutual & Federal's R8,5m surplus is a notable achievement. (58)

More important, though, is that it shows M&F exercising some control over its underwriting cycle in a notoriously volatile industry. A lot of the insurer's success comes from a strong balance sheet — total assets grew by 33% — and from keeping a tight rein on expenses. Increased insurance expenditure on claims and commissions was partly offset by a marginal decline in general expenses, resulting in an overall increase of 16% to R1,34bn.

But M&F's ability to smooth the ups and downs of its underwriting cycle is due to a simple yet effective strategy — it tucks away profits in the good years, instead of showing outstanding results upfront. Its vehicle for control of the underwriting result is a catastrophe reserve set up two years ago when the industry was doing exceptionally well. In financial 1993, M&F transferred an additional R30m to the reserve, to total R90m.

In the past financial year no transfer was made, which allowed all profits squeezed out of a difficult year to drop down to the bottom line. With the rest of the year apparently offering little respite for insurers, M&F has the comfort of a R90m cushion, plus, in extreme circumstances, its statutory contingency reserve, which has been increased to R143m.

Mutual & Federal



Despite a decline in pre-tax profits and EPS, M&F was able to declare a generous 21% increase in dividends.

Difficult times, though, seem certain to continue. Chairman Mike Levett says he expects the current downcycle in underwriting profitability to continue for the next year at least.

MD Ken Saggers elaborates. "The claims experience over the past three months has been largely awful. We have seen a number of serious fires, which are almost always arson-related."

Vehicle theft (motor insurance comprises about 40% of M&F's business) continues at a high level. Saggers says over the past five months about 180 vehicles a week are being reported stolen to M&F, which is costing around R1m per working day in claims.

"An alarming trend which has emerged is an 8% increase in the number of accidents on SA roads over the first six months of the year. Not all these vehicles are insured, but with inflation in motor vehicle repairs running at about 20%, coupled with the high level of theft, motor insurance premiums will probably increase by between 20%-25% if these trends continue."

Pressure on premiums is also likely to come from an expected increase in reinsurance costs. And the industry as a whole must be feeling a little edgy as the country enters the wet season.

M&F has established what is arguably the most consistent underwriting cycle in recent years. It has also shown sustainable growth in assets, premium income and dividends. That's reflected in a share price, which appreciated 29% over the year, a marginally firmer increase than over financial 1993.

With the highest p:e ratio among the short-term insurers and a dividend yield just below Liberty's 2%, M&F's share is expensive. But investors will probably remain willing to pay the price for one of the most stable groups in the sector.

Shaun Harris

OM rejects Zimbabwe sell-off demand

(58) ARGU 12/10/94

BRUCE CAMERON
Business Editor

OLD Mutual has rejected demands from a group of militant black businessmen in Zimbabwe that they "sell off equity and subsidiaries" to blacks and appoint more blacks to the board.

Some 75 Zimbabwean firms, including Old Mutual received the demands from the newly-established Affirmative Action Group last week.

Old Mutual chief operating officer Gerhard van Niekerk said in an interview today that Old Mutual operated in Zimbabwe as an assurance mutual within the laws of the country.

"We are registered and recognised by the government."

The laws included the appointment of a local board which held powers delegated from South Africa.

Old Mutual held and invested funds on behalf of Zimbabweans who invested their savings with the assurer.

"We are there to look after the accumulated funds of our policyholders."

Old Mutual invested the funds in companies in Zimbabwe and was the single biggest lender to the Zimbabwean government through the purchase of government stock.

"We have to be mindful to get the best value for our policyholders.

"If we had to arbitrarily dispense with our investments, we would still have to invest the money."

Mr Van Niekerk said the representation on the Old Mutual board in Zimbabwe was about 50:50 white to black but this included Mr David Smith, who had served as a Cabinet minister in the government of Mr Robert Mugabe.

He said it was unfortunate that when countries moved towards becoming non-racial societies they often sought more racial definition.

SA banks 'still in the pound seats'

By ARI JACOBSON (58)

CT 13/10/94

THE present liquidity in the money market has meant that banks still enjoyed wide interest margins even though deposit rates had risen, said Saambou MD Johann Myburgh yesterday.

Myburgh, speaking at a press luncheon at the Mount Nelson Hotel, said that Saambou would benefit from among others these "widened margins" to produce at least a 46% increase in earnings a share for the six months to September.

He explained that banks normally found themselves suffering from tightened margins as the economy turned upwards, through rising deposit rates and higher money market rates moving at a faster pace then the increase in the prime overdraft rate.

"It's a unique situation for commercial banks to have high interest margins in an upswing."

He pointed out that while interest income was "recurring" the huge fees from merchant banking was the real boost to a bank's profitability.

"Remember though that the merchant bank starts with zero every day — while the commercial bank has at least a debtors book."

Myburgh did not believe that big was better in the banking industry and insisted that smaller, more focused institutions was where future profitability lay.

He pointed out that costs of the large bank groups had been growing at a faster pace than asset growth over the last five years. However Saambou with a more focused approach had bucked this trend.

Myburgh stressed that the main aim of a bank, was to cut costs and improve productivity in line with patterns overseas.

"For instance in most countries a cheque account is a free facility — SA is one of the few countries where its charged for to cover huge costs."

He said that banks would have to broaden activities to prevent other types of businesses moving in on the traditional terrain.

By example he pointed to motor vehicle retailing, which would naturally lead to the financing of vehicles — and backward integration into the estate agency business "which has already been followed by bank groups with varying success".

Myburgh expected an onslaught from retailers taking on banking tasks, in a similar fashion to Pick 'n Pay, by offering certain banking facilities at retail stores.

He admitted that the traditional role of the bank was under scrutiny but was convinced that its ability to stay focused would mean that "the traditional bank" had a role as a financial intermediary in the future.

African Life posts 51% income rise

BDay 14/10/94

ROBYN CHALMERS

LIFE assurer African Life, which was taken over by black consortium Real Africa Investments earlier this year, reported a 51% hike in total income to R130,2m for the six months ended September.

This was largely the result of strong growth in recurring and single premium income, which rose 40% to R93,3m and 203% to R21,8m respectively. Strong support from insurance intermediaries meant the assurer's new business increased 58%.

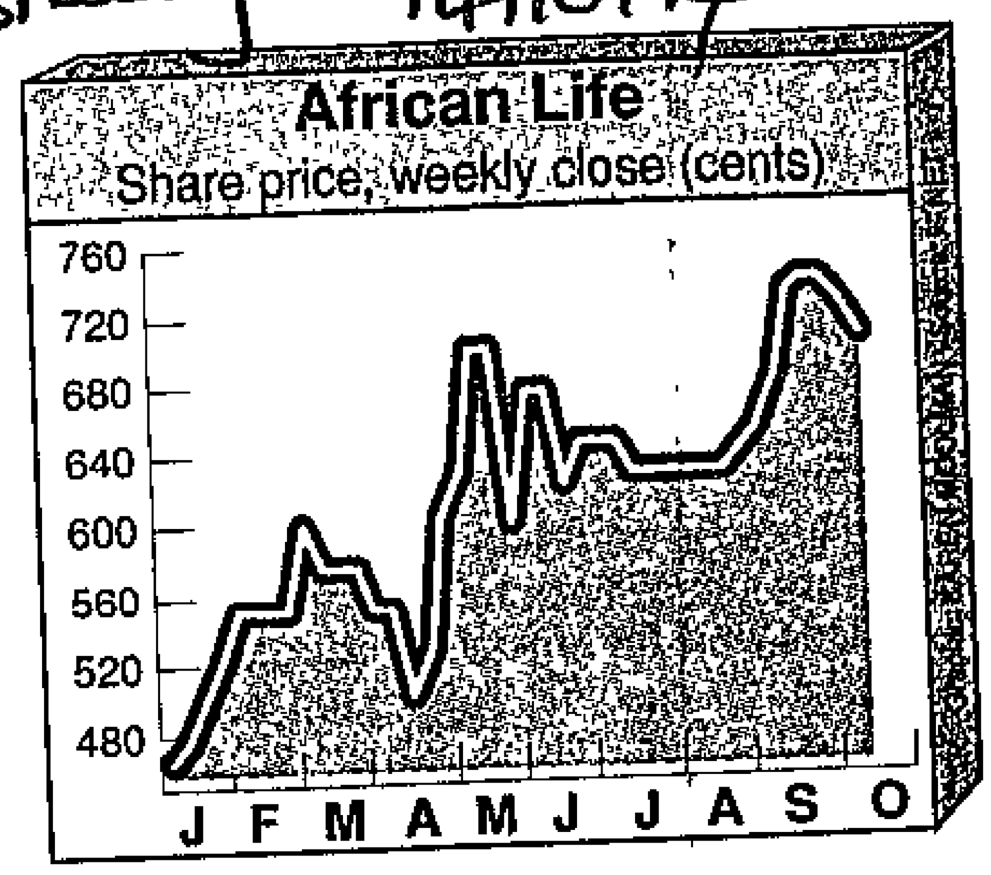
Investment income played a role as well, rising more than a fifth to R15,1m, with the investment asset base expanding to R388,9m (R258m). MD Bill Jack said the larger asset base was the result of burgeoning equity prices and the increased inflow from policy sales.

The group posted a 22% rise in earnings a share to 13,6c, and directors declared an interim dividend of 9c (7,4c). Shareholders would be offered capitalisation shares in lieu of an interim dividend, the details of which would be published later.

Expenses were contained, increasing at a rate below that of the advance in recurring premium income. Total benefits paid by the group rose 47%.

Jack said the recently introduced guaranteed plan product had been well received and had helped boost the growth of single premium income.

Looking ahead, he said African Life looked set to continue its strong growth record of 35% compound growth in recurring premium income which had been achieved over the past eight years.



Jack predicted a 30% growth in premium income for the full year, and said the group was on course to meet the growth forecast under its new ownership.

Chairman Don Ncube said in the group's annual report that African Life would promote the growth of the company and form strategic alliances with partners who had a strong capital base. 58

African Life's share price closed untraded at R7 yesterday, having dropped 4,76% over the past month from its 12-month high of 735c on September 23. This was still significantly higher than the one-year low of R4 last October.

African Life income soars under new ownership

Star 14/10/94

■ BY CHARLOTTE MATHEWS

African Life, which saw control pass to a consortium of black interest groups in April, reported a 51 percent increase in total income in the six months to September to R130,2 million against the same period in 1993.

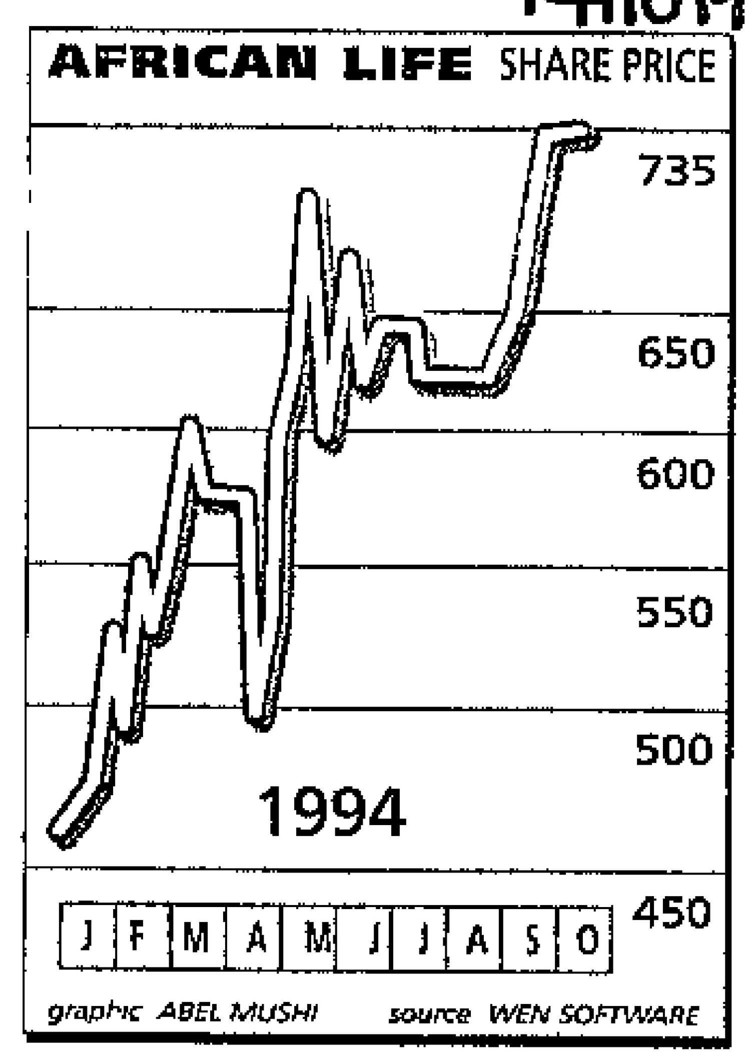
Single premiums trebled to R21,8 million on buoyant sales of the group's recently introduced guaranteed plan product while recurring premiums were 40 percent higher at R93,3 million. Together these divisions contributed to a 56 percent rise in total premium income to R115,1 million. Total benefits paid were 47 percent higher.

New business

New business rose by 58 percent in the six-month period, reflecting strong support from insurance intermediaries.

Investment income rose by 21 percent to R15,1 million, reflecting growth in investments to R388,9 million from higher equity prices and inflows from policy sales.

African Life chief executive Bill Jack said expenses in this period grew less than the increase in recurring premium



income but this percentage was not disclosed at interim stage.

In line with industry practice the group's earnings and dividends for the six months were set at half the preceding full year's figure. Earnings were 13,8c (11,1c) a share and an interim dividend of 9c (7,4c) a share was declared.

Jack said the rate of lapses (policies surrendered within the first 18 months to two years after inception) had stabilised recently and was turning better. However, he declined to name an exact figure because this was not common practice in the industry and because there were different ways to measure lapses.

A sharp rise in current liabilities on the balance sheet to R78,1 million from R25,1 million arose mainly from the accounting policy used to show derivatives entered into to protect the portfolio, Jack said.

The change in control of the group had brought in some new business and there was some more potential business, Jack said. It had raised the group's profile, made it easier to do business and improved management's morale.

Improved morale

But African Life had to take steps to harvest these opportunities, such as putting together a good employee benefits division once the right people could be found.

For the full year, growth in both policy sales and investment income were expected to continue, resulting in healthy real advances in both earnings and dividends.

The group's shares edged down 35c to close at 700c on the JSE yesterday, having risen steadily since the sale of Southern Life's controlling stake to Real Africa Investments.

African Life profit up 31 percent

(58) ARG 14/10/94

Business Staff

African Life, control of which passed to a consortium of African interest groups in April, reported a 31 percent increase in attributable profit to R9,3 million in the six months ended September.

Total premium income was up 56 percent and benefits paid 47 percent.

New business rose by 58 percent in the six-month period, reflecting strong support from insurance intermediaries.

Investment income rose 21 percent to R15,1 million, reflecting growth in investments to R388,9 million from higher equity prices and inflows from policy sales.

Shareholders can choose between a capitalisation share award and an interim dividend of 9c (7,4c) a share.

Chief executive Bill Jack said a sharp rise in current liabilities on the balance sheet to R78,1 million from R25,1 million arose mainly from the accounting policy used to show derivatives in the portfolio.

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But African Life had to take steps to harvest these opportunities, such as putting together a good employee benefits division once the right people could be found.

Growth in policy sales and investment income for the year was expected to continue, resulting in healthy real advances in earnings and dividends.

The group's shares edged down 35c to close at 700c in Johannesburg yesterday, having risen steadily since the sale of Southern Life's controlling stake to Real Africa Investments.

■ Arthur Kaplan Jewellery Holdings reported an 86 percent increase in attributable profit to R747 000 in the six months ended August, on a 30 percent rise in turnover. Directors expected earnings to improve further in the second half of the year

Acquisition and rights issue strengthen Investec

ROBYN CHALMERS

INVESTEC produced 83% growth in attributable earnings to R60m for the six months to last month, bolstered by a July rights issue and the inclusion of results from Sechold, which it acquired recently.

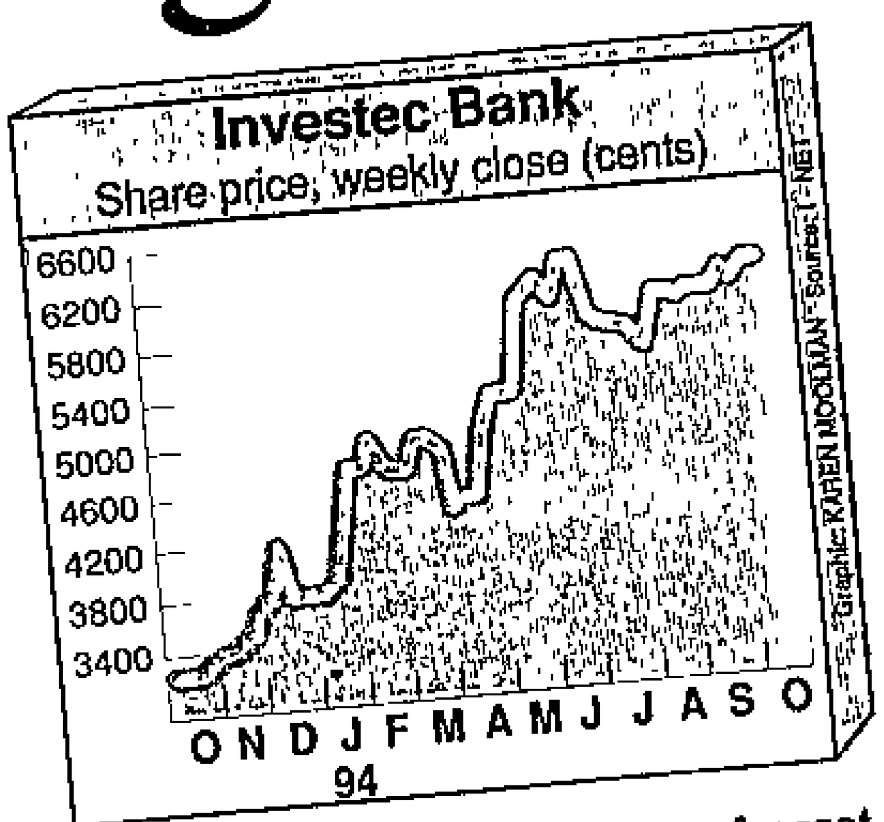
This equated to earnings a share of 143c against 102,2c previously, while the interim dividend was increased to 57,5c (45c).

The rights issue raised R307m, strengthening the group's balance sheet and raising its risk-weighted capital assets ratio to more than 20%.

Strong demand for credit and the additional capital lifted net interest income more than a third to R107,2m (R79,9m), despite margins narrowing because of rising interest rates.

The provision for bad and doubtful debts increased 19,1% to R12m against growth in advances and other accounts of about 33%, reflecting improved economic conditions.

Other income more than doubled to R122,8m, affected by the inclusion of



Sechold's results, expansion of asset management activities, strong growth in most merchant banking activities except foreign exchange trading, and a turnaround in performance of the Investec property group.

The increase helped boost total income 67,6% to R218m.

After accounting for a R23,6m (R11m) tax bill, minorities' share of R3,8m and income from associated companies of R12,6m (R10,5m), net income increased 76,7% to R69,9m.

Total assets grew R6,7bn to R12,9bn and funds under management topped R20bn following an increase of R10,3m. 58

Chairman Bas Kardol said a 48% rise in operating expenses to R133,3m was attributable mainly to the inclusion of costs of new activities and acquisitions.

Most of the group's businesses had performed well despite volatile market conditions. Reichmans continued its turnaround and contributed positively to results.

"Investec is strongly capitalised and is well positioned to benefit from the changes occurring in the financial markets, and in SA's renewed status as a member of the international community," he said.

Management was confident the organisation would continue to achieve growth in earnings and dividends in line with historic trends.

The results of holding company Investec Holdings reflected those of Investec. Inhold earnings a share increased 57,1% to 106,7c, and the interim dividend rose 28,6% to 36c.

Provincial housing

A key issue in the Reconstruction and Development Programme is the provisi[...] to those in desperate need. Housing Director-General Billy Cobbett, speaking [...] Collinge, fills in some of the crucial details. to Jo-Anne

Star 18/10/94

Homeless poor to be helped 'al[...]

all the way

123 58

The State's obligation to the homeless poor will not end with a R12 500 subsidy to cover the cost of a serviced stand and a one-room "starter" home, asserts Director-General of Housing Billy Cobbett.

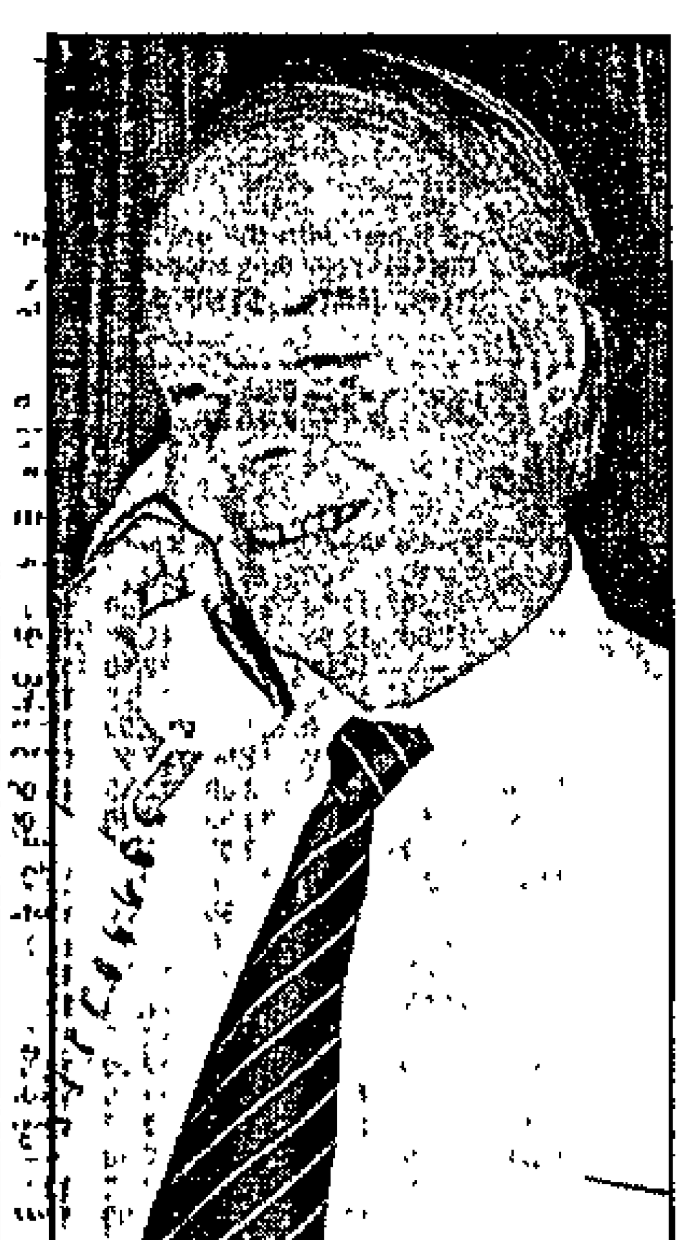
The Government will ensure that credit to extend these units is available in affordable parcels — to vast numbers of people who were previously considered too poor to be bankable, he pledges. Families in "starter" homes will not be abandoned to their own upgrading devices.

While Cobbett insists it is premature to give details of the credit schemes in the pipeline, he lets on that some of the ultra-low-cost housing loans will come from the commercial banking sector. "Talks with the banks are very far advanced in terms of them coming back into the low-income market at scale and beyond their present limits."

Other institutions are being considered to package even smaller loans, which will enable families earning below the R1 000-a-month mark to borrow — with a realistic prospect of meeting their loan commitments.

Further details of the Government's housing package are likely to be spelled out by Minister Joe Slovo during his Budget vote in the National Assembly at the end of the week

Cobbett shrugs off accusations that the State strategy of providing starter homes for the poorest of the poor — those earning downwards of R1 500 a month — is little better than site-and-service developments implemented by the Independent Development Trust. Among the charges levelled is that the standard of the basic unit provided is an affront to human dignity.



Billy Cobbett . . . talks with the banks are very far advanced.

He says it is a question of trading quality for quantity within the limits of the budget. If a four-room house were provided as the basic unit, the number of subsidies would be reduced to about 100 000 a year. And the fact that a few were getting respectable homes would be cold comfort to those at the end of a queue 1,4 million families long.

The process should not be judged on how it begins, but whether it ultimately produces a decent "formal" house.

One factor that will tip the odds on achieving this is innovation in building technology. "What's missing in the whole equation is just how creative the construction industry can get about how costs can be brought down."

A proposal for a national housing corporation will be made in the draft White Paper on housing which is expected to go to the Cabinet soon.

The corporation will have multiple functions (which will undoubtedly include mobilising finance), but it will not be the retail community housing bank that everyone is expecting. With the history of rent and service boycotts, officials believe that setting up a State bank would create the danger of borrowers defaulting en masse.

Mortgage indemnity

The White Paper will also feature the long-negotiated mortgage indemnity scheme to insure banks against any additional risks arising from exposure in the low-cost market; and the building warranty scheme, to protect both consumers and mortgage lenders against unscrupulous construction firms.

But the White Paper is likely to go further than that in attempting to create in the most degraded townships a climate favourable to private investment — be it investment by giant banks or the hard-earned savings of working people.

The proposed procedure for achieving this is certainly controversial and is being canvassed at the highest level, since it would involve many service departments besides housing.

It would work on the principle of the Government effectively reining in private investors until residents begin to pay their service bills, the local authority begins to run the place decently and a general atmosphere of civil responsibility prevails.

Quite simply, the Government would not apply the mortgage indemnity scheme to a given area until all the above conditions are met

However, Cobbett stresses, the Government itself would make a concerted effort to upgrade these extremely disadvantaged areas.

It is proposed that such townships be proclaimed priority reconstruction areas (PRAs) and that PRAs get special attention from a range of Government departments at national, provincial and metropolitan level in order to restore the public environment.

The deal with residents of PRAs would be that they must begin to pull their weight in return for this public investment or the crucial additional development ingredient of private investment would be blocked.

The furthest advanced new policy area in the White Paper — running ahead of it, in fact — is that which deals with securing land for development purposes. This is contained in the Development Facilitation Bill, published for comment on October 7.

'Fast track'

The Bill provides a "fast track", alternative procedure for developers to get planning consent for projects and to speed up the registration of title and the securing of finance.

Cobbett refers to the Bill as a "stunning piece of legislation". And there seems to be justification for this description. While criticisms of other aspects of the housing policy have, at times, flowed fast and furious, the central government's policy on land seems to be regarded as a useful foundation upon which provinces and local governments can build.

As for the other disputes on the evolving housing policy, in which MECs have sometimes been bitterly pitted against the national ministry, the problem seems to have been largely one of poor communication rather than poor conceptualisation. As more pieces of the jigsaw are put into place, the fears and antagonisms of various stakeholders seem to be subsiding.

Mercantile poised for Bank of Lisbon takeover

(58)
REG 20/10/94

Business Staff

THE fledgling Mercantile Bank is poised to take over the Bank of Lisbon from its Portuguese owner, Banco Nacional Ultramarino (BNU).

This is a major triumph for Mercantile Bank, which was established in 1988 by Derek Cohen, then head of corporate finance at TrustBank, together with six other people from TrustBank.

Mercantile Bank had an initial capital of R7,1 million. Today its capital is R74 million and it controls assets worth R620 million.

Major shareholders are NSA Investments with a 20 percent stake; Sanlam with 10 percent; Hollard Holdings with 14,9 percent; and Prestasi Insurance Brokers with 5,3 percent. The rest of the shares are owned by management and staff.

Although details are yet to be completed, BNU intends to take a strategic stake in Mercantile.

This will be the first new investment by an international bank in a local bank since the election, says Mr Cohen, now Mercantile's managing director.

The proposals involve giving the Bank of Lisbon an injection of R21 million to increase its capital adequacy ratio to above 9 percent.

This will increase its share capital from R29 million to R50 million.

Some of the money will be coming from Mercantile Bank, which is negotiating for the complete acquisition of Bank of Lisbon.

Mr Cohen said yesterday that BNU was keen to maintain its historical presence in South Africa and believed this would best be achieved through a South African operation.

The relationship with Mercantile gave Bank of Lisbon the strength to continue that presence, he said.

A BNU source said that there was a natural synergy between it and Mercantile, which would enable it to achieve its strategic goals regarding merchant and retail banking and establishing a bridge to the business community.

Mr Cohen said the move was in line with Mercantile's strategy of niche marketing.

"The Portuguese community comprises a well-defined niche and Mercantile's recent capital increase, coupled with its clear strategic plan, encouraged it to look for a focused opportunity like this."

It will enable Mercantile to offer more products, including cheque accounts, credit cards and an ATM network.

The Bank of Lisbon fitted in well with Mercantile's savings and loans operation and BNU's international network would enhance Mercantile's opportunities for merchant banking and corporate finance, Mr Cohen said.

NEWS New deal for buyers at lower

R2-bn for home loans

Sowetan 21/10/94

■ BREAKING LOGJAM Banks and Government sign a loans agreement:

By Ismail Lagardien
Political Correspondent

THE OVERNMENT YESTERDAY managed to secure R2 billion in housing loans from banks for buyers at the lower end of the income scale.

An agreement to this effect was signed in Cape Town by Minister of Housing Mr Joe Slovo, president of the Association of Mortgage Lenders, Mr Johan Myburgh, and Mr Piet Liebenberg of the Council of Southern African Bankers.

The agreement brings together the Government and banks in an effort to "break the private sector logjam in the lower end of the housing market", Slovo said yesterday.

"The agreement signals the return of the major banks to the lower end of the housing market while committing the Government to a strategy of upgrading communities in such a way that residents have good reason to resume bond, rent and service payments.

"We believe that now is the time for all sectors — political organisations and civic organisations included — to show a degree of political courage in trying to reverse what we have inherited and which in its historic context has played a positive role in bringing about the present democratic new dispensation.

Housing Minister Joe Slovo

"But we've passed that stage — this is a completely new way of doing things," Slovo said. (58)

The banks have agreed to advance loans — in areas which the Government has approved using "a stable environment" as the means test — which could total R2 billion in the first 12 months. This would make 50 000 loans with a minimum value of R10 000 available during this period.

50 000 loans in next 12 months

Govt, banks seal R2bn housing deal

BDay 21/10/94

ROBYN CHALMERS

CAPE TOWN — In a major breakthrough which signals the return of banks to the low-cost housing market, government and mortgage lenders have announced an agreement to finance 50 000 home loans worth about R2bn over the next year.

A key feature is a mortgage indemnity scheme, in terms of which government will provide a full guarantee on irrecoverable financial losses to banks in the event of defaults over the next three years.

All the major banks — including Standard, FNB, Nedcor, Absa, Saambou and NBS — had bought into the agreement. Council of SA Bankers CE Piet Liebenberg said this should lead to the mass extension of home loans early next year.

In what was termed a "Siamese twin" approach, banks would disclose their lending practices on a confidential basis, a fixed instalment loan interest was under investigation and home loans would be linked to savings.

The agreement, which had been approved in principal by Cabinet but will only be formally presented on November 9, also encompassed a comprehensive code of conduct for mortgage lenders.

Housing Minister Joe Slovo said government would embark on a massive upgrading programme in disadvantaged communities aimed at the resumption of payment for goods and services and the reinstatement of the due process of law.

The indemnity scheme was central to the agreement, and meant government would indemnify banks against bond defaults caused by a breakdown in civil or criminal law enforcement. It would be funded out of the general fiscus and managed by the proposed National Housing Finance Corporation with specialised management and staff. The scheme would initially operate for three years, after which cover would continue only in areas were the risk covered had materialised.

Slovo said while the scheme would place government in an unlimited liability position if there was a total breakdown of law and order, it aimed "not to pay a single cent". This would be achieved by stabilising communities. (58)

A cap of R100 000 had been placed on homes insured, and cover would be provided on all existing mortgages as well as new loans granted under the scheme.

Mortgage lenders would have to disclose their lending patterns in terms of income profiles, sex, loan size and geographic distribution. This would be done on a confidential basis, but analysts said it could be a highly effective tool for government to ensure lenders made funds available on a non-racial basis.

Banks would be guided by a code of conduct to ensure that mortgages were extended on a non-discriminatory basis. The proposed code would be applicable to Association of Mortgage Lenders (AML) members and an ombudsman was envisaged to deal with unresolved complaints.

Slovo said agreement had been reached

☐ To Page 2

Housing

☐ From Page 1

on a programme linking home loans to "demonstrated consistency in saving". Applicants should have built up a savings record with banks for at least nine months, although this would be reduced to three months for applicants applying under the project-linked subsidy scheme. "Developed in consultation with savings and loan experts from several countries, the model aims to draw on the vast savings potential in SA which is a feature of life even in the poorest sectors of the population."

AML president Johan Myburgh said lenders were investigating fixed instalment loans. Fluctuating interest rates "had caused unexpected financial hardship to clients with lower incomes in the past".

The arrangement "will allow bankers and prospective homeowners to build a relationship of trust", said Myburgh.

Slovo said households illegally occupying repossessed properties and families experiencing difficulties with mortgage repayments would receive assistance from a service company to be founded and run jointly by the banks and government.

"The company will help them to find accommodation through a process of right-sizing which ensures they are in homes which are and remain affordable."

The builders' warranty mechanism under negotiation between the banks, construction industry and government formed an important part of the agreement. It would protect house buyers against shoddy work. "The banks have made it clear that the construction sector must stand behind its products in the interests of the consumers, and that it must create the capacity to deal with contractors who fail to meet such obligations."

● See Pages 3 and 6

Banks put up R2-bn for low-cost housing

Star 21/10/94

■ BY ESTHER WAUGH
POLITICAL CORRESPONDENT

Cape Town — Banks have agreed to advance up to R2 billion in loans for low-cost housing over 12 months, probably starting from January.

Announcing the agreement between the Government and the banks, Housing Minister Joe Slovo said yesterday that banks hoped to make 50 000 loans available over a 12-month period.

The agreement ensures that the Government and the banks will act in unison to break the private sector logjam on the lower end of the housing market.

Slovo told a press conference: "The agreement signals the return of the major banks to the lower end of the housing market while committing the Government to a strategy to upgrade communities in such a way that residents have good reason to resume bond, rent and service payments."

Council of Southern African Bankers chairman Piet Liebenberg said banks were investigating the possibility of a fixed instalment instrument because the lower end of the housing market had great difficulty with fluctuating interest rates.

Association of Mortgage Lenders president Johan Myburgh said prospective homeowners would have to demonstrate their ability to save for at least nine months to qualify for bonds.

Slovo said this would allow bankers and prospective homeowners to build a relationship of trust based on proven savings.

The minister also announced that the Government had agreed to a system allowing banks to repossess houses of bond defaulters in accordance with normal civil law procedures. 58 ~~123~~

"Where this continues to prove impossible because of a breakdown in either civil or criminal law enforcement, the Government will indemnify the banks case by case for a limited stabilisation period over three years," Slovo said.

However, the implementation of the Mortgage Indemnity Scheme still had to be approved by the Cabinet on November 9.

Slovo said part of the agreement was that illegal occupants of repossessed houses and those experiencing difficulties with mortgage repayments would receive assistance from a service company which is to be founded and administered jointly by the banks and the Government.

Speaking in the senate yesterday, Slovo said another far-reaching aspect of the agreement was that the Government and banks had agreed on a set of reporting and disclosure guidelines.

This would enable the Government to monitor the actual lending practices of the banks. "It signals the beginning of the end of red-lining as we have come to know it," he said.

Boycotts still fetter Slovo's housing plan

(58)

By SVEN LUNSCHE

THE agreement between government and banks to make mortgage loans available to previously excluded townships should take longer to implement than the authorities would like.

This week's "record of understanding" between the Department of Housing and the Association of Mortgage Lenders — representing major banks — provides for up to 50 000 bonds worth at least R10 000 each next year.

However, several key issues remain unresolved and may delay the scheme.

The most significant is the failure of many black communities to resume payments of bonds and rates after the election.

A recent survey shows that in PWV townships payment for service charges fell from 33,5% last November to 20% this June.

In the agreement with the banks, Housing Minister Joe Slovo promises a "vigorous" campaign aimed at resuming payments.

The programme earmarks priority areas which have a strong payments and savings record.

The banks are also safeguarded from losses arising from "political actions" through certain mechanisms, especially the Mortgage Indemnity Scheme.

Piet Liebenberg, CE of the Council of SA Bankers, said the MIS was only one of the safeguards banks require. A product defect warranty scheme still had to finalised, ensuring coverage against "faulty and shabby" workmanship.

"This is one of the major reasons why homeowners default on their on their bond payments and in the past we were the ones to carry the costs," Mr Liebenberg commented.

Industry sources say the building industry and government are close to agreement on the scheme.

Mr Liebenberg also outlined initiatives the banks are taking to facilite the housing programme.

They are developing mechanisms for fixed monthly instalments to repay bonds.

Mr Liebenberg said fixed instalments were likely to carry interest rates above market levels, but were easier to understand.

The target market for the scheme are households with an income of between R1 500 and R3 500 a month. The bond is linked to a government subsidy grant of either R5 000 or R9 500.

The record of understanding, to be integrated into a national housing accord this week, does not extend to the 65% of the population who earn less than R1 500 or have no income at all.

In the meantime, Mr Slovo is trying to increase state spending on housing, Reuters reports.

At least R2,7-billion would be needed for the 1995/96 housing budget with most of the funds to be used for housing subsidies, he told Parliament on Friday. This is an increase of more than R1-billion on this year's budgeted R1,6-billion.

No pay, no home, get-tough Slovo warns townships

58

HOUSING Minister Joe Slovo has staked R2-billion on the government's ability to restore law and order and the normal functioning of the townships in three years.

By EDYTH BULBRING
Political Correspondent

The key to a historic agreement signed between the banks and the government this week is a commitment by the Ministry of Housing to stand as guarantor under the Mortgage Indemnity Scheme in the event of defaults over the next three years.

In return the banks agreed to make available 50 000 housing loans a year to the lower end of the housing market.

The agreement gives significant numbers of low-income earners access to home loans and reduces the numbers solely reliant on the government housing subsidy.

"If we succeed we don't pay out a cent. If we fail we might as well pack up the country and go home," a housing official said this week.

The housing deal with the banks contains a "tough love" element, as the government will indemnify the mortgage lenders only in those areas in which law and order have been restored, and when rates and services are being paid.

This means that the function of red-lining (denying loans to high-risk areas) previously adopted by the banks becomes the prerogative of the government.

This is a forceful message to township dwellers that the government will assist in securing housing, provided residents fulfil their obligations to pay for services and accommodation.

It also makes clear to local authorities that they must move quickly to install legitimate structures if they want the government to grant their area mortgage indemnity status.

The indemnity scheme has an initial life span of three years, but the government can withdraw at any time if it is proving too expensive.

"Three years is an intelligent, calculated guess that it might take that long to normalise completely. We are going to discuss in the ministry the kind of offensive we will need to turn this culture around," Mr Slovo said. A number of other ministries would also be involved in this campaign.

In terms of the agreement the banks will provide loans as small as R10 000 to up to 50 000 families in the first year. The lenders are investigating a fixed-repayment instalment system to protect borrowers against interest-rate fluctuations. Rates could be higher under this system.

If the bank is unable to repossess a house because law and order has broken down, the government will become liable for the debt. Banks have agreed to seek court orders only after a joint service company has attempted to reschedule the defaulter's debt, or to rehouse families in more affordable accommodation.

A third part of the agreement compels all contractors to enter a warranty scheme against shoddy building. The banks would not provide finance to builders unless they were part of this scheme.

This is an attempt to put a stop to bad building practices, the results of which have been that home owners have stopped paying their bonds.

The effect of the deal is to increase vastly the number of families with incomes below R3 500 a month — the subsidy cut-off point — who will have access to formal housing.

Mr Slovo said in Parliament that the obligation to normalise the environment and restore the rule of law rested on the government.

Absa sees rates up by 2% next year

CT 25/10/94 (58)

By MAGGIE ROWLEY
Deputy Business Editor

INTEREST rates could rise a further 2% points next year, warns Absa in its latest Economic Monitor.

The bank says that the recent raising of the Bank rate at an early stage of the upturn in the business cycle might well alay inflation fears to some extent.

However, the relatively poor international credit rating cast doubts on the desirability of funding the deficit before borrowing — which it estimates will exceed the budgeted 6,6% and be more in the region of 7% for 1994/95 — through offshore loans as envisaged in the Budget.

"The result is that capital market interest rates will remain high, possibly fluctuating between 16% and 17% in 1995," says Absa.

Further bank rate increases, it says, are a strong possibility, particularly if the finrand were to be scrapped.

"Although we do not expect another raise this year, there may be another two percentage point increase next year."

Absa warns that while government spending was well within budget and revenue figures were ahead of budget for the first five months of the fiscal year, the increase in government debt to 55,2% of GDP in the second quarter of 1994 against 47,3% in the corresponding period the previous quarter was cause for concern.

This, together with a sharp increase in capital market interest rates, will result in a considerably larger interest burden than budgeted for.

"The economy is also not performing as well as initially foreseen which may jeopardise the rate of receipts,"

Absa says the real GDP at market prices in the second quarter of this year was 3,5% up on a year ago compared to a 2,4% increase in the first quarter of 1994 and 4,8% in the fourth quarter of 1993.

The real GDP at factor costs however showed an increase of only 2,2% in the second quarter against 3,1% in the first quarter.

The relatively poor showing of the GDP, it says, should be assessed against a sharp rise in spending. Real GDP in the second quarter was 8,6% up on a year ago after increasing by 3,8% in the first quarter.

Domestic demand, it says, was therefore increasingly being satisfied by foreign production.

"This is also evident if one considers that the volume of goods and non-factor services imported, which had already increased by 7,1% in the first quarter compared with the previous year, increased further in the second quarter by 12,6%.

"Against this, exports in the first two quarters of the year performed poorly. Year on year, real exports of goods and non-factor services increased by only 1,2% in the first quarter while a decline of 5,7% was recorded for the second quarter."

Absa says it was heartening to note that real fixed investment was growing strongly rising 9,5% in the second quarter after the first quarter's 2% rise.

It warns, however, that on account of production losses as a result of strikes and a smaller than expected maize crop, a real growth rate of only 1,8% was predicted for 1994.

The weaker growth performance, coupled with an increase in direct personal tax, the hike in interest rates and a higher than expected inflation rate would put further pressure on individual real income after tax.

"Furthermore, slower growth in real government spending in coming quarters is expected and imports could remain high owing to the sharp increase in fixed investment."

Major spinoffs as SA goes for ADB link

58

ARG 27/10/94

BRUCE CAMERON
Business Editor

MEMBERSHIP of the African Development Bank will open important doors for both the South African private and public sectors.

This is the view of ADB vice president Adewale Sangowawa, who is in Cape Town for an international development donors' conference.

Negotiations on the terms on which South Africa will become a member of the bank and its associated institutions are due to be held soon.

In an interview Mr Sangowawa saide benefits for South Africa included:

■ Access to funds of the bank and its institutions. This would be mainly in development financing. South Africa was expected to borrow amounts equal to the larger borrowers Morocco, Nigeria, Tunisia and Egypt, each of whom borrowed about $300 million (R1 billion) a year;

■ Access to technical, educational assistance and surveys;

■ Assistance with integration into the regional economy; and

■ Access for South African consulting, contracting and supply companies to bank projects.

Mr Sangowawa said the opening up of tenders for bank projects to South African companies was extremely important.

"I already receive more inquiries from South African companies than from any other country."

Mr Sangowawa said the projects would not only provide additional income for South African companies but would also cut the costs of ADB projects in the region.

For example, until now, if road had to be built in Lesotho the rules of the bank precluded any South African companies. This obviously pushed up costs.

He said the bank would also benefit from the relationship with South Africa as it was one of the strongest economies on the continent. This would improve the status of the bank.

The strength of South Africa would also assist the bank in projects and in integrating the southern African region.

He dismissed fears that South Africa could be seen as too strong and dominating, saying that there were other "extreme" relationships in the world which worked. An example was the recent conclusion of the North America Foreign Trade Association which saw Mexico and the United States working together.

Mr Sangowawa rejected arguments that South Africa would have to shoulder some of the ADB debt when it became a member.

"It has always been a policy of the bank that countries that borrow are responsible for repaying the debt. It is a misconception that other countries must be responsible for any defaults of a member."

South Africa would have to buy shares in the bank which would give it access to the board of directors. Representation was dictated by the size of the contribution of a country.

Elections for the new board were due to be held in May.

Mr Sangowawa said he could not at this stage discuss the size of South Africa's contribution to the bank as this still had to be negotiated.

?ANIES

Merger aids Fidelity

B/Day 27/10/94

SAMANTHA SHARPE

FIDELITY Bank's merger with the EP Building Society (EPBS) earlier this year helped lift the group's net income 64% to R20,1m for the year to September.

The group's interest income nearly doubled to R217,6m, with a commensurate increase in bad debts to R16,86m (R8,26m).

Earnings a share rose 51% to 165,7c, with the total dividend 27% up on the previous year at 43c.

Fidelity Bank CE Jules Langenberg said the fall in the return of daily average assets to 1,4% (1,95%) and the 3% rise in the return on average shareholders' funds to 26% were among the industry's best ratios.

The improvements were attributable to the inclusion of the former EPBS home loan book at lower interest rates than the old Fidelity's book and a lower average capital requirement on the enlarged book.

He said provisions and reserves had been substantially increased as a "buffer against economic stress" and in keeping with the enlarged debtors' book.

58

Strong lending volumes boost NBS earnings 49%

B Day 27/10/94

SAMANTHA SHARPE

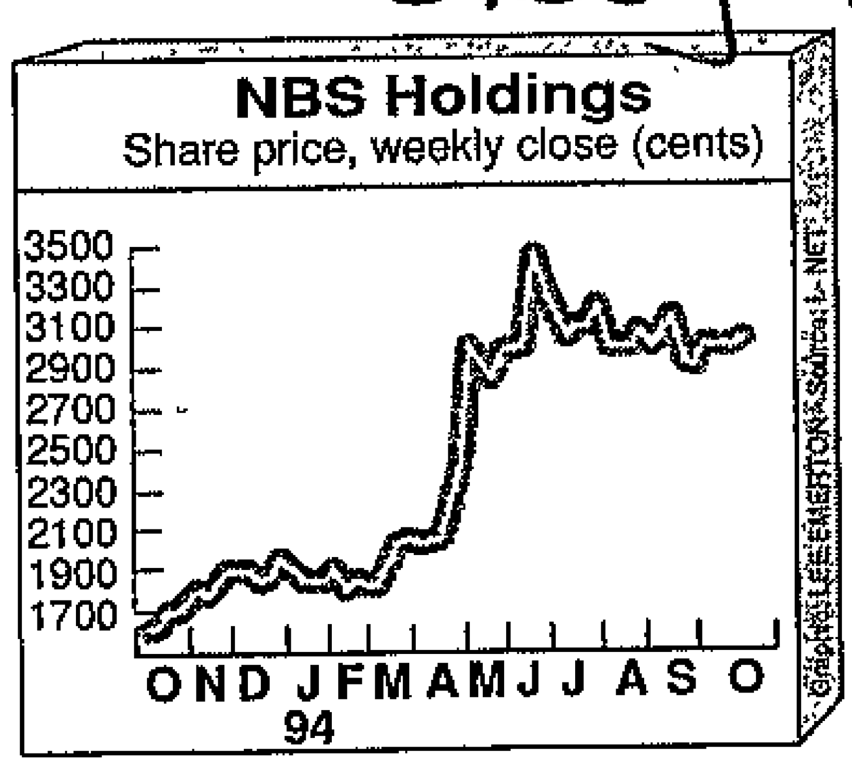
THE growth of NBS Holdings' lending volume helped offset a large bad debt provision and increased attributable earnings 49% to R77m for the six months to September.

Bad debt provision more than doubled to R74,7m but net interest income rose to R242,2m (R197,84m), with other operating income up 26% to R86,18m.

The rise in interest and operating income filtered through to an increase in earnings a share — adjusted for an increase in the weighted number of shares in issue — of 25% to 87,6c.

The group declared an interim dividend of 25c compared with 20c at the same time last year.

NBS CE John Gafney said the improvement in the buoyancy of the property sector had seen mortgage loans increase 25% over the past 12 months and 13% to R8,9bn for the six months to September.



NBS Holdings
Share price, weekly close (cents)

"Moves by the government to normalise the housing market are encouraging and it is hoped that the mortgage indemnity scheme waiting for Cabinet ratification will lay the foundation for a significant increase in home ownership," he said.

On the issue of bad debts, Gafney said NBS had set up a substantial provision because of the negative impact of an expected increase in interest rates.

The increase in bad debt provision would also cover losses due to fraud in the corporate division, which had been identified and contained.

"Despite the frauds, the corporate division has showed continued growth, with the business focused on quality lending to small to medium size businesses rather than big corporations."

Gafney said the inclusion of RMB Holdings' results for the six months boosted income from associates 108% to R20,71m.

"Norwich Life and RMB Holdings are performing well and Aegis and FBSA are achieving acceptable results under difficult conditions."

While the group intended to increase its earnings from insurance, banking still represented its core business, contributing 53% to group earnings.

58

"Insurance contributes about one third to group earnings and in the long term, NBS aims to increase this. Insurance provides a more stable fee income and we view it as a good growth area."

Gafney said the group was confident it could sustain earnings.

MORTGAGE LENDING

FM 28/10/94

Key part of the puzzle

Last week's agreement between the National Housing Ministry, the Council of Southern African Bankers (Sosab) and the Association of Mortgage Lenders paves the way for the re-entry of banks to the lower end of the mortgage market on an unprecedented scale. Their almost complete three-year absence from this sector can be traced to the Perm's high-profile but problematic foray into low-income lending in the mid-Eighties — an experience which even today serves as a constant reminder of its dangers.

Negotiations between banks and government leading to the agreement date back to the previous housing ministry's efforts to mobilise bank finance for low-income housing. The Mortgage Indemnity Scheme (MIS) originally envisaged by banks and the then Minister of National Housing Louis Shill was designed to provide government guarantees for bank losses arising from political disturbances.

A clearer definition of the cover to be provided, if the rule of law breaks down, has since been adopted by the new government and was central to intense discussions between parties in the National Housing Forum. Direct negotiations on the issue were given added impetus with the appointment by Housing Minister Joe Slovo of a technical committee steered by housing department director-general Billy Cobbett and Perm GM Denis Creighton.

In the end the banks will lend funds but government is committed to upgrading communities to the point where residents have good reason to resume bond, rent and service payments. In terms of the agreement government is obliged to bring normality to townships and restore law and order to avoid making good banks' losses on mortgage defaulters. The scheme will apply if banks cannot gain beneficial use of the properties over which they hold mortgages. A period of up to 12 months is envisaged for them to achieve this.

The cover will last for up to three years, though it could be extended in areas where due process cannot be applied. The MIS will not give blanket cover across the country and it will not be offered in areas deemed too high a risk. These are the so-called prioritised reconstruction areas where, according to the Department of Housing, government will first have to restore the rule of law "so that officers of the court and the police can operate in a normal environment, just as they do anywhere else in the country."

A further incentive for government to uphold its part of the agreement is that the cover extends to both existing performing mortgages and new loans. There are already about 16 000 properties in possession which will also be dealt with in terms of the agreement with government sharing the banks' costs stemming from illegal occupation.

(58)

Provisional budget allocations for the MIS have not yet been made public. Cabinet has approved the scheme in principle and is awaiting detailed financial modelling. Another cost still to be quantified is that of the service company to be jointly established and run by government and the banks. Its tasks will be to advise people unable to meet their mortgage payments and find places for them to stay.

Liebenberg ... *the breakthrough is that all parties are involved*

"Rightsizing," which includes the rescheduling of bonds and/or placing former borrowers in accommodation they can afford, is the term used in the agreement. But as Cosab CE Piet Liebenberg points out, until adequate rental housing is provided, other sources of accommodation will remain a concern. Vital to the success of the scheme will be the enforcement of the banks' rights to vacant possession to aid resale after help is given.

Banks have pledged to grant 50 000 loans in the 1995 calendar year ranging from R10 000 to R100 000. These could total R1,5bn-R2bn depending on take-up and the ability of the construction industry to deliver the homes. Many loans will no doubt be linked to government housing subsidies so money will become available to developers only once transfer takes place.

Liebenberg says banks and government will sit down next October and, depending on their experiences, decide on the number of loans they will grant the following year.

Some observers have questioned how many of the R10 000 loans will be granted if bank managers are left with the choice of granting higher amounts. But Liebenberg says R10 000 loans can be quicker to process because they do not need higher authority approval. He believes the matter is best left for competition between the banks. The fact that government will also be entitled to review lending results should help to ensure that a disproportionate weighting in home loans does not happen in favour of the higher end.

Key factors in the agreement are the linking of loans to savings, where possible, in order for potential borrowers to meet bank lending requirements Liebenberg says borrowers able to save over three to nine months — ideally at the level of a monthly home loan repayment — will be favoured by banks.

Another innovation is the fixed instalment loan Two distinct categories of borrower emerge: those who are able to cope with fluctuating interest rates — rates could rise by up to three percentage points in the next 18 months — and those who cannot. Important, however, will be some understanding by people in the fixed instalment category of why they must pay a higher interest rate. Detailed financial modelling for fixed instalments is expected to be ready by the end of the year.

The agreement — particularly government's willingness to provide guarantees — is flashing a long-awaited green light to the investment community. Further substantial amounts of money (see following report) can be channelled to this market through paper issues and securitisation once the correct structures are in place

However, the agreement is only another piece of a puzzle. Agreement still needs to be reached with the construction industry on the period of defect warranties.

Australian architect Brian Lotkin, of Sydney-based Rice Daubney Architects, argues that contractors should provide both a three-year warranty to cover visible defects and a 10-year warranty for latent defects. Should the owner of the house not report the defects within the specified period, the cover would lapse.

"The real breakthrough", says Liebenberg "is that the agreement involves all the parties. It signals to communities the need to settle down and rebuild themselves. Second, government has undertaken to

P.T.O.

Fm 28/10/94

influence and educate communities about co-operating with it and the banks. The major incentive for government is that, if it has not played its role in areas where new development has taken place, then that failure will cost it money.

"For banks re-entering the market the incentive is the prospect of properties regaining value. For communities the benefits will be felt if they see new development taking place within their immediate environments." (58) ■

DURBAN

Calling hoteliers

Growing interest in new hotel development in Durban has prompted the council to invite developers to submit development proposals for a prime beachfront site.

The property concerned is the North Beach Pavilion site, a 2,8 ha tract bounded by Marine Parade, Pavilion Terrace, Playfair and Old Fort roads.

It is currently leased by the city to the Military History Museum. The lease is on three month's notice and, in terms of the agreement, the tenant must remove all structures when it vacates the property.

The site is zoned general residential (GR5). It is thus suitable for development as an apartment complex or an hotel. Though the city's estates department says it has placed no parameters on the type of schemes it will consider, the experience of previous applications indicates that commercial or retail development not associated with a hotel or flat development would be unlikely to be given approval.

Closer to the city centre, the estates department says contractors have moved on to the site of the new R220m International Convention Centre in Walnut Road The development has stimulated interest from local and international hoteliers in providing additional hotel rooms in the city. The centre's inaugural conference is set for September 1997.

Though the Pavilion site is not directly linked to the convention centre, which will have its own dedicated hotel, it is close enough to Walnut Road to provide easy access and any hotel development on the site could expect to benefit from the anticipated upturn in Durban's conference business.

Based on development costs of around R400 000-R700 000 a room for a five-star hotel, the Pavilion site could probably accommodate a 300-600-bed hotel, built at a cost of around R180m.

Building parameters include 100% coverage in compliance with the building lines and a maximum building height of 110m. It is possible to subdivide the site if the successful candidate seeks only to use a portion of it.

The closing date for development proposal submissions is January 30. ■

LOW-COST HOUSING

Funds start to roll

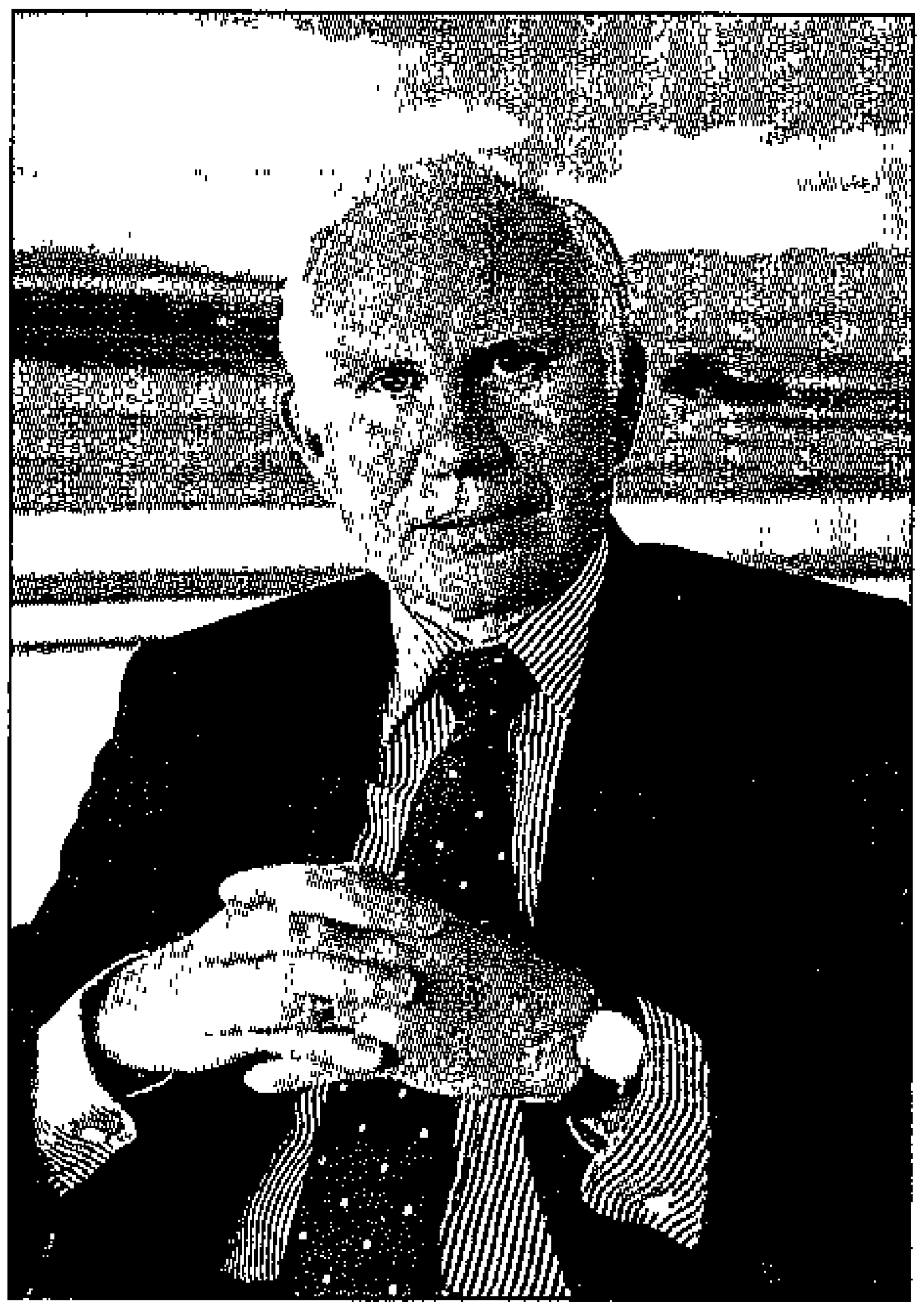
An estimated R30bn is what would be needed over the next five years if 1m homes were to be built at a cost of R30 000 each.

The sum involved sounds astronomical but it is attainable. The banks (see previous story) will go some way towards meeting the target. They plan to steadily escalate the R2bn they've set aside for home loans in the next calendar year, over successive years.

Government will also play its part through the allocation of housing subsidies. The almost R2bn provided for housing subsidies in fiscal 1994 is also due to rise. That is if Housing Minister Joe Slovo can divert 5% of the national budget (as opposed to the current 1%) towards meeting SA's housing needs.

The balance will come from the contractual savings industry, the investing community — including oversees donors — and, of course, from mortgagees themselves.

Though no precise figures are available, the contractual savings industry earlier this month launched the Investment Development Unit (IDU), a privately held company through which it plans to channel macro-funding into RDP projects



Barbe ... *by macro-funding, I mean meaningful sums of money*

The company, with share capital of R400 000, is held by the Life Offices Association (50%), the Fund Managers Association of SA (Fmasa) and the Institute of Retirement Funds (IRF), each with 25%.

IDU MD is Peter Barbe, formerly MD of BMW. "Our emphasis is on supporting the RDP through targeted investments in the areas of housing and ancillary needs such as water, electricity and services on a macro basis. A particular example of this is the R1,2bn Electrification Participation Notes (EPNs) that have been issued by Eskom. Life offices have taken about 85% of this issue and the balance has been taken up by IDU shareholders representing the pension funds (both Fmasa and IRF). Money has been raised via a bond with a fixed coupon of 6% and a warrant coupon that allows the investor to participate in the revenue from the electrification programme. The total yield on the bond is market related and pegged at the E168 rate."

On housing, Barbe says: "Our strategy is to participate at a macro level once appropriate structures are in place. We are looking for a similar type of structure as Eskom, which could mean a housing utility. We want to support investment in housing through structures that are professionally managed, properly capitalised and viable.

"Investment will proceed in a step-by-step process. Whatever utility is targeted will have to have the support of, and be in line with, the national effort. That, in essence, is what current negotiations and discussions both at regional and national level are striving for."

Barbe is confident that consensus will soon be reached on the appropriate structures. "There has to be consensus before investors commit themselves to long-term investments in housing," he says.

He is also confident that bodies such as the National Housing Finance Corp will be in operation soon "We are able to move fairly quickly. Once the structures are in place to facilitate lending to the lower end of the housing market, which is the most difficult segment, we are confident that meaningful sums of money will be channelled into housing projects with investors taking a long-term view on their return on investment." He adds that besides the banks which have recently come into the market, there are a number of other players, such as the SA Housing Trust, which recently issued long-term debentures.

Commenting on the IDU's formation, one observer points out that not only does it circumvent prescribed investment in the RDP — a fact the IDU readily admits — it also "levels the playing fields" in terms of the type of social responsibility investments made by its members. By the joint effort involved, the public is unable to single out any poor investment by an individual concern.

Chairman of the IDU board is National Housing Forum chairman Eric Molobi. Other members include Johannesburg town clerk Nicky Padayachee — tipped to head the Transitional Metropolitan Council — Gail Mlokoti (Development Bank), Moss Ngoasheng (Gencor), Neal Chapman (LOA), Jurie Wessels (LOA), Leon Campher (IRF) and Maurice Harding (Fmasa). ■

African Life stakeholder, NSA in R72m alliance

(58) CT 31/10/94

From AMANDA VERMEULEN

JOHANNESBURG. — Real Africa Investments (RAI) — African Life's major stakeholder — and investment trust company New SA (NSA) announced a R72m alliance at the weekend.

NSA, the R130m investment vehicle of Arnie Witkin and Leonard Fine, has a strategy of investing in unlisted growth businesses which it supplies with management expertise. RAI is the black economic empowerment company headed by Donald Ncube.

In terms of the deal, RAI will purchase a 20% stake in NSA for R41m and NSA will purchase a 20% stake in RAI for R31m.

NSA is to buy Kagiso Trust's 13,8% stake in RAI for R20,7m, to be settled by the issue of 2,9-million new shares of 1c each, and just more than half a million share options in NSA at a combined issue price of R7,20.

Kagiso will renounce these shares and options to RAI for cash when RAI lists — which it is expected to do in February.

In addition, upon listing of RAI, NSA will subscribe for as many convertible preference shares — at a price still to be determined — needed to increase its stake in RAI to 20%.

This will be settled by the issue of ordinary shares and share options in NSA at a combined issue price of R7,20.

Subject to shareholder approval, NSA will issue ordinary shares and share options to RAI for cash at a combined price of R7,20.

Ncube said NSA was an investor who shared RAI's vision and values. "While we shall add another dimension to NSA's acquisitions, NSA will also add value to RAI through the provision of additional finance, business and financial connections, strategy and enhanced management processes."

Investors in RAI included NSA, Standard Merchant Bank, stokvels, trade unions, church groups and black business.

Kagiso's role had been as a founding investor, said Ncube. It was withdrawing from RAI to help other developing companies become established.

"This deal will allow RAI to enhance its investments and harness its opportunities. It is a strategic alliance which will benefit all parties, especially as NSA has special skills in identifying good acquisitions and facilitating growth."

NSA MD Leonard Fine said the group, which had added its third acquisition since listing earlier this year, realised RAI had the potential for good growth.

NSA's strategy with RAI would be to add value through management input, without interfering in the management structure of RAI.

FNB 'set to outflank some major players'

BDay 2/11/94

SAMANTHA SHARPE

FIRST National Bank (FNB) results would see the group outflanking some of its major competitors with an increase in earnings a share forecast at about 20% to 859c for the year to September, banking analysts said yesterday.

The banking group was scheduled to report financial results today.

It announced an increase of 17% at the same time last year.

Growth in dividends a share would follow patterns of a similarly strong nature, with forecasts for an increase in dividends a share ranging between 17% and 20% to between 275c and 282c against 17,5% in September 1993.

FNB might declare a scrip dividend to avoid the increase in secondary tax on companies to 25%, announced in the 1994/95 budget, analysts said. Companies could bypass the tax on dividends with a capitalisation issue.

Analysts said the group would probably continue to show strong growth in advances — evident in the six months to March — outperforming many competitors in the provision of credit.

"But Nedcor and Standard have started to claw their way back in the past few months," they warned.

One analyst said FNB had managed to read the economic fluctuations of the last 12 to 18 months very well and, because of its focus on mortgage loans, stood to gain much from an environment of rising interest rates.

An increased proportion of FNB's funding was retail sourced. This would help to control its cost of funding in an environment of rising interest rates, an analyst said.

The group was also expected to benefit from a further reduction in its bad debts charge — used by banks as a tool to smooth earnings — which fell 0,4% to R184,1m for the six months to March as a result of "stringent monitoring of credit".

FNB shares strengthened 50c or 2,44% to R21,00 on the JSE yesterday ahead of the results. 58

The shares, ~~which~~ touched an annual peak of R23,60 on June 20, have gained 100c or 5% so far this month.

The banking index rose 1,1% or 52,4 points to 4 550,4 from a low of 3 701,44 early last November and a high of 4 826,18 in late August.

On the gold board, heavyweight Vaal Reefs slid worth R7m moved in 2c

Boland's interim profits up 28%

(58) CT 2/11/94

By ARI JACOBSON

MEDIUM sized bank Boland, boosted attributable profits by 28% to R14,4m (R11,2m), for the six months to September, supported by a solid performance from all divisions and more essentially lower bad debts.

Interim dividends were up 12% or 3c at 28c a share for the six month period.

In an interview yesterday group secretary Flip Botha said that the group had consolidated its performance over the last six months, which had been helped by lower liquidations and sequestrations.

And so specific provisions for bad debts declined by some 19,4% over the comparable six month period to R19m (R23,5m).

However a general risk provision of R7,5m was provided in this interim period, which Botha said would be used to cushion the group's capital position.

The group's advances, via its bread and butter loan business, rose by 12,4% to R3,2bn (R2,9bn) supporting Botha's assertions that "judicious credit evaluations have limited asset growth".

Undiluted earnings a share were up 28% at 107,4c (83,9c) a share, while diluted earnings, based on the compulsory 50% conversion of preference shares from 1996 onwards, was up about 23% at 86,1c (69,9c) a share.

Botha said that the group was now looking to boost its banking product exposure, via the cheque book, credit card, petro-card and so-called youth card.

Deposits from various saving facilities grew by 11,5% to R3,78bn (R3,39bn) in the six month period.

The bank also benefited from solid growth in services and commission income from among others auctioneering, life assurance and property interests.

Botha said that the relationship with Board of Executors (BoE), which holds a rough 30% stake in Boland Bank, was working well at senior management level.

Oil price

Star 2/11/94

Boland earns, pays more

Boland Bank's profits attributable to ordinary shareholders showed an increase of 28 percent for the six months to September of the financial year.

Total pre-tax income of Boland and subsidiaries rose from R120,9 million to R140,6 million.

Earnings per ordinary share on an undiluted basis were up from 83,9c to 107,4c, while on a diluted basis earnings went from 69,9c to 86,1c.

Earnings per diluted share were based on a compulsory 50 percent conversion of preference shares from 1996 onwards.

The interim dividend is up 3c to 28c.

MD Gert Liebenberg says stabilisation of the level of identified bad debt was a contributing factor to profit.

Results were also favourably influenced by growth in commission and services income and a limited growth in expenses.

(58)

"Although interest rates show an escalating tendency, the board is positive improved profits will be maintained over the remainder of the financial year," says Liebenberg. — Sapa.

FNB ups earnings by 18,5%

(58)

From SAMANTHA SHARPE

JOHANNESBURG. — Improved lending volumes and healthy operating income from subsidiaries helped lift First National Bank's earnings 18,5% to 169,7c a share for the year to September.

The rise in earnings — in line with expectations — was accompanied by a 16,2% increase in dividends to 54,6c a share.

The group's results, which reflected income before taxation of more than R1bn for the first time in its history, pushed the share up 50c to R21,50 — off its mid-June high of R23,50.

FNB GM Viv Bartlett said an improvement in lending volumes had contributed to an increase in interest margins, but he warned that the recent turn in the interest rate cycle had already started to offset the gains from greater credit demand.

Bartlett said an 18,5% growth in advances had outflanked the rise in the rate of increase of money supply, with noteworthy market share gains in the home loans and instalment credit areas.

CT 3/11/94

The group's merchant bank, FirstCorp, also made a significant contribution to results, becoming the first SA merchant bank to top R60m in pre-tax income.

The group's "staggeringly high" increase in other operating income incorporated all non-interest income from First Bowring and Associates Holdings with effect from October last year. If this was stripped from the figure, growth would be reflected at about 19%.

Provisions for bad debt remained flat, rising 2,2% to R351,3m, despite the 18,5% growth in advances.

The fall in the corporate tax rate to 35% during the 1994 financial year had resulted in a net release from deferred taxation of R27,5m (R68,2m) the previous year. The current tax charge was based on a rate of 40% because of the introduction of the 5% transitional levy.

Bartlett said the increase in the secondary tax on companies (STC) from 25% to 35% announced in the 1994/95 Budget would have a negligible effect on the "STC neutral" group.

The return on shareholders' funds stood at 20,9% compared with a previous 22%.

Unibank wants to be bank with a difference

Star 3/11/94

BY CHARLOTTE MATHEWS

Unibank will lead up to its planned listing in 1996 by raising its profile as a different banking operation, says MD Gerrit van der Merwe.

In the year to September, group earnings a share lifted by 19 percent to 1190c from 997c on attributable income of R10 million (R6,3 million) which was retained.

Net interest and other operating income more than doubled to R51,7 million from R34,7 million in 1993, while operating expenditure grew 45 percent.

The provision for bad and doubtful debts was 120 percent up at R4,1 million, bringing the total provision on the balance sheet to R8,6 (R5,9) million, against advances and loans of R575,8 (R334,8) million.

Total assets were R782 million (R528 million). Capital adequacy at year-end was 11,44 percent, slightly lower than 1993's 12,67 percent.

58

Unibank's main activities are providing asset-based financing to the medium-sized corporate market and co-branded private label credit cards to consumers.

The credit card side has enormous potential for growth, Van der Merwe says. It will enable Unibank to build up a client base in the increasingly important lower-income market.

In the coming year, interest rates are expected to rise, squeezing banking margins, but Unibank expects it will be to some extent insulated by its niche position.

Taxed income 18 percent higher

All FNB divisions show good form

Star 3/11/94

BY CHARLOTTE MATHEWS

First National Bank Holdings (FNB) lifted taxed income 18,4 percent to R712,3 million in the year to September on a good performance from all divisions, especially home loans, instalment credit and merchant banking.

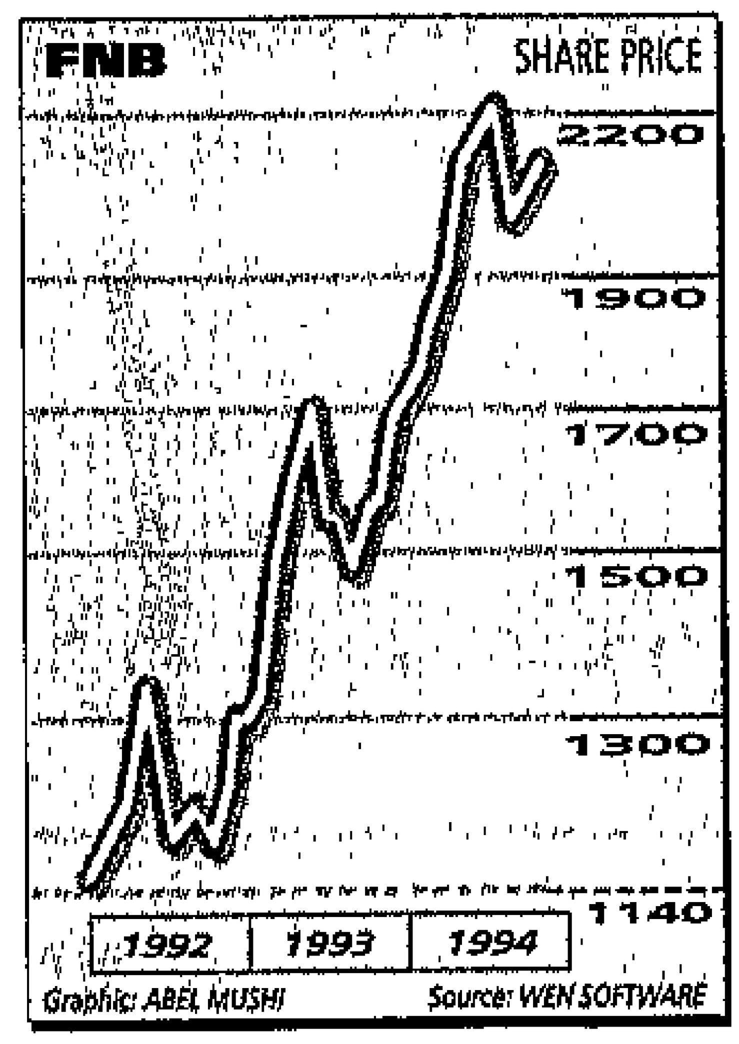
Net interest income was 10,4 percent better at R7,2 billion and other operating income, including service, broking, advisory fees and dividend income, rose 29,3 percent to R1,9 billion.

Other operating expenditure rose 22,1 percent to R3,1 billion, but was swelled by the inclusion of First Bowring. FNB bought the remaining 50 percent of First Bowring from Anglo last year.

Excluding First Bowring, other operating expenditure would have been about 16 percent higher, says senior GM Viv Bartlett.

The charge for bad and doubtful debt edged up 2,2 percent to R351,3 million, reflecting both the recovery in the economy and tighter controls.

Attributable earnings were



11,4 percent higher at R766,4 million after a lower deferred tax rate adjustment than in 1993.

(58)

An extraordinary item of R30 million was incurred on the R22 million write-off of goodwill on the First Bowring acquisition and R7 million in finrand premium incurred when more capital was injected into the Botswana operations.

Earnings a share after the deferred tax release were 10,7 percent higher at 176c. A dividend of 54,6c (47c) is being paid.

Total assets rose 15,3 percent to R61,8 billion. Total advances grew 18,6 percent to R48,3 billion. Deposits and current accounts rose 15,7 percent to R54,8 million.

FNB increased its share of the instalment credit and home loans markets. Home loans benefited from more activity in the traditional property market and more aggressive marketing.

Overdraft lending, mainly in the corporate market, had been declining as firms became more cash flush, but was expected to start growing, Bartlett says.

Wesbank, the instalment lending arm, and FirstCorp, the merchant banking division, both had a particularly good year, with FirstCorp achieving over R60 million in pre-tax income.

He says FNB will be neutrally affected if interest rates rise again, but does not believe another hike is certain.

That would depend on the extent of recovery and SA's access to sufficient foreign credit.

Improved lending volumes boost FNB

B/Day 3/11/94

SAMANTHA SHARPE

IMPROVED lending volumes and healthy operating income from subsidiaries helped lift First National Bank's earnings 18,5% to 169,7c a share for the year to September.

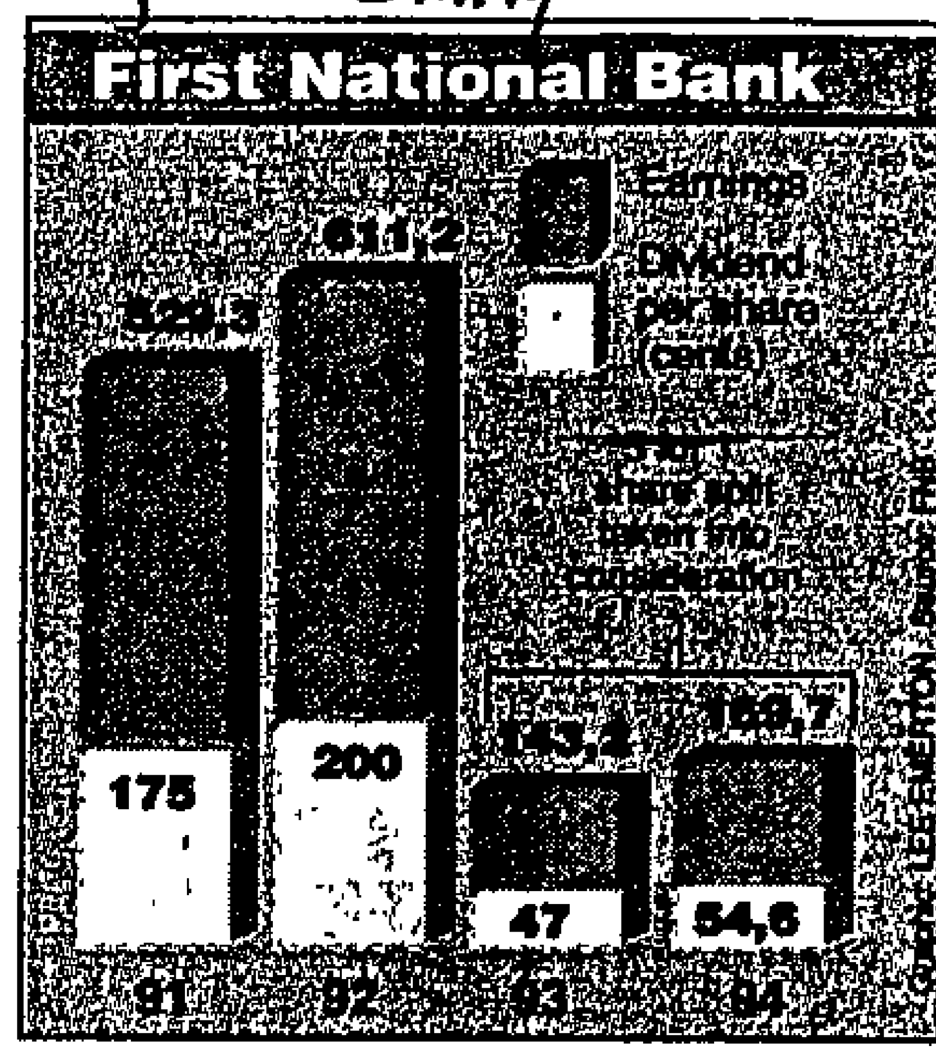
The rise in earnings — in line with expectations — was accompanied by a 16,2% increase in dividends to 54,6c a share.

The group's results, which reflected income before taxation of more than R1bn for the first time in its history, pushed the share up 50c to R21,50 — off its mid-June high of R23,50.

FNB GM Viv Bartlett said an improvement in lending volumes had contributed to an increase in interest margins, but he warned that the recent turn in the interest rate cycle had already started to offset the gains from greater credit demand.

Tight monetary policy characterised by an environment of falling interest rates has previously had a positive effect on banks' interest margins. (58)

Bartlett said an 18,5% growth in advances had outflanked the rise in the rate of increase of money supply, with noteworthy market share gains in the home loans and instalment credit areas.



The group's merchant bank, FirstCorp, also made a significant contribution to

□ To Page 2

FNB

B/Day 3/11/94

□ From Page 1

results, becoming the first SA merchant bank to top R60m in pre-tax income.

The group's "staggeringly high" increase in other operating income incorporated all non-interest income from First Bowring and Associates Holdings with effect from October last year. If this was stripped from the figure, growth would be reflected at about 19%. (58)

Bartlett was satisfied with FNB's provisions for bad debt — cited by analysts as a tool to smooth earnings. Provisions remained flat, rising 2,2% to R351,3m, despite the 18,5% growth in advances.

The fall in the corporate tax rate to 35% during the 1994 financial year had resulted in a net release from deferred taxation of R27,5m compared with R68,2m the previous year. The current tax charge was based on a rate of 40% because of the introduction of the 5% transitional levy.

Bartlett said the increase in the secondary tax on companies (STC) from 25% to 35% announced in the 1994/95 Budget would have a negligible effect on the "STC neutral" group.

The return on shareholders' funds stood at 20,9% compared with a previous 22%.

COMPANIES

Unibank plans to list in 1996

SAMANTHA SHARPE

UNIBANK has accompanied its report of a 38% rise in attributable earnings to R10,03m for the year to September with an announcement of plans to list in 1996.

The group, which recently moved in to salvage part of the failed Prima Bank, saw net interest and other operating income rise to R51,72m compared with a previous R34,72m.

The rise in the bank's earnings was reflected in a 19,4% increase in earnings a share to 1 190c.

Unibank MD Gerrit van der Merwe said the strong growth was a result of an increase in the group's card base and its acquisition of a mortgage book from a major insurer earlier this year, with the specialist credit card business bringing in more "consumer-type credit".

"I believe the bank is now well-positioned to move towards a listing.

"Our strategy of operating in exclusive niche markets has proved highly successful and a listing will not only place a true market value on the shares, but also help raise the capital for further growth and expansion," he said.

Van der Merwe said the next financial year would be characterised by an environment of rising interest rates and narrowing margins.

B/DAY

"Banks will need to become highly selective and make optimal use of the infrastructure created, leading to intense market competition."

3/11/94

The diversification of Unibank's business through the acquisition of the home loan book was in line with this strategy.

The group's asset-based financing was aimed primarily at medium-sized corporations with turnover exceeding R20m a year, while the home loan business was directed at both professional and high net-worth individuals with a minimum bond size of R150 000.

Van der Merwe said the group boasted adequate capital with total capital and reserves showing a 75,9% increase to R93,9m. This was the result of a recent rights issue.

(58)

The success of the rights issue highlighted Unibank's strong shareholder support and had helped position the bank for organic growth and acquisitions.

Bay beach used "eclipse" sunglasses, welders goggles and foil from teabags to watch yesterday's solar eclipse. RIGHT ... the eclipse photographed with the ... era lens.

Pictures: BENNY GOOL

Cape tycoon in bank deal

CT 4|11|94

(58)

By AUDREY D'ANGELO
Business Editor

CAPE businessman Mr Christo Wiese — who as chairman of Pepkor is the biggest retailer in Southern Africa, and who is also chairman of the Industrial Development Corporation — has virtually bought Boland Bank.

Mr Wiese and the Board of Executors (BOE) stepped in a year ago to save Boland Bank from the threat of a hostile takeover.

Mr. Wiese increased his holding from 10% to 63% of the ordinary shares in the bank, giving him 34% of its total share capital. A week later BOE bought 7,7 million preference shares in the bank for R74m, giving it 30%.

There has been speculation ever since, that BOE and Boland Bank would merge into a single financial services group.

This ended yesterday when BOE announced Mr Wiese had bought five million of its preference shares, ex-dividend, for R71,3m, or 1 427c a share. BOE have made a handsome profit of R23m after a year.

With the five million preference shares converted, Mr Wiese will hold 54% of the total share capital.

In accordance with JSE regulations he may offer to buy out minority shareholders at the same price he has paid BOE.

But BOE still has 2,7m preference shares, worth R40m at current market prices. Its managing director, Mr Bill McAdam, said yesterday that it was unlikely to exercise an option to sell them to Mr Wiese for 1 500c a share in a year's time.

BOE acts as merchant banker to both Pepkor and Boland Bank. Mr Wiese will now become a director of BOE and BOE deputy managing director Mr Phil Biden will join the board of Boland Bank.

Explaining why BOE and Boland Bank will go separate ways Mr Wiese said they had no time to look at the possibility of merging operations until August this year.

BOE had been busy with internal restructuring, while Mr Wiese had been "busy overseas", where Pepkor had bought the British retail chain Poundstretcher and 65% of British clothing firm Primewish, and expanded its Scottish retail chain, Your More Store.

Mr McAdam said that after serious discussions in the past few weeks, they had concluded that each institution would do better standing alone than being "slammed together."

● See Page 13

● Le Grange joins Nedbank — Page 13

● JSE soars on new rating — Page 13

● Tiny Rowland forced out — Page 15

Bill allows for foreign banks to open branches in SA

(58) ARG 5/11/94

CLIVE SAWYER
Weekend Argus
Political Correspondent

FOREIGN banks will be allowed to open branches in South Africa if a bill before parliament is passed.

Deputy finance minister Alec Erwin disclosed this when introducing the second reading of the Banks Amendment Bill in the national assembly yesterday.

An explanatory memorandum to the bill, tabled in parliament, said its measures included:

- Changing the definition of an executive officer of a bank to extend it to employees in charge of risk management, making them subject to scrutiny by the registrar of banks.
- Providing for the appointment of a commissioner to investigate the affairs of a bank under curatorship.
- Allowing banks to act as agents in money-lending transactions.

The memorandum said existing prohibitions were an obstacle to banks in conducting above-board business involving agency services.

Mr Erwin yesterday also introduced the Taxation Laws Amendment Bill and Income Tax Bill.

He said the Taxation Laws Amendment Bill brought into law tax changes proposed in this year's budget. Part of its provisions would soften the tax impact on companies that restructured themselves for the benefit of more efficient trading.

AA Life distributable surplus up 20%

BDay 7/11/96

AMANDA VERMEULEN

LIFE assurer AA Life reported a 20% increase in its distributable surplus to R6m in the year to June off the back of increases in the average size of new individual life recurring premium income business.

Net premium income showed only modest growth to R105m, but total assets increased R84m to R563m. Investment income yielded a 27% return on average funds employed.

MD Joe Gates said that against increases in the all share and all bond indices of 36,1% and 10,4% respectively, pre-tax investment performance in the linked portfolios ranged from 35,1% for Springbok to 46,6% for the Pensions Managed Fund.

(58)

He said the group had undertaken a study of the company's exposure to HIV and AIDS cases and had initiated strategies to prevent adverse effects on the company's long-term viability and policyholders' benefit expectations.

While personal disposable income could continue to be under pressure from possible tax increases and higher interest rates, AA Life expected to benefit from an expanded range of services, products and stakeholder alliances in the year ahead.

AA Life surplus at R6m

CT 7/11/94

(58)

Own Correspondent

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Good Nedcor growth expected

Bday 8/11/94

SAMANTHA SHARPE

NEDCOR was expected to report healthy growth in earnings for the year to September — the banking group is due to release its annual results later this week — with an anticipated increase in earnings a share of up to 18%, analysts said yesterday.

The majority forecast growth in earnings of 17% to 293,67c a share.

An increase in dividends of between 15% and 17% was expected, placing the payout in a range of 88,55c and 90,1c.

(53)

Nedcor's share price rose 25c yesterday to R34,50, close to its annual high of R35 in August and nearly 50% up from its annual low of R24 at the same time last year.

Analysts said Nedcor was likely to show healthy growth in interest income and "quality" earnings. But the most notable characteristic of the group's financial results would be its confidence about performance in the next financial year.

Nedcor is also expected to have gained home loans market share, after Standard toned down its aggressive stance.

Nedcor reported a dramatic increase in Perm bonds in the six months to March, and the group would probably report good growth in its final results, an analyst said.

Well-contained expense growth at the interim stage would probably flow through to the six months from March to September, sources said.

2 Cape Times, Wednesday, November 9 19

R600 000 boost for Atlantis farm project

THE Hartebeeskraal Farm project at Atlantis received a R600 000 boost yesterday from the Reconstruction and Development Programme fund.

Western Cape MEC for health Mr Ebrahim Rasool announced the financial assistance at the west coast town.

He said 90% of the money would be used for construction, which would create much-needed jobs for the unemployed people at the town.

A multi-purpose community centre, which would include gym and sports facilities, would also be built. — Sapa

Nedcor posts healthy gains

(58) CT 10/11/94

From SAMANTHA SHARPE

JOHANNESBURG. — Healthy transaction volumes and a fall in bad debts helped banking group Nedcor exceed market expectations, posting a 23% rise in earnings to 309c a share for the year to September.

Dividends showed a robust 23% rise to 95c a share, but Nedcor followed the pattern of other organisations attempting to avoid the increase in the secondary tax on companies with a capitalisation award in place of the cash dividend.

The strong results boosted the share to a new high of R36, 50% up from its annual low at the same time last year. The share rose steadily this week.

Net interest income firmed 14%, with a 13% growth in advances, improvement in product mix and lower carrying costs of underperforming assets the major contributors to the rise.

Nedcor CE Richard Laubscher said the Perm had continued to show steady growth, while reporting an absolute decline in the properties in possession for the first time. "Tight cost control and significantly lower bad debts have helped the Perm increase its net income 22%."

Bad debts heavily sliced

The 16% rise in non-interest income was in line with the bank's strategy to grow non-interest revenue faster than interest income. "An initiative to improve the group's insurance and instalment sales arms could result in substantial additional earnings in the medium term."

Nedcor's bad debt charge fell 2% to R277m after sliding a hefty 14% at the interim stage. Laubscher said large Perm provisions could become a surplus if the recent mortgage indemnity scheme aimed at bringing banks back into the low-income housing market led to a more stable lending environment.

A 15% increase in expenses was justified by the substantial costs involved in opening the bank's Beijing and New York offices and in expansion of businesses in Africa. Nedcor would focus on growing its international organisations "organically".

The taxation charge rose 13% and included a transition levy provision and R86m in transaction taxes. A R12m benefit from the reduction in the corporate tax rate was shown as a deferred tax rate adjustment.

Laubscher said the group's asset and liability structure was well suited to an environment of rising interest rates. Return on assets increased to 1,11%, while return on shareholders' funds was 21,1%.

The group's capital adequacy ratio remained at 9,4% — the second highest among the "big four banks". Laubscher said there was lots of capacity to increase secondary capital within the group.

Business Report

Focus on money market funds

CT. 9/11/94 (58)

By MAGGIE ROWLEY
Deputy Business Editor

THE major banks were recognising that investment markets were changing and were likely to move fast in establishing money market funds once enabling legislation was passed so as to maintain and grow their client bases.

This is the view of Kevin Hinton, a director of the NBS unit trust management committee.

Hinton said in an interview yesterday that money market funds posed a threat to banks' traditional core areas of business where the interest margins they sit on are comparatively high in international terms.

The gap between the wholesale and prime rates was in excess of 5% in SA against 1,12% in the UK and 3,2% in Germany.

However, he said, to manage small transmission accounts was very expensive for banks. The narrower interest margins of money market funds could be partially offset by reduced overheads through the benefit of administering the funds on a pooled basis with centralised administration linked electronically.

He said while money market funds had taken off strongly in the US and France where they had benefited from tax incentives, they had not proved as popular in the UK where no tax benefits accrued.

"It is hard to say how popular money market funds will prove in SA as most of our economic population is relatively unsophisticated and the local industry is unlikely to be boosted by any tax advantages.

"Nevertheless, money market funds do provide an improved and more actively managed vehicle for investors who to date have put their money in savings accounts and yet who still want the benefit of accessibility."

Money market funds would have an advantage over unit trust funds in that the money market unit would have a constant price, with the yield the only variable.

"So the investor wishing to redeem his money will be able to do so immediately and know what price he will be getting — and he will not have to wait for the price to be set at the end of the day as happens with unit trusts."

Hinton said while it was unlikely that legislation would be passed before 1996 paving the way for money market funds, many banks, including the NBS, were positioning themselves to meet the new challenges and a number of applications had been lodged with the registrar.

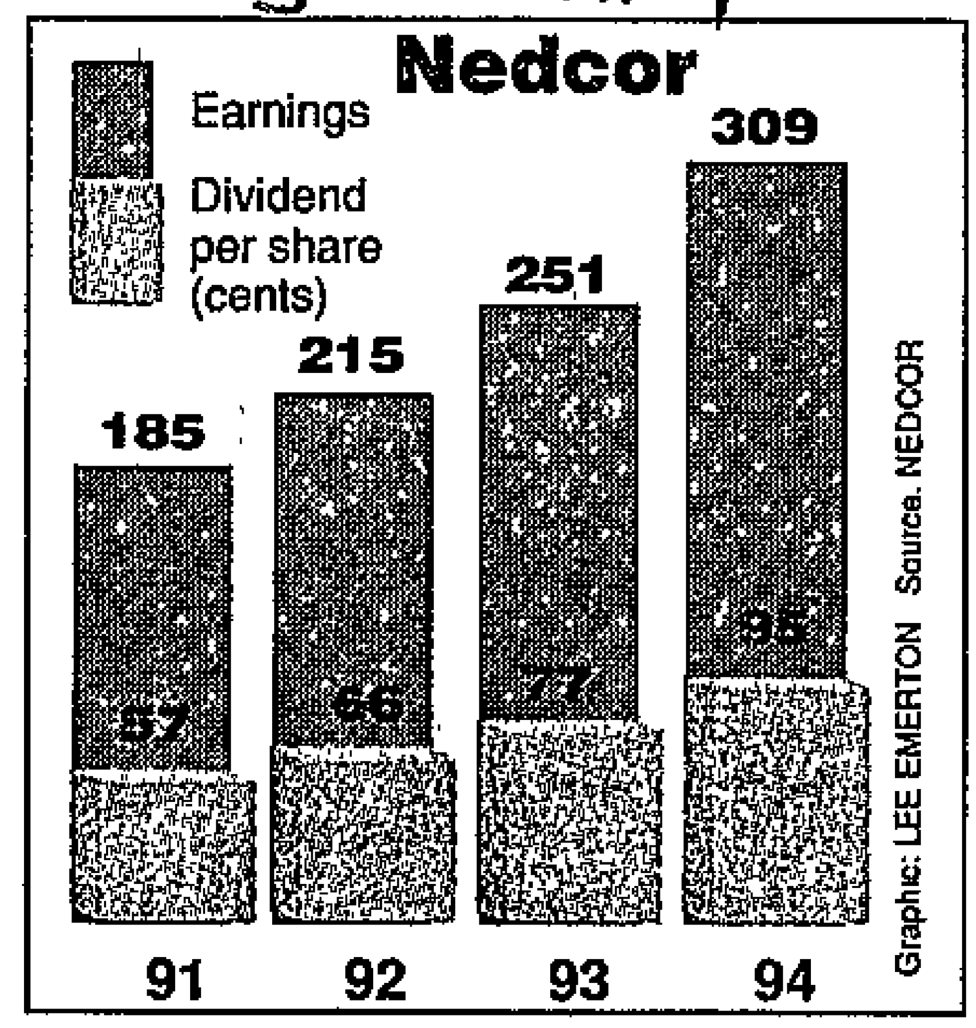
On the unit trust industry in general, he said NBS believed that the rapid growth in recent years which had seen assets under management soar from R2,7bn in December 1988 to a net inflow per quarter of around R2,4bn, would continue.

While the local industry was maturing, total assets under management in SA still did not exceed 2% of the total market capitalisation of the JSE whereas total assets under administration by US funds equalled up to 30% of the US market capitalisation.

Nedcor's results beat expectations

BDay 10/11/94

SAMANTHA SHARPE



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☐ To Page 2

Nedcor

BDay 10/11/94

☐ From Page 1

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ARG. 11/11/94.

New Republic Bank sees total income surging

(58)

CHARLOTTE MATHEWS

JOHANNESBURG. — New Republic Bank (NRB) achieved a 46 percent surge in profit in the six months ended September to R6,4 million, but is maintaining dividends because this has been a period of consolidation.

The bank, which listed in February, grew total income 56,5 percent to R36,9 million.

But a 57 percent rise in staff and operating costs to R22,7 million and a more than doubling of the bad debt provision to R6,8 million from R2,9 million took pre-tax income only 20,6 percent higher to R7,4 million.

The directors said yesterday staff and operating expenses were not comparable because the figures included a subsidiary for less than the full period.

The bad debt provision had been increased as part of the consolidation process and had brought group debt provision up to R10,7 million, or 1 percent of advances.

On earnings of 25,9c (25,5c) on an increased number of shares in issue, the dividend remained 7c.

The directors said prospects were good and attributable income was expected to increase satisfactorily during the current year.

NRB strikes right notes

Star 11/11/94

BY CHARLOTTE MATHEWS

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RMBH/MOMENTUM LIFE

Fm 18/11/94

End of the consolidation period

58

RMBH

Activities: *Diversified financial services, mainly life assurance and merchant banking.*
Control: *Directors and management 39%.*
Chairman: *G T Ferreira.*
Capital structure: *73m ords. Market capitalisation: R2,5bn.*
Share market: *Price: R34. Yields: 1,5% on dividend; 3,8% on earnings; p.e ratio, 26,4; cover, 2,5. 12-month high, R35; low, R19,25. Trading volume last quarter, 556 000 shares.*

Year to June 30	'91	'92	'93	'94
Total assets (Rbn)	2,8	3,0	17,0	21,8
Sharehold funds (Rm)	121	146	172	542
Attributable (Rm)	30,3	37,0	44,4	94,2
Earnings (c)	55	67	81	129
Dividends (c)	57,9	67,2	80,6	128,9
Return on equity (%)	27	28	28	19

When shares sit on top ratings in the sector, like RMB Holdings and 68%-subsidiary Momentum Life, prices become difficult to justify, even after EPS growth of 60% and 43% respectively. Investors are clearly discounting good earnings growth for some time to come and one questions whether the shares have run ahead of expectations.

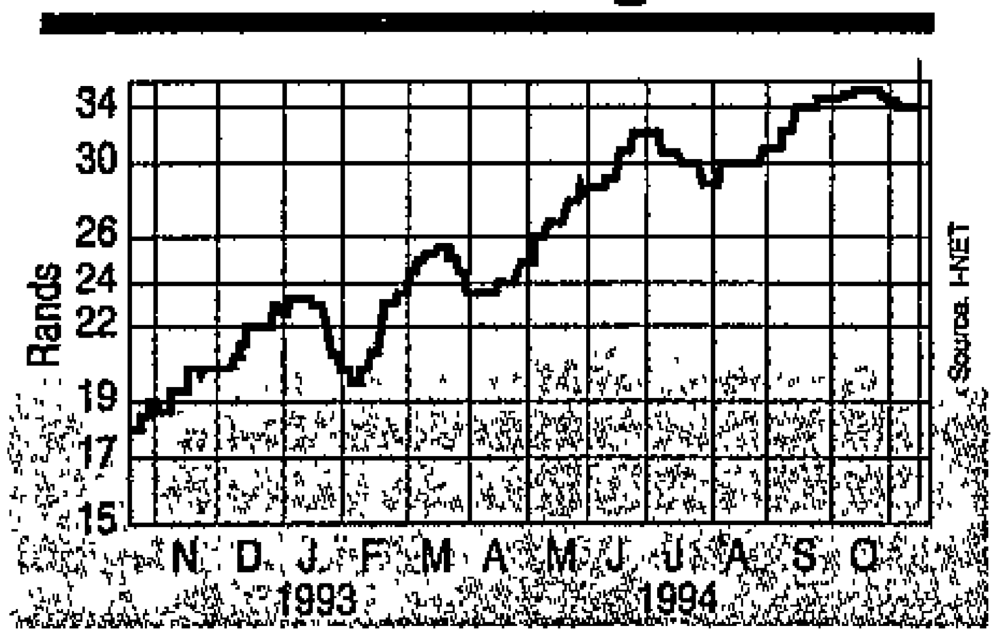
Despite being expensive, though, there seems to be considerable value in the shares, particularly RMBH, which is on less demanding ratings than Momentum. Analysts are forecasting EPS growth of at least 28% for RMBH for the next two years.

Disclosure in the annual reports has improved considerably.

A breakdown of RMBH's taxed income shows the contribution from life assurance up 50% to R36m, short-term income more than trebling to R14,1m after a full year's contribution from 50%-held Aegis Insurance (three months in the previous period) and income from banking up 27% to R33m.

The only loss (R1,7m) came from health insurance, represented by 70%-held Momentum Health. That is a young company establishing itself in the market. Momentum chairman Laurie Dippenaar says results for the first quarter of the new financial year are on track to meet ambitious targets. The company is considering a rights issue

RMB Holdings



Ferreira ... *wants to expand internationally*

MOMENTUM

Activities: *Bank controlling company. Main activity is life assurance; also merchant banking through subsidiary Rand Merchant Bank.*
Control: *RMB Holdings 68%.*
Chairman: *L L Dippenaar. Joint MDs: R B Gouws; J D Krige*
Capital structure: *135m ords. Market capitalisation: R2,6 bn.*
Share market: *Price: 1 950c. Yields: 1,7% on dividend; 3,1% on earnings; p:e ratio, 32,2; cover, 1,9. 12-month high, 2 050c; low, 900c. Trading volume last quarter, 418 000 shares.*

Year to June 30	'91	'92	'93	'94
Total assets (Rbn)	7,1	10,5	11,6	14,4
Premium income (Rbn)	1,0	0,9	1,1	1,3
Invest income (Rm)	541	587	540	615
Taxed surplus (Rm)	18,0	21,0	53,0	81,4
Earnings (c)	26	30	42	61
Dividends (c)	15,0	16,5	23,0	32,5

tthis year.

Total taxed income RMBH received from Momentum and its subsidiaries, including Rand Merchant Bank, was R81,4m, up 54%. The contribution from foreign subsidiary Australian Gilt Holdings and other income, nearly doubled to R13,2m.

Apart from the solid growth this shows in nearly all subsidiaries, it indicates the spread of earnings RMBH is getting from different areas of the financial services sector since listing two years ago. About a third of income comes from assurance, a third from merchant banking, the balance roughly divided between short-term insurance and foreign currency earnings.

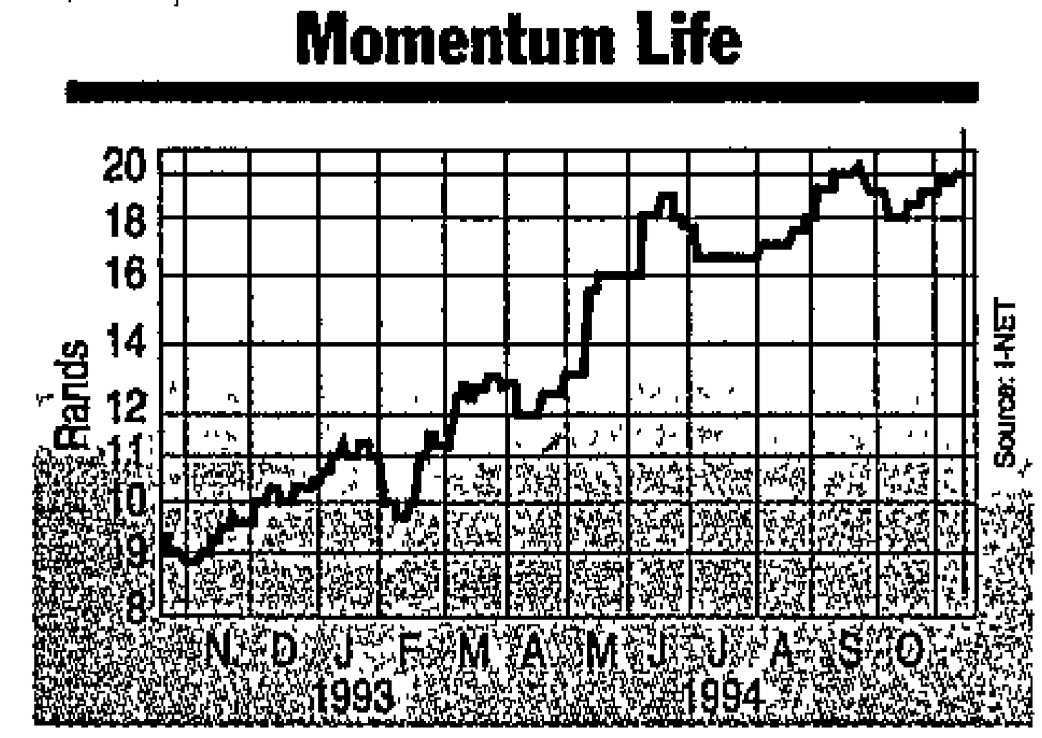
RMBH is also getting a useful R31,7m from associates, largely its 20% interest in share-swap partner NBS Holdings, but also from reinsurer Hollandia and merged broking group Glenvaal Dewar Rand. Again, this shows a spread of income from different parts of the financial services industry.

Chairman G T Ferreira says the broader group has completed a period of consolidation, during which it concentrated on optimising synergies and maximising profitability between the various interests.

"Instead of spreading our wings wider, we will probably concentrate on expanding our existing businesses through internal growth and, where applicable, through acquisition and merger," he says.

If an acquisition is made, it will probably be a foreign interest or joint venture. Ferreira makes no secret that RMBH wants to expand internationally, partly to get a wider spread of foreign currency earnings. But RMBH is in no hurry. Ferreira says the group is reconsidering its international strategies and evaluating the areas in which it may have a sustainable competitive advantage. Exchange controls remain an obstacle. Ferreira says it is one of the remaining economic barriers to SA business becoming full members of the international

Momentum Life



economic community.

Apart from looking offshore, it seems RMBH will concentrate on sustaining earnings growth. This is largely dependent on Momentum, which Dippenaar says has succesfully completed two years of its five-year strategic plan. Problem areas inherited from the takeover two years ago seem to have been ironed out and previous underperformers, like property, are making a valuable contribution.

This expected growth is what investors are paying for and why the shares are expensive. RMBH's share price appreciated by nearly 77% over the year, Momentum by 117%. Part of the price investors are prepared to pay must relate to the quality of management, which since the Momentum takeover and RMBH listing two years ago has impressed the market.

P.T.O.

'Poll must respect chiefs'

(261) (101)

ULUNDI. — The Inkatha Freedom Party in kwaZulu/Natal yesterday vowed not to take part in a local government election that did not take into account the wishes of tribal chiefs.

The provincial legislature debated at length proposals by chiefs for an electoral system that would allow them to retain their traditional powers, a scheme described by the ANC as an attempt to hold undemocratic elections.

Traditional Affairs Minister Mr Nyanga Ngubane said chiefs would not take part in elections that did not entrench their powers in traditional areas, as chiefs were born leaders.

Dr Mike Sutcliffe (ANC) said although the constitution recognised the institution of traditional leadership, it also entrenched the right of all to vote for democratic government bodies. — Sapa

CT 24/11/94

3rd party fund R3,7m in red

CT 12/11/94 (58)

By ANTHONY JOHNSON
Political Correspondent

THE bankrupt third party fund — already R3 783 million in the red and sinking fast — is threatening to plunge the government into "a financial disaster of huge proportions," the Financial Services Board warned Parliament yesterday.

The scandal-plagued Multilateral Motor Vehicle Accident Fund was "insolvent to the extent that renders rehabilitation unlikely without fundamental change," the board's executive officer, Mr P J Badenhorst, noted in his 1993/94 annual report tabled yesterday.

He said the MMF, with liabilities on April 30 of R4 400m and assets of only R617m, found itself in a "classical mismatch" position with income for the fund difficult to calculate and spiralling claims difficult to estimate.

Drastic measures proposed

The report proposes a series of drastic measures aimed at improving the financial viability of the fund, warning that if urgent steps are not taken to curb the mushrooming deficit it could "before long represent a national financial disaster".

The tough medicine which aims to rescue the MMF includes:

- Enforcing for the next five years regular 11,2% annual increases to the fuel levy (which is now 9c/ℓ on petrol and 5,8c/ℓ on diesel) to first build up and then to maintain "assets".
- Cutting out the "avalanche" of small claims by instituting a lower threshhold and imposing a maximum benefit ceiling of R200 000.
- Benefits should be provided on a "no-fault" basis and the common law rights of an injured person abolished, preventing an individual claiming additional compensation above the limit from the "guilty party".
- A series of measures to lower the cost of benefits, including reducing the three-year period allowed for submission of claims to one year.
- Steps to drastically curb the R47m the MMF paid during the past financial year to provincial hospitals and the R109m paid out to private bodies.
- The "vigorous" investigation and prosecution of cases of fraud.
- Promotional campaigns dealing with child education on road safety, hard-hitting media advertisements, elimination of "dangerous spots" on roads and a crackdown on speeding and drunk driving.

Healthy margins keep Saambou on growth path

BDay 14/11/94

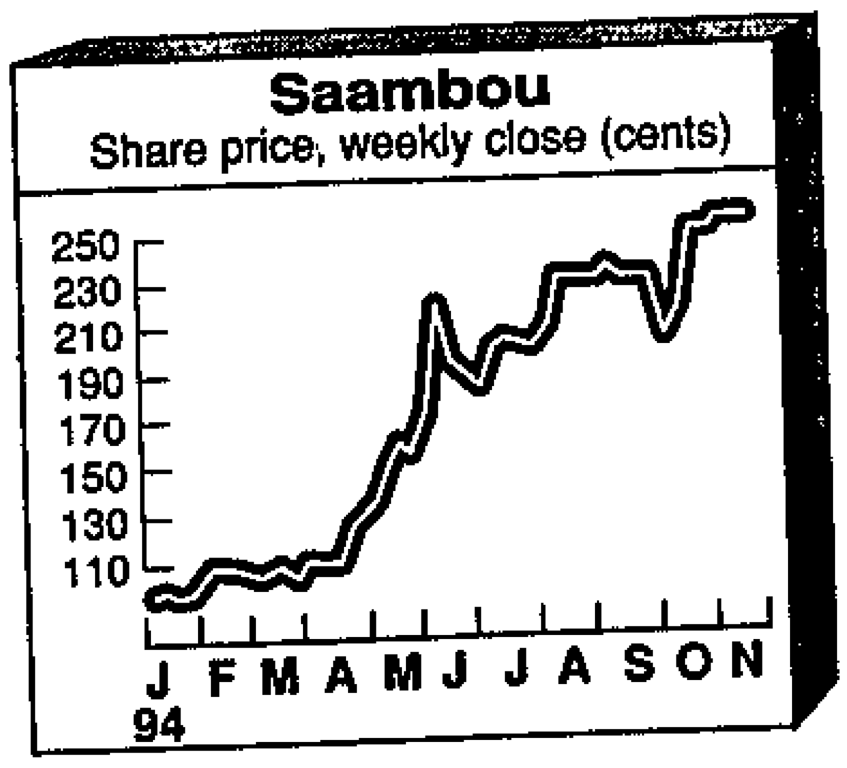
SAMANTHA SHARPE

HEALTHY margins and a robust increase in advances helped Saambou continue its strong growth phase to post a 47% rise in earnings to 9c a share for the six months to September.

The results consolidate the decisive turnaround in the bank over the past two years. Saambou has nearly tripled its share price to a high of 255c from a low of 92c at the same time last year. The group's dividend rose 50% to 1,5c a share.

An increase in lending volumes and improvement in interest margins helped lift net interest income 23% to R110,9m, with profits from subsidiaries boosting growth in non-interest income to R32,1m from R28m.

Saambou MD Johan Myburgh said the bank had disposed of 21% of problem child Saambou Wonings' underperforming property assets, which included both stock and advances.



"These underperforming assets have been reduced by R31,6m to R118,7m in the period under review. Total assets have, however, grown 14% to R5,4bn," he said.

Myburgh said the group had targeted real growth in assets of 7,5% with the aim of growing the asset base on a managed basis. The 47% rise in attributable earnings to R11,3m was achieved after a 38% increase to R29m in provisions for bad and doubtful debts and a 40% rise to R7m in general risk provisions.

Myburgh said the increase in provisions compared with levels for the last six months of last year and would probably grow at the same rate for the rest of the financial year.

Operating expenditure rose to R86,9m compared with R77,4m at the same time last year. The tax charge rose to R7,8m from R5,7m. But the company would start to pay corporate tax only in March 1997, with the tax charge benefiting from an earlier assessed loss situation. The company made a loss in 1990.

Myburgh said the group would continue to focus on the individual, salary earner and pensioner. "We are still on track for what we set ourselves to achieve in terms of constant growth in both earnings a share and return on capital." (58)

Buoyant results consolidate Saambou's turnaround

(58) CT 14/11/94

From SAMANTHA SHARPE

JOHANNESBURG. — Healthy margins and a robust increase in advances helped Saambou continue its strong growth phase to post a 47% rise in earnings to 9c a share for the six months to September.

The results consolidate the decisive turnaround in the bank over the past two years. Saambou has nearly tripled its share price to a high of 255c from a low of 92c at the same time last year. The group's dividend rose 50% to 1,5c a share.

An increase in lending volumes and improvement in interest margins helped lift net interest income 23% to R110,9m, with profits from subsidiaries boosting growth in non-interest income to R32,1m from R28m.

Saambou MD Johan Myburgh said the bank had disposed of 21% of problem child Saambou Wonings' underperforming property assets, which included both stock and advances.

"These underperforming assets have been reduced by R31,6m to R118,7m in the period under review. Total assets have, however, grown 14% to R5,4bn," he said.

Myburgh said the group had targeted real growth in assets of 7,5% with the aim of growing the asset base on a managed basis. The 47% rise in attributable earnings to R11,3m was achieved after a 38% increase to R29m in provisions for bad and doubtful debts and a 40% rise to R7m in general risk provisions.

Myburgh said the increase in provisions compared with levels for the last six months of last year and would probably grow at the same rate for the rest of the financial year.

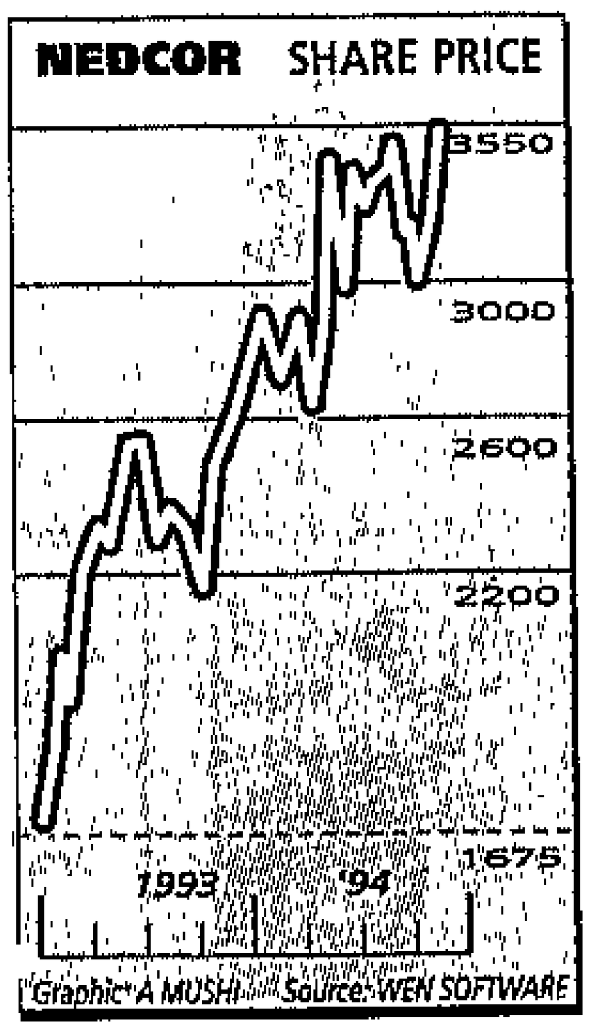
Operating expenditure rose to R86,9m compared with R77,4m at the same time last year. The tax charge rose to R7,8m from R5,7m. But the company would start to pay corporate tax only in March 1997, with the tax charge benefiting from an earlier assessed loss situation. The company made a loss in 1990.

Myburgh said the group would continue to focus on the individual, salary earner and pensioner.

Nedcor posts profit and dividend rise

Star 16/11/94

■ BY CHARLOTTE MATHEWS



Nedcor lifted earnings and dividends by 23 percent in the year to September, a pleasing and sustainable performance, chairman John Maree said yesterday.

On attributable earnings of R615 (R501) million, earnings rose to 309c (251c) a share and capitalisation shares or a dividend of 95c (77c) a share was declared.

Net interest income, up 14 percent to R2 billion, grew faster than growth in lending assets, chief executive Richard Laubscher said.

This was because Nedcor's asset structure has been changed in anticipation of rising interest rates and its balance sheet was better structured towards a high, rather than low interest rate environment — it did not have a high proportion of fixed-rate lending.

Non-interest revenue lifted by 16 percent to R1,4 billion, including a 17 percent improvement in commission, a doubling of insurance income off a low base and an 8 percent increase in trading income.

The bad debt provision dropped by 2 percent to R277 million, less than the 14 percent fall at the interim stage, since it was considered prudent to make a greater provision in a higher interest rate environment, Laubscher said.

The group's 2,6 percent ratio of provisions to advances and acceptances is among the most conservative in the industry.

Growth in expenses was 15 percent, of which growth in core expenses was about 13 percent. This was swelled by expenses incurred in consolidating the Namibian operations, the opening of offices in New York and Beijing — both expensive places — and by a number of business initiatives, including in-store banking, the launch of tele-sales and relationship banking. All of these initiatives had been successful, Laubscher said.

The group's return on equity improved to 21,1 percent from 20 percent, in line with targets and on a conservative calculation.

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The capital ratio was unchanged at 9,4 percent, above the current requirement of 7 percent.

Laubscher said Nedcor was extremely competitive against other banks, despite the fact that its share of the instalment credit market was only 3 percent and could be improved to 15 percent, and that its insurance earnings were sub-optimal.

Applying diligence to these two areas in the medium term should enhance bottom-line profits quite considerably.

Escalating crime bites into Santam earnings

B/Day 16/11/94

SAMANTHA SHARPE

SANTAM has joined the growing list of short-term insurers suffering from SA's crime wave, posting a 25,9% fall in attributable earnings to R80,9m for the year to September.

The company reported an 18,7% increase in gross premium income to R1,49bn — outflanking budget expectations. But a 27% rise in net claims diluted growth in net premium income, which rose to R1,35bn compared with R1,14bn at the same time last year.

The negative effect of difficult trading conditions dragged Santam's underwriting profit down to R12,3m from a previous R61,3m, with a marginal 4,2% rise in investment income to R107,7m doing little to add to the company's bottom line.

The fall in attributable earnings translated into a 25,8% decline in earnings to 112c a share, but the company managed to declare a 16% increase in total dividends to 58c a share.

Santam MD Jurie Geldenhuys said he was pleased with the results, which were "achieved in hard times".

Santam's solvency margin showed a further improvement during the year and now stands at 71,8% compared with 62,8% at the same time last year.

Net asset value a share also advanced, to 1 342c compared with 992c in September last year.

Geldenhuys said the decrease in Santam's underwriting profit was largely attributable to the decline in the company's motor portfolio.

"Compared to the R99,2m Santam paid out to claims for motor theft and hijacking last year, this year's figure of R176,9m shows an increase of nearly 78% in rand terms," he said.

(58)

"Since a great number of cars are insured under our personal package policies, the weakening trend also exercised a substantial downward pressure on our personal lines portfolio."

Geldenhuys said it was difficult for the insurance industry to counter car thefts and hijackings in an environment dominated by crime.

Santam was committed to doing its utmost in addressing the cause of these crimes and the company, together with other parties, had begun to make contact with government to try to come up with a solution, he said.

ARG. 16/11/94

Banks asked to drop bond limits still lower

State seeks help for bottom income groups

JOHN VILJOEN
Business Staff

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THE state wants banks to lower their home loan requirements still further to assist low-income groups, says national housing director general Billy Cobbett.

At last month's national housing summit banks agreed to grant loans as low as R10 000.

"We believe we can still go lower," said Mr Cobbett.

At an investment conference for United States pension fund managers in Cape Town yesterday, Mr Cobbett said his department wanted banks to push lending limits "lower and lower".

Statistics on South Africa's housing needs were "useless", Mr Cobbett conceded. "The backlog is so big that we just have to get on with the job."

The white paper on housing would be tabled in parliament in two weeks. The result of six months of the most intense negotiations, its guiding principle was a partnership between the state, the private sector and communities.

The white paper would include details of the government's housing subsidies.

The National Housing Finance Corporation, intended to be "a people's champion", should be operating within the first months of next year and would provide an opportunity for foreign investors, he said.

Although foreign investors had a significant role to play in tackling the housing crisis, his department's first goal was to secure domestic investment.

The government's underfunding of housing had to be addressed and this area's budget share was expected to grow from one percent to five percent by the end of the government of national unity's tenure.

If the government achieved its target of building a million houses by the end of the century it would merely be freezing the backlog at this year's level.

Hopefully this effort would ensure that the building sector developed the capability to cope with the demand for housing after 2000, Mr Cobbett said.

He repeated the call for the re-establishment of a culture of payment for bonds and services. Boycotts were an effective means of striking at the government in the past, but a campaign was now needed to end them, Mr Cobett said.

Good Hope Bank grows

B/Day

EDWARD WEST

CAPE TOWN — The Cape of Good Hope Bank, SA's oldest bank, lifted taxed net income 14% to R21,3m in the year to September by continuing to grow its lending volumes and maintaining margins, MD Mike Thompson said yesterday.

The bank's total assets rose 13% to R1,5bn.

The home loan and instalment finance books showed strong growth, increasing 22% and 24% respectively. The long-term book for commercial and industrial property finance grew 25%. 17/11/94

Short-term development loans fell 16% because of underperformance of one property development. (58)

Thompson said margins could come under pressure, mainly because of "unprecedented" competition for retail funding and the expected abolition of the financial rand. Speculation on the scrapping of the finrand was squeezing margins between the prime interest and capital market rates.

Citizen's first results show profit

EDWARD WEST

CAPE TOWN — Citizen Bank's first interim results released yesterday showed a R7,6m profit before extraordinary items for the six months to end-September 1994.

Earnings a share increased 23% to 121c and the bank declared an interim dividend of 20,15c, an increase of 49,3%. Return on assets was 4% compared with an industry norm of under 2%.

CE Edgar van Deventer said the conversion of Ciskei Building Society to Citizen bank and the subsequent listing of Citizen Bank Holdings on the JSE had been vindicated by the profit and asset growth achieved since trading commenced.

He said directors were convinced the recent substantial shareholding acquired by Thebe Investment Corporation and Firstcorp Merchant Bank would ensure continued growth. The banking expertise, new business opportunities and improved funding facilities offered by Thebe and Firstcorp would be brought into play while the bank expanded in the eastern Cape.

A R26,84m extraordinary item included the sale of 6-million shares to Thebe and Firstcorp at 310c. The proceeds of these shares were granted to Citizen Bank by the Ciskei government at the conversion of the Ciskei Building Society. BIDO4

On the JSE yesterday, the share rose 6,6% ahead of the release of the results, to a high of R4,00. 17/11/94

The extraordinary amount also included a R7m reversal of a provision for exceptional doubtful debts due to the improved political climate in the eastern Cape since the elections. (58)

The capital adequacy ratio of 30,26% compared favourably with the 7% minimum required by the Reserve Bank. In the period the bank granted 371 new mortgage loans totalling R25,6m, and its investment porfolio grew R26,9m.

Total assets at Southern Life up 32%

Star 17/11/94

BY CHARLOTTE MATHEWS

Stock market appreciation and net premium inflow boosted Southern Life's total assets by 32 percent to R26,4 billion in the six months to September, compared with the same period in 1993, after excluding African Life and Southampton Assurance of Zimbabwe.

In the past year Southern Life has reduced its holding in these companies to 25 percent in African Life and 49 percent in Southampton.

Distributable earnings rose to R123 million from R99 million previously, which translates into earnings of 70,5c (57,8c) a share.

Capitalisation shares or an interim dividend 22 percent higher at 47c (38,5c) a share is on offer.

In line with most assurers, Southern Life only undertakes full actuarial valuations at year-end and interim earnings and dividends are set at half the total for the previous full financial year.

Total income lifted 8 percent to R2,2 billion, with premium income rising 9 percent to R1,6 billion and investment income 7 percent to R607 million.

Premium income included a 62 percent rise in new business, of which recurring premium income accounted for 22 percent and single premium business surged by 81 percent.

There were significant employee benefits single premiums in the first half of 1993, not repeated in this period. (58)

Southern Life MD Jan Calitz says one of the reasons for the growth has been the success of the Exclusive Life range of policies, which now account for about a third of all policies sold.

Futuregrowth, the retirement fund portfolio supporting the aims of the RDP, has made a successful debut, with assets already over R175 million.

Calitz says shareholders could expect continued real growth in earnings and dividends a share to be declared at year-end.

Southern Life shares closed unchanged at R34 yesterday, at an historical P/E of 24,1 which is slightly above the insurance sector average, but behind Momentum's 32,2 and Liberty's 44,6.

Citizen Bank on form

EAST LONDON. — Bisho-based Citizen Bank celebrated a 23% rise in earnings a share during the six months to September 30 by reconstituting its board.

The new chairman is Vusi Khanyile, MD of Thebe Investment Corporation, which together with FirstCorp Merchant Bank bought a controlling share in Citizen three months ago. FirstCorp MD D M Lawrence has also been appointed to the board.

Citizen's interim profit was R7,6m, with earnings a share up 23% to 121c in the six-month period. An interim dividend of 20,15c a share was declared, an increase of 49,3%. (58) CT 17/11/94

Return on assets rose to 4%, compared to an industry norm of less than 2%, and Citizen's average total asset increased by 11%.

CE Edgar van Deventer said R24,8m had been transferred to non-distributable reserves.

ARG 17/11/94 (58)

Good one as W Cape bank keeps the profits flowing

BRUCE CAMERON
Business Editor

NICHE Western Cape bank, Cape of Good Hope Bank, claims more people are doing business with it, contributing to the 14 percent increase in profits it made for the year ended in September.

And new managing director Mike Thompson, delivering his first set of annual results, is optimistic the bank will continue on the course of growth.

The fully-owned Nedcor subsidiary, which has a Cape Town head office and 11 branches, believes that it has quality staff and quality clients.

Although it took a knock from one of its major clients last year and has made provisions for difficult times for another of its important clients this year, Mr Thompson says his bank fares better than most when it comes to arrears and defaults on loans.

With half of its interest earning business in commercial bonds the bank saw lending volumes in this section increase by 11 percent during the year. But shorting commercial bonds (virtually bridging finance) was down 16 percent while long-term financing was up 25 percent.

Mr Thompson said he expected the short-term commercial bonds position to reverse as the building industry geared itself up for an improving market.

The overall results were affected by the "underperformance" of one coastal property development loan but this accounted for less than two percent of the bank's assets of R1,5 billion.

However this was reflected in the interest earnings of the bank, which grew at a reduced 7,1 percent to total R67,9 million for the year. It received R211 million in interest on loans and paid out R144 million on deposits.

Mr Thompson said the problem property development was now showing signs of recovery and the interest reserve allowed could probably be added back next year.

He anticipated that there would be tougher trading conditions in the year ahead with a war being waged both on deposit rates and lending rates, making for tighter margins.

But he was optimistic that the bank would continue to grow its client base.

During the year the bank received an R15 million capital injection from Nedcor to bring it up to a weight assets ratio at year end of 9,2 percent. The Reserve Bank requires Good Hope to have a ratio of more than eight percent.

The effect of the injection resulted in the return on the investment of shareholders being reduced from 27 percent to 23 percent.

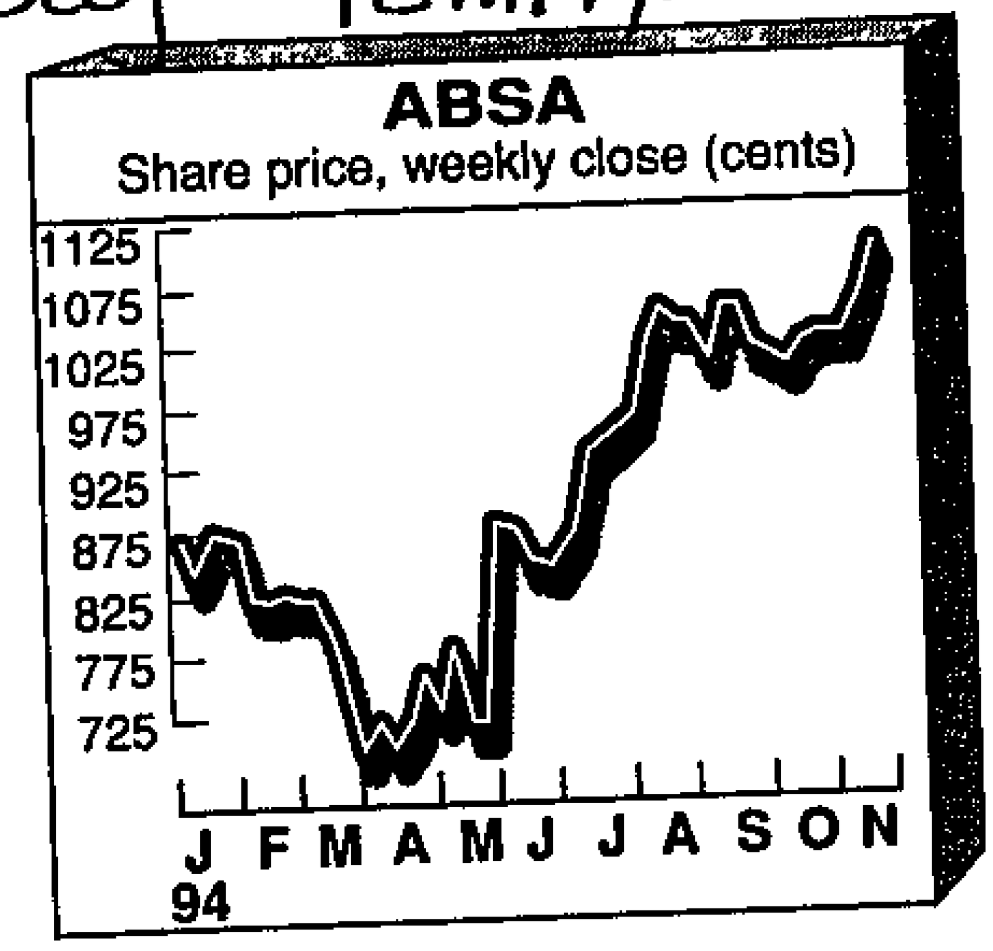
After the bank's other problem of last year was resolved specific and general risk provisions were reduced from R7.8 million to R4,6 million. Expenses, which accounted for about 46 percent of profit before tax, were well contained with an increase of six-percent to R35 million.

After tax profit was up from R19, million to R21 million with R17,7 million trasnferred to reserves.

Absa 'could show first signs of turnaround'

B/Day 18/11/94

SAMANTHA SHARPE



AMALGAMATED Banks of SA (Absa) could show the first real signs of a turnaround, with expected growth in earnings of about 14,5% to 61,83c a share for the six months to September, banking analysts said yesterday.

They said the group had probably done better in the past six months than it would be willing to show at the interim stage. They said Absa would be hesitant to show earnings growth of more than 15%.

They expected a rise in earnings a share, which would follow on a marginal fall in earnings for the year to March, to be accompanied by a dividend increase of about 10,5% to 18,79c.

The group's share price rose 40c yesterday to an annual high of R11 compared with an annual low of R6,70 in April.

Absa, which said in its annual report that it should return to real growth in earnings and dividends after posting "disappointing" results for the 1994 financial year, would benefit from fairly good margins.

But analysts were divided about the effect of a rising interest rate pattern on the group's future earnings.

While some anlaysts said an environment of rising interest rates would benefit the group because of its asset structure, others said rising interest rates eventually started to squeeze margins whatever the nature of the institution's asset make-up.

They agreed, however, the group would probably improve on the 4,2% increase in asset growth for the year to March.

Non-interest income was also expected to show a healthy increase. (58)

A highlight of the interim results would be a reduction in the group's provision for bad debts, which have remained higher than other financial institutions when measured as a ratio of advances. This would have a positive effect on the bottom line.

ARG. 19-20/11/94.

US funds set to aid black entrepreneurs

5.8

ALIDE DASNOIS and JOHN VILJOEN
Business Staff

AMERICAN fund managers are set to pour billions of dollars onto the Johannesburg Stock Exchange.

But this time round they want to see the money go into the hands of black entrepreneurs.

Black empowerment was a dominating theme at the Pensions 2000 conference, which brought together South African investment advisers and finance houses and top US fund managers with billions of dollars at their disposal.

"Black empowerment doesn't mean creating a few rich blacks," Nick Vingirai, MD of Zimbabwean finance house Intermarket, told delegates.

He warned South Africa not to follow the same route as Zimbabwe in encouraging the development of black businesses.

"We created groceries, not industrialists. The reason why Africa hasn't developed is that we always think small."

Donald Ncube of Real Africa Investments warned that black empowerment would not be an event but a long process — and that much of it would take place off the JSE.

"The dealers in the townships are the real entrepreneurs," said Mr Ncube. "But investors don't know how to access them."

Dixie Strong of Simpson McKie said the JSE might have a role to play in taking an Unlisted Securities Market under its wing.

Many black-controlled companies could not meet the criteria for listing on the main board of the JSE and others might not wish to list.

An Unlisted Securities Market, with less onerous entry requirements than the JSE, could make use of the JSE systems for dealing in shares and settlement and could ensure investor protection.

The fund managers were upbeat about the prospects of investment in South Africa.

"Our mood is that we're bullish on South Africa. There is no question of that," said William Hayden, senior managing director of New York brokers and underwriters Bear Stearns.

Maceo Sloan, chairman of the Sloan Financial Group, said some of the biggest pension plans in the United States had sent representatives to the conference.

Mr Hayden, who is on his fifth visit to South Africa, said the New South Africa fund which is being marketed by his firm now stood at \$85 million (about R302 million) and was being marketed in the United States, Europe and the Far East.

The JSE's inclusion on international emerging markets indices would have a major impact on investments from the United States, he said.

"A lot of large pension funds in the United States have index managers who manage around the indices. With South Africa being 20 percent of the emerging markets index, all those managers will put 20 percent of their portfolios in South Africa."

Neither Mr Sloan nor Mr Hayden was concerned at the decline in interest in emerging markets.

"Our business is cyclical, no matter which market you're in. I think there are signs of revival already," said Mr Hayden.

Over the long term, exchange controls were not a factor either.

Of more concern to Mr Sloan was the lack of liquidity on the JSE. But he expected the market to loosen up as the conglomerates unbundled non-core interests to finance attempts to become more competitive.

Glad tidings for Standard Bank

Star 22/11/94

■ BY CHARLOTTE MATHEWS

Standard Bank's securities services management division has been given a boost by receiving clearance from the US Securities and Exchange Commission (SEC) to act as a securities custodian for US investors in Africa.

To meet US regulatory standards, custodians have to prove they have assets of $200 million in the country where they provide the service. However, the SEC has waived this requirement for Standard Bank because it has undertaken effectively to support its African banks in securities management.

Senior GM of Standard Bank's treasury, international and Africa banking divisions, Graeme Bell said yesterday the bank had also been appointed African representatives of the National Securities Clearing Corporation (NSCC), which represents managers of investments for corporate investors.

These moves meant two powerful US bodies had acknowledged that Standard Bank met their standards and could offer US investors the same security and service they expected in the US or Europe.

Standard Bank has built up its securities services management division over the last two years. It now manages about R100 billion off-balance sheet for external investors, mostly invested in SA.

Several million has been invested in establishing electronic links with its ten affiliates in Africa, placing them on the international financial network.

The potential for profit generation from this division was significant, Bell said, since revenue would be generated in many forms, including currency, interest, dealing and delivery fees.

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40 schemes worth R10 billion identified

Project financing for SA

Star 22/11/94

BY JOHN SPIRA

Tyll Pahl . . . positive developments ahead.
PICTURE: GARY BERNARD

The International Bank of Southern Africa (Ibsa) has identified 40 active South African project financing schemes worth R10 billion.

Of these, Ibsa is examining projects to the value of R1,5 billion, at least half of which are expected to reach fruition, says the bank's managing director, Rod Gamble.

All would be funded on a project-financing basis in syndication with international and local banks.

Gamble says the huge value of schemes currently on the drawing boards demonstrates that a considerable amount of fixed investment is, in fact, taking place in SA and that SA corporations are indeed showing confidence in the nation's future.

Ibsa is owned by Banque Bruxelles Lambert (20 percent), Banque Nationale de Paris (40 percent) and Germany's Dresdner Bank AG (40 percent).

Gamble revealed the scope of Ibsa's activities in SA at a seminar in Johannesburg yesterday at which Tyll Pahl, Dresdner Bank's head of project finance, suggested South Africans could be justifiably more positive about their future than they were.

"I personally see positive developments ahead. SA has the resources and opportunities. It has a history of 300 years of development and, unlike many other countries competing for global finance, it doesn't have a communist past with which to contend."

58

While conceding that SA still had to overcome stumbling blocks to the successful implementation of its Reconstruction and Development Programme (non-payment for services being one), similar problems in certain South American countries had been tackled with good results.

"The non-payment culture in your country has only reared its head in recent years. In other words, it isn't endemic in your society.

"I am therefore confident that the problem will be solved in the near future."

Pahl said that pure project finance, in which risks are shared among participants in a project, was a relatively new technique to South Africa.

"During the years of SA's isolation, its infrastructure suffered. It has to be rapidly rebuilt and project finance arrangements are an ideal means of assisting the process.

"I believe Ibsa, as a result of the extensive global experience of its shareholders, has the ability to mobilise the necessary capital. No matter the size of the project, we can put together a team to ensure its successful implementation."

Pahl saw the World Bank's International Finance Corporation (IFC) as playing an important role in facilitating the mobilisation of capital for projects in SA.

"The IFC would take much of the risk out of investing in SA, which is still perceived as having a political risk profile.

However, as this risk diminishes (as I am sure it will), the need for the IFC's involvement could well fall away."

Gamble said: "Conventional project finance is a mechanism to spread risk — particularly useful in large infrastructural projects.

"SA is now ready for this approach because of the enormous demand for infrastructural development in both the primary and manufacturing sectors."

Absa halts erosion of market share

Star 22/11/94

Danie Cronje . . . conservative policy.

■ BY CHARLOTTE MATHEWS

Absa, whose brand names include Allied Bank, Trust Bank, United Bank, Volkskas Bank and Bankfin, improved pre-tax income by 16,6 percent to R610,7 million in the six months to September 1994 compared with the previous year.

Chief executive Danie Cronje told a press conference the figures stemmed from growth in advances, conservative provisioning for doubtful debts and efficient cost control.

Net interest income grew by 8,2 percent to nearly R2 billion and the charge for bad and doubtful advances fell to R262,7 million, bringing the ratio of debt provisions to advances down to 0,7 percent.

Operating expenditure grew by 7,8 percent.

The slower 10,7 percent growth in bottom-line profit to R337,9 million resulted from a higher tax bill and lower share of associates' income.

The tax rate was hoisted to 46 percent from 44 percent because of higher STC and the reduction in the value of the deferred tax asset.

The share of associates' income fell by R4,6 million to R7,7 million owing to heavy claims on the short-term insurance business of 30 percent-held associate Commercial Union.

Earnings a share lifted to 59,7c (54,0c) and an interim dividend of 18,5c (17,0c) was declared.

Cronje said the modest increase in the dividend reflected a conservative policy aimed at increasing the dividend cover to around three times by year end.

On the balance sheet, deposits and current accounts grew by 10,4 percent, in line with expectations. The industry-wide trend of retail deposits growing at a lower rate than wholesale deposits was alarming, Cronje said, because it meant retail advances were being financed by wholesale funds. (58)

Absa's advances have risen by 12,5 percent since September 1993 but in the first half of the current year are 17,2 percent higher on an annualised basis. This was "very gratifying", Cronje said, and reflected growth in both wholesale and retail advances, especially in instalment finance and mortgage lending where Absa had expanded in line with the rest of the market.

The decline in the group's market share had been halted and it was now maintaining it at 37,6 percent.

An inhibiting factor on growth remained the integration of systems, which were expected to be finalised within the next 18 to 24 months. However, staff numbers remained under control, freeing

funds for expenditure on technology.

Staff morale was better and the group's image among its clients and investors had improved over the last six months. The group was looking forward to better results for the remainder of the year.

COMPANIES

Saambou beefs up capital base

SAMANTHA SHARPE

SAAMBOU Bank had strengthened its capital base through the issue of R40m in compulsory convertible debentures, the group said yesterday.

Saambou group MD Johan Myburgh said the additional capital would further strengthen the banking group's base for future growth.

He said the debentures had already been taken up in the capital market by an independent investor. The identity of the investor could not be released.

But the right of conversion had been secured by Saambou Holdings through its own sources, he said.

The debentures, which have been issued for a five-year period, would be converted to ordinary shares in Saambou Bank at the end of the period.

The debentures would be considered as capital for the period and at the time of conversion would convert from secondary to primary capital. B/Day

Myburgh said this would ensure that Saambou Holdings would acquire the ordinary shares without any further obligation.

"There will be no dilution of interest on the part of either Saambou Holdings or Saambou group shareholders," he said.

"The issue of these debentures, combined with the bank's reserves, raises our current capital ratio to more than 9%," Myburgh said. 22/11/94

This would be more than sufficient to satisfy the statutory requirement of an 8% ratio which would come into effect on January 1 next year. (58)

No specific projects had been identified as beneficiaries of the capital increase, the banking group said.

Standard Bank nets local slot for NSCC

(58) CT 22/11/94

JOHANNESBURG. — The Standard Bank Group has been cleared by the US Securities and Exchange Commission to act as a securities custodian to US investors in Africa, Graeme Bell, senior GM (international, treasury and Africa banking) said yesterday.

Speaking at a press conference in Johannesburg, Bell said Standard had been appointed the African representative of the National Securities Clearing Corporation, a provider of centralised clearance and settlement services to US brokers trading in overseas markets.

The NSCC is jointly owned by the New York Stock Exchange, the American Stock Exchange based in Chicago and the National Association of Securities Dealers. "What they do ... is represent those major bodies responsible for managing the investments of corporate investors. They don't do the investing but they manage the settlement of securities — what one could call the housekeeping." Bell said Standard's securities management division performed the same function.

Standard Bank Investment Corporation MD Eddie Theron said US investors looking at emerging markets in Africa now knew that the quality and security of the bank's custodial services met US legislative and other standards.

Electronic links

Standard said it was upgrading electronic links between South Africa and its other African points of representations, placing African banks on the international financial network Society for Worldwide Interbank Financial Transactions (Swift).

In terms of the NSCC arrangement, the Standard Bank's Securities Services Division would act as sub-custodians to US broker-dealers.

It would safeguard scrip, arrange for or conduct sales, purchases and payments of most financial instruments through the US custodians and provide US investors with financial information related to buying and selling shares, bonds and other financial instruments. — Sapa

Absa on track to trim gap with competitors

By ARI JACOBSON

ABSA BANK expects to draw level with its competitors by March 1996, executive director Alwyn Noeth said on the release of the group's results yesterday.

In the half-year to September Absa, the largest bank in Africa, increased earnings by 10,5% to 59,7c (54c) a share.

The share price responded with a 2% or 25c rise to R11,25.

However, Absa's market rating remains lower than its competitors with return on assets under the 1% benchmark. Other big banks are sitting comfortably above 1%.

Noeth said he expects all relevant indicators to be in line with its competitors in the next few years.

Dividends a share grew by 8,8% to 18,5c (17c) a share.

Total assets now stand at a substantial R91,4bn — 8,4% better than the R84,3bn in the comparable period last year.

The strong points in the group remain the core commercial banking activity with growth up 25% on lower bad debts and higher advances — and a well-positioned merchant bank.

Advances grew 12,5% to R75,2bn, well ahead of the increase in operating costs, neatly contained at 7,8%.

The linkage of the various computer systems within the group is still presenting problems. In the six months to September the short term insurance division also placed a dampener on the overall performance .

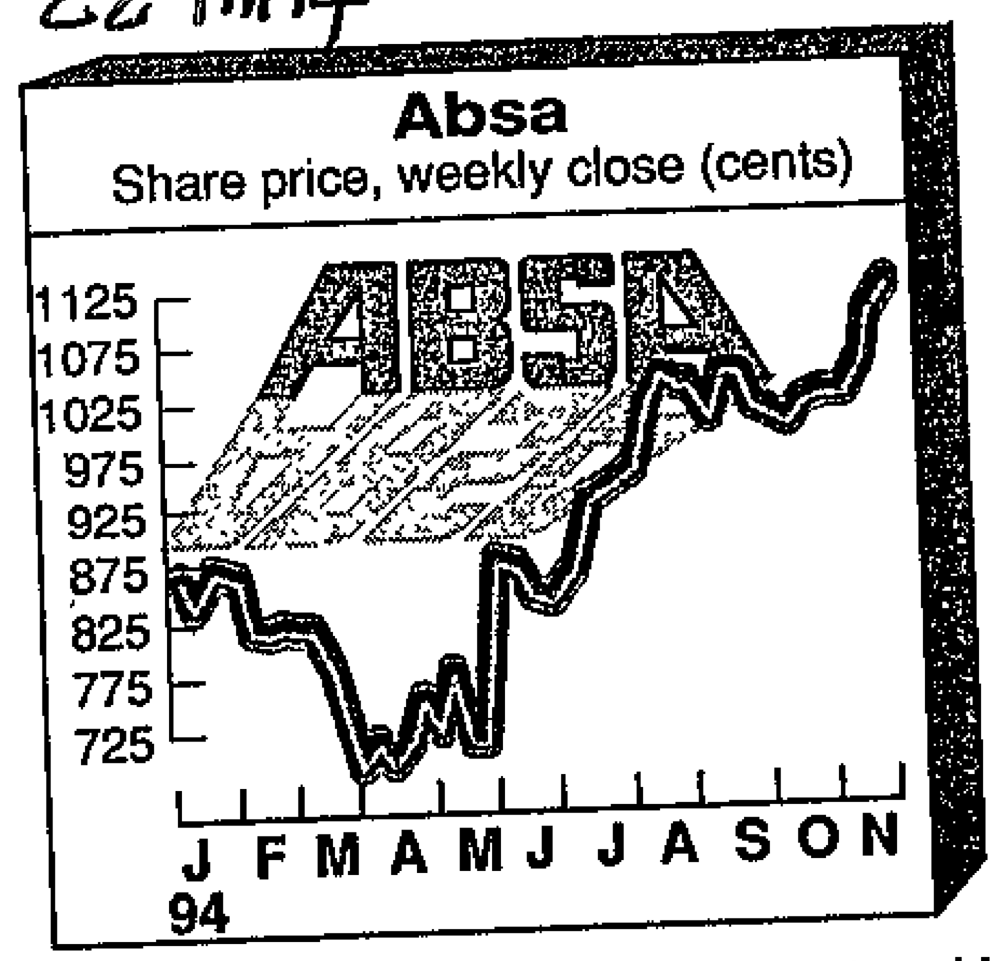
Noeth concluded: "Absa is confident of achieving the forecast made in our last annual report of inflation-beating growth in both earnings and dividends for the financial year as a whole."

(268)
CT 22/11/94

Advances help lift Absa's earnings

BDay 22/11/94

SAMANTHA SHARPE



STRONG growth in advances and a sharp reduction in bad debt provisions helped Amalgamated Banks of SA (Absa) offset a poor performance by its short-term insurance interests to post a 10,7% increase in earnings to 59,7c a share for the six months to September. (58)

The rise in earnings was accompanied by an 8,8% increase in dividends to 18,5c a share, which translated into dividend cover of 3,2 times. An 8,2% increase in net interest income to R1,98bn was attributed to healthy growth in advances. Absa CE Danie Cronje said advances had grown 12,5% since September last year and at an annualised 17,2% in the past six months.

The growth was predominantly in mortgages and instalment finance, with Volkskas and Trust Bank helping to bring the group's home loans market share to 37,6%.

Absa's provision for bad and doubtful debts — often used as a tool to smooth earnings — fell 6% to R262,7m despite the healthy increase in advances. Cronje said this reflected a return to a "more normal situation" following large provisions in past reporting periods.

Steady operating results from commercial and corporate business helped lift op-

☐ To Page 2

Absa

BDay 22/11/94 ☐ From Page 1

erating income 9,7% to R2,68bn. The increase in operating expenditure was only 7,8%. However, Cronje said the group had taken a knock from the poor performance of its own short-term insurance business. Attributable income from non-banking activities fell to R56,7m (R80,3m). (58)

But attributable core banking income grew a healthy 25% to R281,2m. The 16,6% rise in income before tax to R610,7m was also diluted by a fall in income from insurance interests, Cronje said.

The poor performance of short-term insurer Commercial Union — Absa holds a 30% interest in the group — was the major culprit behind a 37,4% plunge in retained income from associates to R7,7m.

Cronje attributed a 21,5% increase to R280,5m in the taxation charge to the rise in secondary tax on companies and the effect of a deferred tax rate adjustment.

The group was still suffering from the integration of systems following the merger, and he warned that the turn in the interest rate cycle could hinder advances growth. But he was confident the group would achieve real growth in earnings and dividends this financial year.

The release of the results, which fell short of market expectations, pushed Absa's share price up 25c to R11,25c, off its annual high of R11,35 last Friday.

DBSA lending shows 53 percent rise

Star 23/11/94

The Development Bank of South Africa'a (DBSA) loan disbursements in the six months to September rose 53 percent to R446,6 million (R292 million in the same period last year).

"On the strength of these results, and the disbursement flows since then, the bank expects to reach its targeted disbursement of R950 million by fiscal year-end," it says in the interim report.

While internal generation of income from loan repayments kept the balance sheet strong, the increased disbursements will see the bank mobilising new funds from local and international markets during the next half-year.

Chief executive Andre la Grange warns that the ongoing delay in getting provincial borrowing powers sorted out could affect development momentum. (58)

The provinces are still deciding which of their institutions have the capacity to handle development projects.

The capacity to plan and manage development programmes and projects is still a major constraint to development and growth.

This loss of momentum could be seen in the lower number of new projects approved in the half-year.

A total of 98 new projects valued at R425 million had been approved, compared with 176 in the same period last year for R570 million.

A further 255 projects to the value of R1,9 billion were under consideration, bringing to R11,2 billion the 1 817 projects in the pipeline which were approved and under consideration.

The higher disbursements resulted in a 12 percent reduction in interest income to R223,1 million (R254,5 million).

The decline was partially offset by development loan portfolio interest, which rose by 11 percent.

The DBSA says it should be viewed as a positive development since the high returns of the previous year occurred at the expense of development lending in the period leading to the election.

Interest expenditure rose marginally by five percent to R90,6 million with the amortisation of past issue discounts.

When new funds were mobilised, these costs would increase.

Continued discipline on operating expenditure led to a further decline of 5,4 percent in nominal terms (13,5 percent in real terms).

The net interim surplus for the half-year was R84,9 million.

Loan repayments had been made in good time, despite transitional difficulties in many areas of public finance.

No increase in the bank's loan loss provision is, therefore, neccessary, the DBSA says. — Sapa.

Govt account rumours propel Nedcor upwards

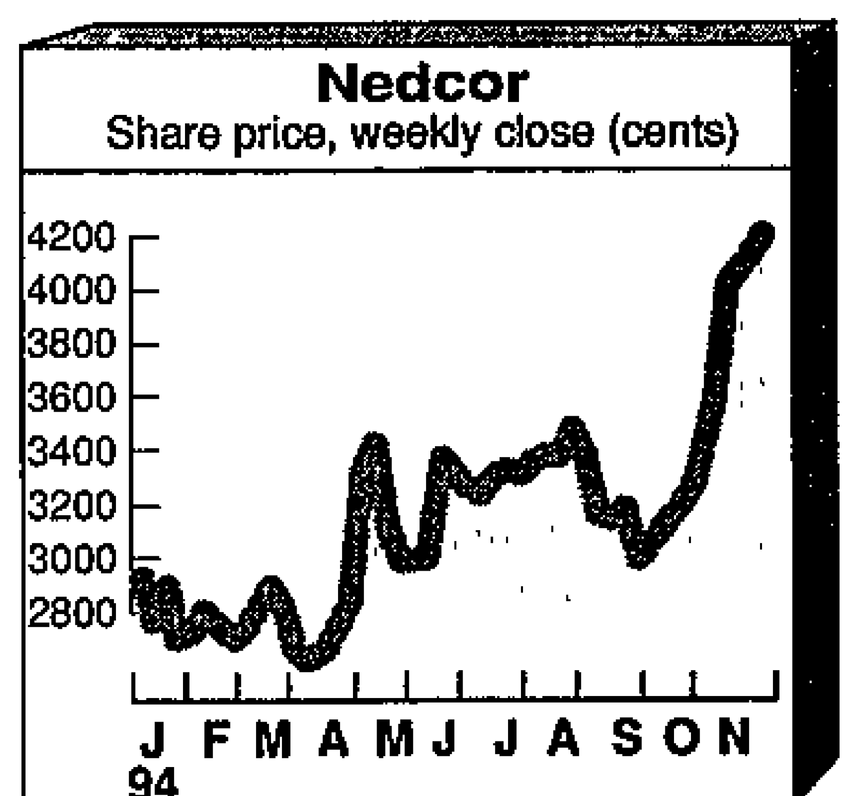
SAMANTHA SHARPE

MARKET speculation that Nedbank stood a very good chance of being awarded the PWV government's bank accounts — worth billions of rands — has helped propel banking group Nedcor to new annual highs.

Nedcor's share price rose 50c to R41,50 yesterday, compared with an annual low of R26 at the same time last year.

The PWV is as yet the only regional government that has called for tenders from financial institutions on the cost of administering their commercial banking requirements. The tenders have to be submitted to the PWV government on December 9.

Banking sources said the strongest contenders for the Northwest province's commercial banking business were Standard Bank and First National Bank (FNB), with Standard the traditional banker of the former Lebowa government and FNB the historical banker of the former Venda and Gazankulu.



58

Standard did, however, have the disadvantage of its involvement in a labour dispute in the Northwest province through its interests in Standard Bank of Bophuthatswana.

Amalgamated Banks of SA (Absa) was rumoured to hold the best chance of a contract for the commercial banking business in the Western Cape.

They said, however, that all the regional governments would probably look first at the pricing of the tenders and the need to save taxpayers' funds in evaluating which bank would be awarded their commercial banking business.

This would be accompanied by an evaluation of how the banks in a particular region were able to cater for the needs of the less affluent, they said.

The PWV government's tender document said tenderers had to be able to provide the basic commercial banking needs of the province as well as work closely with the officials of the province as banking requirements develop.

"It is especially important that tenderers indicate their ability to serve the less affluent members of the community with cheque cashing facilities," the document said.

Tenderers would have to be able to cope with a turnover of income and expenditure totalling R16bn a year, the daily average of all deposit accounts for the Exchequer and cheque payments accounts of the paymaster-general.

AN.O. 26-27/11/94

Banks ready to help fulfil housing dream

58

■ Our vision is to promote a new spirit of banking in southern Africa, says **PIET LIEBENBERG**, chief executive of the Council of SA Bankers.

THE national housing accord signed at Botshabelo in the Free State recently is a massive breakthrough. Not only does it pave the way for the re-entry of commercial banks into the lower end of the mortgage market, but it also signals a major milestone on the road to housing the nation.

The accord will aid in the extension of credit for housing to a sector of the population for whom formal housing is presently only a dream.

The real breakthrough, however, is that the agreement involves all the parties. It indicates to communities the need to settle down and rebuild themselves.

Most importantly, government has undertaken to influence and educate communities regarding co-operating with it and the banks. The major challenge to government is to restore the due process of law and order in areas where development has taken place.

Failure will be costly to the fiscus. For communities the benefits will be felt when they see development and upgrading taking place within their immediate environs.

For banks re-entering the market the incentive is the prospect of properties regaining value. While the intention is not to profit excessively, they must still provide depositors and shareholders a reasonable return on their investment funds. They, together with the government and the communities must make this initiative work: if the agreement fails, the chance of economic recovery in the new South Africa becomes very slim indeed.

Although the agreement is aimed at those who can afford credit, it could have a significant multiplier effect on macro-economic issues and could be the stimulus to unlocking the economic revival of South Africa. In addressing the market segment able to afford credit, the banks' initiative will create significant economic opportunities for the unemployed.

But, as Minister Slovo commented, there is not time for complacency.

All sectors of society committed to the accord will be challenged to live up to their promises. That is exactly what the banks are planning to do.

They were always willing and able to play a major role in the provision of funds for housing as part of the reconstruction and development of South Africa but they could not place funds entrusted to them by depositors in areas where the risks are considered abnormally high.

The bank sector in its role as major provider of credit in South Africa will be advancing mortgages of up to some R2 billion on housing which compares very favourably with funds that government has committed to the RDP. For banks to keep their side of the bargain, a stable public environment is vital.

This will hopefully be achieved by a vigorous and unprecedented national and provincial campaign to be launched by government to convince people to resume paying for goods and services received and generally to respect the reinstatement of the due process of law.

A realistic target of 50 000 loans of amounts ranging from R10 000 to R100 000 will be granted in the 1995 calendar year. These could total between R1 and R2 billion or thereabouts depending on take-up and the ability of the construction industry to deliver homes.

Many loans will no doubt be linked to government housing subsidies so that money will become available to developers once transfers take place. Banks and government will review the process within 12 months and, depending on their experiences, decide on the number of loans they will grant the following year.

Banks aim to increase their exposure on a sustainable basis. They will not cross-subsidise a market that US experience has shown to be non-profitable. Banks will only become involved in commercially viable business and receive a reasonable return on funds invested.

As banks realise that borrowers at the lower end of the market cannot readily absorb fluctuations in instalments, they are investigating providing these loans through a fixed instalment instrument.

Two distinct categories of borrower have emerged: those who can cope with fluctuating interest rates and those who cannot. It is, however, important that people in the fixed instalment category understand why they may pay a higher interest rate. Detailed financial modelling for fixed instalments is expected to be ready by the end of the year.

The banking sector will continue to work closely with government to find solutions for those people illegally occupying properties and those who historically have trouble in meeting mortgage obligations. Potential borrowers will be educated about what their obligations and rights are regarding mortgage loans.

Banks will also introduce a savings programme under which subsidy applicants wishing to obtain finance will be required to display a monthly savings pattern over a defined consistent period. The savings plus proven rental paid during this period will then indicate that the applicant can afford the mortgage payments, rates, service charges and house maintenance.

These savings will become the owner's equity in the property purchased. Coupled with the capital subsidy by government to qualifying individuals, loans could be as low as 50 percent of property value.

The basis of mortgage lending is that a loan is granted against the security and value of a fixed asset, normally residential property, which in effect can be classified as collateral to support the loan.

A service company, jointly resourced by the banks and government, will investigate methods of helping those illegally occupying properties and those encountering difficulty in meeting mortgage obligations to find more affordable accommodation through a process of "right-sizing".

The services of this company will be utilised to deal with households currently occupying properties in possession of the banks, and some of them are properties that they cannot afford or are too large for these households.

Until adequate rental housing is provided, other sources of accommodation will remain a concern. Vital to the success of the scheme will be the enforcement of the bank's right to vacant possession, to aid resale after all possible help is given.

The record of understanding has cemented a partnership between government and the banks that should hold firm during the years of the RDP.

'Forty banks in bid for SA licences'

CT 28/11/94

(58)

From BARRY STREEK

CARDIFF. — As many as 40 international banks were considering applying for SA banking licences when the new legislation came into effect, according to a top British banker.

National Westminster (NatWest) Bank international department MD Garry Southern, speaking at an economic seminar on SA in Cardiff at the weekend, added that NatWest Bank was exploring the opportunity of linking up with an SA partner.

He said that SA's banking and financial sector was strong and reliable, but a "a big bang" brought on by this international dimension was highly likely.

Two other British investment houses had already signed agreements with SA partners, and the consequences of strong financial and investor interest in SA would precipitate a "shake-up" in SA's banking and financial sector.

Construction

Southern, who returned from a visit to SA last week, said he was astonished by the amount of construction work going on in Johannesburg.

This was one of the positive indicators boosting confidence among offshore players in SA's potential, he said.

It was important that SA was looked at in terms of long-term involvement: "We see South Africa not without risk but with considerable potential."

"There is a definite buzz of excitement there — and this buzz will become much louder ."

Nedcor venture funding approved

CT 28/11/94

PRETORIA. — The European Union yesterday confirmed the approval of two further applications for financial assistance for joint venture projects with SA partners amounting to almost R3m. (58)

This follows last week's announcement that the European Community Investment Partners (Ecip) scheme had approved three applications since its extension to SA earlier this month.

R2,16m — representing 17,4% of the total investment — has been approved for a joint venture between Nedcor and a German bank (DEG) which will provide risk capital for small and medium scale enterprise.

The fund will be managed by Mancor, a management corporation whose shareholders include Nedcor, DEG and Msele Finance Holdings, a subsidiary of Thebe Investments. The fund will be known as Msele Nedventures Ltd.

The Wilderness Leadership School has been granted R80 000 to explore a possible joint venture between the EU and SA firms to promote adventure travel in SA.

● **Funds fillip — page 12**

Sage boosts earnings 28%

(58) CT 30/11/94

Own Correspondent

JOHANNESBURG. — Healthy growth in insurance company Sage's life assurance subsidiary Sage Life and an improvement in the property industry boosted the group's attributable earnings 27,8% to R32,41m for the six months to September.

It reported a 62,3% surge in pre-tax profit to R49,32m. After-tax profits rocketed 86,9% to R40,04m, with Sage's life assurance business contributing 81% to the bottom line.

The high growth in earnings translated into a 23,5% increase in diluted earnings to 33,6c a share and an 18,8% rise in dividends to 19c a share.

Sage said it had completed the final phase of its restructuring through the further strengthening of Sage Life's financial position. This had been accomplished through a R151m increase in its share capital.

Sage Life had in turn completed its acquisition of a strategic stake in Amalgamated Banks of SA (Absa) in the review period.

The life assurer's attributable surplus surged 91,6% to R34,1m, spurred by investment income from the stake in Absa.

Dividends a share rose 22,9% to 43c, raising the life assurer's effective dividend cover from 1,7 to 2.

Sage Life and property conditions boost group

BDay 30/11/94

SAMANTHA SHARPE

HEALTHY growth in insurance company Sage's life assurance subsidiary Sage Life and an improvement in the property industry boosted the group's attributable earnings 27,8% to R32,41m for the six months to September.

It reported a 62,3% surge in pre-tax profit to R49,32m. After-tax profits rocketed 86,9% to R40,04m, with Sage's life assurance business contributing 81% to the bottom line.

The high growth in earnings translated into a 23,5% increase in diluted earnings to 33,6c a share and an 18,8% rise in dividends to 19c a share.

A similar rate of growth for earnings and dividends was forecast for the rest of the year, the group said.

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Sage Life had in turn completed its acquisition of a strategic stake in Amalgamated Banks of SA (Absa) in the review period.

The life assurer's attributable surplus surged 91,6% to R34,1m, spurred by investment income from the stake in Absa.

Annualised new premiums increased 24,4% to R159,5m, with excellent support from brokers a key factor. SS

This had translated into "exceptional" 43,7% growth in earnings a share to 85,13c and would probably help produce high earnings growth for the rest of the year.

Dividends a share rose 22,9% to 43c, raising the life assurer's effective dividend cover from 1,7 to 2.

Total funds under management in Sage Life, which included four unit trusts, rose to R5bn in the period under review, with total assets up 29,4% to R3,39bn for the year to September.

Sage Life said its major project — an extensive business and process re-engineering project aimed at maximising revenue, enhancing service levels and optimising cost-effectiveness — would be completed by the financial year-end.

Metlife assets top R7-bn

(58)

ARG 1/12/94

JOHN VILJOEN
Business Staff

LIFE assurer Metropolitan Life has reported healthy all-round results with pleasing growth in income and total assets.

Announcing results for the year ended September 30 at Metife's Cape Town headquarters yesterday, MD Marius Smith said premium income was up 22 percent to R1,22 bilion.

With investment income up 15 percent to R452,5 million, total income for the year stood at R1,67 billion — up a fifth on 1993.

Total assets topped the R7 billion mark for the first time, up almost 30 percent to R7,38 billion.

Attributable earnings to shareholders increased by 22 percent to R86,5 million and earnings per share were also up 22 percent at 128c. A final dividend of 53,5c a share was declared, bringing the total distribution for the year to 83c, up almost a quarter on last year's payout.

Less glowing was Metlife's investment performance. The company had elected not to increase investment in the "overpriced" JSE. "We were wrong about the share prices — they have become even more overpriced", Mr Smith said.

Metlife turns in 20% growth in total income

BDay 1/12/94

EDWARD WEST

CAPE TOWN — Metropolitan Life (Metlife) lifted earnings 22% to 128c a share in the year to end-September on the back of a 20% hike in total income to R1,67bn, MD Marius Smith said yesterday. (58)

In the year under review, Metlife's income remained focused on stable recurring premium business which, at R1,12bn, made up almost 92% of the total R1,22bn premium income. Investment income was 15% up at R452,5m.

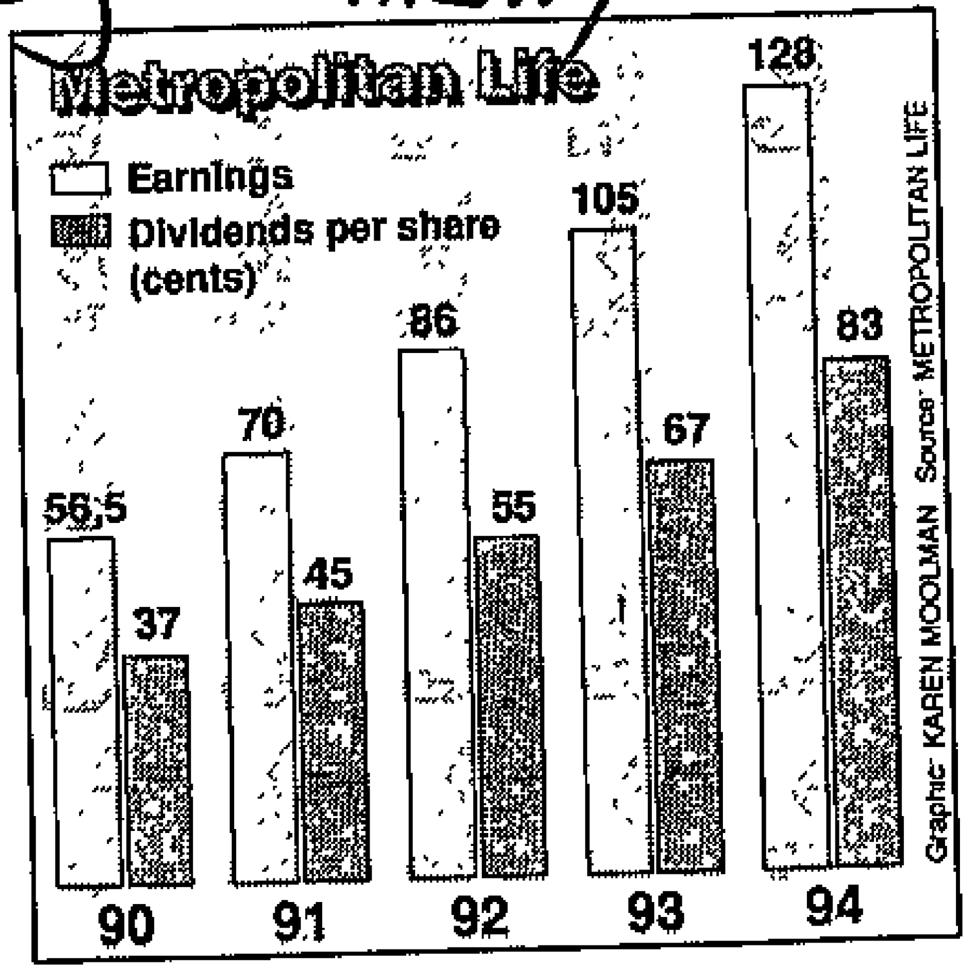
A final dividend of 53,5c was declared, bringing total distribution for the year to 83c, 24% higher than 1993's 67c. Total assets increased 29% to top the R7bn mark for the first time at R7,38bn.

Metlife's statement of actuarial values of assets and liabilities, published for the first time in terms of new disclosure requirements for life assurers, showed a surplus of R1,86bn, 36% up on last year.

Smith said the surplus indicated a high degree of solvency, and an ability to expand the company and to continue declaring high bonuses and dividends to policyholders and shareholders.

Metlife derived almost 78% of its recurring premium income from individual business, which increased 22% to R808,8m. The balance came from group business, which contributed R309,5m, 20% more than last year.

Smith said the year's results were achieved in a more difficult market than during the previous year, but there had since been a strong flow of new business. The company was expected to record real growth in the 1995 financial year.



Delft houses to be sold off

Banks suspend loans to project

Star 21/2/90

BY CHARMEELA BHAGOWAT
CITY REPORTER

Two major banking institutions have suspended the granting of home loans to Delft home-owners in Eldorado Park because of the bad publicity surrounding the housing scheme, according to the Johannesburg City Council.

Last year the former House of Representatives gave the Johannesburg City Council R8 million to develop about 200 homes costing about R35 000 each in the former coloured suburb.

The scheme allows private developers to build homes at predetermined prices.

The housing project has been steeped in controversy from the beginning, when residents claimed the houses in extensions 3 and 7 were of sub-standard quality.

Rent

Then a group of people illegally occupied some of the homes before their owners could move in.

58

Applicants were approved subject to getting bonds and were asked by the council to pay occupational rents while their bond applications were being considered.

After negotiations with the Perm, First National, Absa and Standard Bank, the institutions agreed to consider and finance the applicants.

However, after bad publicity surrounding the Delft houses, two of the banks — Absa and Standard Bank — suspended the granting of loans, according to the council.

Also — after paying occupational rents for more than a year — about 50 prospective buyers' bonds were turned down, resulting in a council resolution on Tuesday to sell the houses directly to them on a deed-of-sale basis.

FIDELITY BANK

Absorbing the merger

FM 2/12/94

The merger of Fidelity Bank and EP Building Society in February effectively created a new player in the financial services industry. The "old" Fidelity Bank was always a strong and consistent performer — with the merger, though, the renamed Fidelity Bank Holdings now has the critical mass to compete more effectively with the larger banks. (58)

CE Jules Langenberg emphasises that rapid growth was not the central issue. "Asset growth has taken second place to asset management in the last seven months," he says, though the 168% increase in assets to R1,9bn, moves Fidelity to a new platform from which future expansion could be enhanced.

More important than size, though, is the positioning offered to Fidelity by the merger with the building society. Langenberg says EP's branch network has allowed Fidelity to position itself exactly where it wants to be in the market, without the sort of costs this type of exercise could normally absorb. Also, Fidelity has now migrated to EP's much larger computer system. Langenberg says Fidelity's computer was close to full capacity before the merger.

FM 2/12/94

Activities: *Banking, property development, insurance and related financial services activities.*
Control: *BOE 30%; Fedlife 30%.*
Chairman: *R E Lippstreu. MD: J E A Langenberg.*
Capital structure: *12,7m ords. Market capitalisation: R319m.*
Share market: *Price: R25. Yields: 1,7% on dividend; 6,6% on earnings; p:e ratio, 15,1; cover, 3,7. 12-month high, R25; low, R12,75. Trading volume last quarter, 165 000 shares.*

Year to Sept 30	'91	'92	'93	'94
Total assets (Rm)	428	582	717	1 921
Advances (Rm)	400	513	593	1 629
Return on assets (%)	1,34	1,95	1,95	1,40
Attributable (Rm)	5,4	9,8	12,3	20,1
Earnings (c)	77	94	110	166
Dividends (c)	24,0	28,5	34,5	43,0
Tangible NAV (c)	254	401	467	699

Integrating the building society's home loans book has affected return on assets, which is down from 1,95% last year to 1,4%. This remains high by industry standards, though, and Langenberg says there is scope to increase returns as the book is refined. (58)

The advantage for Fidelity, apart from the branch network, is the large client base it inherits. This offers potential growth for a number of retail banking products, as well as the cross-selling of life and short-term insurance products.

Fidelity's book has also been structured to get sound margin income, despite fluctuations in the interest rate cycle. Langenberg says with no fixed rate assets, the bank can get a wider margin if interest rates go up or down.

Results are distorted by the merger, so it will really take another year before strict comparisons can be made. EPS growth, though, of 51% is a strong performance.

Share price appreciation of 117%, most of it since the merger, shows the market is impressed. Brokers say there is strong demand for the shares, though with the two main shareholders and staff holding about 70% of the scrip there is not much left.

Even after the share's strong performance, Fidelity's p:e ratio of 15,1 offers value compared to similar operations. Increasing benefits from the merger are also likely to come through this year in the form of lower costs and better returns from the home loans book.

Shaun Harris

Banks say no to arrear scrapping

Sowetan

5/12/94

■ DEPOSITORS' CASH Write-off will be destructive to banking: 58

By Joshua Raboroko

BANKS AND BUILDING societies have refused to scrap millions of rands in arrears resulting from bond boycotts.

A meeting of the Association of Mortgage Lenders concluded yesterday that the move would "destroy the fundamental basis of banking — which is trust".

AML spokesman Mr Martin Milburne-Pyle said the arrears, resulting from various causes including boycotts, amounted to R90 billion.

He confirmed that most of the arrears were a result of township violence.

Most residents living in the East Rand townships of Thokoza, Natalspruit and Spruitview and in Soweto and parts of KwaZulu-Natal, fled their homes as a result of violence.

The AML's decision comes after the South African National Civics Organisation proposed that arrears of bond boycotts be scrapped.

Milburne-Pyle said Sanco had not approached the association, but "we discussed the matter at a meeting on Tuesday".

He said the money that banks had lent to bond-holders belonged to depositors who expected interest.

"Writing off arrears is dangerous because we will be playing with depositors' money," he said.

He encouraged those people whose homes were destroyed during the violence to negotiate with banks. Most of the homes had a political riot insurance or "a special risk cover".

He said different banks would deal with individual cases on merit. Arrangements would have to be for repayment.

He added that banks could help if people were jobless or who through some other circumstance were unable to repay.

The South African Housing Trust's new executive chairman, Mr Chris Ball, said arrears would have to be dealt with in a sensible and practical way, but that it was not appropriate to scrap them.

Saambou's rating rises

CT 6/12/94 (58)

Business Staff

SAAMBOU Bank has improved its short term rating from A.3 to A.2 on the back of improved liquidity and performance, according to a report published by Republic Ratings.

Saambou recently announced an increase in earnings of 47% for the six months to September and additional market capitalisation of R40m.

"Republic Ratings has recognised the efforts we have made in improving the quality of our assets as well as the significant increase in our provisions," says Johan Myburgh, Saambou Bank's managing director.

"Their report indicates that our book is one of the better positioned for an upward movement in rates. They also recognise that our operating structure has become significantly more efficient.

This, coupled with our focused marketing strategies of concentrating on the salaried individual and pensioner has enabled us to increase transaction volumes, putting us on track to achieve a 50% increase in profits in the current year to March 1995," he says.

Future Bank profit down

Star

BY CHARLOTTE MATHEWS

Slower-than-expected profits from new branches and a higher tax bill slimmed net profits at Future Bank in the year to September to R727 000 from R2 million in the same period in 1993.

Future Bank is a partnership between black business group Fabcos and First National Bank (FNB). 8\12\94

Net interest income lifted by 11 percent to R22,3 million and non-interest revenue was 44 percent higher at R2,5 million. (56)

But operating expenditure climbed to R17,4 million from R14,1 million and the bad-debt provision was marginally higher at R4,7 (R4,2) million.

The tax bill increased to R1,9 million from R1,4 million previously because it included VAT charged on the salaries of secondees to Future Bank — mainly senior management from FNB.

Future Bank MD Neville Watchurst said yesterday the high tax rate was likely to persist.

Three new branches were opened in the past year and had taken longer to become profitable than expected.

No new branches were planned for 1994/95, which would be a period of consolidation, Watchurst said.

The bank's ratio of capital to risk-weighted assets is 9,3 percent — above the Banks Act requirement of 8 percent from January 1995.

Assurers (58) under scrutiny

WM 9-14/12/94

Jacques Magliolo

REGISTRAR OF INSURANCE STATISTICS REPORT FOR 1993

	Charter	Aflife	Fedlife	Liberty	Norwich	Mutual	Sanlam	Southern
Total income	161,9	95,8	1846,5	6229,1	1401,4	16105,7	16616,1	3513,4
Commission	20,4	26,8	101,1	412,3	88,8	685,9	877,2	153,3
Expenses	26,2	20,2	149,6	337,2	117,6	882,9	709,1	259,9
Total	46,6	47,0	250,7	749,5	206,5	1568,8	1586,3	413,2
Percentage of: Expenses: income	28,8	49,0	13,6	12,0	14,7	9,7	9,5	11,8
S&L policies: new policies	48,7	59,4	11,4	43,4	37,6	26,6	34,0	59,0

Note: Figures expressed in R-millions; Mutual = SA Mutual; Expenses relate to management; S&L = surrendered and lapsed
Adding inaccuracies caused by rounding off

WHEN Albert Einstein said that imagination was more important than knowledge, the South African assurance industry probably thought he was talking about them.

The latest Financial Services Board statistics reveal shocking figures for 1993, heralding an industry-wide investigation by the LOA. In addition it highlights how assurers develop new imaginative schemes to sell policies. They do this despite knowing that a host of these policies will be surrendered with the first three years or lapse within the first nine months.

A policy lapses when the policyholder stops paying the premium and a policy is surrendered when the policy holder effectively cashes it in, usually getting back only his contributions without inflation being taken into account.

Among the numerous top assurers surveyed by the Registrar of Insurance, eight were selected to ascertain their financial strength within the R50-billion-a-year industry. Of these only one had a reasonable rate of policies surrendered or lapsed.

Fedlife's total income for the year was R1,8-billion. This fell to R250-million after deductions for commission and management expenses. This assurer's percentage of lapsed and surrendered policies at R12-million or 11,4 percent of total income is favourable when compared to other assurers.

Southern Life and African Life both have a rate of just below 60 percent, while Liberty Life and Charter Life have rates of over 50 percent. Norwich Life managed to keep the figure down to 37,6 percent, Sanlam to 34 percent and SA Mutual to 26,6 percent.

Despite these unacceptable rates, assurers continue to boast that they have managed to increase new business under tough economic and business conditions.

For instance, in its 1994 annual report Southern Life chairman Thomas Chapman proudly claims: "It is pleasing to report that your company has had an excellent year." Indeed, shareholders would be pleased to hear that the assurer issued more than 80 000 new policies during the period under review. The problem is, none of the negative aspects to these companies is ever brought to light.

One insurance analyst says: "Nothing is being done to limit the number of policies sold to people who simply cannot afford or have no need for them. While it is everyone's right to own a life policy, brokers do not explain the intricacies of assurance to prospective

To PAGE B5

Under scrutiny

(58)

From PAGE B1

clients." WM (BM) 9-14/12/94

He says that most life assurers have targeted the lower income market and use fear to sell policies.

Graham Bailey, insurance analyst at stockbrokers Martin & Co says "the quality of salesmen is questionable".

"They get paid a commission and obviously sell as many policies as they can." He believes that salesmen should be paid after the average lapse rate.

A look at a breakdown of total income earned during the year shows that assurers use policy holders' funds to invest in the stock market and it is this exposure that ensures "their lack of concern towards the growing number of lapsed policies," says a Cape Town-based analyst.

Bailey says: "The bull market run in equities has ensured that assurers' assets are valued at above the inflation rate, while liabilities are revalued at the inflation rate."

The LOA was unavailable for comment. However, Fedlife MD Dr Morris Bernstein says: "There is no doubt that lapses are too high. They should only be around 10 percent."

He notes that figures can often be distorted as lapsed policies for several years are at times divided by a single year's policies issued.

USAid to help Nedcor raise $30m

(58) SIMON BARBER BD 9/12/94

WASHINGTON — The US Agency for International Development (USAid) has undertaken to help Nedcor raise mortgage capital in the US in return for Nedcor using race as a criterion in selecting a US lender.

The arrangement is outlined in the Federal Register (the US government gazette) of November 30. The official notice invites US financial institutions to submit bids to put together a $30m loan for Nedcor, the principal and interest of which will be guaranteed by the US Treasury.

The deal is described as the first of its kind involving a private sector bank in SA. Proceeds will constitute "the initial funding for a home mortgage programme dedicated to servicing the large and immediate needs of SA black families for housing".

The loan will have an eight-year term, carrying either a fixed or variable interest, with the principal due only upon maturity. It may be denominated in dollars or commercial rands. Nedcor may keep the proceeds at an offshore branch so long as the net effect is to free up $30m for black mortgage lending at home.

Nedcor has been obliged to state that it "desires to encourage participation of minority- and women-owned and controlled investors and financial services providers to the maximum extent possible. To this end, Nedcor strongly encourages such firms to respond to this notice, either directly or through a consortium of some

□ To Page 2

Nedcor

(58) BD 9/12/94

□ From Page 1

other joint venture arrangement."

This wording, found in no other such solicitations involving housing guarantees for other countries, was supplied to Nedcor by USAid, which has final say over the selection of the lender.

The notice is also unusual in that it goes into considerable detail about how the lending firm or consortium should structure itself to get the business and what qualifications it needs.

The implication is that USAid sees the programme both as a means of helping black South Africans and as a domestic US affirmative action programme.

ARB · 12\12\94

Revamp ahead for DBSA

58

BRUCE CAMERON, Business Editor

THE Development Bank of Southern Africa, established to lend support to the structures of grand apartheid, is to be restructured.

The DBSA has been one of a number of development and assistance structures established by former apartheid governments, which have been under fire in recent months because of perceptions that they are not fully committed to new policies, including the RDP.

In a statement today the Ministry of Finance said with the adoption of the interim constitution and the formation of the government of national unity it has been necessary to re-evaluate the function of many governmental and parastatal institutions.

A transformation team is to be formed by DBSA chairman Wiseman Nkhulu with instructions to report to the Minister of Finance by March 31, 1995.

The appointment of the committee follows consultations between the Ministry of Finance and Minister Without Portfolio Jay Naidoo, the Ministry of Housing, the Reserve Bank and the RDP core committee on the above issues.

The Ministry of Finance said: "It has been decided to transform the DBSA into a new, more focused structure. This will revitalise the institution and provide a new sense of mission and purpose".

Reasons for the need to restructure the bank included:

- Substantially different intergovernmental financial relations between national, provincial and local levels of government established by the interim constition;
- The mobilisation of funds for developmental and infrastructural projects required attention as well as projects that crossed provincial and national boundries.
- Government concern to ensure there is sustained and viable support for community based and non-government organisations, which at the moment are heavily dependent on foreign assistance.

Small banks outperform their bigger brothers

(58) BD 20/12/94

SAMANTHA SHARPE

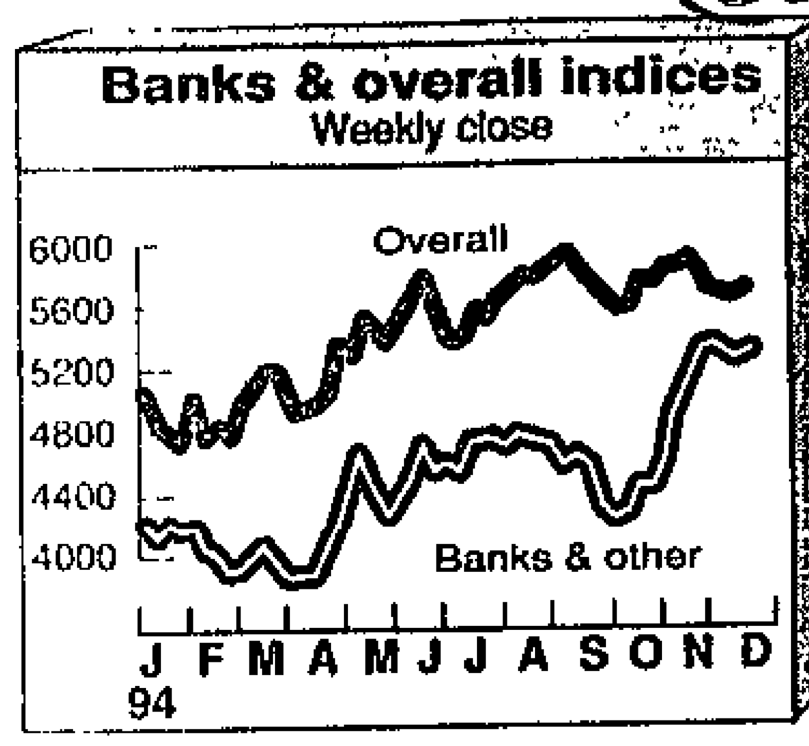
EARNINGS growth among SA's smaller banks, which outperformed that of their bigger brothers in their latest results, had been accompanied by a doubling of most of the smaller banks' price/earnings ratios in the past year, analysts said yesterday.

The rerating of smaller banks' shares meant that investors were prepared to pay more for the shares relative to their earnings. "Strong asset growth, firmer margins and in some banks solid growth in funds under management has led to fantastic earnings growth (for the smaller banks)," one analyst said.

Fidelity Bank Holdings — 30% owned by the Board of Executors (BoE) and 30% by Fedlife — merged with EP Building Society in February, a move which helped boost the bank's attributable earnings 64% to R20,2m in the year to September.

The merger had allowed expansion of Fidelity's branch network and lifted the bank's price/earnings ratio to 15,99 from 11,7 at the same time last year, analysts said.

Boland Bank, which had Pepkor chairman Christo Wiese recently purchasing an additional 9% stake in the bank from BoE on behalf of privately controlled companies, boasted a near doubling of its price/earnings ratio to 11,23 in the past 12 months. Wiese currently controls 54% of Boland Bank, but BoE has the right to sell him its remaining shares in the bank on December 22.



Saambou, which beefed up its capital base late last month through the issue of R40m in compulsory convertible debentures, accompanied a 47% rise in attributable earnings to R11,3m for the six months to September with a doubling of its share price and price/earnings ratio over the past year.

The results, which consolidated the bank's turnaround over the past two years, helped lift its share price to 240c compared with 100c at the same time last year and its price/earnings ratio to 13,19 from 7,04 in December last year.

Durban-based New Republic Bank — listed in February — reported a 45,7% increase in attributable income to R6,45m for the six months to September.

But New Republic Bank bucked the trend of rising price/earnings ratios for smaller banks, with the current 8,65 ratio only marginally up from 8,49 in February.

Unibank, meanwhile, accompanied its 38% rise in attributable earnings to R10,03m for the year to September with an announcement of plans to list in 1996. A R30m rights offer to Unibank's current shareholders — FNB, Fedlife, EG Chapman, OK Bazaars, Yabeng and BK administrators — allowed the bank to go ahead with its offer to purchase failed Prima Bank's home loans book, money market assets and asset-based finance book for about R106m.

Fidelity to get R51m injection

(58) BD 21/12/94

SAMANTHA SHARPE

FIDELITY Bank Holdings (Fidelity) yesterday announced a R51,3m capital injection through a private share placement, a move which would raise subsidiary Fidelity Bank's capital over the R200m mark and create a new player in the medium-sized banking sector, it said yesterday.

Fidelity Bank group banking MD Koos Roets said the performance of the group, which boasted a 64% increase in net income to R20,1m for the year to September, had fuelled market demand for the shares.

But Fidelity shares — currently 30% owned by the Board of Executors and 30% by Fedlife — were traditionally very tightly held, he said. "The issue of the new shares is aimed at alleviating this problem."

Subject to the approval of Fidelity's ordinary shareholders and loan stockholders at a general meeting in early January, SA National Life, SA Mutual Life, Liberty Asset Management and Senekal Mouton & Kitshoff would take up 1,97-million ordinary shares of R1 at R26 a share.

There were no controlling members in Fidelity and the cash placement would have no effect on any control position of the group, Roets said. SA National Life would take up 700 000 shares, SA Mutual Life 600 000, Liberty Asset Management 550 000 and Senekal Mouton and Kitshoff the balance.

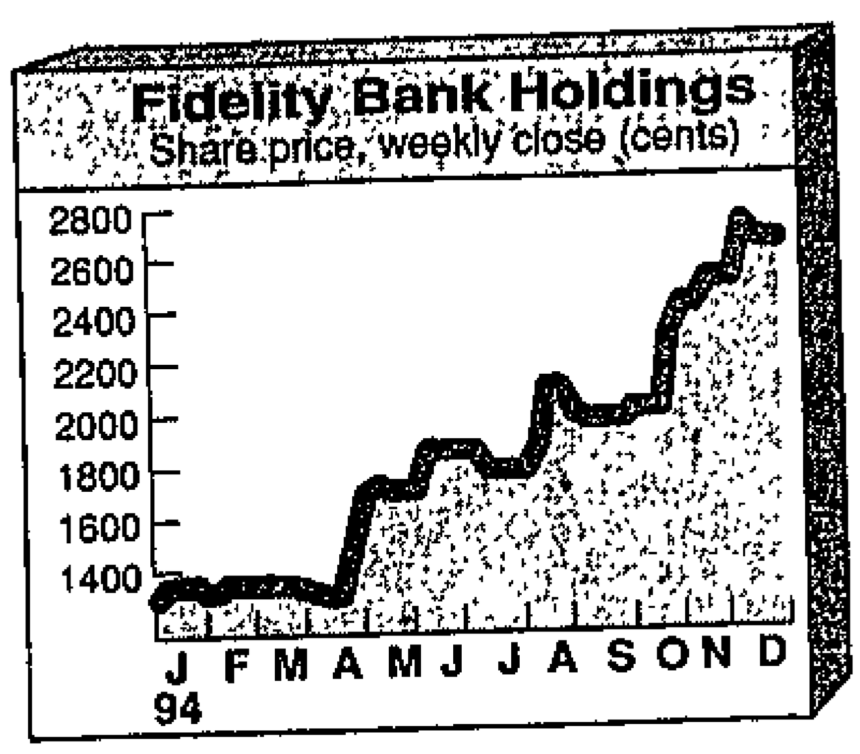
The R51,3m raised from the cash placement would be used to provide for the eventual redemption of the bank's long-term loans — Fidelity Bank owes R51m in subordinated long-term loans — and position the group for future growth.

The growth was unlikely to take the form of further mergers and acquisitions — Fidelity Bank's merger with the EP Building Society in February was a major factor behind its results for the year to September.

Roets said the new capital raised would be sufficient to see Fidelity Bank through four to five years of growth in excess of inflation.

The transaction would further raise the bank's capital adequacy ratio from its current level of 10,24% to 13,84% and would mean that Fidelity Bank no longer had to rely on secondary capital to meet the Reserve Bank's 8% capital adequacy requirement, he said.

Fidelity's share price has soared 104% to R26,50 over the past year after reaching an annual high of R27 earlier this month.



Fidelity to raise R51-m

Star 21|12|94

BY CHARLOTTE MATHEWS

Fidelity Bank proposes to raise R51,3 million through placing 1,97 million shares at R26 each with four institutions, according to a circular sent to its members last week.

The purpose of the offer is to provide for the eventual redemption of the bank's long-term loans and position the company for future growth.

The bulk of the shares will be placed with Sanlam and Old Mutual but as Fidelity has no controlling members the issue will not affect its control.

The effect of the issue, assuming the full conversion of Fidelity's loan stock into ordinary shares and that the funds had been held throughout the year to September 1994 would have been to increase earnings a share by 12 percent to 126,5c.

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Earnings

Tangible net asset value a share and loan stock unit would have been 37 percent higher at 704,8c.

The bank's earnings in the first quarter of the current financial year, together with the injection of R51,3 million, would lift its total primary and secondary capital over R200 million at January 1995, it said.

Norwich Life in housing finance move

(56) CT 22/12/94

By MAGGIE ROWLEY
Property Editor

A THIRD major life office has committed itself to a financial security instrument structured by Theta Investments for Group Credit Co for low cost housing finance.

This brings the amount raised for low-income housing finance through this specially devised capital market instrument to around R25m in the past year.

And, says Theta Securities MD Leon Kirkinis, these corporate finance packages are expected to be forerunners to many similar other packages for financing low cost housing in the new year.

Kirkinis said Theta, which was formed by a UAL breakaway team in July 1993 and has since devised several instruments for organisations engaged in RDP initiatives including the IDT, Eskom, the SA Sugar Association totalling close to R2bn, was called in by GCC to structure an instrument to encourage institutional involvement in what is perceived to be a high risk area — namely home loans to low-income groups.

"We developed and packaged a unique series of debentures and first used the instrument in January to raise R10m from Southern Life. In July a further R10m was raised from Metropolitan LIfe."

"And now Norwich Life has committed itself to around R5m," he said.

Kirkinis said it was the first package of its kind in the capital market but the fixed rate instrument was sensitive to traditional concerns about balancing risk and returns.

Lending by GCC is linked to the prospective borrower's attributable share of the provident fund's assets which reduces the risk of the loan as the recipient is also making a commitment and is a regular wage-earner.

He said they were heartened by the success of the corporate finance package for GCC, particularly as three institutions involved to date had made their commitments ahead of "People's Charter for Housing" recently presented by Housing Minister Joe Slovo.

Further commitments were expected now that the Housing Accord was in place.

Mutual bank

"GCC, which has vast experience in this market, is leveraging the provident fund benefits to provide homes and has a wholesale financial mechanism in place which will be the first deliverer of this product, with the banks following."

Due to GCC's success to date, it was in the process of converting to a mutual bank which would lead to a broadening of its investment base and provide it with access to cheaper forms of finance, namely savings.

Sactwu provides loans security

BD 23/12/94

WILSON ZWANE

THE SA Clothing and Textiles Workers' Union (Sactwu) is to lodge R20m with the Community Bank for use as collateral for union members applying for home loans.

Sactwu Western Cape official Richard Kawie said this week the money would be diverted from the clothing sector's provident fund. Employers and workers had agreed to this in principle, and details were being finalised with the bank.

Initially, the scheme would operate in the Western Cape. If successful, it would be extended to other regions, Kawie said.

The Community Bank was chosen because it "speaks the language of our members. It is accessible to our members and is the only bank which has not sought securities when processing loan applications from our members," he said.

Bank CEO Cas Coovadia said it was seeking a similar arrangement with the NUM, focusing on the Rustenberg area. Discussions would be held early next year.

While the bank wanted a presence throughout the country, it would concentrate on Gauteng, the Eastern Cape and the Western Cape in the next two years.

The bank has branches in Hillbrow, Johannesburg's central business district, Benoni on the East Rand and Athlone in Cape Town. In addition, it has a community outlet in Daveyton on the East Rand. Coovadia said there were plans to set up six to eight more East Rand outlets.

The bank was also looking at serving Alexandra through its Hillbrow branch. A branch could be established in Alexandra in six to seven months' time.

NEDCOR

FM 23|12|94

Outpacing major banking rivals

(58)

Activities: *Banking, insurance and related financial services.*
Control: *Old Mutual 53%.*
Chairman: *J B Maree. MD: R C M Laubscher.*
Capital structure: *195m ords. Market capitalisation· R7,9bn.*
Share market: *Price: 4 050c. Yields: 2,3% on dividend; 7,6% on earnings; p:e ratio, 13,1, cover, 3,3. 12-month high, 4 275c; low, 2 600c Trading volume last quarter, 4,9m shares.*

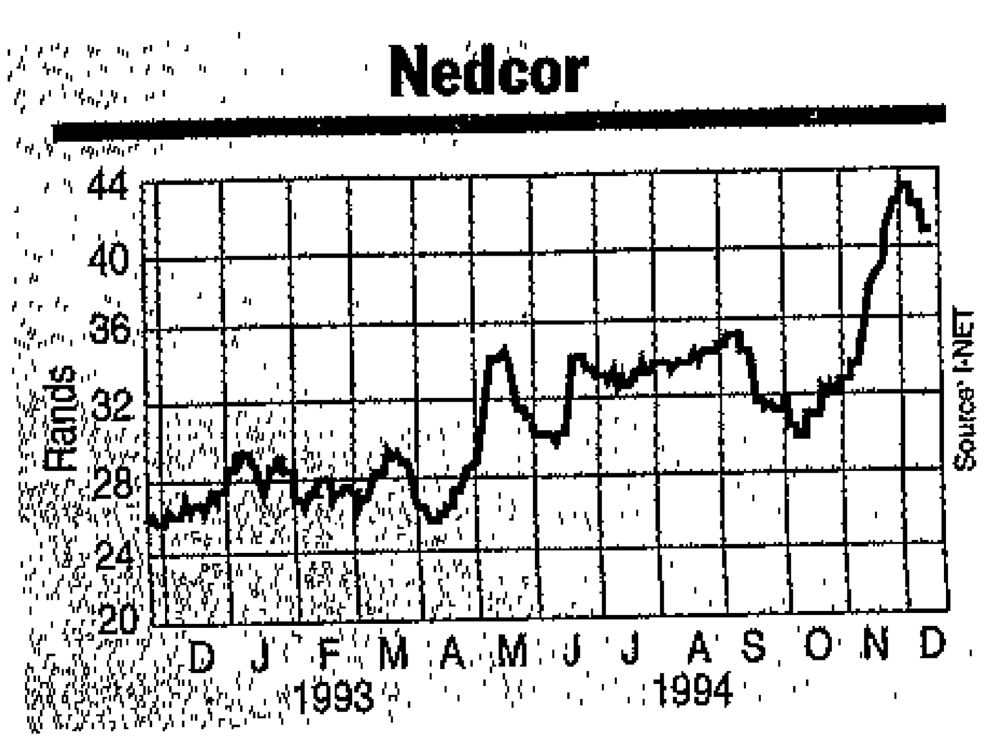
Year to Sept 30	'91	'92	'93	'94
Total assets (Rbn)	41,6	47,3	51,7	57,1
Advances (Rbn)	30,8	34,7	40,0	45,0
Deposits (Rbn)	35,4	40,6	45,5	49,9
Pre-tax income (Rm)	588	761	806	966
Taxed income (Rm)	344	408	486	603
Return on assets (%)	0,90	0,92	0,98	1,11
Capital ratio (%)	7,4	8,0	9,4	9,4
Earnings (c)	185	215	251	309
Dividends (c)	57	66	77	95
Tangible NAV (c)	998	1 138	1 328	1 552

For the past two years Nedcor's share price appreciation has outstripped that of the other three large banks. With all four at or near highs for the year, Nedcor's share now shows a gain of 51%, First National 48%, Absa 28% and Standard Bank 25%. The only other largish commercial bank share which has performed better is NBS Holdings, which gained 89% over the year.

Yet, apart from Absa, Nedcor still has the lowest p:e ratio at 13,1. Granted that First National, Standard and NBS probably attract a slight premium in ratings because of their links with assurers, Nedcor must offer the most value now, particularly as most analysts expect the group to maintain or better the 23% growth in EPS shown in financial 1994.

It's likely that Nedcor's rating will be pulled into line with the other banks in the present financial year, which indicates stronger share price appreciation. Investors looking at the banking sector would be unwise to pass over Nedcor.

A number of encouraging developments emerged in the past financial year. Results were driven to an extent by a healthy widening of Nedcor's interest margin, from 3,92% to 4,07%. Yet despite its large exposure to mortgage lending — together



Nedbank and the Perm contribute 66% of net taxed income of R603m — nonmargin income grew by 16% compared to the 14% hike in interest income. Revenue from noninterest sources now accounts for 40,1% of total income (1993: 39,6%).

With Nedcor making a concerted drive to source more income from insurance and increase its presence in the instalment credit market this year, revenue from nonmargin interests should continue to grow.

Laubscher . . . *addressing the underperformers*

Nedcor is also looking at remaining problem areas. CE Richard Laubscher says margins continue to be affected by the negative carrying costs of underperforming assets, but adds that a focused strategy of addressing these assets is starting to show some benefits.

Any negative perceptions about the Perm's home loans book must now be a thing of the past. Growth has been steady over the past two years, with net income advancing by 22% over financial 1994, in line with Nedbank's gain of 21% and the group increase of 24%. Cost control at the Perm remains tight and bad debts have been reduced, Laubscher says.

The real improvement, though, is in activities outside conventional commercial banking. Syfrets experienced firmer margins and better volumes from its lending, investment and unit trust divisions, growing profits by 60%. So did merchant bank UAL, which increased net income 31% to R73m. Even niche market player Cape of Good Hope Bank grew profits by 14%.

Apart from all divisions operating soundly, Nedcor has the comfort of an asset base which executive director Leon Porter explains will be less affected than other banks by what appears to be a rising interest rate cycle.

"Our large exposure to home loans benefits us when interest rates go up, but so does the relatively few fixed interest rate loans we carry on our books. This will help to sustain interest margins this year," he says.

Nedcor's conservative treatment of project finance deals in the past — until now it has only accounted for the cost of funds — should start paying dividends this year. Porter says the bank might start to bring some margin income to the book from the roughly R1bn Nedcor has lent to these clients. Earnings growth prospects look good, but if Nedcor chooses it can boost earnings by including interest payments on project finance deals.

Overseas, the group has expanded its London branch and opened a new office in Beijing. Porter says expansion, which includes two new investments in Africa, follows the pattern of Nedcor's clients' activities and flows of world trade.

Indications of superior earnings growth compared to the other big banks — though Absa remains a wild card with some analysts expecting reasonable full-year results off its low base — and a lower rating indicate considerable value in Nedcor's share. Industrial counters are expected to outperform financial services shares in the near future, but a share like this is needed in any balanced portfolio.

Shaun Harris

SA banks not reaching 60% of population

Own Correspondent

JOHANNESBURG. — About 60% of SA's population did not currently use banking services, with reluctance by financial institutions to engage the emerging market a major culprit behind the high figure, banking group Nedcor said in its annual report.

Nedcor CE Richard Laubscher said banks had been recalcitrant in targeting the low-income client and developing appropriate products and services.

But Nedbank and Perm had been focusing on their client retention and distribution strategies, with Perm's mortgage lending business doing "exceptionally well" in 1994.

"With a base of some 80 000 bonds in townships and some 2,3-million transactor clients, Perm has developed relevant, but effective, lending policies and procedures and transaction methodologies."

One of the reasons for the group's 15% increase in expenses, which accompanied a 24% increase in net income to R603m and a 23% increase in earnings to 309c a share, was higher information technology costs, Laubscher said.

The group had taken part in the first interbank smart card pilot project. "The culmination of over three years of work, we expect this project to provide the foundation for a major increase in the use of smart cards in the next few years, over a wide range of product applications.

Also behind the 15% increase in expenses, a reversal of the decelerating growth trend in previous years, was the price of international business development. Laubscher said the group's expanded international operations reflected the increased trade and investment flows between SA and the rest of the world.

"We have continued to build our London management team and profits are increasing steadily in trade finance, treasury and lending activities."

He said that in Asia the group's performance remained strong, with the hub of Asian business in Hong Kong and satellite offices in Taipei and Beijing.

"With the apartheid years behind us, we were able again to open a full-time representative office in New York."

Significant progress had also been made in Africa. In May the group announced the purchase of a 20% stake in Equator Bank, which provides merchant banking and specialist trade and fund management in sub-Saharan Africa.

(58)

CT 28/12/94

Business Report

'Banks face rising competition'

Own Correspondent

JOHANNESBURG. — The SA financial services industry will experience increasing competitive pressure next year as the previously closed economy opens up to international competition.

First National Bank (FNB) chairman Basil Hersov said in the group's latest annual report the wholesale sector was most likely to be affected, and in particular the profitability of dealing with major corporations.

"However, as this area of FNB's business has traditionally been serviced at competitive rates and fee structures, the impact of foreign competition within the domestic market place is unlikely to be as great as some expect it to be."

One of the biggest challenges facing the SA banking sector was the provision of competitive banking products to meet the needs of the emerging market. He said FNB had developed technology which would make it competitive in this sector.

Hersov urged an end to the dual currency system and said the scrapping of exchange controls should be high on the list of national priorities.

"SA has been an inward-looking nation for many years. Now, as all South Africans are free to look beyond the country's borders and become competitive globally, the country should no longer hide behind the old ideologies of which the dual currency system is part."

SA also had to show it could provide the quality of governance required for investors to appraise it in relation to investment opportunities elsewhere in the world.

"Once we pass this initial examination, these investors will then focus on the crucial issues of cost and labour competitiveness." (58) CT 29/12/94

He said the year under review had been historic for the group, which had broken through the R1bn barrier for the first time in its pre-tax income figures. Income before tax increased 20,9% to more than R1bn point hoist in short-term interest rates, to 3,25%, which was factored into the package, most things in the American economic garden look fairly rosy to the White House. Clinton said that, if Congress passed the "toughest budget on spending cuts (it) has yet seen," the process will roll on.

"It will keep the deficit coming down, it will keep interest rates down, it will send a clear message to the Fed and to the rest of the world that we mean business and that the investment climate will continue," said Clinton.

Assumptions in the budget included a rise in money costs, taking three-month Treasury bills up from 3% in 1993 to 3,4% this year and 4,1% in 1995. But it also forecasts that longer-term funds will stay flat with 10-year Treasury notes on 5,8% for the next five years.

If these could be maintained, said Clinton, they would save $20bn next year and a cumulative $150bn by 1999.

GDP growth projections are modest: 3% this year, slowing to 2,7% in 1995 but holding 2,6% thereafter. Some increase is seen in inflation which is put at 3% currently and nudging up to 3,2% followed by 3,3%.

Unemployment is expected to decline steadily from 6,4% to 5,6% by 1997.

The tax-raising part of Clintonomics is over. Apart from quadrupling the levy on cigarettes — to 99c for 20 — the only revenue increase will come from higher charges for a wide range of government services, fees on stock exchange transactions and deals and admission prices to national parks.

In cutting costs, Clinton has focused on discretionary spending which is virtually frozen at $550bn and will drop in real terms. Defence will get a tiny 1,3% more at $252bn next year but is scheduled to fall to $240bn by 1997. Looking to 1999 the defence programme should be down to 2,8% of GDP, pre-World War 2 levels.

Overall outlays on 300 items are being cut or even eliminated, saving $22bn — from farm subsidies and space exploration to soil conservation, tree planting grants and a weather station on Samoa. These, however, will be offset by $14bn in extra investment in areas such as training, education and funding medical and scientific research.

Mandatory spending, on pensions, health care and other entitlements, will rise inexorably, however. It goes up 4,4% next year and by 1999 will have topped $1,02bn, a rise of 40%.

And it will rise by 45% if Clinton's health-care plans are approved — despite the tobacco tax and cost savings — to give medical cover to 40m uninsured Americans. Already 14% of GDP, health could rise to 18% over five years.

Overall, Clinton's budget intentions won approval but some analysts cast doubt on the optimism of the longer-term situation — especially its outlook for interest rates and assumption that the US is now in just the third of eight years of unbroken growth and low inflation. ■

FLOODS

Disaster no catastrophe

Insurers have decided that Ladysmith's floods do not add up to a catastrophe for the industry. To fit this description, insured damage would have to amount to about 5% of total premium flow which this year is expected to amount to R10bn. As most of the damage was uninsured, there is no question of claims reaching this level.

The Klip River burst its banks, flooding parts of Ladysmith in the early hours of Thursday last week. Within six hours, the electronic media were quoting reports of R50m damage — which might qualify for the quickest damage assessment in history. And 36 hours later, after more flooding had taken place, the damage assessment remained at R50m.

That the floods amount to a catastrophe in personal terms is indisputable — particularly as so much of the damage was uninsured. In many cases this includes damage to crops. Insurers say many householders and storeowners were underinsured, though those stores owned by major chains will make substantial claims.

In contrast to the Welkom floods, four years ago, when many exposed insurers immediately dispatched assessors to the area and arranged quick financial relief wherever possible, this time there is no sense of urgency. Rodney Schneeberger, CE of the SA Insurance Association, recalls that association members were exposed to R81m of claims in Welkom. The Natal floods of 1987 cost R385m and qualified as a catastrophe.

Even if the estimate of R50m total damage is correct and the entire Ladysmith loss had been insured, the industry could absorb it without too much discomfort. Schneeberger says the level of motor vehicle thefts and hijackings is a far bigger problem for the industry — unless, of course, the early estimates of the Ladysmith damage are drastically wrong.

When a catastrophe is officially registered in the insurance industry, treaties come into play which result in some of the losses being borne, not by direct underwriting companies, but by their reinsurers. In the past year, direct insurers have been retaining more risk than usual for their own account, partly because catastrophe experience has been favourable for several years but also because reinsurers have been quoting rate increases of up to 100%, due to their worldwide losses.

Though Ladysmith's experience is not considered catastrophic, insurers' overall level of weather-related claims has increased sharply this summer.

SA Eagle has already reported a loss of R4,9m on its underwriting account and some other market leaders will fare no better. The weather claims will show up in the half-year results which most insurers disclose around August and September. They could be the signal for further upward premium adjustments. ■

PTO →

FM 11/2/94

A beacon of hope

(58)

It took newly appointed African Life chairman Don Ncube 40 years to cross Marlboro Drive. Only six years ago, did he move from his home in Alexandra Township to Kelvin. But it has taken him 18 months to put together an historic R160m deal in which black interests acquire a majority stake in a life assurance company.

He did it because he is a fighter. "The black conciousness movement taught me to believe in myself," he says. "It taught me about self reliance and how to outsmart the apartheid system."

One of his first steps towards self reliance was becoming a caddy at a Lombardy East golf course "I earned money to buy myself a pair of takkies," he says. His latest battle was "excruciating. At first, the two sides were like ships passing in the night. There was no meeting of the minds."

The other side was, of course, Southern Life, which sold part of its 76% shareholding in African Life to an acquisition group consisting of black businessmen, the Kagiso Trust, the National Stokvels Association, church groups, trade unions, pension and provident funds.

Southern retains 25%. Former African Life chairman and Southern Life executive director Adrian Arnott says Southern "initially planned to put a toe in the water and sell a minority stake to black shareholders." The life office was persuaded, by Ncube and his party, to sell a controlling stake. As Anglo group industrial relations consultant, Ncube is used to negotiating.

The idea that black businessmen should buy control of African Life was floated in the mid-Eighties. Southern Life chairman, at that time, Zach de Beer is said to have talked about African Life as the "black Sanlam."

"The problem of finding black shareholders with sufficient funds was solved by Ncube," Arnott says. Ncube, who started working for Anglo in 1973 as a management trainee, became the driving force behind the concept when he was appointed a director of the African Life board in 1992.

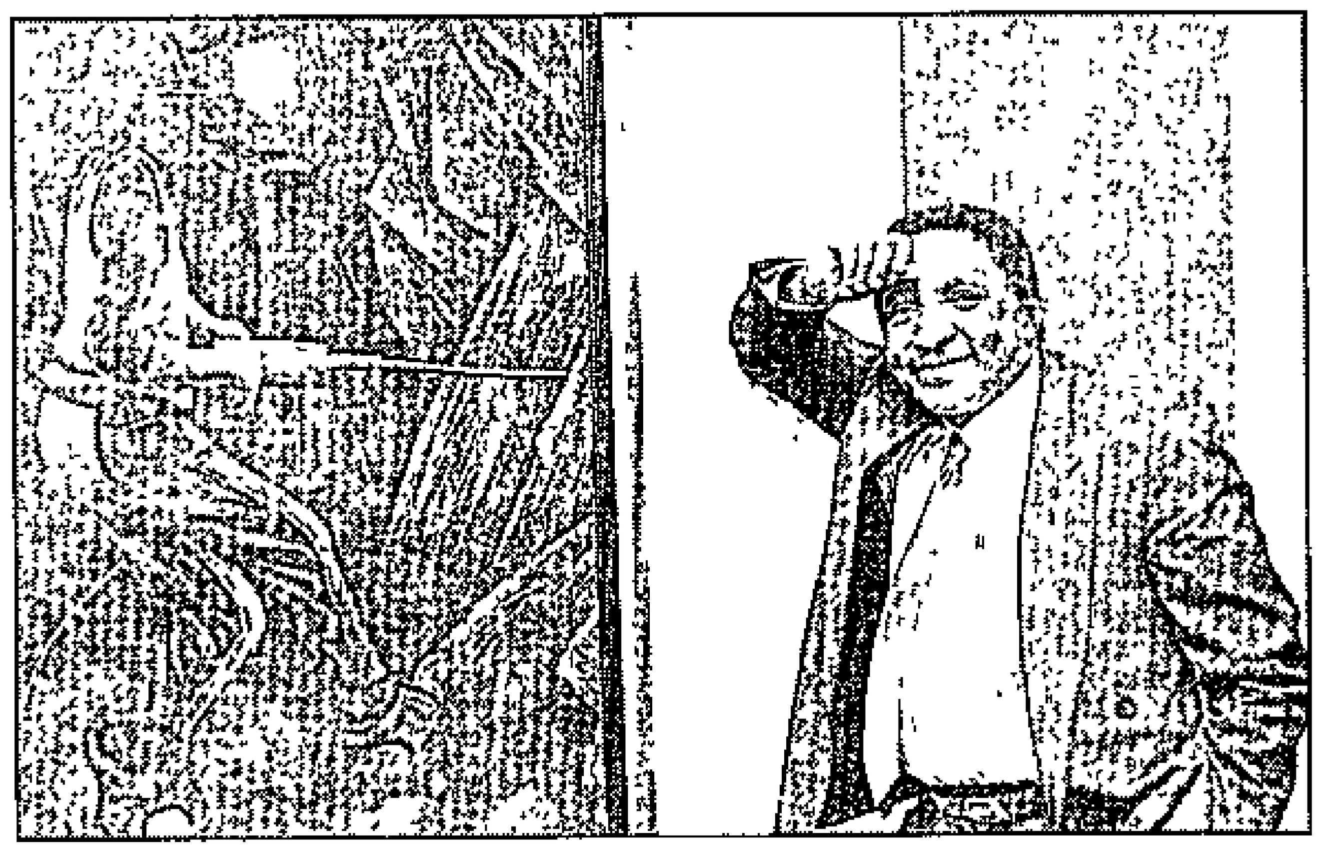
The first meeting regarding the deal was held in September 1992 and a confidentiality agreement was signed five months later.

Ncube says he looked for people to help bring the idea to fruition — "people who had more financial expertise than I have such as Standard Merchant Bank. And I had to bring in the troops; people who weren't afraid of rolling up their sleeves and getting to work."

One of these was Jethro Mbau, head of Nedbank's NedEnterprise division.

"I also needed the help of older more experienced people: Oscar Dhlomo, executive chairman of the Institute of Multiparty Democracy; another African Life director and president of the Natal Cane Growers Association Pat Bodasing; and medical doctor Ellen Blekie."

The group chose to make its commercial debut through a life assurer because of "its capacity to generate liquidity. This will enable us to look at opportunities in other areas of the commercial world," Ncube says. Though he will not say what they are, other ventures are already in the pipeline. Newco, which holds the interests of the acquisition group, will be the springboard for moves into other sectors.



Ncube .. *used to negotiating*

African Life already has a publishing subsidiary, the small business magazine *Enterprise*, and Ncube sees this as an area for development. The assurer's stake in subsidiary construction company African Life Homes has opened up another, with opportunities in the building of housing, clinics and schools.

Ncube says the group liked African Life's name. And it liked the assurer's philosophy of being nondiscriminatory. Its slogan, "Making a better life possible .. for you," also helped, as did its mission to be "a mirror image of SA." Since 1986, African Life has attempted to reflect SA society African Life customers and staff are mostly black. "One didn't have to be a genius to know the country was going to change," says CE Bill Jack. "Just cleverer than PW Botha."

Jack says management, which will remain intact, will take the opportunities which now present themselves. The first slice of business emanating from the new deal has already been finalised. African Life will receive R1m in premium income from the National Stokvels Association over the next 12 months.

Despite Ncube's achievements, he says his links with his past will never be severed. "I often walk down the road from my home to visit my grandparents' grave in Alexandra."

He sees the acquisition as a beacon of hope for blacks. And his achievements will no doubt make him a role model for young people starting in similar circumstances.

Major companies forced to increase the cost of cover as the crime rate rockets

Insurance premiums to soar in 'recipe for chaos'

ARG 8/1/94 (58)

TYRONE SEALE
Weekend Argus Reporter

CAR theft syndicates, burglars and crime victims who flesh out insurance claims will push up premiums on cars and household goods by 10 to 20 percent within three months.

Major insurers interviewed this week were unanimous in their concern about spiralling crime — vehicle hijackings in particular — and said increased thefts and robberies coupled with lenient court sentences constituted a recipe for chaos.

Ultimately, this could lead to the withdrawal of insurance on certain items, including cars, warned Guardian National managing director Keith Nilsson.

Their dire predictions were reinforced by police statistics for the Peninsula released yesterday which showed that during 1993:

- 6 617 cars were stolen;
- 25 963 cases of theft from cars were reported, and
- 27 393 housebreakings — about one every 20 minutes — occurred in the police districts of Cape Town, Athlone, Wynberg and Bellville.

The Bellville figures cover only the period January to October.

Speaking for Guardian National, Mr Nilsson said only 20 percent of stolen vehicles insured by his company were recovered.

In the case of other personal goods insured by Guardian National, 88 percent of premiums earned was paid out in claims.

In December, this situation particularly had worsened in the Western Cape.

"The situation at the end of the fourth quarter (of 1993) was worse than I ever could have contemplated.

"In the Transvaal, our rates will increase by 15 to 20 percent during the next two months, but I don't think that will be enough to correct the situation in the Cape.

"It seems TV sets disappear the most, but it doesn't begin and end there. Every sort of car goes and I would say generally it's the bigger and more expensive car that seems to go. The recovery rate is very low."

Mr Nilsson said the insurance industry was faced with a "cleft stick" in which current loss ratios could not be tolerated, and where increased premiums naturally resulted in consumer resistance. "If it goes on like this we may reach a point where we have to ask whether, in fact, we could continue to offer theft cover on motor cars, many of which are leaving the country.

"What we need is a complete break in the crime situation. The government and the police need to make the punishment fit the crime. Sentences of three to six months' for stealing a car are useless. The criminal element has become so bold because the punishment does not appear to fit the crime.

"On the other hand, one wonders whether the country wants or needs 20 more jails to accommodate these people. It's very difficult."

Mr Nilsson urged homeowners and motorists to be extremely alert at home and on the road, but urged them to part with property rather than risk injury or death.

Unable to quantify the levels of insurance fraud, Mr Nilsson said these were nevertheless "high" and difficult to prove, but were referred to assessors and other investigators, including police, where the insurer had substantial doubts.

Rob Ward, general manager of Hollard Insurance, a company specialising in cover for low to medium-priced cars, said his company anticipated premium increases ranging from 10 to 15 percent between now and April, with the Free State and Cape Town coming off lightest, compared with Natal and the Transvaal where violence and theft were much worse.

Mr Ward said "quite a lot" of cars were stolen for use in neighbouring states.

Only 10 percent of stolen vehicles insured by Hollard were recovered and where car thieves were convicted, one could not be sure they were the syndicate leaders.

Insurance fraud was another major problem. Of 215 claims considered by Hollard this week, 15 contained elements of fraud.

"We normally call in our investigators first before going to the police, but in these cases we'll be very tough."

Jimmy Morrow, managing director of Commercial Union, said premium increases would vary from area to area, but he estimated policy holders could expect to pay between 10 and 15 percent more from the beginning of March.

"We aren't increasing the premium on household contents just yet, but this does not mean we won't do so at a later stage.

"Claims normally escalate during the holidays and once we see these claims we may have to adjust premiums. We are handling quite a large number of commercial and domestic claims."

Mr Morrow agreed with his counterparts that courts had to act more strongly to stem the tide of thefts of expensive cars.

He also expressed concern at the "export" of stolen cars to neighbouring states.

He said fraud was difficult to prove, but Commercial Union did not hesitate in handing over fraud cases to police.

Protea Assurance restructures into 5 separate companies

Star 11/1/94

BY STEPHEN CRANSTON

Composite insurer Protea Assurance has restructured into five separate companies.

MD Andrew Tainton says that the decision reflects the changing conditions within the insurance industry.

"Protea believes the best results will in future be obtained by insurers who focus on clearly defined niche areas and who are geared for flexible and fast decisions."

The restructuring is in line with the Registrar of Financial Institutions' policy of encouraging the legal separation of short-term and life business and anticipates expected legislation enacting such a separation.

58

Capital

The short-term company, to be called Protea Insurance, is moving from Cape Town to Johannesburg and is headed by Peter Mitchley.

It will have paid-up share capital of R60 million, which has enabled it to pitch its solvency margin at 66 percent.

This figure is well above the industry average and nearly three times the minimum legal requirement.

Mitchley will also head Phoenix Assurance, a specialised insurer, which focuses on niche markets such as financial risk for major clients.

The life company, Protea Life, remains in Cape Town and is being headed by Nick Criticos.

The ratio of policyholders' assets to policyholders' liabilities is 131 percent, well above the industry average.

Policyholders' funds are expected to reach R400 million by the end of the current year.

It also has a paid-up share capital of R35 million.

The investment division becomes Protea Assurance Investment Management, headed by Duncan Carmichael.

It is looking to expanding into external fund management.

Protea Assurance remains as the holding company, with Tainton remaining as MD.

Protea plans to set up a separate direct marketing company within the next 12 to 18 months.

Protea has had some success in direct marketing in both the short-term and life areas.

Material

Some of the company's direct marketing material has recently been cited by the South African Advertising Book as an example of effective direct marketing.

The restructuring will have no immediate effect on earnings per share.

But an accumulated shareholder surplus of R35 million was released from the life fund and would have increased the net asset value by 10,7 percent to R46.

Liberty gains record R2,5bn in new business for 1993

CT 25/1/94 (58)

Business Staff

LIBERTY LIFE again reported record levels of new business in 1993.

Total new business, made up of annualised recurring and single premiums for both individual and group business, amounted to R2,5bn compared with R1,7bn in 1992.

Annualised recurring premium business totalled R750m — 30% higher than R577m in 1992. Single premium business rose by 63% to R1 8bn (R1,1bn).

Individual new business rose by 62% to R1,6bn (R1bn). Group business rose by 36% to R919m (678m).

Liberty Asset Management (Libam), the investment arm of the Liberty Life group and a wholly owned subsidiary of Liberty Holdings, attracted a further R3,6bn of new funds from major external institutional and pension fund clients during 1993

This was 150% more than in 1992 and brings to almost R15bn the total amount of external discretionary investment funds under Libam's direct management.

In spite of the lower inflation rate, individual policyholders in the Equity Performance portfolio for the Lifestyle series received a 30,01% after-tax return.

The more conservatively structured Managed portfolio, which includes property investments, yielded 27,02%.

The five-year compound average return for the Equity Performance portfolio is 24,11% and for the Managed portfolio 17,58%.

MD Alan Romanis commented: "Our investment team did a remarkable job last year if you consider that the inflation rate dropped below 10% and there was a great deal of apprehension surrounding the markets."

Romanis said Liberty Life's major strategic investments were in the Standard Bank, Premier, and SA Breweries. "We chose to maintain a high equity content in our portfolios despite the uncertainty of the market.

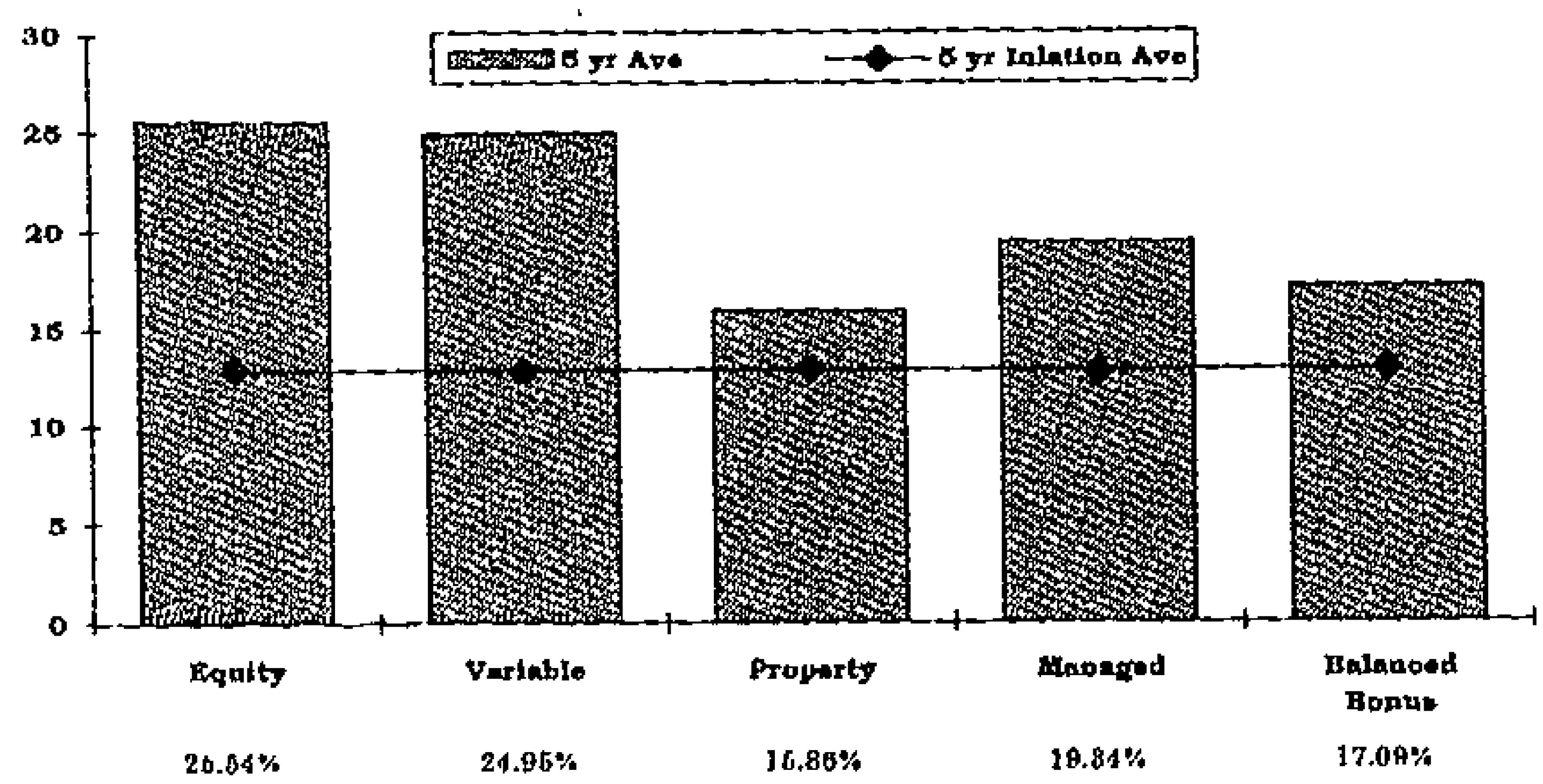
"We took advantage of the downward movement of interest rates and our property investments produced very satisfactory results in view of the depressed state of that sector.

"While the returns obviously vary from fund to fund, depending on their composition, the equity-based portfolios have all outpaced the inflation rate over a period of time."

Romanis said that on the group side, the two most popular investment portfolios, Managed and Liberty Element Managed, recorded bonuses of 32,1% and 36,2% respectively.

"The more conservative balanced bonus came in at 17,5%, still well above last year's inflation rate of 9,2%."

Liberty Life's Retirement Annuities Equity Performance Bonus Returns



Sanlam: Recovery 'across the board'

CT29/1/94 (58)

By AUDREY D'ANGELO
Business Editor

POSITIVE developments in the economy "indicate favourable growth prospects for 1994 and the years immediately following," says Sanlam chief economist Johan Louw following other upbeat forecasts.

And he points out, in his Economic Survey, that the recovery reflects an improvement across the board and is not being stimulated by government expenditure "as has been the case so often".

Louw's is the third upbeat forecast to be released this week, following those of Old Mutual and Southern Life economists.

But Louw, stressing the need for direct foreign investment that would provide jobs, warns: "Various negative factors could dampen the recovery this year.

"Among these are the sluggish economic recovery overseas, domestic violence and the uncertain political situation. A further restrictive factor is the substantial foreign debt repayment obligation, which could restrict the government to a policy of prudent stimulation."

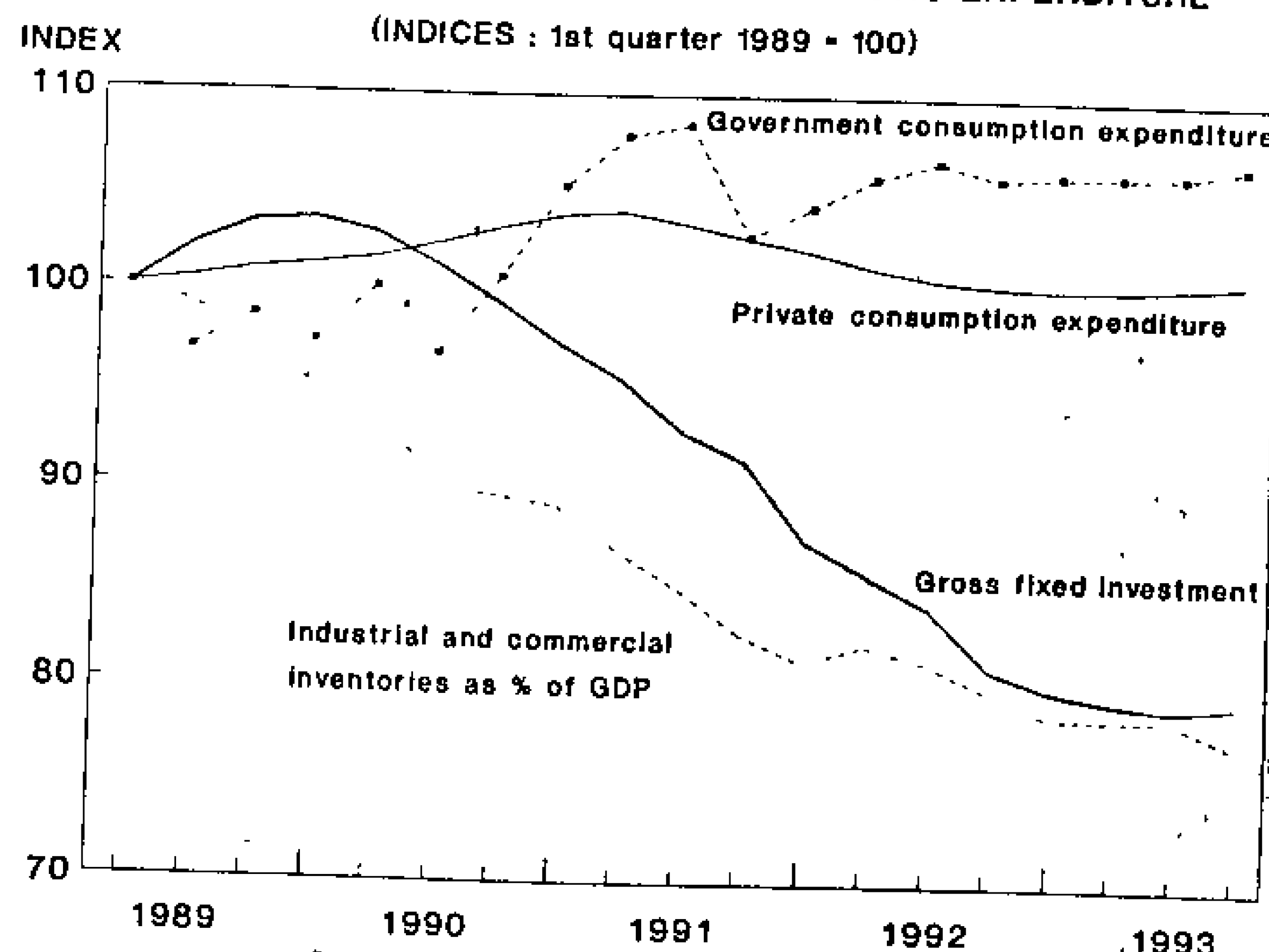
At this stage, the Sanlam economists expect an average real economic growth rate of between 2% and 2,5% this year.

"Although this is considerably higher than the estimated rate of just below 1% for last year, it will not be sufficient to check the downward trend in real gross domestic product (GDP) per capita experienced during the past decade," says Louw.

"We nevertheless believe that the foundations for strong growth in 1995 and 1996 will be laid in 1994, provided that political stability is maintained and a responsible economic policy is followed."

He also warns that the downward trend in the inflation rate is due mainly to the slow rate of increase in food prices following the end of the drought, and to the slow rise in housing costs — and could be reversed if these factors change.

MAIN COMPONENTS OF GROSS DOMESTIC EXPENDITURE
(INDICES : 1st quarter 1989 = 100)



Source: Quarterly Bulletin of the SA Reserve Bank

Forecasting a drop of about two percentage points in the consumer price index (CPI) in April, when the effect of raising VAT last year falls out of the system, he cautions: "Food prices, with a weight of more than 18% in the total consumer price index, could have a noticeable effect on the average inflation rate owing to seasonal influences in particular.

"During the severe drought of 1991/92, inflation in respect of food rose by more than 30%. Once more normal weather conditions prevailed, the rate of increase in food prices dropped dramatically, which largely contributed to the lower trend in the inflation rate.

"Another development which recently has had a significant effect on the inflation rate is the slow rise in housing costs.

"In SA, the interest element in bond repayments represents approximately 56% of the cost of housing. Housing costs in turn constitute 20,5% of the CPI.

"In conjunction with the general reduction in official interest rates, bond rates have dropped by 4,75 percentage points in the past two years. The downward trend in the inflation rate can therefore also largely be ascribed to the lower bond rates.

"From the above analysis it is evident that the current favourable development in the inflation rate is dominated by a few components and that double-figure inflation still exists in respect of a number of other items in the CPI.

"A turnaround in the prices of food and housing could therefore have a marked negative effect on the inflation rate."

But Louw expects inflation, and interest rates, to continue to fall. "Assuming a further drop of two percentage points in bond rates we estimate an average inflation rate of about 7% for this year. We further believe that single figure inflation will be maintained for most of 1995."

CT 29/1/94

Blacks secure African Life

Sowetan 2/2/94

By Mzimkulu Malunga

A BLACK consortium is buying a majority shareholding — worth R160 million — in the African Life insurance company.

The consortium, which provisionally calls itself New Company (NewCo), has acquired 51 percent of the Southern Life subsidiary.

The deal, which was officially announced yesterday, was a culmination of almost two years of tough negotiations between black businessmen and Southern Life.

NewCo has until May 31 to provide the R160 million needed for the deal.

"It is a unique deal which involves real money," said the African Life chairman-designate Mr Don Ncube, who was optimistic that NewCo would raise the money long before the May 31 deadline.

This move means that African Life's two subsidiaries, *Enterprise* magazine and African Life Homes, are now 51 percent black-owned.

The trade union movement, the National Stokvels Association of South Africa, Kagiso Trust and various church groups, including the Zionist Christian Church, are also part of the consortium. Altogether these groups represent about three million people.

African Life's asset base grew from R75 million in 1986 to R313 million in 1993.

(58)

The consortium will hold its share in African Life through NewCo while certain pension and provident funds hold their interest directly but will vote through NewCo.

Although the shareholding within the consortium differs, the voting will be based on consensus, says Ncube.

The leadership of the consortium comprises Ncube, Dr Oscar Dhlomo, bankers Mr Jethro Mbau and Mr Mutle Mogase, Durban-based businessman Mr Pharthabsing Bodasing as well as Free State medical practitioner Dr Ellen Blekie.

In terms of the deal, the consortium will appoint 50 percent of the board of directors including the chairman. Southern Life, which holds 25 percent of African Life, will be entitled to appoint 25 percent of the board.

African Life's outgoing chairman Mr Adrian Arnott described the clinching of the transaction as the "end of the beginning" while the company's chief executive Mr Bill Jack says the new deal could bring three million potential clients to African Life.

Mutual set to meet foreign competition

(58) CT 24/8/94

By AUDREY D'ANGELO
Business Editor

OLD Mutual is preparing for the abolition of exchange controls — and the entry of foreign competitors to the SA market — by drawing attention to the existence of its overseas life offices and unit trust operations.

It announced yesterday that it is "renaming the various constituents of its overseas operations which, in future, will trade under the banner of Old Mutual International."

These include Providence Capitol Life Assurance in the UK, the international unit trust activities in Providence Capitol Fund Managers and the Guernsey-based life office Providence Capitol International.

Old Mutual chairman Mike Levett explained that buying the Providence Capitol group in the UK and Guernsey in 1986 was part of Old Mutual's preparation for facing international competition in its home market.

"The brief to management was to gain international experience and build our business in new markets.

"Not only have these objectives been reached but Providence Capitol leads the UK unit trust investment performance rankings over four of the past five years when measured against all Britain's unit trust management groups.

"The eventual lifting of exchange controls will place us in a position to market a wider spread of products and investment portfolios to all South Africans.

"Our success in international portfolio management means that SA investors will be able to look to Old Mutual to deliver value for money in world markets as it has done for many years here at home

"It is equally important that we are well placed to compete with any offshore companies which decide to establish operations in this country."

Dave Hudson, AGM (marketing) said that once exchange controls were lifted he thought institutions with no track record in overseas markets would be at a disadvantage in attracting investment.

Why Old Mutual won't cash in its blue chips

(58)

WM(BM) 26/8-1/9/94

Old Mutual's policyholders have profited from the surge in the stock market. **Reg Rumney** reports on the assurance giant's views about the future of share investments

DESPITE interest rates that are high — and might go higher — and nervousness about the effect of a possible scrapping of exchange control, giant life assurer Old Mutual is not about to desert the Johannesburg Stock Exchange in which it is one of the biggest players.

This becomes clear when speaking to Johannes van der Horst, who heads up the investment side at Old Mutual.

Since it behoves the company, a custodian of other people's money, to get the best returns, and those returns should logically be boosted by switching from expensive shares to increasingly attractive interest-bearing investments, why not?

The answer is manifold, and Old Mutual's views not merely of academic interest, given the number of chips it has at the JSE casino tables.

The life assurer, which juggernaut-style keeps on rolling along the growth path, reported total assets under management up almost a third at around R128-billion this week.

That, by way of illustration, is almost 15 percent of the total current value of the shares on the JSE, giving a hint why some commentators have expressed concern about the economic power of Old Mutual and its chief rival, Sanlam, particularly on the JSE. Sanlam's total assets under management stood at R72-billion for 1993, and if they grow at the same rate as Old Mutual's will be around R94-billion when it reports.

The lion's share of Old Mutual's assets, around R120-billion, is invested in South Africa. And of that R120-billion, approaching two thirds — or R74-billion — was invested in shares at end-June this year.

Around R37-billion was in interest-bearing investments such as the long-term IOUs of the bond market or short-term investments of the money market, and a mere R8-billion in property, which still adds up to a great deal of commercial, industrial and even residential property.

Van der Horst comments that if annuities, which are not actively managed as an investment, are stripped out of the total pie, three quarters of the Mutual's assets are in the JSE.

While the property and interest-bearing investments are not small beer, Old Mutual's share portfolio is the biggest cash generator.

Old Mutual's investment in shares has given a 40 percent return over the year. By contrast, the remaining quarter put into interest-bearing investments and property gave a 12 percent return.

Given the superb returns, despite the enormous uncertainty of the past year, Old Mutual has cause to be pleased it put most of its eggs into one basket.

What of the future?

Van der Horst points to various factors.

Long-term interest rates, which arguably better reflect supply and demand than short-term rates because there is no intervention in the market for bonds, have surged, yet the stock market is 40 percent up on a year ago.

Rates in the capital market, where bonds are traded, have risen to above 15 percent.

Short-term rates, where the Reserve Bank does exert influence, have probably bottomed. While they may well stay at present levels for a while, they might well have risen much further in a year from now.

The capital market, notes Van der Horst, is worried by various factors, including persistent rumours about the scrapping of the financial rand system soon.

But he quotes Old Mutual's chief economist, Dave Mohr, to stress that the trend towards higher capital market interest rates is world-wide. All international yields on long-term bonds have surged since the end of last year, and world trends strongly influence the South African capital market.

There are also lingering fears that spending on the ANC's grand economic plan, the reconstruction and development programme, will cause the government to overspend, and a general expectation that inflation is also at the bottom of its cycle.

Van der Horst concedes the equity market looks high in terms of its own history, with P/E ratios of 20 times. As a rule of thumb the higher P/E ratio, which is the share price divided by the current earnings a share, the more expensive the share. Added to expectations of higher interest rates, this is not the stuff of which booms are made.

So Van der Horst is not looking at the market doing great things in the next six to 12 months.

On the other hand, profit growth is picking up. The market is looking beyond a year to the next two to three years, he argues.

The other compelling reason to stay in the market is that it is not exactly easy to move in and out.

That the JSE is intensely illiquid — simplistically, too few shares are bought and sold — compared to other exchanges is well known. And trading costs on the JSE are among the highest in the world because of marketable securities tax, notes Van der Horst.

So Old Mutual will try to shift its interest-bearing investments between money and capital market to get the best rates, but being trigger happy in the share market is expensive, reckons Van der Horst. "You can't try to be clever and buy back shares at a lower level."

There may be turbulence ahead, but Old Mutual can only brace itself for the ride on a long-term ownership basis.

On the thorny and complex issue of the abolition of exchange control, Van der Horst is surprisingly sanguine.

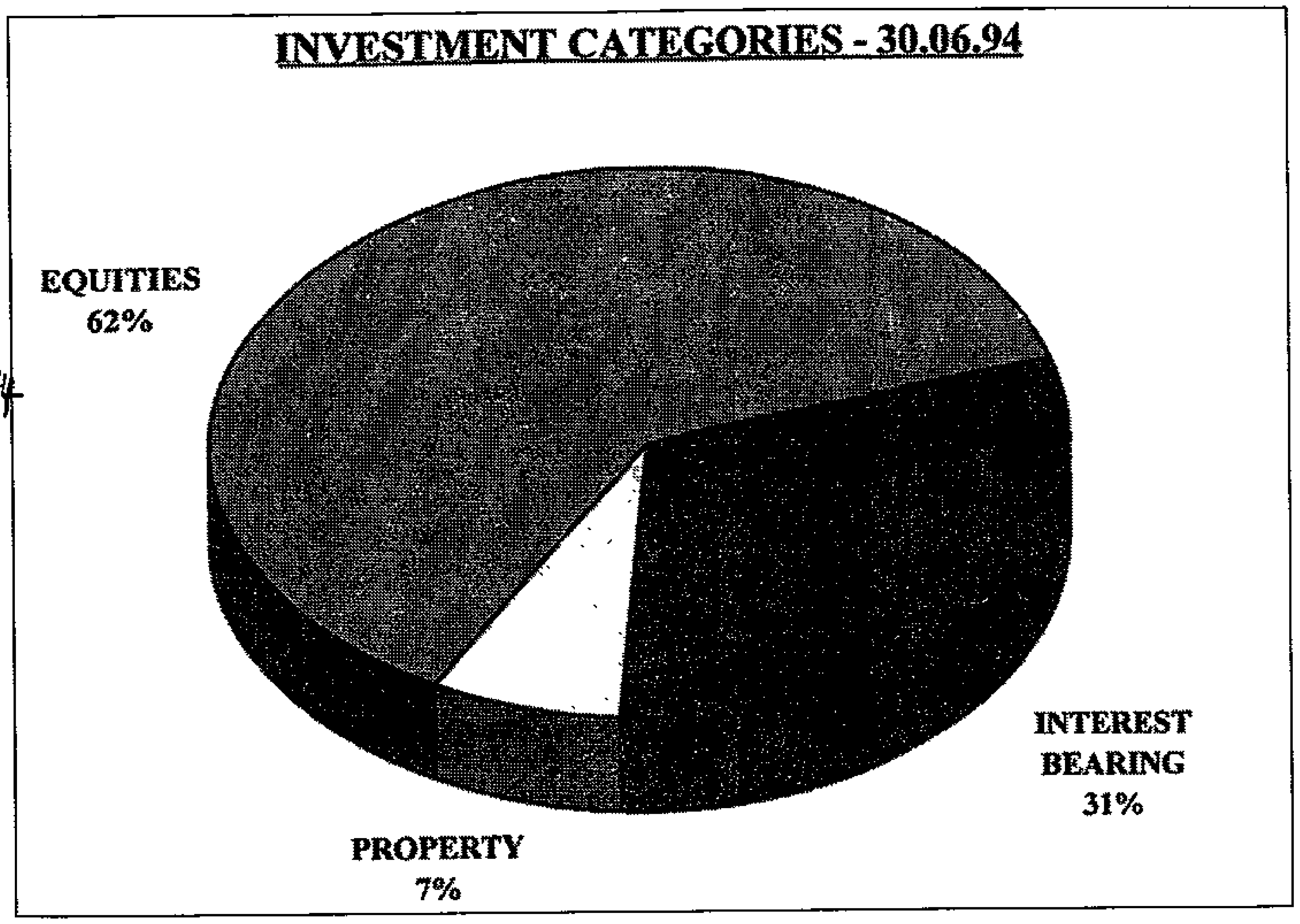
"If the world became your oyster you would basically have to start from scratch," he admits. "Yet the impact on the stock market would be much less than common sense suggests, at least initially."

One reason is that legally the domestic liabilities of pension funds must be covered by domestic stocks. Only free reserves, that is after subtracting the value of domestic liabilities from the value of domestic stock held, can be invested abroad. That automatically puts a lid on how much money now in the JSE can flow out into the New York-listed Microsofts and others.

Secondly, the exchange rate will fall rapidly as it adjusts to expected outflows. Suddenly overseas shares that looked good value with the commercial rand at its present value of around 27 US cents, will look a lot more expensive as it drops to say 10c. At the same time, the devalued rand will make South African shares look a much better buy for foreigners, especially without the financial rand worry.

While the JSE could prove an overinteresting place to be invested over the next 12 months, commercial and industrial property investment is looking up.

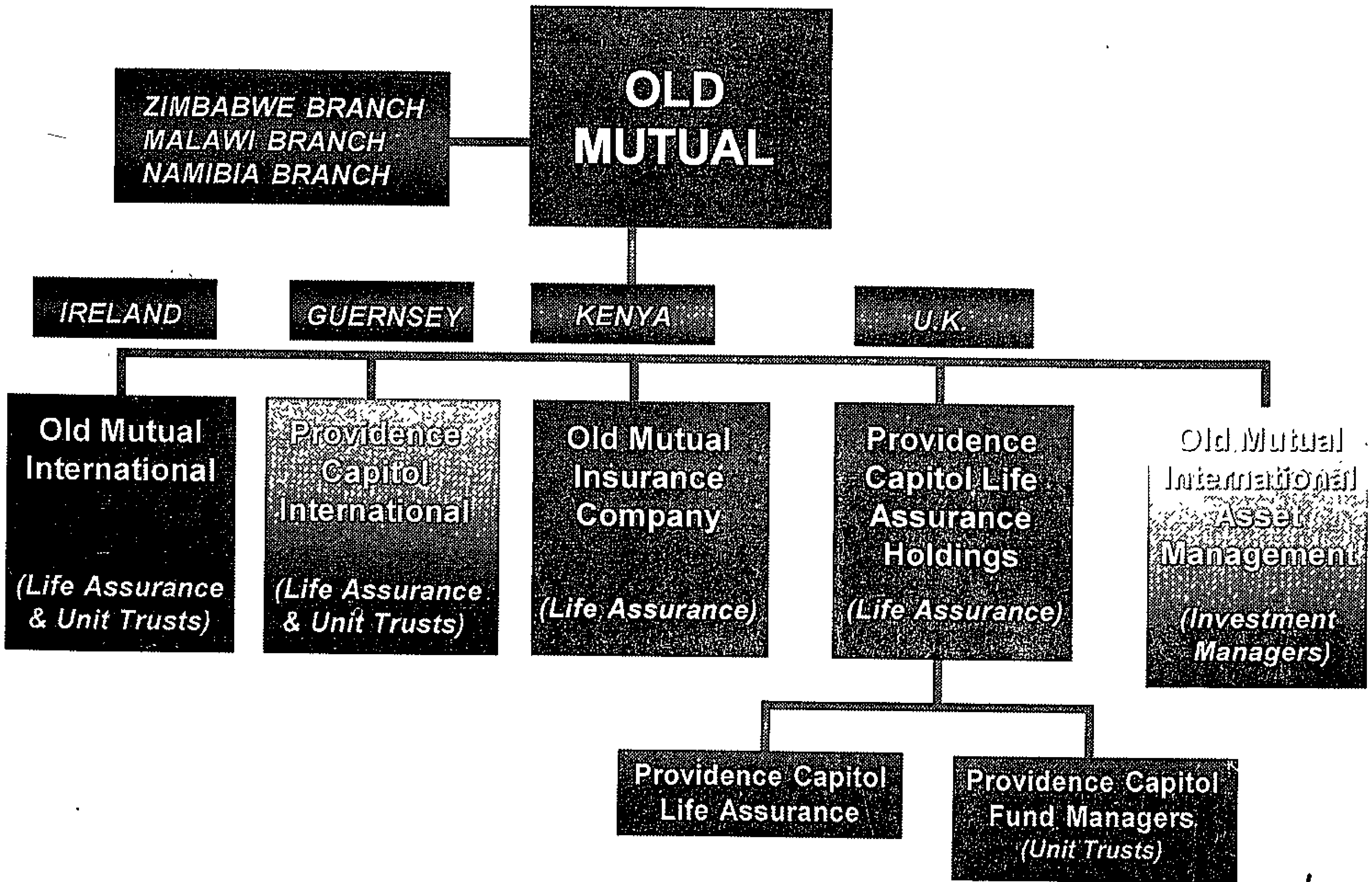
Van der Horst says there are signs that demand for commercial and industrial property space is rising again, after staying static in 1993.



Where the Old Mutual invested your money

Van der Horst ... Scrapping exchange control won't be too dramatic

OLD MUTUAL'S OVERSEAS SUBSIDIARIES



(58) ARG 10/9/94

Old Mutual splashes out

BRUCE CAMERON
Business Editor

THE name of Old Mutual is set to be marketed worldwide, as the country's biggest life assurer moves aggressively to establish itself as a world player.

The moves were confirmed this week by Old Mutual's chief operating officer Gerhard van Niekerk.

Moving quietly into the international markets during the years of sanctions Old Mutual has already established a solid bridgehead for its international operations.

The overseas operations involved R10 billion in assets under management. This is on top of the R128,15 billion in assets under management locally at the end of June.

The funds under management include investments in 24 unit trust funds, operating mainly out of Ireland.

Old Mutual is rated as the world's 43rd largest life assurer and the sixth largest outside the major markets of the United States, the United Kingdom and Japan.

Over the past few weeks Old Mutual has been quietly revealing details of its overseas operations., which have been trading under a number of different names and from different areas.

The lifting of the skirts started with a major advertising campaign using a cricket scoreboard to reveal its top-rated performance in the unit trust industry in Britian.

Last week Old Mutual announced that it will be running all its international operations under the name of Old Mutual International.

In an interview Mr Van Niekerk confirmed that all the other trade names are to scrapped and replaced by Old Mutual International, except in Britain where the assurer will use Old Mutual.

The Old Mutual anchor logo, familiar to South Africans, will be common to all operations and will be seen in countries as diverse as Saudi Arabia, Thailand, Ireland, the Bermudas, Malaysia and New Zealand, as well as in South America and mainland Europe.

Mr Van Niekerk said the major oversea operation, Providence Capitol, in Britain, would also have its name changed.

He foresaw no major problems in a change of names as the name of Old Mutual was fairly widely known, particularly in the broking community.

Providence Capitol, which accounts for a little over two percent of the substantial British market, was purchased from the Slater Walker group in 1986 as the first major venture into foreign markets.

There have, however, been Old Mutual operations in other African countries, including Kenya, for many years.

Mr Van Niekerk said Providence Capitol included a Guernsey-based unit-linked life assurance company specialising in investment products for international investors.

Its products are offered in many countries with the business sold by tied agents as well as the international broking community.

Old Mutual established itself in Ireland last year as a new European base and from where Old Mutual International is operating across continental Europe. This was the first time the Old Mutual name had been marketed outside Africa.

Mr Van Niekerk said the international operation had a number of advantages for Old Mutual policyholders. These included:

- Old Mutual was poised, when exchange control was eventually lifted, to provide easy access for South African investors to international markets;
- Policyholders had a growing asset; and
- Domestic investment teams were gaining additional expertise.

Mr Van Niekerk said that there had been some returns for policyholders but the main objective was to grow the assets.

He said this was comparable to investing in a company, which although paying low dividend, was showing asset growth.

Mr Van Niekerk pointed out that in June Old Mutual listed Old Mutual South Africa Trust on the London Stock Exchange, attracting £50 million for investment on the Johannesburg Stock Exchange.

New Luasa chief wants insurance industry to bone up

ARG. 12-13-11/94

(58)

BRUCE CAMERON
Business Editor

RECENTLY elected national president of the Life Underwriters' Association of South Africa (Luasa), Lewis Chesler, must be one of the most qualified life assurance and pension advisers around.

Not only is he a fellow of the prestigious Institute of Life and Pensions Advisers and an Accredited Life Writer of South Africa, Mr Chesler is also a chartered accountant.

This is probably the reason he is so determined to lift the reputation of the insurance industry and particularly that of intermediaries.

He quite candidly admits the public reputation of insurance sales people is low down the scale. He attributes one of the reasons to the total lack of any qualifications required to enter the industry.

He took over the presidency of Luasa at a critical time for the industry, which is receiving the attention of the regulating authorities. The Financial Services Board wants to see a better run ship — and greater protection for investors.

He gave up a career in accountancy because "I was always interested in helping people with financial planning and in corporate financial planning.

"When I qualified as an accountant in 1969 most accountants were auditors. They performed historical functions. This didn't appeal to me. I wanted to deal with the future."

So armed with his CA and having been awarded the Boroughs prize for the top student in accounting in his final year at the University of Cape Town, he first went into commerce but then entered the rough and tough world of personal financial planning 10 years ago.

Mr Chesler is a founding partner of the financial planning company, The Financial Workshop (Cape).

Mr Chesler says his main task at the head of Luasa is to see intermediaries through the transitional period that is likely to result in legislatioon controlling the activities of intermediaries.

"Luasa has always seen itself as playing an important role in raising the status of the intermediaries, who are near the bottom of the ladder."

He said the current negotiations with the life offices and the Financial Services Board were an opportunity to enhance the life assurance and financial planning profession.

"It is also an opportunity to give better protection to the public we serve."

Mr Chesler says ethical behahaviour is very important.

"There is no legislation that allows industry to remove someone who is a crook, unless there is a conviction for fraud. There are no minimum standards for education and qualifications.

"There is no compulsion to join any of the industry bodies, such as Luasa, which set minimum standards of behaviour.

"We don't want to stop entry but we must get people educated in the profession."

Mr Chesler said Luasa was recommending that a new intermediary should, after one year, have a minimum of a Life Intermediaries Certificate — a minimum qualification from the Insurance Instituite of South Africa.

All intermediaries should be registered before being able to sell life assurance or any other financial products.

To register would require intermediaries not only to have minimum qualifications, but also to adhere to a code of conduct.

Mr Chesler feels the industry should self-regulate and not have regulation forced on it at considerable expense, as had happened in Britain.

There would need to be enabling legislation but the industry would police itself. It would become what is known as a self-regulatory organisation (SRO).

The SRO would set the minimum standards to which brokers and agents would have to conform.

However, ultimately the life offices would be responsible for the behaviour of their agents and consultants.

Mr Chesler, who was born in Cape Town, matriculated at Cape Town High. He and his wife Erica have five children. He plays league tennis for Glen Country Club in Camps Bay.

He is a Scientologist which, he believes, improves his human skills. And in between all his other activities he enjoys travelling, internationally and locally.

Southern Life income up 8%

(558) CT 17/11/94

Deputy Business Editor

SOUTHERN Life has reported an 8% increase in total income to R2,2bn for the six months to end September 30.

This comprises a 9% increase in premium income to R1,6bn and a 6,7% increase in investment income to R607m.

New individual business increased notched 62% growth to R639m with recurring premium income accounting for 22% of this. Single premium business rose by a massive 81%.

Southern has increased its interim dividend by 22% to 47c on a 22% increase in distributable earnings to 70,5c a share.

MD Jan Calitz said one of the major reasons for the solid increase had been the success of its Exclusive Life range of policies which now accounts for about 30% of all new policy sales.

The group's stringent HIV testing requirements had seen it turn down R109m in life assurance business in the past four years.

Calitz said shareholders would again be offered capitalisation shares in lieu of the interim dividend.

Major shareholders Anglo and First National Bank had elected to accept the capitalisation award, details of which will be announced next month.

Group total assets grew 28% or R5,7bn to R26,4bn. Southern Life has reduced its holding in African Life and Southampton Assurance Company to 25% and 49% respectively and excluding these companies, Southern Life's total assets grew by 32%, he said.

He said that during the first six months of the last financial year there had been significant employee benefits single premiums which had not been repeated.

Calitz said Futuregrowth, Southern Life's economically targeted investment portfolio supporting the aims of the RDP, had made a successful debut in the retirement fund market with assets already exceeding R175m and a number of major corporations having invested in the fund.

Old Mutual all set for 'the big shock'

CT 2/12/94 (68)

By AUDREY D'ANGELO
Business Editor

Mike Levett

OLD Mutual chairman Mike Levett laid heavy emphasis on the success of the SA insurance giant's overseas operations, in his address at the agm yesterday.

He told policy holders the experience gained in overseas markets meant "Old Mutual is well prepared to assist its Southern African clients as the barriers to proper diversified investments are progressively removed."

CE Gerhard van Niekerk said after the meeting that Old Mutual was making sure it was "fully prepared for the big shock" when exchange control was lifted.

Its going was inevitable. Only the "how and when and in what sequence" were still to be made known.

Although it was necessary in the longterm, Van Niekerk warned: "People must not think the removal of exchange controls will be a pleasant thing. For our economy it will be like a small boat leaving harbour and suddenly being exposed to the full force of the sea."

However, the rand would not necessarily fall steeply. In certain circumstances it could even rise. A lot would depend on whether SA was in a position of weakness or strength.

Meanwhile, it was important for Reserve Bank Governor Chris Stals to say he would not abolish exchange controls until SA had enough reserves to pay for three months of imports.

"But in the scheme of things this does not matter because if you look at the magnitude of international capital flows our reserves could be devastated overnight. Our currency could go either way."

Van Niekerk said he did not believe Stals would begin by abolishing the financial rand while keeping exchange control for SA residents. That would be unfair and it would not prevent money from leaving the country. "I think they must understand that they have got to go the whole hog."

In fact, abolishing exchange control would be a political decision which would be taken by the Cabinet. The stage would be reached when the real cost of retaining it would be too high.

Discussing the effect on the JSE of lifting exchange control, Van Niekerk said movement would not be one-way. Although SA institutions would invest overseas the JSE could look very attractive to foreign investors.

It was not expensive by world standards, although it was by historical standards in SA. "One has to be careful when looking at dividend yields because so many companies are paying scrip dividends. We shall have to concentrate more on earnings yields."

Van Niekerk pointed out that the next Budget would have a major effect on how foreign investors saw SA. It was vital for the government to show fiscal discipline, in spite of pressure for improvements.

The government would have to be seen to be delivering, but it must not lean too far in that direction.

Discussing funds for low-cost housing, Van Niekerk said:"It is not money that is holding up housing schemes. There are billions of rands available for investment — the difficulty is absorption.

"Any consultative process could be a good thing but in the shorter term it is holding things up."

However, he said, housing schemes alone were not the answer to the problems of the economy. They would not be a sustainable source of jobs.

Metlife assets top R7bn

CT 1/12/94 (58)

Premium income surges up 22%

By AUDREY D'ANGELO
Business Editor

METROPOLITAN Life (Metlife) lifted premium income by 22% in the year to September to R1,2bn. Stable recurring premium business of R1,12bn accounted for 92% of this.

Individual business accounted for R808,8m worth of premiums, a rise of 21%. Group business rose by 19,8% to R309,5m and ordinary branch business by 24,8% to R752,8m.

Investment income was 15% higher at R425,5m (R394,7m). This brought total income for the year to R1,67bn — a rise of 20%.

Total assets rose by 29% to R7,38bn (R5,73bn) topping the R7bn mark for the first time.

Benefits paid to policyholders increased by 21% to R524,3m. Operating expenses rose by only 17% to R178,6m.

Earnings attributable to shareholders rose by 22% to R86,5m. The final dividend is 53,5c a share, making a total pay-out of 83c (67c) for the year.

Announcing these results yesterday MD Marius Smith pointed out that Metlife's statement of the actuarial values of assets and liabilities — published for the first time this year — showed a surplus of R1,86bn, up 36% from the previous year.

He said this surplus equalled 45% of policy liabilities and was the highest percentage so far reported in the insurance industry.

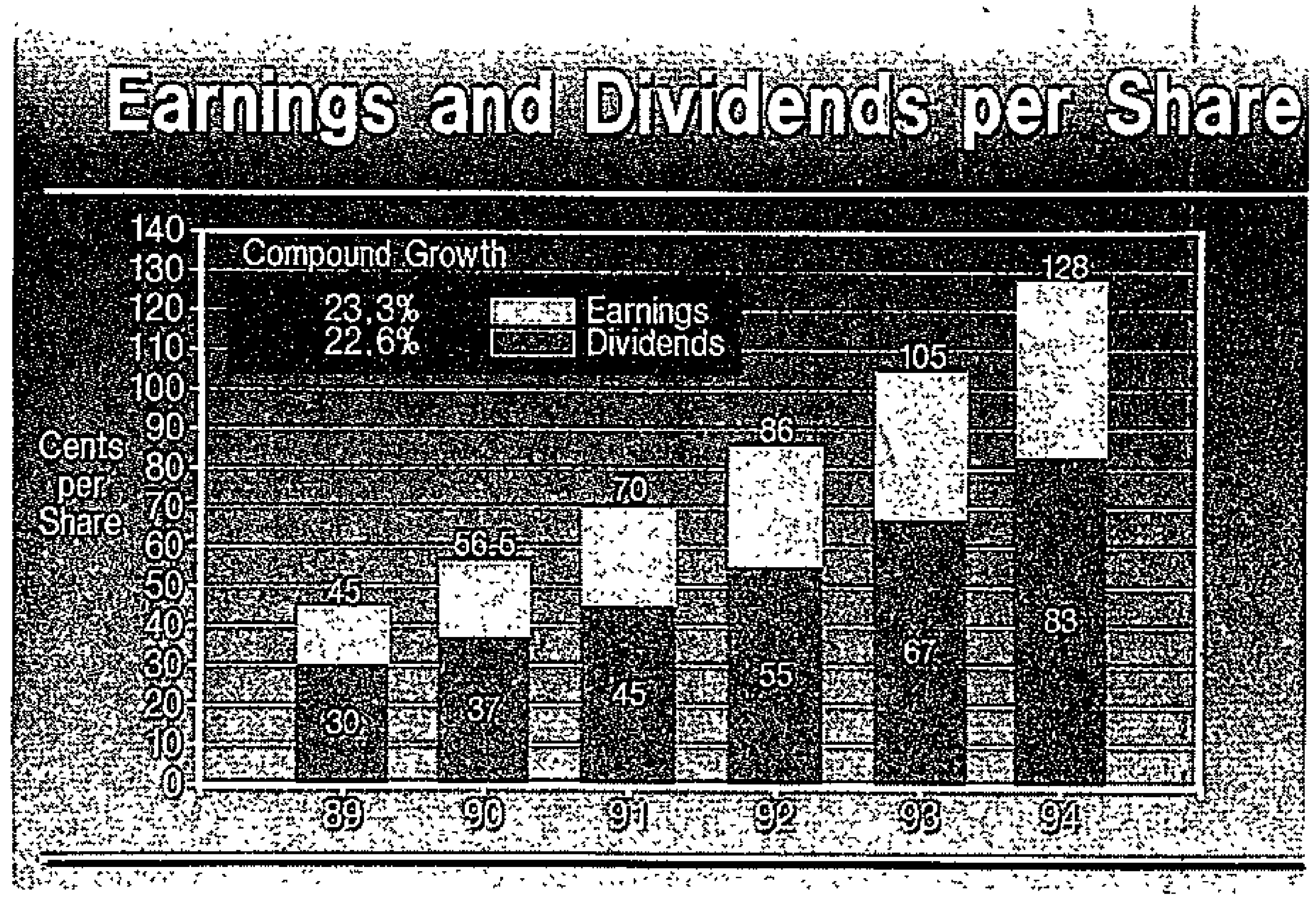
Capital adequacy reserves of R303m were included in the surplus. These reserves provided a margin against any unforeseen developments.

This very substantial surplus confirmed Metlife's ability to continue declaring high bonuses to policyholders and high dividends to shareholders even if adverse circumstances developed.

Individual policy surrenders were still at an unacceptably high level, due obviously to the state of the economy. The amount paid out rose by 30% compared with the previous year, to R131,9m.

But this compared with a 55% increase the previous year. There had been a strong inflow of new business since September and he expected real growth in the current financial year.

Discussing asset distribution by market value, Smith said 43% was in equities at the end of 1994 compared with 36% at the end of 1993. This was due to the rise in share prices, not to a larger proportion of investment being channelled into the stock market.



Insurance shock in the pipeline

CT 28/11/94 (58)

From SAMANTHA SHARPE

JOHANNESBURG. — Insurance policyholders could face a double blow next year from a surge in short- and long-term insurance premiums, industry sources warned at the weekend.

They said the crime wave that had eaten into the short-term insurance industry's bottom line in the last financial year would automatically translate into higher premiums, for both personal and corporate policies.

Mutual and Federal MD Ken Saggers said the huge number of arson and burglary claims from businesses meant that corporate and private insurance premiums would be similarly affected.

Mutual and Federal was reviewing the terms of its policies constantly. "We're currently facing an average tally of 200 stolen cars a week at a cost of R1m a working day. As an industry, where do we go from here?" Saggers said.

Santam MD Jurie Geldenhuys said the insurance group recently increased its personal lines premiums an average of 12%.

While the group was not considering a further increase within the next two months, increases beyond that timeframe could not be ruled out.

"If a rise in insurance premiums can help buffer against the losses we are suffering because of the rise in crime, then there is no doubt the industry will move in this direction."

He said the upcoming holiday months were usually a bad time for short-term insurers, with homes left empty over the Christmas period an open invitation to potential burglars.

But life insurance policyholders could also face rising premiums if recent legislation to include life and investment brokers in the VAT net goes ahead as planned.

Legislation which would compel life insurers to pay VAT is expected to take effect from April.

Life Offices Association (LOA) chairman Jurie Wessels said that life insurers' inclusion — along with other financial institutions — in the VAT net would cost consumers more than the additional income to fiscus.

If 95% of a premium is designated to investments and the balance to costs, 94,5% would be invested under the new tax system.

The cost of the premium would have to rise if the policyholder wanted to maintain the amount he was investing, Wessels said.

High crime rate puts insurers under pressure

58

Business Staff

ARG 3/12/94

THE ever-increasing general crime psychosis and rising crime rate are putting the insurance industry under pressure.

"The solution does not, however, lie only in increasing premiums or imposing stricter underwriting conditions," says Pierre Maritz, managing director of Sentrasure, the leader in agricultural insurance, in a letter to shareholders announcing the trading results for the first half of the current financial year.

"We are dealing with a tendency which not only affects the entire insurance industry and thus all insured persons, but in which the whole country is caught up at the economic and social levels," he says.

Noting that property ownership is a fundamental right under the new constitution, he says: "It is necessary that the authorities protect this right. It concerns an ethic which recognises the dignity of the individual.

"We believe the reconstruction and development programme does not concern only physical things; it also revolves around attitudes."

According to Sentrasure's trading results, claims for the period March 1 to August 31 this year rocketed more than 70 percent. This represents an increase of R44 million and a trading loss of R22 million.

Apart from claims arising from crime, Sentrasure was more exposed than other insurers within its specialist area to factors such as crop fires, general fires, storm damage in various provinces and the fire in the SAAU building in Pretoria.

"We do not expect this extraordinary pattern to continue in the second half of the year," Mr Maritz said.

COMPANIES

Norwich Life earnings rise 59%

CAPE TOWN — Assurer Norwich Life's total income was virtually static at R1,15bn (R1,12bn) in the the year to end-December 1993 after single premium income growth tailed off from a high base in the previous year.

Earnings rose 59% to 128,8c (80,9c) as share and the dividend was lifted 65% to 85,8c (52c).

Earnings growth was expected to be about 25% this year, barring a complete collapse of markets. The company said it was well placed to continue expanding its share within selected target markets.

Total premium income fell slightly to R976,4m (R984,1m) following an 22,7% increase in recurring premium income to R636,1m (R518,3m) and a 26,9% fall in single premium income to R340,3m (R465,8m).

Investment income rose 33,4% to R175,4m (R131,5m).

EDWARD WEST

The company paid out R461,9m in policy benefits in the year, 35,7% higher than the R340,3m paid out the year before. Total assets rose a healthy 48,8% to R3,89bn (R2,61bn). B/Day 10/3/94

MD Charles Davies said it had been a year of consolidation in which a better balance of single and recurring premium income was obtained. This was needed after new single premium business nearly doubled the year before, he said. (58)

Good investment performance was an outstanding feature of 1993.

Norwich Unit Trust's 51,9% return and the Management Funds' 48,4% return resulted in both achieving first positions in independent industry surveys.

This performance contributed strongly to the near 50% increase in assets, directors said.

Norwich lifts recurring premium income 22,7%

(58)

Business Editor

NORWICH Life lifted recurring premium business by 22,7% to R636,1m (R518,3m) in the year to December 31.

Of this, R428,1m (R364,1m) was individual business, a rise of 17,6%, and R208m (R154,2m) was group business, a rise of 34,9%.

But single premium business fell by 26,9% to R340.3m (R465,8m). Individual business was 37,5% down at R231.8m (R371,1m). Group business rose by 14,6% to R108,5m (R94,7m).

This meant that total premium business was down by 0,8% to R976,4m (R984,1m). Investment income, however, rose by 33,4% to R175,4m (R131,5m).

Total assets rose by 48,8% to R3,8bn (R2,6bn). Total funds under management were more than R4bn including the unit trust and off balance sheet clients.

Earnings rose by an impressive 59% to 128,8c (80,9c) a share, reflecting a compound return of R51,4% a year for the past seven years.

The dividend rose by 65% to 85,8c (52c) a share.

Benefits paid out to policy holders rose by 35,7% to R461m. MD Charles Davies points out that this amounts to a pay-out of R2m every working day.

He said 1993 had been a year of consolidation following a rapid, 107% growth in premium income in 1992.

The ratio of management expenses to total income had been reduced to 10%. This was ahead of the downward trend aimed at in Norwich Life's longterm strategy.

Discussing the role of life offices in the new SA, Davies said they must play a meaningful role in developing SA for all its people.

"However, we do not believe that a reimposition of prescribed assets will be the most effective way to achieve this objective.

"In fact there are grave dangers if this route is taken. Rather than highlighting the dangers, our efforts have been concentrated on exploring more effective ways of achieving the same objectives by involving ourselves in the creation of Eskom electrification notes and initiatives in terms of housing, education and black economic empowerment."

Sanlam fund for development

(58)

Business Editor

SANLAM has launched a a special fund which will allow pension funds to invest in the reconstruction and development of the country.

Sanlam is the second life office, after Southern Life, to offer a special product aimed at channelling substantial amounts of money into projects in under-developed areas.

Much of the money so far is aimed at the Eskom electrification schemes and at shopping centres.

Southern Life has also provided money in the wholesale market for the funding of housing.

Southern calls its product Futuregrowth and the new Sanlam product is called Community Builder.

In launching its product this week Sanlam said it would help pension and provident funds to:

- Help bring shopping and entertainment facilities closer to hundreds and thousands of people in developing communities;
- Raise standartds of living;
- Facilitate job creation;
- Provide skills training;
- Create opportunities for local entrepreneurs; and
- Assist community projects.

ARGT 24/12/94

New lease of life with black takeover

(58) ARG 12/2/94

Business Editor

LIFE assurer African Life is hoping the structure of its takeover by majority black shareholders will give it a powerful lift-off, increasing its potential customer base to about 15 million overnight.

African Life, previously under the wing of Anglo American-owned Southern Life, is the second Life office to give control to black shareholders and the third black controlled company to be listed on the Johannesburg Stock Exchange.

Unlike Metropolitan Life, which was first to go "black", African Life, is looking to the new stakeholders to increase business. Against this Metropolitan decided to sell to black community and interest groups and to use their support to grow the client base.

In an interview chief executive Bill Jack said the company had painstakingly put together a number of interest groups, which would provide the company with growth rather than attempt to sell off shares to black policy-holders.

African Life's new holding company Newco is 100 percent owned by the black groups. Newco has a controlling 51 percent stake in African Life.

Mr Jack said the shareholding of the church groups, dominated by the Zionist Christian Church, would result in a substantial growth in funeral business. The trade union group would increase pension and provident business and the National Association of Stokvels would stimulate the investment side of the company.

Mr Jack said the groups with shareholdings in Newco represented about three milion people. If this was multiplied by a conservative five people for each family, there was a potential client base of 15 million people.

Mr Jack conceded the customer base would not be immediate but with a growing economy and the wealth of blacks improving under a new government, the prospects were good.

Mr Jack said the biggest single problem of the company was how to collect recurring premium with the lack of access of potential customers to banks.

The company was, however, looking at various alternatives including "smart electronic cards" and operating a simple banking service under the new community bank legislation.

"Smart cards are only limited in their uses by the limits of the inventiveness of people."

Mr Jack said technology costs were high but arrangements could be reached with other institutions that saw an advantage in using smart cards. This would reduce costs.

Mr Jack predicted that African Life, which had seen its premium income grow by 34 percent a year over the past few years, would now grow even faster.

Bumper year for insurers

Star 26/1/94

BY THABO LESHILO

Nthato Motlana . . . pleasing to Methold.

Last year saw a steep rise in the volume of single premium investments sold by insurance companies, says Metropolitan Life chairman Dr Nthato Motlana.

This, he says, was largely because of the privatisation of certain government pension funds, retrenchments and the early retirement of many civil servants.

Abolition

58

Motlana says in the annual report that the abolition of the sixth schedule of the Income Tax Act and the introduction of the new demarcation agreement among members of the Life Offices Association — making it possible to sell five-year investment plans — further helped growth.

But lower pay rises and job losses retarded growth in new recurring premium business, causing surrenders to remain high.

Motlana sees as problematic the view that savings mobilised by the life industry be used for so cial upliftment.

He says: "Firstly, 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.

"Secondly, although life assurers may have the funds available, they do not normally have the expertise or delivery systems to spend money wisely in these areas."

He says the growth in Metlife's earnings and dividends was particularly pleasing to Methold, the company through which blacks took control of Metlife last May.

Income from premiums exceeded R1 billion, and assets exceeded R5 billion for the first time last year.

investment focus moves to public sector

Sanlam switches market horses

Star 31/1/94

BY DEREK TOMMEY

Sanlam, one of the Big Two insurance companies, continued to grow strongly last year, the annual report shows.

But besides reporting good results, Sanlam has a surprise for the investment world.

The report shows that after plunging heavily into the share market in 1992, it virtually neglected it last year.

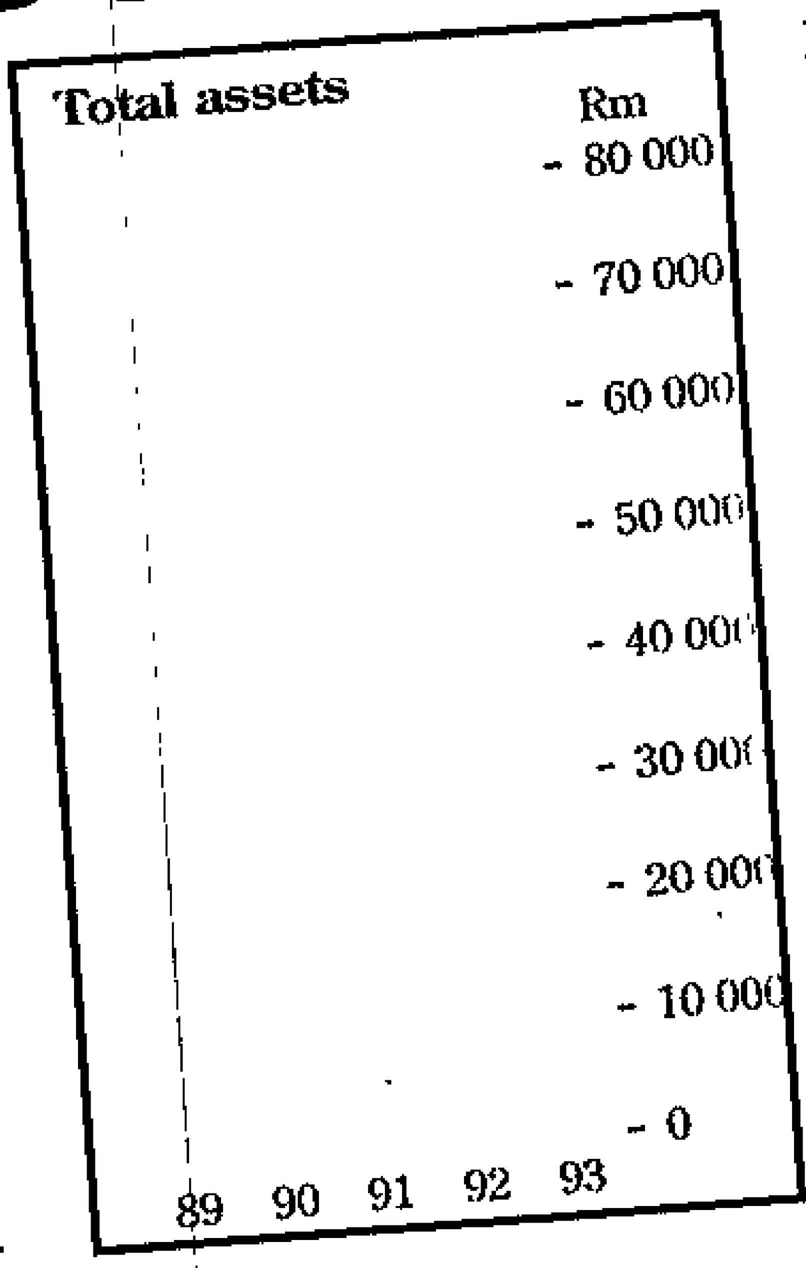
Instead, it put most of its investment money into the public sector, buying gilts and loan stock.

Net purchases of shares ranked a poor fourth in its investment schedule.

Net investment in public sector stock and loans last year totalled R4,7 billion. This contrasts with 1992 when it had net sales in this sector of R277 million.

Next biggest investment was R766 million in fixed property (1992, R645 million).

This was followed by R900 million (R2,9 billion) in "other" investments such as mortgages, debentures and loans.



Only R354 million was invested in shares — roughly one-tenth of the R3,5 billion invested in equities in 1992.

As a result of the change of direction, Sanlam's holdings of public sector stock rose from R10,8 billion to R15,8 billion, while its investment in shares rose from R29,4 billion to R32,8 billion.

At September 30, the companies comprising Sanlam's 10 largest share investments, accounting for about a quarter of the R32,8 billion, were Absa, Anglo American, De Beers, Gencor, Malbak, Murray & Roberts, Rembrandt, Richemont, SAB and Sasol.

Premium income grew 23 percent last year to R12,8 billion.

Investment income was hit by reduced dividends or passed dividends from certain companies. It rose 12,5 percent to R4,5 billion.

Benefits paid rose 43,4 percent to R8,4 billion.

Sanlam's late chairman, Pierre Steyn, is reported as saying that high economic growth is absolutely essential in SA as unemployment is getting out of hand.

Rapid growth is also needed to assist the process of political reform.

Sanlam remains optimistic about the future, but the "stagnating economic situation" needs to be ended.

A call is made for an end to violence, for increased productivity and for measures to improve exports.

Old Mutual assets rise is the highlight of its year

SAMANTHA SHARPE

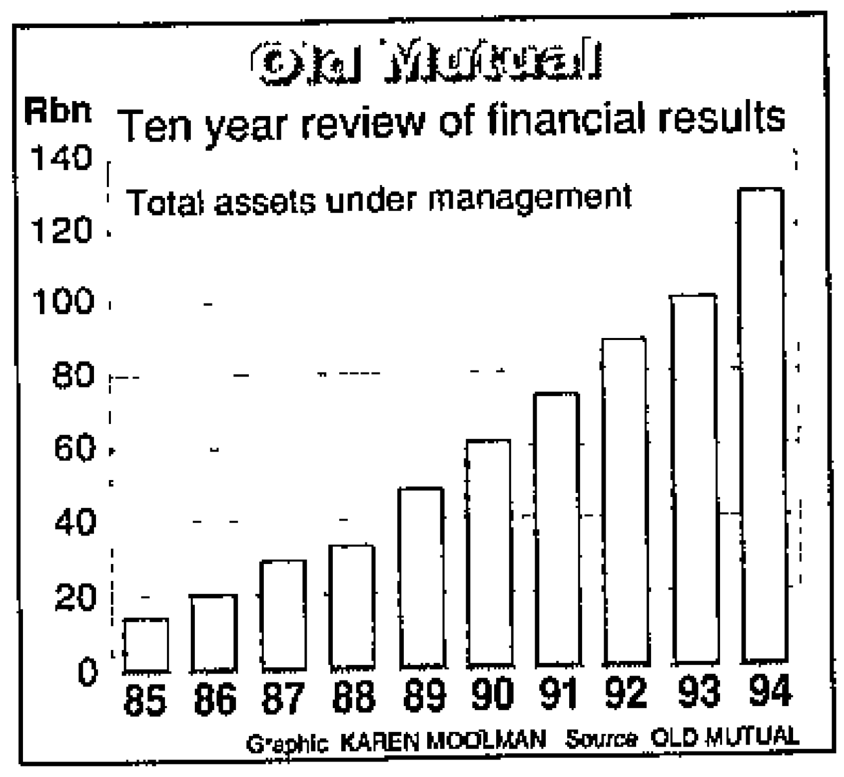
GROWTH in premium income helped boost life assurance company Old Mutual's total income by nearly 20% to R20,79bn for the year to June.

Growth momentum was reflected in the 32% increase in single premiums, a major reason behind the 22% rise in premium income to R14,98bn, and the R8,45bn gleaned from recurring premiums.

The strong performance of the JSE lifted investment income to R5,82bn compared with R5,09bn in June last year.

But it was the 31% increase in the total value of assets under management to R128,15bn which was one of the highlights of the last financial year.

Old Mutual chairman Mike Levett said this, more than anything, represented Old Mutual's ability to mobilise the savings of the community to provide for the long-term financial security of its members.



Graphic KAREN MOOLMAN Source OLD MUTUAL

"Old Mutual has shown substantial real growth over the past 10 years. Assets under management grew at an average annual rate of about 28%. After adjustments for inflation, this translates into a real growth rate of 12% a year."

"What was gratifying was that despite the growth in business under administration, expenses grew at only 15% in the year to June compared with 14% in the 1993 financial year," Levett said.

On the question of the mobilisation of pension funds for socially desirable investments, including the provision of affordable housing, Old Mutual employee benefits GM Garth Griffin said it was the role of business to help reconstruct the economy and enable it to survive international competition.

Old Mutual would willingly play its role in whatever way government required in this regard, provided the interests of its policyholders were not prejudiced by poor financial investments, he said.

Griffin said the company would be working more closely with international markets in its 150th year, with its assurance and investment products reportedly offered as far afield as Athens and Hong Kong.

Old Mutual's unit trust ventures into Namibia would be enhanced by operations in Kenya where it was now able to write up new business for the first time in many years.

Old Mutual sees assets rise 31% to R128 billion

Star 24/8/94

BY CHARLOTTE MATHEWS

Old Mutual had a better-than-expected year to June on almost every front, with total assets under management of R128,2 billion — nearly 31 percent higher than in 1993.

Chief operating officer Gerhard van Niekerk said in an interview yesterday the success could be ascribed to various factors.

Although the financial year included the period of uncertainty surrounding the election, products offered by the group and its image of stability and survival had appealed to the market.

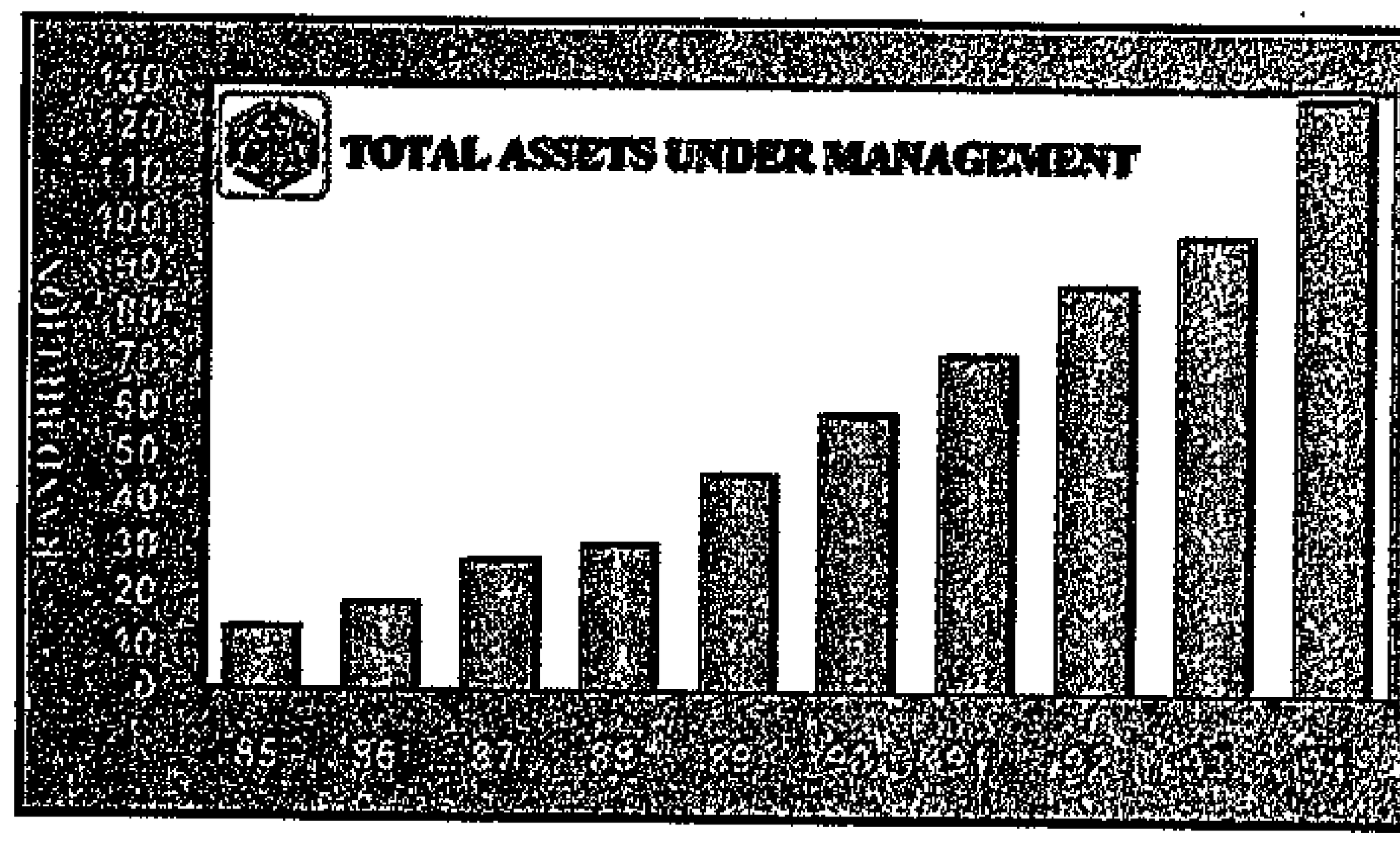
Innovative products were launched, attracting substantial investment from pension funds.

58

Buoyant investment markets had provided support because it had been a positive year, especially for equities.

Since the long-term philosophy was to be more, rather than less, invested in equities, this had paid off, with investment income up 14 percent to R5,8 billion.

Penetration of the black market was growing fast and OM now sold half its new policies in that market. This had not increased the lapse ratio which, at 15 percent, was among the industry's lowest, since "we do not sell irresponsibly".



Ten-year review of financial results.

Premium income lifted to R14,98 billion from R12,3 billion, including a 15 percent rise in recurring premiums for both individuals and groups and a 32 percent increase in single premiums.

The total outgo, including both benefits paid and expenses, was R13,9 billion (1993: R10,2 billion).

Members and their beneficiaries were paid over R45 million each working day, more than 39 percent above the 1993 figure.

Although expenses rose by 15 percent, against 1993's 14 percent, this included higher selling expenses, not necessarily a negative item because it was translated into higher premium income.

At the same time, administrative staff fell through productivity gains.

OM would be releasing details of its undisclosed reserves for the first time in its final financial statements in October.

"Ultimately these figures are a manifestation of financial strength," said Van Niekerk.

"For a mutual, this is its capital because one of the disadvantages of being a mutual is that you cannot have a rights issue if you need more funding."

Wage increases outstrip inflation

CT 7/9/94

Own Correspondent

WAGE increases averaged 9,88% during the third quarter of 1994, well above the 7,56% average inflation rate, IR Network found in its latest quarterly wage analysis.

This was in sharp contrast to the same period last year when workers wrested wage increases averaging 7,8% or a decline of 1,8% in real wages. In the third quarter of 1992, workers' wages also declined 1,7% in real terms, IR Network researcher Wendy Dobson said.

"The real wage increases secured in the third quarter are probably more as a consequence of the record low inflation rate rather than substantial increases in union bargaining power."

The average minimum wage increased over the last 12 months from R6,90 an hour to R7,31 an hour — or R1 392,70 a month based on a 44-hour week, IR Network calculated.

Dobson found workers in the retail, beverage, chemical and manufacturing sectors were granted above average increases and those with national bargaining units secured the highest wage awards. Natal-based negotiations netted the lowest average increase of 8,22%.

Dobson warned that unions were unlikely to accede to wage restraint proposals until income inequality was eradicated.

"Wage disparities are a key concern for organised labour, perhaps much more important than the actual percentage wage increase negotiated."

Dobson said some progress had been made in closing wage gaps. For example, Shoprite/Checkers granted an average 11,4% wage increase, but the minimum wage was increased by 16,8%.

In contrast, FSA-Contact's latest general staff remuneration survey found workers received their lowest increase in five years in the year ended August 31.

Top drawer changes at Sanlam

Business Staff

JOHANN Treurnicht, MD Of Sanlam Properties has been appointed senior GM, individual assurance of Sanlam.

He succeeds Walter Scheffler who has resigned to devote his full attention to his new post as president of The Afrikaanse Handelsinstituut.

(58)

Banus van der Walt, GM of Sanlam Properties has been appointed MD of Sanlam Properties, Desmond Smith, MD of Sanlam announced last night.

CT 7/9/94

More finance on pages 12 and 13

Liberty breaks silence on merger

(58) CT 8/9/94

From MADDEN COLE

LIBERTY Life has broken its silence surrounding Trans-Natal's proposed merger with Randcoal, yesterday claiming that the share swap deal had left the life assurer, a main shareholder in Rand Mines, in the dark.

The merger will create the world's largest steam coal exporter, and the new company, with assets worth R4,3bn, will be the world's third-largest private coal business with annual sales of 57,5-million tons.

Liberty Asset Management chairman Roy McAlpine said as the proposed transaction was complex and involved no cash underpin, its merits were very much dependent on the share prices of three listed companies, namely, Rand Mines, Randcoal and Trans-Natal.

The Liberty group — which held a 20,5% stake in Rand Mines, which in turn owned 76,8% of Randcoal — said the majority of shareholders in Rand Mines were not properly consulted on the merger.

UAL Merchant Bank, which had recommended the merger, did not make public the other suitors or their offers.

If this were a cash deal, the winner would be the highest bidder, but in the share swap with Trans-Natal, it was difficult to know if it was the best offer.

It was also difficult to determine whether a sufficient premium had been paid by Trans-Natal to acquire legal control of Randcoal. The ruling share prices on August 29 had Trans-Natal at R33, Randcoal at R22,50 and Rand Mines at R30,50.

Since then Trans-Natal had dropped back to R26,50c, Randcoal was unchanged at R22,50c and Rand Mines closed at R33 yesterday.

McAlpine said he had no reason to believe that Trans-Natal's share price had been supported before the announcement of the merger.

But there should have been a shareholders' meeting of Rand Mines to decide on the merits of the offer.

But Old Mutual, the largest shareholder in Rand Mines, was said to have approved the merger. If so, it was reasonable to believe Old Mutual had been in possession of privileged information.

Trans-Natal MD Dave Murray said last night he could not comment on McAlpine's remarks.

Randcoal chairman John Hall — who will be chairman of the newly merged coal company — and Old Mutual could not be reached for comment yesterday

Sanlam income up despite tough times

BDay 9/11/94

EDWARD WEST

CAPE TOWN — Life assurer Sanlam's total premium income grew 6,5% to R13,62bn in the year to end-September 1994 despite a 15% decline in assurance premiums from businesses over the year, said MD Desmond Smith.

Sanlam's operating figures were released yesterday on a consolidated basis for the first time in accordance with new disclosure requirements which will become compulsory in 1995.

The figures of Sankorp and other unlisted wholly owned subsidiaries held for the sole purpose of keeping equity investments — Sanlam Unit Trust Managers, Sanlam Properties and subsidiaries, principally lessors and property developers — and Multi-data, were included in the results.

The group's total assets at market value grew 31% to R101,38bn from the previous year, while investment income grew 14% to R5,9bn. Benefits paid increased two fifths to R11,85bn, of which 90% accrued to beneficiaries and the remainder to next of kin as a result of death claims.

Individual single and recurring premium income climbed 20% to R9,49bn, which Smith said was a good performance in view of tough economic conditions.

Recurring premiums grew 18% to R5,59bn, representing a market share of 30%, while the single premium component rose 22% to R3,9bn.

The scrapping of the Sixth Schedule to the Income Tax Act resulted in a change to the type of single-premium product assurers could offer, but funds were not enticed from banks and unit trust funds willy-nilly as had been feared.

Most of Sanlam's new business still came from its traditional markets, but business from the English market increased to 47% of new policies issued while the company's business also grew strongly in the women's and the black market, which comprised 38% and 27% respectively of new policies issued.

Premium income from group business fell 15% to R4,13bn, while an additional R1,3bn was entrusted to Sanlam for investment management on behalf of retirement funds.

(58)

Smith attributed the decline in business premium income to the fact that some pension funds withdrew their investments at the end of the previous financial year based on a short-term view of that year's comparative financial performance.

He said, however, the investment stance of last year had perfectly positioned Sanlam to take advantage of investment conditions over the past 12 months. Further factors influencing business premium income were retrenchments and restructuring of businesses over the past year.

The weak economic conditions had a marked effect on payouts in various ways, said Smith. For example, retirement and termination of service benefits increased sharply. Shares represented about 60% of Sanlam's investment assets; stocks and loans from the public sector 17%; other interest-bearing investments 13%; and fixed property 10%.

Business Editor

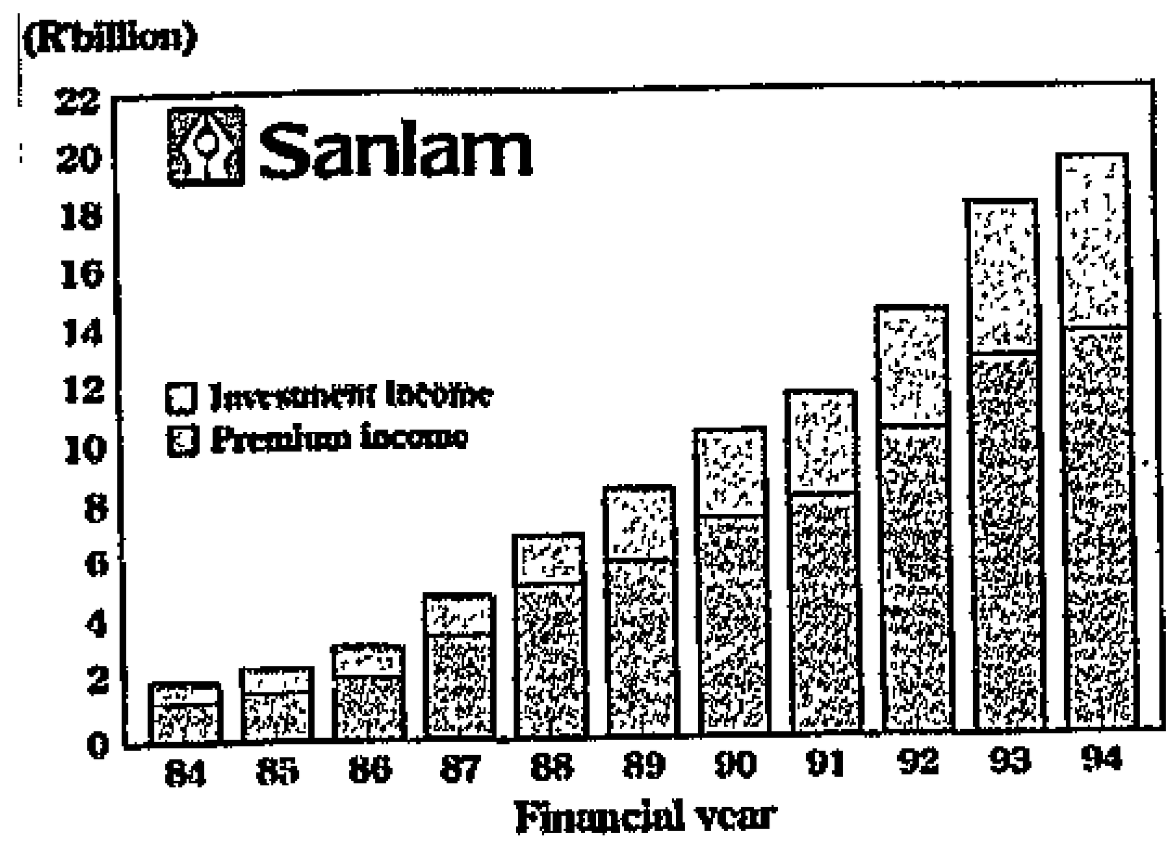
Assets at Sanlam top R101bn

CT. 9/11/94 (58)

SANLAM lifted total premium income by 26% to R13,6bn in the year to September and paid out R11,8bn to policy holders and their beneficiaries. Investment income was up by 14% to R5,9bn.

Total assets rose by 31% to R101,3bn from R77,3bn.

Individual premium income rose by 20% to R9,5bn with recurring premiums accounting for R5,6bn of this. MD Desmond Smith said at a media luncheon yesterday that Sanlam had lifted its market share in this sector to more than 30% compared with less than 22% a year ago.



He said most new business still came from Sanlam's traditional markets. But — as Smith's own appointment shows — Sanlam has been wooing English speakers and other markets in recent years.

Smith said the English-speaking market accounted for 47% of new policies issued in the past year.

Policies sold to women accounted for 38% of new business and policies sold to black people for 37%.

The single premium component of Sanlam's premium income for individuals rose by 22% to R3,9bn. Smith pointed out that the scrapping of the Sixth Schedule to the Income Tax Act has enabled assurers to offer more attractive products.

But — although Sanlam still holds about 28% of group business — it lost the management of some pension funds because its investment performance fell at the end of the previous financial year.

Smith said these funds had taken a short-term view. "The irony is that Sanlam was perfectly positioned to take advantage of the investment conditions of the past 12 months to the benefit of its policy holders and group clients — and has, in fact, done so."

Because of these withdrawals, contributions from group business produced income of R4,1bn compared with R4,9bn the previous year.

But, Smith said, in addition to this "almost R1,3bn was entrusted to Sanlam for investment management on behalf of retirement funds during the past financial year."

The recession had affected pension fund pay-outs. There had been a sharp rise in retirement and termination of service benefits.

Discussing future trends, Smith said he expected private medical aid and hospital insurance products to form a growing part of the industry's business in future.

He did not think Sanlam would rush to invest overseas when exchange control was lifted. Apart from other considerations it "would send the wrong signal to overseas investors".

Smith said that any move by Sanlam into overseas markets would probably be through a joint venture.

Old Mutual discloses R17,5-billion reserves

(58)

ARG 9/11/94

BRUCE CAMERON
Business Editor

LIFE assurer Old Mutual has disclosed its reserves for the first time — they totalled a substantial R17,5 billion at the end of June.

The reserves, which account for more than 16 percent of assets managed on behalf of policyholders, place Old Mutual in a very powerful position for future expansion.

Sanlam, which released its annual results yesterday, will announce its reseves for 1994 towards the end of the year.

Last year Sanlam declared reserves of R2,1 billion.

They are not strictly comparable because of different forms of calculation, but Old Mutual appears to be in a much stronger position.

In terms of new rules, all life assurers now have to disclose their hidden reserves to policyholders.

The reserves are the difference between the net assets and the actuarial value of policy liabilities (what the assurer expects to have to pay out to policyholders in claims).

The reserves also include the capital adequacy reserves laid down in a complex formula by the Registrar of Life Assurance in the offices of the Financial Services Board.

The figures are disclosed in the latest annual report of Old Mutual to its policyholders.

Old Mutual chief actuary Theo Hartwig said the previously hidden reserves had jumped from almost R8,5 billion to nearly R17,5 billion over the past year.

The reasons for the doubling were:

- The reserves were mainly held in equities, which had appreciated by almost 50 percent on a soaring stock market.
- About half the substantial total, earned mainly through capital growth over the past year, had been passed on to policyholders through bonuses.

The balance had been retained, in the main, to even out levels of payments on smoothed portfolio policies in future years when investment performance was less buoyant. Smoothed portfolio policies make up about 75 percent of Old Mutual individual assurance business.

Mr Hartwig said that apart from holding funds to ensure reasonable returns on the smoothed portfolio policies, reserves were also held as a buffer against altering exchange rates and asset values, worsening mortality (including from Aids) and growing inflation.

Weekend Argus MONEY section disclosed at the weekend that Old Mutual had recorded better portfolio returns for its policyholders over the past 10 years than any other life assurer.

This was the first time that comparisons among the major life assurers had been published.

Mr Hartwig said the net assets under management at the time of the assessment stood at R107,1 billion. The actuarial value of policy liabilities stood at R89,7 billion.

The policy liabilities were worked out within fairly strict guidelines laid down by the Actuarial Society of South Africa and the Registrar of Life Assurance.

● See page 15, Business.

Southern div payout up 22pc

Business Editor

ARG · 17/11/94 59

ANGLO American controlled life assurer, Southern Life, has again scored from its Aids-resilient Exclusive Life product.

The product, which aims at reducing Aids-related claims, has become the star performer of the Cape Town-based life office.

Managing director Jan Caltiz said in reporting results for the six months eneded September 30 that "one of the major reasons for the solid increase (in results) has been the success of our Exclusive Life range of policies which now accounts for some 30 percent of all new policy sales".

Shareholders have been given a 22 percent interim dividend increase of 47 c a share on an attributable earnings a share increase of 22 percent to 70,5c.

Shareholders will be given the option of accepting a cash dividend instead of the capitalisation award with the two major shareholders, Anglo American Corporation and First National Bank, already choosing the capitalisation award.

Details of the offer and the price at which the shares will be issued will be announced on December 5.

Group total assets grew by R5,7 billion to R26,4 billion — an increase of 28 percent over the corresponding period last year.

Mr Calitz said assets no longer reflect African Life and Southampton Assurance Company of Zimbabwe as a result of Southern Life having reduced its holding in the companies.

Excluding these companies, Southern Life's total assets grew by 32 percent.

The company's total income was up eight percent to R2,2 million (premium income of R1 582 million and investment income of R607 million).

New individual business rose sharply over the six month period, growing by 62 percent to R639 million. Recurring premium income accounted for 22 percent of the growth, while single premium business rose by a substantial 81 percent.

Mr Calitz said Futuregrowth, Southern Life's economically targeted investment portfolio supporting the aims of the RDP, had made a successful debut in the retirement fund market.

"Assets already exceed R175 million and a number of major corporations have invested in the fund which is providing satisfactory investment returns and social benefits.

"In addition, shopping facilities have been made available to more than 500 000 township residents following the opening of our R30 million Nyanga Junction shopping centre development in the Western Cape last month."

■ A decline in Santam's motor portfolio saw the short term insurer's underwriting profit for the year ended September 30 slump to R12,3 million from R61,3 million a year ago.

Santam managing director Jurie Geldenhuys said the decrease from R61,3 million last year could, to a large extent, be attributed to the decline in the company's motor portfolio.

"Compared to the R99,2 million Santam paid out to claims for motor theft and hijacking last year, this year's figure of R176,9 million shows an increase of nearly 78 percent in monetary terms."

Protea unit trust on the way

68 ARG 13/1/94

TOM HOOD
Special Correspondent

PROTEA Assurance is planning to start its first unit trust and move into external fund management as a result of a major shake-up of the Cape based composite assurer.

The group, whose assets amount to R900 million, is being split into five separate companies.

Its new investment company, Protea Assurance Investment Management Ltd, will be headed by Duncan Carmichael and located in Cape Town, said Protea managing director Andrew Tainton.

"The company will acquire the investment business of the group and will be looking to expand its activities into external fund management.," he said.

Areas offering good possibilities were unit trust management, pension fund management and securities trading, said Mr Carmichael.

He believed Protea had a small and efficient investment team that could handle this expansion. The team achieved returns of 30 percent on investments last year.

"We see great possibilities for investment," he said. "We have the capability of securities trading although we don't have plans for trading right now."

Protea is controlled by the R90 billion Sun Alliance group of Britain, which owns 79 percent of the shares.

It wrote its first policy in 1908 and built up its reputation in the short-term industry before entering the competitive life business a few years ago.

Investors showed their confidence in the decentralising of operations by pushing up the share price by 200c before the details of the five new companies were announced on Monday.

Protea is also encouraging greater effort from its staff by starting a staff share scheme which could lead to employees owning 6,4 percent of the business. At current market value of R66,8 million, staff would own a R4,4 million stake.

This move will lower the Sun Alliance stake to 74 percent, while other investors will own 19,6 percent of the shares against the current 21 percent.

A second new company is to be formed later this year to spearhead Protea's direct marketing of insurance policies.

Mr Tainton said the company's specialised direct marketing operations had been working extremely well in both the short term and life areas.

A separate direct marketing company would be created to address the needs of those markets not currently serviced by the broker community, he said.

This new company would be based in Cape Town and headed by Geoff London, currently group marketing manager.

The big shake-up effectively separates the short-term and life businesses, with a new company Protea Insurance Co Ltd handling short-term business and headed by Peter Mitchley. This operation will move to Johannesburg.

Life business will be handled by Protea Life Co Ltd, headed by Nick Criticos and will remain in Cape Town.

The group's present title of Protea Assurance Co Ltd will be kept but the company will become a holding company with managing director Andrew Tainton remaining at the helm.

The restructuring was made in the expectation of legislation to separate short-term and life businesses, he added.

Premium income boost for Mutual

(58) CT 24/8/94

Business Editor

OLD Mutual lifted premium income by nearly 22% to R14,9bn (R12bn) in the year to June 30, with single premiums up by 32%.

Recurring premiums for individuals and groups rose by nearly 15% to R8,4bn. Total income made up of premiums and investments rose by nearly 20% to R21bn (R17bn).

Total assets under management rose by 31% to R128,1bn (R98bn). And Old Mutual paid out a record R11,5bn (R8,2bn) in benefits to policyholders, equivalent to R45m every working day. Of this, R1,7bn was paid out in death and disability benefits.

Chairman Mike Levett said it was significant that most of the benefit payments were made to members during their lifetimes.

Dave Hudson, assistant AGM (marketing) said that only 30% of Old Mutual's growth in the past year had been due to inflation, with the remaining 70% real growth.

"Our market share is the highest for 22 years. We attracted one-third of total premium income in SA." He said the rise in single premium business had been due partly to retrenchment packages.

"Some of these retrenchment packages are invested for the short term. A lot of retrenched people are drawing money out again to set up in business for themselves. Some of these are now in a better position than they were in a big company, and most of them have created new jobs."

Hudson said about half of Old Mutual's new policy holders were black.

By ARI JACOBSON

Protea Assurance restructures into five companies

(58)

PUBLICLY-listed Protea Assurance yesterday announced it had split the organisation into five separate divisions, as from January 1, in a bid to get closer to its target market.

MD Andrew Tainton speaking to the press in the Cape in the morning and later in the day to Johannesburg newsmen, said that the split would have to be ratified at a special meeting of shareholders in February.

Protea is 79% held by UK life assurer Sun Alliance (with assets totalling R90bn) and the remainder is held by the local investment community.

Tainton pointed out that the new strategy would mean separate life assurance, short term insurance and investment management companies, as well as a direct mail and telemarketing arm and a operation aimed specifically at structuring insurance arrangements (Phoenix Assurance) for what he termed "negotiating face to face deals".

The major switch comes in the short term division, which is to be re-located to Johannesburg, he said, but all the other divisions will remain in the Cape.

Tainton said that the major broking houses were in Johannesburg and there was "a noticeable resistance to the slow response".

"If you want to write big business in Johannesburg — the group has to be there," he said.

He said that the life arm would remain with its major competitors, stationed in the Cape, and the net asset value of the group would grow by 10% or R35m via this restructure.

Commenting on the restructure he said that "an aggregated business, is never as clear cut as when its focused".

CT 11/1/94

He added that "the specialist" divisions would add value to the group by making "the human resources and capital more productive".

Tainton pointed out that the direct mail and tele-marketing company, would be a way of tapping into the "emergent market".

He said that this market offered vast potential because most of these individuals had "either no insurance or were under-insured".

Another area of concentration will be "the investment of managed funds" with a further consideration the canvassing of "external funds as portfolio managers".

Southern Life earnings boosted by HIV policy

B/Day 17/11/94

AMANDA VERMEULEN

SOUTHERN Life's Exclusive Life range of assurance products for policyholders who tested negative for HIV helped boost earnings 22% to 70,5c a share in the six months to September.

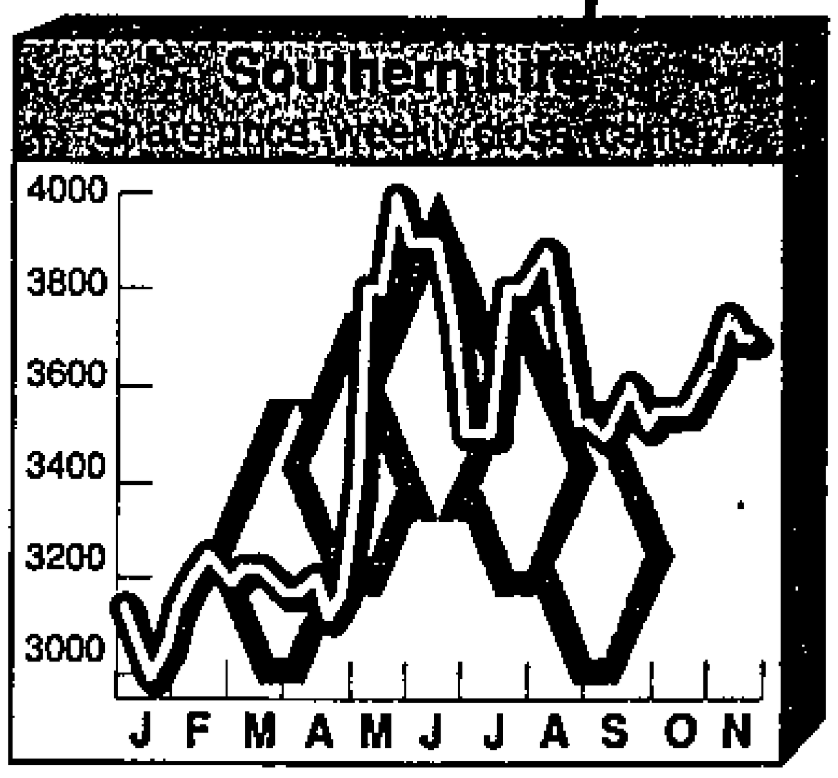
Distributable earnings increased over 24% to R123m as the company continued its policy of setting interim earnings and dividend figures at 50% of the totals of the previous financial year.

A dividend of 47c (38,5c) was declared. MD Jan Calitz said shareholders would be offered capitalisation shares in lieu of the interim dividend. Details would be announced on December 5.

Group assets grew 28% to R26,4bn. Calitz said group assets no longer reflected African Life and Southampton Assurance Company of Zimbabwe after Southern Life reduced its shareholding in these companies to 25% and 49% respectively.

Total income for the period grew 8% to R2,2bn, consisting of premium income of R1,6bn and investment income of R607m.

New individual business increased over the six-month period, improving 62% to R639m. Recurring premium income accounted for 22% of this growth, while single premium business rose by 81%.



"Given the tough economic conditions in which we have been operating, this performance can be attributed to the sales force. One of the major reasons for the increase has been the success of the Exclusive Life range of policies, now accounting for 30% of all new policy sales," he said.

Calitz said support for the policy in the broker market had indicated its endorsement, and helped the group achieve an increased share of new business in a competitive market.

In September, Southern Life reported that it had seen a 73% increase in HIV-positive life assurance applications in the previous six months. Chief actuary Paul Truyens said that the group's stringent HIV testing requirements had seen it turn down R109m in life assurance business in the past four years.

Calitz said that the first six months of the last financial year had recorded significant employee benefits, single premiums which had not been repeated in the current period.

Futuregrowth, Southern Life's economically targeted investment portfolio supporting the RDP, had made a successful debut in the retirement fund market.

Assets already exceeded R175m, and a number of large corporations had invested in the fund which, according to Calitz, was providing satisfactory investment returns and social benefits. (422)(58)

In addition, shopping facilities had been made available to more than 500 000 township residents following the opening of the R30m Nyanga Junction shopping centre development near Cape Town last month.

The period also saw the announcement at the end of September of the listing on the Namibian Stock Exchange, which took place in early October. The group said at the time its total investments in that country were N$1,220bn, and there were plans to expand.

On prospects, Calitz said shareholders could expect continued real growth in earnings and dividends.

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SOUTH AFRICANS RICH AND POOR

A WORKSHOP ON STATISTICS FOR MEASURING POVERTY

VENUE: The Gallery
Centre for African Studies
Oppenheimer Institute Building
Engineering Mall, University of Cape Town

Thursday 25th - Saturday 27th

AUGUST 1994

SALDRU

DAY 1: THURSDAY 25/8/94

14.00	**REGISTRATION**		
14.30 - 15.15	**WELCOME**:		
	Professor Francis Wilson	Saldru/Uct	
	WORLD BANK ROLE:		
	Dr Roger Grawe/Neeta Sirur	Southern Africa Division World Bank	
	COFFEE		
15.45 - 17.45	**ASPECTS OF THE HOUSEHOLD SURVEY**		
	Chair:	Francis Wilson	
	Dr Emmanuel Jimenez	Chief, Poverty and Human Resources Division, World Bank	
	Prof Pieter le Roux	Institute for Social Development University of the Western Cape	
	Mr Dudley Horner	SALDRU, University of Cape Town	
	Dr Pundy Pillay	Centre for Education Policy Development	
	DISCUSSION		
18.00	**BOOK LAUNCH**		
	The Honourable Jay Naidoo Minister in the Office of the President		
18.30 - 20.30	**DRINKS AND SNACKS**		

DAY 2	**Friday 26/8/94**	
8.45 - 9.15	**SURVEY DATA AND POVERTY POLICY ANALYSIS** Dr Emmanuel Jimenez	
	Chair: Milla Maclachlan	
9.15 - 11.15	**MEASUREMENT OF POVERTY**	
	Chair: Mary-Jane Morifi	
	Concepts and International Experience	
	Prof Anil Deolalikar	University of Washington, Seattle
	Dr Harold Alderman	Poverty and Human Resources Division, World Bank
	South African Perspective/Applications	
	Dr Julian May	Data Research Africa
	Plenary Discussion	
11.15 - 11.45	**TEA**	
11.45 - 13.15	**POVERTY AND ECONOMIC GROWTH STRATEGIES**	
	Chair: Adrian Sayers	
	Concepts and International Experience	
	Prof Anil Deolalikar	
	South African Perspective/Applications	
	South African Panel	
13.15 - 14.15	**LUNCH**	
14.15 - 16 15	**INVESTING IN HUMAN RESOURCES**	
	Chair: Pundy Pillay	
	Concepts and International Experience	
	Dr Emmanuel Jimenez	World Bank
	South African Perspective/Applications	
	Mr Andrew Donaldson	Ministry of Finance
16.15 - 16.35	**COFFEE BREAK**	
/ 16 35 - 18.30	**TARGETING PROGRAMMES TO THE POOR**	
	Chair: Francis Wilson	
	Concepts and International Experience	
	Dr Harold Alderman	World Bank
	South African Perspective/Applications	
	Prof Pieter le Roux and others	

DAY 3	**Saturday 27/8/94**
9.00 - 10.00	**HOW TO ACCESS SURVEY DATA** Presenter Carlo del Ninno with Saldru Survey Staff
10.00 - 10.30	**TEA**
10.30 - 11.30	**MEASUREMENT OF POVERTY: SETTING A POVERTY LINE** Presenter: Prof Angus Deaton Princeton University
11.30 - 12.30	**SELF SELECTION AND ITS IMPLICATION FOR DATA ANALYSIS** Presenter: Prof Angus Deaton

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