5 Endnotes

1. M3 is a broad measure of money and includes all bank deposits held by the domestic non-bank private sector (NBPS).
2. In this text we use the monetary unit "corona" of fictitious country "Local Country". Its currency code is LCC.
3. Examples are Reserve Bank of Malawi bills, Bank of Botswana certificates, and South African Reserve bank debentures. They can be regarded as a type of deposit security.
4. This section benefited from Heffernan, 1996.
5. Heffernan, 1996 (p 2).
6. See Mishkin, FS and Eakins, SG (2000: 395).
7. Note here that the words "part of the risk…" were used. This is because portfolio theory teaches us that these are two types of risk: systematic risk and unsystematic risk, and that only the latter can be diversified away.
8. *Expenditure on GDP*; this is the demand side of GDP; the other is the supply side.
9. The many smaller accounts, such as remittances in transit, fixed property, etc.
10. As noted, we ignore bank holdings a shares because it is such a small part of assets.
11. Note that "domestic" applies as the deposits of the foreign sector (= small) are excluded.
12. It will be pretty obvious that banks only lend when they consider the borrower to be creditworthy or the project to be viable (in the case of corporate borrowing).
13. LCC is the currency code for fictitious country Local Country (LC); the monetary unit of LC is called Corona (C).
14. This is a separate and interesting issue, which will detract from the principles we are discussing; therefore it will not be discussed here.
15. As we will show in a separate text, if there was another bank, the interbank market will make the market balance. We do not introduce this here in the interests of sticking to the principles.
16. A term used by my supervisor, mentor and boss, Dr JH Meijer, when I was a junior employee and he the Head of the Money and Banking Division of the central bank. Dr Meijer went on to become Deputy Governor.
17. At times banks do have excess reserves (usually as a result of an interbank settlement error). In certain developing countries banks have chronic ER (this is an interesting topic on its own). The concept NER accommodates this situation.
18. An extreme example: if its deposits (as a result of new loans) increase by LCC 100 million on 1 June, a bank, on the basis of its 30 June asset and liability return (which is submitted on say 21 July), is required to increase its reserves by LCC 10 (assuming an *r* of 10%) on 21 July. By that time many other items in the CB's balance sheets will have changed (such as the bank notes issue). The CB's job is to maintain a level of bank liquidity it deems appropriate for making the KIR effective.
19. "Most" is used because open-ended securities unit trusts transfer the risks of the trust to the unit holders.
20. See McInish, 2000:304.
21. See Reilly and Brown, 2003 (pp 210-211).
22. See Heffernan, 2000:164–165.
23. KIR is a benchmark rate; other benchmark rates are the 91-day TB rate and prime rate)

24. A reminder of a yield curve: the relationship between interest return and term to maturity of homogenous securities (in this case government securities) at a specific time.
25. Excluding the many costs banks face.
26. South African Reserve Bank.
27. Certain intermediaries may also have positions in commodities such as gold.
28. South African Reserve Bank.
29. Standard Bank: www.standardbank.co.za
30. See Saunders and Cornett, 2001:599–603
31. South African Reserve Bank.
32. This section benefited much from Mishkin & Eakins, 2000:620–624.
33. South African Reserve Bank in this case.
34. In this regard see Santomero and Babbel, 2001 (the piece following relies heavily on this source; the example is same).
35. South African Reserve Bank in this case.
36. South African Reserve Bank in this case.
37. Grameen Bank, 2004. The pieces below in inverted commas are from the same source.
38. This section draws heavily on Falkena, et al, 2001, and Pilbeam, 1998.
39. South African Reserve Bank, www.reservebank.co.za
40. WJ McDonough; delivered at the Eleventh International Conference of Banking Supervisors, Basel, Switzerland, 20 September 2000.
41. http://www.bis.org/bcbs/basel3.htm. [Accessed June 2013.]
42. The South African Banks Act, No 94 of 1990, as amended.
43. In the case of credit risk: minimum capital required (MCR) = or > than: BCR × RW × A, where BCR= base capital requirement, RW = the asset's risk weighting, A = average amount of the asset held (or off-balance activity) in the period. For example, if the risk weighting of mortgages is 100% and the average amount the bank has on-balance sheet in the period is LCC 200 million, then the MCR against this asset is: BCR × RW × A = 10% × 100% × LCC 200 million = LCC 20 million.