ANNUAL REPORT 2017

THE BANKING
ASSOCIATION
SOUTH AFRICA

BASA MANDATE

The Banking Association South Africa (BASA) advances the interests of the industry with its regulators, legislators and stakeholders, to make banking sustainable, profitable and better able to contribute to the social and economic development and transformation of the country.

As the national association of domestic and international banks operating in South Africa, BASA:

- Advocates the views of the banks on legislation, regulation, and social and economic issues that affect the industry. BASA canvasses its members through committees and work groups.
- Facilitates the sustainable transformation of the banking industry.
- Promotes inclusive economic growth by working with legislators, regulators, as well as other business associations and stakeholders, to establish a stable, conducive policy and business environment.
- Helps find sustainable solutions to the challenges of poverty, unemployment and inequality by mobilising the skills and resources of the industry.
- Hosts the Southern African Development Community Banking Association (SADC BA), which works with regulators to strengthen the integrity and efficiency of banking services in the region.

As a representative of responsible corporate citizens, BASA is actively involved in:

- The CEO Initiative and Business Leadership South Africa, executive groups committed to good governance in the private and public sector and inclusive economic growth.
- Business Unity South Africa (BUSA), which aims to ensure that organised business plays a role in creating a social and economic environment conducive to inclusive economic growth, development and transformation.
- The International Banking Federation (IBFed), which represents the national banking associations of the member countries.
- The African Union for Housing Finance, which mobilises finance for housing and shelter on the continent.
- The International Union for Housing Finance, a network that shares the latest developments in housing finance from across the world.

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MARIA RAMOS

CHAIRPERSON

> *We should not take the trust of our depositors and the public for granted. Ongoing vigilance is required to ensure that trust established over time – through sound governance, transparency and good conduct – is protected.*

The year was a tale of two halves for the Banking Association South Africa (BASA) and the industry it represents.

It was marked by rapid legislative change, muted economic growth and political uncertainty. In this challenging environment, we worked tirelessly with our social partners to find ways to reinvigorate growth, while increasing our calls for a return to good governance and the eradication of corruption, patronage and state capture.

In April last year, we agreed a set of objectives which would drive our work as an industry association. These were:

- Engaging relevant stakeholders to build alliances and further industry objectives
- Developing an agenda for the banking sector to play a bigger role in broader social and economic issues
- Helping to shape legislation and regulation
- Restructuring the association to improve its capacity and capability to deliver on its advocacy and policy work.

Engaging Stakeholders

During the year in review, we worked proactively with a broad spectrum of stakeholders and collaborated closely with other business organisations, like Business Leadership South Africa (BLSA) and Business Unity South Africa (BUSA). We did this to amplify our voice and to leverage existing resources and networks. We also played an important role in the CEO Initiative and efforts to develop and support small and medium sized enterprises.

BASA was invited to discuss issues that are critical to our collective future. We played an active role in the Heher Commission of Enquiry into Higher Education and Training (the fees commission), the parliamentary hearings into transformation in the financial sector and, more recently, in discussions on land reform, among others.

This is testimony to the important role we play as an association and our contribution to public debate.

Transformation

Given the importance of transformation for the long-term sustainability of the industry, it is worth recapping what we said in Parliament during our submission to the hearings.

We said: "Significant progress has been made and our commitment to the transformation project is unwavering. We acknowledge areas where performance of the banking industry is below agreed targets and there are initiatives to address these."
In turn, Parliament, recommended that the financial sector adopt more ambitious targets.

In May, the Board mandated task teams to build on our successes and to engage stakeholders on how best to further advance transformation in the industry.

The task teams, made up of representatives from 21 banks operating in South Africa, were specifically asked to propose ways to:

- Strengthen the role of banks as a transformative force in society
- Improve employment equity at senior and executive levels
- Increase black ownership of banks
- Create opportunities for black women and black owned enterprises to provide goods and services to the banking industry.

The message from the board was simple: persistent poverty, unemployment and inequality demands that the industry do more than what is required of it by the Financial Sector Code.

We are working hard with all stakeholders to make a set of bold commitments to advance transformation.

Social Grants

The banking sector does not exist in a vacuum and is intimately intertwined with the rest of society. As responsible corporate citizens, we proactively initiated engagements with the Department of Social Development and the South African Social Security Agency (SASSA) to investigate solutions to the social grants crisis.

The board mandated BASA to make the country's banking infrastructure available for the distribution of social grants. For most of 2017 we were in discussion with SASSA and Department of Social Development to find ways in which banks might assist government with the delivery of social grants. We are now collaborating closely to ensure the seamless delivery of grants through the use of our collective resources.

Land Reform

Land reform is a highly emotional issue and the debates have polarised society. We acknowledge that the present patterns of land ownership in the country are not sustainable and have their origins in apartheid and colonialism. We fully support land policy and legislation that fulfils the intent of our Constitution and provides redress for the past. Land restitution, redistribution and security of tenure are means of providing vulnerable people with access to secure incomes, opportunities to create generational wealth and to correct the injustices of the past.

BASA encourages all South Africans – land activists, commercial and emerging farmers, people living in traditional communal areas, the landless, as well as property owners – to participate in the process towards sustainable land reform.

Financial Education

Our flagship financial education programme, StarSaver, is now in its 10th year of existence. The programme has reached nearly one million learners since its inception. In 2017 the programme reached roughly 140 000 learners in nearly 730 schools.

Legislation and Regulation

Overall, I believe BASA has represented the banking sector well on critical regulatory, policy and legislative proposals. Although not falling in the period under review, the revelations around VBS Bank and related organisations have demonstrated the importance of regulatory supervision and oversight. It is a salutary reminder that we should not take the trust of our depositors and the public for granted. Ongoing vigilance is required to ensure that trust established over time – through sound governance, transparency and good conduct – is protected, nurtured and not allowed to evaporate through poor judgment.

Significant innovation and technological disruption in banking is challenging traditional ways of doing business and servicing customers. BASA has helped establish the Centre of Excellence in the Financial Sector, to research developments like online banks, the use of mobile technology and artificial intelligence, as well as the disintermediation of some banking services. The centre will be a resource for the banking industry and others, and will help to research evidence-based responses to these developments. The board also agreed to establish a payments function in BASA, as many of these technology driven changes are happening in the payments industry.

Conclusion

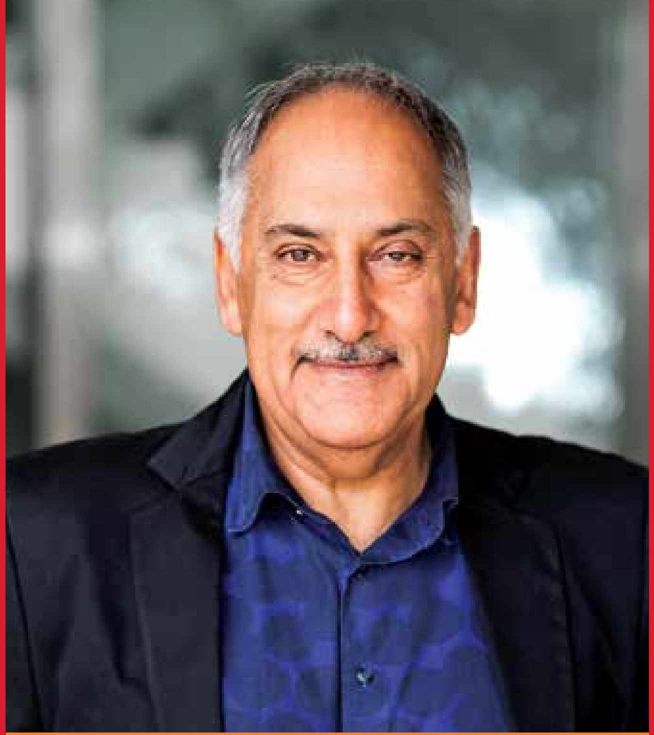
The election of President Ramaphosa presents an opportunity to boost the economy and correct a decade of underperformance. But, a lot of work still lies ahead. All South Africans need to work together to achieve tangible economic gains and sustainable, robust and inclusive growth, to address the many social ills that are a reality for far too many. We will have to make hard choices to effect what will no doubt be difficult structural economic reforms.

I want to congratulate the Managing Director of BASA, Cas Coovadia and his team for their hard work and perseverance in what has been a challenging period.

My thanks to my fellow directors for their support over the two years that I chaired the association. To the incoming chair, Mike Brown, I wish you all the best and offer my personal support to make your tenure a successful one.

Thank You.

"We fully support land policy and legislation that fulfils the intent of our Constitution and provides redress for the past. Land restitution, redistribution and security of tenure are means of providing vulnerable people with access to secure incomes, opportunities to create generational wealth and to correct the injustices of the past."



CAS COOVADIA

MANAGING DIRECTOR

> *"BASA has been able to maintain its position as the mandated representative of the banking industry. The association has successfully represented banks on critical policy, regulatory and legislative proposals."*

The reporting period January to December 2017 saw BASA receive an unprecedented mandate from its board to take a stand against the brazen acts of corruption, weakening of key institutions and vacillating policy – collectively known as 'state capture' – which led to the erosion of South Africa's sovereign credit rating and those of its banks.

However, the association did not neglect its core mandate of:

- Representing domestic and international banks operating in South Africa
- Creating an enabling environment for banks to grow sustainably
- Fostering transformation in the industry and strengthening its contribution to the social and economic development of the country.

Restructuring

When there is so much happening across all fronts, it is important to ensure BASA is able to respond effectively and efficiently. Last year, we took the decision to restructure the association and improve its capacity to represent the industry, shape the policy and legislative agenda and reposition the sector in an environment, which was hostile at times. The internal processes and structures of the association have been reviewed to strengthen governance and oversight.

BASA has successfully represented banks on critical regulatory, policy and legislative proposals. This has been made possible by the commitment and expertise of our staff, as well as the active participation of member banks. The introduction of 'Twin Peaks' regulation – which focusses on regulating banks' prudential and market conduct activities – placed significant demands for support on BASA, from both its members and some of the relevant authorities. The signing into effect of the Financial Sector Regulatory Act (FSRA) and the amended Financial Intelligence Centre Act (FICA) will keep us at the cutting edge of international best practice. We will continue to engage the relevant authorities and legislators on the implementation of regulations and limiting, to the extent possible, compliance costs.

The Standing Committee on Finance (SCOF) and the Portfolio Committee on Trade and Industry (PCTI) held three days of hearings in March and April 2017 on transformation in the financial sector. The chief executives of numerous banks came to Parliament to engage the two committees. We demonstrated the considerable progress we have made in meeting the Financial Sector Code targets and emphasised our ongoing commitment to transformation.

This reporting period also saw the introduction of the National Credit Amendment Bill, by the PCTI. BASA recognises that over-indebtedness is a serious social and economic challenge and supports targeted debt relief. However, the measures proposed in the Bill may make it harder for banks to effectively manage risk in the credit market. BASA believes existing legislation and voluntary measures by the banks can be used to educate, rehabilitate and reintroduce consumers into the credit market. We continue to engage stakeholders about the Bill.

During this period, BASA worked with its members and other business organisations to help resolve some of the national challenges facing our country, like the crises in higher education and the distribution of social grants. We have also been very active in the CEO Initiative and the development of the SA Small and Medium Enterprise (SA SME) Fund and the Youth Employment Service (YES) programme, among others. The challenges we will be dealing with in the coming year include:

- Building and improving trust between banks and South Africans, especially critical stakeholders
- Increasing collaboration with other associations in the financial services sector
- Strengthening banks' capacity to comply with increasing regulation.

Southern Africa

BASA will continue to host the Southern African Development Community Banking Association (SADC BA), which works with national regulators to strengthen the integrity and efficiency of banking services in the region.

The SADC BA provides training to member associations to improve their technical and regulatory capacity. The regional association is also intrinsically involved in the SADC Regional Electronic Settlement System (SIRESS) which is improving the efficiency and reducing the cost of cross-border payments.

BASA will also chair the International Banking Federation (IBFed) until 2019. As a member of IBFED, the association lobbies on behalf of emerging markets at the institutions that regulate the global financial system, like the Basel Committee on Banking Supervision and the Financial Stability Board.

To date, BASA has been able to maintain its position as the mandated representative of the banking industry. This is due to the support of its board, the involvement of its members in its working committees and the respectful, but robust, relationships it has with regulators, legislators and other stakeholders.

TWIN PEAKS

The Financial Sector Regulation Act (FSRA) – better known as the 'Twin Peaks' regulations – is designed to make South Africa's financial system more resilient, stable and to better protect its customers.
It does this by:

- Strengthening the stability of financial institutions. A dedicated Prudential Authority, to be housed in the South African Reserve Bank, will be responsible for regulating the entire financial sector – not only banks – and ensuring their resilience.
- Better protecting customers by creating a dedicated market conduct authority – the Financial Sector Conduct Authority (FSCA). The FSCA will:
  - Ensure that financial institutions treat customers fairly
  - Enhance the efficiency and integrity of the financial system
  - Provide customers and potential customers with education programmes and promote financial literacy.

The two regulators came into operation on 1 April 2018. However, the provisions of the FSRA are being phased in, to ensure that the operations and regulation of the financial system are not disrupted and new procedures and legislation – where necessary – can be introduced over time. BASA and its members are working with the relevant authorities on the new legislation and regulation required to give effect to the FSRA. This includes the Conduct of Financial Institutions (COFI) Bill, which will establish a regulatory framework that will protect and promote the fair treatment of customers.

The FSRA, which has had a fundamental impact on the banking industry, was in the making for many years. There were extensive, constructive discussions between BASA and National Treasury on many revisions of the Bill. BASA submitted over a hundred comments and recommendations to public hearings in the National Assembly and to the Standing Committee on Finance and the Select Committee on Finance, where they were dealt with in a robust and forthright manner. These comments and recommendations, included:

- The need for the Bill to align with other legislation that regulates banks, including the Protection of Personal Information Act, the Consumer Protection Act, the National Credit Act and the Financial Advisory and Intermediary Services Act (FAIS)
- The need for financial sector regulators to continually consult, collaborate and cooperate, to decrease the risk of conflicts arising between the regulators and the inconsistent and disruptive application of regulatory regimes. The Act provides for the formation of a Council of Regulators, which will include the National Credit Regulator, which oversees a significant part of banks' business but is not part of the 'Twin Peaks' regime.
- The need for the fees and levies that will fund the new regulators to be fair and equitable to all stakeholders in the financial services industry. BASA has made submissions on the Financial Sector Levies Bill.
- The importance of regulatory supervision being conducted according to a risk-based approach, which allows for the identification and management of specific threats to the stability of the financial system.

The FSRA was signed into law by former president Jacob Zuma in August 2017, after extensive lobbying by BASA and others. BASA welcomed the proclamation of the Act that aligns South African banking regulations with global best practice. This is necessary to ensure the country and its banks have access to international financial markets and have the confidence of local and international business and investors.

MARK BRITS

HEAD OF PRUDENTIAL DIVISION

"The South African government's commitment to international best practice has required the adoption and implementation of a host of global standards and best practices. Frank engagements have provided an opportunity for regulators and banks to appreciate the challenges in a rapidly changing financial landscape."

The primary focus of the Prudential Division is representing the interests of the banks that operate in South Africa to the local and international authorities who regulate the industry.

The division is also responsible for market conduct in the professional and wholesale banking markets, where financial instruments are traded and companies raise loans. South Africa's commitment to international best practice has required the adoption and implementation of a host of global standards and best practices. Other key challenges and regulations that the division is looking at include:

Risk Data Standards
The aggregation of reliable risk data is key for the board of directors and senior management to understand the risks facing their banks. The lessons learned from those banks caught in the global financial crisis was that they lacked the ability to aggregate this information and provide it timeously to decision-makers. The 'Principles for Effective Risk Data Aggregation and Risk Reporting', released by the Basel Committee on Banking Supervision – the standard setting authority – was adopted for South African banks in January 2016, in line with international deadlines. This international standard, which highlights the importance of data quality and ownership, is set to change the conduct and culture of banks in South Africa.

From our engagements with member banks, it became apparent that a more prominent role for internal audit was possible. The banks' internal audit teams were able to provide a substantial set of guidelines that provided attestation processes that could meet the principles of the reporting standards. The risk practitioners were able to provide a separate set of interpretations for each principle. The professionalisation of careers in data science, master and metadata management, among others, was considered, as well as the development of shared training material, as a way to reduce costs.

Deposit Insurance
An important component of the financial stability mandate is the resolvability of institutions in distress. Resolvability refers to ensuring that a bank failure does not endanger the stability of the entire financial system.

A recovery and resolution framework is being developed, which will provide for proactive interventions that will minimise the disruption caused by bank failures. Deposit insurance provides a safety net for depositors and, combined with rapid payout features, will limit the lengthy delays associated with the failure of banks. An explicit, privately funded deposit insurance scheme will reduce the moral hazard associated with bank lending underwritten by an implicit government bailout. However, the cost of implementing a deposit insurance scheme for South Africa is significant and various options are being explored to minimise this cost.

Climate Related Financial Disclosures
The Conference of Parties (COP 21) committed some 177 countries to a legally binding agreement, aimed at restricting global warming to below 2°C. This has accentuated the risk that climate change poses to financial institutions.

The Financial Stability Board (FSB), an international standard setting authority that monitors and makes recommendations on the global financial system, released a draft climate change report in December 2016.

The report proposes that financial markets:
- Price risk to support informed, efficient capital allocation decisions, and
- Allow investors and others to understand the governance and risk management policies and procedures.

While the report promotes a voluntary policy framework, some countries may seek to introduce climate change regulations. The report also recommends that financial institutions disclose the vulnerability of their asset portfolios to global warming and conduct climate change impact studies. Investors and other interested parties may pressurise financial institutions to provide this information as expeditiously as possible.

During 2017, the FSB established a task force that called on banks to consider modelling and disclosing their climate risk exposure. The European Union is considering making such disclosures mandatory. Most major global banks support greater climate risk disclosure but are wary of excessive regulation.

A number of global banks are using scenario analysis and stress tests to assess the impact of climate change, with some adjusting their lending strategies accordingly. Nine global banks are currently piloting a 'drought stress testing tool'. A working group of 16 banks is expected to publish a set of scenarios that can be used to model climate risk in loan portfolios.

Review of the Trading Book
The revised Basel III Pillar 1 capital charge market risk framework, to be implemented in 2019, aims to promote consistency of market risk weighted assets across jurisdictions. It is designed to provide more granular and prescriptive standards, to limit interpretations of how they should be implemented.

An overhaul of both the internal models approach (regulated banks can use their own risk assessment models) and standardised approach (credit risk measurement techniques approved under Basel II) is under way. Initial estimates are that South Africa will need to increase total market risk capital requirements by up to 40%.

A number of issues still to be finalised by international standard setting authorities will impact on this estimate. These include the revised credit valuation adjustment framework, finalisation of profit and loss attribution test thresholds and calibration of the standardised approach as a floor for the internal models approach.

Financial Reporting Standards
The financial reporting methodology introduced under International Financial Reporting Standard 9 (IFRS 9) is more complex, resulting in the need for intensive regulatory oversight and enhanced stakeholder scrutiny. The implementation deadline of 2018 for IFRS 9's forward looking requirements remains challenging, as it requires significant enhancements to financial institution's data systems, quantitative models and governance procedures.

How financial assets are classified will require more judgement. This may affect how capital resources and requirements are calculated, as IFRS 9 requires financial asset classification to be based on contractual cash flow characteristics and the business model for managing the asset.

Hedge accounting is more closely aligned with risk management and is available for a broader range of hedging strategies. The new model is more principles based and more judgement is required in the assessment of qualifying, rebalancing and discontinuing hedge accounting.

Reported credit losses are expected to increase and become more volatile as IFRS 9 introduces an expected credit loss (ECL) model, which uses a dual measurement approach that requires recognising either 12 month or lifetime ECLs. This will result in banks' provisions increasing across all loan asset classes and affect loan pricing. Extensive new mandatory disclosures will require equally extensive system changes to capture the necessary data.

Commercial Paper
Commercial paper – short-term, unsecured loans to companies – as an asset class within capital markets, provides an important alternative to the traditional bank lending model. However, the emergence of shadow banking as a key contributor to the failure of the financial sector during the global crisis, has seen active measures by standard setting bodies to regulate this sector.

In South Africa, activities that can be identified as shadow banking, including listed debt, are estimated at R1.2 trillion. This represents more than a third of South Africa's gross domestic product – worth approximately R4.3 trillion – and demonstrates the systemic risk that shadow banking represents, should there be a need for banks to step in and support the sector. We continue to facilitate discussions with the South African Reserve Bank (SARB), the Association for Savings and Investment South Africa (ASISA) and the Debt Issuers Association to ensure the planned revisions to the Commercial Paper Regulations will enable corporates to raise long-term funding for long-term projects.

Know Your Customer
The advent of utility models for 'know your customer' (KYC) and on-boarding operations are examples of financial institutions standardising and outsourcing aspects of their business – and in the process reducing risk across the industry. BASA members and Thompson Reuters engaged with SARB and the then Financial Services Board (FSB) to implement an independent, centralised capability to coordinate and collect information required for anti-money laundering (AML) and KYC activities, from juristic entities. This diminished overall risk across the industry, enhanced the client experience and reduced the complexity and cost of compliance for banks and financial institutions. The result was the implementation of an award-winning Org ID KYC managed service and customer on-boarding solution.

The service has more than 25 000 KYC entity profile reports, with an additional 100 000 profiles from Lipper, a provider of independent research and evaluation tools for investment products. All profiles and related parties are fully verified and screened, with continuous monitoring and dynamic refresh available to customers as part of the end-to-end Org ID solution.

Derivative Products
The Group of 20 (G20) advanced and emerging economies said in their 2009 Pittsburgh statement that "all standardised OTC derivatives should be traded on exchanges or electronic trading platforms, where appropriate, and cleared through central counterparties". BASA and its members have engaged extensively with National Treasury, SARB and the Financial Sector Conduct Authority (FSCA) to consider the most efficient mechanism for reducing South African systemic risk and protecting and improving liquidity. BASA and its members developed a set of key industry principles and a conceptual analysis was conducted against the various approaches to central clearing (CCP) under consideration in South Africa.

There was an unequivocal preference for an "offshore counterparty, with a local (collateral) presence". BASA's engagement with stakeholders to find the best solution is ongoing.

Conclusion
BASA's contribution to these and other regulations would not be possible without the SARB embracing a collaborative approach to changing and implementing legislation. The participation of the audit firms in various discussions, together with frank engagements with National Treasury, hosted by the Prudential Division, have provided an opportunity for both the regulator and member banks to appreciate the challenges inherent in a rapidly changing financial landscape.

"In South Africa, activities that can be identified as shadow banking, including listed debt, are estimated at R1.2 trillion. This represents more than a third of South Africa's gross domestic product – worth approximately R4.3 trillion – and demonstrates the systemic risk that shadow banking represents."

RAKSHA SEMNARAYAN

HEAD OF MARKET CONDUCT

> *Banks recognise that over-indebtedness is a serious social and economic problem. BASA supports targeted sustainable debt intervention for those whose circumstances have unexpectedly changed for the worse.*

The Market Conduct Division advocates for the interests of the banking industry regarding legislation and regulation affecting their customers and clients. These include the regulatory frameworks for treating customers fairly, dealing with cybercrime and money laundering and the provision of credit.

The division also deals with non-financial legislation that is part of the compliance obligations of banks. Land reform, conserving and protecting the environment and sustainable social and economic development initiatives are among the responsibilities of the division. The division is working with BASA members to ensure the adoption of the United Nations Sustainable Development Goals, which aim to end poverty, while protecting the planet.

The Financial Services Regulation Act (FSRA) – better known as the 'Twin Peaks' Act – is designed to make South Africa's financial system more resilient and better protect its customers. This has made the work of the Market Conduct Division essential for the sustainability of the industry and its ability to offer products and services that meet the needs of its customers.
In the period under review, the division made numerous submissions on legislation affecting banks.

Debt Intervention
At the end of 2017, Parliament's Portfolio Committee on Trade and Industry introduced the National Credit Amendment Bill (NCA). The Bill aims to provide for debt interventions for low income, over-indebted consumers. Currently, qualifying consumers can apply for some relief from over-indebtedness. However, the mechanisms often exclude vulnerable consumers due to the cost associated with these procedures or a lack of benefit for credit providers.

The proposed amendments to the National Credit Act would – among other significant interventions – allow the National Consumer Tribunal (NCT) to suspend or possibly extinguish consumer's debt, depending on the changes in their circumstances.
BASA engaged extensively with the portfolio committee about the Bill, which presents a challenge to the banking industry that provides much of the credit extended to consumers, every year.

Banks recognise over-indebtedness as a serious social and economic problem. They assist over-indebted consumers, who have entered debt review, with voluntary concessions on interest rates and by expunging sizable prescribed debt monthly, in terms of existing legislation. The interest rate concessions granted in 2017 alone were worth R3,976 billion.

BASA supports targeted, sustainable debt intervention for those whose circumstances have changed for the worse, through no fault of their own. However, the association is of the view that the Bill:

- Does not adequately balance the rights of consumers and credit providers
- Conveys the wrong message to consumers and creates 'moral hazard' – when borrowers are encouraged not to repay their loans because they believe their debt will be expunged by the government
- Increases credit cost and risk, which will result in the financial exclusion of low income consumers and an increase in unregulated, unscrupulous lending
- Undermines existing debt intervention measures that have so far been effective
- Does not rehabilitate, educate and return consumers to the credit market.

BASA and its members will continue to engage stakeholders about the Bill, in the coming months.

Municipal Systems Act
BASA is committed to protecting and enhancing property rights, which is a necessary precondition for inclusive economic growth and the creation of generational wealth.
On 23 May 2017, the Constitutional Court heard an application for confirmation of an order by the Gauteng High Court that declared a section of the Local Government Municipal Systems Act of 2000, constitutionally invalid. BASA was an amicus curia – friend of the court – in the case.

In practice, section 118(3) of the Municipal Systems Act meant that the new owner of a property was responsible for any municipal debts on it, even if the charges had been incurred by a previous owner.

Municipalities argued that since the new owner must have been aware of any debt when they bought the property, they should negotiate a lower price with the seller, and use their savings to pay the municipal debt. But, buyers were often unaware of long outstanding debt, as municipal Rates Clearance Certificates only highlights two years of liabilities. Municipalities also reserved the right to claim from the buyer if they had incorrectly calculated any outstanding amounts.

However, the High Court found Section 118(3) to be constitutionally invalid, as it had the effect of transferring to the new owners of the property municipal debts that they had not incurred. The Court found this to be an arbitrary deprivation of property in terms of Section 25 of the Constitution. The High Court Ruling was upheld by the Constitutional Court. The ruling meant that a new owner is not liable for debts, arising from charges on the property, before transfer.

BASA welcomed the decision as it strengthened property rights in the country, which is of benefit to the economy, mortgage providers and consumers.

The Market Conduct Division made submissions to Parliament on the following legislation in 2017:

1. Critical Infrastructure Protection Bill
2. Financial Sector Regulation Act Amendment Bill
3. Mineral and Petroleum Resources Development Act
4. Legal Practice Amendment Bill
5. Uniform Rule 46
6. Debt Intervention Bill
7. National Credit Act Amendment Bill
8. Regulation of Agricultural Land Holdings Bill
9. Communal Land Tenure Bill
10. Restitution of Land Rights Amendment Bill
11. Preservation and Development of Agricultural Land Holdings Bill
12. Home Loan Mortgage Disclosure Act Amendment Bill
13. Property Valuation Regulations (Office of the Valuer General)
14. Sectional Titles Amendment Bill
15. Property Practitioners Bill
16. Electronic Deeds Registration Systems Bill
17. Financial Intelligence Centre Amendment Bill
18. The Cybercrimes Amendment Bill
19. Carbon Tax Bill

And a number of others.

SOCIAL GRANTS

In his inaugural State of the Nation Address, in February 2018, South African President Cyril Ramaphosa said: "Social grants remain a vital lifeline for millions of our people living in poverty."

In 2017, there was a danger that the South African Social Security Agency (SASSA) would not be able to distribute grants, due to a long standing Constitutional Court ruling that its contract with its then service provider was invalid.

To assist the agency and grant beneficiaries, the BASA board mandated the association to make the country's banking infrastructure available for the distribution of social grants. As this was in the national interest, it was to be done on a 'cost recovery' basis.

Regrettably, early discussions with SASSA and the Department of Social Development, to find ways in which banks could assist with the delivery of social grants were not always productive.

However, the relationship between SASSA, BASA and individual banks has improved, and they are now collaborating and sharing resources to ensure grants are delivered to their recipients.

To date, banks have already identified 8,2 million accounts held by social grants beneficiaries.

Of these, 2, 6 million were used to pay grants of close to R3 billion in May 2018. BASA and SASSA are engaging with individual banks to address any payment issues that may arise.

SASSA and BASA have also signed a Memorandum of Understanding that will assist in ensuring that practical solutions, that are of benefit to grant recipients, are being developed.

G30 CODE OF CONDUCT

While balance sheets of global banks have been restored after the international financial crisis, much remains to be done to rebuild a banking culture that commands public trust.

The Group of Thirty (G30) report, 'Banking Conduct and Culture: A Call for Sustained and Comprehensive Reform', provides a framework for banks to strengthen ethics and values in their industry. The G30 is an international organisation of financiers and academics, which aims to deepen understanding of the consequences of economic and financial decisions.

The report is the result of more than 70 interviews with senior staff at banks in 16 countries, which are trying to build a culture of ethical governance.

BASA is implementing a framework within which South African banks can adopt the principles of the report. The framework balances principles and rules and is flexible enough for banks to use their own initiative when implementing the recommendations.

The recommendations align with the Code of Banking Practice – which sets out the minimum standards of service and conduct for banks – and the Prudential Code, which regulates the financial stability of institutions, as well as the King IV code and practices of good governance, among others.

The recommendations include:

Changing the culture of banks to ensure it supports ethical behaviour and good corporate governance. Strong sanctions should apply to those who do not adhere to the policies that enforce this conduct. At a minimum, there should be enforcement of the letter of the law.

The board of a bank and its chief executives must be primarily responsible for instilling a culture of adherence to values and good governance. They should receive regular reports on reputational risks and report on their oversight of conduct and values to institutional investors, among other stakeholders.

Performance management, compensation and incentives must reward and encourage the promotion of good behaviours, while there should be consequences for those who are either part of unethical practices or allow them through weak oversight.

Ensuring that there are an effective three lines of defence against unethical behaviour:

- Line management must instil values and reinforce good conduct
- Compliance, risk management and the executive team, must set standards and monitor and enforce them
- Internal audit must assess adherence to codes and practices of good governance.

For banks and other financial institutions, a good culture and ethical conduct are competitive advantages as they seek to strengthen their reputation among clients and attract talent and investors.

TRANSFORMATION

Transformation in financial services institutions came under sharp scrutiny by legislators, regulators and other stakeholders in the sector, in 2017.

- There were extensive engagements on the Amended Financial Sector Code (FSC), which was gazetted on 1 December 2017. The FSC brought the Financial Sector Code of 2012 into line with the Amended Codes of Good Practices, as set out by the Department of Trade and Industry. The gazetted FSC "commits all participants to promote a transformed, globally competitive financial sector that reflects the demographics of South Africa; which contributes to the establishment of an equitable society by providing accessible financial services to black people; and directs investment to targeted sectors of the economy".
- The Financial Sector Regulation Act (FSRA) was signed into law in August 2017. During the hearings transformation and empowerment in the financial services sector were put under the spotlight.
- Ahead of its national conference in December 2017, the governing ANC convened a discussion about transformation in the financial sector. This followed their interactions with groups representing black professionals, who had raised serious concerns about the slow pace of transformation in the sector.
- Since 2016, parties in the National Economic Development and Labour Council (Nedlac) had been calling for a second financial sector summit. By 2017, these calls were endorsed by the Minister of Finance and a firm decision was taken to convene the summit, to review progress on transforming the sector and charting a way forward.
- Parliament's Standing Committee on Finance and Portfolio Committee on Trade and Industry held joint hearings into transformation in the financial sector from March 2017.

Parliament
BASA made two key points in its submission to the Parliamentary committees:

- Banks have done much to transform their industry and the country's economy; and
- They acknowledge that there is much more that must be done to make their ownership and management more reflective of the people of South Africa.

Parliament, in turn, recommended that the financial sector adopt more ambitious targets.

In May 2017, the BASA board mandated task teams to investigate what more could be done to promote transformation in the industry and the country. The message from the Board was simple: persistent poverty, unemployment and inequality demands that the industry do more than what is required of it by the FSC.

The task teams were established even though the revised FSC committed banks to more empowerment funding, through the Black Business Growth Fund, and increased financial inclusion targets. These new targets are scheduled to be reviewed, along with the rest of the FSC, at the end of 2018.

The task teams, made up of representatives from 21 of the banks operating in South Africa, were specifically asked to propose ways to:

- Strengthen the role of banks as a transformative force in society
- Improve employment equity at senior and executive levels
- Open opportunities for women and black-owned enterprises to provide goods and services to the banking industry
- Increase financial inclusion, specifically by providing access to finance for micro, small and medium enterprises

- Increase black ownership of banks, without locking up capital that could be used for investment in the economy. If banks use their own resources to help finance the purchase of an empowerment shareholding in their own businesses they will have significantly less funds to invest in the wider economy.
  Banks can better facilitate transformation of the economy by using their resources to finance empowerment deals in other industries.

Regulation
However, transformation in the banking industry must be managed in a way that ensures the soundness and resilience of financial institutions.
Banks are custodians of the savings and salaries of South Africans. They are accountable for how they use depositors' money and are strictly regulated by legislation.

The country's banking infrastructure ensures that economic activity can take place: that workers are paid, transactions are conducted securely, infrastructure development is financed and jobs are created, among other things. Banks also finance empowerment transactions in other industries.

This is in addition to their corporate social responsibility investments, which also contribute to the development of the country and improving the quality of life of all.

BASA members are working towards an inclusive, stable and competitive banking industry, whose ownership and management better reflect all the people of South Africa, and that is part of a national effort to overcome unemployment, poverty and inequality.

Making a big difference
The task teams set up by the BASA board determined that banks should use their core resources and business expertise to support sustainable, inclusive economic growth and transformation in the country. To this end, they would focus their efforts on:

1. *Partnering with government to finance infrastructure development. BASA members are also looking to adopt and apply the principles of Positive Impact Finance, an initiative of the United Nations Environment Programme, aimed at finding commercially viable funding solutions for sustainable development goals.*
2. *Providing support and access to financial services to small and micro enterprises. Banks played a key role, along with other corporates, in the establishment of the R1,4 billion SA SME Fund. BASA members are also identifying opportunities to increase the amount of goods and services procured from small and medium enterprises.*
3. *Investigating ways to support various socio-economic development interventions, like strengthening the education system using the intellectual capacity and systems of banks.*
4. *Supporting work experience and job creation initiatives, especially for young people. BASA members, together with other corporates, are working to provide one million internships for young people over three years, as part of the Youth Employment Service (YES) initiative.*
5. *Strengthening the now Financial Sector Transformation Council, to ensure that financial institutions are accountable for meeting their transformation targets.*

LAND REFORM

BASA supports land reform in South Africa. The country has not adequately dealt with the consequences of dispossession during apartheid and colonialism; and the slow pace of land reform, along with growing poverty and inequality, has led to widespread frustration that threatens our social and economic stability.

Land restitution, redistribution and security of tenure – coupled with access to finance and property rights – are means of providing vulnerable people access to secure incomes and opportunities to create the generational wealth needed to correct the injustices of the past. Land reform will also help restore the dignity and identity of those black families who were dispossessed in the past.

Over the past year, BASA, along with other stakeholders, including land activists and commercial and emerging farmers, put forward proposals to finance and support sustainable land reform and food production.

These include public-private-partnerships, blending government support with commercial loans, and providing business skills and other inputs to emerging farmers and land-reform projects, so that their ventures can be commercially viable and become part of the formal economy. However, the reality is that land reform programmes in the country have not produced the required results, at the necessary scale and pace. This challenge must be urgently addressed by government and business.

Obstacles
BASA shares the view of the Report of the High Level Panel on the Assessment of Key Legislation and the Acceleration of Fundamental Change, which said that provisions in the South African Constitution are not an obstacle to land reform.

The panel, chaired by former President Kgalema Motlanthe, investigated sustainable land reform, rural development and the provision of security of tenure, among others. Rather, the obstacles include: a weak bureaucracy; a lack of post-settlement support for beneficiaries; corruption in private and public sectors; the state failing to effectively exercise its powers; and urban housing backlogs that have resulted in land invasions.

BASA has registered its concern about the call to amend the property clause of the Constitution (Section 25) and the Bill of Rights to make it easier to expropriate land without compensation, in certain instances. Land reform should not undermine property rights. Banks rely on property as security for loans. The unaudited exposure of banks to mortgages is R1,5 trillion, of which R148 billion is to the agricultural sector. It would be a real risk to banks and the country's ability to attract investment, grow an inclusive economy and create jobs, if these mortgages become vulnerable to expropriation without compensation.

Our members want to:
- Grow an inclusive economy that creates jobs and opportunities for all
- Promote property rights that allow beneficiaries of land reform to enjoy the full benefits of their assets and protect investors and depositors' money
- Assist with the provision of proper housing and jobs in South Africa's cities, where the need is the greatest
- Help regenerate rural economies and infrastructure, particularly in communal areas.

BASA is committed to helping fast-track land reform in South Africa and ensure sustainable food security and inclusive economic and social development.

KHULEKANI MATHE

HEAD OF FINANCIAL INCLUSION

"Financial services can help drive development. They help people escape poverty by facilitating investments in their health, education and businesses. They make it easier to manage financial emergencies – such as a job loss or crop failure – that can push families into destitution. Many poor people around the world lack the financial services that can serve these functions. Instead, they rely on cash, which can be unsafe and hard to manage."
– World Bank

Financial inclusion, measured by bank account ownership, is very high in South Africa. The FinScope Survey conducted by FinMark Trust every year estimates that 77% of adult South Africans have bank accounts, although they tend not to use them for daily transactions. However, the level of savings with formal institutions is low, as is the use of insurance, which leads low income individuals vulnerable to shocks, such as death or loss of work by a breadwinner.

A Boston Consulting Group (BCG) report, 'Improving Financial Inclusion in South Africa' (2017) assesses four measures of financial inclusion: transaction accounts, credit, insurance and savings. BCG concludes that South Africa is only inclusive in so far as the adoption of transaction accounts goes and is doing poorly on the other measures.
The factors responsible include:

1. South Africans, across income and education levels, have low levels of financial literacy, which leads to poor financial decisions and product choices.
2. Economic exclusion means that many have limited and often unreliable incomes, which makes saving, purchasing insurance and prudent financial decisions very difficult.
3. Behaviour patterns, such as the withdrawal of all funds at once and ownership of more than four funeral policies per person, indicate that there may be a lack of appropriate products in the market for long-term saving for people in less secure employment.

Globally, 69% of adults had accounts with financial institutions in 2017. Yet, some 1,7 billion adults remain unbanked, with women accounting for the majority of the excluded. South Africa is one of very few developing economies without a significant gender gap in account ownership.

Economic Revitalisation

BASA and individual banks have programmes aimed at addressing these critical challenges.
BASA's projects include:

- Supporting the Gauteng Provincial Government's Township Economic Revitalisation (TER) strategy. As part of this, an economic hub model is being piloted in the automotive sector. Our partners are the Automotive Industry Development Centre, the Gauteng Growth and Development Agency, Mogale City Municipality and Filpro, the enterprise development arm of GUD Filters and NGK. BASA took the lead in developing a sustainable, 'bankable' business model that can attract private capital and allow it to be replicated at scale. Filpro have an established township mechanic support programme in Gauteng and will continue to extend support, training and certification services to SMEs within the hub. The Chamdor Training Centre in Kagiso, Gauteng, has been selected as the site for the pilot project.
- BASA has initiated a project to collect data and publish the SME Finance Monitor. The main objectives of the monitor are to provide in-depth analysis and timely, quality data on SME financing; and to track whether the country is making progress in meeting the needs of these enterprises. The project started in 2017 and will culminate in the launch of the first publication in 2019.

As part of its corporate social investment (CSI) initiatives, BASA supports: the Makeba Centre for Girls and Caring4Girls. Caring4Girls purchases and distributes sanitary towels for girls, especially in rural and underprivileged areas in South Africa.
A BASA staff member, Pat Adams, joined Trek4Mandela climbers to Mount Kilimanjaro, in 2017, to heighten awareness around this girl plight and to raise funds for sanitary towels.

STARSAVER™

Starsaver™ aims to enhance financial literacy among school learners in grades seven, eight and nine. A collaborative programme of the banking industry, it is endorsed by the Department of Basic Education.

Now in its 10th year, the programme has reached nearly 1 million learners since its inception.

Over the past five years it has been reaching between 80 000 and 140 000 learners each year. In 2017 the programme reached roughly 140 000 learners in 730 schools. The programme involves volunteers from financial institutions teaching formal lessons in financial literacy. In 2017, close to 100 volunteers from 16 financial institutions participated in the programme.

Genesis Analytics recently evaluated the first 10 years of the Starsaver™ programme. It found that the programme was highly successful, but identified areas that need to be strengthened, including improving the quality of data collection and the training of volunteers.

Global Money Week
BASA also coordinated Global Money Week, an international financial literacy campaign that takes place in the first week of March every year. Events in South Africa, during the week of 27 February to 2 March, involved 37 institutions and 1 500 learners. The theme for the year was 'Learn.Save.Earn'.

Activities and events took place in 137 countries. The launch of the week took place at the Bundesbank in Frankfurt. A 'Bank the Youth' campaign was also launched during the week.

The campaign will continue to advocate for increased access to responsible, accessible and affordable financial services for youth.

HIGHER EDUCATION

Student protests to demand free higher education severely disrupted tertiary institutions, but brought to the fore the challenges faced by black students, particularly those from poor families.

Like many corporates, banks could not sit back and watch the crisis unfold. Higher education provides the skills needed to drive the economy and the opportunity to lift families, especially those of graduates, out of poverty. Some banks, many of which already have long-standing commitments to education in South Africa, bolstered their financial support to universities to plug the gap caused by the decision not to increase fees in 2016 and 2017.

The industry also seconded senior executives to the National Student Financial Aid Scheme (NSFAS) to help restructure it and make it more effective in the management of funds, disbursement of loans and collection of loan repayments. Despite this, the scheme is still experiencing many difficulties.

Ikusasa
Banks also supported the development and piloting of a new student financial aid scheme called the Ikusasa Student Financial Aid Programme (ISFAP) under the leadership of Sizwe Nxasana, former CEO of First Rand.

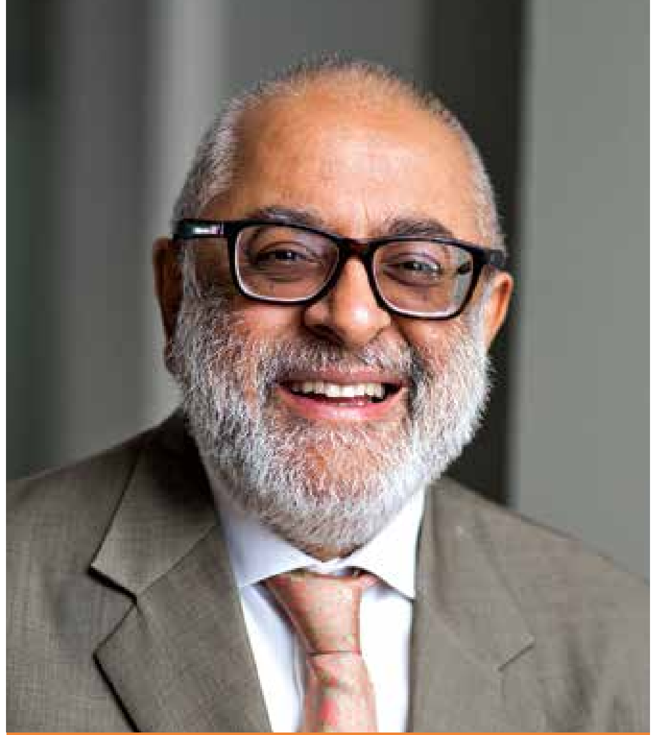
The aim of ISFAP is "to secure the future of South African youth by providing needs based assistance to students from poor and working class families. This support will enable students to acquire a broad set of knowledge, skills and character traits that will significantly improve their meaningful participation in the growth of the country. The programme aims to promote human development, leadership, ethical behaviour and broad citizenship. The intention is to advance equal opportunity and equitable income distribution for all South Africans." Between BASA, the Association for Investment and Saving South Africa (ASISA) and the South African Institute of Chartered Accountants (SAICA) as many as 60 people were seconded to support the piloting of ISFAP.

The pilot funded 699 students in critical skills such as medicine, engineering, accounting, actuarial studies and others identified by the Department of Higher Education and Training. Banks contributed 70% of the R140 million raised for the pilot.

As part of the search for a more sustainable solution, the industry supported the determination in the approved Financial Sector Code, 2017 that 1.5% of the leviable amount for skills development be spent on higher education bursaries and other forms of support to the sector. In the banking industry alone, the total contribution to skills development is well in excess of R1 billion per year.

Fees Commission
BASA appeared before the Heher Commission of Enquiry into Higher Education and Training, to detail the contribution made by the industry to universities in the form of grants, bursaries, scholarships and student loans. It was demonstrated that, collectively, banks spend more than R500 million on bursaries and research grants to universities and extend student loans of roughly R1 billion per annum. The bursaries alone reach upwards of 5 000 students a year, while another 34 000 receive student loans.

The industry continues to search for innovative ways to help support the country's higher education system, which has the potential to increase our country's rate of inclusive economic growth and human development.



YACOOB ABBA OMAR

STRATEGY AND COMMUNICATIONS

> “BASA highlighted the importance of financial services to the economy and the contribution of banks to social development under the theme: South Africa matters to banking, banking matters to South Africa.”

The Strategy and Communications Division is tasked with identifying and helping to manage social and political risks in banks' operating environment; providing research and stakeholder relationship support to the Managing Director of BASA and its divisions; and managing public relations and strategic communications for the association.
The importance of these functions were highlighted during 2017, when corruption, maladministration and poor governance set back the South African economy, making what collectively became known as 'state capture' a material risk to banks' business.
To better deal with these social and political risks, BASA established its Strategy and Communications Division in 2017.
The board executive committee also adopted a communications strategy to explain the importance of banking in the social and economic development of the country, under the theme: South Africa matters to banking, banking matters to South Africa.

The division introduced a bi-monthly forum for communicators from member banks, in April 2017. The aim of the forum is to share skills and experiences between communicators and help develop industry perspectives on issues material to the business of banking.

In line with its mandate to address the economic impact of state capture, BASA publicly opposed instances of poor governance and reckless policy making. Press statements were released on the recall of the then Minister of Finance from an international investor roadshow; the sovereign ratings downgrades; and the country's drop in the Global Competitiveness Index; among others.

BASA also pointed out the importance of protecting the stability of the financial services industry and the contribution of the banks to social development. These statements highlighted banks' commitments and achievements in transforming financial institutions and financing empowerment deals. They have also implemented global best practice in prudential regulation and market conduct to protect their clients' savings and investments. Opinion pieces were also published to strengthen BASA's position as a thought leader on issues, like social cohesion, land reform and how technology is changing banking.

BASA representatives also met with editors and publishing houses to discuss key challenges facing the industry:

- A BASA delegation met the editors of City Press, Rapport, Fin24, and News24. The discussion focused on the parliamentary hearings into transformation in the financial services sector.
- BASA hosted a roundtable with the South African National Editors Forum (SANEF), which was attended by 18 editors and senior journalists. The BASA Executive Committee provided background on the state of the banking industry, their view of the 'Twin Peaks' regulations and financial inclusion, among other issues.
- The BASA Managing Director addressed a meeting of the Cape Town Press Club, where the association's role and mandate was explained, among other current issues.

Stakeholder Engagement

The division facilitated regular meetings with key stakeholders to understand – and where possible address – their material concerns and engage them on matters relevant to financial institutions.
During 2017, meetings were held with:

- The Chair of the Portfolio Committee for Trade and Industry, Joanmariae Fubbs
- The Chair of the African National Congress (ANC) Economic Transformation Committee, Enoch Godongwana. He was accompanied by cabinet ministers Malusi Gigaba, Gugile Nkwinti, and Ebrahim Patel; as well as then former ministers Pravin Gordhan and Derek Hanekom.
- The Treasurer General of the ANC, who hosted a meeting of about 15 organisations to discuss the financial services sector's contribution to growth, employment and transformation.
- Representatives of the Democratic Alliance (DA) and the United Democratic Movement (UDM) on debt intervention and other issues.

The division also hosted a series of 'First Friday' discussions with government officials, researchers, academics and community leaders, to better understand banks' operating environments.
These include:

- "A review of the 2017-2018 Budget" with the then DDG in National Treasury, Michael Sachs
- "Political parties and their policy options" with independent political commentator, Ralph Mathekga
- "Transformation in the Mining Sector", with Duma Gqubule, Director at the Centre for Economic Development and Transformation
- "State of women in SA" by Lisa Vetten, of the WISER institute based at Wits University
- "Unpacking the land question" with Dr Mbongiseni Buthelezi of the Public Affairs Research Institute
- "Race and National Identity" by Professor Melissa Steyn of the Wits Centre for Diversity Studies.

These engagements between banks and their regulators, legislators and the communities they serve, contributed to building transparent and constructive relationships and strengthened bank's social licence to operate.

THE BANKING SUMMIT

BASA hosted its annual Banking Summit on September 15, 2017 under the theme 'Economic Transformation and the Finance Sector'. It was addressed, by among others, the Minister of Economic Development, Ebrahim Patel, and the Chair of the Standing Committee on Finance, Yunus Carrim. Carrim used the occasion to announce the release of the interim report on transformation in the financial services sector.

Some of the discussion was framed around the VUCA scenario, which helps businesses to think through Volatility, Uncertainty, Complexity and Ambiguity in their operating environment. Comments and ideas that emerged during the discussion include:

√ South Africa is a country and market with enormous resources and great ambition, but unemployment, poverty and inequality have sparked social and political uncertainty, which is hampering economic development.

√ The country needs a new national deal with four crucial elements:
1. A credible growth story that emphasises market opportunities with lots of potential.
2. A transformed, inclusive economy.
3. Integrity in governance and decision-making in both the public and private sector.
4. Economic partnerships with a greater compact between business, government and labour.

√ South African financial services groups are globally competitive business institutions, which can use their resources and expertise to find solutions to social problems that benefit both their shareholders and broader stakeholder communities. Long-term investments, such as infrastructure, are profitable and can contribute to job creation and economic development.

√ Policy certainty is fundamental to business confidence. Certainty does not mean there is no change, but key principles must be adhered to. There must be some predictability, informed by public discourse and evidence-based negotiations.

√ Transformation and empowerment in the financial services industry have two components: the transformation of financial institutions themselves; and the financing of empowerment deals. Lending for transformation has wide consequences; it injects liquidity into the economy and leverages transformation from top to bottom.
Indirect ownership of listed companies benefits many, through pension funds and other collective investments.

√ Some in the financial sector feel they have made substantial changes, even if they have not gone far enough. But, for those who feel excluded, very little change has occurred. The divide is large, and consensus will be difficult to achieve. Transformation is on the agenda of current bank chief executives, but time is running out.

√ Technology is changing the way banking is done and decisions are made, with financial services increasingly being offered by retailers, cellphone companies and fintechs. The challenge is to ensure smart and socially responsible adaption of technology in banking.

> *"Policy certainty is fundamental to business confidence. Certainty does not mean there is no change, but key principles must be adhered to."*

BEVERLEY REYNEKE

HEAD OF SHARED SERVICES

> *"BASA consistently works to improve the governance of the association. The core values of the association are integrity, humility, being resolute in principles and professionalism, and responsibility and accountability."*

The Shared Services Division is responsible for the administrative and corporate support functions at BASA, including finance and accounting, human resource and facilities management and information technology.

The human resource and staff management function is a priority for the division, as it affects all BASA's employees. The association has a total of 42 employees, ranging from senior general managers who head the five operational divisions to researchers and programme managers. There is also an internship programme, with clear development objectives, as the association is committed to skills transfer and capacitating young people in the industry.

BASA is striving to meet the employment equity targets set out in the Financial Sector Code. In 2017, its employment equity statistics were: black (51%), white (26%), Indian (20%) and coloured (3%).
At management committee level, the figures are african (43%), white (36%), Indian (14%) and coloured (7%). The association promotes from within whenever it is able, making it likely that the black management figures are likely to improve over time.

As a learning organisation, BASA provides for the personal and professional development of its staff. As a diverse organisation, BASA strives to maintain an inclusive workplace where everyone feels empowered and that their contribution is recognised and appreciated. Social activities and wellness functions are held to create opportunities for staff to come together to interact, communicate and strengthen teams. A measure of the success of these efforts to maintain an inclusive workplace is that, to date, the association has had a low turnover of staff and has been able to retain valuable skills and experience.

As an association that represents the banking industry, BASA employees are expected to adhere to the highest ethical and professional standards. The core values of the association are integrity, humility, being resolute in your beliefs and principles, professionalism, and responsibility and accountability.

BASA consistently works to strengthen governance in the association. To this end, it has several policies, including:
- Human Resources
- Competition Law
- Procurement
- Finance
- Information Technology
- Social Media Policy

Technology
BASA is committed to improving the operational effectiveness of the organisation and its teams, by using information technology and smart systems that help make the best use of its facilities. Part of this is the creation and maintenance of a virtual office that will assist in the reduction of overheads and allow staff to better focus on the quality of their work, rather than spending unproductive time travelling between offices. In the past year, the Information Technology and Facilities functions have moved BASA to a cloud environment, so that all its computing and communication services are available over the internet.

To ensure the security of BASA's systems, new software has been rolled out, which has kept the association's system free of malware since its installation. Other innovations that are being introduced, include: a new intranet, a new member portal and improved video conferencing facilities to make it easier for members to participate in meetings and contribute to the work of the association.

Front Row (from left)
Hahangwivhawe Liphadzi – Intern Financial Inclusion
Cheryl Naidoo – Personal Assistant to Managing Director
Nonceba Qabazi – Intern Prudential
Jeremiah Dyora – Intern Prudential
Nobambo Mlandu – Manager Prudential
Thami Mofokeng – Project Assistant Financial Inclusion
Mosidi Melamu – Manager Agriculture
Thabo Tlaba Mokoena – General Manager Financial Inclusion
Nonhlanhla Adous – Meetings Administrator Market Conduct
Ephraim Kgosana – Programme Coordinator Financial Inclusion

Middle Row (from left)
Arthur Cousins – Consultant SADCBA
Mvelenhle Yaka – Manager Financial Inclusion
Ennelda Ngobeni – Intern Financial Inclusion
Aleta Morebane – Office Services
Melvin Pather – Manager Facilities and IT Support
Raksha Semnarayan – Senior General Manager Market Conduct
Cas Coovadia – Managing Director
Charles Botes – General Manager Finance
Yacoob Abba Omar – Senior General Manager Strategy and Communications
Marguerite Jacobs – General Manager Legislation and Regulatory Oversight
Razaana Sayed – Divisional PA and Logistics Officer Shared Services
Maxine Hlaba – Manager SADCBA

Back Row (from right)
Khulekani Mathe – Senior General Manager Financial Inclusion
Nkateko Nkhwashu – Market Conduct Specialist
Melinda Coetzer – Divisional PA Market Conduct
Thato Chikane – Intern Strategy and Communications
Kabo Malimabe – Divisional Secretary Financial Inclusion
Gary Haylett – General Manager Prudential
Pat Adams – Manager Communications and Training SADC BA
Pierre Venter – General Manager Human Settlements
Mark Brits – Senior General Manager Prudential
Kaifas Selotole – Driver/Admin Assistant
Adri Grobler – Senior Market Conduct Specialist
Denise Govender – Bookkeeper
Beverley Reyneke – Senior General Manager Shared Services and Company Secretary
Soneni Bhango – Switchboard Operator
Veronica Steffenini – Divisional PA Prudential
Agnes Qhala – Office Services

Absent
Lungi Mbambo – PA to Manager SADCBA
Ntombi Mnguni – Logistics Coordinator SADCBA
Muzi Mhlambi – Senior Manager Financial Inclusion
Louw van der Heever – Manager IT Operations

INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of The Banking Association South Africa (NPC) which comprises the statement of financial position as at 31 December 2017 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of The Banking Association South Africa (NPC) as at 31 December 2017, and its financial performance and its cash flows for the year ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to the performing of audits of financial statements in South Africa.
We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa.

The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information
The directors are responsible for the other information. The other information comprises the Directors' Report, as required by the Companies Act of South Africa. The other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities
The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Jeanine Nellmapius-Clarke
Engagement Director
Registered Auditor
SizweNtsalubaGobodo Inc.
Date: 04 April 2018

Summit Place Office Park, Building 4
221 Garsfontein Road
Menlyn, Pretoria
Gauteng

DIRECTORS' REPORT

The directors have pleasure in submitting their report on the annual financial statements of The Banking Association South Africa (NPC) for the year ended December 31, 2017.

1. **Review of activities:**
   Main business and operations
   The Banking Association South Africa was established with the primary objective of promoting proactively the interests of the banking industry amongst its various stakeholders. The Association is registered as a non-profit company in accordance with Item 1(1) of Schedule 1 of the Companies Act South Africa of 2008, as amended.

   The operating results and state of affairs of the Association are fully set out in the attached annual financial statements and do not, in our opinion, require any further comment.

2. **Going Concern**
   The Association's members are committed to contributing membership fees that will ensure that the Association is able to meet all its approved operational cash-flow requirements for the foreseeable future.

   The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. The basis presumes that funds will be available to finance the future operations and that the realisation of assets and settlement liabilities, contingent obligations and commitments will occur in the ordinary course of business.

3. **Events Subsequent to Year End**
   The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

4. **Directorate**
   The directors in office at the date of this report are as follows:

Directors	Nationality
M Ramos (Chairperson)	South African
C Coovadia (MD)	South African
MWT Brown	South African
JP Burger	South African
GM Fourie	South African
M Ismail	South African
VSK Khandelwal	Indian
S Koseff	South African
KR Kumbier	South African
SK Tshabalala	South African

5. **Auditors**
   SizweNtsalubaGobodo Inc. continued in office as auditors for the company for 2017.

6. **Secretary**
   The company secretary is Mrs BM Reyneke

Postal address:
P O Box 61674
Marshalltown
2107

Business address:
3rd Floor, Building D
Sunnyside Office Park
32 Princess of Wales Terrace
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2193

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

FIGURES IN RAND	2017	2016
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	R 1,731,312	R 1,468,075
CURRENT ASSETS		
Other financial assets	R 2,208,002	R 371,825
Trade and other receivables	R 834,875	R 1,757,216
Prepayments	R 1,630,336	R 219,136
Cash and cash equivalents	R 24,026,017	R 28,964,874
	R 28,699,230	R 31,313,051
TOTAL ASSETS	**R 30,430,542**	**R 32,781,126**
EQUITY AND LIABILITIES		
EQUITY		
Retained Income	R 16,703,142	R 19,276,910
General Reserve	R 2,089,104	R 2,089,104
	R 18,792,246	R 21,366,014
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	R 6,069,557	R 5,777,544
Deferred income	R 5,568,739	R 5,637,568
	R 11,638,296	R 11,415,112
TOTAL EQUITY AND LIABILITIES	**R 30,430,542**	**R 32,781,126**

STATEMENT OF COMPREHENSIVE INCOME

FIGURES IN RAND		
Revenue	R 64,707,999	R 56,193,333
Other income	R 10,294,465	R 11,935,934
Operating expenses	(R 79,855,606)	(R 65,288,125)
Operating surplus/(deficit)	(R 4,853,142)	R 2,841,142
Investment revenue	R 2,279,375	R 2,313,870
Surplus/(deficit) for the year	(R 2,573,767)	R 5,155,012
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(R 2,573,767)**	**R 5,155,012**

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