Adult South Africans with access to a bank account: 80%

People employed by banks: 158,000

Black ownership of banks: 30.5%

Member banks: 32

Total bank lending: R3.4 Trillion

Pay as you earn tax paid by banks: R18 Billion

THE BANKING ASSOCIATION SOUTH AFRICA

ANNUAL REPORT 2018
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.
The past year was one in which the political, institutional and economic turmoil of our country made slow but steady progress. It was also a year in which all South Africans, especially leaders in government, business, labour and civil society, needed to take a long, hard look at the role they and their constituents played in causing – and must play in resolving – the challenges that confront our country today. For much of the year, through various commissions of inquiry, we heard, in painstaking detail of corruption in key institutions and the devastating effects this has had on the economy, the focus and levels of trust in society. Even as we make progress in restoring governance at many of our key institutions, these revelations – particularly of the challenges at Eskom – have had a negative effect on consumer, business and investment confidence.

During 2018, a number of our members testified at the Zondo Commission of Inquiry into State Capture, in respect of their closure of the so-called ‘Gupta accounts’. We believe our members, individually, did what was required by law and what was needed to protect their reputations and the deposits of their customers – the workers, companies and professionals of South Africa. It is their savings that banks use to facilitate investment in infrastructure and development, which is necessary for inclusive economic growth and wealth creation for all South Africans.

Banks have an important role to play in combating financial crime through, inter alia, their reporting obligations to the Financial Intelligence Centre (FIC) in respect of suspicious transactions and cash transactions above a designated threshold. While banks adhere to their obligations, it is the role of the FIC and the National Prosecuting Authority to interpret these reports, along with other information at their disposal, and to prosecute where necessary.

Banks have a vital role – alongside regulators – in creating a financial system that is safe, sound and enables inclusive economic growth. We should never 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. This does not mean that our members will never make mistakes; but when they do, how they react is vital. Our members continue to work closely with their stakeholders – like the South African Reserve Bank, the Prudential Authority and the Financial Sector Conduct Authority (FSCA) – to ensure that we conduct our business in an ethical manner and for the benefit of all our stakeholders. BASA has been clear and consistent that where our members are in contravention of the law, they must face the consequences. VBS was suspended from our association as soon as possible after the extent of wrongdoing at the mutual bank was revealed.

Transformation

As responsible corporate citizens, banks have long recognized that without inclusive economic growth, our business would not be able to thrive. During the course of 2018, BASA invested in research to show the progress that the banking industry has made towards meeting the targets set out in the Financial Sector Code (FSC), as well as the industry’s broader contribution to social and economic development in South Africa. The 2019 Transformation in Banking report and the studies that underpin it, show that while much work still lies ahead, the industry has exceeded many of the key transformation targets set out in the FSC.

Financial inclusion is at the core of the business of banking in South Africa. Since 2015, our members provided services that enabled more than 80% of adult South Africans to have access to transactional bank accounts. According to Finscope, in the Southern African Development Community (SADC), only Mauritius has a higher rate of financial inclusion, at 88% of adults in 2015.

Overall, banks have exceeded the target for black ownership, measured by voting rights. The FSC target for Black ownership is 25% (10% direct and 15% indirect). Between 2016 and 2017, black ownership fell from 34.8% to 30.5%, while black economic interest fell from 30.3% to 25.4%. This is largely because several empowerment deals have matured and black investors realised their gains and exited their investments. It is estimated that by 2015, black investors had realised R57 billion in value from bank empowerment deals.

Large banks are capital intensive and as a result, all around the world, their ownership is almost entirely institutional, with low levels of direct individual ownership. It is important for systemic stability that the owners of large banks are themselves capable of providing capital support in times of need.

Despite our achievements, there is a recognition that the performance of our member banks across key transformation measurements is uneven. BASA is drafting a comprehensive strategy to accelerate transformation in banking and the wider economy.

Given the unsustainable levels of unemployment, poverty and inequality in South Africa, banks accept that there will always be a demand for them to ‘do more’. While we accept this challenge, it must always be balanced against the ultimate responsibility banks have to safeguard the deposits entrusted to them by South Africans. As a vital part of the country’s economic infrastructure, banks must operate in a way that ensures they remain sustainable businesses that can offer their investors an appropriate return, in excess of their cost of capital.

“Banks use savings to facilitate investment in infrastructure and development, which is necessary for inclusive economic growth and wealth creation for all South Africans.”
Legislation
The past year has seen the introduction of some legislation that – despite good intent – could threaten the sustainability of the banking industry and the wider economy.

BASA supports debt intervention to assist low-income consumers whose circumstance have changed for the worse, through no fault of their own, and when formal debt counselling processes are inadequate.

However, BASA believes the National Credit Amendment Bill is not a sustainable debt intervention measure, as it fails to balance the rights of consumers and credit providers, making unintended consequences likely for the financial system and the wider economy. Banks have a fiduciary duty to protect the deposits of their savers and investors and cannot use these funds to extend credit if they cannot be sure the loans will be repaid.

BASA will continue to advocate for the strengthening and extension of existing debt relief measures, which have been proven to help educate and rehabilitate debtors and return them to the credit market.

In 2018, Parliament agreed to change Section 25 of the Constitution of the Republic of South Africa (1996) to allow for the expropriation of property without the payment of compensation. BASA acknowledges that the current ownership of land and the production of food in South Africa is not sustainable and have their origins in colonialism and apartheid.

However, we believe land reform should occur in an orderly manner that does not increase food insecurity, detract from property values or dilute property rights, or orderly manner that does not increase food insecurity.

Conclusion
At present, even the most optimistic projections for growth in 2019 and beyond are below what is required to make much faster progress on the structural economic reforms needed to increase our economic growth rate. Retaining our last investment-grade rating depends on us achieving faster and more inclusive economic expansion.

While progress has been made on the governance front, the strategic, structural, operational and financial challenges facing many of our state-owned enterprises – especially Eskom, given its systemic importance in the economy – need to be urgently addressed.

South Africa needs leaders of integrity who can honestly set out the seriousness of our economic crisis and the difficult trade-offs that need to be made between what we can afford now, and what we want in the future. Such leaders will find that South African banks are willing and committed partners in our common struggle against continued unemployment, poverty and inequality.

I would like to take this opportunity to thank my colleagues on the Board, the bank representatives who serve on BASA’s numerous committees, and the staff of the association. Your collective efforts have helped ensure that we represent our industry effectively, in legislative and regulatory processes, as well as playing our part in nation building.

Thank you.
The president moved quickly to address corruption, state capture and erosion of key institutions by appointing several judicial commissions to reveal the depth and breadth of the damage caused during the Zuma years. Some outcomes from the commissions included the appointment of a new South African Revenue Service commissioner; Edward Kieswetter; with Advocate Shamila Batohi being chosen to head the National Prosecuting Authority (NPA).

But BASA remains concerned about the lack of progress in addressing key economic challenges. These include resolving the financial and operating crises at Eskom and other state-owned enterprises, making necessary structural reforms to the economy, creating certainty in the regulatory environment to attract investment, and removing red tape impeding new business formation. South Africa is still growing at less than one percent, with just one major rating agency keeping us on the last rung of investment grade, with a stable outlook. We need urgent economic reforms to avoid a further downgrade.

The banking sector has managed to ride out these storms, although the volumes of business have been flat because of a lack of economic growth. In this difficult economic environment, BASA pursued its mandate of advancing the interests of the banking industry with its regulators, legislators and stakeholders. Much of the work that the association undertook in the past 12 months, especially engaging government departments and parliamentary committees on laws and regulations that affect the industry is part of a multi-year legislative process. Highlights of the association’s achievements in 2018, include:

• The Market Conduct Division constructively engaging with the relevant authorities on the Conduct of Financial Institutions (COFI) Bill. The Bill aims to promote the fair treatment of customers by all financial services institutions and fundamentally transforms the way many do business. BASA and its members are committed to being partners in a stable and resilient financial system that treats its customers fairly. This was only one of a myriad of submissions on behalf of the banking industry that the Market Conduct and Prudential divisions made to the regulators and legislators who govern financial institutions. BASA also engaged government on other key pieces of legislation that affected the work of banks, like the Debt Intervention Bill, the deposit insurance scheme, and the Insolvency Act.

• While South Africa has a world-class National Payments System (NPS), there is much work to be done to bring its benefits to the entire country. Wider access to the NPS is essential for greater financial and digital inclusion. While the banking industry supports these and other strategic policy objectives for the payments system, as set out in the Reserve Bank’s Vision 2025 for the NPS, the banking industry needs to have the capacity to robustly engage the regulator. BASA has created a Payments Division to nurture efficient collaboration between its members and key stakeholders in the NPS.

• To improve and strengthen the governance of the association, the BASA board appointed a company secretary in June 2018. This is important in the light of several corporate governance failures in South Africa in the past year, which have harmed the country’s – and companies – ability to attract investment. The BASA Board of Directors is committed to achieving best-practice corporate governance and seeks to adhere to the King Code of Corporate Governance, among other standards.

BASA also engaged the government on several other matters of national interest. The association and its members spent significant time putting together a ‘special purpose vehicle’ to channel funding to state-owned enterprises that banks could assist. However, this initiative stopped because of failure on the part of National Treasury to table a multi-year appropriation bill. We also worked with government to make the payment of social grants more efficient, processing identity documentation in banking halls and assisting with the payment of university student fees.

BASA also represents the industry on other business formations and is punching above its weight in global structures. BASA continues to host the Southern African Development Community Bank Association (SADC BA), which works to strengthen and integrate the regional banking system, among other objectives.

BASA is also the only African national association of banks that has membership of the International Banking Federation (IBFEd), which we chair. The IBFEd lobbies on behalf of banks at the Basel Committee on Banking Supervision, the Group of 20 economically significant countries (G20) and the International Financial Stability Board (FSB).

Through its work and expertise, and with the assistance of its members, BASA has been able to maintain productive, mutually respectful relations with its regulators and stakeholders, while effectively responding to legislative and regulatory proposals that affect the interests and business of banks.
The Financial Sector Regulation Act (FSRA) – better known as the ‘Twin Peaks’ regulations – aims to make South Africa’s financial system more resilient and to ensure that its customers are treated fairly.

In terms of the Act, a dedicated Prudential Authority will be responsible for ensuring and enhancing financial stability. In addition, the Financial Sector Conduct Authority (FSCA) was created to ensure institutions treat their customers fairly. The two regulators came into operation on 1 April 2018.

However, the FSRA has a fundamental impact on the business of banks and its provisions are being introduced over time, to ensure that it does not disrupt the smooth functioning of the financial system. BASA and its members are working with the relevant authorities on the new legislation and regulations that will give effect to the ‘Twin Peaks’ regulatory framework.

One of the crucial drivers for the ‘Twin Peaks’ reform was the need for stronger market conduct regulation so that the financial services institutions would better protect and promote the fair treatment of their customers. National Treasury published a discussion document – “Treating Customers Fairly in the Financial Sector: A Draft Market Conduct Framework for South Africa” – in 2014. The document indicated that financial sector laws were fragmented; a compliance-focused, tick-box approach to regulation contributed to the poor treatment of customers; and the legislative environment had not kept pace with the dynamic and increasingly interconnected sector. The document proposed that a single law be created to regulate the conduct of all financial institutions – the Conduct of Financial Institutions (COFI) Act. The COFI Bill, published in December 2018, is:

- Activity based. It will apply to all institutions – be it a bank or an insurance company – that offer similar services or products.
- Focused on principles and outcomes. This will allow the FSCA to monitor and enforce the achievement of outcomes, rather than compliance with the letter of the law.
- Risk-based and proportionate. The FSCA’s supervisory approach, the standards that it will set and the enforcement action that it will take, should always be proportionate to the risks undertaken.
- Supportive of transformation and financial inclusion. Financial institutions will be required to comply with the Broad-Based Black Economic Empowerment Code (B-BBEE).
- Supportive of competition and innovation. The Bill allows for different licensing and supervisory requirements for different companies. New entrants and smaller companies, which pose less risk to the financial system, will not be required to bear the same level of compliance as larger, more complex businesses.

The COFI Bill must be read with the FSCA’s strategy, which says it will:

- Be pre-emptive, proactive, intensive, intrusive and transparent, among other requirements.
- Embed the “Treating Customers Fairly” outcomes in the regulatory and supervisory frameworks.
- Develop conduct standards that combine principles and rules to achieve the desired outcomes.
- Build capacity for new functions, like overseeing banks, the payments industry, credit extension, and financial conglomerates, among others.
- Use the FSRA to strengthen regulatory, supervisory and enforcement processes, including customer redress.

BASA and its members are committed to being partners in a stable and resilient financial system that treats customers fairly. The association’s Market Conduct Division is constructively engaging with the relevant authorities, banks, legislators and other stakeholders on the COFI Bill.

Market Conduct

The Market Conduct Division is responsible for protecting and promoting the interests of the banking industry regarding legislation and regulation affecting its customers and clients.
National Credit Amendment Bill

ASA supports debt intervention to assist low-income consumers whose circumstance have changed for the worse, through no fault of their own, and where formal debt counselling processes provide inadequate relief.

However, the National Credit Amendment Bill is not a sustainable debt intervention measure, as it fails to balance the rights of consumers and credit providers, and it carries dangerous unintended consequences for the financial system and the wider economy.

The Bill gives the National Consumer Tribunal and courts the power to order a credit provider to expunge debt that was granted in a responsible manner. Because of the significant impact that such orders can have on credit providers, they will most likely reduce the amount of credit that they extend to consumers – or increase the interest on loans – to mitigate the risk that they will not be able to recover their funds.

This means that all consumers who earn R7 500 gross monthly income or less will likely struggle to obtain credit. It is possible that more of these consumers will be excluded from a well regulated credit market and be forced to obtain loans from unregulated credit providers.

The uncertainty is exacerbated by the fact that the minister can adjust the income and total unsecured debt thresholds, without proper consultation with relevant stakeholders such as credit providers.

The Bill is likely to create systemic risk in the credit industry. The retail and micro-finance sectors will be particularly hard hit, with associated job and financial losses. It will also impact the corporate banking industry, which has exposure to consumers in debt review.

The Bill is not a sustainable debt intervention measure, as it fails to balance the rights of consumers and credit providers, and it carries dangerous unintended consequences for the financial system and the wider economy.

We are of the view that consumers can be better and sooner assisted by:

- Enhancing the current debt review process to assist the over-indebted.
- Reducing the scope of application by decreasing the income threshold to a level that is more appropriate, like the minimum wage level. The present thresholds of R7 500 monthly income and R50 000 or less unsecured debt are arbitrary and not well motivated.
- The expungement of debt not being legislated so that consumers who fall within these thresholds continue to access credit in the regulated credit market at an affordable price.
- Reforming the insolvency regime so that all of a consumer’s debt forms part of the assistance. As it stands, debts like municipal services, electricity, cellphones – all of which speak to living needs – do not form part of the proposed debt intervention mechanism.

The banking system has, as of one of its foundations, an undertaking by borrowers to repay the loans that they obtain from banks. Any compromise to this principle will have severe consequences for those South African workers, professionals and companies who entrust their salaries and savings to banks, to invest in productive infrastructure, personal loans and commercial ventures.

Electronic Deeds Registries Bill

The Electronic Deeds Registries Bill, which was opened for public commentary during 2018, enables the conversion of the paper-based deeds registry to an electronic e-cadastre. Globally e-cadastres have revolutionised immoveable property transactions, stripping out much of the lengthy processes and costs incurred by consumers when seeking to transact on an immoveable property. It will take at least a decade for the system to become fully functional. Some 450 million documents must be moved onto the electronic platform, and electronic interfaces created between the numerous state entities required to authorise such a transaction. Secure, reliable electronic transactional and access platforms must be built. The benefits to consumers and mortgagees alike will be significant. BASA is seeking to partner with the Deeds Registry Office in order to add its expertise and capacity to this critical and strategically important project.

Property Practitioners Bill

There are currently a number of unregulated immoveable property intermediaries. As a result, many home owners frequently experience financial and contractual difficulties and losses.

BASA has long lobbied for all immoveable property intermediaries to be regulated. The association is pleased that, in terms of this bill, the Estate Agents Affairs Board, which currently regulates estate agents, is to broaden their regulatory control to include all immoveable property intermediaries.

While BASA has some concerns with the Bill in its current format, we support the strategic intent of this far-reaching Bill, to increase consumer protection and stability within the immoveable property sector.

Market Conduct submissions can be found on www.banking.org.za.
Social Grants

The Constitutional Court ordered the South African Social Security Agency (SASSA) and the Department of Social Development (DSD) to find an alternative service provider to CashPaymaster Services (CPS), for the distribution of social grants, effectively by 1 April, 2018.

BASA and its members had long made it clear that they were willing to make the country’s banking infrastructure available for the payment of grants, in the national interest and without a desire to profit. But, SASSA and DSD were in favour of the creation of a bespoke account for grant beneficiaries, which was an unnecessary, time-consuming exercise, given the

However, the Expert Panel – appointed by the Constitutional Court to oversee the ending of the CPS contract, among other responsibilities – and the Inter-ministerial Committee on social grants, were in favour of beneficiaries being able to receive their grants in commercial bank accounts of their choice, among other options.

BASA advised that there should be a matching exercise between the SASSA beneficiary database and existing bank accounts of beneficiaries, which was an unnecessary, time-consuming exercise, given the then looming April 1 deadline.

However, the Expert Panel – appointed by the Constitutional Court to oversee the ending of the CPS contract, among other responsibilities – and the Inter-ministerial Committee on social grants, were in favour of beneficiaries being able to receive their grants in commercial bank accounts of their choice, among other options.

In February 2018, BASA issued a statement urging that: “SASSA accept the bona fides of banks, as we accept theirs. The bottom line is that existing banking infrastructure and products can cost-effectively, securely and without abuse deliver social grants from 1 April, 2018.” Some banks, being mindful of the pending crisis and lack of communication with stakeholders, concentrated their efforts on opening bank accounts for beneficiaries to ensure that they would be able to receive their grant money.

BASA continued to have bilateral meetings and conversations with SASSA officials and employees to identify and resolve problems, misunderstandings and misconceptions. Among these efforts was an information-sharing session BASA facilitated between SASSA and Payments Association South Africa (PASA) to better understand the problem of unauthorised debit-orders on beneficiary accounts.

Things changed significantly for the better following a cabinet reshuffle and the appointment of a new political head to DSD. By the end of the February, some 10.6 million beneficiary details were given to BankServ and it was established that more than 8 million had bank accounts, some of which were not utilised for grant payments. SASSA, BASA and banks then worked in partnership to ensure that grant beneficiaries were paid on 1 April, with minimal disruption.

In May 2018, BASA and SASSA agreed to enter into a Memorandum of Understanding (MOU) on the working relationship between banks and SASSA. Currently, the partners meet monthly to deal with challenges like stopping payment to fraudulent accounts, or staggering payment dates. By the end of 2018, up to 77% of grant withdrawals were being done at ATMs.

In February 2018, the National Assembly established a Parliamentary Constitutional Review Committee to make recommendations on whether there was a need to change Section 25 of the Constitution, to allow for the expropriation of property without the payment of compensation.

Extensive public consultation followed until 21 December 2018, at which time the National Assembly passed a motion to establish another committee to recommend changes to Section 25 of the Constitution. We expect the wording for the proposed amendment to be enacted by mid-2019.

BASA supports meaningful land and agrarian reform as the current land ownership and production patterns are not sustainable, and have their roots in colonialism and apartheid. However, the association believes that land reform should occur in an orderly manner that does not increase food insecurity, detract from property values or dilute property rights, increase unemployment or negatively impact on investment and economic growth.

The High Level Panel Report, “The Assessment of Key Legislation and The Acceleration of Fundamental Change in South Africa” (2017), chaired by former President Kgalema Motlanthe, expressed the view that Section 25 of the Constitution already makes provision for compensation to be ‘just and equitable’, and this compensation could range from zero to above market value, dependent on individual circumstances.

Section 25 also imposes an obligation on the state to create a right of access to the country’s resources, including land, on an equitable basis in order to address past racial discrimination.

However Section 25 has to be read with Section 36(1), the limitation of rights clause, which requires this to be reasonable and justifiable in a democratic society based on human dignity, equality and freedom.

The conclusions of the High Level Panel Report are supported by opinions expressed by multiple legal experts. BASA is therefore of the view that there is no need to amend Section 25 of the Constitution.

South African banks remain committed to finding practical solutions to the challenges of unemployment, poverty and inequality, which includes land and agrarian reform. To this end, banks committed up to R1 billion per annum for land redistribution at the 2018 Jobs Summit.

We also expect a review of current policy frameworks and that partnerships between key stakeholders, including financiers, will accelerate land and agrarian reform. We remain optimistic that a practical but equitable solution which is both sustainable and socially and economically viable, will evolve in 2019.

As at 20 February 2019

14 647 701
GRANTS TRANSACTIONS WERE PROCESSED

of which 58% were done at ATMs

40% at Points of Sale

and 2% at SAPO over-the-counter and cash-papoint withdrawals

Expropriation Without Compensation

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Prudential

The Prudential Division represents the interests of banks that are licensed to operate in South Africa to the local and international authorities who regulate the industry.

Cloud computing

The Prudential Authority (PA) set out a challenging position on offshore data storage, in a proposed directive and guidance note for consultation. It is understood that the authority will set requirements for the safety of South African bank data in cloud storage. However, global data security standards for cloud technology, and those of individual banks, must be taken into consideration.

IT and cyber security

Cyber resilience remains a key priority and the PA has issued a proposed directive requiring the reporting of all material IT and cyber failures or incidents. Materiality will be interpreted differently by each bank, but the reports should provide important insights into how banks view these risks.

Resolution bill

After a number of years of work with the Financial Stability Department of the South African Reserve Bank, the Financial Sector Laws Amendment Bill was published for comment. The bill contains a framework for the orderly resolution, or ‘winding down’ of failing banks. It also provides for the establishment of a deposit insurance scheme to protect funds and allow for speedy payouts.

Levies bill

South African banks have always been well regulated. The rebranding of the Bank Supervision Department to the PA has increased licensing costs for large banks from R300 000 a year to R45 million, while retaining the old funding model. The compulsory changes in legislation are to ensure that the non-defaulting party has access to the initial margin pledged in its favour. This will allow it to settle the debt owed to itself and make good on the debts owed to its clients and its other hedge counterparties, for example, foreign banks. This mechanism would protect South African banks if a foreign bank or financial institution became insolvent. Reciprocal legal provisions have been adopted into the domestic laws of the applicable foreign jurisdictions. The foreign margin regimes of the other Group of 20 (G20) countries will start to impact South African banks as early as 1 September 2019, as the Insolvency Act will be recalibrated to reduce costs to customers. With a number of additional costs still to be finalised, banking profitability is under pressure.

Global Margin Rules vs the Insolvency Act

Global over-the-counter (OTC) derivatives markets have experienced significant reforms in recent years to increase the safety and soundness of the financial markets. A significant inclusion is the obligation for counterparties to collect and post initial margin (IM) and variation margin (VM) on non-centrally cleared OTC derivative contracts. The margin rules require that for collateral to be eligible as IM, the counterparty must be able to promptly liquidate the collateral in the case of a default (including insolvency) by the posting party. The South African Insolvency Act does not fully allow for the prompt liquidation of pledged collateral, where the party is required to go through a curator or master process.

The compulsory changes in legislation are to ensure that the non-defaulting party has access to the initial margin pledged in its favour. This will allow it to settle the debt owed to itself and make good on the debts owed to its clients and its other hedge counterparties, for example, foreign banks. This mechanism would protect South African banks if a foreign bank or financial institution became insolvent. Reciprocal legal provisions have been adopted into the domestic laws of the applicable foreign jurisdictions. The foreign margin regimes of the other Group of 20 (G20) countries will start to impact South African banks as early as 1 September 2019, as the Insolvency Act will be recalibrated to reduce costs to customers. With a number of additional costs still to be finalised, banking profitability is under pressure.

Sovereign risk weightings in local currency

National discretion to apply a zero-risk weighting to sovereign risk in local currency is being challenged by the Fundamental Review of the Trading Book. Developed markets will attract a 0.5% risk weighting and South Africa’s credit rating could imply a risk weighting of up to 3%. It is hoped that the recalibration of credit spread risk weights for local currency debt will address the unintended consequence that domestic money market instruments now attract a 12% credit-spread capital charge.

The Foreign Exchange Committee

The South African Reserve Bank (SARB) is a member of the Global Foreign Exchange Committee and has endorsed the FX Global Code for our members. The code was established to promote fair and transparent markets and comply with international best practice. BASA and its members are actively engaging SARB on the implementation of the code.

Financial Markets Review Committee

The SARB, National Treasury and Financial Sector Conduct Authority (FSCA) launched a comprehensive review of South Africa’s wholesale financial markets. The Financial Markets Review Committee developed recommendations to reinforce standards of conduct in wholesale financial markets. The work of the committee resulted in 43 recommendations for consideration by policymakers that will assist the authorities in enhancing the integrity and regulatory framework of wholesale financial markets in South Africa.

Benchmark Interest Rate Reforms

The South African Reserve Bank has set up a joint public and private sector group referred to as the Market Practitioners Group (MPG). The MPG will work on proposals to reform key interest rate benchmarks used in the South African markets, as well as a suite of new benchmarks that could be used to reference interest rates, such as Risk Free Rates. These reform efforts are consistent with the SARB’s endorsement of the coordinated efforts by global regulators and central banks to ensure that interest rate benchmarks are credible, accurate and trusted by customers and financial market participants.

Other key submissions by the Prudential Division are:

- Basel Committee on Banking Supervision (BCBS) Simplified Standardised Approach to Market Risk
- Response to draft Johannesburg Stock Exchange (JSE) Debt Listing Requirements
- Proposal on Basel Shock Calibration parameters
- Proposal on Treatment of Internal Risk Transfer
- Proposal on the Measurement of Basis Risk
- Proposal on Amendments to Exchange Control Rulings to allow OTC Derivatives on Inward Listed Shares
- Response to FSCA Code of Conduct for Securities Financing Transactions
- Response to SARB on the proposed directive: “Pillar 3 Disclosure Requirements”
- Response to BCBS consultative document: “Pillar 3: Updated Framework”
- Consultation paper on policy proposals for Crypto Assets

Prudential submissions can be found on www.banking.org.za.
In the past year, there have been moves to allow state-owned companies to register and operate as banks, under the Banks Amendment Bill. The bill seeks to amend the Banks Act to make it possible for state-owned enterprises to be licensed to conduct the business of a bank.

The South African Reserve Bank (SARB), the Land Bank, the Development Bank of Southern Africa (DBSA), the Public Investment Commissioners and mutual banks are among those institutions that are exempted from the Banks Act. These entities are typically governed by other pieces of legislation, like the South African Reserve Bank Act and the Development Bank of Southern Africa Act.

In the main, development banks are aimed at addressing market failures in the provision of finance. They support those market segments that are not well served by the financial system. These include projects whose social benefits exceed their commercial sustainability; or risky ventures, such as new technologies, projects in poor or distant regions, or small borrowers who lack collateral. The Postbank is a state-owned bank that is exempt from the banking legislation by the National Treasury, as it does not issue loans. Ithala is wholly owned by the KwaZulu-Natal government and is geared towards government developmental priorities, including the provision of accessible banking. Both entities are in the process of applying for a full commercial banking licence, which would allow them to offer more than their current services.

BASA and its members are open to competition that provides consumers with greater choice. However, state-owned banks must be subject to the same regulatory supervision, as any other. This will ensure a level playing field and mitigate potential systemic risks to the country’s financial system.

This is where the independence of the SARB becomes important. Protected by the Constitution, effective independence will mean no political interference by the state.

The SARB has also highlighted the importance of having an explicit and privately funded Deposit Insurance Scheme (DIS) to ensure the effective resolution of failing financial institutions without severe systemic disruption or exposing taxpayers to losses. Systemic risk occurs when the failure of one entity can lead to others also failing.

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In its comments on the Banks Amendment Bill, BASA and its members said they have no objection to the introduction of state-owned banks to the country. BASA supports the introduction of new banks to the market. However, state-owned banks must be subject to the same regulatory supervision, by the SARB, as any other. This will ensure a level playing field and mitigate potential systemic risks to the country’s financial system.

This is where the independence of the SARB becomes important. Protected by the Constitution, effective independence will mean no political interference by the state.

The South African Reserve Bank Amendment Bill seeks to end public shareholding in the SARB. But, with a public shareholding there is greater accountability to all the shareholders, transparency and the opportunity to interrogate activities. The closure of accounts involved in suspicious transactions by commercial banks, within the requirements of the Financial Action Task Force and the resolute support of the SARB, dealt a blow to corruption in South Africa. BASA will continue to support the independence of the Reserve Bank.

As shareholders in the SARB, South African banks are under no illusion that they have the power to influence monetary policy or any other aspect of reserve bank policy. The board and other structures of the SARB are appointed directly by the president or the minister of finance. Banks also do not support the view that as shareholders in the SARB, they own the reserves of the country.
Payments

Payments are how people, businesses and the government transfer money, to pay for goods and services, and draw cash. The entire system of rules, technologies, processes, agreements, standards, people and knowledge that makes these transfers possible, is collectively known as the National Payment System (NPS).

Practically, the NPS comprises payment streams, services and products that are constantly evolving in response to the needs of the market they serve. Cards offer a safe and convenient way to purchase goods and services, in real time, anywhere in the world. Debit orders, on the other hand, require minimal assistance from the account holder and are initiated by the collecting merchant, based on pre-agreed conditions.

But the NPS is not defined by technology. Its value lies in fairly connecting systems of varying scale, scope and constitution. Its integrity is maintained through robust operational, legal and financial processes.

While South Africa’s NPS is regarded as world class, there is work to be done to bring its benefits to the entire economic population. Wider access to the NPS is an essential stepping stone to greater financial and digital inclusion and increased national productivity and competitiveness.

The NPS falls under the jurisdiction of the South African Reserve Bank (SARB), specifically its National Payment System department. After broad consultation, the department formulated Vision 2025 for the NPS, which set nine goals for the industry:

- Financial inclusion
- Competition and innovation
- Regional Integration
- Transparency and public accountability
- Cost-effectiveness
- Interoperability
- Clear and transparent regulatory and governance frameworks
- Financial stability and security
- Flexibility and adaptability.

These strategic policy objectives are supported by the banking industry. At the same time, South Africa is changing to a Twin Peaks system of financial regulation, which will enable regulation, oversight and supervision by both a prudential regulator and a new financial sector conduct authority.

In light of these changes, and after a rigorous process of engagement with members and stakeholders, it was decided that BASA should be the official, senior representative of the banking industry on interbank payments and cash. The Payments Division was established in November 2018 to assist BASA in executing this mandate.

The broad purpose of the payments division is to work towards the long-term health and vitality of the NPS. It does this by nurturing efficient collaboration between its members, and healthy engagement with key stakeholders. BASA also serves on the new Payments Council, a senior body run by the SARB, which will guide developments in the NPS.

Priorities in 2019 include:

‘Twin Peaks’
Banks are working with the relevant stakeholders to align the NPS with the ‘Twin Peaks’ regulatory regime and Vision 2025.

Strategic Cash Management
It is crucial for most South Africans that cash be of high quality, secure and available when needed. Banks are working with the SARB and other key stakeholders to ensure risks and costs are effectively managed.

A future NPS
While the NPS has served South Africa well, it must be reviewed from time to time, so that it remains relevant, efficient and a platform for interoperability and innovation. BASA evaluates proposed changes against strategic objectives and guides the banking industry’s investments in the system.

SADC
South African banks recognise the strategic importance of a regional payments system. The Payments Division is tasked with establishing a more distinct voice for South African banks in the development of an Southern African Development Community (SADC) payments system.

Debicheck
Debicheck, the initiative to build an authenticated mandate system for debit orders to prevent abuse, is in its final stretch. The technical build is complete and focus now shifts to its adoption by businesses. BASA represents banks, who will use Debicheck.

Advocacy
The Payments Division proactively engages with policymakers and regulators on an ongoing basis, and has already provided its stakeholders with in-depth analysis on matters including the reduction of cheque item limits; the processing of domestic card payments; payments processing in South Africa; and the treatment of payroll deductions.
Financial Inclusion

The Financial Inclusion Division promotes access to — and the use of — a range of affordable, quality financial services and products. These services must be convenient to the financially excluded, unbanked and under-banked. Financial inclusion empowers clients to make informed financial decisions.

It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own self-interest. We address ourselves not to their humanity but to their self-love, and never talk to them of our own necessities, but of their advantages.

— Adam Smith, 1776

Small and Medium Enterprises

In 2018 FinFind, an innovative, online platform that automatically matches those seeking business finance with appropriate funders — whose development BASA co-funded in 2017 — released a report on SMME access to finance. It found:

• The SMME credit gap in South Africa is estimated to be between R86 billion and R346 billion.
• The SMME sector is varied in terms of location, size and industry. Notwithstanding the opportunity of the SMME market, the higher risks and costs associated with this sector remain a deterrent for funders.
• Many SMMEs struggle with financial literacy, financial planning and management.
• Many SMMEs that are eligible for funding are unable to produce the financial documentation required by funders to assess bankability and affordability, which is needed to approve their applications.

Another study undertaken by BASA, conducted by Osiba Management, identifies hurdles faced by financial institutions in funding SMMEs. The study found that financial institutions, especially banks, have a strong risk aversion to SMMEs, particularly start-ups and smaller businesses. This tends to be because of unviable business proposals, a lack of financial management knowledge and discipline, and applications for the wrong type of funding.

The weak economy, the regulatory environment — especially the National Credit Act, with its onerous regulation on reckless lending — and late payment by government, which has resulted in its business increasingly being seen as an unreliable source of cashflow to service loans, all contribute to banks’ reluctance to lend to SMMEs.

BASA partners with a range of stakeholders to pilot initiatives that promise solutions to some of these problems. We are supporting government’s effort to design a new credit guarantee scheme to replace the old, ineffective Khula Credit Guarantee. A well functioning and effective credit guarantee scheme lowers lenders’ risk, making loans accessible to borrowers that otherwise would have been excluded from the lending market.

In 2018, banks participated in a study on SMME opportunities in South Africa by the International Finance Cooperation (IFC). The study found:

• The SMME sector in South Africa has been relatively stagnant over the past decade. Stats SA estimates that there were 2.3 million SMMEs in 2017, compared to 2 million in 2008.
• Black ownership of SMMEs declined in the past 10 years to 76% in 2017 from 79% in 2008, with black ownership heavily concentrated amongst micro enterprises.
• Total funding provided to the SMME sector is currently R230 billion. Commercial banks account for 68.9% of the financing extended to formal SMMEs.

BASA is also supporting an initiative, led by the South African Credit Risk Reporting Association (SACRRA), to share SMME credit information amongst credit providers, to bridge the information gap between the banks and those applying for small business loans.
Social Development

Banks spent just more than R5 billion on skills development and various corporate social investment initiatives. Education received two-thirds of bank socio-economic development spending.

Three quarters of skills development spend targeted employees at middle and junior management levels. Black and female employees were the major beneficiaries of skills development spend.

These are the results of a study conducted by Triologue on behalf of BASA to quantify the contribution of banks to social development, as well as to identify the types of activities that are receiving the largest share of support.

In terms of PAYE, banks paid R16.5 billion in 2016 and just less than R18 billion in 2017.

Access to Financial Services

Financial inclusion in South Africa is surveyed annually through FinScope, which is conducted by FinMark Trust. In 2016 and 2017, the FinScope survey showed that the percentage of adults with a transactional bank account – a global measure of financial inclusion – had remained static at 77%. The 2018 figure increased to 80%. It is likely that this statistic will increase further with the entry of new banks into the South African market.

When sales and service points are combined, the industry coverage – which provides for individuals to be brought into their ranks. Most notably, 84% of the 54,000 junior managers in the industry are black.

Conclusion

Banks are playing a critical role in facilitating transformation and financial inclusion – in some instances going beyond what is expected of them by the FSC. The various reports that evidence this are available on the BASA website. They highlight areas where banks are doing well, as well as their shortcomings. Many of their findings and recommendations will be used in the review of the FSC. BASA has also developed a transformation strategy that will be approved by the board in 2019. It aims to accelerate transformation where banks are already performing well, and identify areas that will receive more attention.

Transformation

A 2018 study conducted by research agency Interfelex, on behalf of BASA, highlighted that:

- In 2017, banks spent R7.1 billion on procurement of goods and services from local and international suppliers. More than R20 billion of this was spent on black-controlled companies (at least 51% black-owned) and just more than R14 billion from businesses that are at least 30% black women-controlled. R14.4 billion was spent on small businesses.
- Overall, banks have exceeded the target for black ownership, measured by voting rights. However, between 2016 and 2017 this fell from 34.8% to 30.5%, while black economic interest fell from 30.3% to 25.4%.
- Lending for BEE transactions increased by 13.6%, affordable housing by 26%, black agriculture by 20.6%, and transformational infrastructure by 7.6%. Unfortunately, lending to black small and medium enterprises shrank (-7.7%).
- Total industry lending at the end of 2017 was R3.4 trillion, implying that targeted loans are now 7.3% of total loan books.
- Banks employ approximately 158,000 people and have brought many black employees and managers into their ranks. Most notably, 84% of the 54,000 junior managers in the industry are black.

In 2018, an evaluation of the StarSaver™ programme identified the need to strengthen its monitoring and evaluation, to better account for the impact of the programme. Other recommendations included:

- Revisiting the objective of instilling a culture of saving among learners, and to rather focus on creating financial awareness, given that most learners do not have access to regular income.
- Exploring the use of new channels to improve the quality and increase the reach of StarSaver™, to include higher-learning institutions and workplaces, among others.
- Improving the training of volunteers and exploring the use of external qualified financial-education facilitators.
- Finding opportunities for participating institutions to extend their involvement with schools beyond a single StarSaver™ lesson.
- Including content for parents, which would deal with topics like “How to talk about money at home”.
- Prioritising the roll-out of the programme to underserved areas.

BASA has begun implementing the recommendations of the evaluation report. The process to appoint a partner to develop an interactive digital-educational platform to deliver StarSaver™ is currently underway. BASA is also increasing the use of community radio to extend the reach of the programme. A detailed monitoring and evaluation system has been designed for StarSaver™ and is now ready for implementation.

Financial education

The Financial Sector Code requires banks and other institutions to spend 0.4% of their Net Profit After Tax on consumer financial education. This amounted to R153 million in 2018.

Nearly 80% of the consumer financial education spend went into interactive educational programmes and awareness campaigns.

BASA has engaged the Association for Savings and Investment South Africa (ASISA) to explore collaborating on rolling out consumer financial education. ASISA has a foundation dedicated to consumer financial education and is open to its catering to others in the sector. The heads of consumer financial education from different institutions will meet to work out the best way to collaborate across the sector.
Strategy and Communications

The Strategy and Communications Division is tasked with identifying and helping to manage social and political risks in the banking environment; stakeholder engagement and managing public relations and strategic communications for BASA.

In July 2018, the BASA board executive formally adopted a three-year communication strategy for the association. The strategy notes that in the medium term, South Africa is likely to be characterised by social instability and political uncertainty because of increasing unemployment, poverty and inequality, persistently sluggish economic growth, and sharper competition for state power and resources. It is in this volatile environment that the division is working to increase stakeholder trust in the banking industry, especially among public representatives, the media, government and our regulators. The key messages for the broader banking stakeholder community are:

- Banks are committed to helping transform South Africa and growing and developing its economy. Unless the country succeeds, banks will not have a sustainable, profitable business that can service the needs of their customers, shareholders and broader stakeholders. Increasing financial inclusion is a core part of the business of banking in South Africa.

- We hold in trust the salaries and savings of all South African professionals, workers and companies. We have a fiduciary duty to protect these savings and are regulated by domestic and international laws to ensure our customers’ money is not placed at risk. This means we cannot support initiatives and ventures that are not sustainable, or commercially viable.

Strategic Issues Committee

In line with the communications strategy, BASA has established a Strategic Issues Committee, which includes bank representatives responsible for communications, strategic issues management, regulatory advocacy and stakeholder relations. The aim of the committee is to:

- Help formulate industry positions on social, political and economic challenges in the banking environment that fall outside the scope of prudential and market conduct legislation and regulation.

- Proactively engage key stakeholders to build the credibility of the industry and trust in its institutions, while identifying material social and political risks to the reputation and business of banks. To this end, the Strategic Issues Committee is kept up to date on prudential and market conduct regulation in the industry.

- Be a platform where banks can share best practice in stakeholder engagement, communication and strategic issues management.

The committee met for the first time in September 2018. Since then, it has set out its terms of reference, considered a draft policy on best practice in ethical regulatory advocacy and lobbying; and undertaken research into the implications of the Commission of Inquiry into Allegations of State Capture for the banking industry and its reputation.

Stakeholder engagement

The division regularly hosted media briefings and meet with publishing houses, to highlight achievements or concerns in the industry. During the past year, the division engaged the media on the National Credit Amendment Bill, the creation of a state bank transformation in the financial sector; land reform, the distribution of social grants, and the state of the economy.

BASA also released media statements announcing the suspension of VBS Bank from the association and welcoming the appointment of finance minister Tito Mboweni, among others.

The division hosted a series of ‘First Friday’ discussions with government officials, researchers, academics and community leaders, to better understand the material concerns of stakeholders in the broader banking operating environment. Topics included:

- Strengthening good governance in the country
- Public participation in parliament and the legislative process
- Fintech and the 4th Industrial Revolution
- Social cohesion in South Africa
- Islamic banking
- The nationalisation of the South African Reserve Bank
- Crypto Currencies and Blockchain

Conclusion

For BASA and its members, the coming year will be as challenging – if not more so – than the last. In the face of persistently high unemployment, crippling poverty and dangerous levels of inequality, banks will face increasingly student demands to ‘do more’. In the year ahead, the division will have to work harder than ever to explain the importance of banking and financial services to the economy, while managing expectations about what they can sustainably contribute to society.
**GROWTH AND GOVERNANCE**

For banks – and business as a whole – the challenge now is how best to rebuild and strengthen state and corporate governance in South Africa.

But, even as the country was dealing with the challenges of state capture, poor governance in the private sector was highlighted by the collapse of the furniture group Steinhoff, and VBS Bank.

The resulting crises of confidence in auditors and the auditing profession undermined the investment case for South African companies – and the country. South Africa handouts and is working towards inclusive economic growth.

The shared services division is responsible for administrative and corporate support functions, including human resource and facilities management, and information technology.

**Staff**

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

The human resource and staff management function is a priority for the division. The association has a total of 39 employees, ranging from senior general managers, who head the six operational divisions, to researchers and programme managers.

BASA is striving to meet the employment equity targets set out in the Financial Sector Code.

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**SHARED SERVICES**

The Shared Services division is responsible for administrative and corporate support functions, including human resource and facilities management, and information technology.

To increase operational efficiencies and reduce costs, BASA has been improving its information and communication technology and smart systems.

All meeting rooms have been equipped with Skype for Business facilities, increasing BASA’s ability to host virtual meetings and alleviate parking congestion. There has been a significant increase in the use of these systems.

As BASA increases its use of smart systems, cyber security becomes even more important. All staff devices, both mobile and laptops, are covered with the latest security measures.

To reduce the use of paper, the association is encouraging all staff members to make use of electronic documentation and newspapers. Executive and management committee members can make use of cloud services like One Drive, One Note and Convene to access their documents.

Pascoes for employees have been installed on all printers to save costs and safeguard confidential prints.

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**Employment Equity**

December 2018

<table>
<thead>
<tr>
<th>Ethnicity</th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>21</td>
<td>4</td>
<td>25</td>
</tr>
<tr>
<td>Indian</td>
<td>2</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>White</td>
<td>10</td>
<td>12</td>
<td>22</td>
</tr>
<tr>
<td>Coloured</td>
<td>2</td>
<td>0</td>
<td>2</td>
</tr>
</tbody>
</table>

**Other**

6 Indian: 17%  
24%  
55%  
22 Female 17 Male
The aim is to ensure that BASA is able to ‘apply and explain’ the principles of the King IV report. Good governance is necessary to maintain a credible legal and ethical position with the association’s stakeholders. This is especially important in light of the corporate governance irregularities that have surfaced in South Africa in recent times.

In June 2018, the Board resolved to appoint a company secretary, even though, as a not-for-profit organisation, BASA is not required to do so by the Companies Act. The office has focused on the following high priority items:

**The Board Charter**

The Board Charter clearly outlines the appointment process and knowledge, skills and expertise required from Board members. The document was formally adopted and the Board has agreed to be bound by such terms, conditions and provisions as contained in its charter.

**Memorandum of Incorporation**

To avoid conflict with the new Companies Act, it became necessary for BASA to amend its Memorandum of Incorporation (MoI). The new MoI is expected to be adopted and lodged with the Companies and Intellectual Property Commission (CIPC) by the end of June 2019. In terms of the new MoI, BASA can now suspend members who bring the banking industry into disrepute.

**New Board committees**

In keeping with good governance practice, the Board resolved to establish two new committees: Audit and Risk Committee (mandated by legislation) and a Remuneration and Ethics Committee (recommended by King IV). The membership of these two committees was finalised in the first quarter of 2019.

**Terms of Reference**

The duties and responsibilities of every Board committee are recorded in a formal Terms of Reference, which is subject to review and approval by the Board, annually or as may be required. The Company Secretary drafted the terms of reference for the board executive committee, which has been officially adopted.

**Administrative Support**

The company secretary provides practical support to the chairman of the board, the managing director and the chairs of board committees to ensure that meetings are managed effectively. The BASA board met twice in 2018.
We have audited the financial statements of the BASA (NPC), which comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other 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 BASA (NPC) as at 31 December 2018 and its financial performance and basis for opinion

Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing 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 and the supplementary information. 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 an audit opinion or 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.

Responsibilities of the directors

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities 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 misstatement, 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.

Auditors’ responsibilities for the audit of the financial statements

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 ISAs, we exercise professional judgement and maintain professional scepticism 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.

• Observe 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 auditors’ 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 auditors’ report. However, future events or conditions may cause the company 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.

N C Kyrkiou
SizweNtsalubaGobodo Grant Thornton Inc
Registered Auditor
30 April 2019
Summit Place, Building II
221 Garstfontein Road
Menlyn
P.O. Box 221
(012) 300 8000

Independent Auditors’ Report
The Banking Association South Africa NPC
The directors have pleasure in submitting their report on the annual financial statements of BASA (NPC) for the year ended 31 December 2018.

1. Nature of business
The BASA was established with the primary objective of promoting proactively the interests of the banking industry amongst its various stakeholders. The company is registered as a non-profit company in accordance with item 1(1) of chapter 1 of the Companies Act of South Africa of 2008, as amended.

There have been no material changes to the nature of the company’s business from the prior year.

2. Review of financial results and activities
The annual financial statements have been prepared in accordance with International Financial Reporting Standards for Small and Medium-sized Entities and the requirements of the Companies Act 71 of 2008. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the company are set out in these annual financial statements.

4. Events after the reporting period
The directors are not aware of any material event which occurred after the reporting date and up to the date of this report.

5. Secretary
The company secretary is Nonhlanhla Buthelezi.

Postal address
PO Box 61674
Marshalltown
2107

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

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

Statement of Financial Position as at 31 December 2018

<table>
<thead>
<tr>
<th>Figures in Rand</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>1,497,361</td>
<td>1,731,312</td>
</tr>
<tr>
<td>Current Assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>1,566,932</td>
<td>834,875</td>
</tr>
<tr>
<td>Other financial assets</td>
<td>71,671</td>
<td>2,200,002</td>
</tr>
<tr>
<td>Prepayments</td>
<td>2,150,208</td>
<td>1,630,336</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>21,886,986</td>
<td>24,026,017</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>25,680,797</td>
<td>28,699,230</td>
</tr>
</tbody>
</table>

| **Equity and Liabilities** |            |            |
| Equity |            |            |
| General reserve | - | 2,089,104 |
| Accumulated surplus | 11,524,279 | 16,703,142 |
| **Total Equity and Liabilities** | 27,178,158 | 30,430,542 |

| Liabilities |            |            |
| Current Liabilities |          |            |
| Trade and other payables | 9,554,434 | 6,069,557 |
| Deferred income | 6,097,445 | 5,568,739 |
| **Total Equity and Liabilities** | 15,651,879 | 11,638,296 |

Statement of Comprehensive Income

<table>
<thead>
<tr>
<th>Figures in Rand</th>
<th>2018</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>72,903,537</td>
<td>64,707,999</td>
</tr>
<tr>
<td>Other operating income</td>
<td>14,185,550</td>
<td>10,294,465</td>
</tr>
<tr>
<td>Other operating gains (losses)</td>
<td>(5,408)</td>
<td>(1,674)</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>(96,703,782)</td>
<td>(79,853,932)</td>
</tr>
<tr>
<td><strong>Operating surplus/ (deficit)</strong></td>
<td>(9,620,103)</td>
<td>(4,853,142)</td>
</tr>
<tr>
<td>Investment income</td>
<td>2,352,136</td>
<td>2,279,375</td>
</tr>
<tr>
<td><strong>Surplus/ (deficit) for the year</strong></td>
<td>(7,267,967)</td>
<td>(2,573,767)</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total comprehensive surplus (deficit) for the year</strong></td>
<td>(7,267,967)</td>
<td>(2,573,767)</td>
</tr>
</tbody>
</table>