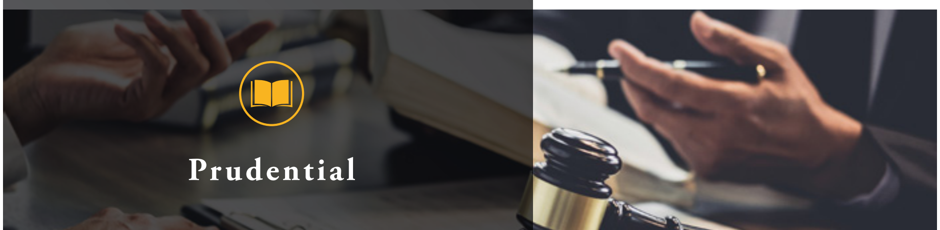
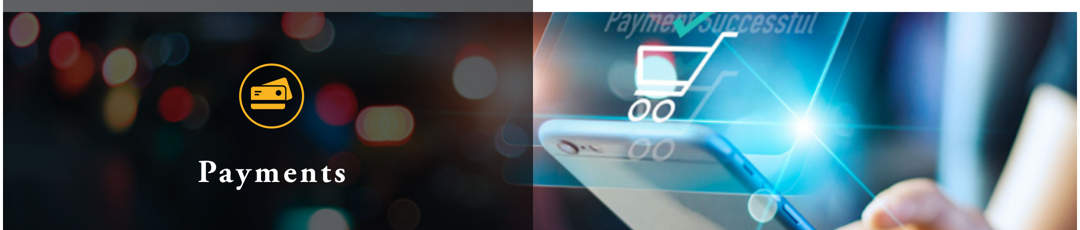
2020 ANNUAL INTEGRATED REPORT

THE BANKING ASSOCIATION SOUTH AFRICA





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CHAIRMAN

Richard Wainwright

2020 was a tough year for the business of banking. The Covid-19 pandemic and national lockdown struck at a time when the South African economy was already under severe pressure, following a decade of low or negative growth and credit downgrades by the major ratings agencies. Aggregate headline earnings of the large retail banks declined by more than 58% to R34.8 billion and most banks opted not to pay a dividend to shareholders. However, in the face of extraordinary challenges, the country's banking sector proved to be one of the most resilient in the world. Thanks to a track record of prudent risk management, effective regulation and responsible business practices, banks ended the year sufficiently well-capitalised to withstand prolonged and severe economic disruption.

Covid-19

Despite extremely challenging circumstances for their own businesses, banks were able to assist the vast majority of their individual and business clients at a time when many were left without an income or found themselves unable to pay staff or suppliers. The industry moved quickly to provide voluntary relief on loan repayment totalling over R33 billion. Furthermore, banks restructured billions of Rands in credit facilities for financially distressed clients. According to the South African Reserve Bank, the total value of Covid-19 restructured loans peaked at R617 billion during July 2020.

Banks also made their infrastructure available to assist with the payment of government's special Covid-19 Social Relief of Distress Grant (SRD) of R350 per month to qualifying individuals, many of whom did not have bank accounts. BASA and the banks were approached at the end of March 2020 to urgently assist the South African Social Security Agency (SASSA). Within weeks, the banks, along with other stakeholders, built a system to facilitate cash send payments via our ATM network, in addition to normal electronic fund transfer (EFT) payments.

BASA was instrumental in the rollout of the Covid-19 Loan Guarantee Scheme, which has been the subject of some criticism, much of it unfortunately based on misconceptions about the scheme's scale, design and take-up. The scheme was designed by National Treasury and the Prudential Authority as a risk-sharing arrangement whereby National Treasury provided limited guarantees to enable banks to grant loans on favourable terms to small businesses in distress.

By February 2021 banks extended loans of around R18 billion under the scheme. This seems at odds with initial speculation that the scheme could facilitate up to R200 billion in loans. However, such speculation notwithstanding, the actual amount that the banks agreed to set aside was only around R67 billion. There are several reasons why the aggregate value of loans fell well short of this target:

Firstly, by the time the scheme was introduced in May, the overwhelming majority of commercial, small and medium enterprises who had requested help from their banks had already received assistance, either by way of renegotiated terms, or three-month payment deferrals, many of which would be further extended when payment became due. Prevailing uncertainty and subdued consumer spending also left business owners unsure of their ability to service any new debt, no matter how concessionary.

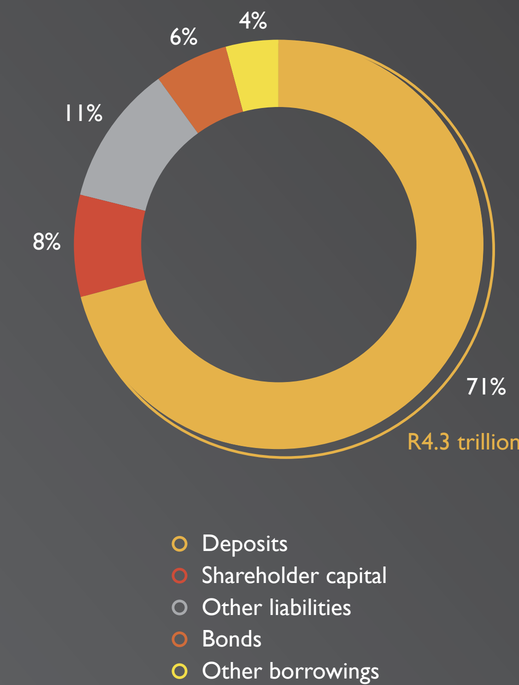
Secondly, in terms of the criteria put in place by the National Treasury, participating commercial banks had to be confident that applicants would be able to repay the loans and could not therefore assist everyone who applied.

> Given the parlous state of the country's finances, South African taxpayers simply cannot absorb the cost of irresponsible granting of credit.

It is important that the public understands that payment relief does not, and should not, amount to debt "write-offs" and that interest and fees on credit agreements must be honoured despite the relaxation of repayment terms. Banks have an obligation to those who have entrusted them with earning a return on their deposits. Banks also need to recover their operating costs if they are to remain sustainable, viable businesses, capable of extending the credit required for investment in productive infrastructure, job creation and inclusive economic growth. Indeed, the need for a stable, functioning financial system has arguably never been greater, as we look to recover from the devastation that the pandemic has wrought on our already fragile economy. South Africa can ill afford a financial crisis on top of the current health, economic and social crisis.

Banks hold in trust the salaries and savings of South African workers, professionals, companies and government.

Banks hold R6.6 trillion of public savings



Banks are intrusively regulated by the South African Reserve Bank (SARB) and other authorities to ensure they do not put funds at undue risk and can repay their customers, on demand and with interest.

Economic Recovery Plan

Against this backdrop, BASA welcomed the Economic Reconstruction and Recovery Plan (ERRP), unveiled by President Ramaphosa in October 2020, which lays out a clear path to inclusive economic growth. BASA, together with the social partners in the National Economic Development and Labour Council (NEDLAC) and Business for South Africa (B4SA), was directly involved in drafting the plan.

While many of the plan's proposals are not new, we are encouraged by the President's acknowledgement that the severity of the current crisis leaves us with no choice but to execute even the most ambitious proposals with the utmost urgency.

Among the boldest of these is a four-year, R1 trillion infrastructure development programme. Initiatives like these could be the catalyst required to set our economy on a positive growth path. However, the level of investment needed will only be forthcoming if there is confidence in government's ability to carry out the plan efficiently, following principles of good governance.

A prerequisite for inclusive economic growth is clear and consistent legislation that gives local and international businesses the confidence to commit to long-term investments. The government must also demonstrate the will to implement desperately needed economic reforms. President Ramaphosa highlighted that investor, consumer and public confidence are critical to South Africa's development and economic transformation. This can be achieved only by continuing the fight against corruption, addressing energy constraints, and ensuring fiscal stability through prudent spending. In particular, government needs to address the unsustainable public sector wage bill and ensure proper governance of all state institutions, especially state-owned enterprises.

In these efforts, government will find a capable and enthusiastic partner in South Africa's banking sector.

Transformation

In addressing our history of racial injustice, we must strive to ensure that corporate ownership and employment reflect the country's demographics. Banks have an important role to play in transforming the financial services sector as well as the broader economy. In 2019 banks spent R26 billion on procurement from black-owned businesses and provided R21 billion in finance to small black businesses and R7 billion to black farmers. Banks also extended R107 billion to finance empowerment deals.

The 2020 Transformation in Banking Report is an effort to provide a factual account to society of the progress the industry has made towards the targets set out in the Financial Sector Code (FSC), and its contribution to the development of the country. It is only on the basis of evidence that sustainable transformation and economic empowerment policies can be successfully implemented. While black ownership of banks continued to decline as black shareholders realise the value of past empowerment deals, we are encouraged to report that overall black ownership remains above the FSC targets and that black representation at management level increased across the board. However, a great deal of work is still required to ensure that black South Africans play a more active and meaningful role in the financial sector.

Looking ahead

If we are to realise the common goal of a just, equal and prosperous society, our country needs profitable banks. As custodians of the savings, salaries and investments of millions of South Africans and a critical source of capital for businesses to grow and create employment, banks are foundational to the stability of our economy. They are also large, commercially sustainable businesses in their own right – businesses that pay tax, create jobs and contribute to inclusive economic growth.

The financial services industry paid around 36% of all corporate tax – about R122 billion – in 2019. The banking sector is a major employer, with the six largest banks employing 163 000 people in 2020. Banks also count among their shareholders the country's largest pension funds, including the Government Employees Pension Fund. Dividends from these shareholdings are used to pay the pensions of civil servants and other South Africans. And banks hold about R800 billion in government bonds, which are used by the state to finance investment and operations.

In a positive end to a difficult year, the South African fiscus received better than expected tax revenues: a sign of unexpected resilience in the economy and an international boom in demand for commodities. BASA welcomed the Finance Minister's assurances that this tax windfall will be used to strengthen South Africa's fiscal position and promote productive investment, rather than simply funding state consumption. Accelerated inclusive economic growth and job creation, accompanied by sustainable reduction in state expenditure, is the best hope for our economy.

Thanks

No assessment of the financial sector's performance in this year of national crisis would be complete without acknowledging the critical role of our regulator, the Prudential Authority (PA). Under the leadership of Deputy Reserve Bank Governor, Kuben Naidoo, the PA consistently and effectively used the regulatory tools available to them to assist the banks and capital markets.

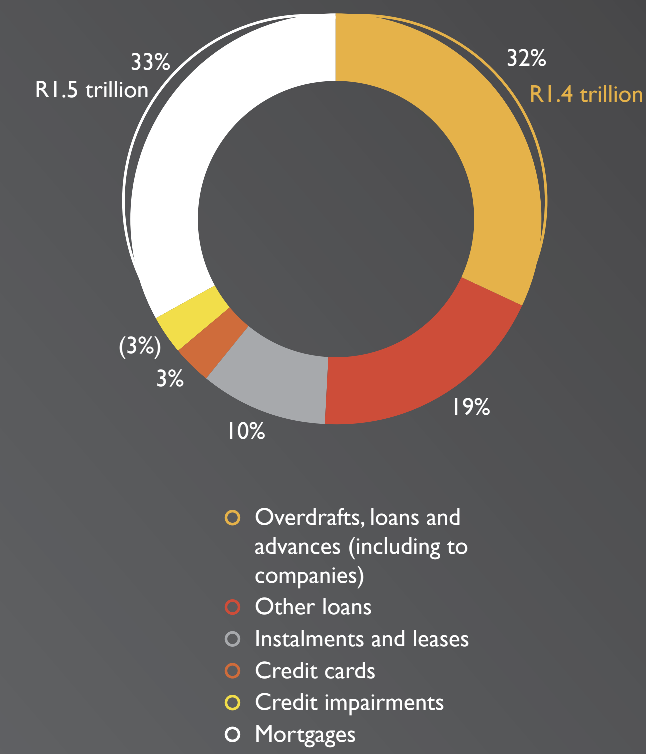
The PA also played a valuable part in facilitating communications between banks and other key stakeholders. Thanks to these efforts, throughout the crisis, BASA was able to meet regularly and collectively with representatives of the PA, National Treasury and the Financial Sector Conduct Authority, to address the immediate needs of the banks and our clients.

BASA was also well-served by the strong leadership and expertise of its new managing director, Bongiwe Kunene, who took up the role at the beginning of April, just as the national lockdown came into effect. Her deep experience in both the private and public sectors proved invaluable to the association's efforts to alleviate the impact of the pandemic on bank customers and employees, and to safeguard the stability of the financial system.

I would also like to take this opportunity to thank my fellow board members, the bank representatives who serve on BASA committees and the staff of the association. I am also grateful to all of the bank staff who kept the system going: tellers and call centre agents who travelled to work to service customers; and backroom staff who, together with government and regulatory officials, worked long hours under trying conditions to pull together financial relief packages.

Through your efforts and teamwork, we have emerged from this extraordinarily trying year well-placed to deal with the challenges that lie ahead.

Banks lend and invest South African's money, to finance investment, personal loans and consumer credit in the country. In 2020, banks lent R4,4 trillion to South African individuals and companies.



This supports the economic activity that creates jobs and grows tax revenue.

Bongiwe Kunene

As was to be expected, much of the work of BASA in 2020 was about alleviating the impact of the Covid-19 pandemic and national lockdown on bank customers and employees. Banks were declared an essential service during the lockdown as the economy needed to continue to function and South Africans had to be able to purchase goods and services and transact.

Taking the Lead

BASA took the lead in facilitating discussions on the industry's health and safety response to the pandemic, and in negotiating relief for bank customers in distress. The association led the talks that resulted in banks receiving a special dispensation from the Department of Trade, Industry and Competition to work together to offer relief to financially distressed customers.

BASA also took the lead in negotiations with the South African Reserve Bank (SARB) and the National Treasury on the development of the Covid-19 Loan Guarantee Scheme, designed to support small enterprises through the pandemic. The scheme was designed and implemented in record time and achieved its aim of assisting those commercially sustainable enterprises, it could help to keep the lights on and reduce job losses.

The Covid-19 pandemic and national lockdown moved BASA and its members further and faster than first expected in the use of information and communication technology and smart systems for their day-to-day operations. Despite this step-change in the use of technology and the need to maintain social distancing, the BASA team quickly adapted and continued to responded effectively to the many legislative and regulatory proposals that affected the business and broader interests of banks. Key BASA submissions to the legislature and regulators in 2020 include:

- The Amendment of Section 25 of the Constitution Bill. On the contentious issue of land expropriation, BASA reiterated its support for efforts to redress inequitable land ownership – a legacy of our country's tragic history of racial injustice, colonialism and apartheid. However, BASA does not see the need to amend Section 25 of the Constitution to facilitate expropriation without compensation, as this is already provided for in the Constitution. We are committed to working with key stakeholders to find solutions to these and other economic challenges in order to help create a better life for all South Africans.
- The Expropriation Bill. BASA is equally determined that efforts to undo past injustices should not inadvertently undermine the integrity of South Africa's financial system and our economic growth prospects. We are particularly mindful of the need to protect the interests of lenders and borrowers. To this end, the association made a detailed submission on the Expropriation Bill, which will give effect to the proposed amendment to Section 25 of the Constitution that aims to provide for expropriation of fixed property without compensation.

  In our submission, we highlighted that expropriation below market value will inhibit banks' ability to extend credit where fixed property serves as security. More generally, the devaluation of property will reduce the capacity of banks to make credit available for productive investment while still maintaining adequate capital, solvency and liquidity levels. We further noted that the Banks Act imposes an obligation on banks to value property at market value.

  Among other proposals to mitigate against the potentially dire consequences of a disorderly land reform programme, BASA recommended that government automatically guarantee the difference between 'just and equitable' compensation and market value. This approach was approved by Cabinet in October 2012. Such a guarantee would allow financial institutions to continue lending based on market value while also assisting affected borrowers, who may otherwise remain liable for debt on the underlying expropriated asset.
- Conduct of Financial Institutions Bill. BASA submitted extensive proposals on some of the technicalities in the bill but supports its aim of ensuring that customers are treated fairly.
- The South African Reserve Bank (SARB) Amendment Bill. BASA submitted that the nationalisation of the Reserve Bank would have no discernible impact on its functions and operations, as its independence in "protecting the value of the currency in the interest of sustainable economic growth" is enshrined in the Constitution. However, the cost of nationalising the bank might be prohibitive. If the SARB is nationalised without compensation it is likely to deter future, necessary foreign investment.
- Payments have become one of the most innovative and fiercely competitive functions of the banking industry. BASA represents the banks in discussions about the modernisation of the National Payments System (NPS), which is necessary to facilitate financial inclusion and economic development. A key component of the modernisation of the NPS is the move to DebiCheck, a new system designed to mitigate debit order abuse.

BASA is an active member of Business Unity South Africa (BUSA) where much of the discussion during the year was about South Africa's reconstruction, transformation and development of the country's economy. While there were significant engagements with the Presidency and other government departments, there needs to be more urgency in the implementation of essential economic reforms.

Our engagements with our social partners at the National Economic Development and Labour Council (Nedlac) remains unduly robust. Despite a commitment to a social compact, negotiations at the council are sometimes treated as a zero-sum game, with partners simply trying to secure as much as they can for their constituency, no matter the overall cost. Banks often face impractical and unsustainable demands, with no recognition that they have a prudential responsibility to protect depositor's funds from undue risk. However, there is no reason to doubt our credentials as a partner in the economic development of our country.

As an association that represents the banking industry, BASA is expected to comply with the highest ethical and professional standards. The core values of the association are integrity, professionalism, responsibility and accountability. BASA consistently reviews and adopts policies aimed at ensuring good governance and administration of the association.

I would like to take this opportunity to thank the BASA Board of Directors and staff for their efforts in the past year. We head into 2021 hopeful that the worst of the pandemic is behind us and determined to continue with our mandate of advancing the interests of the industry, to make banking sustainable, profitable and better able to contribute to the social and economic development and transformation of our country.

> BASA advances the interests of the industry to make banking sustainable, profitable and better able to contribute to the development of South Africa.

COVID-19 FINANCIAL RELIEF

The first case of Covid-19 in South Africa was reported on 05 March 2020. As the number of infections in the country crept up and the pandemic spread across the globe, it was clear that South Africa needed to take drastic measures to ward-off a deadly health crisis. On 26 March 2020, President Cyril Ramaphosa declared a national state of disaster and announced a 21 day lockdown of the country. While the lockdown – often described as one of the toughest in the world – was necessary to save lives and reduced the severity of the pandemic in South Africa, it devastated livelihoods. By the end of 2020, South Africa's economy had shrunk by seven percent and the expanded definition of unemployment had reached 42%. It is hard to imagine, but it could have been worse.

Regulation

To ease the financial burden on individuals and companies, the South African Reserve Bank (SARB) cut the repo rate by 300 basis points in the course of 2020, to historic lows, as the health crisis morphed into an economic one. The SARB Prudential Authority provided regulatory relief and guidance in managing the crisis to banks, to make it easier for them to continue lending, despite the growing economic crises. The regulatory relief included:

- Loans restructured as a result Covid-19 would not attract a higher capital charge.
- Banks were allowed to dip into their capital conservation buffer.
- The Prudential Authority advised against the distribution of dividends and senior bonuses. In 2020 most banks did not pay dividends to their shareholders.

To mitigate the worst economic effects of the pandemic, National Treasury, the SARB and BASA pulled together to keep businesses and individuals afloat. Banks were designated an essential service and they had to safely remain operational and accessible, so that businesses could continue to supply goods and services to South Africans.

BASA took the lead in developing industry standards for bank operations during the pandemic. All essential banking services remained open during the lockdown to ensure clients could continue to access financial services. Call centres, automatic teller machines (ATMs) and point of sale devices were operational. Bank branches remained open, although the number of staff was reduced to a minimum to adhere to Covid-19 safety regulations. Hygiene protocols were put in place to protect customers who were using bank services, like ATMs.

A special cross-sectoral response team – including cash-in-transit companies; the SARB; the Payments Association of South Africa; and the payments platform, Bankserv, among others – was set up to ensure there was no disruption in the delivery of cash, especially to the most vulnerable.

Voluntary financial relief

South African banks moved quickly to implement wide-ranging debt-relief measures to, wherever possible, assist customers who are experiencing financial difficulties due to the Covid-19 pandemic and national lockdown.

At the request of BASA, the Minister of Trade, Industry and Competition published Government Gazette Notice 11058, which allowed banks to have a collective discussion on how to respond to the Covid-19 pandemic. As a result, participating members were able to offer the customers and clients in good standing a payment break or 'holiday' for between three to six months, depending on the capacity and risk management policies of an individual bank. A customer is considered to be in good standing if they are up to date with their payments and have a good track record of paying their debts on time.

By the time the special dispensation came to an end, in October 2020, banks had provided R33,61 billion in voluntary relief initiatives to individuals and small, medium and commercial businesses. The Covid-19 relief measures also applied to Shari'ah compliant financial services and products.

Over 83% of individuals and 95% of businesses who requested help, with personal and home loans, vehicle finance, business mortgages and credit facilities, received assistance. This cash flow relief for 2 684 271 credit agreements for eligible individuals and 135 540 businesses was critical to the preservation of quality of life, jobs, businesses and a functioning economy. This relief also reduced demand for the government's Covid-19 Loan Guarantee Scheme, which was to follow.

Individual banks also offered their customers instalment reductions for an appropriate period. Interest and fees on the loan still accumulated and had to be paid by the customer. This could have resulted in an extension of the term of the loan, which could incur higher interest and other costs.

Banks were always clear that the payment breaks were in no way a debt write-off and that interest and fees would continue to accumulate. The credit agreements had to be repaid as banks had loaned depositors' money that had to be repaid with interest,

The Covid-19 Loan Guarantee Scheme was only a small part of the ongoing relief that banks offer their clients and customers who are in financial distress.

By July 2020, banks had restructured R617 billion worth of credit exposures to their corporate and retail customers, 12% of their lending.

on demand. And the interest that depositors' earned, was not put on hold and had to be paid by the banks, even as breaks on loan repayments were extended.

Banks also offered their customers assistance with processing credit life insurance claims, where applicable. Credit life insurance policies differ, however they may cover outstanding debt in the event of death, disability or retrenchment, among others.

Covid-19 Loan Guarantee Scheme

On 21 April, President Ramaphosa announced a R500 billion economic stimulus package, including special Covid-19 relief grants and income support payments to qualifying recipients.

A centre piece of the package was the announcement of a R200 billion Covid-19 Loan Guarantee Scheme to support small businesses, to help them keep the lights on and cover operational expenses and pay salaries. The BASA Prudential Division and representatives of member banks, along with the SARB and National Treasury, worked long nights to put the Covid-19 Loan Guarantee Scheme in place, in record time. Key to the complicated scheme was:

- Government never envisaged that R200 billion would be extended to small businesses as grants. Small business recipients would have to be able to repay their loans after the pandemic and once 'new' normal economic activity resumed.
- Taxpayers' funds could not be put at undue risk of the loans not being repaid and the criteria set out by the Reserve Bank and National Treasury, required that banks apply prudent risk management policies. Despite the government guarantee, banks would be required to absorb some of the loss on the loans.
- National Treasury only put up a guarantee of R100 billion, with the option of increasing it to R200 billion if required. Participating banks only contracted to extend R67 billion, on the basis of their estimated needs of their clients. In the event, by the end of 2020, only R17, 84 billion had been approved by banks and taken up by small businesses.

Forty-six percent of applications received were rejected because they did not meet the eligibility criteria for the scheme, as set out by the Treasury and the Reserve Bank, or because they did not meet banks' risk criteria. The main reasons for rejection are that the requested value of the loan was too high for the business to be reasonably expected to be able repay it; or the enterprise was not in good financial standing before the pandemic. About 30% of loan applications were refused because small enterprises were in financial and business difficulties even before the Covid-19 pandemic because of the weak state of the economy. This led to a lot of misdirected criticism of the participating banks, who were accused of not being understanding enough of the needs of small – specifically black - businesses.

On average in 2020, 81% of sales in execution were cancelled due to banks assisting their customers or the client reinstating the credit agreement

Eighty-two percent of the loans approved – with a value of R6,52 billion - went to enterprises with a turnover of up to R20 million. The average value of a loan under the scheme then, was R1,24 million.

One of the main reasons for the scheme under-performing original expectations was that business owners were reluctant to incur more debt, due to the challenges presented by inconsistent policy and regulation, uncertain business conditions, including load-shedding, and a weak economic outlook.

Small businesses in financial distress prefer grant or equity funding, rather than credit that they may struggle to repay. Given the lack of demand for Covid-19 loans, BASA is willing to work with National Treasury to leverage state grants and equity funding in support of small businesses.

BASA has also called for the reduction of red-tape and policy uncertainty, and for it to be made easier to do business, especially for small and medium enterprises. Facilitating entrepreneurship and small business development is among the surest and fastest ways to boost inclusive economic growth and job creation, without having to introduce new programmes and additional spending.

While the loan guarantee scheme was not required to the extent originally expected, it did assist those businesses that qualified for the loans to keep the lights on and staff in their jobs. In any event, the voluntary financial relief and loan guarantee scheme was only a small part of the relief that banks offered their clients and customers who were in financial distress. Figures reported to the South African Reserve Bank, indicate that at February 2021, banks had provided R293 billion in financial relief to their customers and clients (corporate: R165 billion; total retail: R128 billion), which accounted for 5.8% of their total corporate and retail credit exposure.

In terms of the Covid-19 State of Disaster regulations, banks did not undertake any evictions from homes in sales in execution. In 2020, banks were granted sales in execution orders on 3 600 mortgage that were in default. Of these, only 672 were sold, which is 0.04% of the over 1,7 million mortgage accounts held by the banking industry. On average in 2020, 81% of sales in execution were cancelled due to banks assisting their customers or the client reinstating the credit agreement. Banks aim to assist their customers and keep them in their homes, whenever possible.

The 2020 figures are not an exception. In 2019 only 3 136 accounts of 1,7 million mortgage contracts ended up in regulatory sales in execution. Of these, only 960 were sold. In 2019, there were five evictions because of sales in execution.

Social responsibility

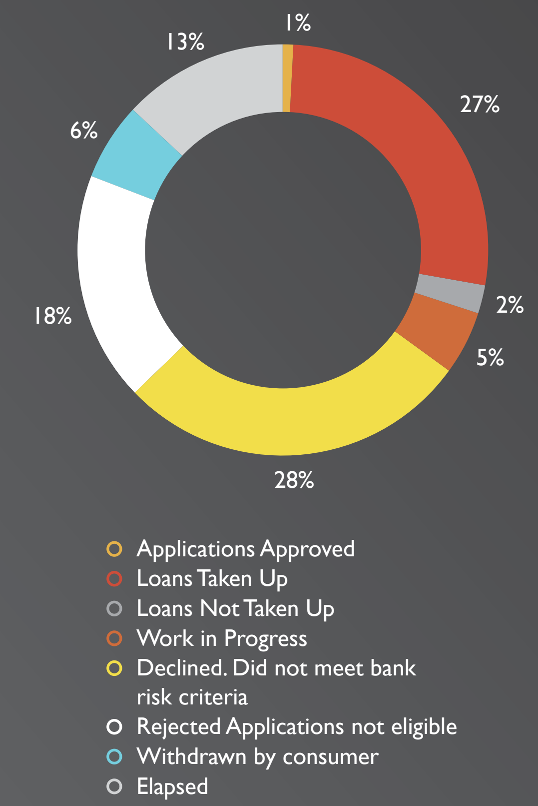
BASA members provide accounts for over three million SASSA beneficiaries. Banks waived the withdrawal fees for SASSA grant payments for the duration of the Covid-19 pandemic lockdown. To assist customers who needed cash during the lockdown banks agreed to subsidise the cost of using the Saswitch network and customers did not have to pay the network service cost for withdrawals at another bank's ATM.

Through their individual social responsibility programmes and efforts of their staff, banks donated about R303 million to Covid-19 Disaster relief programmes, in education, community support and protective medical equipment.

Banks understood that the Covid-19 pandemic and the resulting lockdown increased the financial stress of many of their customers through no fault of their own. They did what they responsibility could to help their clients and the economy through this challenging time, without putting the stability of the financial system at risk.

For updates on the Covid-19 Loan Guarantee Scheme, please go to www.banking.org.za

Until 16 January 2021, the loan guarantee scheme received 48 366 applications for loans – of which R17, 84 billion – was approved and taken up by the applicants.



The average value of a loan was R1,24 million. 82% of loans went to business with a turnover of up to R20 million.

REGULATION

South Africans often struggle with the role of banks in our society. The reality is that a company is licensed as a bank to accept deposits, not to make loans. Because banks are trusted with depositors' funds, the regulatory oversight is more intense.

Legislation

Bank legislation focuses heavily on the lending activity of banks, setting many conditions before a loan can be considered. This ensures that the bank or broader industry can meet their primary objective of protecting depositors' funds. Depositors trust they will be able to access their funds when required, so the bank must ensure that they actively manage the way they lend or invest those deposits. A bank must be able to repay each loan, with interest, on time and in full for the system to work. It is this trust that makes banking a unique facilitator of economic activity.

To ensure that banks take their responsibilities seriously, they are required to raise capital from shareholders and with each loan, they are expected to combine their shareholders funds with depositors' money. The shareholder is therefore held liable for bank losses, before depositors, as they are ultimately responsible for managing the bank. This introduces an important – and necessary – conservative bias to lending. Profitable banks are critical to the success of the banking system allowing them to create more capital and absorb more losses to protect the economy.

South Africa needs profitable banks. Research agency Intellidex, estimates that:

SOCIETY

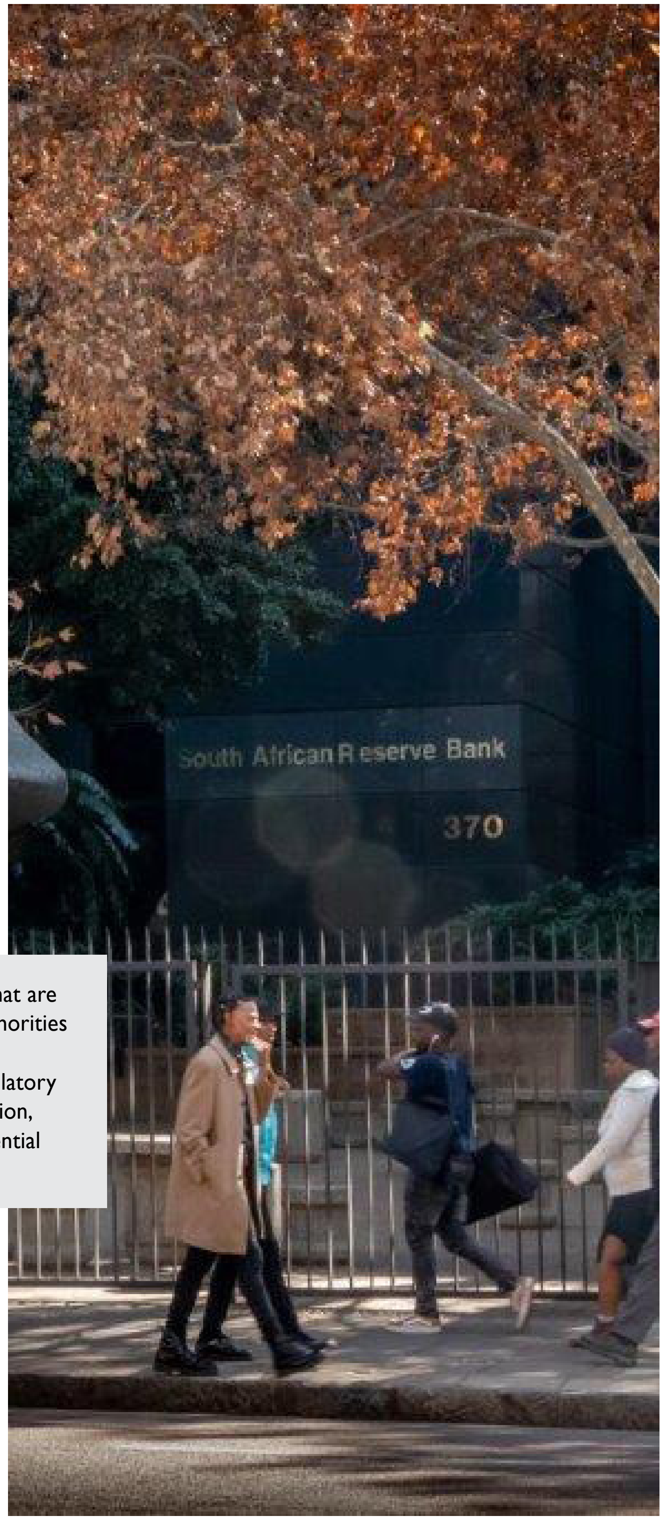
- The financial services industry pays an estimated 36% of all corporate tax (R122 billion in 2019)
- Many bank shareholders are pension funds, like the Government Employees Pension Fund, which holds about 14% of shares in of the big four banks. Profits from the banks are used to pay the pensions of civil servants and other South Africans.
- In 2020, the six largest banks employed 163 000 people.
- Banks hold government bonds, which are used to finance investment and operations by the state, and support transformation by funding empowerment deals and supporting black business through their procurement policies.

The lessons learned from many international financial crises over decades have demonstrated that a sound banking system is invaluable to a successful economic recovery. Through South Africa's participation in the Group of Twenty (G20) financially significant countries the country has committed to adopting international best practice, derived from these lessons. Consistency of interpretation of these international standards, further strengthens the global banking system. The Prudential Authority of the South African Reserve Bank (SARB) actively participates in these international debates and, with the National Treasury, lends South Africa's voice to these important discussions.

The banking industry, together with the broader financial sector, is highly regarded internationally for our regulatory architecture and supervision, as well as for the integrity and governance of our boards and bank management. With South Africa unable to generate sufficient savings to fund the expansion of our economy, we must rely heavily on the savings from citizens of other countries to balance this deficit or limit our growth. The importance of a well-regulated and efficient banking sector provides a great deal of comfort to investors wanting to invest in South Africa, safe in the knowledge that the banking industry is established on global best practices and is equivalent to their own banking industry.

The independence of the SARB is not only a global best practice, but also enshrined in our Constitution. The role of the Prudential Authority, as regulator and supervisor of the banking industry and their ability to take decisions free from political interference, is a key success factor. A well-functioning banking industry with an independent regulator provides an important foundation for sustainable economic growth.

The Prudential Division of BASA represents the interests of banks that are licenced to operate in South Africa to the local and international authorities who regulate the industry. In 2020 the representatives on prudential committees made 34 submissions to international and domestic regulatory and policy authorities, like the Basle Committee on Banking Supervision, the SARB and the National Treasury. For submissions from the Prudential Division, please go to banking.org.za.



MONEY LAUNDERING

Under local and international legislation, South African banks are subject to strict and intrusive crime prevention and anti-money laundering laws and regulations, to combat the financing of terrorism and other illicit financial transactions - with potentially expensive and existential threats to their business if they fail to comply.

FRONTLINE

Banks are at the frontline of identifying suspicious transactions. In its 2019 annual report, the Financial Intelligence Centre (FIC) notes that it received a total of

299 256

suspicious and unusual transaction reports of which

192 890

were submitted by banks

The creation of the South African Anti-Money Laundering Integrated Task Force (SAMLIT) in December 2019 paved the way for South Africa's first public-private-partnership to fight financial crime, by enhancing collaboration and co-ordination between regulatory authorities and banks.

The FIC Act does not define what constitutes a suspicious transaction. The FIC advises that a suspicious transaction will raise questions or give rise to discomfort, apprehension or mistrust. When considering whether there is reason to be suspicious of a particular transaction, all the known circumstances relating to the transaction must be considered. This includes the normal business practices and systems within the business and its industry.

A transaction that may be reported to the FIC, may not necessarily be illegal and could very well fall within the normal parameter of many businesses. Banks cannot close accounts or cease doing business with an organisation, simply because they are obliged to report a suspicious transaction on an account. If banks close an account, they must be able to provide reasons that will stand up in a court of law if their decision is subject to legal challenge, especially if they are depriving a company of its right to conduct business.

While banks have a duty to report suspicious transactions, they cannot replace the country's criminal investigation and prosecution authorities. Once banks have reported suspicious transactions to the FIC, it is the duty of the state authorities to investigate further and establish if any wrong-doing has taken place. The FIC uses the data provided by banks and other organisations to develop intelligence, which enables the competent authorities and supervisory bodies to follow-up with investigations or administrative actions.

Banks are obliged to ensure that the account holder is not tipped-off that their account is being monitored or suspicious transactions being reported. It is therefore conceivable that bank accounts and products may remain functional while investigations are underway. There are cases where banks have unilaterally closed accounts. Perhaps the best known example is the decision by individual banks to close accounts belonging to those alleged to be involved in state capture, after credible allegations of corruption and state capture were widely reported. Banks closed the accounts of companies, in response to these allegations of wrongdoing and to protect the reputation and integrity of their businesses.

Banks also would have had insights into the transactions going through accounts used for state capture that would have had to be reported to the FIC. This would have put them in a good position to assess the veracity of some of the public allegations of state capture and to act accordingly.

There is substantial case law that allows banks to close the accounts of their customers. A bank account is underpinned by a contractual relationship between the client and the bank. As much as customers can choose to not to do business with a particular bank and close their accounts, banks have a reciprocal right to give a customer notice to close their accounts. However, it must be noted that even if they close an account, banks do not have the right to disclose details of their relationship with a client; nor can they deprive them of access to their funds, unless instructed to do so by an appropriate authority. This would allow funds to be moved from a bank unless the relevant authorities secured the funds from leaving the accounts.

The Minister of Finance noted in the case against Oakbay Investments, which was linked to state capture: "It is important that South African commercial banks be permitted to apply national and international best practice in order to choose their clients, know their clients, classify the risk to which their clients expose them, and decide whether their business and reputational risks exposure justifies terminating the banker-client relationship…a legal obligation is imposed on banks to manage risk profiles, and banks have a legal entitlement to terminate a banker-client relationship when in their assessment the relationship exposes the bank to reputational and business risk."

When they appeared before the Zondo Commission of Inquiry into Allegations of State Capture in September 2018, banks detailed the political pressure they came under to reverse their decision to close accounts, including threats by then cabinet ministers to take away their licence to operate. Despite these threats, banks continued to do what was required from them by the letter and spirit of the law. This is a clear instance of banks 'doing the right thing' rather than making money by conducting 'business as usual'.

This is not to claim that banks do not on occasion fall foul of market conduct and prudential regulations through the conduct of members of staff. In these cases, the law must take its course. Where banks have been in breach of regulation, they have been fined or otherwise penalised by the applicable regulator, including the FIC. But, on the whole, South African banks are a safeguard against corruption, money laundering and illicit financial transactions, in the country and across the world.

Treating customers fairly

The Conduct of Financial Institutions (Cofi) bill is a far reaching piece of legislation that fundamentally changes the relationship between banks and their customers for the better, in many respects. BASA and its members are in support of the basic aims of the Bill – ensuring that banks and other financial institutions treat their customers fairly, by adhering to the spirit and principle of the law, rather than just complying with the rules. A second version of the bill was released in November 2020. After consultation with its members, BASA made a 200 page submission, which made recommendations on some of the technicalities of the Bill. A key concern was aligning the Bill with the requirements of other legislation that also seeks to protect the interests of consumers, such as payments and credit. The Market Conduct Division will continue managing the industry's engagement with the legislature and relevant authorities to help ensure that the Bill achieves its aims, without compromising the sustainability and stability of the financial sector.

The Market Conduct Division is responsible for protecting and promoting the interests of the banking industry during the formulation of legislation and regulation affecting its customers and clients. In 2020, representatives on market conduct committees made 78 submissions to legislative and regulatory authorities – like parliamentary committees, business organisations, government departments and the SARB – on proposals that affect the banking industry and their clients. For more details please go to www.banking.org.za

PAYMENTS

Payments have become one of the most innovative and fiercely competitive functions of the banking industry.

The National Payments System (NPS) is a complex network of people, processes, legal frameworks, robust risk management practices and emerging technologies, which enables the settlement of payments in South Africa. It is a stable system that provides certainty in the transmission of value between people, businesses and the government.

Vision 2025

Payments and the NPS are an 'always-on', network activity, similar to electricity and the water supply, which requires the constant attention of many people to assure the stability and high success rate of the system. Operational errors in the NPS - such as a dropped, missing or incomplete payments - are extremely rare. The consequences of any payment system being compromised or contaminated could be catastrophic for the country, if one considers that economic activity is largely based on contracts that require payment before goods and services can be delivered.

But, while stability and certainty are important, it has become evident in recent years that the payment system of a country is integral to growth and prosperity, especially if they are to reap the benefits of moving towards digital society. It is crucial that the NPS is modernised.

South Africa has a clear legal foundation for payments to be a function of the South African Reserve Bank (SARB). This has enabled its National Payment System Department (NPSD), as the regulator of payments activities in South Africa, to develop policies, regulations, and supervisory frameworks for the participants in the payments system. Perhaps more importantly, considering the vital and changing nature of payments, the NPSD also develops a vision for the future state of the NPS. Today, this is set out in the NPS Vision 2025, which aims to attain:

9 GOALS

- A clear and transparent regulatory and governance framework
- Transparency and public accountability
- Financial stability and security
- Promoting competition and innovation
- Cost-effectiveness
- Interoperability
- Flexibility and adaptability
- Regional integration
- Financial inclusion

The modernisation of payments in South Africa recognises the dependence many South Africans have on cash. Cash is the most used payment mechanism in the country, however the costs of this are disproportionately borne by the lowest income earners in the country, as a 2017 study by MasterCard and Genesis Analytics revealed. "Despite an increase in the number of banked adults from 63 percent in 2011 to 77 percent in 2015, cash transactions still account for more than 50 percent of the total value of all consumer transactions. This suggests that being formally banked may not be enough of a driver for consumers to move away from cash."

Key to the modernisation of payments and enabling access to the digital society therefore is the need to ensure a viable path from cash to digital alternatives.

DebiCheck

Banks are working with their regulator, the SARB, to end abuse of debit orders by unscrupulous operators in the system. Banks have developed DebiCheck, which gives customers greater control over debit orders on their accounts.

- DebiCheck requires bank customers to once-off electronically authorise a debit order mandate on their account. If a customer rejects a debit-order mandate – does not authorise a company to debit a specific amount on a set date – the bank will not process the debit order.
- If subsequent debit order claims on a customer's account does not meet the company, amount and date criteria set out in the authorised mandate, the bank will not process the debit order.

BASA is aware that the introduction of Debi-Check may cause some inconvenience to both the customers and businesses that are using automated debit orders. However, the priority of banks is to protect the accounts and money of their customers from fraud and abuse.

Transactions

Every payment of a salary, bank transfer or use of a card in a store is handled by banks and payments infrastructure. There are billions of transactions each year, managed seamlessly. R870 billion is handled every month in more than 100 million individual transactions. That is an average of R20 million every minute (Source: Bankserv)

The BASA Payments Division represents the interests of the banking industry in the NPS. In 2020 the Payments Division made six submissions on directives and papers that affect bank operations in the payments system, including: the NPSD Paper on Open Banking and the National Payment System and a presentation to the National Treasury on Compliance of Electronic Fund Transfers in the Common Monetary Area. For the full submissions, please go to www.banking.org.za.

TRANSFORMATION

The Transformation in Banking Report 2020 is an effort to provide an account to society of the progress the industry has made towards meeting the empowerment targets set out in the Financial Sector Code (FSC) and its contribution to increasing economic inclusiveness and empowerment in South Africa.

Despite the difficult business environment for banks during the past year, significant progress was made on key metrics that track the transformation of the industry and its support for Broad-based Black Economic Empowerment in 2019. These include:

EMPOWERMENT

- The percentage of board directors who are black reached 44% in 2019
- 65% of all middle managers are black. For the first time there are more African than white middle managers. Bank spending on black and women skills development is paying off.
- Supplier and enterprise development financing have seen healthy increases, with supplier development spending up 38% to R1,1 billion.
- Spending on black consumer education – particularly important for financial inclusion and literacy - climbed 18% from the year before to R212 million in 2019.
- However, total empowerment financing dropped 19,5% to R203,7 billion in 2019.
- Bank exposure to BEE deals dropped 35% from the previous year to R107 billion in 2019.
- Bank black ownership measures have declined over four years, as black shareholders realise value by selling shares and diversify their investments away from banks. However, on aggregate black ownership remains above the Financial Sector Code (FSC) target of 25%.
- Bank spending on socio-economic development dropped by eight percent to R621 million. Economic distress limits banks' profit growth, which curbs the amount allocated to socio-economic development support, which is based on net profit after tax.

Progress was achieved despite the difficult economic and business conditions that South African banks and companies have had to endure over the past four years. This has made it more challenging to fast-track the achievement of the FSC goals, which depends on growth in targeted lending and employment opportunities.

The Transformation in Banking Report is an attempt to provide hard data on the state of transformation in banking. The report was produced by independent research company, Intellidex, with statistics provided by banks. It is only on the basis of facts and evidence that sustainable transformation and economic empowerment policies can be developed and successfully implemented.

Much of the frustration that mars the discussion about transformation in South Africa is a result of the unmet expectations of our democracy and the increasingly high levels of unemployment, poverty and inequality that continue to divide the country by race. The majority of South Africans – especially women and those living in rural areas – continue to live in poverty with no prospect of a better life for themselves – or their children. Blame and finger pointing for not meeting the reasonable expectations of black South Africans, goes all around. Business is accused of not genuinely embracing transformation; government is blamed for stalling urgently needed reforms that would boost inclusive economic growth; while union are seen to be making demands that only serve the short-term interests of their members, at the cost of the welfare of the majority of South Africans. No matter the validity of some of the arguments, the result has been a hardening of attitudes and a loss of trust all around.

The environment has become such that having a rational discussion about transformation has become all but impossible, resulting in a stalemate on critical issues. Negotiations at the National Economic Development and Labour Council (Nedlac) on the rules governing the Black Business Growth Fund, which is to contribute to employment creation as envisaged in the Job Summit Framework Agreement, have been difficult and hampered its implementation. Similarly, the review of the FSC, which was meant to take place in 2018, is yet to be concluded because of a lack of agreement in the Financial Sector Transformation Council. In the meantime, the patience of the majority of South Africans is running out and the legitimacy of those who sit around the negotiating table is fast being eroded. BASA has long called for the implementation of the urgent structural reforms set out in President Cyril Ramaphosa's South African Economic Reconstruction and Recovery Plan.

As responsible corporate citizens, banks are a committed partner in the reconstruction and transformation of South Africa. However, they have a unique role in the economy. They hold in trust the salaries, savings, and investments of South African workers, professionals and companies, which they then use to finance the investment necessary for social and economic development. As a result, the transformation of the banking industry must be done in a sustainable manner that allows it to continue providing appropriate financial services and support for inclusive economic growth.

Banks know that there is much more that needs to be done before the industry and the South African economy better reflects the demographics of the country. What the Transformation in Banking Report shows – in hard numbers – is that banks are making consistent and notable progress towards this goal.

Towards an inclusive financial sector

Financial Inclusion is "the provision and use of affordable and appropriate financial services to those segments of society where financial services are needed but not provided or are inadequately delivered. It is an important tool in the economic development of a country," says the National Treasury. To date, the South African financial sector had been taking its cue from international benchmarks of financial inclusion, and how it should be measured and monitored, without any policy direction from government. In October 2020, the National Treasury published a draft financial inclusion policy document for public comment. The draft policy aims to:

- Deepen financial inclusion for individuals
- Extend access for small, medium and micro enterprises.
- Leverage a more diversified provider and distribution base.

The banking industry welcomed the draft policy. Banks see financial inclusion as an important part of efforts to reduce inequality and boost inclusive economic growth.

Expanding financial inclusion is central to the business of banks in South Africa. According to FinMark Trust, at least 91 per cent of South African adults have been formally included in its financial system, with only about 2.9 million still excluded. These figures include approximately 5.3 million social grant beneficiaries. The percentage of banked adults drops to 68% if grant beneficiaries are excluded. To further increase and strengthen financial inclusion, BASA recommends, among others, that:

- Consideration be given to the state of the economy as consumers are unlikely to want to engage financial services if they lack confidence that their income is secure. Many small, medium and micro enterprise also remain reluctant to enter the formal (financial) sector.
- Consumer financial education is central to consumers making informed financial decisions. Vernacular should be used to improve the understanding of financial education.
- Consideration should be given to innovative mechanisms, like impact investing, which leverages the growing pool of global investors who seek to generate social and environmental impact alongside financial returns. Impact investing can be used to help finance sustainable businesses and further financial inclusion.
- Automation can bring down the cost of financial services and products, so that the poor are better able to access them, but this carries the risk that jobs can be displaced.

The draft document proposes workgroups to address specific themes and issues of concern. Banks are keen to provide their expertise and technical experience to co-create practical solutions to the challenges of financial inclusion.

The BASA Financial Inclusion Division promotes access to – and the use of – affordable, quality financial services and products. These products must be appropriate for the financially excluded, unbanked or the under-banked.

The division is also responsible for engaging the banking industry on meaningful transformation and assisting it in identifying how banks can best contribute to the inclusive social and economic development of the country and Broad-based Black Economic Empowerment. For more on the work of the division, please go to www.banking.org.za

Sustainable development

Despite being in the midst of a global pandemic, the World Economic Forum (WEF) Global Risk Report 2021 ranks extreme weather as the most likely risk to humanity. So, it is no wonder that although sustainability deals with broader social and economic issues, it has become synonymous with environmental challenges, in particular climate change.

This is particularly true for South Africa. The country faces significant physical risk from climate change, as the Southern African region warms at twice the global average and it is classified as water scarce. Climate change may further deepen existing social inequalities as it places the most vulnerable people at greater risk.

South Africa is also faced with significant transition risk, as an estimated 26% of the country's gross domestic product is derived from carbon and related resources, with a similar percentage of people employed in these sectors. Transition risk is the socio-economic risks associated with moving from a high carbon economy to a low carbon economy, as certain technologies and economic activities needs to be curtailed to lower carbon emission. If this is not done in an orderly fashion it will result in stranded assets – assets that must be devalued or written-off – and ultimately financial and job losses. The transition also poses systemic risk to South Africa because of its reliance on fossil fuels for energy, as 80% of electricity is generated by coal powered stations. The country is the 12th biggest carbon emitter in the world and the biggest emitter in Africa.

The broader purpose of sustainable finance is to provide value to society and the environment, which goes beyond profit or at least does not cause social or environmental harm. Finance is key to the achievement of the United Nations Sustainable Development Goals (SDGs) – interlinked goals that aim to achieve a better future for all. For banks and financial institutions to provide finance for the SDG funding gap requires them to align their policies with the true needs of the society. This realignment is taking place as innovative new products, services, frameworks, and regulations are developed to reach people and activities that traditional finance would deem 'unbankable' or 'not viable'. The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) provides a framework for this discussion and innovation.

Sustainability is a central to BASA's mission is to make banking sustainable, profitable and better able contribute to the social and economic development and transformation of the country. BASA committees are working to align the industry with local and international best practice:

COMMITTEE

- The Sustainable Finance Committee focuses on broad sustainability issues.
- The Positive Impact Finance Task Group is a project to deepen banks commitment to achieving the SDGs.
- The Climate Risk Committee focuses on managing climate risk and change.

In addition, BASA is the secretariat of National Treasury's Climate Risk Forum. The forum aims to give effect to the recommendations of National Treasury's 'Financing a Sustainable Economy' technical paper. BASA is also a member of the Presidential Climate Change Coordinating Commission, and the Green Economy Advisory Group. BASA is also a steering committee member of Business Unity South Africa's(BUSA) Just Transition Task Group and the World Wildlife Fund (WWF) Landscape Finance Coalition.

BASA endorses the Principles of Responsible Banking and works with several international agencies and organisations to achieve them. Among others, the association is represented on the International Banking Federation (IBFed) Environmental Committee, is a member of the International Finance Corporation (IFC) Sustainable Banking network (SBN) and is a vital partner in the United Nations Environmental Programs Finance Initiative.

It is through the work of these committees and initiatives that BASA is actively contributing to the sustainability of the financial sector and economy, while keeping it globally competitive.

COMPANY SECRETARY

The Banking Association South Africa (BASA) Board of Directors is committed to achieving best practice in corporate governance, based on local and international standards, including the King Code for South Africa and the BASA Board Charter. While the Companies Act 71 of 2008 does not require BASA – a not for profit organisation – to appoint a company secretary, the board resolved to appoint one in 2018, in line with international best practice.

Board Membership

BASA is governed by a competent Board of Directors, which consists of:

- The Chief Executive Officers (CEOs) of the following South African banks: Nedbank, ABSA, First National Bank, Standard Bank and Investec
- Two CEOs representing other South African banks
- Two CEOs representing international banks operating in the country
- The Managing Director of BASA.

In 2020, the BASA board members were:

Board Members	Organisation	Changes
Mike Brown	Nedbank	
Lungisa Fuzile	Standard Bank	
Gerhardus Fourie	Capitec	
Mark Stadler	HSBC	
Richard Wainwright	Investec	
Alan Pullinger	FNB	
Rene Van Wyk	ABSA	Until 15 January 2020
Daniel Mminele	ABSA	From 16 January 2020
Michael Sassoon	Sasfin	From 01 March 2020
Vikas Khandelwal	BNP Paribas	Until 31 December 2020
Cas Coovadia	BASA	Until 31 March 2020
Bongiwe Kunene	BASA	From 01 April 2020

The board charter requires that the chair be rotated every two years. Richard Wainwright replaced Mike Brown as BASA chair.

Committees of the Board

The delegation of duties and responsibilities of board committees are recorded in a formal Terms of Reference for each committee, which is subject to annual review and approval by the board, or from time to time, as may be required.

The board currently has three committees to assist it in executing its fiduciary responsibilities. The committees can exercise the powers and authority delegated to them by the board, in regard to the management of the affairs of BASA.

The Board Executive Committee

The charter of this committee requires that it meets four times a year, but due to the business brought on by the Covid-19 pandemic the Board Executive Committee met 18 times in 2020, primarily to deal with the banking industry's response to the health and economic crises.

The Audit and Risk Committee

This Committee met twice during 2020 to consider its responsibilities, including:

- Considering the appointment of an external auditor and assessing their independence.
- Ensuring that the appointment of the auditor has been approved by the board.
- Reviewing the external auditors' audit report and management letter.
- Recommending the audit fee to the board and to pre-approve any fees in respect of non-audit services to ensure that the provision of non-audit services does not impair the external auditors' independence or objectivity.
- Advising on any matters referred to the committee by the board.

Remuneration and Ethics

This Committee met twice during 2020 to consider, among others:

- BASA's staffing requirements.
- Approval of a revised human resources policy.
- Making recommendations to align BASA remuneration with industry best practice.

Administrative Support

The Company Secretary continues to provide 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 19 times during the irregular period of the Covid-19 pandemic in 2020 – 17 of these meetings were necessitated by the Covid-19 pandemic. BASA held its Annual General Meeting on 25 June 2020.

The company secretary is also responsible for:

- Carrying out the instructions of the board and the Board Executive Committee.
- Ensuring corporate accountability by communicating with relevant BASA stakeholders and reporting any governance or compliance failures.
- Lodging relevant forms and supporting documents to the Companies and Intellectual Property Commission (CIPC) within ten business days of the appointment of directors.

Conclusion

The board is satisfied that it has adequately discharged its remit in the year ending 31st December 2020.

INDEPENDENT AUDIT REPORT

We have audited the financial statements of the BASA(NPC), which comprise the statement of financial positionas at 31 December 2020, 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.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of BASA (NPC) as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities 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 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. 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

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.
- 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 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 annual financial statements, including the disclosures, and whether the annual financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the company to express an opinion on the annual financial statements. We are responsible for the direction, supervision and performance of the Company audit. We remain solely responsible for our audit opinion.

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 Kyriacou
SizweNtsalubaGobodo
Grant Thornton Inc
Director
Registered Auditor
21 April 2021

Summit Place, Building 4
221 Garstfontein Road
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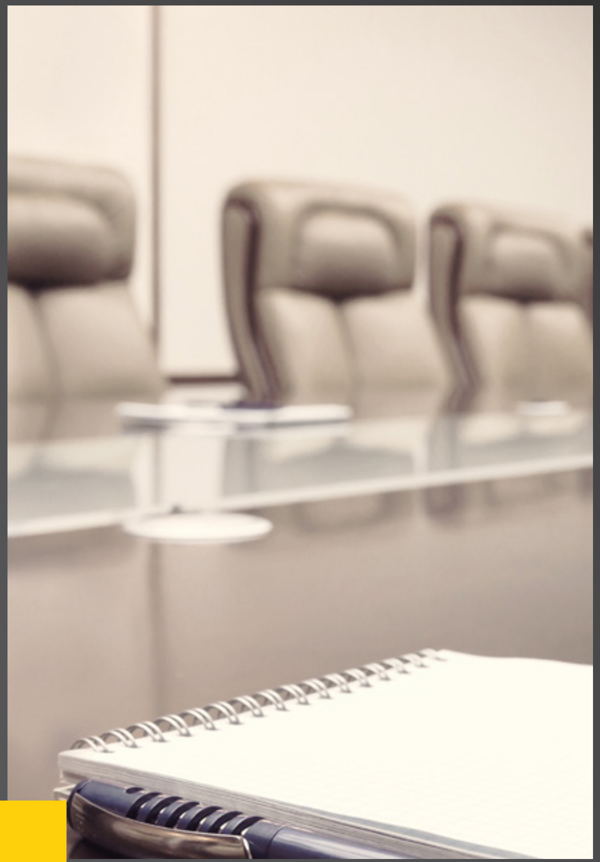
DIRECTORS' REPORT



The directors have pleasure in submitting their report on the annual financial statements of The Banking Association South Africa (NPC) for the year ended 31 December 2020.

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.

Review of financial results

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 of South Africa. 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.

Events after 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.

Going concern

The company's members are committed to contributing membership fees that will ensure that the company is able to meet all its approved operational cash flow requirements for the foreseeable future. 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 realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

Since 31 December 2019, and throughout 2020, the directors have reviewed the impact of the consequences of the Covid-19 outspread on the ability of the company to keep on operating as a going concern, and have come to the conclusion that the business has not been materially and adversely affected in such a way that it will not be able to keep on operating for the foreseeable future.

Secretary

The company secretary is Nonhlanhla Buthelezi.

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Covid-19

As reported in the 2019 Annual Financial Statements, the spread of Covid-19 has severely impacted many and South Africa's economy wasn't spared. In many countries, businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses worldwide, resulting in an economic slowdown. Governments and central banks have responded with monetary and fiscal interventions to stabilise economic conditions.

Although the risk of the Covid-19 pandemic has decreased dramatically over the last few months, the roll-out of the vaccination programme is still only limited to frontline healthcare workers. It still remains unclear what the duration and impact of the pandemic, the effect of the vaccination programme, as well as the effect of a possible third wave, will have on the South African population and economy in 2021 and beyond.

It is therefore not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and results of The Banking Association South Africa for future periods, but due to the nature of its business, the directors are confident that The Banking Association South Africa will not be materially impacted.

Directors

The directors in office at the date of this report are as follows:

Directors	Nationality	Changes
Richard Wainwright (Chairman)	South African	
Bongiwe Kunene (Managing Director)	South African	Appointed 01 April 2020
JK Bedu-Addo	Ghanaian	Appointed 01 January 2021
Mike Brown	South African	
Cas Coovadia	South African	Resigned 31 March 2020
Gerhardus Fourie	South African	
Lungisa Fuzile	South African	Appointed 24 November 2019
Vikas Khandelwal	Indian	Resigned 31 December 2020
Karl Kumbier	South African	Resigned 30 January 2020
Daniel Mminele	South African	Appointed 16 January 2020
Alan Pullinger	South African	
Michael Sassoon	South African	Appointed 01 March 2020
Mark Stadler	British	
Sim Tshabalala	South African	Resigned 23 November 2019
Rene van Wyk	South African	Resigned 15 January 2020

FINANCIAL POSITION
AS AT 31 DECEMBER 2020

	2020 R	2019 R
Assets		
Non-Current Assets		
Property, plant and equipment	1 466 713	1 428 070
Current Assets		
Other financial assets	24 137	22 875
Prepayments	738 488	3 902 175
Trade and other receivables	3 627 407	1 110 542
Cash and cash equivalents	37 485 384	24 538 787
	41 875 416	**29 574 379**
Total Assets	**43 342 129**	**31 002 449**
Equity and Liabilities		
Equity		
Reserves	1 726 789	669 260
Accumulated surplus	13 076 569	2 314 319
	14 803 358	**2 983 579**
Liabilities		
Non-Current Liabilities		
Retirement benefit liability	11 338 863	11 023 515
Current Liabilities		
Deferred income	11 383 370	8 856 278
Trade and other payables	5 816 538	8 139 077
	17 199 908	**16 995 355**
Total Liabilities	**28 538 771**	**28 018 870**
Total Equity and Liabilities	**43 342 129**	**31 002 449**

COMPREHENSIVE INCOME

	2020 R	2019 R
Revenue	94 656 022	88 902 394
Other income	22 304 013	16 016 952
Operating expenses	(107 080 918)	(104 953 947)
Operating surplus/(deficit)	**9 879 117**	**(34 601)**
Investment revenue	**2 090 438**	2 328 272
Finance costs	**(1 207 305)**	(1 051 582)
Surplus/(deficit) for the year	**10 762 250**	**1 242 089**
Other comprehensive income:		
Items that will not be reclassified to surplus or deficit		
Actuarial gains (losses) on defined benefit plans	1 057 529	294 397
Other comprehensive income for the year	**1 057 529**	**294 397**
Total comprehensive surplus/(deficit) for the year	**11 819 779**	**1 536 486**