THE BANKING ASSOCIATION SOUTH AFRICA

INTEGRATED REPORT

2021

CONTENTS

CHAIRMAN

RICHARD WAINWRIGHT

2021 was another testing year for South Africa, characterised by social unrest, continuing political uncertainty, economic headwinds and an ongoing health crisis. But it was also a year of hope. Although the rollout of the Covid-19 vaccine programme was slower than anticipated many of the human and economic privations of the pandemic came to an end with the lifting of the state of disaster and its restrictions on social and business activities.

Business confidence also strengthened thanks in part to government's increasingly pragmatic language, exemplified by the President's acknowledgement in the 2022 State of the Nation Address, that "government does not create jobs, business creates jobs". Confidence was also boosted by a start to the implementation of some long-delayed structural economic reforms, like the auctioning of telecommunications spectrum, an invitation to the private sector to participate in rail logistics, and looser restrictions on embedded power generation.

One of the successes of this pragmatic approach is the announcement by investor services agency, Moody's, that it has revised the outlook of South African debt from 'negative' to 'stable'. Standard and Poor's (S&P) revised the country's outlook from stable to positive in June 2022.

While this still leaves the country's debt below investment grade, it indicates that responsible use of the commodities tax windfall and government's commitment to stabilising its debt burden, has improved investor perceptions of the country.

Tragically, this confidence was shattered by an unexpected and coordinated assault on South Africa's democracy in July 2021. The ensuing deaths and the destruction of property, including significant damage to the country's banking infrastructure, was a stark reminder of the untenable inequality of our society and the shortcomings in the capacity of the state to perform one of its most fundamental duties: protecting the safety of the country's citizens. In its aftermath, rebuilding confidence in the rule of law has become a pre-condition for increasing consumer, business and investment confidence.

SOUTH AFRICA'S BANKS ARE IN ROBUST SHAPE AND WELL-POSITIONED TO SUPPORT OUR COUNTRY'S ECONOMIC RECOVERY.

However, continued instanced of lawlessness and the failure to swiftly identify and prosecute those responsible has further dented confidence in the state's ability to maintain social stability, and consequently in South Africa as a destination for investment and business.

But, South Africans have fortitude in times of crisis. Nowhere is this more apparent than in the continued health and stability of the country's banking industry. Far from exposing the weaknesses in our financial system, these turbulent times have highlighted its resilience. Thanks to prudent risk management, good governance and effective regulation, banks entered the year sufficiently well-capitalised to withstand prolonged and severe economic disruption. And, following a sharp decline in earnings and profitability, much of the sector rallied strongly as lockdown restrictions eased and economic activity resumed.

A study by financial services firm PwC reports that South Africa's banks collectively recorded a 99% year-on-year increase in headline earnings in 2021, driven primarily by decreasing loan impairments and an increased demand for credit. This is encouraging not only for banks, but also for the broader economy, as a demand for credit is often a sign of stronger consumer and business confidence.

Although the economic reforms to date are cause for optimism, far more work is needed if we are to overcome the social and economic crises that still beset the country.

Unemployment climbed to an historic high of 35.3% in the fourth quarter of 2021. According to the latest World Bank report, South Africa remains the most unequal society in the world.

The only solution to this predicament is inclusive economic growth. But the growth trajectory remains tepid at best. The budget projection of 2.1% GDP growth for 2022, and 1.8% the year after, is simply insufficient to maintain the country's fiscal stability, reduce unemployment or maintain the social security system on which so many South Africans depend.

The blueprint for accelerated growth is clear; it simply needs to be implemented. Government must provide visible assurance of safety and security and demonstrate greater assertiveness in executing the Economic Reconstruction and Recovery Plan. Reducing red-tape and onerous regulations for entrepreneurs is among the surest and fastest ways to boost inclusive economic growth and job creation without having to introduce new programmes and additional spending. And, beyond talk of a 'social compact', we urgently need constructive engagement between business, government, labour and other stakeholders that results in pragmatic and tangible outcomes. Load-shedding continues to be an untenable burden on the economy, eroding business and consumer confidence, while collapsing transport infrastructure is a burden on communities and costs business opportunities.

CHAIRMAN

GOVERNANCE

Good governance is another prerequisite for inclusive economic growth. The banking industry welcomes the findings of the Zondo Commission of Inquiry into State Capture. Banks will willingly engage with the authorities on how best to strengthen anti-money laundering measures and manage the closure of suspect bank accounts, as recommend by the commission.

Anti-financial crime laws are aimed at preventing the use of the financial system to commit – or launder the proceeds – of crime. Those who's operations are within the law, have little to fear.

The country must remain steadfast in its resolve to enforce the rule of law and strengthen its institutions of good governance. The Financial Action Task Force (FATF) gave South Africa 18 months to strengthen its capacity to deal with the global money laundering and terrorist financing. A key requirement is that the National Prosecuting Authority (NPA) must bolster its ability to enforce anti-money laundering laws and to successfully prosecute perpetrators. While BASA is working with the relevant authorities to fix weaknesses in financial crimes controls identified in the FATF report, banks can only comply with the law; they do not have the power to enforce it. The impeccable record and reputation for good governance that South Africa's banks have worked hard to earn is dependent on the authorities' capacity and willingness to uphold the law. Should the NPA, among others fail to meet the FATF deadline, South Africa will be 'grey listed' and the ability of its banks and other financial institutions to raise funds on global markets will be restricted, to the detriment of our country's financial system.

TRANSFORMATION

Banks have long viewed transformation and financial inclusion as social and economic imperatives in South Africa. The BASA Transformation in Banking Report 2022 found that banks often meet and exceed the transformation and employment targets set for them in the Financial Sector Code. Where they are not meeting their targets, there is measurable improvement every year.

The difficult economic and business conditions of the past few years have made it more challenging to fast-track the achievement of the FSC targets, which depend on growth in targeted lending and employment opportunities. But these targets reflect only part of the banking sector's ongoing contribution to the transformation and inclusive growth of South Africa's economy. The business of banking – raising money to extend as loans for homes, entrepreneurship and business expansion – is an essential service for the social and economic development and transformation of the country.

THE LAWS ARE AIMED AT PREVENTING THE MISUSE OF THE FINANCIAL SYSTEM TO LAUNDER THE PROCEEDS OF CRIME. THOSE WHOSE OPERATIONS ARE WITHIN THE LAW HAVE LITTLE TO FEAR.

SUSTAINABLE FINANCING

The financial sector globally has a critical role to play in financing the transition to clean energy – one of the great challenges of our time. In South Africa, we have the additional responsibility of ensuring that the transition is just and inclusive, particularly in light of our ongoing energy crisis and the dependence of many communities on the coal industry for jobs and livelihoods. Banks have made significant progress in the past year in expanding their sustainability reporting and are refining their risk models in line with rapidly evolving local and international carbon emission and financing regulations. The financial sector is already participating in several major renewable energy projects and will continue to fund projects under the Renewable Energy Independent Power Producers (REIPP) programme.

CONCLUSION

Despite the challenges of the past few years, South Africa's banks are in robust shape and well-positioned to support our country's economic recovery. Although BASA is optimistic about the direction of governance and policy in South Africa, many of the risks and obstacles that have hindered economic growth and undermined social and political stability remain in place.

My thanks to my fellow board members, the bank representatives on BASA committees and the staff of the association, who, over the past two years have shown extraordinary dedication in the service of their industry and the country. And my best wishes to my successor, Lungisa Fuzile of Standard Bank South Africa.

Thank you.

MANAGING DIRECTOR

BONGI KUNENE

The mandate of The Banking Association South Africa (BASA) is to advance the interests of domestic and international banks operating in South Africa, to make banking sustainable, profitable and better able to contribute to the social and economic development of the country.

Financing Inclusive Economic Growth

The numbers speak for themselves

Banks held **R4.9 trillion** deposits from the public

Banks lent **R1.7 trillion** in mortages

Banks loaned and advanced **R1.4 trillion** to companies

Banks held **R680 billion** government debt

Without commercially sustainable banks, inclusive economic growth – necessary to overcome unemployment, poverty and inequality - would be critically hampered in South Africa. To pretend otherwise is reckless rhetoric that puts at risk not only the financial and social stability of the country, but also the savings and investments of South Africans.

Despite a sometimes openly hostile political and social environment, often caused by uninformed, populist criticisms of banking industry, BASA was able to maintain productive and mutually respectful relations with bank regulators and stakeholders, and effectively respond to proposed regulation and legislation that would affect the business of banks and their ability to provide financial services to South Africans.

This is vital for the financial and economic stability of South Africa. Banks hold **R4.9 trillion** in deposits from the public. Of total bank assets, two-thirds are loans to individuals and businesses – big and small – to expand, grow the economy and create jobs.

MANAGING DIRECTOR

In 2021, for example, banks lent **R1.7 trillion** in mortgages that were used to buy homes and **R1.4 trillion** in loans and advances to companies, among others, for them to expand and create jobs.

Banks are the single largest source of financing for small and medium enterprises (SMEs), which have long been identified as the best way to grow the economy in an inclusive manner, address concentration, create jobs and reduce poverty and inequality.

Banks also routinely invest in commercially sustainable economic and social development infrastructure, directly and indirectly, by buying government and state-owned enterprise bonds, or extending them loans. Government uses these loans to build social and economic infrastructure and to service its operating costs such as civil servant salaries and social security grants. At the end of 2021, banks held about **R680 billion** of government debt.

It is the business of banks to extend credit and earn a reasonable rate of return for their depositors. But credit is not extended without careful consideration of any risks to depositors' funds. Banks have a fiduciary responsibility to protect their depositors' funds and to ensure loans are extended only when there is a reasonable expectation that they can be repaid. And loans must be repaid to ensure that depositors can get their money back on demand and that banks are able to extend new loans to other customers.

Banks provided funding to businesses which help them to grow and create jobs. However, banks are not able to extend credit if there are not enough commercially sustainable investment opportunities. It is the responsibility of government to create an environment that is conducive to sustainable business, consumer and investor confidence.

Besides financing economic activity and job creation, banks are major contributors to South Africa's economy in their own right.

The **six largest banks** employ more than **154,000** people.

The financial services industry pays **30%** of all **corporate tax** (R63 billion in 2021) despite making up only **23% of GDP**.

Every payment of a salary, bank transfer or use of a card in a store is handled by banks and payments infrastructure. Every year, more than **four billion individual transactions** - worth **R13,5 trillion** - is managed seamlessly.

In 2021 banks made a profit of **R95 billion** after they recovered from the economic impact of the Covid-19 pandemic. The big six banks preserved **R69 billion** as capital to protect their business and depositors funds, **R21 billion** was paid to shareholders, including pension funds, foreign investors and empowerment schemes. The retirement and investment funds that provide pensions for government and private sector employees – like the Government Employees Pension Fund – are major shareholders of banks. They fund their pension payments, in part, from bank profits.

Banks have long acknowledged that the present patterns of unemployment, poverty and inequality threaten the social and political stability on which South Africa depends. The Report of the Expert Panel into the July 2021 unrest pointed out that the instigators of the violence were able to take advantage of service delivery failures and existing tensions to advance their destructive agenda.

The World Bank has pointed out that financial services can help drive development. "They help people escape poverty by facilitating investments in their health, education and businesses." The bank reports that 85% of South Africans had access to bank accounts in 2021.

Many bank investments in commercial enterprises are in line with the Financial Sector Code (FSC), which drives broad-based black economic empowerment; and the Principles for Responsible Banking 2022. These investments support the UN Sustainable Development Goals, the Paris Climate Agreement and relevant regional and local frameworks, such as the African Union Agenda 2063.

In pursuing commercially sustainable business, banks contribute to the achievement of inclusive economic growth and social development in South Africa. They are a national asset that must be protected – by all responsible South Africans – for the future stability and financial independence of the country.

BASA OPERATING DIVISIONS

The Market Conduct Division protects and promotes the interests of the banking industry regarding legislation and regulation that affects bank customers and clients.

The Prudential Division protects and promotes the interests of banks operating in South Africa to the local and international authorities who regulate the global financial system.

The Financial Inclusion Division promotes access to – and the use of – affordable financial services, which are appropriate for the financially excluded, unbanked or under-banked.

The Payments Division represents the interest of banks in the National Payments System (NPS). The NPS is the network of processes, legislation, risk management practices and technology that enables the settlement of payments in South Africa.

PRIORITIES FOR BASA INCLUDE:

The Modernisation of the National Payments System. BASA is working with other stakeholders towards the realisation of the South African Reserve Bank's (SARB) Vision 2025, which aims to make the National Payments System more transparent, stable and cost effective; and better able to promote innovation, regional integration and financial inclusion.

Sustainable Finance. Environmental, social and good governance (ESG) guidelines are being integrated into bank business practices as they are increasingly required to provide financial products to fund sustainable energy projects and help investors build portfolios that support carbon neutrality and green economies. BASA hosted a Sustainable Finance Conference in 2021 to discuss the role and – often competing – responsibilities of banks in supporting and funding a just energy transition to a low carbon emission economy in South Africa.

Transformation and Financial Inclusion. BASA and its member banks oppose discrimination in any form and have long insisted that any credible allegations must be investigate and prosecuted to the full extent of the law.

Financial Action Task Force. The Financial Action Task Force (FATF) Mutual Evaluation Report found notable weaknesses in South Africa's anti-money laundering and financing of terrorism controls. If the country cannot show significant progress toward strengthening the country's anti-financial crime systems by October 2022, South Africa faces the prospect of being added to the 'grey list' of nations who are subject to increased monitoring by FATF and have their financial transactions on global markets restricted. BASA is working with the Prudential Authority of the South African Reserve Bank to fix weaknesses in the way banks manage the risk that their businesses could be used for financial crimes.

Strengthening the Financial System. BASA has been working with SARB on the establishment of the Corporation for Deposit Insurance (CoDI) that will administer the country's deposit insurance scheme, which will protect customer's funds if a bank fails. The privately funded scheme should become operational by 2024.

Covid-19 Vaccination Centre. In response to a request by the National Department of Health (NDoH), the BASA Board approved the establishment of a financial sector worker-based Covid-19 vaccination site. This was an effort by BASA and its members to protect the health and welfare of bank employees, by providing them with access to vaccinations during the pandemic. In its four months of operation, just under 30 000 people, mainly financial sector employees and their families, were vaccinated at the site. The site also provided training and skills development opportunities for pharmacy students, among others. After it was closed, medical equipment used at the site was donated to research institutions.

COVID-19 VACCINATION CENTRE

SAVING LIVES AND LIVELIHOODS:

On 06 January 2021, South Africa hit a deadly milestone when a new high of 21 832 Covid-19 infections were reported in a day – and 441 deaths. While much was still being discovered about how best to contain the pandemic, the science was clear on one thing: vaccinations were the best way to reduce the rate of infection and help South Africans survive the virus.

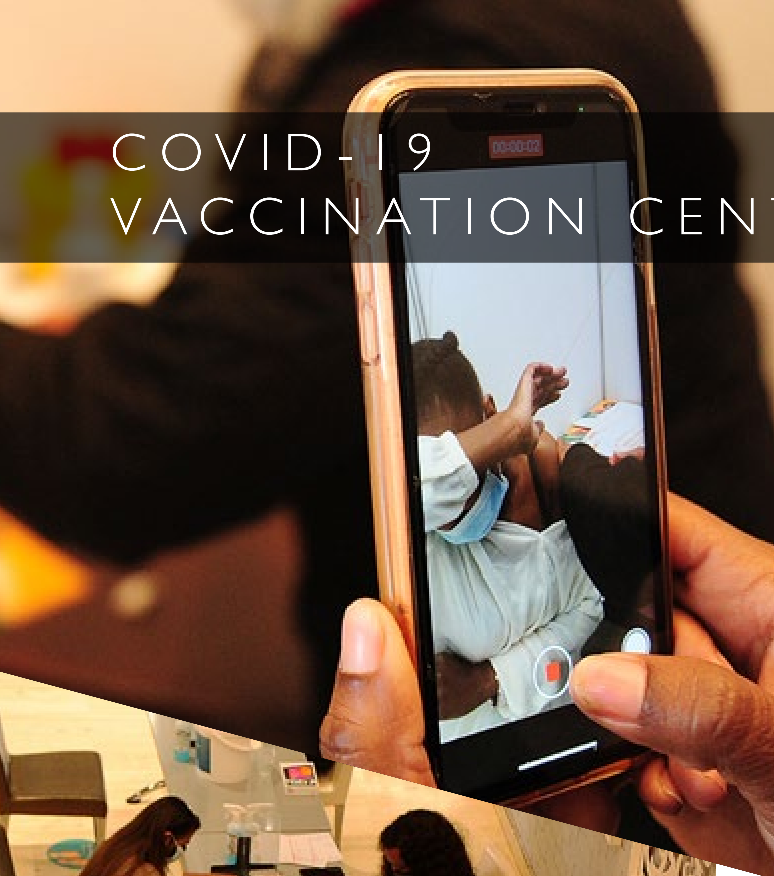
Despite fierce international competition for vaccines, the South Africa government manged to secure 62 million doses for its national vaccination drive. However, with a target of administering 300 000 vaccination doses a day, government alone could not meet the massive logistical rollout that this required. Besides the public vaccination programme, the National Department of Health (NDoH) called on the private sector to help establish worker-based vaccination sites. With the approval of its board, The Banking Association South Africa (BASA) became one of a number of industry representative organisations that began to work with the NDoH to set-up vaccination sites for their employees.

"The banking industry responded positively to government's request to establish a worker-based site. It was immediate, but it takes time to establish a worker-based site. In the time we took to get the centre established, the environment around Covid-19 changed," says the BASA Senior General Manager: Prudential, Mark Brits. The Operational Risk Committee in the Prudential Division of BASA had the responsibility of setting up and running the financial sector vaccination sites, as well as managing the licensing and other regulatory processes with the NDoH. BASA consulted and collaborated extensively with the finance union, the South African Association of Bank Officials (Sasbo) and the Association of Savings and Investment South Africa (Asisa), among others.

Participation in the financial sector vaccination programme by employees was voluntary, with banks providing the information necessary for their staff to make an informed choice. The cost of vaccination borne by the recipients' medical aid or the government, in cases where there is no medical aid cover.

"When we encountered this once in a 100-year pandemic we did not have all of the answers, but we wanted to be part of the national effort to save lives. This was not a commercial operation to make a profit. This was ultimately about saving our employees, their dependents and whoever we could vaccinate," says General Manager Prudential, Benjamin April, who oversaw much of the operations of the vaccination site.

COVID-19 VACCINATION CENTRE



STATE OF THE ART

The NDoH initially offered BASA two sites, based on where the department estimated the most financial sector employees were: Sandton in Gauteng and Stellenbosch in the Western Cape. Of the two, Sandton turned out to be the more viable, with an estimated 130 000 financial services employees in the vicinity. In the end, the Stellenbosch site was found not to be viable, with too few bank employees in the vicinity - only 16 454 - many of whom had access to alternative vaccination sites. After carefully considering the financing and personnel requirements against the expected demand for vaccinations, a decision was taken not to go ahead with the Stellenbosch site and make better use the resources elsewhere.

After a rigorous procurement process, BASA partnered with the Wits Healthcare Consortium, a non-profit arm of the university's health science department that had extensive experience in managing large projects, to run the Sandton site. The vaccines were procured through Biovac, a company that had been appointed by the NDoH to distribute the vaccines. "The pharmacy was the heart of the operation. Most of the stakeholders who visited the centre wanted to see the pharmacy. The pharmacists and the medical staff there would attend to some of their technical questions," said BASA administrator, Soneni Bhango, who assisted at the site.

The BASA Financial Sector Worker-based Vaccination Site opened its doors at the FNB Conference Centre in Sandton on July 26, 2021. A scalable vaccination site, designed to administer 1200 doses a day, it boasted state-of-the-art equipment and deep cold storage to keep the vaccines viable for longer. In the four months that it was in operation, over 50 entities made use of the facility, including 24 local and foreign banks, as well as insurers, asset managers, among others. Access was also extended to spouses and family members of financial sector employees. In its four months of operations, just under 30 000 people were vaccinated at the site. "On some days you had too many people coming in at the same time. So we had to attend to them and assist in making sure the receiving rooms were cleared, that the data was captured correctly and that we had enough staff to attend to the people.

"The site was about saving lives. It prioritised people. We had a decision that no one would come here and go back unvaccinated, even if they had not registered," says Bhango. Despite these best efforts, the site fell short of a target of 97 000 vaccinations.

- The worker-based vaccination sites had to comply with government standards and policies. The pace and scale of the rollout of the financial sector worker-based vaccination sites was dependent on it receiving the necessary approvals from the NDoH and the rate at which the department was able to supply and safely distribute the vaccines. While BASA was willing to deal with all the complexities of establishing and running the site, there were delays before its operations started. By then, other sites had come online.
- The Covid-19 vaccination rollout programme was changing very quickly as the government adapted its strategies to fight the pandemic. When discussions around the worker-based sites started, there was a limited number of places where the vaccine was available and access was restricted. By the time the financial sector site was up and running there was a proliferation of alternative vaccinations centres, especially in urban areas, where many in the financial sector worked. Ultimately, it boiled down to convenience, with those that were willing to get vaccinated opting to go to sites that were nearest to them.
- As the pandemic eased there was a lack of willingness to be vaccinated among South Africans.

But even though the demand for vaccination did not meet the expected volumes, the financial sector worker-based vaccination site has been celebrated for its contribution to the national effort of saving lives. "All the people who were vaccinated and went through our site would tell you that they had a fantastic experience. We were well-prepared and we had more than enough of everything. We did a really good job. I don't think the results reflect the amount of effort that went into that. If we had real demand you might have even seen the vaccination site stay open even longer," says Brits.

"Every jab we got into someone's arm was a success because that's a life you potentially saved," says April.

But the most remarkable thing about the site was that when the opportunity presented itself, many people volunteered their services to make a difference. "When the opportunity came for me to make a difference, I took that opportunity to save lives," says Bhango.

The BASA vaccination site was the largest worker-based vaccination site in the country. At its peak there were 60 nurses, 10 Netcare personnel, a medical doctor, one senior qualified pharmacist and five junior pharmacists on site. About 100 administrators, consultants, and marshals supported them, to ensure that the site ran optimally, and everyone could be assisted.

The vaccination centre in Sandton not only provided lifesaving vaccines, but also provided meaningful opportunities for training and skills development.

The centre provided practical training for a total of 42 Wits University pharmacy students who were eventually deployed to other public health facilities in support of the public sector vaccine rollout.

In addition, at least twenty marshals and administrators received training as vaccinators and more than 25 marshals received training as administrators. Overall, no less than 80 people got permanent jobs in both private and public sectors. For many of these, the centre presented their first experience in a formal work environment, allowing them entry into the job market.

MUTUAL EVALUATION REPORT

STEPPING UP THE FIGHT AGAINST FINANCIAL CRIME

The consequences of a 'grey listing' will be dire for South Africa and decisive action is required.

In October 2021, the Financial Action Task Force (FATF) Mutual Evaluation Report found significant weaknesses in South Africa's anti-money laundering and financing of terrorism controls. If remedial actions cannot show meaningful progress towards strengthening the country's anti-financial crimes systems – to the satisfaction of the FATF, by October 2022 - South Africa faces the prospect of being added to the 'grey list' of nations who have their international trade and financial transactions restricted in global markets and are subject to increased monitoring by FATF. This is something the country, already struggling with poor business, consumer and investor confidence, can ill afford.

THE RISKS

For now, the prospects are worrying. The first edition of the 2022 South African Reserve Bank's (SARB) Financial Stability Review warned that it was 'highly likely' that South Africa would be placed on the FATF 'grey list'. It warns that "This could have wide-reaching consequences for the South African financial system from a reputational risk perspective, and for the banking sector in particular in terms of funding costs and the ability to maintain correspondent banking relationships." Corresponding banking relationships are the banking services one bank provides to another, in a different jurisdiction. These relationships are vital for international transactions. Additional threats the Financial Stability Review and others identified, include:

- Higher transactional, administrative, compliance, auditing and funding costs for domestic banks, who will face increased inspections by regulatory authorities.
- South Africa may be placed on the European Union's black-list and United Kingdom's list of high-risk countries. A high-risk classification means access to commercial loans, Internal Monetary Fund (IMF) borrowing and financial aid will be limited or more stringent access requirements imposed.
- Bank's ability to conduct cross-border transactions will be restricted, hampering imports and exports, which can lead to a decline in gross domestic product. However, they will not be shut out of international markets.
- Reputational damage to South Africa that could be negative for investment and the currency. There could be a downgrade of the country's investment and credit ratings.

KEY FINDINGS

The mutual evaluation report found that South Africa has a solid anti-money laundering and terrorism financing legal framework but has significant shortcomings when it comes to effectively implementing and prosecuting its laws. As a result, there is a failure to effectively pursue serious cases, like those that are a result of state capture, where corrupt businesses and politicians conspired to influence South Africa's decision-making to advance their own interests; or the alleged Steinhoff fraud; or the looting of VBS Bank, as examples. Another key concern is that the country's anti-terrorism financing combatting capacity – and its ability to sanction those support terrorism - is also very weak. In short, South Africa must step up its anti-money laundering and terrorism financing capacity to match the risks facing the country.

While the Financial Intelligence Centre (FIC) produces operational financial intelligence; the law enforcement authorities lack the skills and resources to investigate money laundering or terrorism financing. The country also needs to proactively collaborate with international partners to detect and combat illicit cash flows, and to improve the availability of beneficial ownership information about companies and trusts to enable effective investigation.

MUTUAL EVALUATION REPORT

REMEDIAL ACTIONS

South African banks already comply with domestic and international anti-financial crime and terrorism funding regulations and best practice, as this is required for them to be part of the global financial system. If they do not comply, they face fines, restrictions on their businesses or being shut out of the financial markets on which they depend to raise capital. In 2021, banks reported over 394 000 suspicious transactions and over 4.85 million cash transactions to the FIC. Where banks have been in breach of regulations, they have been fined or otherwise penalised by their regulators, including the FIC.

But, while banks have a duty to report suspicious transactions, they cannot enforce the law. Once banks have reported suspicious transactions, it is the responsibility of the relevant authorities to investigate further to establish if any wrong-doing has taken place and to prosecute and convict, if necessary.

The government has assembled a national working group - led by the FIC - to oversee and coordinate South Africa's response to the mutual evaluation report. The primary task of the working group is to implement the corrective actions necessary to fix the weaknesses in South Africa's anti-money laundering and terrorism financing systems, as identified in the evaluation report. There are 11 workstreams dealing with the weaknesses identified. The South African Reserve Bank's Prudential Authority has instructed banks to focus on strengthening preventative anti-money laundering and terrorist financing measures by South African financial institutions, which includes insurers, casinos, attorneys and estate agents.

"BASA's role is to assist with the facilitation of the discussions around the findings of the Mutual Evaluation Report and to assist with reaching agreements as to what action item must be undertaken to improve our level of compliance," says BASA General Manager for Legislation and Regulatory Oversight: Marguerite Jacobs. BASA has indicated its willingness to provide more assistance and expertise in developing and coordinating project plans to ensure South Africa is able to meet the requirements of FATF. This will lead to a strengthening of South Africa's capacity to combat financial crimes, no matter the outcome of the FATF assessment.

South Africa does not have enough savings and revenue to meet its budget deficit, which includes social grant payments, public sector wages and social and economic development programmes. If the country does not have easy, affordable access to global financial markets, through the international financial system, it will become much harder for it to meet the basic needs of its people. If the worst happens, BASA will continue to work with its stakeholders to increase South Africa's capacity to fight financial crime and have the country removed from the list, as has been successfully done by other nations.

THE FINANCIAL ACTION TASK FORCE

The Financial Action Task Force (FATF) sets international standards for protecting and strengthening the global financial system; and for combating money laundering, terrorist financing and the funding of the proliferation of weapons of mass destruction. Over 200 jurisdictions, representing most major international financial centres, subscribe to FATF anti-money laundering and terrorism financing recommendations.

South Africa's mutual evaluation report followed a comprehensive review of the effectiveness of the financial system's measures to fight money laundering and terrorism financing, by a team led by the International Monetary Fund (IMF). The evaluation took place between April 2019 and May 2021. FATF gave South Africa 18 months to address deficiencies identified in the report. A decision on whether to place South Africa on the 'grey list' of countries who have weak anti-financial crime controls will be taken in February 2023. The decision will be based on the progress made towards fixing the country's financial crime controls, by October 2022.

LESSONS FROM MAURITIUS

Mauritius was placed on the FATF 'grey list' in February 2020 and subsequently the European Union's revised list of high-risk countries that have strategic deficiencies in their anti-money laundering and terrorist financing framework. In July 2021, the United Kingdom added Mauritius to its list of high- risk countries.

The impact of the 'grey listing' included the withdrawal of investments from government backed funds and increased cost of enhanced compliance. However, Mauritius was removed from the 'grey list' in September 2021, after the FATF found it had substantially strengthened the effectiveness of its regulatory regime and addressed related technical deficiencies that had been identified.

Key reforms by Mauritius included:

- The development of risk-based supervision plans for the Financial Services Commission and other regulators.
- Providing training for law enforcement authorities and demonstrating that they have the capacity to conduct complex money laundering investigations.
- Ensuring timely access to accurate basic and beneficial ownership information by competent authorities.
- Demonstrating the adequate implementation of targeted financial sanctions.

BASA has been consulting the Mauritius Banker's Association, among others for guidance and advice on how best to respond to the FATF Mutual Evaluation Report.

FINANCIAL STABILITY IN A TIME OF CRISIS

South Africa faced at least three major threats to its economic and social stability in 2021:

- Repeated waves of Covid-19 infections and the resulting restrictions on economic and social activities were hampering already tepid economic expansion.
- Government spending and debt accumulation seemed to be on an unsustainable trajectory
- The country was hit by what South African President, Cyril Ramaphosa, described as an attempted insurrection in July 2021, leading to significant damage to economic infrastructure in KwaZulu-Natal and Gauteng.

In the wake of the July 2021 unrest, the big question was: could there be another attempted insurrection in South Africa? This weighed heavily on consumer, business and investor confidence, all three of which are essential for sustainable, meaningful inclusive economic growth. Businesses are not willing to rebuild and reinvest in South Africa until they are confident in the social and political stability and the rule of law in the country. The Banking Summit addressed these and other key challenges to financial stability in South Africa in 2021.

"We may not see mass scale events like we did in July, but certainly we are already seeing smaller events that could happen in bursts in which banks and shops are looted quite rapidly. This could be the modus operandi in the future. We cannot exclude the possibility that banks will become targets, especially because of their large cash reserves," warned the Chief Executive Officer of the South African Banking Risk Information Centre (SABRIC), Nischal Mewalall.

In a nutshell, the summit highlighted that social challenges and tensions in South Africa – caused by unemployment, poverty and inequality – allowed those who are opposed to efforts to end corruption and maladministration in government and other institutions, to instigate violence and threaten the stability of the country. Going forward, political instability and social unrest has got to be included in the South African business risk registry.

"If gross domestic product (GDP) growth averages one percent for the next ten years, social tensions will become more stark and the risks to the financial sector would become greater," said South African Reserve Bank (SARB) Deputy Governor, Kuben Naidoo.

As a way forward, political analyst, Sithembile Mbete, suggested: "The only way to buffer the threat [of further unrest] is to develop a broad coalition of those who want the country to remain stable. Business needs to speak to the unemployed".

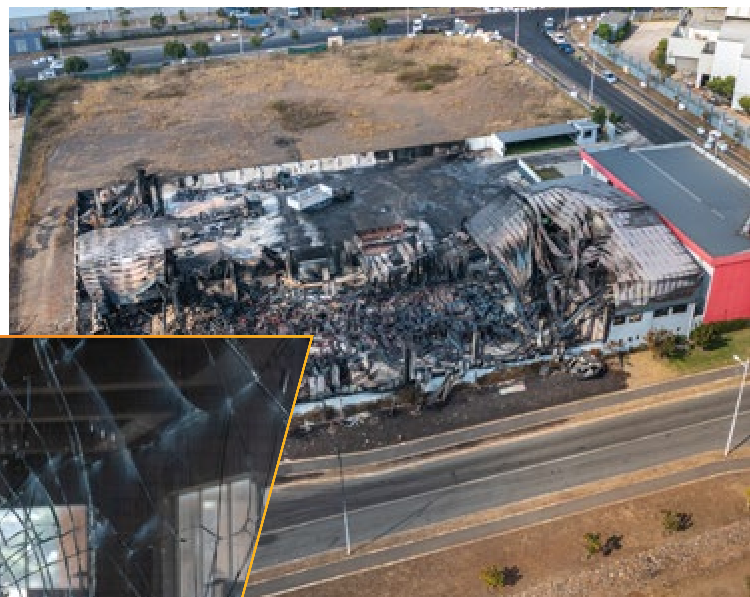
"Where we see a loss of trust in government, people are expecting chief executives to step-in to fix societal problems. They want to see executives take the lead in change, and to be accountable to the public, not just directors and shareholders," explained managing director of communications and reputation management agency, Edelman South Africa, Karena Crerar. She added that to building trust between society and business, requires a concerted, sustained effort.

However, Mbete pointed out: "Most of big business tend to interact with national government. But national leadership has very little control over the local level [where most business and community service delivery problems and social protests occur]. What you need is business at a local level to be partnering with civics and employees to come up with solutions."

The Managing Director of BASA, Bongi Kunene, closed the summit with a call to action to tackle the threats to the country's social, political and financial stability, on which all South Africans depend. "We need action. When you have to correct, correct along the way. But act now. We need sustained interventions to scale up that which works," she said.

SUMMIT NOTES

- South African banks hold significant levels of government debt, which helped finance state assistance to South Africans during the Covid-19 and other crisis. However, if there was to be a deterioration in the government balance sheet or further downgrades to the country's credit rating, it could have a negative impact on the banking system. – The Financial Stability Review.
- The financial sector played a positive role in helping to mitigate the effects of the Covid-19 crisis. Credit extension continued. Banks were able to support their customers. Most people who needed credit and were reasonably creditworthy, could get credit. Banks were able to support their customers. The process of digitalisation of the financial sector – that began years ago - was accelerated. Banks managed their operational resilience and cybersecurity very well. – Reserve Bank Deputy Governor, Kuben Naidoo.
- The pace of technological advancement has only been accelerated by the increased reliance on digital tools and platforms during the Covid-19 pandemic. Whether we like it or not, the nature of banking is being transformed and disrupted by new entrants, new business models and new technologies. We must evolve at an exponential speed in order to keep pace and remain relevant. – BASA Chair, Richard Wainwright.



TRANSFORMATION IN BANKING

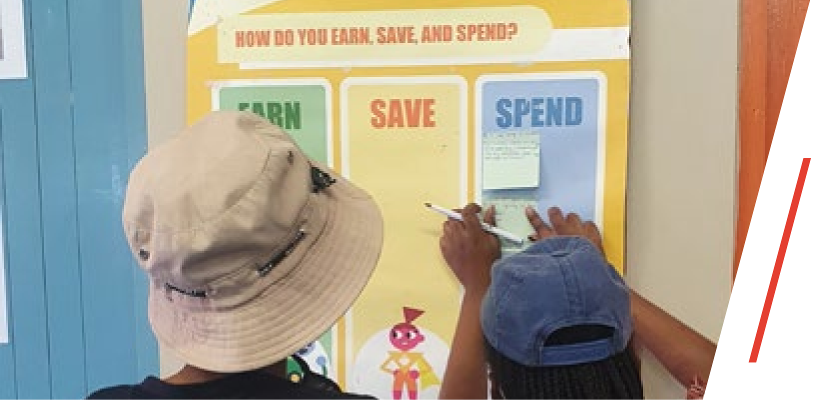
Banks continued to meet many of the empowerment and transformation targets set in the Financial Sector Code (FSC), despite the severe economic contraction of -6,4% experienced in 2020, which reduced opportunities for job creation and inclusive economic growth.

Until the South African economy recovers from the years of state capture, maladministration, political uncertainty and a lack of urgent economic reforms, sustainable Black Economic Empowerment (BEE) will be hampered. Banks however remained committed to meeting and exceeding the transformation targets set out in the FSC. The latest Transformation in Banking Report found that in 2020:

- Black ownership of banks was slightly above target with black people holding 28.4% of voting rights in banks, against a target of 25%. However, black economic interest was at 23.6% against a target of 25%. Black ownership of banks is likely to continue to drift down as bank BEE deals have vested and black investors are now free to sell their shares and benefit from their profits.
- Black management control of banks fell short of their targets at all levels. However, the percentage of black managers and directors in banks increased, at all levels, every year for the past three years and this is expected to continue because of the strong pipeline of black managers at all levels. Banks spent R4,7 billion on skills development for black employees.
- Banks procured 82% of their goods and services – worth R136 billion – from BEE compliant businesses, against a target of 80%.
- Banks provided R270 billion in empowerment financing, including R34.5 billion to small black businesses.
- Banks provided access to transaction points to 88% of South Africans in low-income households, against a target of 85%; and provided 20 million products that contribute to financial inclusion, against a target of 15 million.

The findings of the Transformation in Banking Report, which was published in 2022, show in hard numbers, that the narrative that banks are falling far short of their FSC targets is based on an incorrect interpretation of the numbers as guided by the FSC. This can distort facts and discredit the contribution of banks to the transformation of the financial services sector and economic empowerment in South Africa.

Banks are acutely aware that South Africans who face increasing daily economic hardships are growing impatient with calls for responsible, sustainable reforms that seem to do little to improve their lives. The faster implementation of announced economic reforms will create more opportunities for transformation and empowerment in the economy, which will be supported by the banking industry. Banks will continue to work with government and business to fast-track inclusive economic growth. The FSC itself makes the point that "the stability and soundness of the financial sector and its capacity to facilitate domestic and international commerce is central to the successful implementation of broad-based BEE".



The transformation report also demonstrates how banks and other financial institutions have been central to transformation in the energy sector by financing the Renewable Energy Independent Power Producers Programme (REIPPP).

Researchers at Power Futures Lab at the University of Cape Town, Christine Juta and Wikus Kruger, write that from zero in 2011, South Africa procured 112 renewable energy independent power projects, with a total installed capacity of more than 6,300MW, by 2015. South African commercial banks, development finance institutions, institutional investors and private equity firms have provided the majority of capital for these projects and have worked closely with government and the private sector to ensure the continued sustainability of the renewable energy sector.

Independent power projects (IPPs) are primarily project-financed, requiring the establishment of special purpose vehicles (SPV) that are mainly funded by equity and debt. Most of the projects' debt was provided by South African commercial banks. Local development finance institutions, the Industrial Development Corporation and the Development Bank of Southern Africa, financed most of the black economic empowerment and a significant part of the community shareholding. A small portion of debt was also provided by foreign development finance institutions. In total, South African financial entities provided 91.7% of the total project debt.

"The private sector, enabled by significant funding from South African financial institutions, can restore South Africa's energy security and enable the transformation, and indeed democratisation, of power generation in the country. This has already started, with investments by commercial and industrial consumers of renewable energy now representing significant new installed capacity," say the researchers.

The rapid growth of the renewable energy sector is an example of how in pursuing commercially sustainable businesses, banks contribute to the achievement of social and economic development in the country. With the right conditions in place and an enabling regulatory framework, banks can play a similar transformative role in other sectors of the economy, which will achieve much beyond the targets set out in the FSC.

For the full report, please go to www.banking.org.za.

STARSAVER

StarSaver is a banking industry initiative – in collaboration with other financial institutions – which aims to improve the financial literacy of learners in grades seven to nine. It aims to change their behaviour and attitude towards money and saving - for the better.

Since the advent of Covid-19, with limited opportunity for face-to-face contact, StarSaver has made increasing use of digital platforms to deliver financial education to children. A three-part StarSaver animated edutainment series - Leapman & Budget Girl – was launched to educate learners about saving, budgeting, entrepreneurship, business plans, the banking industry and other topical issues.

In 2021, the campaign reached 2 750 584 learners and their parents.

INSTAGRAM: **1 146 342**
FACEBOOK: **1 604 242**
YOUTUBE: **50 600**
TWITTER: **7 505**

Over 100 000 engaged users across all platforms

FINDING A FINANCIALLY STABLE ROAD TO 'NET-ZERO' BY 2050

The Banking Association South Africa's (BASA) Sustainable Finance Conference 2021 tackled the role and – often competing – responsibilities of banks in supporting and funding a just energy transition to a low carbon emission economy in South Africa.

"A just transition for South Africa must ensure that the transition to a low carbon economy is conducted in a way that serves to address present and historical inequality, creates jobs, relieves poverty, restores our natural systems to build resilience, and, critically, leaves no one behind," says the National Business Initiative.

However, Executive Sustainable Finance at the Standard Bank Group, Anneke Lund, points out: "It's clear we are all targeting 'net-zero', but we need to understand our exposure and then map-out how we going to get to 'net-zero', by 2050." 'Net-zero' refers to balancing the amount of harmful emissions an activity produces, by removing the same amount of emissions from the atmosphere.

Head Group Public Policy at ABSA Bank, Simi Siwisa, adds: "A stable financial system is going to be a prerequisite for a just transition. Finance is at the heart of a just transition, but there are risks. What if a just transition leaves us in a situation where banks and the financial sector are left holding stranded assets?" Stranded assets suffer premature devaluation or become liabilities when they are deemed high-risk and cannot find a buyer.

The outcomes of the 26th United Nations Climate Change Conference (COP26) and a just transition to sustainable energy in South Africa were central themes of the conference, which was hosted by BASA.

The Minster of Forestry, Fisheries and the Environment, Barbera Creecy, reflected on COP26 and its outcomes, now known as the Glasgow Pact. The pact calls on the global community to accelerate the development, deployment and dissemination of low emission technologies and phase-out inefficient fossil fuel subsidies; and to provide targeted support to the poorest and most vulnerable, in support of a just transition.

Stephen Nichols of the National Business Initiative (NBI) highlighted that, prior to COP26, the NBI realised that if South Africa had an ambitious Nationally Determined Contribution (NDC) - a climate action plan to cut emissions and adapt to climate impacts that the country could attract significant financial support. However, this would need to be backed up by an implementable plan. To create such a plan, the NBI together with Business Unity South Africa (BUSA) and Boston Consulting Group (BCG) established a Climate Pathways and Just Transition Project. The purpose of the project is to create an analytical fact-base to support decision-making and a coordinated effort among national and international stakeholders. The Climate Pathways and Just Transition Project's preliminary findings recommended that South Africa take a more ambitious NDC to COP26, which was accepted by government and presented in Glasgow.

In his address to the Sustainable Finance Conference, the United States Department of the Treasury Climate Counsellor, John Morton stressed that countries need to act on their COP26 commitments. The United States and United Kingdom together with France, Germany and the European Union committed an $8.5 billion finance package to assist the transformation of the South Africa energy sector. In turn South Africa will commit to retire its coal power fleet and to ramp up clean renewable energy. It is anticipated that the transition will provide banks with an opportunity to finance new job creating industries. Investec Sustainability Manager, Melanie Jansen van Vuuren, says: "With disruption comes opportunity. There are gaps in the market that we can capitalise on and partner with entrepreneurs who are coming up with amazing climate finance tech."

Dr Crispian Olver, the Executive Director of the Presidential Climate Commission (PCC) highlighted the urgent need for financing for the just transition, estimating that R86 billion is needed per annum. He stated that the PCC is committed to working with the banks and other social partners to diversify the sustainable finance capital market, scale up blended finance instruments, track and report climate finance flows, change pricing and incentives to direct investment into new areas and align policy and regulatory measures.

This will be helped by the National Treasury's finalisation of its Financing a Sustainable Economy Technical Paper, which was released in 2021. The paper makes key recommendations to encourage the financial sector to shift to long-term investments in sustainable economic assets, activities, and projects. The recommendations are being implemented by a Climate Risk Forum, which includes representatives from the financial sector and its regulators, the Johannesburg Stock Exchange, and key state departments. The forum oversaw the draft of a Sustainable Finance Handbook and the Principles and Guidance for Minimum Disclosure of Climate Related Risks and Opportunities, among others. These frameworks provide much needed guidance to financial institutions on how to incorporate climate risk and sustainability practises into their operating models.

Previously, environmental, social and governance (ESG) guidelines were used as exclusionary screening to reduce financing with negative impacts, like coal and tobacco. The focus has however shifted to integrate ESG into the overall business practices in banks. ESG is seen as a means of increasing business growth, contributing to business resilience, and ensuring that banks and clients are sustainable.

This new outlook on ESG presents opportunities for banks to work with clients to fund sustainability. In the last two years there has been significant growth in both the uptake and development of sustainable finance. Corporates are showing significant interest in an array of products which have been introduced to the market, such as sustainability linked loans and bonds. There has been an exponential growth of sustainable bonds. The current South African sustainable finance market is estimated at an estimated $3 billion. In 2021 the South African Rand was the third most popular emerging market currency issuing sustainable bonds and the 14th most popular overall. Notably, South African commercial banks have been involved in most bond listings either as issuers or arrangers of the bonds. Demand is also increasing among investors who are looking not only for positive returns on their investments, but for these to have a positive impact on the environment and society.

In the latest Sustainable Banking and Finance Network (SBFN) Global Progress Report, which is the most comprehensive sustainable finance benchmarking report of emerging economies, South Africa had progressed rapidly and was ranked as an advancing country. Through the 30 by 30 Zero Programme the IFC is working with BASA members to enhance the climate finance market while simultaneously reducing banks' exposure to climate risks. There is still much to be done but South Africa needs to replicate efforts on private sector financing initiatives that are working, such as the Renewable Independent Power Producer Programme.

Africa coordinator for SBFN, Louis Gardiner, says: "If anyone tells you emerging markets, including South Africa, are lagging developing countries, I can confidently tell you they are not. They are moving extremely quickly and are eager to share knowledge with each other."

Head of Climate Finance and Innovation at the PCC, Dipak Patel, says: "We have an inevitable transition to make. We are all in this together, obviously with different responsibilities."

BASA together with sponsors ABSA, FNB, Investec, Nedbank and Standard Bank hosted the Sustainable Financing Conference, in November 2021, to demonstrate bank support for sustainable development in South Africa. Key topics for discussion included:

- What the 2021 United Nations Climate Change Conference (COP26) means for South Africa.
- Reaching net carbon zero by 2050: The costs and opportunities.
- Innovative Sustainability Financing and the Just Transition.
- Environment, Social and Governance (ESG) Investing: From screening to reporting.

The virtual conference reached a global audience of over 400, including academics, development finance institutions, regulators, government officials, bankers and their clients and non-governmental organisations.

MODERNISATION OF PAYMENTS

New technology and digitalisation have changed the way business is done by making electronic payments more accessible and enabling consumers to complete transactions and transmit remittances – even across jurisdictions - in real-time. Changes in payments technology have also increased banks and financial institutions' ability to mitigate risk, manage liquidity and to readily respond to consumer demands by expanding their range of services and products. "In developing societies, we see innovation in payments helping to address financial inclusion and the opening up of the markets," says BASA Senior General Manager Payments, Kumaran Selvarajalu.

Today, almost every salary and card payment or bank transfer is handled by banks and payments infrastructure. Every year - in retail payments alone - R13,5 trillion is handled in more than four billion transactions, according to South Africa's payment clearing house operator, BankservAfrica.

However, South Africa is very much a cash-reliant country, with up to 30 million people, or half the population, dependent on the supply and availability of cash for transactions. Cash is universally understood, simple to use and accepted almost everywhere. It does not require digital literacy or infrastructure, which is not yet available everywhere in the country. But, cash has inherent fixed and variable costs as it is often expensive and dangerous to distribute and collect across the country. Many of those who depend on cash are vulnerable and interruptions in the availability of cash can have dire consequences in their daily lives. Digital alternatives will need to offer the same or similar benefits to cash to ensure all citizens have access to the financial system. The move to a digital environment must ensure every citizen, primarily the most vulnerable, are included in the financial system.

VISION 2025

With cash being such a key feature of the South African economy, a cashless society is unlikely to be achieved in the near term. The country's National Payments System (NPS) must be modernised in a manner that is relevant to South Africa - by maintaining and strengthening its stability, promoting innovation and accommodating new players – to bring the benefits of digital inclusion to more citizens.

Currently, banks and other players in the financial services industry – fintechs, retailers and telecommunications, among others – are collaborating on the South African Reserve Bank's proposal to modernise the payments system, Vision 2025. Vision 2025 objectives include: improving financial inclusion, putting in place a clear and transparent regulatory framework; promoting competition and innovation; improving cost effectiveness and interoperability; and increasing regional integration.

Banks are actively working to modernise the foundational capabilities of the National Payment System, for the benefit of all role-players in the payments system, not just the banking industry.

These initiatives will focus on electronic fund transfer (EFT) credits and debits taking place in real-time. South Africa is part of the worldwide migration to a faster EFT credit system and the industry is making steady progress on the Rapid Payment System. This faster payments system is set to revolutionise commerce in South Africa by creating an integrated digital platform that will enable payments from payer to beneficiary in under 60 seconds.

In terms of EFT debits, the banking industry under the management of the Payments Association of South Africa (PASA) has built and implemented the DebiCheck system. Together with programmes to manage debit order abuse, DebiCheck will ensure a robust, safe and well conducted debit-order ecosystem.

BASA is also providing input to policymakers and stakeholders on: the high-value payments system managed by the SARB; international and regional payments initiatives; and new innovations, such as the Central Bank Digital Currency (CBDC), cryptocurrencies and Distributed Ledger Technology (DLT).

The successful modernisation of the National Payments system will address South Africa's present and future needs. It will bring about appropriately designed products, accessible infrastructure, data-driven consumer insights, financial education, and improved communication and interoperability between payment systems, as well as a stable, innovative, fair and transparent payments system.

The transition from cash to digital systems is not simply about the adoption of digital technology, as cash remains necessary for financial inclusion. In townships and rural areas, especially, there are robust established markets that operate efficiently on cash. "South Africa is very dependent on cash. We are not walking away from cash. And as long as it is needed, cash needs to be available and usable for anyone who needs it," says Selvarajalu.

In July 2021 South Africa experienced widespread looting and violence that destroyed public and private property and led to the unacceptable and tragic loss of 354 lives in KwaZulu-Natal and Gauteng. The unprecedented civil unrest is estimated to have cost the economy R50 billion.

Banking and supporting infrastructure were rendered inoperable, with 1 400 automatic teller machines (ATMs) and 269 bank branches vandalised or destroyed. The destruction of infrastructure could not have happened at a worse time, with South African Social Security Agency (SASSA) grants due to be paid roughly two weeks after the unrest.

The BASA Cash Response Team, which comprises all parties involved in the supply and distribution of cash, was tasked with collaborating to protect the cash value chain. Even before the violence had completely subsided the task team had conducted a complex needs analysis, complemented by data and logistic mapping, and was able to redistribute mobile ATMs and other cash supply facilities to ensure cash was available where it was needed.

In the aftermath of the unrest, the task team continued to collaborate to coordinate and oversee the rebuilding and recovery phase. This phase included:

- Restoring and refurbishment of at least 60% of ATMs and 69% of all branches by December 2021.
- The waiver of the SASWITCH fee charged by banks to their customers when drawing cash at another bank's ATM, to support affected communities and to get the economy going again.
- Banks, together with other stakeholders, worked with SASSA to assist with the payments of grants, including the re-introduction of the R350 Covid-19 Social Relief of Distress Grant.

"One of the success stories of 2021 is that there was no breakdown in the supply, transportation and distribution of cash, despite the crises. It was a period of collaboration for the national good," says BASA Senior General Manager Payments, Kumaran Selvarajalu. Members of the emergency task team included the Reserve Bank, cash-in-transit operators, banks, SASSA, retailers, the Payments Association of South Africa (PASA), among others.

COMPANY SECRETARY'S REPORT

The Banking Association South Africa (BASA) Board of Directors is committed to achieving best practice in corporate governance, using local and international standards, including – but not limited to – the King Code for South Africa and the BASA Board Charter.

While the Companies Act 71 of 2008 (as amended by Act 3 of 2011) does not require BASA as a non-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 eleven, which is constituted of representatives of member banks and the BASA Managing Director. The representatives of member banks are:

- The Chief Executive Officers (CEOs) of the following South African banks: Nedbank, ABSA, First National Bank, Standard Bank South Africa, Investec and Capitec.
- Two CEOs representing Tier-2 South African banks.
- Two CEO representing international banks operating in South Africa.

BOARD COMMITTEES

The board currently has three committees to assist it in executing its fiduciary responsibilities and to exercise - between meetings of the board – the powers and authority delegated to them to manage the affairs of BASA. The duties and responsibilities of each board committee is set out in their formal Terms of Reference, which is subject to annual review and approval by the board, or as may be required.

THE BOARD EXECUTIVE COMMITTEE

The Board Executive Committee (Board ExCo) has the delegated authority to act on behalf of the board to ensure that its decisions are carried out and that strategic issues, policies, business plans, good governance practices and budgets are implemented and effectively monitored by the BASA management team. Board Exco met four times during 2021 to execute these and other responsibilities stipulated in its terms of reference.

THE AUDIT AND RISK COMMITTEE

The Board Audit and Risk Committee (ARC) is responsible for overseeing the selection and appointment of an external auditor, reviewing and overseeing BASA's annual audit and recommending the audit fee to the board and pre-approving any fees in respect of non-audit services. ARC met twice during 2021 to execute these and other responsibilities stipulated in its terms of reference.

THE REMUNERATION AND ETHICS COMMITTEE

The Remuneration and Ethics Committee (RemCo) is responsible for determining the association's general policy on the remuneration of employees; and monitoring its activities to ensure it adheres to legislation and best practice regarding: social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationship, ethical conduct and leadership and stakeholder engagement, among others. RemCo met twice during 2021 to execute these and other responsibilities stipulated in its terms of reference.

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 help ensure that meetings are managed effectively. In addition, this office is responsible for:

- Carrying out the instructions of the Board and Board ExCo.
- 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) in writing and 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 2021.

The BASA Board on 01 June 2022

Lungisa Fuzile (Chairman)	CEO Standard Bank South Africa
Alan Pullinger (Deputy Chair)	CEO First Rand
Richard Wainwright	CEO Investec
Mike Brown	CEO Nedbank
Arrie Rautenbach	CEO ABSA
Gerrie Fourie	CEO Capitec
Michael Sassoon	CEO Sasfin
Hylton Kallner	CEO Discovery Bank
Jerry Kweku Boi Bedu-Addo	CEO Standard Chartered Bank
Peter Taylor	CEO Citi Bank
Bongiwe Kunene	Managing Director BASA

DURING 2021 THERE WERE TWO CHANGES IN THE BOARD MEMBERSHIP:

- Mr Vikas Khandelwal of PNB Paribas Bank was replaced by Jerry Kweku Boi Bedu-Addo of Standard Chartered Bank.
- Mr Mark Stadler of HSBC Bank was replaced by Peter Taylor of Citi Bank.

At the AGM on 21 April 2022, the board was expanded and the CEO of Discovery Bank, Mr Hylton Kallner, became a Board member.

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 2021.

NATURE OF BUSINESS

The Banking Association South Africa (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.

FINANCIAL RESULTS AND ACTIVITIES

The annual financial statements have been prepared in accordance with International Financial Reporting Standard 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.

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	
Jerry Kweku Boi Bedu-Addo	Ghanaian	Appointed 01 January 2021
Mike Brown	South African	
Gerrie Fourie	South African	
Lungisa Fuzile	South African	
Daniel Mminele	South African	Resigned 30 April 2021
Alan Pullinger	South African	
Jason Quinn	South African	Appointed 01 May 2021, resigned 29 March 2022
Arrie Rautenbach	South African	Appointed 29 March 2022
Michael Sassoon	South African	
Mark Stadler	British	Resigned 01 September 2021
Peter Taylor	South African	Appointed 01 September 2021

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.

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.

For the past two years, since 31 December 2019, 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.

COVID-19

As reported in the 2020 Annual Financial Statements, the spread of Covid-19 has severely impacted the South African economy. The government and central bank have responded with monetary and fiscal interventions to stabilise economic conditions, but the recovery is slow and the impact on the labor market is huge.

The risk of Covid-19 pandemic has decreased dramatically over the last few months and the roll-out of the vaccination programme has been relatively successful, with 42% of South Africa's population fully vaccinated. While the recovery rate is high, it still remains unclear what the duration and impact of the pandemic will have on the South African population and economy in 2022 and beyond.

It is therefore not possible to reliably estimate their impact on the financial position and results of BASA for future periods, but due to the nature of its business, and based on the experience and results of the past two years, the directors are confident that BASA will not be materially impacted.

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

INDEPENDENT AUDITORS' REPORT

To the Members of The Banking Association of South Africa (NPC)

OPINION

We have audited the annual financial statements of The Banking Association South Africa (NPC) (the company) set out on pages 8 to 22, which comprise the statement of financial position as at 31 December 2021, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the annual financial statements, including a summary of significant accounting policies.

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of The Banking Association South Africa (NPC) as at 31 December 2021, 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Annual 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 annual 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 corresponding sections of the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards). 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 information included in the document titled "The Banking Association South Africa (NPC) annual financial statements for the year ended 31 December 2021", which includes the Directors' Report as required by the Companies Act of South Africa. The other information does not include the annual financial statements and our auditor's report thereon.

Our opinion on the annual 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 annual financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the annual 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.

DIRECTOR'S RESPONSIBILITIES

The directors are responsible for the preparation and fair presentation of the annual financial statements in accordance with the International Financial Reporting Standards 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 annual financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual 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 annual financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing 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 annual financial statements.

As part of an audit in accordance with International Standards on Auditing, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual 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 auditor's 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 2022

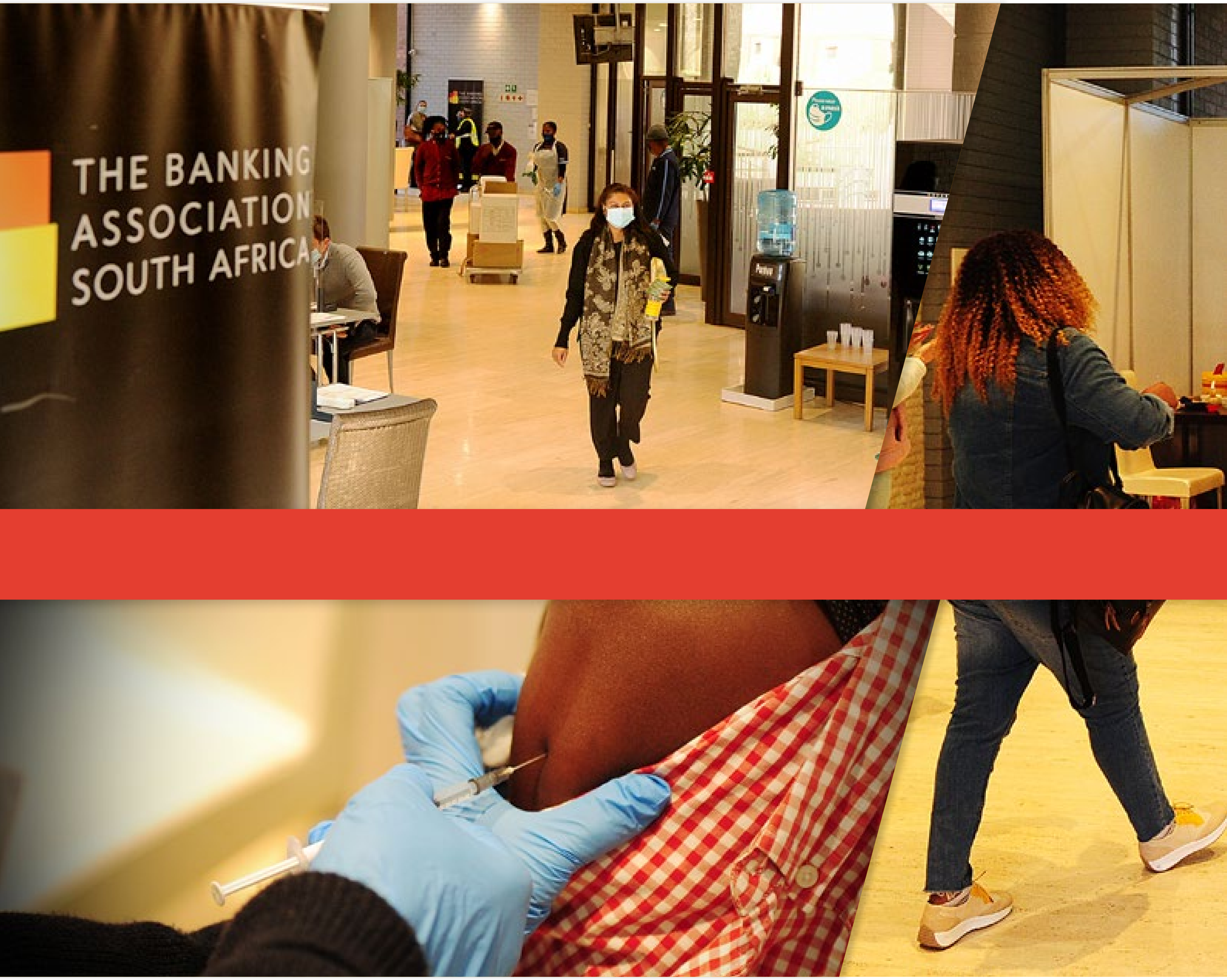
Building 4, Summit Place
221 Garstfontein Road
Menlyn
0181

FINANCIAL POSITION
AS AT 31 DECEMBER 2021

	2021 R	2020 R
Assets		
Non-Current Assets		
Property, plant and equipment	1 352 973	1 466 713
Current Assets		
Other financial assets	25 436	24 137
Prepayments	2 042 901	738 488
Trade and other receivables	2 474 259	3 627 407
Cash and cash equivalents	50 716 266	37 485 384
	55 258 862	**41 875 416**
Total Assets	**56 611 835**	**43 342 129**
Equity and Liabilities		
Equity		
Reserves	3 260 652	1 726 789
Accumulated surplus	14 856 753	13 076 569
	18 117 405	**14 803 358**
Liabilities		
Non-Current Liabilities		
Retirement benefit liability	11 434 159	11 338 863
Current Liabilities		
Deferred income	12 072 661	11 383 370
Trade and other payables	14 987 610	5 816 538
	27 060 271	**17 199 908**
Total Liabilities	**38 494 430**	**28 538 771**
Total Equity and Liabilities	**56 611 835**	**43 342 129**

COMPREHENSIVE INCOME

	2021 R	2020 R
Revenue	93 588 312	94 656 022
Other income	1 643 141	22 304 013
Operating expenses	(87 997 031)	(107 080 918)
Operating surplus/(deficit)	**7 234 422**	**9 879 117**
Net surplus (deficit) from special projects	(4 256 638)	–
Investment revenue	2 345 570	2 090 438
Finance costs	(1 525 611)	(1 207 305)
Operational risk loss	(2 017 559)	–
Surplus/(deficit) for the year	**1 780 184**	**10 762 250**
Other comprehensive income:		
Items that will not be reclassified to surplus or deficit		
Actuarial gains (losses) on defined benefit plans	1 533 863	1 057 529
Other comprehensive income for the year	**1 533 863**	**1 057 529**
Total comprehensive surplus/(deficit) for the year	**3 314 047**	**11 819 779**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