

INTEGRATED **ANNUAL REPORT**

2022





MANDATE

The Banking Association South Africa (BASA) advances the interests of its members; so banks are better able to provide the financial services that support inclusive economic growth, good governance and environmental and social sustainability in South Africa.

As the national association of domestic and international banks, licenced to operate in South Africa, BASA:

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

As an industry association which represents those banks licenced to operate in South Africa, BASA is not able to resolve customer complaints involving its members. Customer complaints about banking products and services can be referred to the Ombudsman for Banking Services at www.obssa.co.za.

DIVISIONS



MARKET CONDUCT

Protects and promotes the interests of the banking industry regarding legislation and regulation that affects bank customers and clients.



PRUDENTIAL

The Prudential Division represents the interests of the banking industry to the local and international authorities who are responsible for prudential regulation and financial stability. As part of the global financial system, South Africa has had to adopt a host of global standards and best practices, to maintain its access to international financial markets.



PAYMENTS

The National Payments System (NPS) is an operational and legal system that people, businesses and the government use to transfer money to each other, to pay for goods and services and draw cash.

The BASA Payments Division works towards the sustainability and modernisation of the NPS through research, nurturing collaboration between its stakeholders and advocating the interests of the banking industry.



FINANCIAL INCLUSION AND PUBLIC POLICY

The Financial Inclusion and Public Policy Division (FIPP) represents the interests of the banking industry regarding policy, regulation and legislation, aimed at the social and economic development of the country, which affects the business of banking. The division brings together the affordable housing, agriculture and sustainable finance departments – with the Financial Inclusion Division. Financial Inclusion is responsible for small business development, financial education and transformation, among other social and economic development initiatives supported by BASA. FIPP is responsible for coordinating and leveraging banks' skills and resources – to strengthen their contribution to the national and business imperative of inclusive economic growth.

The division also leads liaison with government departments and agencies, which are not directly responsible for the regulation of banks and other financial service providers.

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Statement of Comprehensive Income

Big banks paid
R18,65 billion
in direct tax, in the first
half of 2023.

Banks hold in trust the earnings,
savings and investments of South
African workers, professionals and
companies, worth an estimated
R6,9 trillion, in 2023.

The six largest banks
employed about
**180 000
people**.


81% of South
Africans have access
to a bank account.



CHAIRMAN


LUNGISA FUZILE

Since 24 February 2022, when Russia invaded Ukraine, the dark clouds of war have overshadowed the international economy, inevitably reaching South Africa.



The war heightened geo-political tensions and disrupted global supply chains in consequential ways, as seen in the prices of key commodities, like oil, gas and grain. This translated into a spike in global inflation that led to central banks in developed and emerging economies to embark on aggressive interest rate hikes. This in turn weakened emerging market currencies and economies, including those in sub-Saharan Africa. As a result, the debt metrics of countries with a substantial proportion of their sovereign debt denominated in foreign currencies has fast deteriorated, at a time when it appears that interest rates will remain higher for longer. South African banks operate in these countries, so what might appear to be far removed from South Africa, can have real and material consequences for its banks.

However, because they are well regulated, South African banks remain well positioned to deal with volatility in the global financial system; as seen in the wake of the failure of Silicon Valley Bank (SVB) and Signature Bank in the United States and the bailout and sale of Credit Suisse in Switzerland.



South African banks were generally unaffected by the crisis sparked by the failure of regional banks in the United States, as they have high levels of liquidity, hold sufficient capital and have more diverse banking activities and sources of funding.

Also, the 'big five' banks in South Africa are deemed systemically important by the South African Reserve Bank (SARB) and as a result have issued capital-loss absorbing subordinated bonds and 'Tier 1' bonds to further protect depositors. By global standards, their capital ratios are in a healthy state.

Besides the volatility in the global economy and international financial system, South African banks have had to contend with a stagnant domestic economy. The SARB forecasts 0,2% gross domestic product (GDP) growth for South Africa in 2023.

The weak economy, limited income growth and high inflation that has increased the cost of living, have put households and businesses under greater financial stress, hampering their ability to repay loans. As a result, South African banks have had to increase their provisions for bad debt, as consumers and small businesses especially struggle to repay loans for vehicles and homes, among others. Banks are painfully aware of the financial hardships facing many of their customers and clients. As in the past, where possible, banks will assist those customers in need by restructuring their loan agreements, among other initiatives, to ease their financial burden.

Also of great concern is the severe periods of load-shedding which has caused extensive disruptions to business operations and households. The impact on small and medium enterprises has been especially severe. The need to incur the cost of alternative energy supplies has led to some enterprises going out of business, resulting in job losses and the destruction of livelihoods.

The deterioration of vital economic infrastructure, through corruption, theft and vandalism, and extreme weather events, has seen South Africa's transport and logistics system become a severe bottleneck to the production and movement of goods and commodities through its ports. The export earnings lost across the South African economy – and the reduction in tax revenue for the fiscus - are significant.

The SARB's May 2023 Financial Stability Review also highlighted the impact of the operational crises at state-owned companies on the economy, and that South Africa has one of the highest ratios of state-owned enterprise (SOE) debt among emerging markets.



“Growing incidences of government taking over SOE debt increase the state's debt burden, in turn further increasing the domestic financial sector's exposure to government debt as the bulk of new issuances of government debt is being taken up by domestic investors. A high level of exposure to government debt by financial institutions represents a potential vulnerability,” said the SARB.

This is but one example of why banks cannot sit on the sidelines but must contribute whatever they can to reviving the South African economy and increasing the efficiency of the state – for their own interests and in the national interest. No business can thrive – create jobs and profits for its investors – in a country where vital economic infrastructure is deteriorating and policy instability and incoherence deters long-term investment.

Through Business Unity South Africa (BUSA) banks are helping to tackle the three main challenges to restoring the economy: the unstable electricity supply, logistical bottlenecks, and crime and corruption. South Africa is a constitutional democracy where there is a separation between political parties and the state. Working with government does not compromise the independence of business – which must continue to hold government to account - but it can contribute to a South Africa that delivers prosperity for everyone.

Another risk to financial stability previously identified by the SARB materialised in February 2023 when the Financial Action Task Force (FATF) grey-listed South Africa. The global body identified weakness in the country's capacity to fight financial crime, money laundering and the financing of terrorism as key to its decision.

FATF found that the larger banks in South Africa complied with international regulation and best practice and thus did not require any remedial measures from the banking industry.

However, banks are dependent on the South African economy and society and the grey-listing will inevitably affect bank relationships and operations. The South African government has committed to implementing the remedial actions and ensuring the removal of the country from the FATF grey list as soon as possible. Banks will assist as best they can. Anti-financial crime legislation aims to prevent money laundering and illicit financial transactions and should not cause concern for legitimate businesses.

The Financial Stability Review also notes:

“South Africa’s non-aligned stance in the war between Russia and Ukraine is increasingly being questioned, which may pose a future threat to the participation of South African financial institutions in the global financial system”.

While it is correct for South Africa to be non-aligned, it must ensure that it is seen to be even-handed in its dealings with both sides. Globally, banks face increasingly complex transactional and risk assessment burdens, as the United States, UK and Europe have imposed sanctions against Russian entities for, among other reasons, the war in Ukraine. Violation of these sanctions - intended or not, by governments and companies - can have dire consequence, like the imposition of financial sanctions by the US and EU, among others. Financial sanctions would be especially harmful for countries that trade in dollars and depend on international financial markets to raise investment and fund government spending.

Volatility on international financial markets, sluggish domestic economic growth and the policy and social uncertainty that will likely accompany the outcomes of the 2024 elections, will continue in the coming year. However, as in the past, South African banks have shown that effective regulation and prudent risk management have left them well-positioned to deal with any test of their resilience, now and in the future.



MANAGING DIRECTOR

BONGIWE KUNENE

South Africa's constitution requires meaningful public participation in the legislative process, so that individuals, communities and organisations, can contribute their expertise and experience to the formulation of the laws and policies that affect them.

In the past year, as the mandated representative of the banking industry, the Banking Association South Africa (BASA) has represented banks on critical policy regulatory and legislative proposals. There are an estimated 230 Acts of legislation that govern the business of banks, primarily to protect their customers' deposits.

Banks hold in trust the savings and investments of South African workers, professionals and companies: an estimated R6,9 trillion in June 2023.

By improving their operating and regulatory environment banks are better able to provide financial services that support inclusive economic growth, good governance and environmental and social sustainability in South Africa. South African banks work with their regulators – primarily the South African Reserve Bank (SARB) – to ensure the stability of the country's financial system and the safety of depositor's funds. Under the 'Twin Peaks' regulatory framework, the:

- Financial Sector Conduct Authority (FSCA) ensures the fair treatment of customers; while the
- Prudential Authority regulates financial institutions to enhance their safety and soundness, to support financial stability.

The National Credit Regulator (NCR) that aims to support fair and non-discriminatory access to consumer credit; and promotes the responsible granting and use of credit, also regulates the business and conduct of banks in South Africa. Banks are intrusively regulated and this often determines to who they can extend credit and on what conditions, among other key business decisions.

There are also domestic and international environmental sustainability, social and economic development, and good corporate governance initiatives and legislation that affects the business of banking. These are likely to increase, especially as local and global authorities clamp down on crime and try to increase the resilience of the financial system.

In response to these increasing demands, BASA has set-up a Financial Inclusion and Public Policy (FIPP) Division, which will deal with policy, regulation and legislation, aimed at the social and economic development of the country, which affects the business of banking. FIPP will be responsible for coordinating – and leveraging banks' skills and resources – to strengthen their contribution to the national and business imperative of inclusive economic growth.

The business of banking is inherently developmental.

South African banks extended **R5,1 trillion** in loans and advances, among other lending, in 2022.

Forty-three percent of this was mortgages used to buy homes and other properties; while other bank loans were used for entrepreneurship and personal development. Banks also provide much of the financial and business infrastructure of the country, by providing the funding companies need to expand and create jobs, and the means to transact and make payments, among others.

South African banks are committed to increasing financial inclusion and the transformation of the economy through inclusive economic growth. Transformation targets for banks – set out in the Financial Sector Code (FSC) - include ownership, management control and empowerment financing, among others.

According to the BASA Transformation in Banking report, in 2021 banks were ahead of ownership targets, at 32% black owned against a target of 25%; and are increasing empowerment financing year on year, to R279 billion in 2021.

However, they are still falling short on management control targets – to various degrees. Nevertheless, year-on-year, the percentage of black managers is increasing across all categories. The strong junior and middle-management pipelines, make it inevitable that the top and senior management of banks will better reflect the demographics of South Africa – if not as fast as is desired. The improvement in reaching FSC targets every year, shows the sustainable commitment of banks – in hard numbers – to the transformation of the industry and the economy.

As a representative of active corporate citizens, BASA is also part of several initiatives to support the economy and society. These include assisting National Treasury on the bounce back scheme to provide small businesses with financing for alternative power supplies; working with the South African Reserve Bank to ensure the financial system can continue to function in the event of loadshedding and social unrest; and modernising South Africa's payments system, among many others.

Parliament

BASA respects Parliament's constitutional responsibility for legislation, oversight and accountability; and as a forum for national dialogue, which often impact on the operational and regulatory environment of banks.

Banks are committed, active and responsible corporate citizens. BASA's engagement with the National Assembly, the National Council of Provinces (NCOP) and the provincial legislatures is fundamental to securing the sustainability of banks and their contribution to the social and economic development of the country. The association's interaction with Parliament is underpinned by a commitment to constructive, ethical and reciprocal engagement. BASA's participation in public hearings on Bills aims not only to articulate the mandate of its members, but also to put forward constructive proposals and recommendations for amendments – informed by research and evidence - which will contribute to regulatory clarity and certainty, to the benefit of the whole country.

In 2022 the Association participated in the processes convened by the National Assembly and National Council of Provinces on legislation critical to our members.

This included written submissions on:

- The Climate Change Bill
- Draft Amendments to Schedules 1, 2 and 3 to the Financial Intelligence Centre Act, 2001
- Employment Equity Amendment Bill
- Financial Matters Amendment Bill
- Financial Sector and Deposit Insurance Levies Bill and Financial Sector and Deposit Insurance Levies (Administration) and Deposit Insurance Premiums Bill
- General Laws (Anti-Money Laundering and Combating Terrorism Financing) Amendment Bill
- Land Court Bill
- Protection of Constitutional Democracy Against Terrorist and Related Activities Amendment Bill
- Sectional Titles Amendment Bill
- South African Postbank Amendment Bill
- Taxation Laws Amendment Bill and Taxation Administration Laws Amendment Bill
- BASA also engaged with the relevant Parliamentary Committees on other matters of importance to banks and the economy, including their contribution to transformation of the financial sector, financial inclusion and support for small, medium and micro enterprises.

During the first quarter of 2023, BASA also submitted written comments on the:

- Expropriation Bill
- Preservation and Development of Agricultural Land Bill

BASA also made oral submissions and presentations, as well as participating in dialogues, discussions and workshops about legislation, which affected the sustainability of their businesses and contribution to society.

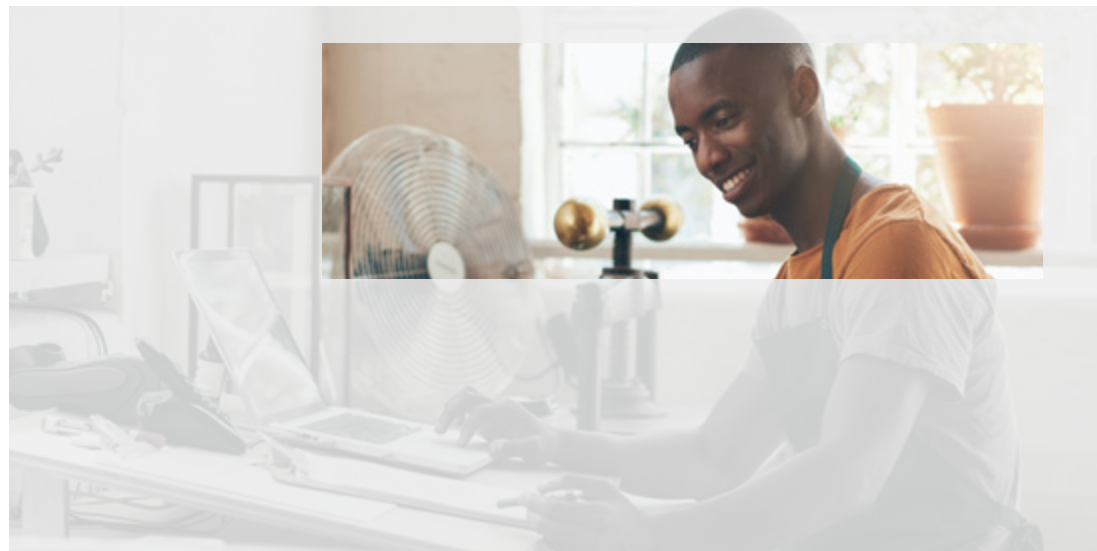
Full submissions can be found at www.banking.org.za.



SMALL BUSINESS

Small businesses in South Africa are facing more trying times than ever before, having to deal with stagnant economic growth, high inflation, regulatory requirements, continuous power cuts and severe logistical constraints. Banks are determined that access to financial services should not be added to the list of challenges that small businesses face.

Banks account for 69% of lending to small medium and micro enterprises (SMEs) and have an appetite to do more.



However, growing the number of small businesses in South Africa is not only about banks providing access to financial services. Out of an estimated **five million** small businesses in South Africa, **86%** are not formal, according to a World Bank Report, 'The Unseen Sector'. These informal businesses are of the view that the cost of formalisation outweigh the potential benefits and see the process as onerous and bureaucratic, with some wishing to deliberately avoid the tax net.

An informal business usually means the business is trading from a personal bank account. In many cases, the use of a personal account indicates that a small business is not registered as a formal enterprise – making it impossible for them to open a business account. If a small business is struggling to comply with regulation that would impact their ability to formally access credit. In this case, access to financial services starts with the business complying with the law.

This lack of compliance is one of the reasons South Africa's small business sector is struggling to expand. Small business growth should come from informal businesses becoming formal, but that's not happening at the rates comparable to South Africa's peers. Banks cannot be held responsible for this, and small businesses and their regulators must play their part in regularising enterprises.



However, once banks get small businesses on board as customers, they provide them with financial and non-financial assistance to help them grow into sustainable enterprises. Each bank has their own set of programmes designed to facilitate the start-up and growth of small businesses. These can include:



Alternative credit scoring models that facilitate unsecured lending to small and medium enterprises, within appropriate risk frameworks. These models analyse behaviour, rather than audited financial statements, to understand financial and trading history. They often include automated processes that reduce paperwork and simplify loan applications and approvals.



Innovative funding for small businesses, like grants – often in conjunction with development finance agencies - for catalytic projects, in fintech, agriculture, the green economy, education and healthcare, with a focus on women and youth-owned businesses. Funding solutions can also include preferential rates on overdraft and loan facilities, or debt and equity funding, to reduce the cost of finance for working capital. Loans and debt facilities often also come with repayment plans that accommodate the realities of small business cash-flows and increase certainty about the cost of credit. There are also tailored credit products for selected industries – including the franchise, manufacturing and agricultural industries – and include conventional and non-conventional banking solutions.



Small business banking packages that include merchant support services, like accounting tools, which allows entrepreneurs to access real-time business analytics, produce online quotes and invoices and access a full payroll feature. These packages can also include payment solutions, like virtual applications that can be used as card machines or point-of-sale devices to accept payments.



Training opportunities and non-financial business support, like information resources, tips and tools on how to start, manage or grow an enterprise. Entrepreneurs are offered access to videos, articles, white papers, sector insights and templates, such as business plans. Banks also often offer business development support like coaching by specialists and mentors, as well as access to affordable markets and trading spaces.

While bank support for small businesses is a vital component of their strategies to facilitate inclusive growth, it is also a requirement to comply with the Financial Sector Code (FSC), which sets empowerment and transformation targets for the financial services sector.

The BASA Transformation in Banking Report found that in 2021,

R82 billion in measured procurement spend, banks spent

R69 billion on black economic empowerment (BEE) compliant companies.

R12 billion on Qualifying Small Enterprises (QSE)

R7 billion on Exempted Micro Enterprises (EME)

In addition, banks also spent

R1,57 billion on supplier development and

R1,55 billion on enterprise development.

Supplier development is spent with enterprises registered on banks supply chains, while enterprise development is for businesses that are not yet registered to provide a bank with goods and services.

Banks are also required to provide empowerment financing, which is there to ensure support for black owned enterprises, black agriculture and transformational infrastructure financing in areas where gaps or backlogs in economic development, job creation and low cost housing have not been adequately addressed.

In 2021 banks provided **R279 billion** in empowerment financing.

Of this:

R21 billion went to black small and medium enterprises

R128 billion went to fund BEE transactions and black business growth.

In South Africa's challenging economic environment, small businesses are potentially a critical source of growth and employment creation. According to National Development Plan projections small business can be at the forefront of job creation by 2030, if red tape for small and medium enterprises (SMEs) is cut and an enabling business environment is created for them.

Banks support small and medium enterprises, not only because they are valued customers, but to help them stimulate local economies by creating jobs, increasing consumer spending and supporting other community businesses.

Loan Guarantee Schemes

Banks have worked with National Treasury on different loan guarantee schemes to support small business access to finance in difficult economic times.

While banks offer relief to their customers and clients experiencing financial difficulties in the normal course of business, risk sharing arrangements with National Treasury aims to assist banks to offer funding at a reduced rate to those who would not otherwise qualify for assistance. Banks are however required to apply due diligence and loan criteria, set in conjunction with National Treasury, when they participate in the schemes, to ensure that loans can be repaid and taxpayers do not suffer undue losses.



The Covid-19 Loan Guarantee Scheme aimed to assist small business that experienced financial difficulties due to the pandemic.



The Bounce Back Scheme for Business aimed to assist enterprises recovering from constraints in accessing finance due to Covid-19 lockdowns, the July 2021 civil unrest and disasters like the floods that affected KwaZulu-Natal. Funds borrowed from this Scheme, through participating banks, Development Finance Institutions (DFIs) and non-bank small and medium enterprise (SME) finance providers, can be used for growth and expansion and to foster job creation within South Africa.



The Energy Bounce Back Scheme (EBB) aims to alleviate hardships experienced by small businesses and households caused by loadshedding. The scheme aims to generate 1000MW in additional generation capacity in the country, as well as build resilience to loadshedding for micro and informal businesses. It complements the many existing energy financing products and services that banks offer their customers and clients. The scheme is facilitated by commercial banks that choose to participate. Non-bank finance providers, like wholesale retailers who provide lending products to small businesses, can also access the scheme. Participation through commercial banks is subject to basic requirements, such as tax compliance and adherence to other legal and regulatory requirements. Any business borrowing under the EBB will be expected to meet the participating bank's specific requirements, be registered with the Companies and Intellectual Property Commission (CIPC) or be registered for value added tax.

Not all banks participate in loan guarantee schemes, as there may not be demand for the assistance from their clients. Banks past experience showed that small enterprises were often reluctant to incur debt – even if offered assistance – when they were not confident that business conditions would allow them to generate the revenue needed to repay loans. Business confidence and a growing economy is necessary for the uptake of loans.



TRANSFORMATION

The Transformation in Banking Report sets out with audited numbers the continuous year-on-year improvement in bank's ownership, employment equity and empowerment financing reports, among others. In 2021, banks exceeded their targets in several of these critical transformation and empowerment measures.

It is also clear from the report that where banks are lagging on their targets, it is not because of a want of commitment to the transformation of the banking industry and South Africa. As has been pointed out before, the past few years' difficult economic and business conditions have made it more challenging to accelerate the achievement of FSC targets that depend on growth in targeted lending and employment opportunities, among others. Besides persistent volatility in the global economy, South African banks have had to contend with a stagnant domestic economy. Severe load-shedding and the deterioration of vital economic infrastructure through corruption, theft and vandalism caused extensive disruptions to businesses and households. These challenges are set to remain as the South African Reserve Bank (SARB) forecasts 0,2% gross domestic product (GDP) growth in 2023.

Banks share the view that sustainable transformation and empowerment are necessary to spur economic growth and development in South Africa.

BASA has long advocated that inclusive economic growth is the fastest and most effective way to transform the economy and empower South Africans. Economic reforms – like reducing unnecessary red tape and policy uncertainty, and opening the energy and logistics markets for effective, genuine partnerships with the private sector – are necessary to boost growth and opportunities for empowerment.

Despite the stagnant economy, the Sanlam Transformation Gauge 2023 report - which measures transformation at national and sectoral levels - places the financial sector on Black Economic Empowered (BEE) level 2 against a national average of all industries at level 3. (BEE level 1 is most empowered.)

The major commercial banks - Absa, Standard Bank, Nedbank and FirstRand are all level 1.

In February 2022, Capitec announced that it would issue R1 billion in new shares for purchase by qualifying permanent employees from previously disadvantaged backgrounds. In March 2023, Absa announced a R10 billion BEE transaction that will benefit black South Africans and employees. These two deals alone indicate that the banking industry's black ownership score will inevitably increase in the coming years.

The Transformation in Banking Report found that in 2021:

Ownership

Black voting rights in banks reached **32%**, against a target of **25%**.

Black economic interest reached **26%**, against a target of **25%**.

Employment Equity

There were improvements in the percentage of black managers across all management levels in 2021, but banks remained short of their targets.

Black directors constituted **39%** of bank board members, against a target of **50%**.

The marginal drop of one percent against the previous year is, in part, due to the drop in the total number of bank board members.

The percentage of black top senior managers increased by **eight per cent to 48%** but fell short of the target of **60%**.

Junior managers remained at **87%**, one percent short of their target of **88%**.

There is a strong pipeline of junior and middle managers, indicating that senior and top senior ranks will inevitably be transformed.

Women

Women voting rights reached **15%**, against a target of **12%**.

Women's economic interest in banks reached **12%**, against a target of **10%**.

Black women constituted **16%** of all bank board members, against a target of **25%**.

The percentage of black women in top senior management increased by **six percent to 21%**.

However, there were declines in the percentage of women in other management levels, with women in junior management dropping to **48%** from **59%**.

Empowerment financing increased by R7 billion to R279 billion in 2021.

Banks are broadly appreciative that the financial sector scorecard is essential for tracking bank's investments to support transformation and that it recognises and values contributions in empowerment finance and consumer education. However, the scorecard does not effectively measure the outcomes of bank transformation and empowerment initiatives.

While shifting from measuring inputs to measuring outcomes could be difficult, it is essential as it helps ensure that programmes are making a difference. Measuring outputs will help programmes to operate efficiently, have a genuine impact and account to their stakeholders. Both input and output measurements should be carefully and sustainably incorporated into future transformation policy, which must be sustainable, practical and serve South Africa's majority.

As it is, there is a strong perception that transformation in the workplace lags the scores on B-BBEE certificates. This has resulted in new legislation, including:



The Employment Equity Amendment Act 2020 (EEA Act)

was signed into law by President Cyril Ramaphosa on 12 April this year. The legislation appears to give the state the power to determine, for each company, what percentage of its staff must be African, Indian, Coloured and white. While BASA supports the legislation's aims, of giving equitable representation in the workplace to historically disadvantaged people, it is not practical, nor likely to be constitutional, to assign racial quotas to companies. BASA is engaging with the Department of Employment and Labour to address its concerns about the Act.



The draft public procurement bill, which envisages preferential procurement from black-empowered businesses and measures to provide preference for specific categories of people as well as for designated economic sectors, such as local manufacturing and services.

However, more legislation and regulation, which often cannot be enforced, is not likely to achieve the desired outcomes. Much of what impedes banks' transformation and empowerment programmes are often macro-economic challenges that are beyond their control.

The FSC Charter review – a process that began in 2018 – must be completed to see what successes can be built on and to address shortcomings. Resolving policy and ideological logjams and weak administration in the FSTC is crucial if it is to facilitate meaningful discussions about transformation in the financial sector. These can only be resolved with the necessary urgency if a spirit of good faith, pragmatism and productive engagement is restored among the council's stakeholders.

The World Bank Group considers financial inclusion a key enabler to reduce extreme poverty and boost shared prosperity. Access to appropriate and affordable financial services facilitates day-to-day life, helping families and businesses plan for everything from long-term goals to unexpected emergencies. As accountholders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives. Banks are comfortably ahead of their targets to provide access to accounts and transaction and service points, for South Africans.

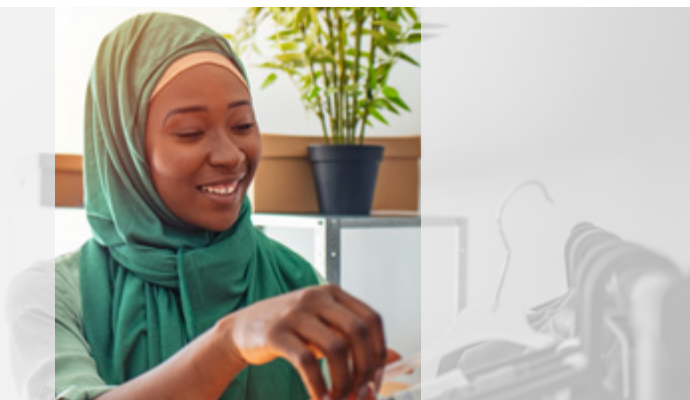
This is further evidence that the business of banking is inherently developmental and a stable, sustainable banking system is vital for inclusive economic growth and the social and economic advancement of the country.



ISLAMIC FINANCE

The universal values of fairness, equity, and justice lie at the core of Islamic banking and financing. In existence since the advent of Islam, but more recently codified for the modern world, Islamic banking and finance is suitable for – and open to - all South Africans, irrespective of their religious persuasion.

Like conventional banks, Islamic financial institutions offer a standard range of services - for savings, deposit-taking, investing, and financing – and must comply with banking regulations aimed at protecting depositors' funds and South Africa's financial stability. However, banking is conducted on an interest-free basis and financing risk is evenly distributed between the Islamic finance institution and the borrower.



The key principles of Islamic banking are:

- **Charging or earning interest is forbidden** due to a Shari'ah (Islamic canonical law) prohibition on charging interest.
- **Ethical and responsible investing.** Only those goods and services that do not violate Islamic law qualify for investment. Any investments in alcohol, pornography, armaments or gambling are prohibited. The prohibition extends to the entire value chain, including packaging, transportation, warehousing, marketing, and provision of after sale services. Speculative investments are also forbidden.
- **Fair partnership.** Islamic banking is predicated on the principle that profits and losses must be shared. Simply put, in Islamic banking, if there is no exposure to risk, there is no entitlement to gain.

Investment deposits can be used for Shari'ah compliant financing. Profits from financing and investments can be shared with depositors through a pre-defined profit-sharing ratio or a deposit pool management fee.

Some of the main instruments used in Islamic finance can be: Murabaha, a cost-plus sale where an Islamic financial institution would purchase a vehicle, property or other asset, and then sell it to a client at a fixed mark-up; Ijarah, a lease instrument; and Musharaka, a diminishing partnership used for property and project finance. Islamic finance instruments are always based on the institution's ownership of a tangible asset.

In 2020, total deposits in the Islamic banking market in South Africa amounted to R37 billion.

By June 2023, this had grown to just under **R64 billion** in total deposits in Islamic banks, and loans and advances worth over **R22 billion** had been extended.

This shows the growing appeal of Islamic banking in South Africa. Islamic banking and financing products are available at standalone Islamic banks or subsidiaries, or through Islamic banking windows at conventional banks that have established a separate ring-fenced division to offer Islamic financial services, and which operate under the supervision of a Shari'ah advisory board.

Gugulesizwe

The drive into to the small township of Amandawe – 70 kilometres from Durban - is a challenging one with potholes strewn across the semi-tarred roads.

There's a hive of activity at the bottom of the main road as community members patiently wait with buckets in hand to fill water from an old borehole. Potable water is scarce in these parts.



For pupils at the only secondary school in the area, Gugulesizwe High, the lack of water undermined their living standards, health and academic life. Established in 1970 the institution recently marked its 50th anniversary, but there was very little to celebrate as the deepening water crisis infringed on the human rights of everyone at the school.

The school's principal, Phumulani Maphumulo, said:

"It would break our hearts to see our learners walk into school carrying bottles of water, unsure about the situation at school. We felt like we were failing our kids. "We would go months without water and that would have a huge impact on teaching and learning. At times we would take the difficult decision to close school, we were just left with no other option," he explained.

But the busy syllabus demands at least 35-hours in the classroom a week and the water situation robbed pupils of valuable learning time.

"We then must play catch up. Our teachers come in on weekends to host extra classes. We were in a desperate situation and something needed to be done to address the crisis," he said.

The school however could not rely on the municipality to fix the problem. Building a borehole was one option but there was no capital in their coffers to consider funding it by themselves. According to the Department of Education's National Norms and Standards funding model, Gugulesizwe falls into the Quintile 3 category. It is a non-fees-paying establishment and ranks among the poorest schools in the province.

Dr Yasmeen Malik – an English educator at the school contacted a representative from the BASA Islamic Finance Committee, which agreed to put up the funds to have a borehole installed at the school.

After a procurement process, Durban-based Ilanga Lezintaba Zolwandle Consulting (iLZ), which has extensive experience in geotechnical studies and groundwater studies, was awarded the project.

Sourcing potable water from underground is a complex job. iLZ Managing Director, Siphesihle Mdlalose explained that the process to identify the spot where they could drill the borehole was smooth, but extracting clean water from the site was their main concern. “We sent samples to the lab. The results were back within seven days and well within the drinking standard. That was a huge relief. It is never easy having to explain to a community that the water is available but cannot be consumed,” Mdlalose said.

The borehole came on stream in October 2022.

“People were beaming from ear to ear. That meant a lot to us, knowing the services that we offer has such a big impact,” said Mdlalose.



For the approximately 1500 pupils at the school, the focus has shifted from survival to academic excellence. Many come from low-income households and education is their ticket out of poverty.

The year has begun well for the class of 2023. Grade 12 learner, Lungelo Khwela reflected on the challenges of the past as he looked to the future. “We pushed on weekends to catch-up, but it was not easy. We did have water tanks but the problem there is that there were no purifiers or filters. We could not trust the rainwater. We are very grateful for the borehole, we can now put our effort into our books,” Khwela said.

Khwela’s classmate, Akhona Bhengu dreams of being a medical doctor. “In summer, we need to be hydrated. The borehole has given us the access to water which we deserve,” Bhengu said. “Now we can concentrate on our studies and doing well in the exams,” she added.

Speaking on behalf of the BASA Islamic Finance Committee, Al Baraka Bank Chief Executive, Shabir Chohan, said the contribution by businesses towards easing South Africa’s socio-economic disparities, was vital. “Education is a priority initiative, necessary to correct past imbalances. The lack of facilities experienced by many schools in this country unquestionably has a detrimental effect on disadvantaged learners, making their schooling even more challenging,” Chohan said.

Access to water daily, which many people take for granted, has transformed the lives of people in this area. Gabisile Madiba, who lives directly across from the school, says their area in specific has had no running water for many months. “The borehole has helped us a lot. We fetch water daily from the school making sure we do not interrupt the learners,” Madiba said.

There is now a sense of hope in Amandawe, says matriculant, Lungelo Msabala. **“We have extra confidence, there is hope for us. We have running water; good teachers. Now, we believe that anything is possible,”** Msabala said.



CONDUCT

The impact of South Africa's greylisting by the Financial Action Task Force (FATF) on the prices of the country's bonds and equities, and well as its exchange rates, investment flows and access to offshore financial services, is difficult to quantify. Greylisting requires the application of a risk-based approach to South African customers by international financial institutions, which often results in enhanced due diligence when doing business with individuals and companies based in the country.

While there can be no argument that greylisting has not been good for financial markets, there are many other factors that have been weighing them down, like



increased
interest
rates



stagnant
economic
growth



South Africa's
weakening fiscal
position



political and policy
uncertainty ahead of the
2024 general election

among others. While South Africa has not seen a significant shift in its financial markets which can be specifically attributed to grey listing, if the country does not get off the grey list in a timely manner, the damage could rapidly become severe. The European Commission has added South Africa to its list of high-risk countries, which requires its financial institutions to employ enhanced due diligence measures in business relationships and transactions with South Africa. It is likely that the United Kingdom will follow suit and include South Africa on its list of high-risk countries.

In practice most international banks already perform extra due diligence on their South African businesses, as most have previously classified South Africa as a high-risk jurisdiction. However, after the greylisting, some may decide to limit or reduce their existing exposure to South Africa, by not accepting any new customers or business, or they may decide to exit business relationships which are deemed too risky or no longer commercially viable because of the expense of conducting enhanced due diligence.

The application of enhanced due diligence requirements by other jurisdictions is unlikely to affect the ability of South African banks to provide services to local companies and individuals. But, South African banks rely on global financial institutions to provide cross border and international banking services. Financial services provided to South African based companies and individuals by overseas banks – like offshore accounts for individuals based in South Africa - are likely to come under increased scrutiny. However, if a company runs its business in a way which complies with international regulations, then the risk of doing business with it will be more acceptable to international banks.

In its mutual evaluation of South Africa, FATF found that the larger banks in South Africa complied with international regulation and best practice. Nevertheless, after the FAFT review, banks invested in further improving their risk management capabilities.

Banks are on the frontline of identifying suspicious transactions. In the year to March 2023 banks reported over to 420 000 suspicious transactions to the Financial Intelligence Centre (FIC) and just under 3,6 million transactions that breached cash deposit thresholds.

Currently, there are no indications that significant numbers of international financial institutions are exiting their business with South African companies or individuals. That could change quickly if a lack of confidence takes hold about South Africa's ability to implement the remedial actions FATF requires for it to exit the grey list in a timely manner. While South Africa has made notable progress in fulfilling the technical and legal remedial actions required by FATF, much of what needs to be fixed lies with the criminal justice system, which must - but has not yet succeeded in - showing a sustained increase in the investigation and prosecution of financial crimes. This may well hinder South Africa's ability to get off the grey list in a timely manner.

As much as South Africa is free to choose its policies and allegiances, international investors and others in the global financial system are free to decide where they want to invest and on what terms. If South Africa does not have easy, affordable access to global financial markets, through the international financial system, it will become much harder for it to raise the finance needed for social grants, the public sector wage bill, and social and economic development programmes, among others.

Complying with the anti-financial crime requirements of FATF and other local and international authorities is necessary for the integrity and stability of the South African financial system and the country's economy and people.

The Zondo Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector including Organs of State laid bare the devastation that financial crime inflicted on state enterprises, like Eskom and Transnet, the national fiscus and good governance in the country. Corruption steals from the country's most vulnerable; while crime hampers investment and the development of social and economic infrastructure.

Regulation

The Financial Intelligence Centre Act 38 of 2001 (FICA), among other legislation and regulation, requires that banks ensure their systems are not used for money laundering, financing of terrorism or any other illegal activities. Banks must ensure they do not conduct business with individuals or businesses subject to sanctions by various international agencies and institutions. Banks must also protect their reputations, as their business depends on depositors trusting them to safeguard their earnings and savings.

These requirements have led banks to monitor customers for potential risks, by tracking media reports, customer account activity, as well as monitoring various sanctions lists, among others. Where concerns arise about potential risks, the current law is that banks can take steps to terminate the services they provide to customers.

In South Africa, the leading case on the closure of bank accounts is the Supreme Court of Appeal's judgment in *Bredenkamp and others vs Standard Bank*. In this matter, Bredenkamp and entities and trusts associated with him sought an interdict of the closure of bank accounts held by them. At the time, Bredenkamp was listed as a specially designated national by the United States' Office of Foreign Assets Control. Upon discovering this, Standard Bank terminated its relationship with Bredenkamp and closed the accounts held by Bredenkamp and those associated with him. The matter went to the Supreme Court of Appeal (SCA), where the SCA ruled that in terms of both common law and the contracts in place, the bank had the right to unilaterally close the bank accounts with reasonable notice – without a right for Bredenkamp to make representations. The law allowed a bank to terminate its relationship with a customer on reasonable notice, and without providing reasons, provided that the termination is not unconstitutional or contrary to public policy.

In July 2021, the Financial Sector Conduct Authority's (FSCA) Conduct Standard for Banks became fully effective and legislated the position in respect of the closure of bank accounts. Clause 9 of the Conduct Standard deals with the refusal, withdrawal or closure of financial products and services by banks. The Conduct Standard places certain obligations on banks regarding the closure of bank accounts. This includes, among others, that banks provide customers with reasonable notice - and written reasons - for the proposed closure of their accounts. The Conduct Standard also provides for exceptions, when a bank may close an account without first providing reasonable notice and reasons to a customer.

The Financial Intelligence Centre (FIC) has directed South African banks to act against suspicious activity detected on accounts, but banks are not allowed to inform customers about reports made to the FIC. Subject to certain exceptions, a person involved in the making of a report may not inform anyone, including the customer or any other person associated with a reported transaction, of the contents of a suspicious transaction or activity report - or even that such a report has been made.

These limits on a bank's ability to communicate could partly explain why the public often misconstrues banks as being arbitrary – or evasive - about account closures. However, there is governance around how banks decide to close accounts. Some banks have a specific committee that will sit and deliberate on the closure of a bank account. A decision reflects a bank's risk appetite and its internal governance processes and procedures. The bottom-line is that banks have little option but to terminate a relationship with a customer if they have a suspicion that their accounts are being used for financial crime or if a continued association with the customer poses reputational, business or legal risks to the banks.

Anti-financial crime legislation aims to prevent money laundering and illicit financial transactions and should not cause concern for legitimate businesses.



JUST TRANSITION

Amid its ongoing electricity crisis, South Africa must manage a just transition to a low-carbon economy. This complex transition is inevitable due to the global shift towards renewable energy and the undeniable threat of the climate crisis.



A ‘just transition’ emphasises the importance of balancing the protection and conservation of the environment, with meeting the equally pressing social and economic development needs of society. The International Labour Organisation (ILO) defines it as:

“Greening the economy in a way that is as fair and inclusive as possible to everyone concerned, creating decent work opportunities and leaving no one behind.”

For South Africa, which is marked by stark inequalities, adopting an inclusive, consultative approach to the transition to a low-carbon economy, is crucial.

South African banks have long acknowledged the importance of a just transition. As banks can finance the building of economic infrastructure, they are uniquely positioned to help carbon-intensive sectors transition. Banks have funded hundreds of billions in projects to increase South Africa’s electricity generation capacity under South Africa’s Renewable Independent Power Producer Program.



They are also supporting efforts to reduce demand on the South African grid, by providing funding for households and small businesses to install alternative power supplies. Besides their own products and services, commercial banks – along with development finance institutions and non-bank small business finance providers - are also participating in the Energy Bounce Back Loan Guarantee Scheme, launched by the National Treasury in August 2023.

Under the scheme, government will guarantee solar-related loans for small and medium enterprises, to help reduce their reliance on the national grid and alleviate the impact of loadshedding on their business.

Even before the scheme was firmly up and running, South Africa had imported **R12 billion** worth of solar panels, by August 2023, equivalent to roughly **2,200 MW** of generation capacity, according to economists from Trade and Industrial Policy Strategies (Trips).

But as critical as they are to financing a transition to a low-carbon economy, banks need government to set out the roadmap for a just transition. An orderly transition is essential for maintaining stability in the financial sector and its capacity and its capacity to fund a just transition. The South African Reserve Bank (SARB) has previously warned that the speed of change in environmental, social and governance regulation (ESG) could become a risk to financial stability in South Africa. Banks could be left holding 'stranded assets': assets that could suffer severe devaluation or become high-risk liabilities, because of regulatory changes. To effectively address these challenges, banks must have a thorough understanding of the risks and opportunities within their portfolios.

Government efforts to balance these national priorities can often lead to seemingly contradictory and fragmented policy statements, especially regarding the prominence of fossil fuels in South Africa's future energy mix. This has led to numerous lawsuits, by non-governmental organisations, among others, determined to halt the financing and construction of any new fossil fuel power plants.

However, the coal industry, for example, is a significant employer in South Africa and a rapid transition away from this fossil fuel, without a clear plan for retraining and redeployment of its workers, would lead to social and economic hardships. The same applies to workers in the coal supply chain – from transport to port operations.

The private sector needs a clear and consistent policy framework to accelerate investment in the just energy transition. While there are several caveats, research conducted by the partnership between National Business Initiative and Business Unity South Africa indicates that a renewable energy-dominant power system could generate a net-positive impact of **2.4 million jobs by 2050**.



The **Presidential Climate Commission (PCC)** has undertaken extensive studies and is providing recommendations on potential initiatives. In 2021, President Ramaphosa launched the PCC to oversee and facilitate a just and equitable transition towards a low-emissions and climate-resilient economy.



South Africa's aspiration to achieve net-zero emissions by 2050 underscores the nation's ambitious commitments to a low-carbon economy. But these commitments are often perceived to be challenged by other priorities, such as the ongoing energy crises, high unemployment and marked inequality.



On the other hand, not transitioning to low-carbon energy can create risks for the South African economy. For example, the European Union's (EU) Carbon Border Adjustment Mechanism (CBAM) penalises exporters to the EU for the carbon content of their goods. The CBAM will "transfer the burden of climate action onto developing economies" and place "undue and unjust burdens" on South Africa and some of its industries, according to the Department of Trade, Industry and Competition. South Africa could see its exports to the EU fall by four percent by 2030, according to one study.

However, South Africa's transition to a low-carbon economy needs international collaboration. The technology, expertise, and investments required for a large-scale shift towards renewable energy often comes from international players. The global community's commitment, especially to developed countries, to assist developing countries in this transition, is vital.

International organisations, such as the World Bank and the African Development Bank, can help provide the necessary funding and technical expertise. BASA has entered into an agreement with the International Finance Corporation (IFC) by which IFC will provide advisory services to strengthen the climate risk assessment, mitigation, and adaptation practices of South African banks, and help them reduce their exposure to climate change-related risks.

The agreement will promote investment in green, climate-friendly assets, in line with South Africa's National Development Plan, its commitments under the Paris Agreement and the '30 by 30 Zero' programme. The cooperation agreement was signed on 26 July and is expected to run until July 2025. It may be extended depending on interest and need.

Through the programme, IFC aims to facilitate at least

US\$500 million in climate investments by

South African banks, and at least

\$300 million in climate-themed bonds - including

sustainability-linked and transition bonds - issued by South African corporates, by 2027

In terms of the agreement, IFC can provide advisory services for banks to assist investing in, among others:



Renewable energy technology, including wind, solar, bio-mass and geothermal, among others.



Fixed assets that can reduce energy consumption per unit produced by 15%.



Climate Smart Agriculture (CSA) that improves productivity, reduces crop losses and the use of chemicals, and improves water and energy efficiency, among others. By 2025, IFC aims to develop a roadmap of actionable recommendations to, among others, remove barriers to - and create incentives for- the uptake of CSA production and technologies.

The agreement with BASA also provides for IFC to support the climate related activities of the Sustainable Finance Initiative, for which BASA acts as Secretariat.

BASA is also a member of the Sustainable Banking Finance Network, a platform for financial sector regulators, governments and industry associations from emerging markets committed to advancing sustainable finance.

While much of the focus is on government and business, civil society and grassroots movements play an important role in a just transition. They provide a voice for the marginalised, ensure accountability, and drive local solutions. Local communities' involvement in decision-making ensures that the transition is genuinely inclusive and takes into account community needs.

One of the solutions to South Africa's energy crisis could be the decentralisation and smartening of its energy systems. Microgrids powered by renewables can be set up in remote areas, reducing the load on the national grid and ensuring a more consistent power supply. This decentralised model could also spur local economic growth as communities could sell excess power back to the grid. South Africa's energy transition is not just about replacing coal with renewables. It's about reimagining the country's energy landscape, addressing economic disparities, and ensuring no one is left behind.

COP27

During the 27th Conference of the Parties (COP27) in Sharm El Sheikh, some of the brightest minds from around the world gathered to address one of the most pressing global challenges: climate change.

Sharm El Sheikh aptly reflected the myriad challenges and opportunities presented by climate change. The town, with its juxtaposition of the barren desert and the thriving ocean, is a microcosm of the broader world. It symbolises our two potential futures: one of inaction and devastation, and the other of proactive solutions and flourishing life.

While the annual COP meetings are essential, they often overshadow the continuous commitment countries must make to address climate change. The Paris Agreement, aimed at restricting global warming, sets the standard for the commitment and action expected from the global community.

The magnitude of COP27, encompassing a myriad events and discussions, was staggering.

The emphasis on climate finance was particularly noteworthy. Experts, like economist, Mariana Mazzucato, and former Bank of England governor, Mark Carney, championed the need for substantial financial support to meet the Paris Agreement's objectives.

An estimated annual investment of between **US\$3 trillion** and **US\$6 trillion** is needed by 2050 to finance a transition to sustainable energy.

Reaching this monumental figure requires governments to embed climate priorities into their fiscal policies. Advocacy for restructuring international development finance institutions to offer developing economies more accessible, cheaper and flexible climate finance is gaining traction. Climate change funds, primarily sourced from debt, can be perilous, especially as climate-induced events can amplify national fiscal and economic trouble. Public investments and private sector innovations are the way forward.

South Africa, with its unique challenges and potential, emerged as a focal point at COP27. Its landscapes make it vulnerable to various climate impacts, but its rich renewable resources offer solutions. South Africa's proactive steps, make it a frontrunner in receiving support through the Just Energy Transition Partnership (JETP) – even if implementation has now become bogged down in political and economic realities.

For banking representatives, engaging with international peers offered profound insights. The study by the International Banking Federation (IBFed) confirmed that the challenges faced by banks in addressing climate change aren't unique to developing nations but are a shared global concern. Thus, COP serves as an essential platform for financial institutions to collaborate, innovate, and emphasise their commitment to combating climate change.

At the end of COP27, a sense of profound introspection and hope lingers. The enormity of the climate crisis, while daunting, is contrasted with the collective ambition and resolve witnessed at the event. It underpins the belief that despite the complexities and challenges, the global community, and its financial institutions, has the tenacity and capacity to create a sustainable future.

Yaseen Lockhat is a senior specialist at the Banking Association South Africa (BASA). He attended COP27 as a representative of the association.



GOVERNANCE

The Banking Association South Africa (BASA) Board of Directors is committed to maintaining the highest standards of governance. BASA's governance arrangements are outlined in the Company's Memorandum of Incorporation (Moi), which is aligned to the Companies Act 71 of 2008.

The Board of Directors

The BASA Board of Directors (the board) has eleven non-executive directors, made up of representatives of member banks and the Managing Director of BASA. The representatives of member banks are:

- The Chief Executive Officers (CEOs) of the six major South African banks, namely: ABSA, Capitec, First National Bank, Investec, Nedbank and Standard Bank South Africa.
- Two CEOs representing Tier Two South African banks. (Bank tiers are a categorisation of banks based on their relative size to the banking market.)
- Two CEOs representing international banks operating in South Africa.

The Board Charter provides for the rotation of the board chair every two years, as set out in a schedule maintained by the Company Secretary. BASA has adopted the King Report on Corporate Governance in South Africa (King IV). As such, the chairman of the board is an independent, non-executive director and his role is separate from that of the managing director (MD) of the association. The incoming chair acts as the deputy chairman.

As set out in its charter, the board is responsible for setting the strategic direction of BASA; acting as the custodians of good corporate governance; and monitoring and evaluating the performance of the association. These include:

- Effectively representing and promoting the interests of all BASA members.
- Appointing a fit and proper person as an executive managing director and setting the terms of their employment contract.
- Directing and supervising the managing director on delegated affairs.
- Ensuring that the association has clear objectives, and strategies for achieving them.
- Approving and ratifying policies developed by the managing director and management.
- Monitoring the effectiveness of BASA's risk management and internal controls.
- Conducting a performance review of the managing director, the association and the board, at least once a year.

During the reporting period, the board convened four meetings. The minutes of these meetings detail the deliberations of the board and its resolutions. A board member who is not able to attend a scheduled meeting appoints an alternate member to attend on their behalf. Alternate members do not constitute a quorum and have no voting rights.

The board is satisfied that it has delivered according to its charter.

Board Committees

The board constituted three committees during the reporting period to assist it in executing its fiduciary responsibilities and oversight of BASA. The duties, responsibilities and authority delegated to each board committee are outlined in their approved terms of reference, which are subject to annual review by the board, or as and when required.

Board Executive Committee

The Board Executive Committee (Board Exco) has the authority to act on behalf of the board to ensure that its decisions, policies, business plans and budgets are implemented by management, and that the association observes good corporate governance practices. The committee has eleven members, who make recommendations to the board on matters that affect member banks, and brief board members on pertinent developments in the financial services sector, among other responsibilities.

Audit and Risk Committee

The Audit and Risk Committee (ARC) is responsible for, among others, overseeing the selection of an external auditor. The committee recommends an external auditor to the board, which in turn, makes a recommendation for approval to the BASA Annual General Meeting.

The association's external annual audit is reviewed and overseen by ARC to ensure its relevance and general efficiency. Before a letter of engagement is signed, the ARC discusses with the external auditor the nature and scope of the audit and their quality control procedures, among others.

Post the audit, the ARC reviews the external auditor's management letter and audit report. It recommends the audit fee to the board and pre-approves any fees in respect of non-audit services provided by the external auditor, to ensure that these services do not impair the external auditors' independence or objectivity. With the assistance of the external auditors, the committee reviews the adequacy, maintenance and effectiveness of the association's internal controls.

As part of its responsibility to oversee BASA's enterprise risk management framework, the committee reviews the policies and processes for identifying and managing business risks by the association, annually or when necessary. BASA has an approved Risk Management Policy and is gradually implementing an Enterprise-wide Risk Management Framework, which includes building the capacity of BASA systems, processes and people to effectively implement the policy.

Remuneration and Ethics Committee

The Remuneration and Ethics Committee (Remco) is tasked with determining and developing the association's policy on the remuneration of employees, to ensure that employees are fairly and responsibly rewarded for their individual contributions and performance. To attract, retain and motivate employees of the quality required by the association, the committee positions employees' pay levels relative to local and, if relevant, international industry benchmarks. It plays an integral part in succession planning, particularly in respect of the managing director, executives and the heads of divisions.

The committee is also tasked with monitoring the association's activities, to ensure that they are in line with its social and ethics mandate and in keeping with relevant legislation and codes of best practice, in relation to:

- Social and economic development
- Good corporate citizenship
- The environment, health and public safety
- Consumer relationships
- Labour and employment
- Ethical conduct and leadership
- Stakeholder engagement
- Ensuring the promotion of equality, the prevention of unfair discrimination and reducing opportunities for corruption in the association.

DELEGATION OF AUTHORITY

BASA has an approved Delegation of Authority (DOA) Framework which is reviewed annually, or as required. The board, without absolving itself of its responsibilities and accountability, delegates appropriately to the board committees, individual members and the managing director. While the board guides and approves BASA's strategy, its implementation and the day-to-day management of the association is vested with the managing director. From time to time the board considers and approves policies aimed at creating a harmonious working environment.

The managing director is assisted by an Executive Committee (Exco), made up of the divisional heads who manage and execute BASA's core business and support functions. To ensure sound internal controls, the exco develops applicable procedures and frameworks, which are applied consistently.

COMPANY SECRETARY

In line with local standards and best practice, BASA has appointed a Company Secretary, even though the association is a non-profit company. The Company Secretary provides corporate governance advisory services to the board, individual board members and the executive management. These Company Secretary functions are enshrined in the Companies Act and are executed for BASA and its associate companies: the Centre of Excellence in Financial Services (COEFS) and the Southern African Development Community Banking Association (SADC BA). Other responsibilities are assigned from time to time, including the administration of the membership register and acting as the deputy information officer.

CODE OF CONDUCT AND ETHICS

The BASA Code of Conduct and Ethics was considered and reviewed during the reporting period. Assistance was sought from an external service provider to enhance the policy. The BASA Code of Conduct and Ethics is enforced by the board to enhance effective and ethical leadership. BASA is reviewing its induction framework to ensure employees are aware of the organisational mandate, its policies and procedures and its Code of Conduct and Ethics. The board does not have a mandate to compel banks registered to operate in South Africa to become members of BASA and comply with the Code of Conduct. However, the BASA MoI empowers the board to cancel the membership of any bank that brings the industry into disrepute.

The board convened a special session to deliberate on the Report of the Judicial Commission of Inquiry into Allegations of State Capture, Corruption and Fraud in the Public Sector including Organs of State, better known as the Zondo Commission. The board decided that BASA would not comment on behalf of individual members named in the report. Affected member banks were left with the freedom to comment in their individual capacity if they deemed it necessary. However, the BASA board considered various efforts, from the banking industry, to collaborate with relevant institutions to build South Africa's capacity to implement the recommendations of the Zondo Commission.

ANTI-COMPETITIVE PRACTICES

Bank representatives at BASA meetings are reminded at all times to adhere to national and international laws restricting the exchange of information among competitors, which may influence market conditions and or lead to abuse. The Anti-Competitive Policy Statement is a standing agenda item at board and committee meetings to encourage representatives to refrain from exchanging or discussing such information.

Independent Auditors' Report

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

Opinion

We have audited the annual financial statements of The Banking Association South Africa (NPC) set out on pages 7 to 21, which comprise the statement of financial position as at 31 December 2022, 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 2022, 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 2022", 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.

Responsibilities of the directors for the Annual Financial Statements

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 for the audit of the Annual Financial Statements

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 controls.
- Obtain an understanding of internal controls 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.



Nico Costas Kyriacou
SizweNtsalubaGobodo
Grant Thornton Inc. Director
REGISTERED AUDITOR

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 2022.

1. Nature of business

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

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

2. Review of financial results and activities

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

3. Directors

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

Lungisa Fuzile (Chairman)
Alan Pullinger (Deputy Chair)
Bongiwe Kunene (Managing Director: The Banking Association South Africa)
Gerrie Fourie
Peter Taylor
Hylton Kallner
Mike Brown
Richard Wainwright
Arrie Rautenbach
Kweku Bedu-Addo
Michael Sassoon

4. Events after the reporting period

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

5. 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.

6. Secretary

The company secretary resigned during the year and the position has not been filled.

STATEMENT OF

Financial Position

AS AT 31 DECEMBER 2022

	Note(s)	2022 R'000	2021 R'000
ASSETS			
Non-Current Assets			
Property, plant and equipment	2	1 174 526	1 352 973
Current assets			
Other financial assets	3	26 546	25 436
Prepayments	4	244 629	2 042 901
Trade and other receivables	5	1 030 036	2 474 259
Cash and cash equivalents	6	56 847 893	50 716 266
		58 149 104	55 258 862
Total Assets		59 323 630	56 611 835
EQUITY AND LIABILITIES			
Equity			
Reserves		4 657 702	3 260 652
Accumulated surplus		17 729 903	14 856 753
		22 387 605	18 117 405
LIABILITIES			
Non-Current Liabilities			
Retirement benefit liability	7	11 438 373	11 434 159
Current Liabilities			
Deferred income	8	17 256 848	12 072 661
Trade and other payables	9	8 240 804	14 987 610
		25 497 652	27 060 271
Total Liabilities		36 936 025	38 494 430
Total Equity and Liabilities		59 323 630	56 611 835

STATEMENT OF

Comprehensive Income

AS AT 31 DECEMBER 2022

	Note(s)	2022 R'000	2021 R'000
Revenue	10	95 278 116	93 588 312
Other income	11	316 260	1 643 141
Operating expenses	12	(88 459 193)	(87 997 031)
Operating surplus		7 135 183	7 234 422
Net deficit from special projects	13	(7 672 783)	(4 256 638)
Investment revenue	14	3 891 968	2 345 570
Finance costs	15	(1 366 212)	(1 525 611)
Operational risk gain (loss)	16	884 994	(2 017 559)
Surplus for the year		2 873 150	1 780 184
Other comprehensive income			
Items that will not be reclassified to surplus or deficit			
Actuarial gains on defined benefit plans		1 397 050	1 533 863
Other comprehensive income for the year	18	1 397 050	1 533 863
Total comprehensive surplus for the year		4 270 200	3 314 047



THE BANKING
ASSOCIATION
SOUTH AFRICA

