SOUTH AFRICAN RESERVE BANK

ANNUAL REPORT 2019/20

SOUTH AFRICAN RESERVE BANK

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ONLINE

The full annual financial statements of the SARB Group are available at: **http://www.resbank.onlinereport.co.za/2020/.**

FEEDBACK

The SARB welcomes feedback on its annual report to inform the continuous improvement of its communication to stakeholders. Your feedback, comments and/or questions can be sent to Sheenagh Reynolds, the Secretary of the SARB, at **Sheenagh.Reynolds@resbank.co.za.**

SARB OVERVIEW

About the SARB

Founded in 1921, the South African Reserve Bank (the SARB) is the oldest central bank in Africa.

Sections 223 to 225 of the Constitution of the Republic of South Africa, Act 108 of 1996 (the Constitution), read together with the amended South African Reserve Bank Act 90 of 1989 (SARB Act), provide the enabling framework for the SARB's operations. The SARB's mission is based on its constitutional mandate **to protect the value of the currency in the interest of balanced and sustainable economic growth.** Its independence is enshrined in the Constitution, and the SARB appreciates that this independence creates a **duty to be transparent and accountable to its stakeholders.**

The SARB is **not driven by a profit motive but by serving the best interests of South Africa's people.** After allowing for certain provisions, payments of company tax on profits, transfers to reserves and dividend payments, the surplus of the SARB's earnings is paid to the South African government.

Vision

The SARB leads in **serving the economic well-being of South Africans** through maintaining price and financial stability.

Values

- > RESPECT AND TRUST
- > OPEN COMMUNICATION
- > INTEGRITY
- > ACCOUNTABILITY
- > EXCELLENCE

How the SARB is governed

The Governor and Deputy Governors are appointed by the President of the Republic of South Africa after consultation with the Minister of Finance and the SARB Board of Directors (the Board). The Governor and Deputy Governors are executive members of the Board.

Following consultation with the Minister of Finance, the President also appoints four of the 11 non-executive Board members. The remaining seven non-executive directors are elected by the SARB's 802 shareholders. The SARB's shareholders also consider the Group's annual financial statements and appoint the external auditors and approve their remuneration. They have no rights or involvement in determining monetary policy, financial stability policy or regulation and supervision.

The SARB's 2020 strategic plan

The strategic plan's five strategic focus areas (SFAs) and other objectives drive the achievement of both **price and financial stability in line with the SARB's mandate.**

SFA 1 **Maintain** headline inflation within the target range

SFA 2 **Protect** and enhance financial stability to achieve a safer financial system

SFA 3 **Promote** and enhance the safety, soundness and integrity of regulated financial institutions

SFA 4 **Enhance** the functioning of South Africa's financial markets in support of economic resilience

SFA 5 **Ensure** cost effective availability and integrity of notes and coin

Cross-cutting objectives and building blocks underpin the strategic plan to ensure the SARB has the capability and capacity to achieve its mandate and remain a relevant and high-performing organisation.

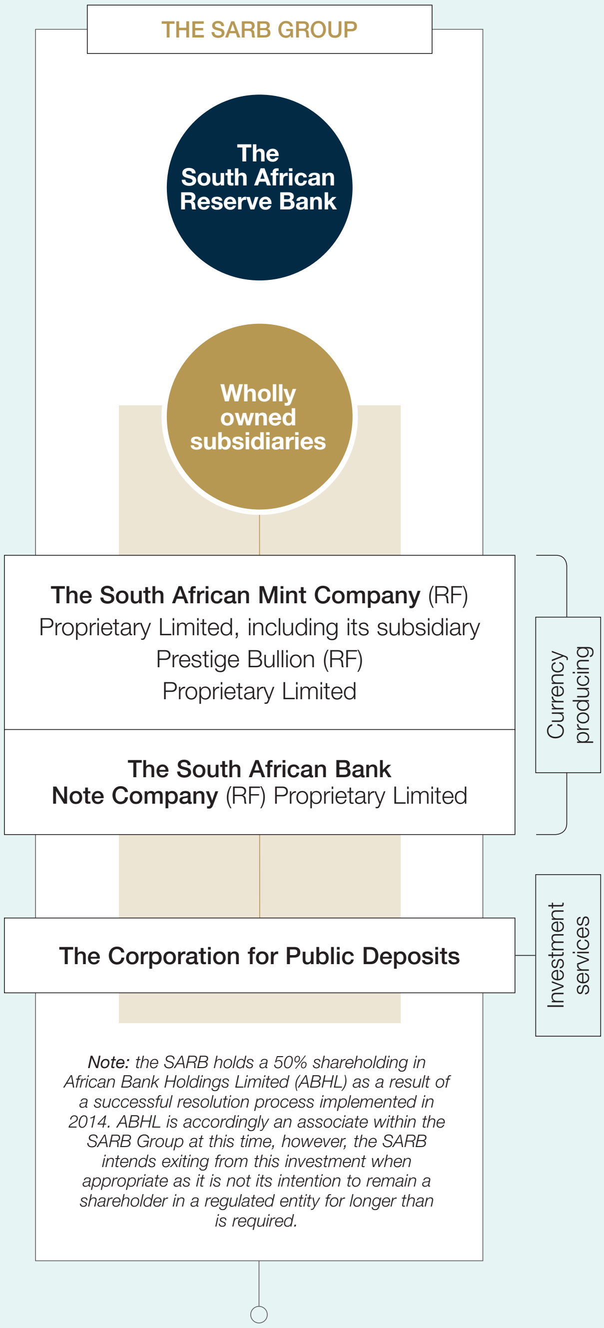
ABOUT THIS REPORT

The SARB's annual report, for the year ended 31 March 2020, provides an **assessment of its ability to sustainably implement its mandate.**

The report provides readers with a concise account of the SARB's strategy, performance and impact on society, and therefore focuses on material financial and non-financial information.

The intended readers of the report are principally the Members of Parliament of South Africa and specifically the Standing Committee on Finance, through which the SARB is accountable to the people of South Africa, as well as the SARB's shareholders. The report is also considered relevant to a broader readership interested in how the SARB implements its mandate.

Scope and boundary



The achievement of the SARB's mandate and its ability to create value for South Africans relies on robust relationships with many external stakeholders, including government, regulators and broader communities. These relationships are discussed throughout the report.

Reporting frameworks

The following reporting frameworks have been used to guide and prepare the report:

1

The King Report on Corporate Governance in South Africa 2016[1].

2

The International Financial Reporting Standards.

3

The International Integrated Reporting Council's International <IR> Framework.

The principles of each framework are balanced against their practicality and relevance to a central bank. When necessary, legislative and confidentiality requirements override framework guidance.

Assurance

The summarised Group annual financial statements presented in this report, and the full Group annual financial statements (available online), have been independently audited by the SARB's external auditors – PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc.

Approval

The determination of material matters for inclusion in the report was undertaken at executive level with oversight provided by the Board. Consideration has been given to the information required by the SARB's stakeholders.

The Audit Committee and the Board have reviewed the report. In the Board's opinion, the report provides a fair and balanced account of the Group's performance and material matters. The Board approved the Group annual financial statements for the year ended 31 March 2020 on 12 June 2020, signed on its behalf by:

E L (Lesetja) Kganyago
Governor of the SARB

R J G (Rob) Barrow
Non-executive director and Chairperson of the Audit Committee

K (Kameshni) Naidoo
Group Chief Financial Officer

S L (Sheenagh) Reynolds
Secretary of the SARB

1 *Also known as King IV™. Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.*

SERVING THE ECONOMIC WELL-BEING OF SOUTH AFRICANS

WHAT THE SARB DOES

PRICE STABILITY

PRIMARY MANDATE
(enshrined in the Constitution)

Achieve and maintain price stability – this protects the value of the currency in the interest of balanced and sustainable economic growth and contributes to the stability of the entire financial system.

KEY OBJECTIVE

Maintain the Consumer Price Index (CPI) inflation within a target of 3–6%.

Monetary policy: page 49.

The inter-relationships between price and financial stability are continually considered to ensure that decisions relating to one do not unduly affect the other.

FINANCIAL STABILITY

STATUTORY MANDATE
(prescribed by the Financial Sector Regulation (FSR) Act 9 of 2017)

Protect and enhance financial stability in South Africa – this includes strengthening the safety, soundness and integrity of financial institutions through the Prudential Authority.

KEY OBJECTIVES

- Mitigate risks to financial stability.
- Restore or maintain financial stability if a systemic event occurs or is imminent.
- Harmonise and integrate the prudential regulation and supervision of financial institutions and market infrastructures.
- Monitor the financial system.

Financial stability: page 54.
Prudential Authority: page 62.

INPUTS[1]

Social and relationship inputs

> Broad knowledge and an understanding in society of the benefits of price stability helps the SARB in the achievement of its mandate. To this end, the SARB engages continually with Parliament, civil society, business and labour formations.

> Maintaining collaborative relationships with other regulators and government ministries, especially the National Treasury, enabling the SARB to contribute to prudent macroeconomic policies.

> Maintaining constructive relationships with financial institutions and industry bodies, enabling the SARB to properly assess risks to financial stability and exercise effective oversight of the financial sector.

> Building strong relationships with research and tertiary education institutions to supplement the SARB's own research and inform its decision making.

> Actively participating in international and regional forums, enabling the SARB to contribute to the development and promotion of financial stability, regional integration and harmonised financial sector regulatory frameworks.

> Supporting social initiatives and broader stakeholder engagements, including public outreach programmes, strengthens the perceptions of the SARB as accessible and accountable. Corporate social investment spend amounted to R22.2 million (2018/19: R18.3 million).

The 2020 strategic plan: page 21.
Stakeholder engagement: page 76.
Corporate social investment: page 84.

1 *Key resources, relationships and capabilities on which the SARB relies as a key component of its business model.*

GOVERNANCE AND RISK MANAGEMENT
underpin the SARB's ability to sustainably execute its mandate.

The SARB's governance practices align to the principles of good corporate governance, as they pertain to a central bank, and all leaders and employees are expected to maintain the highest level of ethics when conducting the work of the SARB.

Human and intellectual inputs

> Maintaining experienced and capable leadership and research teams with relevant skills and deep understanding of local and international economic and financial systems.

> Employing 2 189 (2018/19: 2 125) people, whose motivation, relevant skills and diverse thinking assist the SARB to achieve its mandate and supporting objectives. Paid R1 930 million (2018/19: R1 818 million) as salaries.

> Developing the SARB's employees, supporting their career paths and ability to deliver the SARB's mandate and supporting objectives. Invested R63.6 million (2018/19: R54.9 million) in training and development.

> Driving the Culture Strengthening Project, which builds on the SARB's strengths and at the same time drives a culture that is empowering, agile, caring and collaborating.

> Driving the SARB's transformation objectives. 76% (2018/19: 74%) of the SARB's workforce are black people.

> Continually developing the SARB's employee value proposition to attract and retain critical skills.

> Investing in maturing the SARB's data strategy, in new and efficient ways of working and in new technologies to enhance the SARB's supervision capabilities.

The 2020 strategic plan: page 21.
Human resources: page 68.
Information and technology: page 74.

Financial inputs

> Maintaining sound financial and budgetary controls.

> Levying a cash reserve requirement that banks must hold with the SARB and conducting open market operations to influence lending by banks.

> Managing the cost of currency across the Group.
The cost of currency decreased 39% to R427 million (2018/19: R699 million).

Subsidiary reports: page 80.
Summarised Group annual financial statements page 88.

KEY FUNCTIONS

Formulating and **implementing** monetary policy.

Undertaking economic data analysis and research.

Acting as banker to the government.

Promoting financial stability, which includes acting as the lender of last resort in exceptional circumstances.

Ensuring the effective functioning of the National Payment System (NPS), which encompasses the entire payment process from payer to beneficiary and includes settlement between banks.

Administering the country's prudential and capital flow measures.

Regulating and **supervising** financial institutions, including banks and insurance entities.

Managing the official gold and foreign exchange reserves of the country.

Issuing and **destroying** notes and coin.

OUTCOMES

The SARB's risk management and control framework goes beyond identifying and mitigating risks to its operations, to include those that impact on the public good in line with its constitutional and statutory responsibilities.

Governance: page 35.
Risk management: page 44.

PRIMARY OUTCOMES

PRICE STABILITY

Low and stable inflation:

- Protects the purchasing power and living standards of all South Africans, particularly the poor who have limited means of protecting themselves against continually rising prices.
- Reduces uncertainty in the economy, supporting an environment that is conducive to stronger, sustainable and balanced economic growth and employment creation over time.
- Facilitates general trust in the value of the rand and provides a favourable environment for investment in South Africa.
- Helps maintain and improve South Africa's international competitiveness.

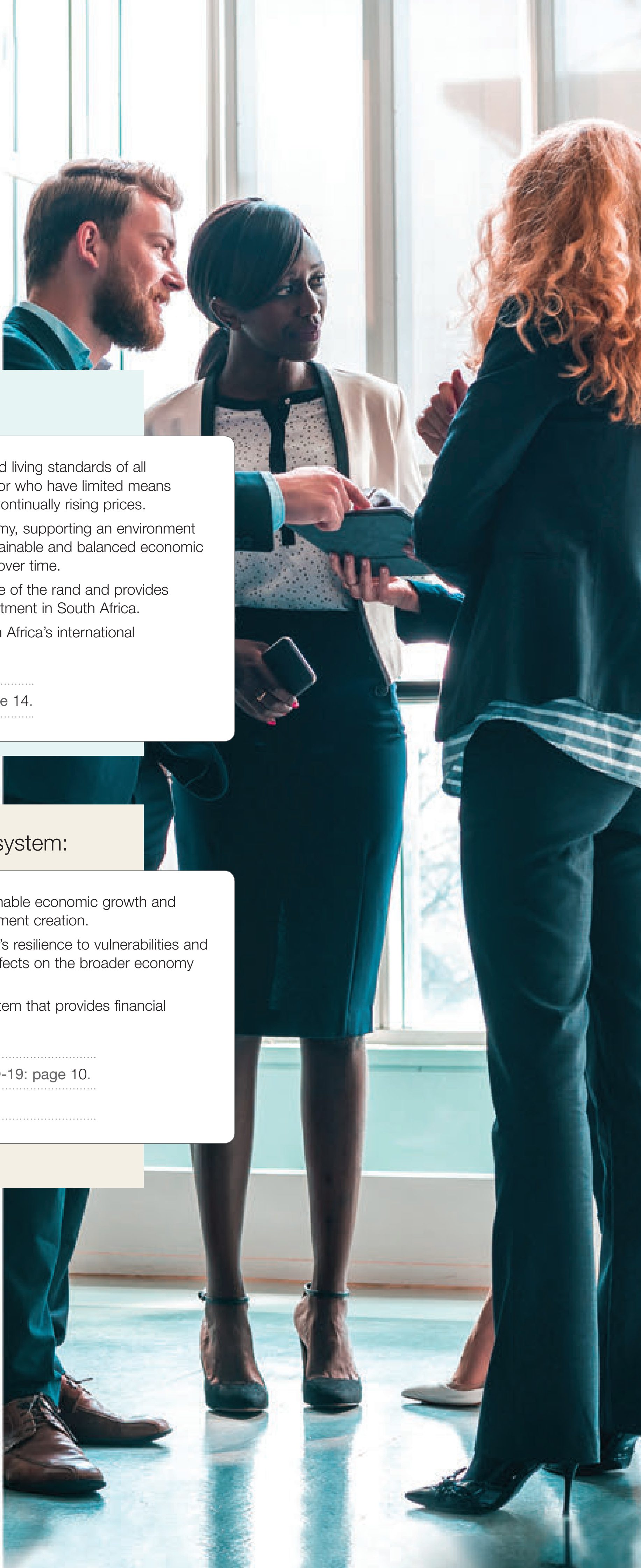
Why price stability matters: page 14.

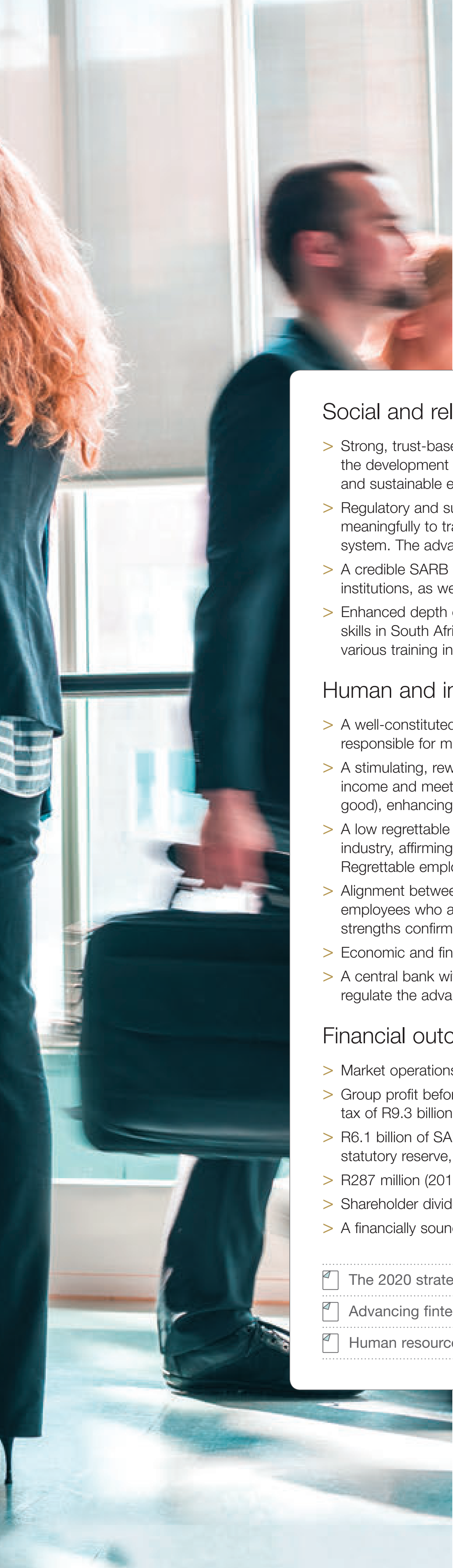
FINANCIAL STABILITY

A stable and safe financial system:

- Provides the foundation for sustainable economic growth and development, and in turn, employment creation.
- Contributes towards the economy's resilience to vulnerabilities and shocks, mitigating the spill-over effects on the broader economy and society.
- Promotes an efficient financial system that provides financial services to all South Africans.

The SARB's response to COVID-19: page 10.
Financial stability: page 54.





SUPPORTING OUTCOMES

Social and relationship outcomes

> Strong, trust-based and collaborative private and public sector relationships that underpin the development of prudent and coherent macroeconomic policies that support inclusive and sustainable economic growth.

> Regulatory and supervisory frameworks supporting safe and sound institutions and contributing meaningfully to transformation, competition, financial inclusion and integrity in the financial system. The advancements in financial technology (fintech) support many of these outcomes.

> A credible SARB brand and reputation trusted by South Africans and the country's financial institutions, as well as international counterparties, regulators and governments.

> Enhanced depth of monetary policy, financial stability, economics and financial journalism skills in South Africa and Africa through partnerships with South African universities and various training institutes.

Human and intellectual outcomes

> A well-constituted Board of government-appointed and shareholder-elected members responsible for maintaining best practice governance standards.

> A stimulating, rewarding and differentiated work environment that provides sustainable income and meets employee expectations for meaningful work (in the interest of the public good), enhancing the SARB's ability to compete for critical skills.

> A low regrettable employee turnover that is much lower than that of the financial services industry, affirming the positive results achieved in the SARB's employee engagement survey. Regrettable employee turnover of 1.10% (2018/19: 1.32%).

> Alignment between the SARB's employees and its strategic objectives and engaged employees who are proud to work for the SARB and experience work-life balance (key strengths confirmed by the employee engagement survey).

> Economic and financial knowledge and quality data shared with stakeholders.

> A central bank with the technical and digital know-how to appropriately oversee and regulate the advancements being made by financial institutions and fintechs.

Financial outcomes

> Market operations that give effect to the decisions of the Monetary Policy Committee (MPC).

> Group profit before tax of R7.1 billion (2018/19: R8.5 billion) and SARB profit before tax of R9.3 billion (2018/19: R6.4 billion).

> R6.1 billion of SARB profit transferred to the contingency reserve and R32 million to the statutory reserve, in line with the SARB Act, to rebuild reserves.

> R287 million (2018/19: R249 million) paid by the Group to the South African government.

> Shareholder dividend of R0.2 million (2018/19: R0.2 million) in line with the SARB Act.

> A financially sound central bank.

The 2020 strategic plan: page 21.
Advancing fintech: page 32.
Human resources: page 68.
Prudential Authority: page 62.
Stakeholder engagement: page 76.
Corporate social investment: page 84.

SARB'S RESPONSE TO COVID-19

The outbreak of the coronavirus disease 2019 (COVID-19) pandemic, and the measures taken to contain its spread, are having wide-ranging and deep social and economic impacts globally and in South Africa.

South Africa's economic conditions have deteriorated rapidly with the disruption of supply chains and normal business operations and a decline in both export and domestic demand for goods and services. In addition, the risk of job losses and business failure has intensified. Small businesses and individuals who earn their income in the informal sector are particularly hard hit.

To limit the negative repercussions of the pandemic on the South African economy, and to support economic activity, the SARB will continue to use monetary policy, financial market operations and its regulatory tools to contribute towards the continued smooth functioning of the country's financial sector and the stability of its financial system. The MPC, Financial Stability Committee and Prudential Committee, among other functions, coordinate the SARB's efforts in this regard.

How do the recent **interest rate cuts** implemented by the SARB assist businesses and households at this time?

A

Since January 2020, the MPC has reduced the repurchase (repo) rate by 275 basis points. To date, the magnitude of the rate cuts in 2020 are among the largest made by any emerging market central bank during this period and have brought the repo rate to a record low of 3.75%. These decisions have helped to ease financial conditions and provided short-term relief for households and businesses, and in turn, support economic activity.

Current indications from the World Health Organization are that the pandemic is unlikely to end quickly, with the possibility of shorter, less virulent waves experienced over time. Such risks will contribute to an environment of ongoing economic uncertainty and present downside risks to a sustained global economic recovery, even as lockdown restrictions are gradually lifted. The MPC will continue to assess the risks to inflation, including from weaker economic growth and those arising from wage and price pressures and the depreciation of the rand exchange rate.

Why is the **stability of the financial system important?**

The role of the financial system includes an intermediation function, that is, to move money from people who save to people who need financial resources or want to invest, smoothing their income and expenditure over time. It also enables households and businesses to save, invest and transact and facilitate local and international trade. It therefore directly or indirectly touches every South African citizen.

As a small open economy with limited national savings, South Africa is vulnerable to global economic and financial market shocks, which may have adverse effects on the real economy. Episodes of global risk aversion typically trigger sizable outflows of capital, which can negatively affect the cost and availability of private and public sector financing in South Africa. As a result of the COVID-19 pandemic, operational disruptions, assets prices and the exchange rate as well as strain on financial institutions arising from increased credit, market, liquidity and regulatory risk could affect financial stability. It is therefore imperative that the SARB, together with other government agencies, implement appropriate macroeconomic and financial sector stability measures.

How does the SARB **ensure the stability of the financial system?**

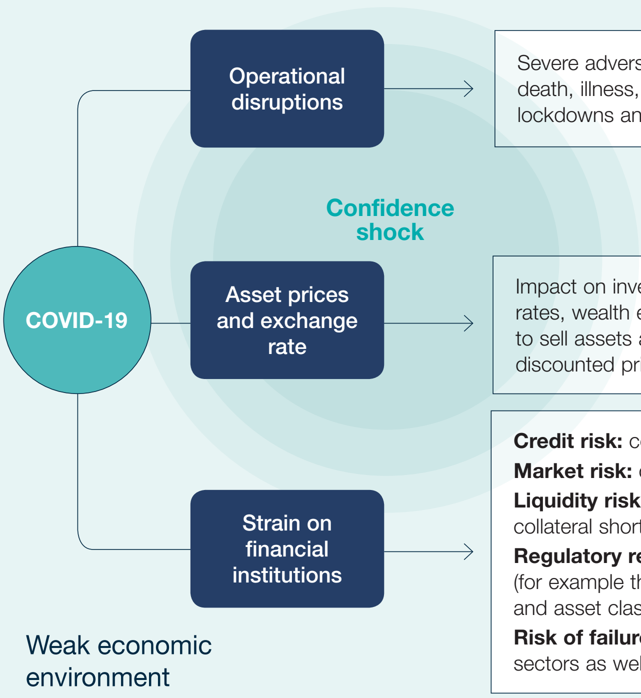
The FSR Act gives the SARB an explicit mandate to protect and enhance financial stability. This includes monitoring the global and domestic environment to identify potential risks that may create instability in the financial system and to take steps to either prevent or mitigate risks if a systemic event occurs.

Progress against SFA 2 and the report on financial stability: pages 23 and 54 respectively.

The SARB also regulates and supervises individual financial institutions. It is particularly important that the SARB identifies and ensures the safety and soundness of financial institutions that are important for the stability of the financial system, as their failure could result in significant economic, financial and social costs. The SARB aims to reduce the probability of such failures through prudential regulation.

Progress against SFA 3 and the report of the Prudential Authority: pages 25 and 62 respectively.

Channels through which financial stability could be affected by COVID-19



Severe adverse impact on economic activity and fiscal position as a result of death, illness, quarantine measures, travel limitations, business closures, town lockdowns and the shutdown of all services in certain areas etc.

Impact on investors, individuals, pension funds, foreign portfolio flows, exchange rates, wealth effects, lower collateral values, stop losses (automatic trade orders to sell assets at a specific price level), fire sales (the selling of assets at heavily discounted prices), market illiquidity and excessive volatility.

Credit risk: corporate failures and retail defaults.
Market risk: declines in financial asset values and foreign-exchange exposures.
Liquidity risk: foreign-exchange liquidity shortages, rand liquidity shortages, collateral shortages as a result of lower values and panic withdrawals.
Regulatory requirements: difficulty meeting regulatory requirements (for example the liquidity coverage ratio, capital and solvency requirements and asset classes).
Risk of failure: impact on profitability and concentrated exposure to affected sectors as well as liquidity pressure and higher funding cost.

More information on how COVID-19 may impact financial stability: page 55.

What are the SARB's **priorities to protect the stability of the financial system** during the pandemic?

A

The SARB's three main priorities during the COVID-19 pandemic are to:

> **Provide support to households and businesses** to help stabilise economic activity while anchoring long-term inflation expectations.

> **Maintain financial stability** and the smooth functioning of financial markets, including adequate levels of liquidity and orderly price setting in key markets such as the bond and foreign exchange markets.

> **Ensure a regular flow of credit** to households while simultaneously ensuring the safety and soundness of regulated financial institutions.

How is the SARB **supporting funding markets** under strain due to the global impact of the pandemic?

A

> The high aversion to risk and large swings in asset prices experienced during the pandemic have curtailed the funding that banks need to clear transactions, which under normal market conditions is readily available. The SARB is **providing liquidity to clearing banks more frequently and over a longer period** than normal (up to 12 months), ensuring a continuous flow of funding to support uninterrupted transactional activity across the economy.

> The SARB is **purchasing government bonds** from the secondary bond market (the market through which those who had bought bonds directly from government can buy and sell these bonds to other market participants).

Why is the SARB **buying government bonds** from the secondary market?

A

Government is the largest borrower in the economy and the government bond market is the largest and most liquid bond market and therefore plays an important role in South Africa's capital markets. The orderly functioning of the capital markets is important for financial stability and the effectiveness of monetary policy.

The pandemic has resulted in sharp spikes in risk aversion in domestic and overseas financial markets. This has caused increased volatility in bond prices and constrained liquidity in the bond market, meaning that small transactions can have a big impact on bond prices.
The objective of the SARB's programme to purchase government bonds is to reduce excessive volatility, make it easier for buyers and sellers to agree on prices and ease liquidity concerns. The SARB is not purchasing bonds to influence the shape of the yield curve or the price of bonds. Bonds are not purchased directly from government but from approved SARB counterparties. The purchases are held in the SARB's Monetary Policy Portfolio. The SARB can use the bonds in the portfolio to inject or drain liquidity in the money market. This means that at a future date the SARB can sell these bonds if it needs to drain money market liquidity.

What **regulatory relief measures** has the SARB provided for banks during the crisis?

A

Financial sector regulation is largely about building up buffers during good times to be used during times of stress. The SARB's approach to the COVID-19 crisis has been to facilitate the orderly utilisation of buffers to support the economy during a downturn.

The regulatory relief measures, designed to ensure that banks can support their clients through the economic crisis and absorb losses that may result from the economic downturn, were introduced in the following three areas:

> **Capital relief on loans** that were restructured due to the crisis and that were in good standing before the pandemic. This means that for the duration of the crisis, restructured loans will not attract a higher capital charge. This covers loans to households, small and medium-sized businesses, corporates and specialised lending.

> **A lower liquidity coverage ratio** for banks of 80% (from 100%) for the duration of the crisis.

> **Lower capital requirements**, including clear criteria enabling banks to dip into their capital conservation buffer. The timetable to rebuild buffers once the crisis has abated, will balance the need for a resilient banking system with the impact on credit extension and economic growth.

The Prudential Authority also issued several guidance notes to advise banks and insurers in the management of the present crisis. In particular, guidance has been provided on accounting treatments and interpretations as well as advice on the distribution of dividends and bonuses to senior employees.

What is SARB's role in **assisting small businesses** during the COVID-19 pandemic?

A

On 20 April 2020, the President of the Republic of South Africa announced the formation of a Loan Guarantee Scheme to assist qualifying small and medium-sized businesses (with an annual turnover of less than R300 million) impacted by the COVID-19 pandemic and associated lockdown. The scheme was implemented on 12 May 2020 by the National Treasury, the SARB and commercial banks. The SARB has earmarked R100 billion to be made available to commercial banks at the repo rate. Commercial banks, in turn, will provide loans to qualifying businesses for certain operational expenses such as salaries, rent and lease agreements, and the fulfilment of supplier contract terms etc. The COVID-19 loans are offered at a single, agreed lending rate (which tracks the repo rate) by all banks participating in the scheme. The COVID-19 loans cover up to three months of operational costs and can be drawn down monthly. Repayments start six months after the first drawdown although interest accumulates from the date of the first drawdown. Businesses have a maximum of 60 months to repay the capital and interest. The loan facility is guaranteed by the National Treasury.

WHY PRICE STABILITY MATTERS

What is **inflation?**

A

Inflation is the general rise in prices of typical goods and services, which corresponds to a fall in the purchasing value of money.

To protect the value of the currency and the purchasing power of South Africans, the SARB is assigned the task of managing inflation.

How is **inflation measured** in South Africa?

A

The standard measure of inflation is the Consumer Price Index, which is compiled by Statistics South Africa.

The index uses a diverse basket of goods and services purchased by a typical consumer. Statisticians follow the prices of these items over time, using the information to calculate inflation.

How is **price stability measured?**

A

The South African government, in consultation with the SARB, sets an inflation target to measure price stability.

The SARB is tasked with keeping inflation within the 3–6% target range and would like to see inflation remain close to the mid-point of 4.5%.

The advantages of a clearly articulated and credible inflation target range include:

> **Focused monetary policy** that is transparent, accountable and predictable.

> **Well-anchored inflation expectations**, which are good for growth. They reduce uncertainty and provide the public and private sectors with a clear framework against which to make wage and price setting decisions – the main drivers of inflation over time.

How does the SARB **ensure price stability?**

A

The SARB uses several monetary policy tools to achieve the inflation target.

Its primary tool is the repo rate – the benchmark interest rate at which banks borrow from the SARB for short periods of time to manage their liquidity. Changes to the repo rate affect lending rates throughout the economy.

What does the SARB consider when **making interest rate decisions?**

A

When making its decision on interest rates, the main factor considered by the MPC is the future path of inflation.

Economic context is also critical in making these judgements and the MPC considers both domestic and global economic conditions. Interest rate changes affect the economy with a lag of around 12 to 24 months, so the MPC's decisions are forward looking and aim to keep inflation within the target range over the medium term.

The financial volatility and a sharp rise in perceived risk due to the COVID-19 pandemic has caused the rand to depreciate from levels of around R17 against the US dollar at the start of the year to over R19 in March 2020. In March 2020, Moody's Investors Services lowered South Africa's local and foreign currency credit rating to sub-investment grade. The downgrade resulted in South Africa exiting the World Government Bond Index, resulting in significant selling pressure in the bond market. These developments have increased the cost of government borrowing, reduced liquidity in the bond market and increased interest expense on the financial sector's funding (making it costlier for financial consumers to borrow). The MPC and Financial Stability Committee take the impact of these factors on inflation and financial stability into account when making their decisions.

The MPC also considers how its policy decisions will impact on economic growth and unemployment. However, while the SARB may have some limited influence on economic growth and unemployment in the short term, structural factors such as constrained electricity supply and policy uncertainty are the main causes of South Africa's low economic growth. Monetary policy alone cannot drive sustainably higher economic growth. A range of interventions outside of the SARB's control – including prudent macroeconomic policies and structural reforms that support lower costs and increased investment opportunities, employment and growth – are needed to address South Africa's growth constraints.

How does the SARB expect **COVID-19 to affect inflation** in 2020 and 2021?

A

The SARB's headline CPI inflation forecast averages 3.4% for 2020 and 4.4% in 2021 and 2022.

The forecast for core inflation is lower at 3.5% in 2020, 3.8% in 2021 and 4.1% in 2022. The MPC expects that South Africa's economic contraction and slow recovery from the COVID-19 shock will keep inflation well below the mid-point of the target range for this year.

The overall risks to the inflation outlook appear to be on the downside. Global producer price and food inflation appear to have bottomed out, oil prices are expected to remain low and local food price inflation is also projected to remain contained. Risks to inflation from currency depreciation are expected to stay muted while electricity and other administered prices remain a concern. Risks to inflation increasing could emerge from heightened fiscal risks and sharp reductions in the supply of goods and services.

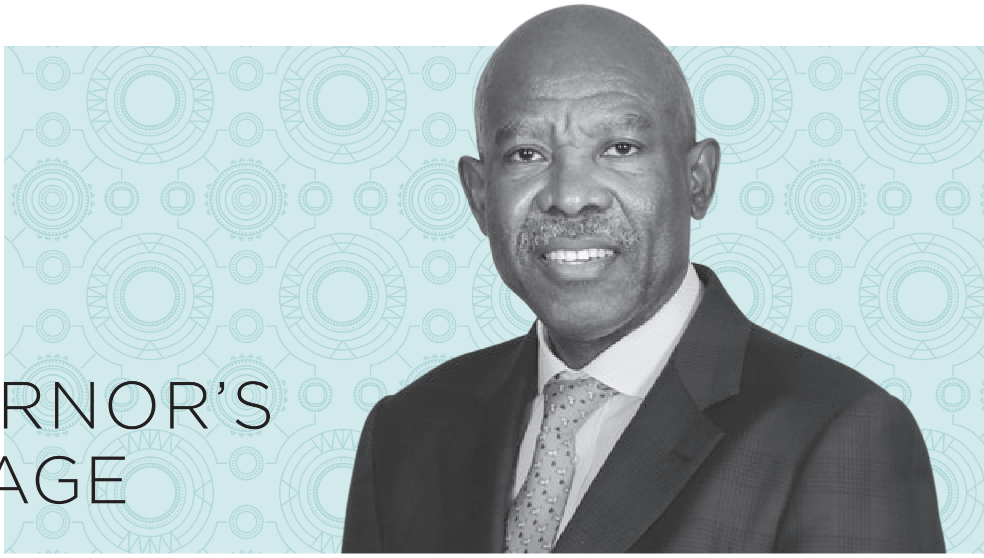
Barring these inflation risks, inflation is expected to be well contained over the medium-term, remaining close to the mid-point in 2021 and 2022.

What are the **disadvantages of high inflation?**

A

- **The purchasing power of cash savings is eroded:** R100 left under a mattress for 10 years will not cover the same purchase of goods and services today that it would have done in 2010. Savings and pension plans could also lose value where the interest earned is not enough to fully compensate for inflation.
- **The purchasing power of fixed incomes diminishes over time:** the wealthy are mostly able to protect themselves against inflation by investing in assets such as shares or property, which increase in value during periods of inflation. The poor, on the other hand, are harder hit as prices, including food, transport and fuel prices, increase. Inflation therefore leads to an increase in the disparity between the wealthy and the poor.
- **Confusing price signals:** in times of rising inflation, an increase in the price of a product could signal increased demand for the product or could simply be an inflation-related adjustment. This uncertainty can slow down investment in businesses, leading to lower economic growth.
- **Higher interest rates:** when lenders expect high inflation, they require compensation, which means interest rates are higher. By contrast, when they expect less inflation, interest rates can come down.
- **Negative impact on the rand:** if the inflation rate in South Africa is consistently higher than that of its major trading partners or competitors, South African producers will lose their competitive edge and consumers might be tempted to import goods instead of buying locally produced goods. This will reduce South Africa's exports while the demand for imports will rise, the demand for foreign currency will increase, foreign currency will become relatively scarce and more expensive, and the rand will depreciate against other currencies.

DELIVERING THE SARB STRATEGY



GOVERNOR'S MESSAGE

E L (Lesetja) Kganyago

The 2019/20 SARB Annual Report is presented at a time when the world is faced with what the United Nations has termed 'humanity's worst crisis', brought about by the coronavirus disease 2019 (COVID-19) pandemic.

In dealing with the associated health, economic and financial risks of COVID-19, countries and institutions have been forced to become agile and innovative. We are required to embrace the 'new normal' so that we may protect our economies, limit disruptions in operations and preserve livelihoods.

When the SARB embarked on its strategy in 2015, a key focus was on identifying potential vulnerabilities in the South African economy and strengthening our policy toolkit. We aimed to ensure that our financial system was stable and the financial institutions we regulate remained strong and sound. In this regard, we aimed to anchor inflation and inflation expectations closer to the mid-point of the inflation target range, strengthen the institutional capacity in our prudential functions, enhance our macroprudential toolkit to deal with financial stability risks and begin the work to modernise our payment system. These actions have placed the SARB in a better position to respond to the challenges being presented by the COVID-19 crisis.

In thinking about our 2025 strategy, we are cognisant of the fast-changing environment in which central banks operate. We remain committed to giving credence to our culture statement of being an empowering, agile and caring organisation, as we collaborate to pursue our constitutional mandate of maintaining price stability and our legislative mandate of promoting financial stability. Our work to embed this culture is critical as we navigate through the uncertainties brought about by the impact of the crisis on economic growth and the well-being of our society.

Global growth slowed to 2.9% in 2019 (from 3.7% in 2018), marking its weakest pace of expansion since the 2008/09 global financial crisis. While a modest recovery in the global economy was initially expected at the start of 2020, a global recession is now expected given the impact of COVID-19. The pandemic has contributed to the deterioration in South Africa's economic conditions, intensifying the risk of job losses and business failures.

Maintaining and enhancing financial stability and strengthening the resilience of the economy remain central to our work. In response to the potential shocks of COVID-19 on the economy, the SARB has utilised a variety of tools in its policy toolkit.

Inflation has remained firmly within the target range during the reporting year and is projected to remain so over the two-year forecast horizon. This aligns with forward-looking inflation expectations which are closer to the mid-point of the target range. The steady decline in inflationary pressures resulted in overall headline inflation declining below the mid-point of the 3–6% inflation target range to an average of 4.1% for 2019, the lowest rate since 2005. These improved inflation conditions have created room for the Monetary Policy Committee to cut interest rates. The repurchase (repo) rate was reduced to 3.75%, its lowest level on record. This has contributed to easier financial conditions and has provided short-term relief for households and businesses.

The orderly functioning of capital and money markets is essential to ensuring that businesses, governments and banks continue to access the finance they need to run their day-to-day operations and continue with normal lending operations. The pandemic has resulted in sharp spikes in risk aversion in domestic and international financial markets. During this period, the SARB, as part of its mandate of preventing financial markets from becoming dysfunctional, has been purchasing government bonds from the secondary bond market.

In addition to the interest rate cuts and financial market interventions, the SARB also provided regulatory relief through directives and guidance notes issued by the Prudential Authority, the National Payment System (NPS) Department and the Financial Surveillance Department. The regulatory relief measures enable financial institutions to continue to operate as well as provide credit and services to their customers and support their customers during this period of stress.

As the crisis unfolds, the SARB will remain vigilant and continue to deliver on its mandate of price and financial stability. While the focus has been on the COVID-19 response, it is important to also reflect on other work undertaken by the SARB during the reporting period.

Following the failure of large international banks in the 2007 financial crisis, the SARB, like many other central banks, embarked on a process to determine which financial institutions should be declared systemically important. In November 2019, we designated the six banks identified as systemically important financial institutions (SIFIs).

The Prudential Authority participated in the South African 2020 Financial Sector Assessment Programme (FSAP) review conducted by the World Bank and International Monetary Fund (IMF). The review assessed the stability and development needs of South Africa's financial system. The SARB also played a role in the Mutual Evaluation of Anti-Money Laundering and the Countering of Terrorism Financing, which assessed South Africa's technical compliance and effectiveness in terms of the Financial Action Task Force's (FATF) recommendations. The results of both reviews will be published by the IMF and FATF in due course.

In the current environment, it is important for the SARB to deepen and enhance its supervisory functions. The Prudential Authority is using technology advances to improve the quality of its supervision and is investing in infrastructure to extract data from financial service providers and analyse large granular data sets to support predictive models that will identify potential risk areas.

As part of South Africa's chairmanship of the IMF's International Monetary and Financial Committee, we continued to play an important role on the international front. Discussions were steered towards ensuring that the IMF was adequately resourced and remains at the centre of the global financial safety net. The SARB also led engagements on integrating continental payment systems under the auspices of the Association of African Central Banks.

In early 2020, the SARB was invited to become a member of two additional committees of the Bank of International Settlements. The Markets Committee allows for close cooperation with our peers across the globe in assessing events, such as COVID-19, and longer-term structural trends that may impact financial market functioning and central bank operations. The Committee on the Global Financial System allows members to engage on matters pertaining to the functioning and soundness of global financing markets.

COVID-19 has highlighted the importance of investing in technology and having the agility needed to adapt to new ways of working. The SARB's significant technology investment has enabled it to quickly implement remote working for its employees. Our employees responded well during the crisis, ensuring the effective and continued smooth running of the SARB's operations.

As always, we remain committed to strong, trust-based and collaborative private and public sector relationships that underpin the development of prudent and coherent macroeconomic policies that support inclusive, balanced and sustainable economic growth.

I would like to take this opportunity to thank the Board of Directors and the secretariat for their meaningful insights, leadership and continued support. My thanks also go to the Deputy Governors and members of the SARB executive for sharing the load, and I want to especially thank the SARB's employees for making this institution a valued place of work.

E L (LESETJA) KGANYAGO
Governor

THE 2025 STRATEGIC PLAN

PRICE AND FINANCIAL STABILITY

Business strategy

Stakeholder value proposition

SFA 1	SFA 2	SFA 3	SFA 4	SFA 5
Maintain headline inflation within the target range	**Protect** and enhance financial stability	**Promote** and enhance the safety, soundness and integrity of regulated financial institutions and market infrastructures	**Enhance** South Africa's resilience to external shocks	**Ensure** cost effective availability and integrity of currency

Objectives unique to each SFA

SFA 1	SFA 2	SFA 3	SFA 4	SFA 5
Maximise monetary policy effectiveness	Enhance the framework for managing systemic events	Enhance risk-based, outcomes-focused and forward-looking supervision	Improve the monitoring of existing and emerging vulnerabilities	Optimise the currency supply chain
Anchor inflation expectations	Develop and maintain frameworks for systemic risk identification, monitoring and mitigation	Implement integrated and proportional regulatory and supervisory frameworks	Enhance the functioning of South Africa's financial system	Enhance the quality of notes and coin
	Enhance the safety and efficiency of the payment system	Improve regulatory coverage	Enhance the macroeconomic and macroprudential toolkit to support appropriate response to shocks	
		Improve monitoring and reporting of cross-border transactions		

Enablement strategy

Cross-cutting themes

- **EFA 1[1]** Improve transparency and accountability through stakeholder engagement and communication
- **EFA 2** Coordinate policymaking and implementation
  - Understand impact
  - Balance trade-offs
  - House views with clear outcomes
- **EFA 3** Optimise, integrate and leverage information and technology solutions

Organisational capability

- **EFA 4** Improve strategy execution and internal efficiency
- **EFA 5** Attract, develop and retain critical skills and competencies and embed the SARB culture

1 *EFA: enablement focus area.*

Strategy 2025 is designed to achieve the SARB's mandate – price and financial stability – and additional priorities assigned to the SARB by diverse legislation. **The five strategic focus areas (SFAs) are the prioritised outcomes the SARB considers essential to achieving its mandate** and therefore remain mostly the same as the 2020 strategic plan.

In summary, the SARB will:

SFAs

SFA 1	**Continue delivering a well-structured research programme** supported by strong information management and anchoring inflation expectations through a targeted communication and stakeholder engagement strategy. Increased focus will be placed on improving the monetary policy implementation mechanism.
SFA 2	**Continue developing the macroprudential framework** and ensuring the safety of the NPS. Increased focus will be placed on understanding the efficacy of the macroprudential frameworks and modernising the NPS.
SFA 3	**Continue embedding the Prudential Authority and enhancing its current regulatory and supervisory practices**. The SARB will also drive a proactive response – ensuring it has the right policies, frameworks and tools – to support the rapid changes in the financial sector ecosystem. Enhancing the capital flow management policy will be another focus area for the SARB.
SFA 4	**Continue to focus on reserves accumulation** and will work to enhance the resilience of the economy to external shocks. The SARB will improve the monitoring of external risks and vulnerabilities, continue to enhance the functioning of the financial system and the development of the macroeconomic and macroprudential toolkits, and improve the coordination of policy responses.
SFA 5	**Continue ensuring that notes and coins are available and of high quality.** In addition, the SARB will explore the feasibility of a central bank digital currency (CBDC).

EFAs

EFA 1	**Continue to improve and better coordinate internal and external stakeholder engagement and communication,** particularly as the SARB's operations and large programmes increasingly impact stakeholders and require closer collaboration with them.
EFA 2	**Continue to improve the approach to research and policy formulation.** This requires a more structured process and set of capabilities to enhance the SARB's understanding of the impact and interactions between policies. In turn, this will enable the SARB to better manage trade-offs in the interest of balanced and sustainable growth and arrive at house views with clear policy outcomes. Underpinned by strong technical expertise, the approach will emphasise collaboration and broad stakeholder engagement. The Cross-Department Research Committee will drive this work within and across the SFAs to ensure that policymaking is coordinated and effectively implemented.
EFA 3	**Continue the renewal of the SARB's core central banking systems,** invest in building a safer bank and lay the foundation for enterprise information management (EIM). Focus will also be placed on improving how information is shared internally and across the industry and on building an advanced analytics capability.
EFA 4	**Progress the large and complex programmes required to support the achievement of the SFAs and improve internal efficiencies.** In this next cycle of the strategic plan, many of these programmes will transition from design phase into full implementation, which is likely to put significant strain on the SARB and its external stakeholders. To mitigate this strain, the SARB will work to improve its capability as well as governance and accountability measures associated with strategy execution, and focus on effective change management, particularly for large, complex programmes.
EFA 5	**Work to embed its culture statement – empowering, agile and caring,** we collaborate in pursuit of our mandate. The statement is underpinned by the SARB's purposeful journey and values. Embedding this culture and way of work will support sustainable change brought about by large strategic programmes and in day-to-day processes. This is a critical element of ensuring the successful execution of the SARB's strategy.

PROGRESS AGAINST THE 2020 STRATEGIC PLAN

PRICE AND FINANCIAL STABILITY

Impact

Outcomes – Stakeholder value proposition

SFA 1	SFA 2	SFA 3	SFA 4	SFA 5
Maintain headline inflation within the target range	**Protect** and enhance financial stability to achieve a safer financial system	**Promote** and enhance the safety, soundness and integrity of regulated financial institutions	**Enhance** the functioning of South Africa's financial markets in support of economic resilience	**Ensure** cost effective availability and integrity of notes and coin
Page 22.	Page 23.	Page 25.	Page 27.	Page 28.

Outputs – Unique strategic internal process objectives

Maximise monetary policy effectiveness	Enhance the framework for managing systemic events	Develop, improve and integrate proportional regulatory and supervisory frameworks of regulated financial institutions and market infrastructures	Contribute to financial market development and monitoring	Optimise the notes and coin supply chain
Anchor inflation expectations	Develop frameworks for systemic risk identification, monitoring, mitigation and resolution		Enhance regulatory and policy regimes in support of financial market development	Enhance the quality of notes and coin

Cross-cutting objectives

Leverage and maximise the SARB's participation in regional and international forums	Page 30.
Improve targeted internal and external stakeholder communication and engagement	Page 76.
Improve the strategy management process, strategic risk management and alignment with performance management	Page 30.
Improve the enterprise information management and analytics processes	Page 74.
Establish and embed cybersecurity processes	Page 74.

Inputs – Building blocks

Provide fit-for-purpose technology solutions to enable strategic processes	Attract, develop and retain critical skills and competencies to drive strategic processes	Improve organisational effectiveness by reducing bureaucracy and silos, and becoming more flexible and agile	Embed the SARB culture: empowering, agile and caring, we collaborate to pursue our constitutional mandate
Page 31.	Page 68.	Page 31.	Page 68.

SFA 1

Maintain headline inflation within the target range

Objective

To achieve and maintain price stability in the interest of sustainable and balanced economic growth.

2019/20 performance overview

Inflation has remained firmly within the target range during the reporting year and is projected to remain within the target range over the two-year forecast horizon. This aligns with forward-looking inflation expectations which are closer to the mid-point of the target range.

PERFORMANCE SCORECARD

SFA 1 value proposition

Maintain headline inflation within the target range

Strategic measure	Target (annual)	2019/20 (annual)	2018/19 (annual)	2017/18 (annual)
Headline inflation versus target	3–6%	4.2%	4.7%	4.7%

Note: the overall headline inflation of 4.1% in the report on monetary policy is reported for the calendar year (January to December 2019). The scorecard reports headline inflation of 4.2% for the financial year (April 2019 to March 2020).

Unique strategic objectives for **SFA 1**

	Maximise monetary policy effectiveness	**Anchor inflation expectations**
HOW	By continuing to develop a policy-relevant and structured research programme that enables better understanding of the impact of monetary policy, the impact of macroprudential and microprudential policies and the role of financial markets.	By continually building the SARB's stakeholder engagement strategy.
PROGRESS MADE DURING THE YEAR	> Achieved the planned research outputs for identified research themes. > Increased research in the fields of trade policy, fiscal policy, public prices, growth and competition. This work was presented to senior executives of the SARB and published. > Completed peer evaluations of economic research and forecasting and modelling.	> The Bureau for Economic Research's survey, undertaken in the first quarter of 2020, indicates that 24-month forward-looking inflation expectations are averaging 4.6% and the five-year expectations are 4.7%.

Report on monetary policy: page 49.

SFA 2

Protect and enhance financial stability to achieve a safer financial system

Objective

To effectively manage financial stability risks so that systemic financial crises are less likely to occur and are more easily managed if they do occur.

2019/20 performance overview

No systemic risk events occurred in the financial system during the reporting year; however, the COVID-19 pandemic will have major implications for the economy and financial system and may develop into a systemic risk event. The SARB finalised and published its methodology to determine whether a bank is systemically important and communicated this to designated banks and the public in the Financial Stability Review.

PERFORMANCE SCORECARD

SFA 2 value proposition	Strategic measures	Target (annual)	2019/20 (annual)
Protect and enhance financial stability to achieve a safer financial system (Target partially met)	Financial stability responsibilities as prescribed by the Financial Sector Regulation Act 9 of 2017 (FSR Act)	To maintain a financial stability framework that meets international standards and benchmarks	Fulfilled the SARB's responsibilities as set out by the FSR Act. Monitoring, policy and resolution frameworks – aligned with international standards – are close to completion with only a few areas still outstanding. (Target partially met)
	Measures for effective supervision, regulation and oversight of financial market infrastructures (FMIs)	Application of standards to the regulation and supervision of FMIs	Oversight and supervisory standards are in place. (Target met)

Target met Target partially met

Unique strategic objectives for **SFA 2**	**Enhance the framework for managing systemic events**	**Develop frameworks for systemic risk identification, monitoring, mitigation and resolution**
HOW	By establishing a resolution planning process, establishing and operationalising a deposit insurance scheme and addressing gaps in the systemic event management framework.	By identifying and closing macroprudential monitoring gaps, stress testing different institutional risk types and establishing a framework to assess the effectiveness of macroprudential policy.
PROGRESS MADE DURING THE YEAR	> Resolution planning: – Assisted the National Treasury with the finalisation of the Financial Sector Laws Amendment Bill (FSLAB) for submission to Parliament. The promulgation date remains uncertain, delaying full implementation. – Published a discussion paper on how the SARB intends to implement the resolution framework for banks as part of its responsibilities under the FSLAB. – Published the Resolution Policy for public comment. – Established a Resolution Policy Panel as a subcommittee of the Financial Stability Committee (FSC). > Deposit insurance scheme: – Made good progress on policy development, however lagging in some areas due in part to limited resource capability. – The World Bank is undertaking an in-depth review of the scheme's framework. – Engaged with all commercial banks to create awareness and gather information. > Received a positive outcome from the Financial Stability Board's peer review of the resolution framework and deposit insurance scheme. > Completed the framework to manage systemic events, to be approved by the Governor and Minister of Finance.	> Macroprudential monitoring: – Closed identified gaps in macroprudential monitoring. – The FSC adopted the macroprudential policy toolkit in February 2020, although some data gaps remain. The Innovation Hub will test the toolkit as a special use case. > Limited resources constrained progress on the stress-testing framework for the insurance sector; however, a high-level draft framework was developed and will be presented to the FSC. An exploratory stress-testing exercise may be conducted in the latter half 2020.

Report on financial stability: page 54.

SFA 3

Promote and enhance the safety, soundness and integrity of regulated financial institutions

Objective

To continue embedding the Prudential Authority while enhancing risk-based, outcomes-focused and forward-looking supervision of regulated financial institutions.

2019/20 performance overview

There were no failures of SIFIs during the reporting year, although some smaller institutions were placed under specific regulatory action. All regulated financial institutions are being closely monitored in terms of governance and risk management practices, and the Prudential Authority is leveraging technologies to enhance its supervision capabilities.

PERFORMANCE SCORECARD

SFA 3 value proposition

Promote and enhance the safety, soundness and integrity of regulated financial institutions

Strategic measures	Target (annual)	2019/20 (annual)	2018/19 (annual)	2017/18 (annual)
Percentage of financial institutions that meet or exceed the quantitative prudential standards for SIFIs	100% or under adequate regulatory action	100% (Target met)	100%	100%
Weighted percentage of financial institutions that meet or exceed the quantitative prudential standards for non-SIFIs[1]	90% or under adequate regulatory action	95% (Target met)	90%	90%
Compliance with sound governance and risk management practices as required by different industry legislation for SIFIs (proportionate application of smaller banks and cooperative financial institutions)	100% of institutions fully compliant or under specific regulatory action	100% (Target met)	90%	90%
Weighted percentage of non-SIFIs that comply with sound governance and risk management practices required by different industry legislation[2]	90% of institutions fully compliant or under adequate regulatory action	75% (Target partially met)	-	-

1 Non-SIFIs: smaller banks or small to medium-term insurers.

2 Reported for the first time.

Note: the measure that was partially met carries a very small scorecard weighting and therefore does not negatively affect the overall scorecard achievement.

Target met | Target partially met

Unique strategic objective for **SFA 3**

Develop, improve and integrate proportional regulatory and supervisory frameworks of regulated financial institutions and market infrastructures

HOW

By consolidating the prudential regulation and supervision of banking institutions, insurers, financial conglomerates, cooperative financial institutions and market infrastructures, and complying with leading regulatory standards.

PROGRESS MADE DURING THE YEAR

- Strengthened the integrated regulatory and supervisory approach, including the release of proposed changes to banking regulation for public consultation, and issued supervisory guidelines.
  - 75% of the integrated supervisory approach implemented.
  - 50% of the conglomerates supervisory approach implemented.
  - 90% of the 2019 FATF evaluation completed.
- Formal structured workshops and engagements enhanced relationships with external stakeholders, including engagement on the implementation of relevant internationally agreed regulatory reforms in South Africa.
- Published joint standards on trade repositories and margin requirements for non-centrally cleared derivatives.
- Participated in a financial sector assessment programme to assess the stability and development needs of South Africa's financial system.
- Imposed administrative sanctions on certain banks where weaknesses were identified in control measures relating to the requirements of the Financial Intelligence Centre Act 38 of 2001. The relevant banks are cooperating with the Prudential Authority on remedial actions to address these issues.

Target met   Target partially met   Target not met

The objective was not measured as it was reviewed during the year and either substantially changed or abandoned.

Financial stability report and report of the Prudential Authority: pages 54 and 62 respectively.

SFA 4

Enhance the functioning of South Africa's financial markets in support of economic resilience

Objective

To ensure that South Africa can maintain price and financial stability when adverse external shock events occur.

2019/20 performance overview

The strategic objectives and key purpose of this SFA have been defined; however, work to develop the practical formulation of the SFA was achieved late in the reporting year. A strong foundation has been laid for further progress in the coming year.

PERFORMANCE SCORECARD

SFA 4 value proposition

Enhance the functioning of South Africa's financial markets in support of economic resilience

Strategic measures	Target (annual)	2019/20 (annual)
Optimal foreign exchange reserves levels	To maintain foreign exchange reserves at approved levels	There was no opportunity for the SARB to accumulate foreign exchange reserves during the financial year. Should an opportunity arise in 2020/21, the SARB will continue to accumulate these reserves. ✗
A reserves accumulation strategy	To develop and approve a reserves accumulation strategy	Developing a proposal (for approval in 2020/21) to use other measures to accumulate reserves. ✗
Review of interest rate benchmarks in South Africa	To publish a technical paper on interest rate benchmarks	Completed the technical specification paper on the interest rate benchmark review in collaboration with the Market Practitioner Group. Following consultations, the paper will be published around June 2020. ✓

Unique strategic objectives for **SFA 4**	**Contribute to financial market development and monitoring**	**Enhance regulatory and policy regimes in support of financial market development**
HOW	By developing an assessment framework and conducting research that supports financial market development.	By amending the Financial Markets Act 19 of 2012 and participating in relevant discussions to develop the SARB's position.
PROGRESS MADE DURING THE YEAR	⏸ > Proposed research on financial market development. > Work to develop a high-level design of an assessment framework has not started.	✓ > The Prudential Authority completed its inputs into the development of the Financial Markets Act.

SFA 5

Ensure cost effective availability and integrity of notes and coin

Objective

To ensure that forms of legal tender are readily available and in adequate supply to meet the public's demand and that the integrity of notes and coins is trusted.

2019/20 performance overview

The currency-producing subsidiaries delivered all notes and coin orders effectively, both for the SARB and the international export market. The quality standard for notes in circulation is being redefined.

PERFORMANCE SCORECARD

SFA 5 value proposition

Ensure cost effective availability and integrity of notes and coin

Strategic measures	Target (annual)	2019/20 (annual)	2018/19 (annual)	2017/18 (annual)
On-time, in-full fulfilment of orders from the cash industry	100% of orders fulfilled within agreed timelines	100% (Target met)	100%	100%
Incidence of counterfeiting measured in parts per million (ppm) (annualised)	<12% ppm	10.76 ppm (Target met)	8.37 ppm	10.52 ppm

Unique strategic objectives for SFA 5

	Optimise the notes and coin supply chain	**Enhance the quality of notes and coin**
HOW	By ensuring that the currency-producing subsidiaries operate efficiently and meet their customer obligations.	By regularly testing samples and measuring the percentage yield of notes fit for re-circulation.
PROGRESS MADE DURING THE YEAR	(Target partially met) > Fulfilled all orders from the cash industry on time. > The subsidiaries partially achieved the cost objectives to produce notes and coin. > Achieved sufficient buffer stocks of notes and coins.	(Objective not measured) > A multi-year initiative involving the entire cash industry is underway to redefine the quality standard for notes in circulation. Once defined, work will begin to align with the new standard. The new approach to managing quality is expected to achieve significant savings for the SARB over several years.

Target met Target partially met

The objective was not measured as it was reviewed during the year and either substantially changed or abandoned.

Subsidiary reports: page 80.

Cross-cutting objectives

While not core to the SARB's mandate, the cross-cutting objectives support all five SFAs and, in turn, the achievement of the mandate. The cross-cutting objectives build internal enabling capability to ensure that the SARB remains a relevant and high-performing organisation over the longer term.

OBJECTIVES	2019/20 PERFORMANCE HIGHLIGHTS
Leverage and maximise the SARB's participation in regional and international forums.	> Fulfilled all tasks and initiatives assigned to the SARB by Group of 20 (G-20) and BRICS working groups. Input to international working group programmes was provided on schedule. > Completed the SARB's contributions to regional working group programmes and initiatives timeously and in line with expectations, including for the Common Monetary Area, Committee of Central Bank Governors and the Association of African Central Banks. > Joined the Network of Central Banks and Supervisors for Greening the Financial System – a network of 42 central banks and banking supervisory authorities – aimed at promoting effective environment and climate risk management in the financial sector.
Improve targeted internal and external stakeholder communication and engagement.	> Made discernible improvements in targeted engagement with Parliament, labour and the National Energy Regulator of South Africa, as well as broader engagement with other selected stakeholder groups through several initiatives. > The improved scores achieved in the Ipsos reputation survey showed that informed stakeholders hold a favourable view of the SARB. Public awareness about the SARB has increased since the 2016 survey; however, the SARB's reputation declined among the general public. > Looking ahead: mature the overall coordinated stakeholder engagement strategy for the SARB.
Improve the strategy management process, strategic risk management and alignment with performance management.	> Continued to embed strategy formulation and execution capability. Future strategy management capabilities include enterprise change management, advanced analytics and business architecture. > Scored 82 out of 100 in the 2020 employee engagement survey for employee alignment to the SARB's objectives. > Continued to focus on cascading strategic objectives to individual performance contracts and ensuring the widespread alignment of employees to strategy. > Looking ahead: improve the SARB's ability to execute large complex business programmes as a key priority for the next strategy cycle.
Improve the enterprise information management and analytics processes.	> Continued to improve the governance of data and data sharing, embedding data stewards in core departments and developing data strategies for certain core functions and programmes. > Delivered key data components for strategic transformational (Tier 1) programmes. > Revised the information management strategy as part of the revised I&T strategy. > Looking ahead: progress industry standard data taxonomies across regulatory bodies to create a foundation for the 'collect once, use many times' data concept and continue to mature data management disciplines.
Establish and embed cybersecurity processes.	> Continued to implement the information security operating model. > Continued to implement security solutions to protect the SARB's information and communications technology against cyber threats. > Implemented controls for 31% of the identified moderate[1] cyber risks, reducing these to a lower risk level. > Stabilised all moderate to extreme[2] level incidents to pre-incident risk levels without stakeholder complaints.

1 Requiring active security intervention.
2 Incidents with a potentially high level of impact.

Building blocks

The building blocks of the SARB's strategy are the foundational capability and capacity elements that provide the backbone to organisational effectiveness.

OBJECTIVES	2019/20 PERFORMANCE HIGHLIGHTS
Provide fit-for-purpose technology solutions to enable strategic processes. (Target met)	> Tier 1 programmes and Tier 2 projects progressed relatively well with 75% of project management targets met. Capacity and skill constraints have presented some challenges, resulting in revised completion timelines. > Refreshed the I&T strategy to support the SARB's 2025 strategic plan. > Maintained the stability and performance of mission critical central banking systems. > Implemented a contingency solution for the NPS. > Rapidly empowered the organisation to work remotely during the national lockdown.
Attract, develop and retain critical skills and competences to drive strategic processes. (Target partially met)	> Maintained depth of succession for critical roles at 1:1 (target: 2:1). > Maintained the coverage ratio for critical roles at 82% (target: 85%). The coverage ratio of critical roles in the core functional areas remains a concern. The time to fill critical roles was 139 days against a target of 60 days, mostly due to the scarcity of skills. > The regrettable employee turnover of 1.10% was below the upper bound of 4%. > 324 managers across all levels attended at least one of four management and leadership development programmes. > 87.2% of the workforce attended a training intervention.
Improve organisational effectiveness by reducing bureaucracy and silos, and becoming more flexible and agile. (Target partially met)	> Continued to streamline internal governance processes, completing the Delegation of Authority Policy and the SARB policy and committee frameworks to improve agility and effectiveness. > Several quick wins such as fewer committees and optimisation initiatives have enhanced certain processes and empowered employees.
Embed the SARB culture: empowering, agile and caring, we collaborate to pursue our constitutional mandate. (Target met)	> Made good progress in the Organisational Transformation Programme. Talent management and workforce planning have matured and a talent management system is being implemented. Performance management has been aligned to reward and recognition. Good progress has been made in employee engagement and the development of the employee value proposition, which are ongoing focus areas. > Launched a communication campaign to familiarise employees with the new culture statement and started developing an approach to embed the desired culture and sustain it in day-to-day operations. > The employee engagement survey serves as a measure of culture. All 14 categories of the 2020 survey showed year-on-year improvement, including in the three universal competencies of alignment, agility and engagement.

Target met Target partially met

Advancing fintech

The SARB defines fintech as technological advancements that lead to innovation in financial services, including new products and services and/or disruptive business models.

Globally, regulators and policymakers are increasingly embracing fintech innovation to promote more convenient digital services, stimulating greater competition in the market, reducing costs and providing increased access to financial services.

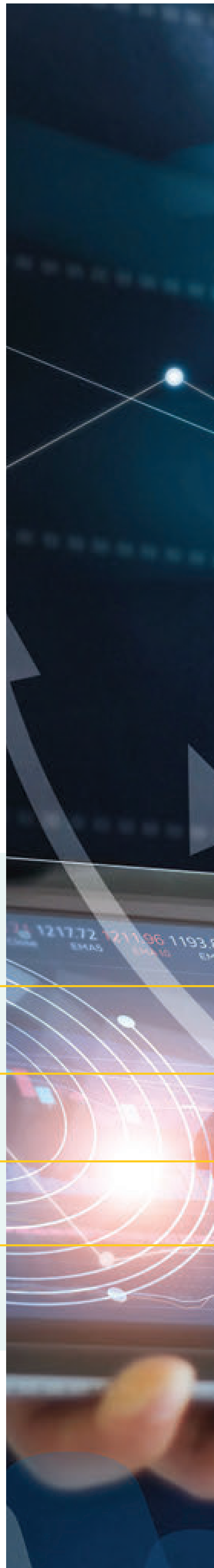
Fintech is impacting everything from digital savings, new payment platforms and crypto assets to peer-to-peer lending, insurance and investment platforms. For South Africa, this innovation is encouraged as it supports growth of the small and medium enterprise sector, enhances the financial health of South Africans previously excluded from financial services, and simultaneously makes the financial sector more efficient.

The SARB, including the Prudential Authority, the Financial Intelligence Centre, the Financial Sector Conduct Authority, the South African Revenue Service, the National Credit Regulator and the National Treasury are members of the Intergovernmental Fintech Working Group (IFWG), a forum for regulators to gain deeper insights into fintech innovation. More regulators have expressed interest in joining the working group.

South Africa's rapidly emerging fintech landscape comprises around 220 fintech firms[1]. Through the IFWG, the country's regulators and policymakers have agreed to work together to develop coordinated fintech policies and regulatory frameworks, facilitating a harmonised and consistent approach to emerging fintech innovation. This will support the efficient functioning of financial markets, safeguard customer interests and guard against potential systemic, conduct or cyber risk associated with the rapid adoption of new technology by financial service providers.

MARKET OUTREACH

- IFWG WORKSHOPS
- SOUTHERN AFRICAN TRACK – MAS HACKCELERATOR
- CRYPTO ASSETS POLICY
- INNOVATION HUB



1 *Source: IFWG Fintech Landscaping Report.*

2 *http://www.resbank.co.za/Publications/Detail-Item-View/Pages/Publications.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblist=21b5222e-7125-4e55-bb65-56fd3333371e&sarbitem=9716.*

3 *KPMG Matchi is an emerging technology matchmaking platform and a service that connects large corporations with innovative, leading-edge technology solution providers worldwide.*

In September 2019, the IFWG held six workshops, covering **artificial intelligence (AI), CBDCs, cybersecurity, digital identity, innovation for economic growth and open banking**. Over 300 sector representatives attended the workshops and the main issues were published in a report on the SARB's website[2].

During 2019, the SARB in partnership with KPMG Matchi[3] hosted the inaugural South African leg of the Monetary Authority of Singapore's (MAS) Global Fintech Hackcelerator, with the winners progressing on to the finals in Singapore. **The hackcelerator provided a mechanism to assess the benefits and risks associated with fintech advancements** and provided fintech firms from across the world with the opportunity to showcase their solutions to challenges faced by the Southern African financial services industry. The two winners of the Southern African leg were Ukheshe, a real-time app that enables informal merchants, traders, street vendors and casual labourers to accept digital payments from cardholders or other payment platforms, and MindBridge Analytics, whose auditor platform uses AI, machine learning and natural language processing to input and analyse data and detect fraudulent transactions. MindBridge was placed as an overall winner at the 2019 Singapore Fintech Festival. Both winners received funding from MAS to develop a contextualised proof of concept.

Crypto assets (digital representations or tokens of value not issued by a central bank but transacted, traded and stored electronically) remain a growing area of innovation within the fintech domain. There are 12 crypto asset trading platforms in South Africa. The IFWG published a consultation paper on crypto assets early in 2019. **The forum's three areas of focus are anti-money laundering and countering of terrorist financing (AML/CFT), consumer protection and gaps in South Africa's regulatory framework**. Industry feedback has been used to develop a draft policy paper, released in September 2019, which sets out recommendations for the crypto assets regulatory framework. In December 2019, a workshop on the proposed framework was held with various industry participants, including commercial banks and crypto asset trading platforms, with a revised draft policy framework published for public comment in March 2020.

The SARB's Fintech Unit and the National Treasury will oversee and guide the development of the final policy paper. The paper aligns with the FATF's guidelines and recommendations on crypto assets.

The four overarching regulatory recommendations are:

1. Crypto asset service providers be held accountable in terms of AML and CFT.
2. Crypto assets be declared as financial products and services.
3. A framework be introduced for surveillance of cross-border flows.
4. A monitoring programme for crypto assets be introduced.

The SARB is also exploring the desirability and appropriateness of an official CBDC, backed by the rand and usable as legal tender. The SARB will engage with other policymakers to deliberate on policy positions and debate whether a CBDC has merit for the South African market.

The IFWG's Innovation Hub, launched in March 2020, aims to promote responsible innovation and brings together regulators and market innovators to achieve regulatory clarity. The hub consists of three innovation facilitators, namely:

A Regulatory Guidance Unit: a single point of contact for innovators to access non-binding guidance and support in navigating financial services regulation. The unit also provides regulators with data and insights to inform policy development.

A Regulatory Sandbox: a controlled live environment that allows the testing of innovative financial products and services against regulation over a defined period, possibly offering some 'regulatory relief'.

An Innovation Accelerator: to gain deeper insights on emerging innovation, advance fintech policy matters, gather market intelligence and use initiatives such as workshops and hackathons to drive stakeholder engagement.

HOW THE SARB IS GOVERNED

SHAREHOLDING AND DIVIDEND

The SARB's shareholders

At 31 March 2020, the SARB had 802 shareholders. The shareholders have no rights or involvement in determining monetary policy, financial stability policy or regulation and supervision of the financial sector. Their rights are limited to considering the SARB's annual financial statements, electing seven of the non-executive directors of the Board of Directors (the Board), and appointing the external auditors and approving their remuneration. These activities are conducted at the SARB's annual Ordinary General Meeting (AGM).

SARB shares are traded on an over-the-counter share-trading facility maintained by the SARB. Only the shareholders who reside in South Africa are entitled to vote at the AGM and they are allowed one vote for every 200 shares held. The amended South African Reserve Bank Act 90 of 1989 (SARB Act) restricts shareholders to owning no more than 10 000 shares, including shares held by associates, as defined.

Dividend

The SARB Act stipulates that shareholders are entitled to a 10 cents per share dividend on an annual basis paid from the accumulated reserves.

GOVERNANCE

The SARB supports the overarching goals of the fourth King Report on Corporate Governance in South Africa 2016 (King IV), and has implemented the principles of responsibility, accountability, fairness and appropriate transparency, insofar as these principles align with the legislation governing the SARB.

Ethical culture

The SARB functions in the public interest. It is therefore critical that it is and is seen to be an institution of integrity that proactively maintains the highest ethical standards. The Board and executive management are responsible for ensuring that the way in which the SARB carries out its mandate and executes its policy responsibilities, aligns to its values of respect and trust, open communication, integrity, accountability and excellence. Challenges to the SARB's independence and constitutional mandate are vigorously defended, to ensure that the SARB serves no interest other than that of South Africa's citizens.

The SARB's Ethics Policy, framework and procedures guard against unethical behaviour or unlawful conduct and guide the management of such instances when they occur. The Board Risk and Ethics Committee (BREC) oversees ethics management and the Risk Management and Compliance Department (RMCD) manages the day-to-day aspects, including ethics and commercial crime risk assessments as well as employee declarations of possible conflicts of interest and other annual declarations. The internal audit function assists in identifying possible incidents of commercial crime and other irregularities.

The SARB promotes a culture of ethical conduct and compliance and uses the employee engagement survey to gain employee insight on ethics. Improvements were achieved in all 14 categories of the survey undertaken in February 2020. The score for the openness and communication category increased to 54%, the first time in the history of the survey that this category has scored above 50%.

Fostering employee engagement: page 70.

Employees and the public can use an independent external hotline to anonymously report dishonest or questionable practices and sensitive matters related to the business of the SARB. All allegations are treated seriously and investigated fully. The hotline is available 24/7 and callers can communicate with trained operators in English, Afrikaans, isiZulu and Sesotho.

The Board

The SARB Board is ultimately responsible for governance.

The SARB Act and the Board Charter define the Board's responsibilities. The SARB Act requires the Board to have 15 members, comprising the Governor and three Deputy Governors who serve as executive directors, as well as four non-executive directors appointed by the President of South Africa (after consultation with the Minister of Finance) and seven shareholder-elected non-executive directors.

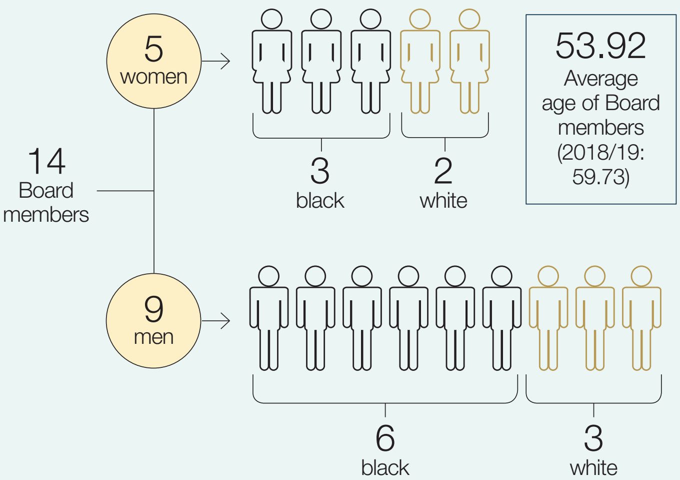
The SARB Act also sets the 'fit and proper' criterion for Board membership. A Panel, prescribed by the SARB Act, evaluates nominated candidates for shareholder-elected membership, considering skills, knowledge and diversity. This ensures that the Board operates with integrity and has the capability and diverse thinking required to fulfil its responsibility for effective governance.

Well-constituted committees assist the Board to discharge its duties. The Board receives reports on governance and oversight matters from the Governors' Executive Committee (GEC) and the various Board committees. The Board ordinarily meets five times a year.

Of specific note is the Board's accountability for the governance of information and technology (I&T), which includes ensuring that the I&T strategy supports the SARB's strategic objectives. I&T investments are made within acceptable risk parameters and in line with the SARB's culture, structure and I&T maturity. Various governance structures, including the Information and Technology Steering Committee (ITSC), assist the Board in this responsibility. I&T performance against an approved scorecard is reported quarterly to the ITSC, GEC and Audit Committee.

The Governor and Deputy Governors are responsible for the day-to-day policy decisions and management of the SARB, except for those areas entrusted to the Board, the Monetary Policy Committee and the Financial Stability Committee.

BOARD COMPOSITION AT 31 MARCH 2020



EXECUTIVE DIRECTORS
at 31 March 2020

GOVERNOR

E L (Lesetja) Kganyago | 54

Executive director
Chairperson of the Board
Chief Executive Officer (CEO) of the SARB[1]

Appointed by the President of South Africa.

Appointed | 9 November 2014 and reappointed for a second five-year term on 9 November 2019.

Responsibilities | Executive Management Department, Communications Division, Strategy Management Office, Internal Audit and Economic Research departments, and the Human Capital and Operations Cluster.

Experience | Served as Director-General of the National Treasury from 2005 until his appointment as a Deputy Governor of the SARB from 16 May 2011 to 8 November 2014. Represented South Africa in international organisations, including the World Bank, the International Monetary Fund (IMF), the Group of 20 (G-20) and the African Development Bank.

Other current roles

- Chairperson of the Committee of Central Bank Governors of the Southern African Development Community.
- Chairperson of the Financial Stability Board's (FSB) Standing Committee on Standards Implementation.
- Chairperson of the International Monetary and Financial Committee.
- Co-chairperson of the FSB's Regional Consultative Group for sub-Saharan Africa.

Awards

- Governor of the Year in the Central Banking Awards (March 2018).
- Doctor of Commerce, honoris causa, awarded by the Stellenbosch University in December 2018.
- Leadership in Practice Award in the 2019 University of South Africa (Unisa) Graduate School of Business Leadership.

Board meeting attendance | 5/5

1 *The SARB Act requires the Governor to serve as both the CEO of the SARB and Chairperson of the Board, with a casting and deliberative vote.*

DEPUTY GOVERNOR

R (Rashad) Cassim | 54

Executive director

Appointed by the President of South Africa.

Appointed | 1 August 2019 for a five-year term.

Responsibilities | Financial Stability, Economic Statistics and National Payment Systems departments, the Risk Management and Compliance Department and the Financial Technology (Fintech) Unit as well as oversees the Currency Cluster.

Experience | Previously the Head of the SARB's former Economic Research and Statistics Department from 1 March 2011, responsible for macroeconomic statistics, research, analysis and forecasts. Prior to joining the SARB, served as the Deputy Director-General at Statistics South Africa (responsible for economic statistics), a professor and Head of the School of Economics and Business Sciences at the University of the Witwatersrand (Wits), head of the Trade and Industrial Policy Strategies (a think tank) and held various research positions at the University of Cape Town (UCT).

Other current roles

> Chairperson of the international Irving Fisher Committee on Central Bank Statistics under the auspices of the Bank for International Settlements for a three-year period effective 12 September 2019.

Board meeting attendance | 2/5 (attended two out of the three meetings following his appointment to the Board)

DEPUTY GOVERNOR

K (Kuben) Naidoo | 49

Executive director

CEO of the Prudential Authority

Appointed by the President of South Africa.

Appointed | 1 April 2015 and reappointed for a second five-year term on 1 April 2020.

Responsibilities | Prudential Authority and the Financial Surveillance Department.

Served as Advisor to the Governors | 1 April 2013 to 31 March 2015.

Experience | Headed the Budget Office at the National Treasury in South Africa from 2006 to 2010, including a two-year stint at Her Majesty's Treasury in the United Kingdom (working in the Budget Division) and between 2010 and 2013 headed the Secretariat of the National Planning Commission of South Africa.

Board meeting attendance | 5/5

DEPUTY GOVERNOR

N (Nomfundo) Tshazibana | 43

Executive director

Chairperson of the Corporation for Public Deposits

Appointed by the President of South Africa.

Appointed | 1 August 2019 for a five-year term.

Responsibilities | Markets and International Cluster.

Served as Advisor to the Governors | February 2018 to 31 July 2019.

Experience | Extensive experience in public policy analysis and formulation, having worked at the National Energy Regulator of South Africa, the National Treasury (Head of the Economic Policy and Forecasting Division and Deputy Director-General) and Alternate Executive Director at the IMF. Represented South Africa and 22 sub-Saharan African countries at the Africa Group 1 Constituency Office.

Other current roles

> Chairperson of the Market Practitioners Group and the Financial Markets Liaison Group.

> Chairperson of the Deputies of the International Monetary and Financial Committee of the IMF Board of Governors for a term ending 2020/21.

Board meeting attendance | 3/5 (attended all three meetings following her appointment to the Board)

NON-EXECUTIVE DIRECTORS
at 31 March 2020

R J G (Rob) Barrow | 73

Non-executive director
Audit Committee Chairperson

Shareholder elected | July 2011, re-elected in July 2014 and again in 2017 for a final three-year term.

Qualifications | Chartered Accountant South Africa (CA (SA)).

Experience | Was actively involved in financial markets regulation and the setting of accounting standards in South Africa. Has knowledge and skills in commerce and finance.

Board meeting attendance | 5/5

C B (Charlotte) du Toit | 54

Non-executive director

Shareholder elected | July 2016 and re-elected in July 2019.

Qualifications | Doctorate (PhD) in Econometrics.

Experience | Served as a professor of Economics at the University of Pretoria. Has knowledge and skills in industry.

Board meeting attendance | 5/5

R (Rochelle) le Roux | 55

Non-executive director

Shareholder elected | July 2011, re-elected in July 2014 and again in 2017 for a final three-year term.

Qualifications | Law degrees and diplomas from local and international universities, including a PhD.

Experience | Previously a director of the Institute of Development and Labour Law and former Head of the Department of Commercial Law at UCT's Faculty of Law. Has knowledge and skills in labour.

Board meeting attendance | 5/5

F (Firoz) Cachalia | 61

Non-executive director
Board Risk and Ethics Committee Chairperson

Government appointed | July 2012, reappointed in 2015 and again in 2018 for a final three-year term.

Qualifications | Bachelor of Laws, Master of Laws, Bachelor of Arts (BA) and BA (Hons) degrees, higher diploma in Company Law.

Experience | Admitted as an attorney, is an adjunct professor at Wits University's Law School and participates on the boards of various organisations.

Board meeting attendance | 4/5

Z (Zoaib) Hoosen | 55

Non-executive director

Shareholder elected | July 2019.

Qualifications | Bachelor of Science and Master of Business Administration degrees, and completed the Management Advancement Programme at Wits Business School.

Experience | 30 years' experience in the information and communications technology industry and former Managing Director of Microsoft South Africa. Currently an adjunct faculty member of the Gordon Institute of Business Science (GIBS) Business School, a member of the GIBS Advisory Board and advises businesses on their digital transformation. Has knowledge and skills in industry.

Board meeting attendance | 3/5

L H (Lerato) Molebatsi | 50

Non-executive director

Government appointed | April 2019.

Qualifications | BA degree and has completed various certificate programmes.

Experience | Experience in government affairs and policy, communication and public affairs, leadership and strategy. Former CEO of a multinational company, has held positions in financial services companies such as Sanlam and Old Mutual and now serves on the board of an infrastructure company based in Kenya and locally. Has knowledge and skills in financial services, labour, transport, mining and corporate governance as a non-executive director.

Board meeting attendance | 5/5

Y (Yvonne) Muthien | 63

Non-executive director

Remuneration Committee Chairperson

Shareholder elected | July 2018.

Qualifications | PhD in Sociology and Politics from Oxford University, and Master of Arts and BA (Hons) cum laude degrees.

Experience | Former CEO of Sanlam Group Services and Vice President of Coca-Cola Africa. Has knowledge and skills in commerce and finance.

Board meeting attendance | 5/5

G M (Gary) Ralfe | 75

Lead independent non-executive director

Non-executive Directors' Committee Chairperson

Shareholder elected | July 2011, re-elected in July 2014 and again in 2017 for a final three-year term.

Qualifications | BA (Hons) (Cantab) and Baccalaureus Procurationis (BProc) (Unisa) degrees.

Experience | Former CEO of De Beers, with knowledge and skills in mining. Chairperson of the Helen Suzman Foundation and various educational trusts.

Board meeting attendance: | 5/5

T (Terence) Nombembe | 58

Non-executive director

Government appointed | July 2014 and reappointed in July 2017.

Qualifications | CA(SA), Bachelor of Accounting Science (Hons) and Bachelor of Commerce degrees, conferred with an Honorary Doctorate in Accounting Science by the Walter Sisulu University.

Experience | Served as Auditor General of South Africa (2006 to 2013) and as CEO of the South African Institute of Chartered Accountants to November 2018, when he joined the State Capture Commission as Head of Investigations.

Board meeting attendance | 4/5

N (Nicholas) Vink | 65

Non-executive director

Shareholder elected | July 2016 and re-elected in July 2019.

Qualifications | PhD in Agricultural Economics.

Experience | A non-executive director on the Rooibos Ltd board and is President of the International Association of Agricultural Economists (2018 to 2021). Has knowledge and skills in agriculture.

Board meeting attendance | 4/5

Director changes during 2019/20: page 91.

ASSESSING EFFECTIVENESS

The Board conducts an annual assessment of the SARB's governance framework against best practice and regularly assesses whether the King IV principles can be further applied. The Board Charter and the terms of reference of all Board committees, which are reviewed every three years unless otherwise required, were reviewed during the reporting year.

Board members perform annual self-assessments to evaluate how the Board and its committees are functioning. The Governor meets annually with all Board members individually to discuss various issues. These discussions are also used to inform the nomination (or otherwise) of a Board member for re-election. Nomination recommendations are made after the Board has identified the skills and expertise needed to ensure its effective performance, and after the contribution of non-executive directors to the work of the Board has been assessed.

Good performance

The role of governance is to support the SARB's ability to achieve its strategy and thereby fulfil its mandate. To be a credible and well-governed institution, the SARB must have the structures, policies and skills to manage financial performance, regulatory compliance and risk management, as well as its social and ethical responsibilities. The Board committees approve the SARB's policies for which they are responsible and oversee and monitor their implementation.

BOARD COMMITTEES

All Board committees are chaired by non-executive directors.

AUDIT COMMITTEE

Has an objective, independent role and assists the Board in fulfilling its oversight responsibilities relating to financial reporting, the system of internal controls, the audit process and, as appropriate, the SARB's compliance with laws and regulations as they relate to financial reporting.

The Chairperson is a member of the audit committees of the currency-producing subsidiaries – the South African Mint Company (RF) Proprietary Limited and the South African Bank Note Company (RF) Proprietary Limited – ensuring the sharing of information and alignment with the Group's policies.

MEMBERSHIP AND MEETING ATTENDANCE

Chairperson	
R J G (Rob) Barrow	5/5
Non-executive directors	
F (Firoz) Cachalia	4/5
Z (Zoaib) Hoosen	3/5[1]
T (Terence) Nombembe	5/5
G M (Gary) Ralfe	5/5
Attended by invitation	
E L (Lesetja) Kganyago	5/5
A D (Daniel) Mminele	2/5[2]
K (Kuben) Naidoo	3/5
N (Nomfundo) Tshazibana	1/5[3]

KEY ACTIVITIES IN 2019/20

- Reviewed all significant internal audit findings and monitored management's responses to these findings. The committee was satisfied with the audit quality and independence of the joint auditors.
- Received a combined assurance report in May 2020 together with the draft 2019/20 Annual Report. The committee was satisfied with the assurance that the SARB's control environment is sound.
- Reviewed and approved the annual fee limits for non-audit work by the statutory auditors for the SARB and the Group.
- Reviewed the scope of the internal and external statutory audits.
- Conducted its annual committee self-assessment.
- Assessed the SARB's internal audit and financial functions, and the external auditors.
- Considered IFRS 16 requirements (applicable from 1 April 2019) as they relate to the SARB's financial reporting.

1 Z (Zoaib) Hoosen was appointed to the Board in July 2019 and as a member of the Audit Committee in September 2019.
2 A D (Daniel) Mminele's term as Deputy Governor ended on 30 June 2019.
3 N (Nomfundo) Tshazibana was appointed to the Board on 1 August 2019 and attended one of three meetings since her appointment.

BOARD RISK AND ETHICS COMMITTEE

Assists the Board in discharging its responsibilities relating to risk management and good corporate citizenship, specifically social and ethics responsibilities. The committee also oversees risk and ethics matters relating to the Prudential Authority.

MEMBERSHIP AND MEETING ATTENDANCE

Chairperson	
F (Firoz) Cachalia	4/4
Non-executive directors	
R J G (Rob) Barrow	4/4
C B (Charlotte) du Toit	4/4
Z (Zoaib) Hoosen	2/4[1]
L H (Lerato) Molebatsi	3/4[2]
T (Terence) Nombembe	4/4
B W (Ben) Smit	1/4[3]
Executive directors	
E L (Lesetja) Kganyago	4/4
R (Rashad) Cassim	3/4[4]
K (Kuben) Naidoo	3/4

KEY ACTIVITIES IN 2019/20

- Considered reports on financial, security and legal risk, current and emerging threats and insurance. The committee also received reports on the internal audit work relating to risk management processes.
- Reviewed reports on the whistle-blowing hotline.
- Considered the SARB's annual corporate social investment report.

NON-EXECUTIVE DIRECTORS' COMMITTEE

Assists the Board in fulfilling its legal and supervisory obligations and responsibilities, enhancing corporate governance practices, ensuring ongoing director training and development, and evaluating the performance of the Governor, Deputy Governors and Secretary of the SARB.

MEMBERSHIP AND MEETING ATTENDANCE

Chairperson	
G M (Gary) Ralfe	3/3
Non-executive directors	
R J G (Rob) Barrow	3/3
F (Firoz) Cachalia	3/3
C B (Charlotte) du Toit	3/3
Z (Zoaib) Hoosen	2/3[1]
R (Rochelle) le Roux	3/3
L H (Lerato) Molebatsi	3/3
Y (Yvonne) Muthien	3/3
T (Terence) Nombembe	3/3
B W (Ben) Smit	1/3[3]
N (Nicholas) Vink	2/3

KEY ACTIVITIES IN 2019/20

- Received presentations and discussed various topics on local and global economic environments, as well as specific areas of interest, as part of ongoing director training and development.
- Considered the performance of the Governor, Deputy Governors and Secretary of the SARB.
- Considered the training needs of directors.

1 *Z (Zoaib) Hoosen was appointed to the Board in July 2019 and as a member of the BREC in September 2019.*
2 *L H (Lerato) Molebatsi was appointed as a member of BREC on 1 April 2019.*
3 *B W (Ben) Smit's term expired on 26 July 2019.*
4 *R (Rashad) Cassim was appointed to the Board on 1 August 2019.*

REMUNERATION COMMITTEE (Remco)

Reviews the Bank-wide human resources framework and remuneration policies and practices and recommends for the Board's consideration the remuneration packages of the Governor, Deputy Governors and employees.

The executive directors recommend the remuneration of the Board's non-executive directors for confirmation by the Board. Recommendations follow enquiries, benchmarking against similar organisations and surveys to determine the appropriate increase.

MEMBERSHIP AND MEETING ATTENDANCE

Chairperson	
Y (Yvonne) Muthien	3/3
Non-executive directors	
R (Rochelle) le Roux	3/3
L H (Lerato) Molebatsi	1/3[1]
G M (Gary) Ralfe	3/3
N (Nicholas) Vink	3/3
Attended by invitation	
E L (Lesetja) Kganyago	2/3
R (Rashad) Cassim	1/3[2]
N (Nomfundo) Tshazibana	1/3[3]

KEY ACTIVITIES IN 2019/20

- Monitored the implementation of various initiatives, including talent management, workforce planning, performance management, the reward strategy and the implementation of a talent management system.
- Considered the post-implementation review findings relating to the career pathing framework and the action plans to address the findings.
- Monitored the review of certain human resources policies.
- Recommended to the Board for approval, an update to the Governors' Handbook relating to the cooling off period arrangements at the end of Governors' terms of office (whether due to resignation or the end of a term etc.).
- Reviewed the employee engagement survey results and oversaw the associated action plans.
- Approved the annual remuneration increases for employees and the budget for the annual performance bonuses.

1 L H (Lerato) Molebatsi was appointed as a member of Remco on 1 April 2019.
2 R (Rashad) Cassim was appointed to the Board on 1 August 2019.
3 N (Nomfundo) Tshazibana was appointed to the Board on 1 August 2019.

EXECUTIVE MANAGEMENT

Project Shesha (meaning 'speed up' in Zulu) continued its work to improve the agility and effectiveness of the SARB and empower employees, while at the same time maintaining a strong effective control environment. During the reporting year, the SARB's committees, policies and delegations of authority were reviewed and changed where appropriate. For example, the Budget Forum has replaced the Budget Committee and meets annually to facilitate the departmental and consolidated annual budget proposal presentations to the GEC and the Board. Any additional responsibilities of the former Budget Committee have been incorporated into the Procurement Committee's roles and responsibilities.

The GEC meets every two weeks and considers policy issues and other executive management matters. The subcommittees of the GEC assist it in its responsibilities.

SUBCOMMITTEES OF THE GEC	Responsibilities
INFORMATION AND TECHNOLOGY STEERING COMMITTEE **Chairperson** Deputy Governor, N (Nomfundo) Tshazibana	Provides strategic oversight to ensure that the I&T strategy aligns with the SARB's strategy, including: > Approving, prioritising and monitoring strategic I&T projects and initiatives. > Overseeing I&T functions to make sure that I&T projects and initiatives deliver value by meeting business objectives, providing effective support to business departments and driving the targeted organisational architecture.
MANAGEMENT COMMITTEE **Chairperson** Deputy Governor, R (Rashad) Cassim	Monitors strategy implementation and the day-to-day operational management of the SARB, including: > Approving the cross-cutting procedures and objectives for the internal operations of the SARB. > Developing and amending the SARB's administrative and operational policies. > Providing assurance that the policies and operational systems of the SARB are aligned with best practice.
PROCUREMENT COMMITTEE **Chairperson** Chief Operating Officer, M (Mogam) Pillay	Oversees the governance of procurement and ensure that the goods and services procured by the SARB Group meet the requirements of the SARB's Procurement and Supplier Management Policy.
RESERVES MANAGEMENT COMMITTEE **Chairperson** Deputy Governor, N (Nomfundo) Tshazibana	Oversees the implementation of the Gold and Foreign Exchange Reserves Investment Policy and facilitates the prudent investment of South Africa's official reserves, including: > Appointing external fund managers, financial custodians and securities lending agents. > Determining the allocation of the risk budget. > Approving investment guidelines and asset classes for tranches and portfolios. > Recommending, for approval by the GEC, changes to the Gold and Foreign Exchange Reserves Investment Policy, Strategic Asset Allocation, the size of the Securities Lending Programme, the overall risk budget, tranche sizes and currency composition of tranches. > Monitoring the parameters for the annual and periodic re-balancing of tranche sizes and currency composition, the implementation of the investment policy, management of the investment portfolios and Securities Lending Programme and the implementation of the GEC resolutions in so far as they pertain to reserves management. > Reporting to the GEC quarterly and to the Board annually.
RISK MANAGEMENT COMMITTEE (RMC) **Chairperson** Governor of the SARB	Assists the GEC and BREC by overseeing and reporting on the risk management process, including: > Monitoring the implementation of the risk management strategy, policy and structure. > Assessing and reviewing the adequacy and effectiveness of the risk management process across the Group, including the Prudential Authority.

RISK MANAGEMENT

The SARB is exposed to significant inherent risks in many of its core functions. Given its unique role, the SARB's risk management and control objectives go beyond institutional risk and return considerations to include public interest in line with its constitutional and statutory responsibilities.

Recognition

In the 2019 Institute of Risk Management South Africa Awards, the SARB won the financial services industry award for an integrated risk management training course implemented for African central banks and its contribution to maturing enterprise risk management in these institutions.

The SARB's risk management framework ensures that the risks that may threaten the achievement of its strategic objectives are adequately and effectively managed at acceptable levels. The approach to risk management includes monitoring and appropriately responding to potential and actual risks emanating from global and domestic political and economic environments. The risk management framework governs the full spectrum of risk, including strategic, financial (including credit, market and liquidity risk), reputational, operational and policy process[1] risk. The framework also considers, and where appropriate, incorporates the recommended risk management principles of King IV.

COVID-19

In early 2020, a Joint Operations Centre was established to provide critical support to ensure the business continuity of the SARB during the coronavirus disease 2019 (COVID-19) pandemic, including directives (aligned to the Department of Health's COVID-19 guidelines) to govern and guide the functioning of the SARB during the crisis. The centre provided ongoing response planning and execution as well as centralisation of services such as security operations, emergency procurement and the sourcing and distribution of personal protective equipment. It also implemented medical and wellness interventions for employees.

Following the announcement of the impending nationwide lockdown, starting 27 March 2020, the SARB swiftly introduced measures to support employees able to work from home. It also ensured the business continuity of the critical core functions that support the country's financial services sector. This included the functions of the National Payment System, Financial Markets, Currency Management, Financial Surveillance and Financial Stability departments as well as some enabling functions. The currency-producing facilities were closed with measures in place to ensure the continued supply of notes and coins, when required.

1 *Risks related to the SARB's processes that support monetary and financial stability policy.*

Ensuring employee well-being: page 68.

RISK MANAGEMENT FRAMEWORK

Risk governance

GROUP RISK MANAGEMENT POLICY

HEADS OF DEPARTMENT AND MANAGING DIRECTORS
Responsible for strategic, operational and project risk management

RISK MANAGEMENT AND COMPLIANCE DEPARTMENT
Facilitates and coordinates integrated risk management in the Group, and reporting thereon to risk oversight committees

RISK MANAGEMENT COMMITTEE
Oversees the full spectrum of risk management in the Group on behalf of the GEC

BOARD RISK AND ETHICS COMMITTEE
Reviews the status and effectiveness of risk management in the Group on behalf of the Board

Risk universe

STRUCTURED RISK ASSESSMENTS
Strategic risk, policy process risk, operational risk, reputational risk, project risk

COORDINATED RISK MANAGEMENT
Specialised cross-cutting risks, transversal risks, insurance management

CONTINUOUS RISK MANAGEMENT
Financial risk management, risk incident management, monitoring action plan implementation, day-to-day risk management activities, key risk indicators, scenario analysis, monitoring and assessment of external risks

Support

RISK MANAGEMENT AND COMPLIANCE DEPARTMENT
Provides centralised governance, risk management and compliance support services to all departments

RISK MANAGEMENT AND COMPLIANCE COORDINATORS
Coordinate the implementation of the risk management and compliance processes in each department

RISK MANAGEMENT METHODOLOGIES AND SOFTWARE

Combined assurance

The Group's combined assurance approach to risk management and control aims to integrate, coordinate and align its assurance processes and to optimise the level of risk, governance and control oversight.

1st level of assurance providers

DEPARTMENTAL MANAGEMENT

Risk management and internal control are an integral part of the Group's management and accountability functions. The managers of each department are primarily responsible for the ongoing identification, assessment and management of their department's risks, including designing, implementing and maintaining an adequate and effective system of control.

2nd level of assurance providers

INTEGRATED RISK MANAGEMENT

The Group's Risk Management Policy and framework, and the RMCD which performs a centralised and integrated risk management coordination function, together ensure that risks are managed in a way that is consistent with internationally accepted standards and guidelines.

The RMCD reports to the RMC and BREC on risk management activities and the status and effectiveness of risk management in the Group. It also facilitates structured risk assessments conducted at various levels and covering all functions and business units. The coordinating role of the RMCD extends to the management of specialised cross-cutting risks, which include compliance and business continuity management.

The RMCD also coordinates and facilitates continual risk management activities, which include the reporting of risk incidents, monitoring the implementation of action plans to mitigate identified residual risks, and implementing and monitoring key risk indicators.

3rd level of assurance providers

INTERNAL AUDIT

The Internal Audit Department (IAD) provides objective independent assurance on the adequacy and effectiveness of the Group's governance, risk management and control processes.

The Chief Internal Auditor reports jointly to the Governor and to the Chairperson of the Audit Committee. The Audit Committee approves the Internal Audit Charter, which governs all IAD activities. The Board reviews the charter annually to ensure its relevance.

The IAD's risk-based approach to auditing aligns to the Institute of Internal Auditors' (IIA) International Professional Practice Framework. The IAD's audit methodology is based on the guidelines of the Committee of Sponsoring Organizations of the Treadway Commission framework.

External quality assurance reviews are undertaken periodically. The most recent review undertaken in 2017/18 confirmed the IAD's general conformance to IIA standards.

COMBINED ASSURANCE FORUM

The Combined Assurance Forum (CAF) coordinates work undertaken by the respective assurance providers and is accountable to the GEC and Audit Committee. It comprises representatives from the various assurance providers and the independent external auditors. In addition to CAF meetings, bilateral meetings are held between the respective assurance providers to coordinate their respective assurance activities.

INDEPENDENT EXTERNAL ASSURANCE SERVICE PROVIDERS

Independent external auditors audit the Group's annual financial statements. Where it is deemed necessary, other external assurance providers are used to obtain independent assurance on the adequacy and effectiveness of internal processes and practices, while also considering international best practice.

Specialised cross-cutting risks

COMPLIANCE RISK MANAGEMENT

Specific efforts, applied Group-wide, to ensure compliance obligations are met include:

1. **Developing and maintaining** an appropriate Compliance Policy and framework.
2. **Identifying, assessing and monitoring** compliance with applicable regulatory requirements.
3. **Promoting** a culture of compliance and ethics.
4. **Reporting** on compliance risks to the RMC and BREC.

BUSINESS CONTINUITY MANAGEMENT

The RMCD provides centralised coordination of the SARB's Business Continuity Management Policy and framework. The appropriate backup infrastructure and facilities further strengthen the SARB's resilience. The RMCD facilitates business impact assessments and compiles business continuity plans for all departments. It also liaises closely with the Cyber and Information Security Unit, which is responsible for ensuring holistic governance and management of the Group's Cyber and Information Security Programme.

LOOKING AHEAD

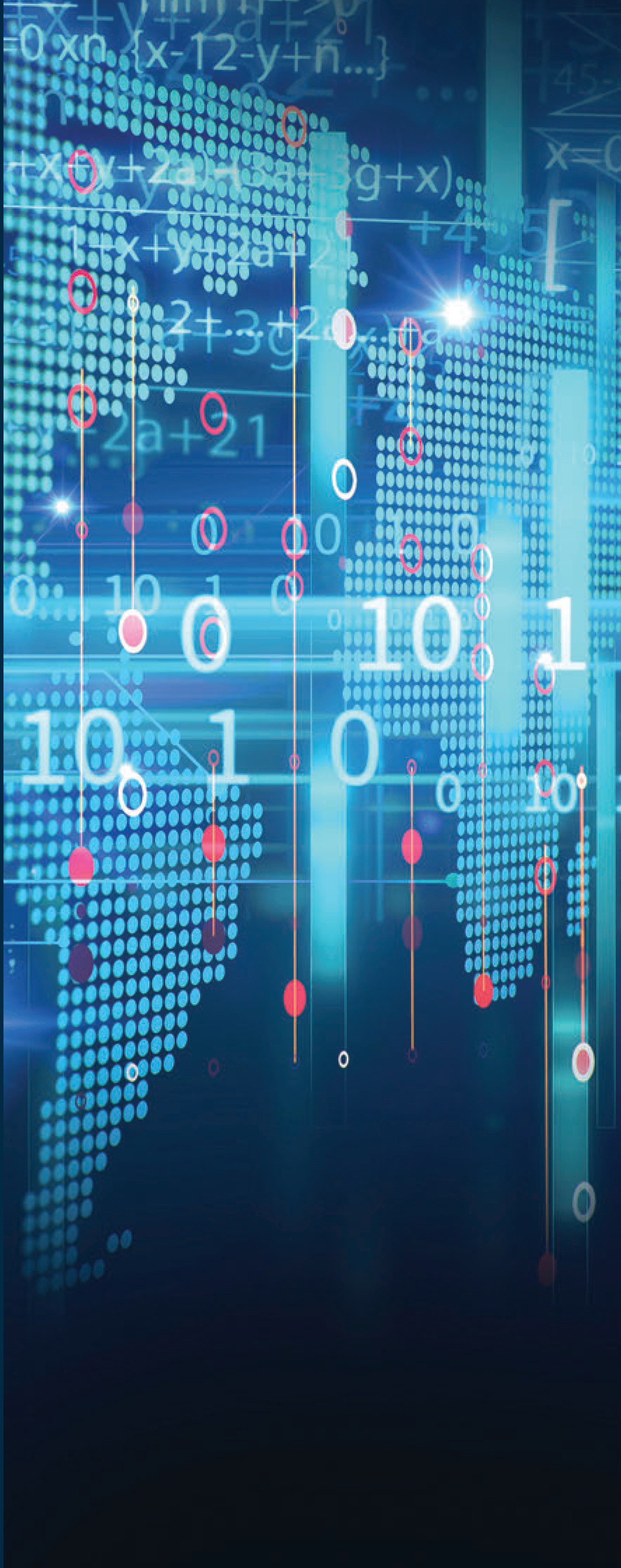
> Leverage risk management to support business transformation.

> Improve internal and external collaboration with stakeholders.

> Promote integration across governance functions.

> Expand governance, risk and control services, for example, conduct survey-based ethics risk assessments and risk assessments of the value chains that support the SARB's strategic focus areas.

THE SARB'S PERFORMANCE



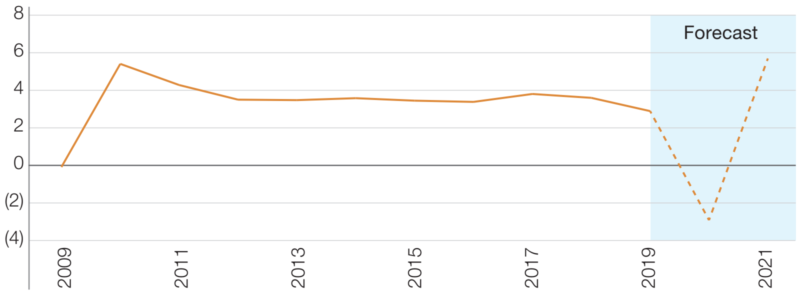
REPORT ON MONETARY POLICY

Overview of the world economy

Global growth slowed to 2.9% in 2019 (from 3.7% in 2018), marking its weakest pace of expansion since the 2008/09 global financial crisis.

While a modest recovery in the global economy was initially expected at the start of 2020, the impact of the coronavirus disease 2019 (COVID-19) pandemic is now expected to cause a global recession. The International Monetary Fund's (IMF) April 2020 World Economic Outlook projects a global contraction of 3.0% in 2020, substantially worse than the 0.1% contraction recorded during the global financial crisis.

Global real GDP (%)



Source: IMF World Economic Outlook.

During 2019, global growth forecasts were continually revised lower (by around 0.3 percentage points in total), with more pronounced downward revisions across emerging markets. The severe disruption to global trade as tensions between the United States of America (USA) and China escalated was one of the main contributors to the weakening growth. This resulted in global trade activity contracting 0.5% in 2019, its weakest pace since 2012. Slowing Chinese demand further exacerbated the damage to the global economy, including through lower commodity prices as China reduced its purchase of raw materials.

Economic growth across advanced economies continued to slow in 2019, although the USA generally outperformed its peers, growing in line with its underlying potential rate. Consumption expenditure in the USA remained robust, owing to healthy labour markets, muted inflation and accommodative monetary policy. Growth in the euro area however was disappointing, slowing to 1.2% in 2019 (the weakest expansion in seven years) as poor business sentiment discouraged investment and export industries faced headwinds from lower Asian demand. The United Kingdom continued to experience widespread weakness as investment and net exports contributed negatively to growth, although conditions stabilised somewhat following the December election.

The COVID-19 outbreak has so far been most intense in the advanced economies, and the IMF estimates economic growth in these economies to be -6.1% in 2020.

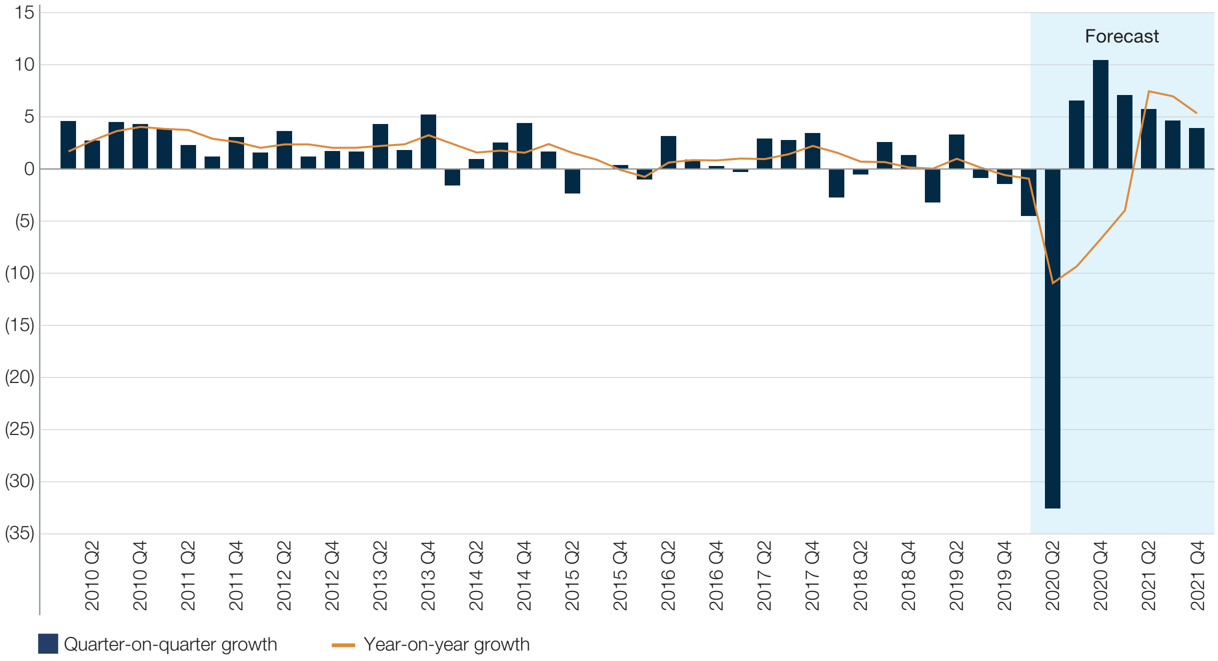
Inflation across the world remains generally muted. In 2019, core inflation averaged around 1% in the euro area and 1.5% in the USA. In emerging markets, inflation declined compared to 2016 peaks which averaged 4.3%, with the average emerging market inflation rate down to 2.9% in 2019. This benign global inflation environment has allowed central banks to ease policy further during early 2020 with the Federal Reserve in the USA cutting rates back to zero and re-joining the European Central Bank and the Bank of Japan at the zero lower bound. All three of these institutions have also expanded their balance sheets. Emerging market central banks have also cut interest rates, continuing the policy easing trend of 2019.

Economic growth in emerging markets was disappointing in 2019. The Chinese economy continued to slow with gross domestic product (GDP) growth of 6.1% in 2019. The slowdown reflected escalating trade tensions and weakening domestic demand following earlier measures to rein in credit growth. In India, weak domestic demand, declining credit growth and balance-sheet concerns – especially in the non-bank financial sector – were the main causes for the country's growth slowing to 5.2% in 2019, the weakest pace of expansion since 2013. The IMF anticipates emerging market countries to contract by 1.0% in 2020. In China, where the COVID-19 outbreak began, the economy is forecast to grow at a subdued 1.2% in 2020.

Domestic real economy developments

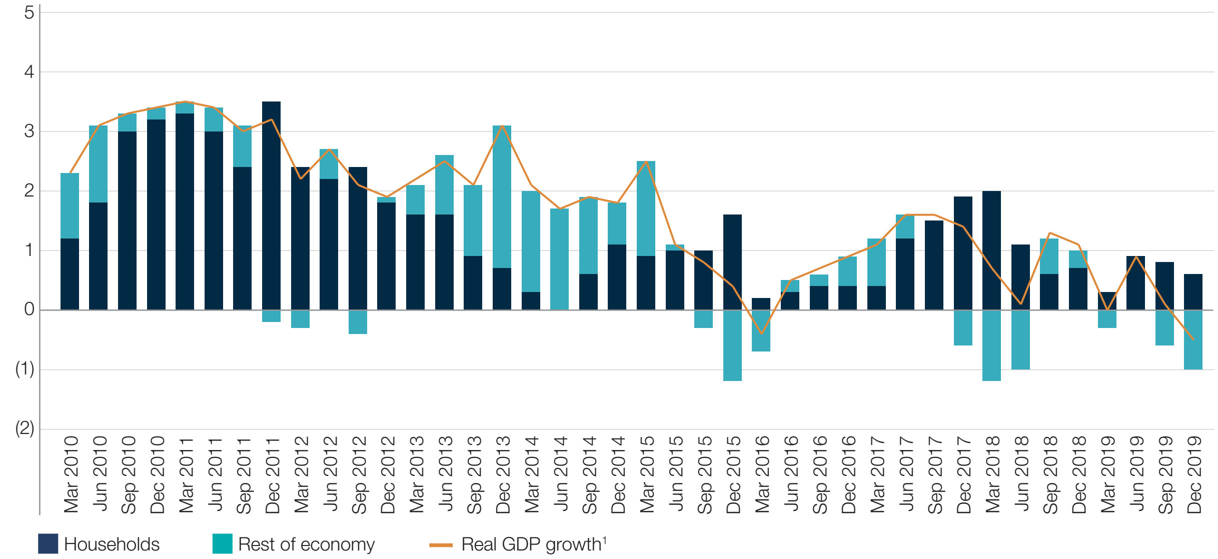
South Africa's GDP growth was just 0.2% in 2019, the weakest pace of economic expansion since the 2008/09 global financial crisis. This slowdown was broad based, with contractions in both the primary and secondary sectors and a slowdown in the tertiary sector. In these difficult circumstances, unemployment rose above 29%, with growth in the labour force far outpacing job creation.

Economic growth (%)



Source: SARB.

Contributions to GDP growth (%)



1 Percentage change over four quarters.

Sources: Statistics South Africa and SARB.

South Africa's current account deficit narrowed from 3.5% in 2018 to 3.0% in 2019 after declining significantly to 1.3% in the fourth quarter of 2019, the smallest quarterly deficit in nine years. Much of the improvement was attributed to a larger surplus on the trade account due to the business cycle downswing and, in turn, the lower import growth. By contrast, the fiscal deficit deteriorated to an estimated 6.3% for 2019/20, the largest rate of borrowing since the global financial crisis. The COVID-19 shock is likely to further widen the fiscal deficit given lower revenue collections and, potentially, additional spending obligations. South Africa's foreign currency sovereign rating was downgraded in March 2020 following Moody's Investors Services (Moody's) decision to change its rating on the country's government bonds. All three major ratings agencies (Standard & Poor's Financial Services, Fitch Ratings and Moody's) now rate South Africa's government bonds as sub-investment grade.

The SARB's forecasts indicate that the economy will contract in 2020 followed by a limited recovery in 2021 and 2022 as the global economy revives and some of South Africa's domestic constraints, such as electricity shortages, ease. However, the near-term outlook is highly dependent on how the COVID-19 pandemic develops and the extent of restrictions placed on business activity in an effort to contain the virus. Over the medium term, the forecasts continue to project a recovery to 3.8% in 2021 and 2.9% in 2022.

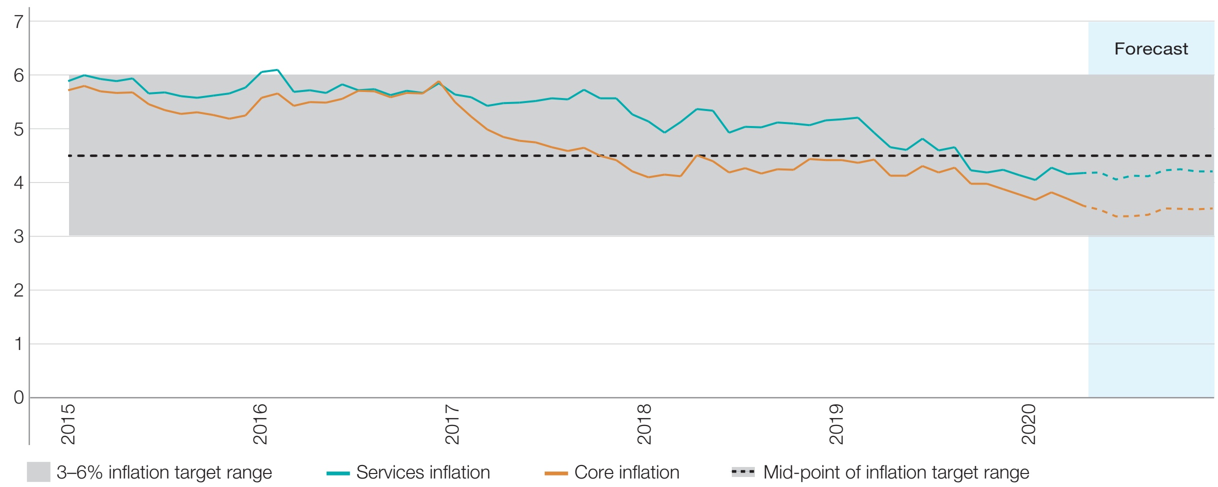
Inflation dynamics

In South Africa, a steady decline in inflationary pressures resulted in overall headline inflation declining below the mid-point of the 3–6% inflation target range to an average of 4.1% for 2019, the lowest rate since 2005. Food and fuel prices are among the many factors contributing to these favourable inflation outcomes. Food price inflation remained unusually low, particularly meat prices which have continued to surprise on the downside. Export markets have been closed since January 2019 due to an outbreak of foot-and-mouth disease, increasing the available domestic supply and, in turn, suppressing prices. As meat accounts for a third of the weight in the food basket, this shock sufficiently offset higher bread and cereals inflation.

Fuel price inflation averaged only 2.2% due to lower world oil prices. The price of Brent crude oil declined in 2019, falling from a high of US$74 per barrel in May 2019 to a low of US$59 per barrel in the latter part of the year, amid concerns about slowing global economic growth. Due to weak global demand and a price war between two major producers, oil prices dropped below US$30 per barrel in March 2020 and currently sit at around US$35 a barrel.

Core inflation (excluding food and non-alcoholic beverages, petrol and energy) declined below the mid-point of the target range in 2019, given a wider output gap and lower inflation expectations, among other factors. The SARB's preferred measure of core inflation (which also excludes electricity prices) averaged only 4.1% for the year – the lowest rate since 2011.

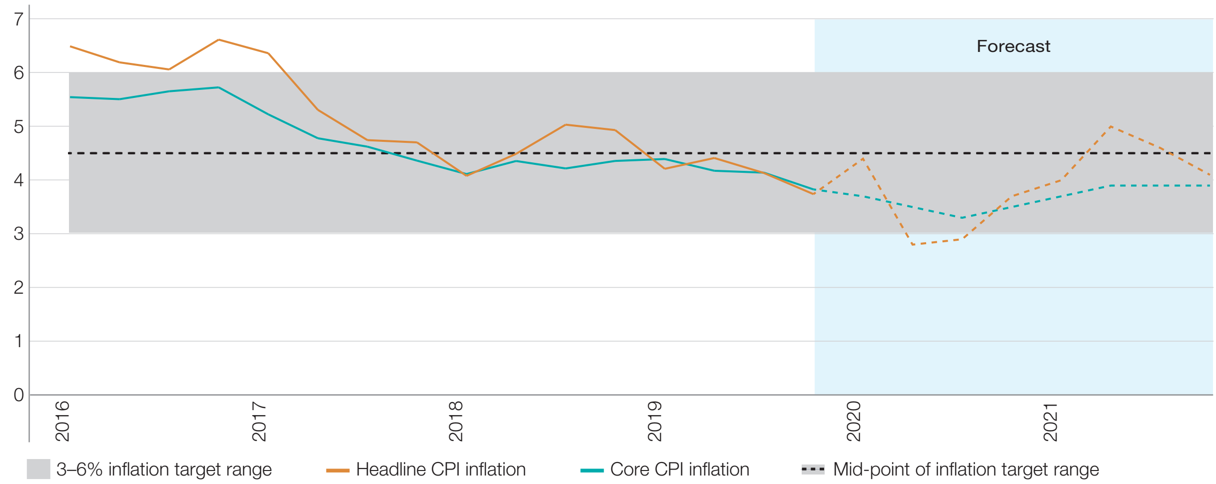
Core and services inflation (year-on-year % change)



Sources: Statistics South Africa and SARB.

The SARB's average inflation forecast for 2021 remains at 4.4%. Near-term inflation has been marked down significantly, with the 2020 projection at 3.4% as of May 2020, but it is likely to pick up as the oil price shock wears off and conditions normalise.

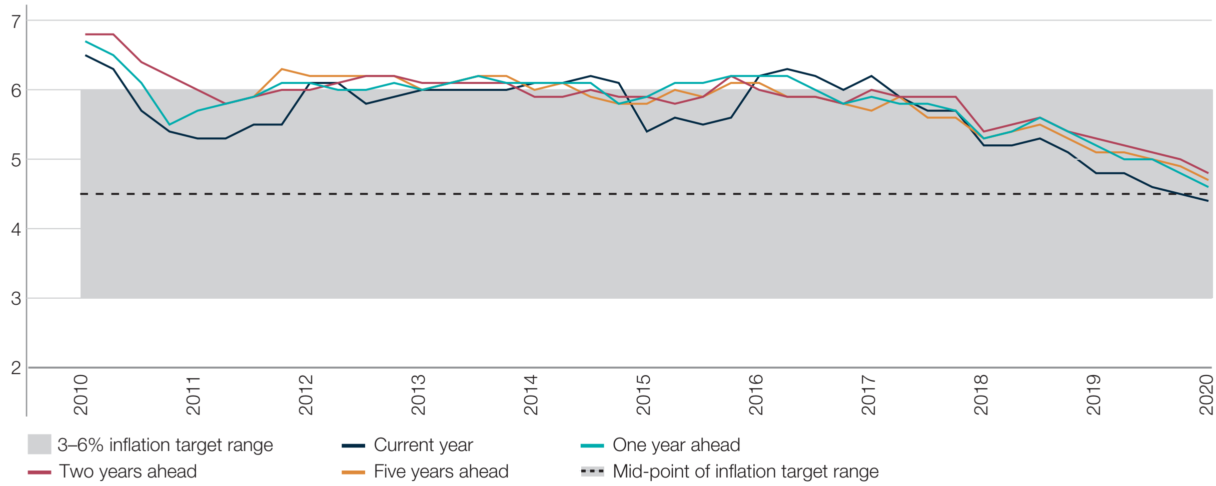
Headline and core Consumer Price Index (CPI) inflation (year-on-year % change)



Source: SARB.

Inflation expectations have continued the downward trend that began in 2017. The Bureau for Economic Research's (BER) survey in the fourth quarter of 2019, shows further declines in the average annual headline inflation expectations for all three forecast horizons. Financial analysts, businesses and trade unions expect headline inflation of 4.8% in 2020 (a 14-year low) and 5.0% in 2021, from around 6.0% in 2016. Inflation expectations over the next five years fell to 4.7% (from 5.6% at the end of 2017) and are now at the lowest since the series commenced in 2011. This is important for monetary policy as inflation expectations influence price and wage setting behaviour in the economy.

Inflation expectations (%)



Source: Bureau for Economic Research.

Monetary policy decisions

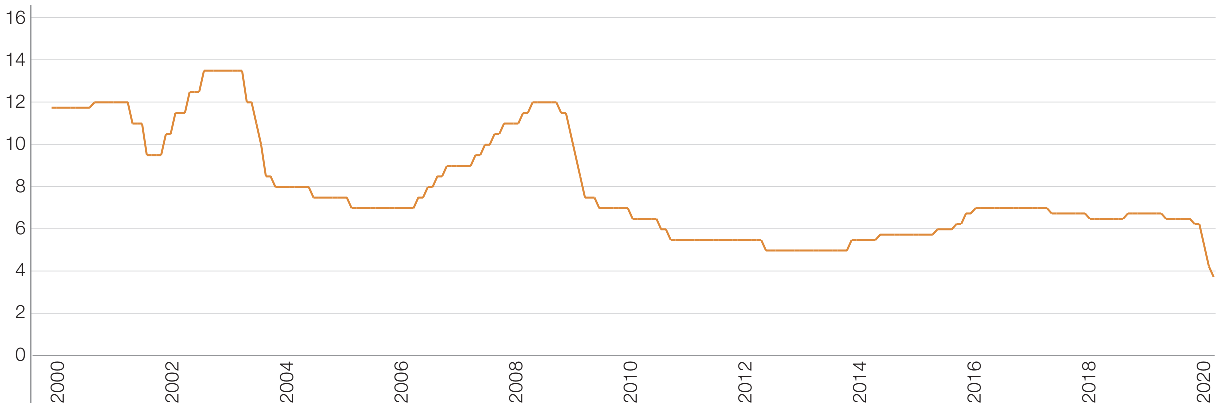
Monetary policy decisions typically affect the economy with a lag of approximately one to two years. The deviation of the expected rate of increase in headline CPI inflation from the mid-point of the 3–6% target range guides these decisions. The SARB's Quarterly Projection Model, in particular, is used to forecast not just future inflation but the optimal policy rate path required to bring headline inflation to the mid-point of the target range. The framework includes a degree of flexibility, permitting temporary departures of inflation from the target in the event of shocks such as oil price movements and the recent COVID-19 pandemic.

The repurchase (repo) rate is currently at 3.75%, its lowest level on record. Since the beginning of 2019, the Monetary Policy Committee (MPC) has cut rates five times – by 25 basis points in July 2019, 25 basis points in January 2020, 100 basis points in March 2020, 100 basis points in April 2020 and a further 50 basis points in May 2020. Improved inflation conditions and disappointing growth prompted the first two repo rate reductions, while the COVID-19 shock prompted the larger and more pre-emptive moves in March, April and May. To ensure the smooth functioning of financial markets, and indirectly the effectiveness of monetary policy, the SARB also implemented a range of measures to improve market liquidity. These measures included the implementation of Intraday Overnight Supplementary Repurchase Operations (IOSROs)[1] and a change in the standing facility borrowing and lending rates for commercial banks, as well as a programme for the SARB to purchase government securities from the secondary market.

1 IOSROs: providing liquidity to clearing banks on an overnight basis. This facility enables banks to approach the SARB twice a day to obtain cash against eligible collateral.

The SARB's response to COVID-19: page 10.

Repurchase rate (%)



Source: SARB.

Governance structure

Other than the Deputy Governors, the members of the MPC are appointed by the Governor after consultation with the Deputy Governors.

MONETARY POLICY COMMITTEE | Meets every two months

Chairperson
Governor of the SARB

Members
Deputy Governors and the Head of the Economic Research Department – C (Christopher) Leowald.

Responsibilities

The MPC drives the SARB's responsibilities to achieve and maintain price stability by:

> Reviewing economic data, including forecasts, and deciding the appropriate interest rate needed to deliver the SARB's mandate and meet the inflation target.

> Engaging with stakeholders and the public on its monetary policy decisions in the press conference that follows each meeting and various Monetary Policy Forums.

REPORT ON FINANCIAL STABILITY

Like price stability, financial stability is not an end in itself but is generally regarded as an important precondition for sustainable economic growth, development and employment creation. Financial stability refers to a financial system that espouses confidence through its resilience to systemic risks and its ability to efficiently intermediate funds.

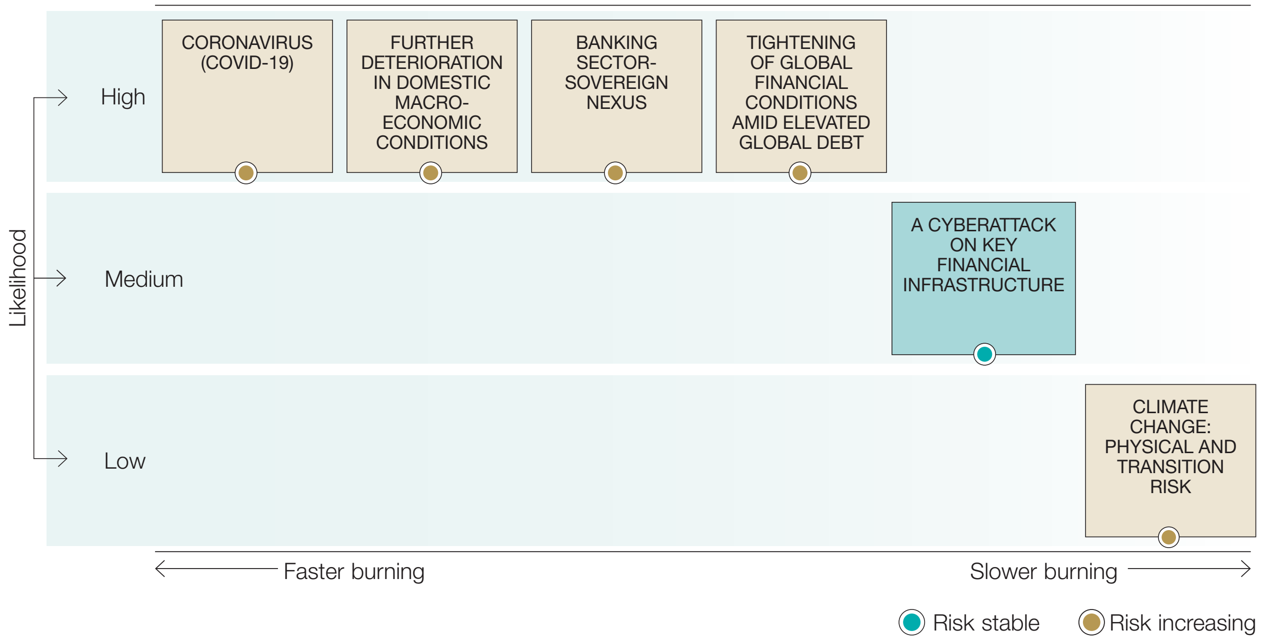
The SARB has a statutory mandate to protect and enhance financial stability in South Africa. It monitors global and domestic conditions, using quantitative and qualitative indicators, to identify risks and vulnerabilities that may impact the financial system. The SARB may advise financial sector regulators on what steps to take to mitigate vulnerabilities that could threaten the stability of the financial system. The SARB also has additional directive powers over financial regulators where a systemic event, or imminent systemic event, is determined. In such cases, the SARB must take the necessary steps to prevent, mitigate and manage the systemic event.

Risk assessments are discussed at the Financial Stability Committee (FSC), communicated to the Financial Stability Oversight Committee and reported in the SARB's biannual Financial Stability Review (FSR) publication, which aims to stimulate debate on pertinent issues.

Risks to financial stability

The SARB's risk assessment matrix sets out the main risks to financial stability over the medium term. Risks are categorised according to their likelihood of occurring. The current matrix reflects the particularly challenging domestic and global environment, with an unusually large number of risks showing a high likelihood of occurring.

Figure 1: risk assessment matrix



CORONAVIRUS (COVID-19)

The outbreak of the COVID-19 pandemic has created a health emergency, forcing the South African government, along with many other governments around the world, to implement containment measures including the shutdown of non-essential activity. The resulting shock to the economy has been swift and pronounced, creating significant financial stability risks.

The potential impacts of the outbreak on the financial system include:

Operational disruptions – arising from death, illness, quarantine measures, travel limitations, business closures, population lockdown and the shutdown of services.

Asset price movements – sharp declines in prices and the impact on investors, individuals, pension funds, foreign portfolio flows, wealth and exchange rates, lower collateral values, stop losses (automatic trade orders to sell assets at a specific price level), fire sales (the selling of assets at heavily discounted prices), market illiquidity and excessive volatility.

Strain on financial institutions – arising from the impact on the real economy of corporate failures and retail defaults, foreign exchange and rand liquidity shortages, margin calls and collateral shortages, and the potential failure to meet regulatory requirements.

Concerns about the potential economic impact of COVID-19 have resulted in extraordinary levels of volatility and extreme price movements in financial markets at levels last seen during the global financial crisis. The price of riskier assets across the world has come under pressure. A lack of liquidity in some markets has challenged the ability of buyers and sellers to reach an agreed price for their transactions, potentially inhibiting the efficiency of financial intermediation.

Banks are expected to experience increased non-performing loans over the coming months and have recorded losses on their holdings of financial assets. The insurance sector is likely to face higher policy lapse rates as well as higher pay-out costs for claims relating to income protection and morbidity, among others. Asset growth across the sector is also expected to be curtailed.

Over the longer term, financial stability risks will depend, to a large extent, on the duration of the health and economic impact of the pandemic. Business continuity could be affected if infection rates reach elevated levels. The longer economic activity is curtailed, the greater the risk that the economy is unable to return to its pre-pandemic state. If this were to occur, financial firms could face challenges in rebuilding the buffers that are currently being eroded.

FURTHER DETERIORATION IN DOMESTIC MACROECONOMIC CONDITIONS

The South African economy has experienced five years of falling per capita economic growth and is currently in the longest business cycle downturn on record. This deterioration is mostly due to structural factors, including skills shortages, infrastructure constraints and policy uncertainty. Given the effects of COVID-19, the SARB expects GDP to contract in 2020, marking the first full-year decline in growth since 2009. The SARB has reduced its estimate of the economy's growth potential to 0.6% in 2019 (compared to approximately 3% in 2014). The SARB anticipates a shallow economic recovery after the pandemic is contained; however, should GDP not recover as expected, this would pose significant risks to the financial sector.

BANKING SECTOR-SOVEREIGN NEXUS

In any economy, the financial health of the banking sector and the sovereign are closely linked. In South Africa, this nexus is a threat to financial stability given the rapid increase in public debt in recent years. The National Treasury projects public debt to exceed 70% of GDP by 2023 and does not anticipate this level to stabilise over the medium term. Furthermore, it is likely that public debt will increase even faster than previously expected as a result of the COVID-19 pandemic.

Moody's lowered South Africa's local and foreign currency credit rating to sub-investment grade in March 2020. As a result, the country's government bonds were excluded from the FTSE World Government Bond Index from May 2020. Over the longer term, the downgrade is expected to increase the cost of government borrowing and reduce liquidity in the bond market.

In addition, the banking sector's exposure to the sovereign has doubled over the past 12 years, with sovereign exposures accounting for more than 15% of total banking sector assets. The deteriorating fiscal metrics translate into adverse investor perceptions of the banking sector's creditworthiness, pushing up bank funding costs and, in turn, placing upward pressure on borrowing costs for financial consumers.

Banks are increasingly accounting for the risks associated with their sovereign exposures. Domestic banks that make use of the internal ratings-based (IRB) approach to modelling credit risk (most of South Africa's largest banks) apply a non-zero risk weight to their sovereign exposures. These risk weights have been increasing in line with the rising public debt burden. As sovereign risk weights generally serve as a floor for other exposures, IRB banks are having to hold more capital against their sovereign exposures as well as some of their private sector loans. This is expected to further constrain lending and increase the cost of credit.

As many borrowing costs across the economy are priced relative to the sovereign's cost of borrowing, further public debt accumulation will force up other market-based financing costs. This could impact the capacity of some borrowers in the private sector to service their debt.

TIGHTENING OF GLOBAL FINANCIAL CONDITIONS AMID ELEVATED GLOBAL DEBT

A long period of historically low interest rates and large-scale central bank asset purchases in advanced economies has resulted in high availability of financing at low cost. In particular, low interest rates have encouraged money managers to allocate funds to riskier investments in an attempt to generate targeted returns.

The global stock of debt is at an all-time high, with both government and private sector debt increasing steadily. Vulnerabilities have been rising with the sustainability of debt in certain cases, premised on a low interest rate environment and high levels of global liquidity. The World Bank[1] recently pointed out that the upward drift in the current global debt cycle has reached proportions not seen in the previous three cycles, all of which ended in a regional or global crisis.

Investor preference for 'safe haven' assets as a result of the COVID-19 pandemic has placed pressure on borrowers globally, with higher-risk borrowers in capital markets experiencing a rise in their relative cost of borrowing. Aggressive monetary policy easing measures by advanced economies, including interest rate cuts, quantitative easing and low-cost longer-term credit provision to the banking sector have partially alleviated these tighter financing conditions. Such accommodative conditions are imperative to support economic growth during this extraordinary shock. However, they may also give rise to greater financial stability risk over the medium term if financially weak entities are encouraged to increase their risk taking, making them even more vulnerable to changes in future financing conditions.

1 *Source: https://www.worldbank.org/en/news/press-release/2019/12/19/debt-surge-in-emerging-and-developing-economies-is-largest-fastest-in-50-years.*

A CYBERATTACK ON KEY FINANCIAL INFRASTRUCTURE

Greater technological connectivity of systems and stakeholders poses increased risk should a firm's IT systems become compromised. In Allianz's global survey of business risks for 2020, cyber incidents were ranked as the top risk for the financial services industry[1]. Cyberattacks can result in diminished integrity (the abuse of systems or data, for example, through fraud), confidentiality (caused by unauthorised third-party access to data) and availability (as a result of disruptions to the functioning of financial systems and infrastructure)[2]. In each case, firms can incur substantial direct and indirect costs[3].

Attempted cyberattacks on domestic financial institutions occur daily, with no cyberattack to date – domestically or globally – having resulted in financial instability[4]. However, any attack able to spread across many institutions, access large amounts of sensitive data or disrupt important financial market infrastructures could pose a risk to financial stability. Furthermore, attacks that significantly erode public confidence in a financial institution could precipitate a systemic crisis, even if the attack does not cause meaningful direct harm to the institution.

CLIMATE CHANGE: PHYSICAL AND TRANSITION RISK

Climate change is causing major changes in weather patterns, with threats ranging from food security to the destruction of national infrastructure. As climate change is expected to meaningfully impact on the business models of the financial sector, the SARB monitors the associated risks to financial stability and is concerned about the following two distinct classes of climate risk.

Physical risks

The increasing frequency and severity of climate change-related events causing substantial (and difficult to accurately forecast) losses for insurance companies, banks and other financial institutions with exposure to the affected industries or assets.

Transition risks

The financial risks associated with a transition towards a lower carbon economy. Changes in public preferences, policy and business models could cause a large and rapid reassessment of the value of assets and income streams. This could have serious implications for investors and financial institutions if they have large exposures to assets whose values have been drastically written down (known as 'stranded assets').

Sustainable finance and climate change: page 67.

Transition risks are arguably the more important systemic risk over the medium term given South Africa's significant reliance on coal-powered energy, raw mineral exports and the production of fuel and related products. South Africa is one of the largest carbon emitters per unit of GDP output and the Climate Policy Initiative think-tank estimates that "South Africa faces transition risks approaching R1.8 trillion in present value terms if the world achieves a path consistent with the Paris [climate accord] targets"[5]. In other words, the global imperative to reduce greenhouse gas emissions could drive a shift in expenditure and investment decisions, resulting in large revaluations of carbon intensive assets and activities in South Africa.

1 *Source: Allianz. (2020). Risk Barometer. https://www.agcs.allianz.com/content/dam/onemarketing/agcs/agcs/reports/Allianz-Risk-Barometer-2020.pdf.*

2 *Source: Bouveret, A. (2018). Cyber Risk for the Financial Sector: A Framework for Quantitative Assessment. IMF Working Paper 18/143.*

3 *Indirect losses may occur, for example, as a result of legal action taken by third parties whose data was compromised.*

4 *Source: Warren, P., Kaivanto, K., and Prince, D. (2018). Could a cyberattack cause a systemic impact in the financial sector? Bank of England Quarterly Bulletin 2018 Q4.*

5 *Source: https://climatepolicyinitiative.org/wp-content/uploads/2019/03/CPI-Energy-Finance-Understanding-the-impact-of-a-low-carbon-transition-on-South-Africa-March-2019.pdf.*

Banking sector

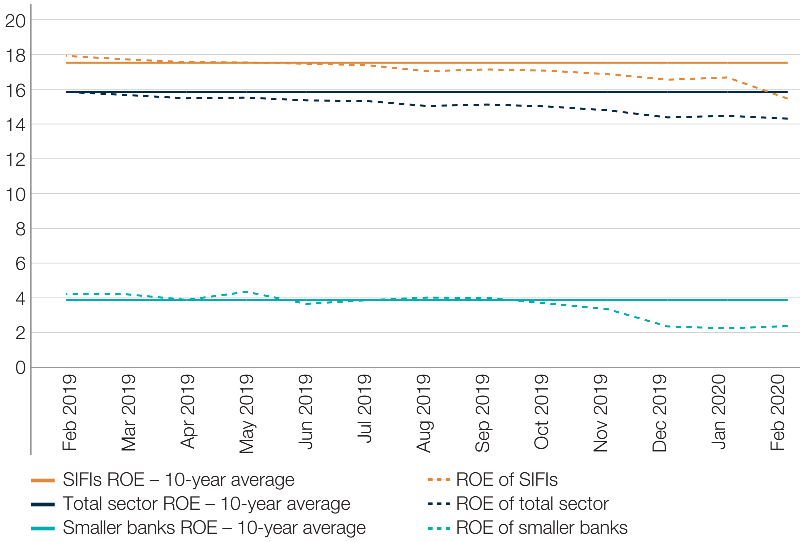
The South African banking sector has shown strong resilience to the various shocks and sharp deterioration in global and domestic macroeconomic fundamentals following the outbreak of COVID-19. This is due, in part, to the capital held by the sector, which is in excess of minimum capital requirements[1], and the R1 trillion of high-quality liquid assets[2] that banks hold as buffers in the event of short-term stress in financial markets. Although the sector has remained profitable, the deterioration of the sector's profitability poses a risk to its continued resilience given the importance of retained earnings in bolstering the sector's capital buffers, as well as the increasing risk resulting from the highly leveraged nature of banking. The deterioration is due to various factors associated with weak domestic economic growth, including declining income (both interest and non-interest income), increasing credit losses and a high fixed cost base.

The sector's return on equity (ROE) has steadily declined from 15.87% in January 2019 to 14.48% in January 2020. ROE over the last year is below the average ROE of 16.07% for the previous 10 years and well below the peak ROE of 20.76% reported in January 2009.

Looking forward, lower economic growth outlook could also lead to reduced lending and increasing credit impairments for the sector. Other impacts on profitability include the sovereign credit ratings downgrade, which is likely to increase interest expense on the sector's funding (making it costlier for financial consumers to borrow), and the declining interest rate cycle, which is likely to reduce the sector's net interest rate margin[3], although an improvement in the affordability of finance could offset this.

Figure 2 shows that the ROE of the sector and of the systemically important financial institutions (SIFIs) are highly correlated. However, the ROE of the non-systemically important banks (or smaller banks) is more volatile. From March 2019 to January 2020, the total sector's ROE declined by 120 basis points whereas the ROE for the smaller banks declined by almost 200 basis points over the same period. Smaller banks tend to be more vulnerable to lower domestic economic growth because their business models are not as diversified as those of the larger banks, as they tend to service one or two sectors of the economy with limited product lines. In addition, smaller banks do not have the broad geographical reach of the larger banks. Although smaller banks individually do not pose a systemic risk to the banking sector, collectively through contagion they can introduce systemic risk to the financial system as concerns about the safety and soundness of one bank could spill over to other banks, and to the system as a whole. One of the motivations for the introduction of an explicit, privately funded deposit insurance scheme in South Africa is to reduce the risk of a small-banks crisis, thereby improving the resilience of the banking sector as a whole[4].

Figure 2: ROE for the total banking sector, SIFIs and smaller banks (%)



Source: SARB.

The ratio of impaired advances to gross loans and advances, a key credit risk indicator, continued to trend upwards from 3.77% in March 2019 to 3.98% in January 2020. The increase is related to effects arising from the implementation of the expected credit loss accounting standard (International Financial Reporting Standard 9 or IFRS 9)[5].

1 *At January 2020, the sector's total capital adequacy ratio amounted to 15.87%, which exceeds the South African minimum regulatory capital adequacy ratio (excluding the bank-specific individual capital requirement, the countercyclical capital buffer, the capital conservation buffer and the D-SIB add-on) of 9%.*

2 *At January 2020.*

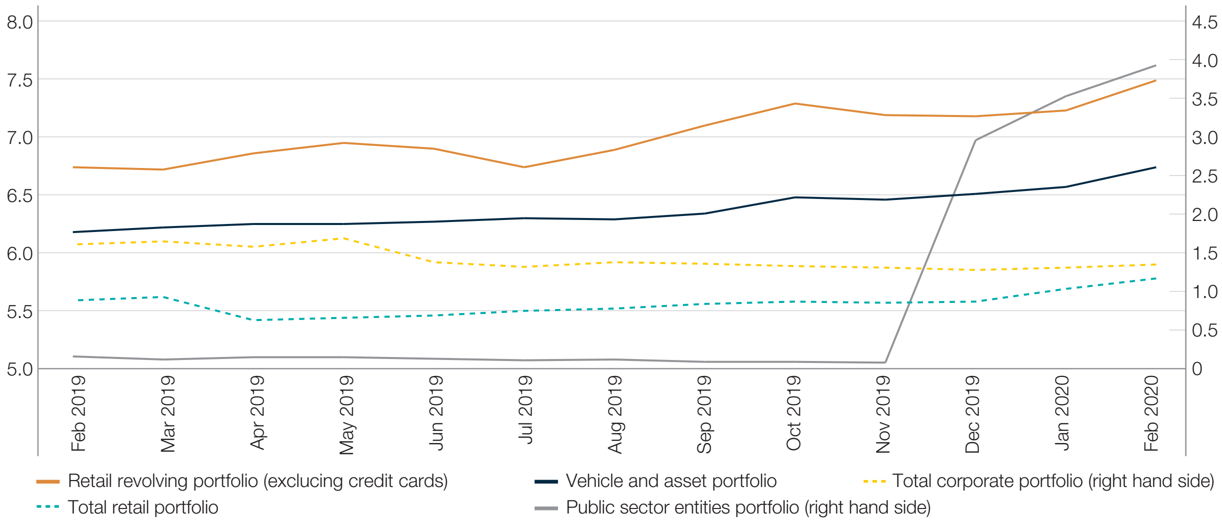
3 *The reduction in the interest rate margin is caused by the negative endowment effect where interest received from rate-sensitive assets declines following a decrease in the repo rate but interest paid on rate-insensitive funding remains unchanged.*

4 *Refer to May 2017 SARB discussion paper on designing a deposit insurance scheme for South Africa.*

5 *Some banks have revised their write-off policies to reflect the IFRS 9 requirement that financial assets are written off once the bank has 'no reasonable expectation of recovering a financial asset' on both an individual exposure and portfolio level. This has also contributed to an increase in reported impaired advances.*

Another indicator of credit risk, the ratio of defaulted exposures to total exposure at default[1] (default ratios), has remained stable at approximately 3% since March 2019. During this period, the default ratios for corporate portfolios declined whereas the retail portfolios increased marginally[2] (Figure 3). The retail portfolios showing the most strain (that is, the largest increases in default ratios since March 2019) were the unsecured term loan portfolios and the retail revolving portfolio (excludes credit cards and consists mainly of overdrafts and unsecured loans with a revolving component). There was a significant increase (340 basis points) in the default ratio for the public sector entities portfolio, although this was off a low base. As explained on page 56 (banking sector-sovereign nexus), the banking sector provides for bad debt that it expects to incur.

Figure 3: default ratios for selected asset categories (%)



Source: SARB.

An indicator of the level of provisioning, the coverage ratio[3], has declined marginally from 46.0% in March 2019 to 43.9% in February 2020. In comparison, prior to IFRS 9 implementation, the coverage ratio averaged 39.7% for the period January 2009 to December 2017 and, post IFRS 9 implementation, averaged 44.5% for the period January 2018 to January 2020. The sector's portfolio credit impairments have also increased from an average of R18.6 billion[4] (prior to the implementation of IFRS 9) to an average of R42.5 billion[5].

The Prudential Authority issued guidance[6] in March 2020 on its interpretation of the application of IFRS 9 to bank initiatives (such as payment holidays) designed to provide relief to customers during the COVID-19 crisis. The guidance ensures that banks consistently apply IFRS 9 to achieve similar outcomes, including preventing relief initiatives from resulting in higher capital requirements. The Prudential Authority is of the view that in the best interests of financial stability, to avoid short-term volatility when reporting expected credit losses, banks should avoid including procyclical assumptions in their macroeconomic models. Furthermore, following sharp increases in government bond yields, changes in fixed deposit terms and the sub-investment downgrade, the Prudential Authority revised the minimum liquidity coverage ratio for the sector to 80% (revised from 100%).

The Financial Sector Regulation (FSR) Act 9 of 2017 provides the SARB with additional legal powers to reduce financial stability risks posed by financial institutions that are systemically important, or to prevent SIFIs or regulators of SIFIs from taking certain actions that could pose a threat to financial stability. In June 2019, the SARB finalised and published its methodology to determine whether a bank is systemically important. Based on this methodology, on 25 November 2019, the Governor informed Absa Bank Limited, Capitec Bank Limited, FirstRand Bank Limited, Investec Bank Limited, Nedbank Limited and The Standard Bank of South Africa Limited that they are designated SIFIs. The designation was made public in FSR: Second Edition 2019.

1 *Default exposures are reported for portfolios for which banks have been granted permission to use the IRB approach for calculating and reporting credit risk. At January 2020, almost 87% of the sector's gross credit exposure was reported using IRB approaches.*

2 *The default exposures of the retail and corporate portfolios collectively constituted almost 90% of the IRB portfolio's total defaults.*

3 *The coverage ratio is specific credit impairments as a percentage of impaired advances.*

4 *Average for the period January 2008 to December 2017.*

5 *Average for the period January 2018 to January 2020.*

6 *Banks Act Guidance Note 3 of 2020.*

Preparing for the SARB's role as resolution authority

During 2019, the SARB assisted the National Treasury with the finalisation of the Financial Sector Laws Amendment Bill (FSLAB) for submission to Parliament. The FSLAB will make the SARB the resolution authority for designated institutions, which include all banks and non-bank SIFIs. The SARB's responsibilities will include dealing with failing designated institutions and developing resolution plans for all designated institutions, irrespective of whether they face an imminent risk of failure.

Work to prepare for its new resolution planning responsibilities is ongoing and in June 2019, the SARB published a discussion paper[1] on how it intends to implement the resolution framework for banks. The SARB also established a Resolution Policy Panel (RPP) as a permanent subcommittee of the FSC. The RPP will develop resolution planning policies and guidelines for approval by the FSC. These policies will be converted to secondary legislation after the promulgation of the FSLAB.

CORPORATION FOR DEPOSIT INSURANCE

A project is underway to prepare for the establishment of the Corporation for Deposit Insurance (CoDI) (South Africa's deposit insurance scheme) as an independent subsidiary of the SARB, with its own Board and governance structures as recommended by international standards[2].

The implementation project covers:

> Preparations to legally establish the CoDI as a statutory company.

> Developing internal processes and procedures, including alignment with existing SARB systems, mainly in the Financial Services and the Financial Markets departments. Some support functions will be provided by the SARB.

> Drafting and publishing policy proposals setting out coverage rules, reporting requirements, data delivery processes, funding requirements, investment mandates, public awareness responsibilities and pay-out mechanisms. These policies will be converted to secondary legislation after the promulgation of the FSLAB.

> Implementing a system to collect and process single-customer-view information on all depositors and to facilitate fast pay-out to depositors in the event of a bank failure.

As part of its Financial Sector Regulation Development Programme, the World Bank is reviewing the project's outputs to ensure that South Africa follows best practice.

FINANCIAL STABILITY BOARD PEER REVIEW

Between June 2019 and February 2020, the Financial Stability Board (FSB) conducted a peer review of the design and implementation of South Africa's resolution framework and deposit insurance scheme as set out in the FSLAB. The findings, published in the FSB's final report in March 2020, were positive and supportive of the work the SARB is doing.

1 *Discussion paper titled 'Ending too big to fail: South Africa's intended approach to bank resolution'.*

2 *The Core Principles for Effective Deposit Insurance Systems.*

Governance structures

The governance structures set out below facilitate the SARB's role in protecting and enhancing financial stability.

FINANCIAL STABILITY COMMITTEE | Met four times during the reporting year

Chairperson
Governor of the SARB

Members
Deputy Governors and other MPC members as well as eight SARB officials appointed by the Governor.

Responsibilities

> Monitors vulnerabilities in the global and domestic environments, assessing their possible implications for domestic financial stability and implementing any mitigating policy actions.

> Communicates, in the biannual FSR, the assessment of financial stability, the risks to financial stability in the upcoming 12 months and policy actions introduced.

FINANCIAL STABILITY OVERSIGHT COMMITTEE | Met twice during the reporting year

Chairperson
Governor of the SARB

Members
SARB, the National Treasury and representatives of all financial sector regulators[1].

Responsibilities

> Supports the SARB in fulfilling its statutory mandate.

> Facilitates cooperation between the financial sector regulators and the FSC on financial stability matters.

> Makes recommendations to the Governor on the designation of SIFIs.

> Makes recommendations to other organs of state to assist in promoting, protecting, maintaining, managing or preventing risks to financial stability.

Topics discussed during the year included:

> Synthesis of FSC meetings.

> National Payment System policy review.

> Fiscal risks report.

> Anti-money laundering/countering the financing of terrorism (AML/CFT) compliance.

> Systemic issues in the South African banking sector.

> Common Monetary Area cross-border payment transactions.

> Designation of SIFIs in South Africa.

1 *Financial Sector Conduct Authority, Financial Intelligence Centre, National Credit Regulator and Prudential Authority.*

FINANCIAL SECTOR CONTINGENCY FORUM (FSCF) | Met twice during the reporting year

Chairperson
Deputy Governor, Rashad Cassim

Members
SARB and representatives of financial sector regulators, financial sector industry associations and organs of state.

Responsibilities

> Identifies potential risks that may result in the occurrence of a systemic event.

> Coordinates appropriate plans, mechanisms and structures to mitigate these risks.

The FSCF has established two subcommittees – the Operational Risk Subcommittee and the Financial Sector Cyber Resilience Subcommittee – to assist it to achieve its objectives in specialised risk areas in the financial sector.

Topics discussed and activities during the year included:

> Crisis simulation exercises.

> The impact of water shortages in the Western Cape and climate change on the financial sector.

> Feedback from the industry on emerging risks and cybersecurity.

REPORT OF THE PRUDENTIAL AUTHORITY

Operational structure

FINANCIAL CONGLOMERATE SUPERVISION DEPARTMENT

Responsible for the consolidated prudential supervision of institutions designated as financial conglomerates, as well as for the supervision of anti-money laundering and countering the financing of terrorism.

Head of Department
DENZEL BOSTANDER

RISK SUPPORT DEPARTMENT

Responsible for providing regulatory and supervisory support on credit, operational, market, liquidity and insurance risk, as well as for quantitative and actuarial analysis and financial institution statistics.

Head of Department
FAIZEL JEENA

BANKING, INSURANCE, COOPERATIVE FINANCIAL INSTITUTIONS AND FINANCIAL MARKET INFRASTRUCTURE SUPERVISION DEPARTMENT

Responsible for the prudential supervision of the medium- to smaller-sized banks, insurance companies and cooperative financial institutions (CFIs), as well as securities and derivative market infrastructures (MIs), on both a solo and a consolidated basis, where applicable.

Head of Department
SUZETTE VOGELSANG

POLICY, STATISTICS AND INDUSTRY SUPPORT DEPARTMENT

Oversees policy formulation and the development and implementation of regulatory and supervisory frameworks. It also provides operational support, industry analysis and technical support on capital and accounting requirements as well as support on legal administration and enforcement responsibilities.

Head of Department
UNATHI KAMLANA

As part of its day-to-day activities, the Prudential Authority has also set up the following technical structures, which serve as internal advisory structures to the Chief Executive Officer (CEO) of the Prudential Authority: Policy Panel, Licensing Panel, Restructures and Expansions Panel, Prudential Authority Regulatory Actions Committee, Risk and Capital Review Panel, Conversions Panel and Designation Panel.

Progress against the regulatory strategy

The regulatory strategy sets out the Prudential Authority's approach to regulation and supervision and its key priorities to 2021.

REGULATORY STRATEGY PRIORITIES	2019/20 PERFORMANCE HIGHLIGHTS
Strengthen the regulation and supervision of banking institutions with updated Basel III requirements, updating regulatory requirements related to mutual banks, assessing the cooperative banks framework and developing prudential standards for CFIs.	**Regulations relating to banks** > Held extensive discussions with key stakeholders on the implementation of relevant internationally agreed regulatory reforms in South Africa. > To date, the following proposed changes to banking regulation have been released for public consultation: – A standardised approach for measuring counterparty credit risk exposures. – Capital requirements for banks' equity investments in funds. – A capital standard for bank exposures to central counterparties. – A supervisory framework for measuring and controlling large exposures. – A total loss-absorbing capacity holdings standard. – Revisions to the securitisation framework. – Capital treatment for simple, transparent and comparable short-term securitisations. > Issued Guidance Note 6 of 2019 (November), which sets out the proposed implementation dates for the Basel III post-crisis reforms. > Issued a new directive setting out minimum reporting requirements for banks in relation to material IT and/or cyber incidents. The directive also tasks banks with maintaining robust governance structures and incident management frameworks. **Mutual banks and cooperative financial institutions** > Issued Guidance Note 2 of 2019 (September), which guides prospective CFIs on drafting policies relating to business plans, savings and loans. > Issued Guidance Note 1 of 2020 (March), which assists prospective CFIs and cooperative banks in applying for registration with the Prudential Authority.
Implement prudential regulation and supervision of financial conglomerates, including working to obtain a holistic view of group-wide activities, intragroup transactions and large exposures.	> Issued a set of draft prudential standards in March 2020 to facilitate informal consultation on the proposed regulatory framework for financial conglomerates and started developing the supervisory framework for these conglomerates. > Updated the designation criteria for financial conglomerates based on industry feedback received in the first round of informal consultation.

REGULATORY STRATEGY PRIORITIES	2019/20 PERFORMANCE HIGHLIGHTS
Prudentially regulate MIs, including strengthening the resilience of MIs and ensuring that international principles related to MIs are adhered to, where appropriate.	> Together with the SARB's Financial Stability Department and the Financial Sector Conduct Authority (FSCA), assessed the compliance of JSE Clear (the clearing house and central counterparty functions of the JSE for all transactions in listed derivatives) against the Principles of Financial Market Infrastructures. The international principles have been issued by the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions to help ensure the safety, efficiency and resilience of financial MIs globally. > Working with the FSCA, approved variations to certain MI licences and are assessing applications for new MI licences. > Together with the FSCA, published a joint standard relating to the licensing of central counterparties. Certain determinations have also been published relating to the licensing of external central counterparties and external trade repositories, and a draft equivalence framework for these entities has been developed. > Working with the FSCA on certain guidelines and directives for MIs relating to governance, cyber resilience and incident reporting.
Prudentially regulate and supervise insurers by embedding the insurance Solvency Assessment and Management principles and issuing further regulatory instruments per the Insurance Act 18 of 2017.	> The work to convert insurance licences issued under the Long-term Insurance Act (1998) and/or the Short-term Insurance Act (1998) to licences under the new Insurance Act is underway. The Insurance Act requires the licences of all registered insurers to be converted by no later than 30 June 2020. > Released the prudential standard on fees payable for various applications (over and above licensing) made in terms of the Insurance Act effective 1 January 2020. The standard also sets out ancillary details such as the timing of payment, consideration of an application, value-added tax and refunds.
Establish a framework for significant owners, including the development of regulatory standards on significant ownership.	> Together with the FSCA, developed, finalised and published in March 2020 the Joint Standard on Fit and Proper Person Requirements for Significant Owners of financial institutions. The joint standard outlines what constitutes an increase or decrease in the extent of the ability of a person, alone or together with a related or inter-related person, to materially control or influence a financial institution's business or strategy. The joint standard is effective from October 2020.
Conclude Memoranda of Understanding (MoUs) with other financial sector regulators, namely the FSCA, National Credit Regulator, Financial Intelligence Centre and the SARB.	> Continued to collaborate and coordinate with the relevant regulators in line with respective MoUs.

Progress against additional priorities

The Prudential Authority also focuses on the following additional priorities, playing a supporting role insofar as they pertain to its mandate.

ADDITIONAL PRIORITIES	2019/20 PERFORMANCE HIGHLIGHTS
Transformation of the broader financial sector.	> Started determining the approach to transformation in line with the objectives of the FSR Act to transform the financial sector as envisaged by the Financial Sector Code for Broad-Based Black Economic Empowerment. The Insurance Act, as the first financial sector law enacted since the FSR Act, places certain requirements on the Prudential Authority to facilitate the transformation of the insurance sector.
Sustainable competition in the provision of financial products and services.	> Developing a policy position paper on the Prudential Authority's approach to supporting competition in the provision of financial products and services in a collaborative and coordinated manner with other South African regulators.
Financial inclusion as well as developments in financial technology (fintech).	> Started work to support financial inclusion. The National Treasury's strategy for financial inclusion will further inform the Prudential Authority's approach to this national imperative. The Prudential Authority's contribution will take the form of developing and implementing proportional regulatory and supervisory frameworks for regulated financial institutions based on nature, size and complexity. To date, the Prudential Authority has: – Licensed one new micro-insurer, converted one existing insurer to a micro-insurer and is considering several new micro-insurer licence applications (in line with the Insurance Act's new regulatory framework for micro-insurance). – Licensed one new CFI, with several applications in various stages of the licensing process. > The Prudential Authority is a member of the Intergovernmental Fintech Working Group and the SARB's Innovation Hub. Both platforms enable the Prudential Authority to gain deeper insights into fintech innovation. Advancing fintech: page 32.
Integrity in terms of compliance with the AML/CFT provisions of the Financial Intelligence Centre Act 38 of 2001.	> Starting in March 2019, the Financial Action Task Force (FATF) assessed South Africa's technical compliance and effectiveness with its recommendations. The review comprised a technical compliance questionnaire and an on-site effectiveness assessment by representatives from FATF, the IMF and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Various stakeholders, including the SARB's Financial Surveillance and National Payment System departments participated in the on-site assessment. Two drafts of the FATF's report have been received, providing South Africa with the opportunity to review and provide feedback to the assessors. The COVID-19 pandemic has delayed the mutual evaluation process, with meetings postponed to October 2020. It is anticipated that the report will be tabled at the FATF Plenary in October 2020 and discussed at the ESAAMLG Council of Ministers Forum in March or April 2021. The publication of the report will be confirmed by the FATF closer to that time.
The prudential regulation and supervision of medical schemes, pension funds, collective investment schemes and friendly societies.	> Working with the National Treasury, the FSCA and, where relevant, the Council of Medical Schemes, established various task teams to determine how additional types of financial institutions outlined in the FSR Act as pension funds, collective investment schemes, friendly societies and medical schemes will be regulated from 1 April 2021 and beyond. The FSCA and the Council of Medical Schemes currently regulate these financial institutions, however it is expected that the Prudential Authority's regulatory perimeter will expand over the next three years to include them. Included in this work is determining the feasibility of the 2021 timeframe, to be decided by the Minister of Finance.

Financial Sector Assessment Programme

The Prudential Authority participated in the South African 2020 Financial Sector Assessment Programme (FSAP) review conducted by the World Bank and IMF. The review assessed the stability and development needs of South Africa's financial system. The work programme includes an assessment of how regulators of the financial sector oversee and respond to systemic risk, emerging issues, risk analysis, AML/CFT, fintech, cyber resilience, climate risks and sustainable finance, among others. The IMF will confirm the publication of its FSAP notes and findings in due course.

Leveraging technology

The Prudential Authority is using technology advances to improve the quality of its supervision. Together with the SARB, it is investing in infrastructure to extract data from financial service providers and analyse large granular data sets to support predictive models that will identify potential risk areas. This is aligned to a global shift towards risk-based supervision, where regulators play a more proactive role in identifying risk factors and working with the financial services sector to take mitigating actions.

Sustainable finance and climate change

In line with the increased prominence of sustainable finance and climate change issues on the agendas of international regulatory organisations, the Prudential Authority actively participated in related discussions through its memberships in the Sustainable Insurance Forum and Basel Committee on Banking Supervision.

In July 2019, the SARB formally joined the Network of Central Banks and Supervisors for Greening the Financial System (NGFS). The NGFS aims to help strengthen the global financial sector's response to meeting the Paris Agreement goals, including enhancing the role of financial systems in managing risks and mobilising capital for green and low-carbon investments. The SARB is also an active member on key workstreams to address climate-related supervisory practices, develop analytical climate risk frameworks and develop green taxonomies.

Climate change: physical and transition risk to financial system stability: page 57.

In 2019, the Prudential Authority surveyed the domestic banking and insurance sector on the implementation of the Task Force on Climate-related Financial Disclosures recommendations – an industry-led initiative established by the FSB to develop voluntary, consistent climate-related financial disclosures that help investors, lenders and insurance underwriters understand material risks.

The conclusions drawn from the survey indicate:

> An acute awareness among financial institutions (banks and insurers) that climate change will impact business.

> A need for more climate-related reporting to enhance industry's understanding of climate risk to better inform business planning and strategy conversations.

The Prudential Authority will publish further guidance for banks and insurers on assessing climate risks. It will also enhance its supervisory processes and activities to include climate risks within its overall risk assessment of financial institutions. In addition, the Prudential Authority recognises the importance of introducing specific regulatory climate reporting requirements. While work on this has not yet started, some level of reporting requirements is likely to be introduced towards the end of 2020 or early in 2021.

Governance structure

The FSR Act prescribes the governance structure (including the Prudential Committee), resources, financial management and reporting obligations of the Prudential Authority.

PRUDENTIAL COMMITTEE | Met nine times during the reporting year

Chairperson
Governor of the SARB

Members
Deputy Governors, with one of the Deputy Governors being the CEO of the Prudential Authority.

Standing invitees
The four Prudential Authority Heads of Department.

Responsibilities

> Provides oversight on the management and administration of the Prudential Authority to ensure that it is efficient and effective.

> Oversees the implementation of key matters assigned to the Prudential Authority by various laws pertaining to the financial sector.

> Authorises the CEO of the Prudential Authority to sign MoUs with other international regulators.

> Develops prudential and joint standards as well as other regulatory instruments in terms of various laws pertaining to the financial sector.

> Approves the Prudential Authority's annual report for tabling at the National Assembly.

HUMAN RESOURCES REPORT – A PURPOSEFUL JOURNEY

Ensuring employee well-being

Within 24 hours of the declaration of a national state of disaster in terms of the Disaster Management Act on 15 March 2020, the Governors' Executive Committee (GEC) mandated the following measures (among many others) to ensure the safety of the SARB's employees during the COVID-19 outbreak:

- The cancellation (effective 2 March 2020) of all international travel, SARB events and external meetings (except in exceptional circumstances).
- The closure of common areas such as the canteen, gymnasium and recreational spaces.
- Provision of protective apparel (gloves and masks) to employees who frequently interact with people.
- Increased access to hand sanitisers and thermal imaging screening and medical procedures (in compliance with the National Institute for Communicable Diseases and Department of Health protocols) implemented at specific entrances and exits.
- In addition to a weekly communication from the Governor, employees received daily information providing them with guidance, advice and answers to frequently asked questions relating to COVID-19.

Employees received guidance on hand hygiene, social distancing, ways to maintain their health and what to do if they started experiencing any of the COVID-19 symptoms. Employees also had access to the 24-hour Independent Counselling and Advisory Services hotline to help them cope with the impact of the pandemic and the change in ways of working, as well as a dedicated medical line manned by trained medical personnel able to provide advice, screening, escalation and case management services in line with best practice protocols. In addition, employees were encouraged to make use of the staff blog to share their coping strategies with one another.

People strategy

As the 2020 people strategy draws to a close, the SARB has achieved many of its objectives. Good progress has been made in terms of workforce planning, talent management, harmonising people management practices across the Group and the development of an employee value proposition (EVP). The SARB has also made organisational design changes, introduced programmes to develop effective managers and effectively resourced the implementation of the Prudential Authority.

The four human capital priorities, discussed in this chapter, have been elevated to drive a culture of performance and create a work environment that engages and motivates people. Success in these focus areas will enhance the SARB's ability to attract, develop and retain engaged and capable employees.

The new 2025 people strategy will continue to focus on these four human capital priorities, with additional emphasis placed on digital transformation, including using technology such as artificial intelligence to streamline human resources processes and practices and upskilling and reskilling programmes for employees.

Maturing talent management and workforce planning

At a time of fierce competition for suitable skilled people, it is pleasing to report that the SARB's talent management measures are maturing. The depth of succession and coverage ratio for critical roles has remained at similar levels to last year, and the decline in regrettable employee turnover indicates that the SARB has been able to retain the talent required to support its strategic focus areas. Workforce planning identifies the skills needed to address future requirements.

2019/20 PERFORMANCE HIGHLIGHTS

Depth of succession for critical roles
1:1
(target: 2:1)
2018/19: 1:1

Coverage ratio for critical roles
82%
(target: 85%)
2018/19: 91%

Average time to fill critical roles
139 days
(target: 60 days)
2018/19: 157 days

Number of employees
2 189
2018/19: 2 125

Regrettable employee turnover
1.10%
(target: 4%)
2018/19: 1.32%

Overall employee turnover rate
5.3%
2018/19: 5.8%

The **17** postgraduates
participating in the SARB's 2019/20 Graduate Development Programme,
successfully completed their studies, including work experience, and were offered employment at the SARB (2018/19: 22).

A total of **324** managers
across all levels attended at least one of the following four management and leadership development programmes.

Management Fundamentals Programme (11 standalone modules): 189 team leaders attended, with each delegate participating in an average of three modules. The total number of training events was 569 (2018/19: 661).

Senior Management Programme (six-month programme): 38 current and potential divisional heads attended.

Emerging Leaders Programme (five-month programme): 57 newly appointed managers and team leaders with limited managerial experience attended.

Transitions Programme (four-day programme): 40 managers who experienced a change in their role attended, receiving support to effectively manage the transition.

Maturing performance management and aligning it to reward and recognition

Employees are rewarded for their performance and contributions to the SARB's strategic objectives. The performance contracts of departmental heads align with the SARB's strategic objectives and are cascaded to all managers.

The SARB's Remuneration Policy and total reward strategy promote a flexible, balanced, integrated and cost-effective reward structure, covering fixed pay, variable pay and recognition, benefits, work-life balance and career development and opportunities.

2019/20 PERFORMANCE HIGHLIGHTS

- Introduced the Job Evaluation Validation Panel to enhance the total reward strategy. The panel is tasked with promoting compliance and transparency in the job evaluation process. All panel members received training during the reporting year.
- Concluded the post-implementation review of the career pathing framework. In response to the review findings, the SARB revised the criteria for identifying specialist roles and aligned career descriptions for functional contributors with the SARB's qualification framework, making it easier for employees to understand their potential career paths.

Fostering employee engagement

The SARB continues to drive a culture that encourages open and transparent communication and consultation and which embraces diversity as an asset that delivers diverse thinking.

The SARB's employment equity efforts continue to build a sustainable workforce that reflects the demographics of the economically active population in South Africa. Appointing African women in senior positions is a continuing focus area for the SARB.

2019/20 PERFORMANCE HIGHLIGHTS

The SARB conducted an employee engagement survey in February 2020, with a workforce participation rate of 83% from 78% in 2019. The survey indicates alignment between the SARB's employees and its strategic objectives and that engagement, pride in working for the SARB and work-life balance are key strengths.

All 14 categories of engagement showed year-on-year improvement, including the three universal competencies of CEB's[1] ClearAdvantage Framework for successful organisations. Alignment improved to 82% from 80%, engagement to 73% from 70% and agility to 61% from 57%. Benchmarked against the South African workforce, the SARB scores 11% higher for alignment and 8% higher for engagement and is on par with the agility benchmark.

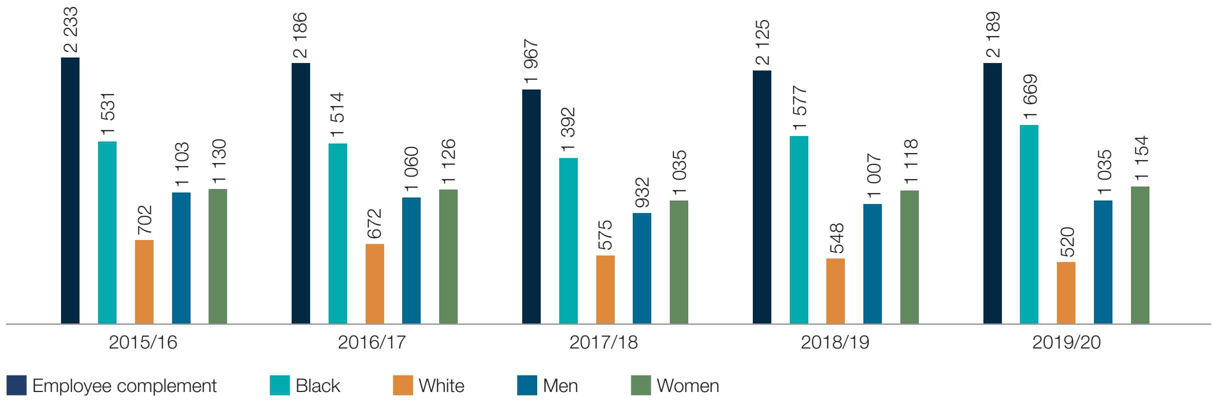
Since 2018, the SARB has achieved a 5% improvement overall for the following categories of the survey: career and development, respect and trust, recognition and reward, openness and communication and performance management and empowerment. The openness and communication category increased to 54%, the first time in the history of the survey that this category has scored above 50%.

These improvements are attributed to more transparent and clear career paths, enhanced communication with employees on the career path review process and providing employees with opportunities to raise queries. In addition, the SARB's leadership development programmes have strengthened the relationships between managers and their direct reports, facilitating more frequent career conversations, performance feedback and recognition. The improvement in the empowerment category indicates the success of Project Shesha in eliminating ineffective processes, with employees feeling more empowered to make decisions and raise issues.

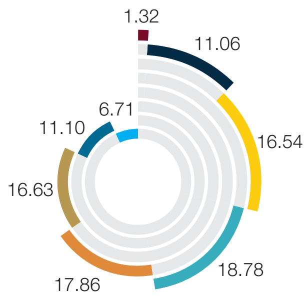
While the scores received for women, specialists and under 30s have generally improved, they are still lower than other employee groups, indicating a need for better engagement with these employees. The SARB will continue to leverage the Women@SARB and SARBConnect platforms to engage with women and under 30s on the specific issues they experience, and departments which employ specialists are receiving support on how to engage on the unique issues that affect this employee segment.

1 *CEB: the Corporate Executive Board (now Gartner) is a research and insights organisation.*

Headcount over five years (number of employees)



Age breakdown (%)

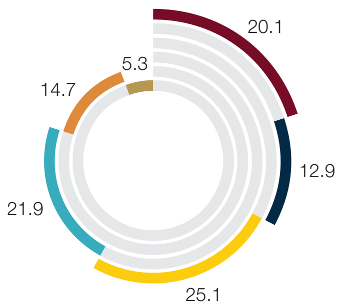


Years	Employees
<25	29
25 – 30	242
31 – 35	362
36 – 40	411
41 – 45	391
46 – 50	364
51 – 55	243
>55	147

Average age
41
years

2018/19:
41 years

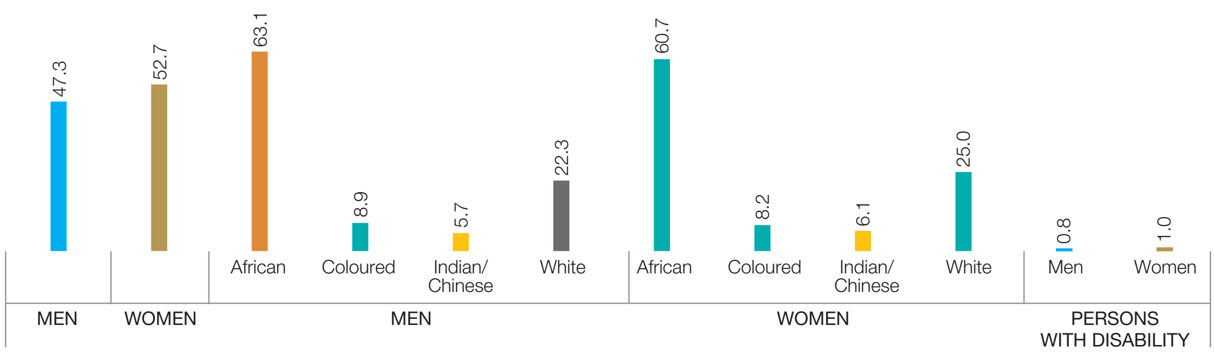
Years of service breakdown (%)



Years	Employees
0 – 1	440
2 – 4	282
5 – 10	549
11 – 20	479
21 – 30	322
Above 30	117

Average
years of service
11
years

Employment equity profile (%)



Developing an employee value proposition for the strategic future workforce

EMPLOYEE VALUE PROPOSITION

Prior surveys have highlighted the following attributes as critical to the SARB's EVP: public good, reputation, organisational stability, work-life balance, development opportunities and compensation and benefits. The last EVP survey, undertaken in February 2019, indicated that 91% of respondents were proud to work for the SARB based on its reputation and role in society.

The SARB's core EVP message – a purposeful journey – aligns with the SARB's vision and values as well as its strengths. The SARB's EVP attributes (or strengths) differentiate it from talent competitors, with emphasis on the reputation, public good and organisational stability attributes.

Culture Strengthening Project

The aim of the Culture Strengthening Project (ended March 2020) was to identify the positive elements of the SARB's culture, such as professionalism, integrity, and trust, and strengthen them, and at the same time transform the culture to one that is 'empowering, agile, caring and collaborative'.

Employees and leaders attended workshops to co-create the desired culture. Following GEC approval in the reporting year, a communication campaign was launched to familiarise employees with the new culture statement. An approach is being developed to embed the desired culture and sustain it in day-to-day operations and will be implemented in the next financial year.

LEARNING AND DEVELOPMENT

The SARB's training investments and programmes ensure that employees develop the skills they need to perform their duties, advance their careers and keep abreast of continually changing business operations.

2019/20 PERFORMANCE HIGHLIGHTS

Number of employees trained

1 909

2018/19: 2 118

This equates to 87.2% of the workforce attending a training intervention during the year.

Training breakdown

Of the 1 909 employees trained:

65% are African.

53% are women.

1% are people with disabilities.

Training spend

R63.6 million

2018/19: R54.9 million

Training spend as a percentage of total payroll was 3% (2018/19: 3%).

SARB RETIREMENT FUND

The SARB Retirement Fund is a single scheme that provides a full spectrum of pension benefits to the employees of the SARB, South African Mint Company (RF) Proprietary Limited and South African Bank Note Company (RF) Proprietary Limited.

At 31 March 2020, the SARB Retirement Fund had 2 260 contributing members, 126 preserved members, 956 life annuitants, 199 life annuities (formerly the SARB Pension Fund), 68 living annuitants and 14 deferred retirees (members who have retired from the Group but not from the fund). The fund's total liability amounted to R6 332 million at year-end.

Statutory actuarial valuations are performed every three years and interim actuarial valuations annually. The last statutory actuarial valuation was in March 2018 and found the fund's financial position to be sound.

An Investment Committee oversees the external asset manager which manages the fund's assets. The Board of Trustees actively monitors changes in the retirement industry, including any relevant legislative changes. Members are kept informed using roadshows, circulars and fund booklets. The fund's operations are regularly reviewed to ensure compliance with legislative changes and leading retirement fund practice.

LOOKING AHEAD

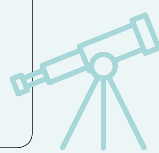
> Ensure organisational readiness to support new ways of working and the workforce of the future.

> Implement action plans to address specific issues raised in the employee engagement survey, which will also assist to improve the employee experience.

> Strengthen organisational culture and remove barriers to high performance.

> Develop leaders and managers.

> Further embed talent management, performance management and reward processes.



INFORMATION AND TECHNOLOGY REPORT

Information and technology (I&T) enable the business capabilities needed to ensure the SARB's success in executing its overall strategy.

The I&T function is tasked with being a reliable and trusted business partner that excels at:

- Advanced analytics built on solid information management.
- Cyber and information security.
- Mission-critical central banking systems.
- Integration technologies (interfacing between systems).
- Process optimisation.

I&T strategy

During the reporting year, the I&T strategy was refreshed to support the SARB's 2025 strategic plan. The GEC approved the refreshed strategy during the last quarter of 2019/20.

The following are the core themes of the revised I&T strategy:

> Deliver strategic I&T solutions that are cost effective and support the business priorities of the core SARB functions.

> Develop partnerships to support the SARB's strategic change portfolio with a focus on digital leadership, enterprise change management and the delivery of large strategic transformational (Tier 1) programmes.

> Develop information management best practices aimed at ultimately reducing regulatory burden and cost. This will include leading industry collaboration to standardise data taxonomies and promote increased data sharing. Internally, embedding data governance, improving internal data sharing, digitisation of records and automating insights will continue to be focus areas.

> Support business to better utilise current and emerging technology and strengthen governance around I&T architecture and investments.

> Mature project execution and improve internal processes to embed a trusted delivery capability.

> Reduce manual processes, digitise human resources processes, enable remote working and use collaborative technology to enhance stakeholder experience.

> Invest in capability, technology and partnerships to improve cybersecurity measures and resilience.

> Build an engaged, energised, inclusive, impactful and evolving workforce culture.

Key I&T strategy and operational scorecard measures for 2019/20 included:

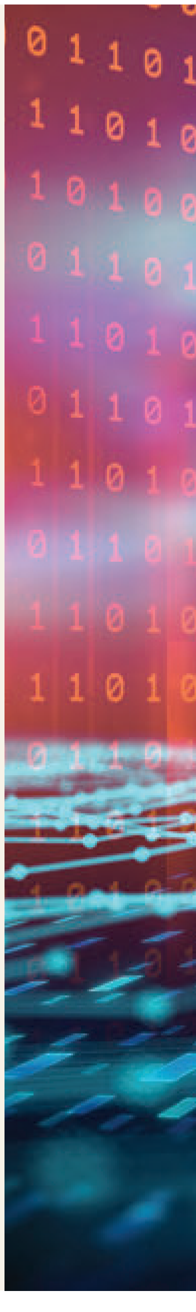
> Progress of the key Tier 1 programmes that support the strategic focus areas (SFAs).

> Progress against tactical business demand.

> Delivering services that enable the SARB to perform its core functions.

> Refreshing the I&T strategy to support the SARB's 2025 strategy.

> Improving internal processes and capabilities that assist the I&T function to deliver against its mandate.



2019/20 PERFORMANCE HIGHLIGHTS

Good progress was made against the 2019/20 I&T objectives, reflected in the delivery of the SARB's SFAs. During the national lockdown to contain the impact of the COVID-19 pandemic, the SARB successfully transitioned ways of working using existing and new collaboration technologies to ensure continued business operations.

Secure systems

- Continued to implement the information security operating model.
- Continued to implement security solutions to protect the SARB's information and communications technology against cyber threats.
- Implemented controls for 31% of the identified moderate[1] cyber risks, reducing these to a lower risk level.
- Stabilised all moderate to extreme[2] level incidents to pre-incident risk levels without stakeholder complaints.

Enhanced information management

- Continued to improve the governance of data and data sharing, embedding data stewards in core departments and developing data strategies for certain core functions and programmes.
- Delivered key data components for Tier 1 programmes.
- Revised the information management strategy as part of the revised I&T strategy.

Robust I&T governance

- Amended the terms of references for key IT governance forums, focusing on information and technology as separate but complementary disciplines. This aligns more closely with Principle 12 of the King Report on Corporate Governance in South Africa 2016.
- Continued to improve the SARB's compliance to the requirements of the Protection of Personal Information Act 4 of 2013.

Governance of I&T: page 36.

Cost saving

- Saved over R43 million due to consolidations, robust supplier engagement and the renegotiation of contractor rates.

Improved service delivery

- Implemented a financial markets solution to provide a consolidated view of portfolio risk exposure, including market, credit and compliance risk as well as performance management and accountability.
- Implemented a cloud-based email archive solution for the SARB and its subsidiaries.
- Implemented Money and Banking Release 3 for Economic Statistics, a business intelligence solution.

Ensuring critical system availability

- The average availability of critical systems was maintained at 99.98%, above the scorecard target of 99%. Three planned and two unplanned IT systems recovery tests were successfully conducted.
- Made good progress in executing the data centre strategy aimed at providing high-availability systems and enhancing cyber resilience.

LOOKING AHEAD

- Execute the refreshed I&T strategy, with more frequent reviews to support an adaptive I&T strategy.
- Drive the execution of the Tier 1 programmes in collaboration with the business.
- Build key capabilities to assist the digital transformation of the SARB.

1 Requiring active security intervention.
2 Incidents with a potentially high level of impact.

STAKEHOLDER ENGAGEMENT REPORT

When the SARB is viewed as transparent and accountable to stakeholders, it builds trust and credibility and maximises its legitimacy.

The SARB understands that, for it to succeed in delivering on its mandate, it must engage and communicate with a wide array of stakeholders, ranging from members of the public to those it regulates. The SARB's strategic plan highlights the delivery of targeted internal and external stakeholder engagement to support the realisation of its intended outcomes. It has made good progress in reaching out to more stakeholders, with various initiatives across all nine of South Africa's provinces enabling broader communication, including at local and community levels.

Reputation

A key objective of stakeholder engagement is to use stakeholder inputs to drive transparent decision-making. This ensures wider support for the SARB's decisions. It is therefore important for the SARB to ensure that all stakeholders are engaged with its vision and mandate. To understand the level of engagement, the SARB commissions reputation surveys every two years. The 2019 study, conducted by an independent agency, measured the current perceptions of the SARB. From the results, a roadmap will be created to assist the SARB to achieve its desired reputation level.

In the survey, informed stakeholders gave the SARB a high score for reputational equity. In addition, these stakeholders tended to be more favourable towards the SARB and more likely to exhibit favourable behaviour and/or advocacy for the SARB. This is reflected in the increase in positive scores relating to the drivers[1] of the SARB's reputation.

While public awareness about the SARB increased, familiarity remained low. Among the general public, the SARB's reputation declined based on this stakeholder group's view that it is a subsidiary of government and thereby associating it with the generally negative perceptions and attributes of government.

The survey recommended more education programmes for the general public and an increase in strategic engagement with stakeholders and the media. Insights from this study will be used to develop a new stakeholder engagement strategy.

COVID-19

Around the world unprecedented measures were required to contain the spread of COVID-19 and cushion the impact on economies. South Africa was no exception. The SARB engaged clearly and transparently with various stakeholder groups on its actions to mitigate against a cash flow shortage resulting from economic inactivity during the lockdown period. It also adapted its engagement platforms to meet social distancing regulations, using mechanisms such as virtual forums and press conferences and tele-conferencing to keep in touch with stakeholders. In addition, the frequency of communication with employees was significantly increased.

Ensuring employee well-being: page 68.

1 Drivers of reputation include citizenship, communication, ethical governance, image, leadership and relationship management.

Engagement in 2019/20

MONETARY POLICY

19
Monetary Policy Forums held, reaching
1 654
people.

A wide array of stakeholder groups, including academics, labour, business, government and analysts, attended the SARB's Monetary Policy Forums (MPFs) in major centres across South Africa. These direct interactions with stakeholders assist to develop a better understanding of monetary policy. Honest and robust discussion and debate took place at the MPF in Soweto, Gauteng, which was attended by over 250 people.

Topics covered

- Interest rates.
- Inflation.
- Economic growth outlook.
- Exchange rate dynamics.
- Trade tensions.
- Inter-relationship between South Africa's fiscal and monetary policy.

FINANCIAL STABILITY

Held
two
Financial Stability Forums.

The Financial Stability Forums are used to release the SARB's Financial Stability Reviews and provide a platform for the SARB to exchange views and seek inputs from targeted stakeholders.

Common themes

- Potential risks to financial system stability and, more broadly, South Africa's economy.

ECONOMIC ROUNDTABLES AND INVESTOR ENGAGEMENTS

More than
240
participants attended economic roundtables, including SARB employees.

The economic roundtables give market economists, industry experts, research analysts, asset managers and policymakers an opportunity to exchange their views with the SARB. These sessions serve as a barometer to understand how these stakeholders view and feel about the SARB's policy decisions. Normally held on a quarterly basis, the session scheduled for the end of March 2020 was cancelled due to the COVID-19 outbreak.

Topics covered

- The economic impact of electricity supply constraints.
- Global economic trends.
- Expropriation of land without compensation.

OTHER ENGAGEMENTS

Engaged with
108
diplomats at a dinner for Heads of Foreign Missions.

The annual dinner for Heads of Foreign Missions based in South Africa allowed diplomats and SARB employees to network and discuss global and domestic economic trends as well as the role of the SARB and its view of the economy.

The SARB also met with various stakeholders in all nine provinces, including students, community organisations, academics and small businesses.

Topics covered

- Global and domestic economic trends.
- The nature and conduct of monetary policy.
- The role and functions of the SARB.
- The 'know your money' awareness campaign, including the security features of money.

PARLIAMENT

Senior SARB officials appeared **five** times before Parliament's Select and Standing Committees on Finance.

Public debate about the constitutional mandate and role of the SARB continued to be a focus area during the reporting year. Engagement with Parliamentarians on the SARB's mandate and role provided them with useful insights, particularly the Select and Standing Committees on Finance, which play an oversight role in terms of the SARB's activities.

The Financial Stability Review is tabled biannually in Parliament. The Minister of Finance also formally tables the SARB's and Prudential Authority's annual reports. During the year, Parliamentarians were hosted at the SARB's head office to discuss the SARB's role in the economy.

Topics covered

- Nationalisation of the SARB.
- Establishment of a state bank.
- Liquidation of the Venda Building Society (VBS) Mutual Bank.
- State of the economy.

EMPLOYEES

The SARB makes a concerted effort to engage with employees and gain their buy-in, which increases workforce morale and drives a deeper connection with the purpose of the SARB.

Platforms such as employee meetings, forums for specific groups, in-house newsletters, departmental meetings, and work-related and social activities ensure that the SARB's employees are engaged. The Governor and Deputy Governors attend quarterly townhall sessions, which give the SARB's employees an opportunity to ask questions and raise matters with leadership.

The Governor's blog allows employees to engage directly with him. Employees who prefer to remain anonymous can place their written comments in a suggestion box. In addition, the annual employee engagement survey provides insight on how employees view the SARB.

Fostering employee engagement: page 70.

Topics covered

- Career development.
- The culture of the organisation.
- Employee empowerment.
- Employment equity.

MEDIA, INCLUDING SOCIAL MEDIA

Twitter
62 348
followers
(2018/19: 45 400)

LinkedIn
105 874
followers
(2018/19: 54 265)

Facebook
Over
30 600
followers
(2018/19: 24 000)

The SARB features prominently in mainstream media across all platforms, but its exposure in local and community media remains a challenge.

The SARB's social media profile has matured and is expected to continue growing. Issues discussed on social media mostly mirror those in the mainstream media.

Significant mainstream media coverage

- The nationalisation of the SARB.
- The court judgment ruling against the Public Protector.
- The tenures of the Deputy Governors.
- Debate over the SARB's shareholding structure and independence.

Issues in the public domain

- Quantitative easing.
- Monetary policy decisions.
- Expanding the mandate of the SARB.
- Credit rating agency assessment of the South African economy.

At a consumer level

- Debit order fraud.
- The introduction of DebiCheck by the payments and collections industry.
- The value of notes and coin (particularly commemorative circulation coins).

PUBLIC OUTREACH

The SARB's outreach programmes reached just under
10 000
people.
(2018/19: 8 200)

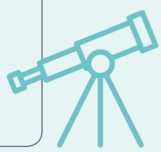
The outreach programmes promote knowledge on the role and functions of the SARB and other monetary policy and financial issues. These programmes reach communities – including learners, teachers, university students and community organisation members – across the country and include visits by these stakeholders to the SARB.

Topics covered

- Role and functions of the SARB.
- Monetary policy.
- Currency.
- Banking.

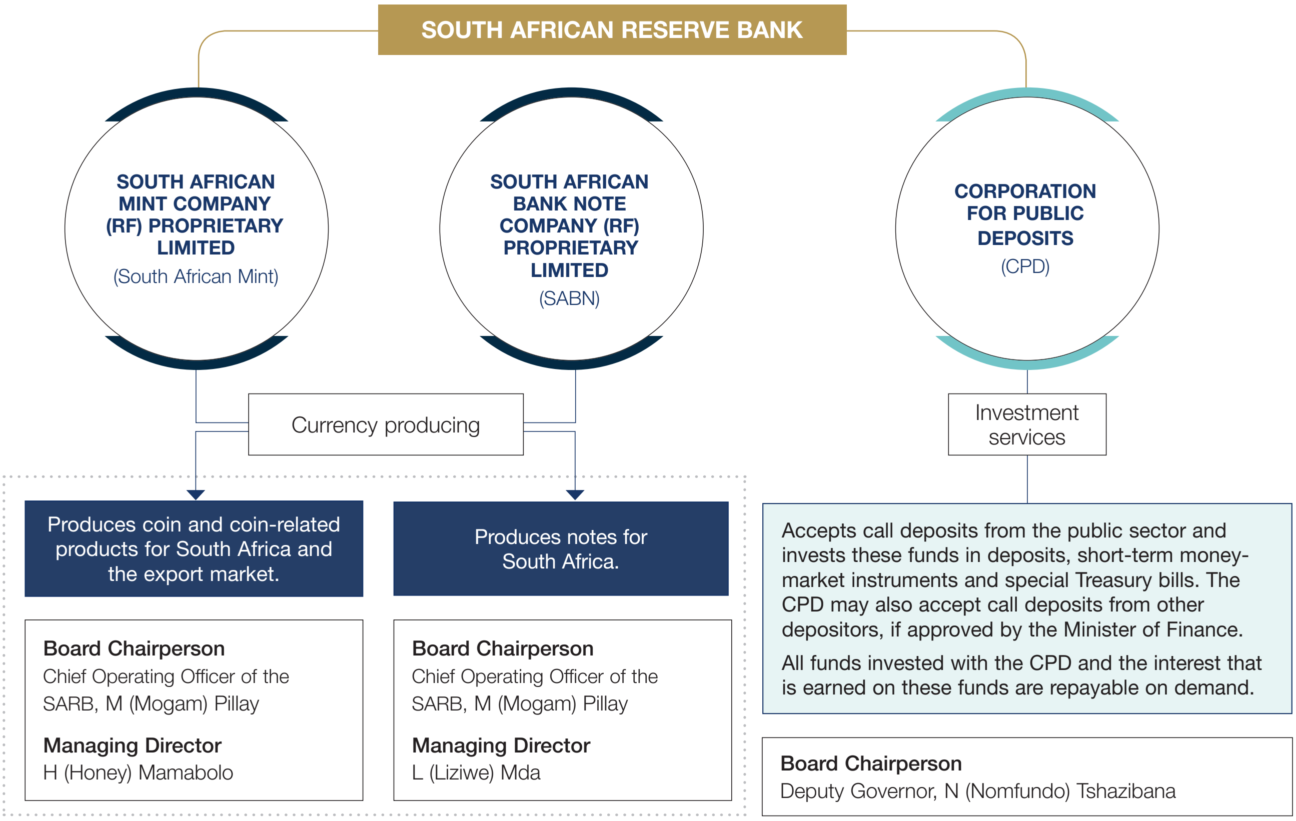
LOOKING AHEAD

- Develop a new stakeholder engagement strategy.



SUBSIDIARY REPORTS

Subsidiaries of the SARB



The SARB has three subsidiaries, each of which has its own Board of Directors (the Board). The GEC appoints the Board members of the currency-producing subsidiaries and the Minister of Finance appoints the Board members of the CPD – who are officials from the SARB and the National Treasury. Each subsidiary Board is ultimately accountable and responsible for the entity's performance and affairs.

The risk management, internal audit, company secretariat, finance and security services functions of the SARB also cover the currency-producing subsidiaries, resulting in the consistent application of management approaches and policies and procedures across the SARB Group. Central management also achieves operating efficiencies. The SARB, South African Mint and SABN continually work together to achieve better alignment.

The Corporation for Public Deposits Act 46 of 1984 governs the CPD, whose Board meets four times a year. Given the CPD's scope and risk profile, the Board agrees that it is not necessary to appoint Board committees to support the CPD in the discharge of its responsibilities. The CPD is accommodated at the SARB's head office and uses the SARB's accounting systems and infrastructure. The SARB's Financial Services Department is responsible for the administration and accounting of funds under the CPD's control, and the SARB's Financial Markets Department manages the CPD's investment activities.

The audited financial results of the subsidiaries are consolidated with those of the SARB in the summarised annual financial statements (this report) and full Group annual financial statements (online).

The South African Mint Company (RF) Proprietary Limited

THE SOUTH AFRICAN MINT'S BUSINESS UNITS

CIRCULATION COINS
Manufactures and supplies legal tender coins for circulation and transactional use in the economy and for export.

COLLECTABLES
Produces premium products (primarily gold and silver) that cater for the collector, gift and investor markets.

PRESTIGE BULLION (RF) PROPRIETARY LIMITED (PRESTIGE BULLION)
A joint venture between the South African Mint and Rand Refinery Proprietary Limited[1]. Manufactures, sells and distributes bullion Krugerrand coins for domestic and international markets.

1 Acts as an agent for gold producers wanting to sell their own gold output.

The South African Mint continued

In line with its strategy, the South African Mint's focus areas for the reporting year were the successful delivery of the SARB's order which was larger than prior year, executing the export order within agreed delivery schedules, consolidating the collectable product portfolio and the selective expansion of the bullion product offering.

2019/20 PERFORMANCE HIGHLIGHTS

> Appointed Ms Honey Mamabolo as South African Mint's new Managing Director, effective 1 February 2020. Ms Mamabolo has 20 years' experience across various industry sectors, including as CEO of Thebe Unico.

> Contributed profit before tax of R2 217 million (2018/19: R1 534 million), including Prestige Bullion, to the Group and successfully completed the South African circulation coin order. Significantly strong demand for gold bullion in the domestic market increased the South African Mint's profitability.

> Increased demand from the SARB and export sales contributed to higher revenue from circulation coins than prior year. However, production challenges, which hampered export delivery and resulted in increased production costs, negatively impacted profitability.

> In the collectables business, demand from the export market drove sales volumes above the target for the year. The following successes were achieved:

- Launched two more coins in the Big Five series, which was introduced early in 2019 with coins depicting the elephant. The coins depicting the lion and rhinoceros are proving very popular with the export market. The South African Mint aims to expand its silver offering, using the Big Five brand as a solid anchor in the portfolio.
- Launched new collectables and circulation coins to commemorate South Africa's 25 years of constitutional democracy. As part of the SA25 campaign, public consultation was used to gather input and insight on coin designs.
- Launched an effective public relations and social media campaign, coinciding with the SA25 campaign, which attracted many new customers and increased foot traffic to the on-site retail store.

> Domestic demand drove bullion sales of 2.7 million ounces (oz), exceeding last year's sales volumes of 2.4 million oz. This is more than 50% of South Africa's gold production, supporting the country's position as the world's leading provider of bullion.

> Prestige Bullion successfully launched a platinum bullion coin in the Big Five brand.

> Recorded four lost-time injuries, resulting in a lost-time injury frequency rate of 0.6 (2018/19: 0.5), higher than the maximum allowable tolerance of 0.5.

> Implemented safety measures to protect customers and employees against COVID-19, including cancelling public tours to the museum, hand sanitiser dispensers and thermal infra-red fever screening. As limited production started following the national lockdown, these safety precautions continued.

LOOKING AHEAD

> COVID-19 and the associated constraints on manufacturing activity are expected to negatively impact agreed delivery schedules and profit in the coming year. The impact will be fully assessed in the months ahead.

> Launch a 24-carat gold bullion coin and, in 2020/21, add a coin depicting the leopard to the Big Five collectable brand series.

> Host the Mint Directors Conference in 2021 in Cape Town, which will attract many international industry stakeholders.

The South African Bank Note (RF) Proprietary Limited

The SABN made good progress in implementing its strategy and delivered a strong performance underpinned by a focus on excellent delivery of quality, manufacturing, asset management systems and data analytics.

An asset masterplan and roadmap were developed, including supply-demand scenarios, asset lifecycle management and technological advances, to ensure the long-term sustainability of the production of notes at internationally competitive prices.

2019/20 PERFORMANCE HIGHLIGHTS

- Achieved net profit before tax of R147 million (2018/19: R216 million). Earnings before interest, tax, depreciation and amortisation (EBITDA) amounted to R189 million.
- Delivered 1.226 billion notes to the SARB, the highest volume recorded for the Mandela series.
- Seamlessly took over the operation of the SARB depot, which stores notes and distributes them to the SARB's cash centres.
- Successfully installed the first two state-of-the-art BPSX9 machines as part of the masterplan's replacement programme of the current note processing system (BPS2000). These machines combine efficiency and speed to provide verified quality notes with guaranteed fitness for circulation.
- Together with the SARB Cash Management Department, successfully implemented a post-production quality inspection framework for notes.
- As the first note printing company in Africa to be accredited by the Banknote Ethics Initiative Accreditation Council, KPMG Brussels conducted a surveillance audit, which resulted in the SABN's membership being upgraded from Level 2 to Level 1. Members must adhere to a strict Code of Ethical Business Practice aimed at the prevention of corruption and enhanced compliance with anti-corruption legislation within the note industry.
- Successfully completed surveillance audits for quality management systems (ISO 9001), occupational health and safety (ISO 18001), environmental management (ISO 14001) and business continuity management (ISO 22301).
- Launched new safety rules supported by an extensive communication campaign. The medical treatment frequency rate improved to 0.95 from 2.3 in 2018/19.
- Implemented appropriate measures to protect employees and other stakeholders as well as ensure the continuity of business during the COVID-19 pandemic. The SABN's business continuity plans include buffer stocks to maintain security of supply despite the closure of the production plant during the national lockdown.
- Made good progress in capability building, including skills transfer from the original equipment manufacturers of the new BPSX9 machines. In addition, SABN received SETA accreditation for the workplace learnership programme for printers, artisans and technicians. This skills development initiative will help SABN grow its talent and provide learners with workplace experience to support their future employability.

LOOKING AHEAD

- Continue to ensure the health of SABN's employees and stakeholders. While several COVID-19 scenarios are being considered, the disruption caused by the pandemic is likely to impact next year's financial results.

CORPORATE SOCIAL INVESTMENT REPORT

The SARB's corporate social investment focuses on education. The SARB partners with various academic institutions, referred to as Chairs, to drive skills relevant to key economic issues and central banking. The SARB also runs a flagship programme aimed at improving the understanding of monetary policy at secondary school level.

PROGRAMME

University of Pretoria – Chair of Monetary Economics

Support and funding of this Chair assists to develop skills in the field of monetary policy economics. The programme supports students studying for their honours (Hons), Master of Commerce and Master of Philosophy degrees as well as Doctorates (PhD).

SPEND

R2.5 million

reaching 58 beneficiaries

2018 spend:
R2.5 million reaching 70 beneficiaries

2019/20 HIGHLIGHTS

- Two students graduated with PhDs and two with master's degrees.
- Six PhD, two master's and two honours students were supervised.
- 37 honours students participated in a teaching programme.
- Eight papers were presented at four international workshops.

PROGRAMME

SARB Centre for Economic Journalism at Rhodes University – Chair for Economic and Financial Journalism

Support and funding of this Chair assists to improve the quality of economic and financial journalism in South Africa and Africa. The programme offers postgraduate diplomas in Economic Journalism and Journalism (PGDip Economic Journalism), Bachelor of Arts (Hons) in Economic Journalism, master's degree in Journalism and PhD in Economic Journalism.

SPEND

R1.7 million

reaching 10 beneficiaries

2018 spend:
R1.6 million reaching 12 beneficiaries

2019/20 HIGHLIGHTS

- Two students graduated with master's degrees in Journalism.
- Two students graduated with Bachelor of Arts (Hons) degrees in Economic Journalism.
- Six students graduated with PGDip Economic Journalism degrees.

PROGRAMME

University of the Witwatersrand (Wits) Journalism Chair

Support and funding for postgraduate training and qualifications in financial journalism. The programme enables aspirant financial journalists to improve their working knowledge of economics and finance.

SPEND
R920 000
reaching 42 beneficiaries

2018 spend:
R860 000 reaching 10 beneficiaries

2019/20 HIGHLIGHTS

- Two master's and two honours students completed their research theses on economic- and financial-related topics.
- Six students completed the Financial Journalism course.
- 12 students completed the Introduction to Financial Journalism course.
- 20 journalists from community radio stations received training.

PROGRAMME

University of Cape Town – Research Chair in Financial Stability Studies

Funding supports research on managing regulatory complexity, financial interconnectedness, computational models, the regulation of blockchain technologies and crypto assets, and supports students studying towards master's degrees and PhDs.

SPEND
R3.2 million
reaching six beneficiaries

2019/20 HIGHLIGHTS

- A postdoctoral researcher, two PhD students and three master's students are studying towards a Master of Philosophy in Financial Technology.

PROGRAMME

Monetary Policy Committee (MPC) Schools Challenge

A partnership with the Department of Basic Education to communicate and deepen understanding of the SARB's mandate among Grade 12 Economics and Accounting scholars.

SPEND
R3.7 million
reaching 1 770 school learners and teachers

2018 spend:
R3.7 million reaching 608 beneficiaries

2019/20 HIGHLIGHTS

- Reached 354 schools (2018: 157 schools) across all nine provinces in South Africa.
- Learners from Midrand High School (Gauteng) won the 2019 challenge. All four winners received R12 000 and a SARB bursary each. The school received R25 000.

PROGRAMME

External bursaries

Funding of bursaries for young people studying at tertiary institutions.

SPEND
R7.5 million
reaching 80 beneficiaries

2018 spend:
R6.0 million reaching 47 beneficiaries

2019/20 HIGHLIGHTS

- Increased the number of bursary awards by 70%.
- Of the 80 awards, seven graduated, eight bursaries were terminated and four suspended due to poor academic results, and four are pending supplementary results. The balance of beneficiaries are still studying.
- 50 of the beneficiaries are women and 66 are black.

PROGRAMME

Other bursaries

Funding of two arts and culture bursaries.

SPEND
R100 000
reaching two beneficiaries

2018 spend:
R795 500 reaching seven beneficiaries

PROGRAMME

Employee volunteering

The Employee Volunteerism Programme is linked to Mandela Day and provides a mechanism for the SARB's employees to support various schools for the disabled across South Africa.

SPEND
R2.6 million

2018 spend:
R2.8 million

2019/20 HIGHLIGHTS

- 180 employees participated in volunteering activities at schools in Soweto and Mamelodi (Gauteng), Chatsworth (KwaZulu-Natal) and Gugulethu (Cape Town). In provinces where the SARB does not have operations, donations were made to various schools.

TOTAL CORPORATE SOCIAL INVESTMENT SPEND
R22.2 million
2018 spend:
R18.3 million

The MPC Schools Challenge

The MPC Schools Challenge was piloted with 70 schools in Gauteng in 2012 and has grown sustainably over the past four years, reaching over 3 200 learners in over 400 schools.

The competition's briefing sessions are delivered by SARB economists, some of whom are past beneficiaries of the MPC Schools Challenge and were awarded bursaries from the SARB as well as employment and mentorship opportunities.

The challenge starts with groups of four Grade 12 Economics and Accounting learners from each school writing an essay on monetary policy. Following an audited adjudication process, teams are shortlisted for a second round in which they role play an MPC decision on interest rates. Decisions take into consideration relevant economic data and information. The learners then present their decision and arguments supporting the decision to a panel in a format that mirrors the actual MPC press conference. During the reporting year, 194 of the 354 participating schools submitted essays and qualified for the competition, with Midrand High School being the overall winner. The competition is driving an increase in the level of interest in economics as a career path.

LOOKING AHEAD

> Continue to support the SARB's partnerships with the University of Pretoria, Rhodes University and Wits University and investigate how academic research can be better leveraged to enhance the quality of public debate.

> Continue to use the MPC Schools Challenge to deliver quality engagements with schools rather than extending the number of schools reached.

> In 2021, increase the number of external bursaries to 100 students (from 80) to mark the SARB's 100th anniversary.

SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS 2019/20

DIRECTORS' REPORT

for the year ended 31 March 2020

INTRODUCTION

The directors are pleased to present to stakeholders this report on the activities and financial results of the South African Reserve Bank (the SARB), including its subsidiaries and associate (the Group), for the year under review.

This annual report, issued in terms of the South African Reserve Bank Act 90 of 1989, as amended (SARB Act), and its Regulations, addresses the performance of the Group and compliance with relevant statutory information requirements.

It is the responsibility of the directors to prepare the summarised Group annual financial statements and related financial information that present the Group's state of affairs.

The summarised Group annual financial statements have been prepared in accordance with the SARB Act and the accounting policies set out in note 1. The summarised Group annual financial statements include appropriate and responsible disclosure, and are based on accounting policies that have been consistently applied, except as specified in note 1, and which are supported by reasonable and prudent judgements and estimates.

These summarised Group annual statements were prepared on a going concern basis, taking cognisance of certain unique aspects relating to the SARB's ability to create, distribute and destroy domestic currency, its role as lender of last resort, its responsibilities in the areas of price and financial stability, and its relationship with the South African government (SA government) concerning foreign exchange and gold transactions.

The summarised Group annual financial statements were audited by the independent external auditors who were given unrestricted access to all financial records and related data, including minutes of all the meetings of the Board of Directors (the Board) and its committees, as well as of executive management meetings.

The directors are responsible for governance, which is monitored on an ongoing basis. The SARB applies the principles and guidelines of the King Report on Corporate Governance in South Africa 2016 (King IV), where appropriate, and where they do not contravene the SARB Act.

NATURE OF BUSINESS

The SARB is the central bank of South Africa and is regulated in terms of the SARB Act. Its primary objective is to protect the value of the currency in the interest of balanced and sustainable economic growth. In pursuit of price and financial stability, the SARB performs the key activities set out on page 7.

In exceptional circumstances, as part of its central banking functions, the SARB may act as 'lender of last resort' or provide assistance of a similar nature, to financial institutions in difficulty to prevent a loss of confidence spreading through the financial system as a whole. In some cases, confidence can best be sustained if the SARB's support is disclosed only when conditions giving rise to potentially systemic disturbance have improved. Accordingly, although the financial effects of such operations will be included in the summarised Group annual financial statements in the year in which they occur, these financial statements may not explicitly identify the existence of such support. However, the existence of such support will be reported when the need for secrecy or confidentiality has ceased.

SUBSIDIARIES

The subsidiaries of the SARB are:

- » The Corporation for Public Deposits (CPD), which receives and invests call deposits from the SA government and public entities.
- » The South African Bank Note Company (RF) Proprietary Limited (SABN), which produces notes.
- » The South African Mint Company (RF) Proprietary Limited (South African Mint), including its subsidiary, Prestige Bullion (RF) Proprietary Limited (Prestige Bullion), which produce circulation, bullion and collectable coins.

Information on the SARB's financial interest in its subsidiaries is provided in note 18.

The SARB issued a guarantee in favour of the CPD of R3.45 billion for all amounts required by it for the due performance of its obligations under the Corporation for Public Deposits Act 46 of 1984 (CPD Act). This guarantee is a continuing covering security and will remain in force for 12 months after signature date.

The subsidiaries did not pass any special resolutions that are material to the SARB's affairs in the year under review.

ASSOCIATE

African Bank Holdings Limited (ABHL) is the public holding company of African Insurance Group Limited and African Bank Limited (ABL).

Information on the SARB's financial interest in its associate is provided in note 18.

ACHIEVEMENT OF OBJECTIVES

The SARB's achievements against its strategic objectives can be found on pages 19 to 33 of this report.

DIRECTORS' REPORT continued

for the year ended 31 March 2020

FINANCIAL RESULTS

The prevailing low interest rate environment in major global markets resulted in decreased yields, which had a positive impact on the valuation of the SARB's gold and foreign reserves. This was amplified by the significant depreciation of the rand against major currencies.

The net investment income of the SARB, derived mainly from foreign investments and accommodation to banks, increased by R3.1 billion to R14.3 billion (2019: R5.8 billion increase to R11.2 billion). Operating costs increased by R1.1 billion to R7.6 billion (2019: R1.8 billion increase to R6.5 billion), mainly attributable to an impairment loss on the investment in ABHL offset by a decrease in the cost of new notes. The net result of these factors was a profit after taxation of R6.4 billion (2019: R4.6 billion) for the year ended 31 March 2020.

The South African Mint (including Prestige Bullion) made a profit after taxation of R0.9 billion (2019: R0.7 billion) attributable to the Group and declared a dividend of R1.4 billion (2019: R0.3 billion) to the SARB. Refer to note 18 for further detail.

SABN made a profit after taxation of R0.1 billion (2019: R0.2 billion) attributable to the Group. Refer to note 18 for further detail.

The CPD incurred a loss after taxation of R2.8 billion (2019: R92.1 million profit). For the year ended 31 March 2020, an amount of zero (2019: R41.9 million) was due to SA government) in accordance with the CPD Act. Refer to note 18 for further detail.

ABHL made a profit after taxation of R0.3 billion (2019: R0.5 billion) attributable to the Group. An impairment loss of R2.2 billion attributable to the Group (SARB: R1.5 billion) was recognised during the year (2019: none). Refer to note 18 for further detail.

FINANCIAL POSITION

The SARB's total assets increased by R264.1 billion to R1 063.1 billion (2019: 120.5 billion increase to R799.0 billion), largely as a result of increases in gold and foreign exchange reserves of R216.6 billion and accommodation to banks of R44.7 billion.

The total assets of the South African Mint (including Prestige Bullion) decreased by R0.6 billion to R2.1 billion (2019: R1.1 billion increase to R2.8 billion).

SABN's total assets increased by R0.2 billion to R2.3 billion (2019: R0.3 billion increase to R2.1 billion).

The CPD's total assets decreased by R2.0 billion to R69.8 billion (2019: R3.0 billion increase to R71.8 billion), largely as a result of a decrease in investments of R9.5 billion, offset by an increase in loans and advances of R7.8 billion.

The total liabilities of the SARB increased by R257.3 billion to R1 039.2 billion (2019: R112.8 billion increase to R781.9 billion) largely as a result of increases in the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) (used for the currency revaluation of foreign assets and liabilities which is for SA government's account) of R150.2 billion, deposit accounts of R58.2 billion and foreign deposits of R25.6 billion.

The total liabilities of the South African Mint (including Prestige Bullion) decreased by R0.2 billion to R0.8 billion (2019: R0.6 billion increase to R0.9 billion).

SABN's total liabilities of R0.5 billion remained consistent (2019: R0.1 billion increase to R0.5 billion).

The CPD's total liabilities increased by R0.8 billion to R72.4 billion (2019: R2.9 billion increase to R71.7 billion), largely as a result of an increase in deposits of R1.4 billion, offset by amounts due to Group companies of R0.6 billion.

The contingency reserve increased by R6.1 billion (2019: R5.0 billion) due to the profit after taxation achieved for the year.

Further details on the Group's financial information for the year, can be found on page 97.

IMPACT OF THE COVID-19 PANDEMIC

The impact of the coronavirus disease 2019 (COVID-19 pandemic) is likely to have a lasting and detrimental effect on the economy and has had a significant impact on the SARB's functions and operations. The SA government declared a national state of disaster in March 2020 resulting in a national lockdown. In response to the lockdown, the SARB instructed the majority of its staff to work from home to mitigate the risk of contagion among its employees. The scale and duration of the pandemic is uncertain and continuously changing. The main risks arising as a result, and the measures taken by the SARB to mitigate these risks, include:

» A sudden increase in uncertainty among employees due to pandemic-related regulations and new ways of working. A Joint Operations Centre was established to provide critical support and directives aligned to the South African Department of Health COVID-19 Guidelines. This ensured the business continuity of the SARB.
» A significant increase in demand for personal protective equipment and information and communications technology equipment to support remote working. The SARB reacted swiftly to meet all requirements.

DIRECTORS' REPORT continued

for the year ended 31 March 2020

- Remote working is likely to remain the prominent way of performing business tasks for the foreseeable future, increasing cyber and information security risks. The SARB enhanced its cybersecurity measures using various technologies while rolling out remote working capabilities. This included policy and procedure development, security assessments, security design work and the roll out of training and targeted awareness initiatives, all at a rapid pace. The SARB is also actively changing its monitoring and defence approaches. The transforming cyber landscape has led to revised focus areas for the cyber and information security strategy. The SARB will continue to implement additional security measures to address any potential security threats.
- A slowing down of some of the SARB's operations to varying degrees, particularly projects that depend on external service providers. The SARB has ensured that all critical functions and activities continue to operate, with none having been disrupted to date.

South Africa has a strong and resilient banking system with adequate levels of capital and significant liquidity buffers to manage this crisis. The Basel framework, around which bank regulations are structured, has built-in capital and liquidity buffers for banks to draw on during times of financial stress.

However, the COVID-19 pandemic created liquidity strain in various funding markets, which necessitated a review of the SARB's money market liquidity management strategy. Therefore, in addition to the measures taken by the SA government to contain the impact of the COVID-19 pandemic, the SARB has deployed monetary and financial stability policy tools to further mitigate the COVID-19 pandemic's impact on the South African economy. The following monetary and financial stability policy tools have been implemented:

Monetary policy

- The Monetary Policy Committee (MPC) has reduced the repurchase (repo) rate by 100 basis points (bps) during March 2020, 100 bps during April 2020 and a further 50 bps during May 2020, in response to increased risk related to the global and domestic economic outlook. The MPC continues to monitor the situation.

Financial stability policy

Changes to the money market liquidity management strategy include:

- Implementation of an Intraday Overnight Supplementary Repurchase Operation.
- Adjustment of the standing facility borrowing rate, the rate at which the SARB absorbs liquidity, from repo rate less 100 bps to repo rate less 200 bps.
- Adjustment of the standing facility lending rate, the rate at which the SARB provides liquidity to commercial banks, from repo rate plus 100 bps to repo rate.
- Offering the main refinancing operations for periods of seven days to longer-term maturities of up to 12 months.
- The purchase of SA government bonds from the secondary market.

The SARB will continue to follow the policies and advice of various national institutes and at the same time continue operations in the best and safest way possible without jeopardising the health of its employees.

DIVIDENDS

The SARB Act permits the SARB to declare dividends from its accumulated profits. As per the SARB Act, a total dividend at the rate of 10% per annum on the paid-up share capital of the SARB was paid as follows:

- An interim dividend of five cents per share paid to shareholders on 25 October 2019.
- The final dividend, also of five cents per share, paid on 22 May 2020.

The total dividend paid for the financial year was R0.2 million (2018/19: R0.2 million).

DIRECTORS

The composition of the Board at 31 March 2020 is reported on pages 36 to 39.

At the annual Ordinary General Meeting (AGM) held on 26 July 2019, the terms of office of C B (Charlotte) du Toit, B W (Ben) Smit and N (Nicholas) Vink expired. Professor Smit, having served three terms, was not available for re-election. Dr du Toit and Professor Vink were re-elected to each serve a further three-year term and have knowledge and skills in the industry and agriculture sectors respectively.

At the 2019 AGM, shareholders elected Z (Zoaib) Hoosen, who has knowledge and skills in the industry sector, with information and technology skills, to serve a three-year term as a non-executive director.

The terms of office of R J G (Rob) Barrow, R (Rochelle) le Roux and G M (Gary) Ralfe as shareholder-elected non-executive directors will expire the day after the 2020 AGM. As all three have served three terms as non-executive directors, they are not eligible for re-election.

After serving two full terms as Deputy Governor, A D (Daniel) Mminele retired on 1 July 2019 and did not make himself available for reappointment.

R (Rashad) Cassim and N (Nomfundo) Tshazibana were appointed as Deputy Governors by the President of the Republic of South Africa with effect from 1 August 2019.

DIRECTORS' REPORT continued

for the year ended 31 March 2020

The first term of office as Governor of E L (Lesetja) Kganyago expired on 8 November 2019 and he was reappointed by the President of the Republic of South Africa to serve a second term with effect from 9 November 2019.

The first term of office as Deputy Governor of K (Kuben) Naidoo expired on 31 March 2020 and he was reappointed by the President of the Republic of South Africa to serve a second term with effect from 1 April 2020.

At 31 March 2020 and to date, none of the directors in office held any direct or indirect shareholding in the SARB.

Directors' fees for services rendered during the year under review are disclosed in note 18.7 on page 131.

EVENTS AFTER REPORTING DATE

The COVID-19 pandemic has had a significant impact on the SARB's operations but limited impact on the 2019/20 financial results. Refer to note 19 for more detail and the significant items.

SECRETARY OF THE SARB

S L (Sheenagh) Reynolds

REGISTERED OFFICE

Business address:
370 Helen Joseph Street (formerly Church Street)
Pretoria 0002

Postal address:
PO Box 427
Pretoria 0001

The financial statements were approved by the Board on 12 June 2020 and signed on its behalf by:

E L (Lesetja) Kganyago
Governor

R J G (Rob) Barrow
Non-executive director and Chairperson of the Audit Committee

K (Kameshni) Naidoo
Group Chief Financial Officer

S L (Sheenagh) Reynolds
Secretary of the SARB

STATEMENT BY THE SECRETARY OF THE SARB

In my capacity as Secretary of the SARB, I certify that all the returns required to be submitted, in terms of the SARB Act, for the year ended 31 March 2020, have been completed and are up to date.

S L (Sheenagh) Reynolds
Secretary of the SARB

12 June 2020

REPORT OF THE AUDIT COMMITTEE

for the year ended 31 March 2020

The Audit Committee is a committee of the Board. All its members, including the Chairperson, are independent non-executive directors. The qualifications and experience of the Audit Committee members can be found in the governance section of the annual report on pages 38 to 39. The responsibilities of the Audit Committee are set out in its terms of reference, which are approved by the Board and reviewed every three years or more frequently, if required.

The Audit Committee confirms that it carried out its functions responsibly and in compliance with its terms of reference during the reporting year, including its audit responsibilities for the Prudential Authority.

The SARB's executive management, internal auditors, external auditors and other assurance providers attend the Audit Committee's meetings in an ex officio capacity. Management and internal and external auditors meet independently with the committee, at least annually.

ROLES AND RESPONSIBILITIES

The Audit Committee assists the Board in fulfilling its oversight responsibilities in terms of the SARB's financial reporting processes, risks and system of internal financial controls, as well as the SARB's processes for monitoring compliance with laws and regulations as they relate to financial reporting.

INTERNAL CONTROL (INCLUDING INTERNAL FINANCIAL CONTROLS)

The SARB's system of internal financial controls is designed to ensure:

» the integrity and reliability of financial information;
» compliance with all applicable laws and regulations;
» the achievement of objectives;
» economy and efficiency of operations; and
» the safeguarding of assets.

The Audit Committee is satisfied that the system of internal financial controls is adequately designed and operated effectively to form a sound basis for the preparation of reliable financial reports. This assessment is based on reports from management, risk management, internal auditors and external auditors.

The Audit Committee considered, and is satisfied with, the expertise and experience of the Group Chief Financial Officer (CFO). The finance function in the SARB has the expertise and adequate resources to support the Group CFO.

COMBINED ASSURANCE

The Group has adopted a combined assurance (CA) approach, in line with King IV, to increase the effectiveness of assurance activities by the functionaries within the three lines of assurance. The Audit Committee considers the CA approach to be adequate and supportive of achieving effective assurance activities across the SARB Group.

FINANCIAL STATEMENTS

After reviewing the summarised Group annual financial statements of the SARB and the associated external auditors' report, the Audit Committee recommended their approval to the Board. The Audit Committee is satisfied with the going concern status of the SARB.

INTERNAL AUDIT

The Audit Committee reviewed and approved the Internal Audit Charter, which defines the purpose, authority and responsibility of the internal audit function. The committee also approved the annual internal audit plan, and reviewed the Internal Audit Department's (IAD) reports on control weaknesses and management's corrective actions.

The Audit Committee is satisfied that the IAD is independent and appropriately resourced to provide assurance on the adequacy and effectiveness of the SARB's internal control environment. The Chief Internal Auditor reports functionally to the Audit Committee and administratively to both the Chairperson of the Audit Committee and the Governor.

EXTERNAL AUDIT

The Audit Committee is satisfied with the independence of the external auditors of the SARB. This assessment was made after considering the independence letters from the external auditors, continuous monitoring and approval of non-audit services, and a formal partner rotation process.

In consultation with executive management, the Audit Committee reviewed the external auditors' proposed audit scope, approach and audit fees for the year under review.

The Audit Committee is satisfied with the formal procedures that govern the provision of non-audit services by the external auditors. This is monitored through the reporting of such activities to the committee.

REPORT OF THE AUDIT COMMITTEE continued

for the year ended 31 March 2020

COMPLIANCE

The Audit Committee is satisfied that the SARB has implemented appropriate processes and controls to ensure compliance with all applicable laws and regulations as they relate to financial reporting. This is based on the committee's review of reports received from both internal and external auditors, as well as from executive management and relevant departments.

INFORMATION AND TECHNOLOGY

The Audit Committee is satisfied with the SARB's information and technology (I&T) capability and that its I&T controls are appropriate to support the integrity of financial reporting. This is based on the committee's continuous review of reports from I&T management and the internal and external auditors.

WHISTLE-BLOWING

Based on combined submissions from the Risk Management and Compliance Department and the IAD, the Audit Committee is satisfied with the SARB's procedures to receive, retain and resolve complaints regarding accounting, internal controls or auditing matters, including for confidential and anonymous submissions.

R J G (Rob) Barrow
Chairperson of the Audit Committee

FINANCIAL REPORTING FRAMEWORK

REPORTING FRAMEWORK

The summarised Group annual financial statements have been prepared in accordance with the SARB Act and the accounting policies set out in note 1.

The SARB Act is not prescriptive regarding the accounting framework that the SARB should adopt, except for sections 25 to 28, which deal with the accounting treatment of gold and foreign exchange transactions. These sections are in conflict with IFRS. The SARB has chosen to use IFRS as a guide in deciding on the most appropriate accounting policies to adopt, and as a model for the presentation and disclosure framework followed in its summarised Group annual financial statements.

The SARB Act, however, takes precedence over IFRS in the areas noted above and, as a result, the recognition and measurement criteria as set out in IFRS have not been followed in these circumstances. In addition, the SARB considers certain recognition and measurement principles as well as disclosures inappropriate to its functions. The SARB's summarised Group annual financial statements, therefore, disclose less detail than would be required under IFRS. The significant departures from IFRS as a consequence of the above are summarised as follows:

RECOGNITION AND MEASUREMENT

1. According to the SARB Act,
    a. realised and unrealised valuation gains and losses on gold, and realised and unrealised foreign exchange gains and losses on foreign denominated assets and liabilities are for the account of the SA government, and have therefore not been accounted for in profit or loss, as required by *International Accounting Standard (IAS) 21 The Effects of Changes in Foreign Exchange Rates*; and
    b. gold is valued in terms of section 25 of the SARB Act at the statutory gold price. Gold has been recognised as a financial asset of the SARB.

PRESENTATION

In the summarised Group annual financial statements,

1. not all information as required by *IFRS 7 Financial Instruments Disclosures* is disclosed.

    This relates specifically to:

    a. market risk for all financial assets (foreign and local): The sensitivity analysis for each type of market risk to which the SARB is exposed at the reporting date, showing how profit or loss and equity/other comprehensive income (OCI) would have been affected by changes in the relevant risk variables that were reasonably possible at that date;
    b. credit risk for foreign financial assets: The credit quality per counterparty (issuer) and per country, the historical information about the counterparty default rates, and instruments per counterparty; and
    c. credit risk for local financial assets: The credit quality per counterparty (issuer) and instrument class, the historical information about the counterparty default rates and a breakdown of instruments per counterparty.

CENTRAL BANKING

The SARB, as the mandated Central Bank of South Africa, will exercise discretion on 'lender of last resort activities' as it relates to the management and oversight responsibilities of domestic financial market operation.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE SOUTH AFRICAN RESERVE BANK

OPINION

The summarised Group annual financial statements of the South African Reserve Bank (the SARB) set out on pages 97 to 132, which comprise the summarised Group statement of financial position as at 31 March 2020, the summarised Group statement of comprehensive income, summarised Group statement of cash flows and summarised Group statement of changes in equity for the year then ended, and related notes, are derived from the audited Group annual financial statements of the SARB for the year ended 31 March 2020.

In our opinion, the accompanying summarised Group annual financial statements are consistent, in all material respects, with the audited Group annual financial statements, in accordance with the basis described in note 1 to the summarised Group annual financial statements and the requirements of the South African Reserve Bank Act 90 of 1989, as amended (SARB Act).

EMPHASIS OF MATTER – BASIS OF ACCOUNTING

Our auditors' report on the audited Group annual financial statements includes an emphasis of matter paragraph highlighting note 1 to the Group annual financial statements, which describes the basis of accounting. The emphasis of matter further states that the Group annual financial statements are prepared for the purpose as described in the Group annual financial statements, and that as a result, the Group annual financial statements may not be suitable for any other purpose. As the summarised Group annual financial statements are derived from the Group annual financial statements, the summarised Group annual financial statements may also not be suitable for any other purpose.

SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS

The summarised Group annual financial statements do not contain all the disclosures required by the basis of accounting described in note 1 to the Group annual financial statements and the requirements of the SARB Act. Reading the summarised Group annual financial statements and the auditors' report thereon, therefore, is not a substitute for reading the audited Group annual financial statements and the auditors' report thereon.

THE AUDITED GROUP ANNUAL FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited Group annual financial statements in our report dated 22 June 2020.

DIRECTORS' RESPONSIBILITY FOR THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS

The directors are responsible for the preparation of the summarised Group annual financial statements in accordance with the basis described in note 1 to the summarised Group annual financial statements and the requirements of the SARB Act.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on whether the summarised Group annual financial statements are consistent, in all material respects, with the audited Group annual financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Vincent Tshikhovhokhovho

Registered Auditor
4 Lisbon Lane
Waterfall City, Jukskei View
2090

22 June 2020

SizweNtsalubaGobodo Grant Thornton Inc.

SizweNtsalubaGobodo Grant Thornton Inc
Director: Pravesh Hiralall

Registered Auditor
20 Morris Street East
Woodmead
2191

22 June 2020

SUMMARISED GROUP STATEMENT OF FINANCIAL POSITION

at 31 March 2020

	Notes	2020 Rm	2019 Rm
Assets			
Cash and cash equivalents	2	**20 537**	36 930
Accommodation to banks	3	**106 129**	61 427
Investments	4	**7 369**	16 849
Gold and foreign exchange	5	**931 980**	715 401
Loans and advances	6	**25 468**	17 633
South African government bonds	7	**9 237**	8 010
Other assets		**17 479**	16 589
Total assets		**1 118 199**	872 839
Liabilities			
Notes and coin in circulation	8	**155 544**	151 307
Deposit accounts	9	**346 627**	287 041
Foreign deposits	10	**148 198**	122 559
South African Reserve Bank debentures	11	**–**	25
Gold and Foreign Exchange Contingency Reserve Account	12	**436 062**	285 829
Post-employment benefits	13	**2 317**	2 710
Other liabilities		**6 125**	3 313
Total liabilities		**1 094 873**	852 784
Capital and reserves(1)			
Share capital		**2**	2
Accumulated (loss)/profit		**(689)**	2 695
Statutory reserve		**450**	418
Contingency reserve		**20 086**	14 170
Other reserves		**3 315**	2 636
Non-controlling interest		**162**	134
Total capital and reserves		**23 326**	20 055
Total liabilities, capital and reserves		**1 118 199**	872 839

(1) Further detail on capital and reserves is provided in the summarised Group statement of changes in equity.

SUMMARISED GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 March 2020

	Notes	**2020 Rm**	2019 Rm
Interest income		**7 859**	8 141
Interest income from fair value items		**3 462**	3 233
Interest expense		**(10 108)**	(8 820)
Net interest income		**1 213**	2 554
Fair value gains		**12 735**	8 841
Dividend income		**41**	39
Operating income		**5 234**	4 375
Total income	14.1	**19 223**	15 809
Credit impairment losses	14.2	**(2 315)**	–
Operating costs	14.3	**(7 880)**	(7 866)
Share of net profit of associate accounted for using the equity method	18.2	**280**	547
Impairment loss on investment in associate	18.2	**(2 229)**	–
Profit before taxation	14	**7 078**	8 490
Taxation		**(3 577)**	(2 231)
Profit for the year		**3 501**	6 259
Attributable to:			
The parent		**2 852**	5 821
Non-controlling interest	18.3	**649**	438
		3 501	6 259
Other comprehensive income (net of taxation)			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefits		**439**	748
Revaluation adjustments of property, plant and equipment		**(7)**	6
Net gains on investments in equity instruments designated at fair value through other comprehensive income		**247**	100
Total comprehensive income for the year (net of taxation)		**4 180**	7 113
Attributable to:			
The parent		**3 531**	6 675
Non-controlling interest		**649**	438
Total comprehensive income		**4 180**	7 113

SUMMARISED GROUP STATEMENT OF CASH FLOWS

for the year ended 31 March 2020

	Notes	2020 Rm	2019 Rm
Cash flows (utilised by)/generated from operating activities			
Cash (utilised by)/generated from operating activities	15	**(19 008)**	13 515
Interest received[1]	15	**7 859**	8 141
Interest paid[1]	15	**(10 108)**	(8 820)
Taxation received		**1**	5
Taxation paid		**(2 423)**	(2 201)
Dividends paid[2]		**(621)**	(369)
Transfer to SA government[2]		**(249)**	(91)
Net cash flows (utilised by)/generated from operating activities		**(24 549)**	10 180
Cash flows generated from/(utilised by) investing activities		**8 156**	(11 810)
Purchase of property, plant and equipment		**(250)**	(623)
Proceeds on disposal of property, plant and equipment		**4**	28
Purchase of intangible assets		**(447)**	(202)
Net disposal/(acquisition) of investments		**8 849**	(11 013)
Net (decrease) in cash and cash equivalents		**(16 393)**	(1 630)
Cash and cash equivalents at the beginning of the year		**36 930**	38 560
Cash and cash equivalents at the end of the year		**20 537**	36 930

(1) Comparative figures have been amended as part of enhancements to the summarised Group annual financial statements disclosure.

(2) Further detail is provided in the summarised Group statement of changes in equity.

SUMMARISED GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2020

	Share capital Rm	Accu-mulated profit/ (loss) Rm	Statutory reserve Rm	Contin-gency reserve Rm	Other reserves Rm	Total Rm	Non-controlling interest Rm	Total Rm
Balance at 31 March 2018	2	1 717	395	9 599	1 782	13 495	64	13 559
Total comprehensive income for the year	–	5 821	–	–	854	6 675	438	7 113
Profit for the year	–	5 821	–	–	–	5 821	438	6 259
Remeasurement of PEB	–	–	–	–	748	748	–	748
Revaluation adjustments of PPE	–	–	–	–	6	6	–	6
Net gains on investments in equity instruments designated at FVOCI	–	–	–	–	100	100	–	100
Dividends paid	–	–	–	–	–	–	(368)	(368)
Transfer (from)/to reserves	–	(4 594)	23	4 571	–	–	–	–
Transfer to SA government	–	(249)	–	–	–	(249)	–	(249)
Balance at 31 March 2019	2	2 695	418	14 170	2 636	19 921	134	20 055
Total comprehensive income for the year	**–**	**2 851**	**–**	**–**	**679**	**3 530**	**648**	**4 178**
Profit for the year	**–**	**2 851**	**–**	**–**	**–**	**2 851**	**648**	**3 499**
Remeasurement of PEB	**–**	**–**	**–**	**–**	**439**	**439**	**–**	**439**
Revaluation adjustments of PPE	**–**	**–**	**–**	**–**	**(7)**	**(7)**	**–**	**(7)**
Net gains on investments in equity instruments designated at FVOCI	**–**	**–**	**–**	**–**	**247**	**247**	**–**	**247**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(620)**	**(620)**
Transfer (from)/to reserves	**–**	**(5 948)**	**32**	**(5 916)**	**–**	**–**	**–**	**–**
Transfer to SA government	**–**	**(287)**	**–**	**–**	**–**	**(287)**	**–**	**(287)**
Balance at 31 March 2020	**2**	**(689)**	**450**	**20 086**	**3 315**	**23 164**	**162**	**23 326**

SUMMARISED GROUP STATEMENT OF CHANGES IN EQUITY continued

for the year ended 31 March 2020

EXPLANATORY NOTES

Statutory reserve

The statutory reserve is maintained in terms of section 24 of the SARB Act, which stipulates that one-tenth of the surplus of the SARB, after provisions normally provided for by bankers and payment of dividends, has to be credited to the statutory reserve.

Contingency reserve

In terms of section 24 of the SARB Act and section 15 of the CPD Act, contingency reserves are maintained to provide against risks to which the SARB and the CPD respectively are exposed.

Other reserves

Post-employment benefit (PEB) remeasurement reserve

Actuarial gains and losses relating to the remeasurement of the post-employment benefits, and arising from experience adjustments and changes in actuarial assumptions, are charged or credited to equity in OCI in the period in which they arise. These gains and losses are not subsequently reclassified to profit or loss.

Property, plant and equipment (PPE) revaluation reserve

Gains and losses arising from a change in fair value of artwork are recognised in OCI. When these assets are sold, collected or otherwise disposed of, the cumulative gain or loss previously recognised in OCI will be recognised in accumulated profit.

Bank for International Settlements (BIS) revaluation reserve

In the 2018/19 financial year, the Group applied *IFRS 9,* and *IFRS 9* removed the requirement in *IAS 39 Financial Instruments: Recognition and Measurement (IAS 39)* to measure unquoted equity investments at cost where the fair value cannot be determined reliably. As a result, the net fair value gains/losses on the revaluation of the BIS shares are recognised in OCI.

Transfer to government

In terms of section 24 of the SARB Act, nine-tenths of the surplus of the SARB, after provisions normally provided for by bankers and payment of dividends, has to be paid to SA government. For the year ended 31 March 2020 an amount of R287.3 million (2019: R207.5 million) was due to the SA government by the SARB.

In terms of section 15 of the CPD Act, the balance of net profits after transfers to reserves and payment of dividends has to be paid to the SA government. For the year ended 31 March 2020 an amount of zero (2019: R41.9 million) was due to the SA government by the CPD.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2020

1. ACCOUNTING POLICIES

1.1 Basis of preparation

The principal accounting policies adopted in the preparation of these summarised Group annual financial statements are set out below. These accounting policies should be read together with the financial reporting framework on page 95.

These summarised Group annual financial statements have been prepared on a going concern basis, in accordance with the SARB Act and the accounting policies set out in this note.

These summarised Group annual financial statements comprise the summarised Group statement of financial position as at 31 March 2020, and summarised Group statement of profit or loss and other comprehensive income, summarised Group statement of changes in equity and summarised Group statement of cash flows for the year ended 31 March 2020, as well as the notes, comprising a summary of significant accounting policies and other explanatory notes.

In accordance with the Financial Sector Regulation Act 9 of 2017 (FSR Act) separate financial statements in relation to the Prudential Authority is required. The Prudential Authority financial statements are included on pages 134 to 135.

The Group's functional and presentation currency is the South African ZAR, and amounts are rounded to the nearest million, unless otherwise stated.

The preparation of the summarised Group annual financial statements requires the use of certain key accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies of the Group. The areas with a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the summarised Group annual financial statements, are disclosed in note 1.22 and the relevant notes.

The accounting policies have been applied consistently to all years presented, except for the change described below.

1.2 New standards and Interpretations

1.2.1 New and amended standards adopted by the Group

In the current year, the Group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

IFRS 16

Application of IFRS 16 Leases

The Group adopted *IFRS 16 Leases (IFRS 16*) (as issued by the International Accounting Standards Board in January 2016) with the date of initial application being 1 April 2019.

IFRS 16 replaces

- *IAS 17 Leases;*
- *IFRIC 4 Determining whether an Arrangement contains a Lease;*
- *SIC 15 Operating Leases Incentives;* and
- *SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new requirements are described in the accounting policy for leases. The adoption of IFRS 16 had no material impact on the Group.

There are no other new or amended standards applicable to the Group for the financial year ended 31 March 2020.

1.2.2 New standards, amendments and interpretations not yet adopted by the Group

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 April 2020 and have not been early adopted in preparing these summarised Group annual financial statements. These are as follows:

Conceptual framework

The improvements to the conceptual framework include revising the definitions of an asset and liability, updating the recognition criteria for including assets and liabilities in financial statements and the following concepts have been clarified, prudence, stewardship, measurement uncertainty and substance over form. Minor amendments have also been made to various other standards.

The effective date of the new standard is for years beginning on or after January 2020. The amendment has no material impact on the Group's accounting policies.

IAS 1 Presentation of financial statements and IAS 8 Accounting policies, changes in accounting estimates and errors on the definition of material

The amendments clarify the definition of material and how it should be applied by including in the definition guidance that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.3 Group accounting

1.3.1 Subsidiaries

Subsidiaries are all entities over which the SARB has control. The SARB controls an entity when the SARB is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are consolidated from the date on which control is transferred to the SARB.

The acquisition method of accounting is used to account for subsidiaries by the Group. Investments in subsidiaries are stated at cost less allowance for impairment losses where appropriate, and include loans to subsidiaries with no repayment terms where these are considered part of the investment in subsidiaries.

Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group, with the exception of the SARB's policy on foreign currency translation (refer to note 1.6). These foreign exchange profits or losses are for the account of SA government and are thus transferred to the GFECRA in terms of sections 25 to 28 of the SARB Act.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the summarised Group statement of financial position, summarised Group statement of profit or loss and other comprehensive income and summarised Group statement of changes in equity respectively. Total comprehensive income of subsidiaries is attributed to the SARB and to the non-controlling interest, even if this results in the non-controlling interests having a debit balance.

1.3.2 Associates

An associate is an entity over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights.

The Group initially recognises its investment in associate at cost and subsequently accounts for its share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in OCI of the investee in OCI. Dividends received or receivable from an associate are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associate are eliminated to the extent of the Group's interest in this entity. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of the equity accounted investee have been changed where necessary to ensure consistency with the policies adopted by the Group, with the exception of the SARB's policy on foreign currency translation (refer to note 1.6). These foreign exchange profits or losses are for the account of SA government and are thus transferred to the GFECRA in terms of sections 25 to 28 of the SARB Act.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy in note 1.9.

1.4 Financial instruments

Financial instruments include all financial assets and financial liabilities, including derivative instruments, but exclude investments in subsidiaries, the investment in associate, post-employment benefit plans, provisions, property, plant and equipment, deferred taxation, intangible assets, inventories, surplus due to SA government and taxation payable or prepaid.

1.4.1 Financial assets

1.4.1.1 Classification

The Group classifies its financial assets into the following measurement categories:

- amortised cost;
- fair value through other comprehensive income (FVOCI);
- instruments measured in terms of the SARB Act; and
- fair value through profit or loss (FVPL)

The Group determines the classification of financial assets based on both the Group's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Classification of a financial instrument into a category occurs at the time of initial recognition.

For debt instruments, the business model test and cash flow characteristics of solely payments of principal and interest (SPPI) test is applied by the Group in determining the category which best applies to the financial instruments that it holds and or trades. Under the business model test the Group determines the objective for which it holds the financial instrument:

- holding the financial asset to collect the contractual cash flows;
- selling the instrument prior to its contractual maturity to realise its fair value changes; and
- holding for collection of contractual cash flows and for selling the assets.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.4 Financial instruments continued

1.4.1 Financial assets continued

1.4.1.1 Classification continued

The Group holds financial instruments for the collection of contractual cash flows. Factors considered by the Group in determining the business model of a group of assets include past experience on how the cash flows for these assets are collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated. The business model test is performed before the SPPI test.

Under the SPPI test, the Group determines whether the collection of contractual cash flows represent SPPI on specified dates. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Group reclassifies instruments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change.

Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent SPPI, and that are not specifically excluded in terms of sections 25 to 28 of the SARB Act or designated at FVPL, are measured at amortised cost. Financial assets held at amortised cost include:

- cash and cash equivalents;
- accommodation to banks;
- loans and advances; and
- other financial assets.

Fair value through other comprehensive income

Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent SPPI, and that are not specifically excluded in terms of sections 25 to 28 of the SARB Act or designated at FVPL, are measured at FVOCI.

The Group's policy is to designate equity instruments as FVOCI when those instruments are held for purposes other than to generate investment returns.

If an equity instrument is held for purposes other than to generate investment returns, the Group can make an irrevocable election at initial recognition to measure it at FVOCI. The Group's policy is to designate equity instruments as FVOCI when those instruments are held for purposes other than to generate investment returns.

The Bank for International Settlements (BIS) shares are held as part of the SARB's function as a central bank and not to generate investment returns. In accordance with the Group's policy, this has been designated at FVOCI.

Fair value through profit or loss

Positive derivatives, assets that do not meet the criteria for amortised cost, FVOCI, and that are not specifically excluded in terms of sections 25 to 28 of the SARB Act are measured at FVPL. Assets can be designated at FVPL at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency; or if the financial asset will form part of a held-for-trading portfolio of financial assets that is managed and its performance is evaluated on a fair-value basis, in accordance with a documented risk management or investment strategy and information about the portfolio is provided internally on that basis to key management personnel.

Financial assets held at FVPL include:

Mandatory:

- derivatives (forward exchange contracts, futures contracts and interest rate swaps).

Designated:

- short-term South African money market investments;
- foreign exchange reserves; and
- SA government bonds.

Instruments measured in terms of the SARB Act

Regardless of the classification as per *IFRS 9*, the accounting treatment for financial assets as governed in terms of sections 25 to 28 of the SARB Act will not change as the SARB Act takes precedence over IFRS. The SARB Act's accounting treatment is not in line with any of the *IFRS 9* classification requirements and consequently these instruments are not classified in accordance with *IFRS 9* for reporting purposes. The financial reporting framework of the SARB specifically refers to this deviation from IFRS.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.4 Financial instruments continued

1.4.1 Financial assets continued

1.4.1.1 Classification continued

The following assets are governed in terms of sections 25 to 28 of the SARB Act and thus not classified in terms of *IFRS 9*:

- » gold;
- » Special Drawing Rights (SDR) reserves; and
- » Forward Exchange Contract (FEC) assets.

1.4.1.2 Initial recognition

Financial assets are recognised when the Group becomes party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. From this date, any gains or losses arising from changes in the fair value of the assets and liabilities are recognised.

Financial assets are initially recognised at fair value plus transaction costs, except those carried at FVPL. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and FVOCI, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

The best evidence of fair value on initial recognition is the transaction price, unless fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash-flow models and option-pricing valuation techniques whose variables include data from observable markets.

When the fair value of financial assets differs from the transaction price on initial recognition, the Group recognises the difference as follows:

- » When the fair value is evidenced by a quoted price in an active market for an identical asset (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- » In all other cases, the difference is deferred, and the timing of recognition of the deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

1.4.1.3 Subsequent measurement

Equity instruments

All equity investments are valued at fair value with value changes recognised in profit or loss except where the Group has elected to present the fair value changes in OCI.

Where the Group has elected to designate an equity instrument at FVOCI, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss.

Debt instruments

Amortised cost

The carrying amount of these assets is adjusted by any ECL allowance recognised. Amortised cost is calculated using the effective interest method that discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. Interest income using the effective interest method from these financial assets is included in profit or loss.

Fair value through profit or loss

A gain or loss on a debt instrument subsequently measured at FVPL and not part of a hedging relationship is recognised in profit or loss. Interest income using the effective interest method from these financial assets is included in profit or loss.

Fair value through other comprehensive income

Movements in the carrying amount are taken through OCI, except for the recognition of impairment losses or reversals and interest revenue on the instrument's amortised cost which are recognised in profit or loss and changes in fair value due to foreign exchange movements as explained in note 1.6. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

Instruments measured in terms of the SARB Act

In terms of sections 25 to 28 of the SARB Act all gains and losses on gold held by the SARB and foreign exchange profits or losses of the SARB (as explained in note 1.6), insofar as they arise from changes in the value of the rand compared to other currencies, are for the account of SA government and consequently all these profits or losses are transferred to the GFECRA.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.4 Financial instruments continued

1.4.1 Financial assets continued

1.4.1.4 Impairment of financial assets

The Group assesses on a forward-looking basis the ECL associated with its debt instruments carried at amortised cost, FVOCI and with the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date.

The measurement of ECL reflects:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money;
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets are only written off after all recovery options have been exhausted and in consultation with legal counsel.

ECL measurement

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition. The Group applies the same model for all financial assets and is summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk (SICR) since initial recognition is identified, the financial instrument is moved to 'stage 2' but is not yet deemed to be credit impaired.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'stage 3'.
- Financial instruments in stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured on a lifetime basis.

The Group uses the following key inputs in its model for measuring ECL:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD);
- A pervasive concept in measuring ECL in accordance with *IFRS 9* is that it should consider forward-looking information; and
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (stage 3).

1.4.1.5 Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the assets have expired, or where the Group has transferred substantially all risks and rewards of ownership.

Collateral furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

1.4.2 Financial liabilities

1.4.2.1 Classification

The Group classifies its financial liabilities into the following measurement categories:

- amortised cost;
- fair value through profit or loss; and
- instruments measured in terms of the SARB Act.

The Group classifies a financial instrument that it issues as a financial liability in accordance with the substance of the contractual agreement. Management determines the classification of financial liabilities at initial recognition.

Financial liabilities at amortised cost

All financial liabilities are measured at amortised cost, except for liabilities specifically excluded in terms of sections 25 to 28 of the SARB Act, derivatives, if the liabilities are managed and performance evaluated on a fair value basis and financial liabilities designated at FVPL.

Financial liabilities held at amortised cost include:

- notes and coin in circulation;
- deposits; and
- other financial liabilities.

Financial liabilities at fair value through profit or loss

Negative derivatives, liabilities managed, and performance evaluated on a fair value basis and financial liabilities so designated are measured at FVPL. (An entity may, at initial recognition, irrevocably designate a financial liability as measured at FVPL when doing so results in more relevant information).

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.4 Financial instruments continued

1.4.2 Financial liabilities continued

1.4.2.1 Classificationc continued

Financial liabilities held at FVPL include:

» foreign deposits.

Instruments measured in terms of the SARB Act

Regardless of the classification as per *IFRS 9*, the accounting treatment for financial liabilities as governed in terms of sections 25 to 28 of the SARB Act will not change as the SARB Act takes precedence over IFRS. The SARB Act's accounting treatment is not in line with any of the *IFRS 9* classification requirements and consequently these instruments do not have to be classified in accordance with *IFRS 9* for reporting purposes. The financial reporting framework of the SARB on page 78 specifically refers to this deviation from IFRS.

The following liabilities are governed in terms of sections 25 to 28 of the SARB Act and thus not classified in terms of *IFRS 9*:

» Forward Exchange Contract (FEC) liabilities; and
» the GFECRA.

1.4.2.2 Initial recognition

The Group recognises financial liabilities when it becomes a party to the contractual provisions of the instrument.

Financial liabilities are initially recognised at fair value, generally being their issue proceeds net of transaction costs incurred, except for financial liabilities at FVPL. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash-flow models and option-pricing valuation techniques whose variables include only data from observable markets.

1.4.2.3 Subsequent recognition

Amortised cost

Amortised cost is calculated using the effective interest method that discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial liability.

Instruments measured in terms of the SARB Act

In terms of sections 25 to 28 of the SARB Act all gains and losses on gold held by the SARB and foreign exchange profits or losses of the SARB (as explained in note 1.6.), insofar as they arise from changes in the value of the rand compared to other currencies, are for the account of SA government and consequently all these profits or losses are transferred to the GFECRA.

Fair value through profit or loss

Subsequent to initial recognition, financial liabilities are measured at fair value. All related, realised and unrealised gains or losses arising from changes in fair value, excluding changes in fair value due to foreign exchange movements as explained in note 1.6 are recognised in profit or loss.

1.4.2.4 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled, expire or are substantially modified. The difference between the carrying amount of the financial liability derecognised, and the consideration paid and payable is recognised in profit or loss.

1.4.3 Effective interest rate

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (excluding ECL, but including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability. For purchased or originated credit-impaired financial assets, the Group calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial instruments is adjusted to reflect the new estimate, discounted using the original effective interest rate. Any changes are recognised in profit or loss.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.4 Financial instruments continued

1.4.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated and separate statement of financial position where there is a current legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In addition, as set out in note 5.2 to the summarised Group annual financial statements, financial assets and liabilities arising from derivatives have been offset.

The fair value of all derivatives is recognised in the consolidated and separate statement of financial position and is only netted to the extent that a legal right of setting off exists and there is an intention to settle on a net basis.

1.5 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair values are determined according to the fair value hierarchy based on the requirements in *IFRS 13 Fair Value Measurement*. Refer to note 16 for further details.

1.5.1 Derivatives

A derivative is a financial instrument, the value of which changes in response to an underlying variable that requires little or no initial investment and is settled at a future date. Fair values are obtained from quoted market prices (excluding transaction costs), dealer price quotations, discounted cash-flow models and option-pricing models, which consider current market and contractual prices for the underlying instruments, as well as the time value of money.

1.5.2 Foreign marketable money market instruments

The fair value of foreign marketable money market investments is based on quoted bid rates, excluding transaction costs.

1.5.3 Local and foreign portfolio investments including securities lending portfolio investments

The fair values of portfolio investments are valued using the quoted fair values as obtained from portfolio managers. Where these instruments are bank deposits, they are valued at nominal values plus accrued interest based on market rates. These values approximate fair values.

1.5.4 SA government bonds

Listed bonds are valued using quoted fair values at year-end as supplied by the JSE Limited.

1.5.5 BIS shares

The Group's investment in the BIS is valued at the net asset value of the BIS with a haircut of 30.00% applied. The net asset value of the shares is based on SDRs. This adjustment is not subject to sensitivity. Changes in value due to foreign exchange movements are transferred to the GFECRA in accordance with the SARB Act.

1.5.6 Valuable art

The fair value of valuable art is determined based on the price at which an orderly transaction to sell the assets would take place between market participants at the measurement date under current market conditions.

Revaluations of valuable art shall be made every three years by an independent, reliable valuator to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. In the absence of an official fair value assessment by an independent valuator, the insured value will be used as an indicator of fair value.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in OCI and accumulated in equity under the heading of ppe revaluation reserve. However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in OCI to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in OCI reduces the amount accumulated in equity under the heading of revaluation reserve.

The PPE revaluation reserve included in equity in respect of an item of valuable art may be transferred directly to accumulated profit when the asset is derecognised.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.6 Foreign currency – Exchange gains or losses arising in entity accounts

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange profits or losses of the SARB, insofar as they arise from changes in the value of the rand compared to other currencies, are for the account of SA government and consequently all these profits or losses are transferred to the GFECRA in terms of sections 25 to 28 of the SARB Act. Investment returns on foreign exchange reserves and interest paid on foreign loans are for the account of the SARB and are accounted for in profit or loss. Gains and losses on conversion to the functional currency are recognised in profit or loss for the subsidiaries and associate.

1.7 Property, plant and equipment

Property, plant and equipment are identifiable non-monetary assets which the Group holds for its own use and which are expected to be used for more than one year.

Property, plant and equipment is recognised when:

- It is probable that expected future economic benefits attributable to the asset will flow to the entity; and
- The cost of the asset can be measured reliably.

Property, plant and equipment are initially recognised at cost.

Freehold land and items under construction are subsequently carried at cost less accumulated impairment losses. Valuable art whose fair value can be measured reliably is carried at the revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. Other items of property, plant and equipment are subsequently carried at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is determined separately for each significant part of an item of property, plant and equipment, and is charged so as to write off the cost of the assets (other than land, valuable art and items under construction) to their residual value over their estimated useful life, using the straight-line method. Land and valuable art have indefinite useful lives and are not depreciated.

Items under construction are not used and thus not depreciated. The residual values, useful life and the depreciation method of assets are reviewed at each reporting date and adjusted if appropriate. The estimated average useful lives of assets are as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	50
Furniture and equipment	Straight line	2 to 28
Land	Not depreciated	Indefinite
Valuable art	Not depreciated	Indefinite
Vehicles	Straight line	5 to 7
Work in progress	Not depreciated	

Work in progress consists of items under construction and is measured at cost. Work in progress is transferred to the related category of assets and depreciated accordingly when the asset is completed and available for use.

Subsequent costs are included in the carrying amount of the asset only when it is probable that future economic benefits associated with the items will flow to the Group and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to profit or loss when incurred.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss.

1.8 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which the Group holds for its own use, and which are expected to be used for more than one year. This includes internally generated assets and purchased computer software. Internally generated assets are disclosed separately.

An intangible asset is recognised when:

- it is probable that expected future economic benefits attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.8 Intangible assets continued

Purchased software and the direct costs associated with the customisation and installation thereof are capitalised. Expenditure on internally developed software is capitalised if it meets the criteria for capitalising development expenditure. Other software development expenditure is charged to profit or loss when incurred.

Research expenditure relating to gaining new technical knowledge and understanding is charged to profit or loss when incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values. The residual values, amortisation period and the amortisation method for intangible assets are reviewed at each reporting date and adjusted if appropriate. The estimated average useful lives of assets are as follows:

Item	Amortisation method	Average useful life
Purchased computer software	Straight line	2 to 10
Internally generated computer software	Straight line	2 to 10
Work in progress	Not amortised	

Work in progress consists of items under construction and is measured at cost. Work in progress is transferred to the related category of assets and amortised when the asset is completed and available for use.

Intangible assets are subsequently carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is derecognised upon disposal or when no future economic benefits are expected from use or disposal. Any gain or loss arising from the derecognition of an intangible asset is included in profit or loss.

1.9 Impairment on non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment, in which case their recoverable amount is estimated.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. A discounted cash flow analysis is used to determine the fair value of the investment in subsidiary/associate and estimated future cash flows are based on management's best estimates. The assumptions used in the forecast are based on available historical information, taking management opinion and experience into consideration. Cash flow projections are approved by the subsidiary/associate's board and consists of cash flows from the associate and all its subsidiaries. A five-year forecasting period is used for cash flow projections from the subsidiary/associate and where available forecasts fall short of the five-year forecasting period, nominal growth in line with inflation is assumed. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Investments in subsidiaries and the associate are tested for impairment when dividends are declared to the holding company.

An impairment loss is recognised in profit or loss whenever the subsidiary or associate declares dividends to the holding company and evidence is available that:

- the carrying amount of the investment in the separate financial statements of the holding company exceeds the carrying amount in the consolidated financial statements of the investee's net assets; or
- the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared.

Non-financial assets that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date.

A previously recognised impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.10 Gold

Gold is held by the SARB as part of its foreign reserves. In terms of section 25 of the SARB Act, gold is recorded at the prevailing rates at initial recognition, including transaction costs. Subsequent to initial measurement, it is valued at the statutory price. The statutory price is the quoted price at the reporting date. Gold loans are measured at the quoted price at the reporting date. In terms of section 25 of the SARB Act, all gains or losses on gold, held by the SARB, are for the account of the SA government and, transferred to the GFECRA.

1.11 Taxation

The taxation expense for the period comprises current and deferred taxation. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

The charge for current taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed for taxation purposes. It is calculated using taxation rates that have been enacted or substantially enacted by the reporting date, and any adjustment of taxation payable for previous years.

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. However, deferred taxation liabilities are not recognised if they arise from the initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation laws enacted or substantively enacted at the reporting date. Deferred taxation is charged to profit or loss, except to the extent that it relates to a transaction that is recognised in OCI or in equity. In this case, the taxation is also recognised in OCI or in equity. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity or OCI.

Deferred taxation assets are recognised for all deductible temporary differences, the carry forward of unused taxation losses and the carry forward of unused taxation credits.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and the associate except for deferred taxation where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current taxation assets against current taxation liabilities, and when the deferred taxation assets and liabilities relate to income taxation levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

1.12 Employee benefits

1.12.1 Pension and retirement funds

The Group companies operate various pension schemes. The schemes are funded through employer and employee contributions to insurance companies or trustee-administered funds. All funds in which the Group participates are defined contribution funds, however, there is an element within the SARB retirement fund which is deemed to be defined benefit in nature. This element, as detailed in note 13.3 is treated according to the principles of a defined benefit plan.

1.12.1.1 Defined benefit plans

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The expected costs of post-employment defined benefits are charged to profit or loss over the expected service life of the employees entitled to these benefits according to the projected unit credit method. Costs are actuarially assessed, and expense adjustments and past-service costs resulting from plan amendments are amortised over the expected average remaining service life of the employees.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date, together with adjustments for unrecognised actuarial gains or losses and past-service costs. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods. Pastservice costs are recognised in profit or loss at the earlier of the following dates: (i) when the plan amendment or curtailment occurs or, (ii) when the Group recognises related restructuring costs or termination benefits.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.12 Employee benefits continued

1.12.1 Pension and retirement funds continued

1.12.1.2 Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity or fund. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees' benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expenses when they are due.

1.12.2 Post-employment benefits

The SARB provides post-employment medical and group life benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid and group life contributions.

Entitlement to these benefits is based on employment prior to a certain date and is conditional on employees remaining in service up to retirement age. The expected costs of post-employment defined benefits are charged to profit or loss over the expected service life of the employees entitled to these benefits according to the projected unit credit method. Costs are actuarially assessed, and expense adjustments and past-service costs resulting from plan amendments are amortised over the expected average remaining service life of the employees.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to OCI in the period in which they arise. Past-service costs are recognised immediately in profit or loss, to the extent that they relate to retired employees or past-service.

The liability is provided for in an actuarially determined provision.

1.12.3 Leave pay accrual

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees.

The leave pay accrual at the reporting date represents the present obligation to employees as a result of employees' services provided up to the reporting date. The accrual is measured as the amount that is expected to be paid as a result of the unutilised leave entitlement that has accumulated at the reporting date.

1.13 Sale and repurchase agreements

The SARB has entered into sale and repo agreements as part of its monetary policy activities. Securities purchased under agreements to resell are recorded under accommodation to banks at amortised cost. Securities sold under agreement to repurchase are disclosed as reverse repo agreements included in deposit accounts.

The underlying securities purchased under repo agreements are not recorded by the SARB. Likewise, underlying securities sold under repo agreements are not derecognised by the SARB.

The differences between the purchase and sale prices are treated as interest and accrued using the effective interest method.

The standing facilities are available daily on an automated basis in the form of a bilateral repo or reverse repo transactions maturing on the following business day. The respective interest rates are set at a spread of 100 basis points above or below the prevailing repo rate for the standing facility repo and reverse repo transactions, respectively. The SARB may change the spread from the repo rate at any time at its discretion.

1.14 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Redundant and slow-moving inventories are identified and written down to their estimated economic or realisable values. Raw materials are valued at cost according to the first-in, first-out basis by subsidiaries. Some raw materials are valued at standard cost, which closely approximates actual cost on a first-in, first-out basis.

Consumable stores are valued at the weighted-average cost price. Maintenance spares are valued at average cost.

Finished goods and work in progress are valued at direct costs of conversion and production overheads on a first-in, first-out basis. Production overheads are included in the cost of manufactured goods, based on normal operating capacity.

Note-printing and coin-minting expenses include ordering, printing, minting, freight, insurance and handling costs. These costs are recorded as part of work in progress for the SABN and the South African Mint and are released to profit or loss when the currency is sold to the SARB.

1.15 Cost of new currency

The SARB recognises the cost of new currency in profit or loss when the banknotes and coin are delivered, and the significant risks and rewards of ownership are transferred to the SARB.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.16 Cash and cash equivalents

Cash and cash equivalents comprise of deposits with banks and other short-term highly liquid money market investments with original maturities of three months or less (91 days and less). Where the maturity date falls on a weekend or a public holiday, the next business day convention will apply; however, the investment will still be considered a 91-day investment. In the separate financial statements, no cash and cash equivalents are reflected due to the SARB's role as a central bank in the creation of money.

The statement of cash flows includes cash on hand, bank overdrafts of subsidiaries and short-term money market instruments. This has been presented on the indirect method of preparation.

1.17 Provisions

Provisions are liabilities of uncertain timing or amount and are recognised when the Group has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's estimate of the expenditure required to settle that obligation at the end of each reporting period, and are discounted (at a pre-tax rate that reflects current market assessments of the time value of money and the risks specifi to the liability) to present value where the effect is material. Provisions are not recognised for future operating losses.

Where there are several similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

1.18 Total income

1.18.1 Net interest income

Interest income and interest expenses are recognised over time taking account of the principal outstanding and the effective interest rate over the period to maturity. Interest income and interest expenses are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method. Where financial assets have been impaired, interest income continues to be recognised on the impaired value, based on the original effective interest rate. Interest income and interest expenses include the amortisation of any discount or premium, or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

1.18.2 Other income

Revenue is measured at the consideration specified in the contract with a customer and excludes amounts collected on behalf of third parties. The Group recognises revenue either at a point in time or over time, dependent on when the performance obligation has been met.

Other income for the Group arises from the provision of services to clients. This consists mainly of commission on and for banking services.

Fee and commission revenue (including licence fees, levies, Integrated Regional Electronic Settlement System charges and handling fees) are earned based on the services that the SARB offers or transactions the SARB performs on behalf of commercial banks or Southern African Development Community regions. These services are provided either at a point in time or over time and the associated revenue recognised in accordance with how the performance obligation has been met.

The annual licence fees are fees charged by the SARB to any institution that wants to obtain a license either to operate as a bank or to establish a branch for an existing bank and are payable in advance on an annual basis. Revenue is recognised at the point that the SARB has issued a license to the institution.

The SARB offers banking services such as Electronic Transfer transactions to National Treasury on a monthly basis and earns revenue in the form of bank charges. The banking services are provided over time and National Treasury simultaneously receives the economic benefits provided. The revenue, which comprise of local and foreign payment charges, is therefore recognised over time.

Dividends are recognised when the right to receive payment is established.

1.19 Dividends paid

In terms of the SARB Act, the SARB is permitted to declare dividends from its accumulated profits. This is capped at a total dividend rate of 10% per annum on the paid-up share capital of the SARB.

1.20 Related parties

As per *IAS 24 Related Party Disclosures*, the financial statements contain the disclosures necessary to draw attention to the possibility that the Group's financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

1. ACCOUNTING POLICIES continued

1.20 Related parties continued

Related parties include, but are not limited to subsidiaries, the associate, members of management who hold positions of responsibility within the Group including those charged with governance in accordance with legislation, and members of management that are responsible for the strategic direction and operational management of the Group and are entrusted with significant authority. Their remuneration may be established by statute or by another body independent of the Group. Their responsibilities may enable them to influence the benefits of office that flow to them, their related parties or parties that they represent on the governing body.

1.21 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of taxation, from the proceeds.

1.22 Key accounting estimates and judgements

In preparing the Group's financial statements management applies judgement and makes estimates. Estimates and judgements are reviewed on an on-going basis and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Other than the items listed below, there were no significant changes to the Group's estimates and assumptions in the current or prior year.

1.22.1 Fair value of financial instruments

Financial instruments are priced with reference to quoted market prices in an actively traded market.

If the market for a financial asset is not active or an instrument is an unlisted instrument, the fair value is estimated using valuation techniques. These include reference to other instruments that are substantially the same, discounted cash flow analysis and option-pricing models.

When a discounted cash flow analysis is used to determine the value of financial assets, estimated future cash flows are based on management's best estimates, and the discount rate at the reporting date is a market-related rate for a financial asset with similar terms and conditions.

Where option-pricing models are used, inputs based on observable market indicators at the reporting date are only recognised to the extent that they relate to changes in factors that market participants will consider in setting a price.

1.22.2 Measurement of expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of counterparties defaulting and the resulting losses).

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- determining criteria for significant increase in credit risk (SICR);
- choosing appropriate models and assumptions for the measurement of ECL;
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- establishing groups of similar financial assets for the purposes of measuring ECL.

1.22.3 Fair value of unlisted investments

Judgement is exercised in assessing the fair value of unlisted investments held by the Group. A discounted cash flow analysis is used by the Group to determine the value of its unlisted investments by applying an appropriate discount rate to the best estimate of future cash of the investee. The key assumptions applied in the discounted cash flow valuation method are the equity market risk premium, SA risk free rate and the alpha and beta to determine the overall discount rate. Free cash flows for a period of 3-5 years are provided by the investee and further assessed by management. Detailed information about the estimates made by the Group in the above areas and their sensitivities are set out in note 18.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

2. CASH AND CASH EQUIVALENTS

	2020 Rm	2019 Rm
Bank and cash balances	20 043	36 930
Short-term South African money market investments	494	–
Total cash and cash equivalents	**20 537**	36 930

Financial instruments with an original maturity of less than three months are reflected above.

Maturity structure of financial assets		
Within 1 month	20 537	14 092
Between 1 and 3 months	–	22 838
Total financial assets	**20 537**	36 930

Included in short-term South African money market investments are repo agreements (2019: none), the following table presents details thereof:

Fair value of repo agreements	494	–
Fair value of collateral received	528	–
Fair value of collateral permitted to sell or repledge at the reporting date	528	–
Collateral cover	106.94%	–
Maturity date	2 April 2020	–

At the reporting date, there were no collateralised advances. The counterparties are exposed to interest rate risk on the various securities pledged as collateral for the repo agreements. The Group has the ability to sell or repledge these securities in the event of default.

3. ACCOMMODATION TO BANKS

	2020 Rm	2019 Rm
Repo agreements	101 100	56 000
Standing facility	4 957	5 396
Accrued interest	72	31
Total accommodation to banks	**106 129**	61 427

Accommodation to banks represents the SARB's short-term lending to commercial banks.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

3. ACCOMMODATION TO BANKS continued

	Notes	2020 Rm	2019 Rm

Repurchase agreements

The SARB revised its money market liquidity management strategy reducing the targeted R56.0 billion of repurchase agreements to R45.0 billion and introduced 3-month IOSRO of R20.0 billion. In addition, commercial banks utilised R36.1 billion of supplementary repo agreements as at 31 March 2020.

	Notes	2020 Rm	2019 Rm
Standard repo agreements yield interest at the repo rate(1) of the SARB (2019: repo rate)		**5.25%**	6.75%
90-day repo agreements yield interest at repo plus 0.30%		**5.55%**	–
The following table presents the collateral received for repo agreements (including accrued interest):			
Fair value of collateral received		**105 301**	56 088
Fair value of collateral permitted to sell or repledge at the reporting date		**105 301**	56 088
Collateral cover		**104.08%**	100.10%

The collateral received consists of various SA government bonds and Treasury Bills with maturities ranging from eight days to 27 years.

At the reporting date, the SARB accepted certain counterparty bills as part of its collateral pool for its refinancing operations as they were deemed High Quality Liquid Assets (HQLA). As at 31 March 2020, the SARB's total collateral exposure to the counterparty bills was R470.0 million.

At the reporting date, the counterparty bills pledged as collateral for the repo facility was impaired by R207.0 million. No defaults were experienced during the reporting period (2019: no defaults). Refer to note 19 for events that occurred subsequent to the reporting date.

The counterparties are exposed to interest rate risk on the various securities pledged as collateral for the repo agreements.

The SARB has the ability to sell or repledge these securities in the event of default.

Standing facility

The standing facility lending rate, the rate at which the SARB provides liquidity to commercial banks,was adjusted from repo rate plus 100 basis points to repo rate.

	Notes	2020 Rm	2019 Rm
The standing facility yields interest at the repo rate[1] of the SARB (2019: repo rate plus 1.00%)		**5.25%**	7.75%

The following table presents details of collateral received for the standing facility (including accrued interest):

	Notes	2020 Rm	2019 Rm
Fair value of collateral received		**5 975**	5 396
Fair value of collateral permitted to sell or repledge at the reporting date		**5 975**	5 396
Collateral cover		**120.54%**	100.00%

The collateral received consists of various SA government bonds and Treasury Bills with maturities ranging from 57 days to 26 years.

At the reporting date, none of the collateralised advances were past due or impaired. During the year under review, no defaults were experienced (2019: no defaults).

The counterparties are exposed to interest rate risk on the various securities pledged as collateral for the standing facility. The SARB has the ability to sell or repledge these securities in the event of default.

(1) The SARB reduced the interest rate by 1.00% effective 20 March 2020 to 5.25% to provide relief given the negative impact of COVID-19 pandemic on the economy.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

4. INVESTMENTS

	2020 Rm	2019 Rm
Short-term South African money market investments	**342**	5 778
Short-term South African fixed deposits	**7 027**	11 071
Total investments	**7 369**	16 849
Maturity structure of financial assets		
Within 1 month	**99**	1 856
Between 1 and 3 months	**163**	12 130
Between 3 and 12 months	**7 107**	2 863
Total financial assets	**7 369**	16 849

For investments that meet the definition of financial assets designated at fair value:

Maximum exposure to credit risk	**7 369**	16 849

In terms of the Investment Guidelines (IG), approved by the respective Boards of the SARB's subsidiaries, all investments are placed with reputable financial institutions. The CPD utilises banking institutions that have a minimum credit rating of BBB- by at least two of the following agencies: Standard and Poor's, Fitch or Moody's. Due to a default event by a counterparty, the credit quality of the short-term SA money market investments changed. This resulted in a fair value adjustment to the carrying value at year-end. Refer to note 19 for events that occurred subsequent to the reporting date.

5. GOLD AND FOREIGN EXCHANGE

Gold coin and bullion		**115 360**	75 692
Money- and capital-market instruments and deposits		**167 409**	122 832
Medium-term instruments		**523 150**	413 296
Portfolio investments		**126 054**	103 494
Securities lending asset	5.3	**–**	59
Accrued interest		**7**	28
Total gold and foreign exchange		**931 980**	715 401

Gold coin and bullion consists of 4 029 436 fine ounces of gold at the statutory price of R28 629.40 per ounce (2019: 4 029 116 fine ounces at R18 786.31 per ounce).

The foreign exchange balances yield investment returns achievable in the various currencies in which they are invested.
It is not practicable to calculate effective yields on the portfolios due to the volatility caused by exchange rate fluctuations.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

5. GOLD AND FOREIGN EXCHANGE continued

Included in the gold and foreign exchange holdings are the following items provided for additional information purposes:

5.1 Derivatives

The SARB utilises financial derivative products for portfolio management purposes, and seeks to minimise the effects of currency and interest rate risks by using such instruments to economically hedge the related risk exposures. The use of financial derivatives is governed by the SARB's policies approved by the Governors' Executive Committee, which provides written principles on the use of derivative financial instruments. Compliance with policies and exposure limits is reviewed by management on a continuous basis. Risk management practices also include regular reporting to the Risk Management Committee and Board Risk and Ethics Committee. The SARB does not enter into or trade financial instruments, including derivative financial instruments, for proprietary trading purposes.

	Net fair value Rm	Fair value of assets Rm	Fair value of liabilities Rm	Contract/ notional amount[1] Rm
2020				
FECs	**(428)**	**179**	**(607)**	**142 060**
Futures contracts	**(2)**	**58**	**(60)**	**11 817**
Interest rate swaps	**(30)**	**12**	**(42)**	**6 038**
Total derivatives	**(460)**	**249**	**(709)**	**159 915**
2019				
FECs	20	78	(58)	30 627
Futures contracts	(58)	25	(83)	23 906
Interest rate swaps	10	37	(27)	8 118
Total derivatives	(28)	140	(168)	62 651

(1) The notional amount of a financial instrument is the nominal or face value that is used to calculate payments made on that instrument. The amount generally does not settle between counterparties.

5.2 Offsetting financial assets and financial liabilities relating to gold and foreign exchange

The SARB is subject to an enforceable master netting arrangement with its derivative counterparties. Under the terms of this agreement, offsetting of derivatives is permitted only in the event of bankruptcy or default of either party to the agreement. There is no intention to settle on a net basis or realise the asset and settle the liability simultaneously. The following table presents details of this:

	Gross amounts presented in derivatives Rm	Offset Rm	Net amounts presented in derivatives Rm	Related amounts not set off in derivatives: Instruments which offset on default Rm	Collateral amount received Rm	Net amount Rm
2020						
FEC assets	**179**	**–**	**179**	**(156)**	**–**	**23**
Interest rate swap assets	**12**	**–**	**12**	**(12)**	**–**	**–**
FEC liabilities	**(607)**	**–**	**(607)**	**156**	**–**	**(451)**
Interest rate swap liabilities	**(42)**	**–**	**(42)**	**12**	**–**	**(30)**
2019						
FEC assets	78	–	78	(31)	–	47
Interest rate swap assets	37	–	37	(26)	–	11
FEC liabilities	(58)	–	(58)	31	–	(27)
Interest rate swap liabilities	(27)	–	(27)	26	–	(1)

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

5. GOLD AND FOREIGN EXCHANGE continued

5.3 Securities lending activities

	2020 Rm	2019 Rm
Liabilities in respect of collateral received[(1)]	–	(59)
Fair value of underlying investments	–	59
Net fair value adjustments included in GFECRA	–	–

(1) Included in other liabilities.

5.4 Special Drawing Rights

The SDR asset of R36.5 billion (2019: R30.1 billion) included in total gold and foreign exchange, carries interest at an effective rate of 0.05% (2019: 1.15%). National Treasury promissory notes have been pledged as collateral against these SDRs.

Fair value of collateral received	46 436	43 568
Collateral cover	127.08%	144.98%

At reporting date, none of the collateralised advances were past due or impaired (2019: none). During the year under review, no defaults were experienced (2019: no defaults).

6. LOANS AND ADVANCES

Secured foreign loans	54	57
Interest-bearing local loans	25 414	17 576
Total loans and advances	25 468	17 633

Secured foreign loan

The loan facility of R75.0 million (2019: R75.0 million) expires on 31 December 2020, if not renegotiated, and carries interest at an effective rate of 6.57% (2019: 6.66%).

As at 31 March 2020, counterparty promissory notes had been pledged as collateral against the loan facility.

Subsequent to year-end, the counterparty was downgraded, amplifying the liquidity constraints already experienced. The counterparty is engaging with various stakeholders to address the situation.

The following table presents details of collateral held:

Fair value of collateral received	–	81
Fair value of collateral permitted to sell or repledge at the reporting date	–	81
Collateral cover	–	142.36%
Maturity date	–	29 May 2019

At the reporting date, the counterparty promissory notes were impaired (2019: none). During the year under review, no defaults were experienced (2019: no defaults).

The counterparties are exposed to interest rate risk on the various securities pledged as collateral for the foreign loan. The SARB has the ability to sell or repledge these securities in the event of default.

Interest-bearing local loans

The loans are advanced as part of the national government's Inter-Governmental Cash Coordination (IGCC) arrangement, in terms of which some state-owned entities and treasuries of provincial governments deposit excess funds with the CPD to form a pool of funds from the public sector. The national and the provincial treasuries are allowed to borrow money from the IGCC pool of funds. National Treasury guarantees that the deposits will be made available to depositors on demand.

The interest-bearing loans are unsecured, short term in nature and callable on demand. The loans earn interest at a rate equal to the 91-day Treasury Bill yield. The rate at the reporting date was 5.68% (2019: 7.10%).

At the reporting date, none of the interest-bearing local loans were past due (2019: none). During the year under review, no defaults were experienced (2019: no defaults).

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

7. SOUTH AFRICAN GOVERNMENT BONDS

	2020 Rm	2019 Rm
Listed bonds: Interest-bearing	8 737	7 354
Accrued interest	56	164
Fair value adjustments	444	492
Total SA government bonds	**9 237**	8 010
Effective interest rate	7.75%	8.45%

As part of the SARB's continuous measures to manage liquidity during the COVID-19 pandemic, R1.4 billion of SA government bonds were purchased from the secondary market during March 2020. Refer to note 19 for events that occurred subsequent to the reporting date.

8. NOTES AND COIN IN CIRCULATION

	2020 Rm	2019 Rm
Notes	149 079	145 102
Coin	6 465	6 205
Total notes and coin in circulation	**155 544**	151 307

The liability for notes and coin issued is the net liability after offsetting notes and coin held by the SARB and not yet issued into circulation as cash held by the central bank does not represent currency in circulation.

9. DEPOSIT ACCOUNTS

	2020 Rm	2019 Rm
Non-interest-bearing	194 300	153 816
Banks' reserve accounts	138 362	110 275
SA government accounts	53 094	41 829
Other current accounts	2 844	1 712
Interest-bearing	152 327	133 225
SA government special deposit	67 157	57 157
Banks' current accounts	13 289	5 678
Call deposits	71 775	70 390
Margin call	106	–
Total deposit accounts	**346 627**	287 041
Maturity structure of deposit accounts		
On demand	127 819	113 931
Subject to negotiation with National Treasury	67 157	57 157
Within 1 month	151 651	115 953
Total deposit accounts	**346 627**	287 041

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

9. DEPOSIT ACCOUNTS continued

Banks' reserve accounts

Commercial banks are required to maintain a minimum cash reserves balance with the SARB into which they are able to deposit at least such amounts as may be necessary to comply with the SARB Act. The banks' reserve accounts do not accrue interest. In addition, the commercial banks can utilise the cash reserve accounts to either fund short positions or deposit surplus funds. As at year-end, the balance was below the required minimum reserve balance by an amount of R2.7 billion (2019: R0.6 billion).

SA government special deposit

SA government's special deposit bears interest at a rate equivalent to the return earned on foreign exchange investments made by the SARB. The interest earned on the deposit was settled during the year under review.

Call deposits

In terms of the current interest rate policies as approved by the CPD Board, call deposits earn interest at a rate of ten basis points less than the 91-day Treasury Bills yield. Included in these call deposits is the Electronic Trading Platform which earns interest at a rate of 25 basis points less than the repo rate (2019: rate of 45 basis points less than the repo rate). The prevailing rates at year-end were 5.58% (2019: 7.00%) and 5.00% (2019: 6.30%) respectively.

10. FOREIGN DEPOSITS

	2020 Rm	2019 Rm
Foreign deposits	**148 198**	122 559

Foreign deposits are placed by customers at market related rates.

11. SOUTH AFRICAN RESERVE BANK DEBENTURES

Capital	**–**	25

The debentures are issued to the market on tender normally on a 7-, 14-, 28- or 56-day term. The debentures are unsecured. There were no debenture in issue at 31 March 2020. Refer to note 19 for events that occurred subsequent to the reporting date.

12. GOLD AND FOREIGN EXCHANGE CONTINGENCY RESERVE ACCOUNT

	2020 Rm	2019 Rm
Opening balance	**285 829**	193 917
Profit/(loss) on gold price adjustment account	**39 659**	12 429
Loss/(profit) on FEC adjustment account	**(33 478)**	(28 230)
Profit/(loss) on foreign exchange adjustment account	**142 316**	104 739
Movement in unrealised gains on FECs	**1 605**	2 833
	435 931	285 688
Payments from National Treasury	**131**	141
Closing balance	**436 062**	285 829
Balance composition		
Balance currently due to SA government	**434 359**	285 730
Unrealised gains on FECs	**1 703**	99
	436 062	285 829

The GFECRA, which is operated in terms of section 28 of the SARB Act, represents net revaluation profits and losses incurred on gold and foreign exchange transactions, which are for the account of the SA government. Settlement of this account is subject to agreement, from time to time, between the SARB and SA government and consists mainly of the exchange margin. During the reporting year under review, a net amount of R131.1 million was settled by SA government (2019: R141.5 million).

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

13. POST-EMPLOYMENT BENEFITS

The SARB and SABN provide the following post-employment benefits to its employees:

	Notes	2020 Rm	2019 Rm
Amounts recognised in the statement of financial position			
Post-employment medical benefits	13.1	**2 270**	2 408
Post-employment group life benefits	13.2	**47**	54
Post-employment retirement fund benefits	13.3	**–**	248
Total post-employment benefits		**2 317**	2 710

13.1 Post-employment medical benefits

Post-employment medical benefits are provided to retired staff in the form of subsidised medical aid premiums. This benefit has been closed to all new employees at the SARB since 1 September 2011 and SABN since 2003. A provision for the liability has been raised; this covers the total liability, that is, the accumulated post-employment medical benefit liability at 31 March 2020.

13.2 Post-employment group life benefits

Post-employment group life benefits are provided to retired staff in the form of subsidised group life premiums. This benefit has been closed to all new employees at the SARB since 1 September 2017 and one of its subsidiaries since 1 October 2017. This covers the total liability, that is, the accumulated post-employment group life benefit liability at 31 March 2020.

13.3 Post-employment retirement fund benefits

The Group has made provision for pension and provident plans substantially covering all employees. All employees are members of the retirement fund administered by the Group or are members of funds within the various industries in which they are employed. The assets of these plans are held in administered trust funds separate from the Group's assets and the funds are governed by the Pension Funds Act 24 of 1956.

Statutory actuarial valuations are performed triennially with the 31 March 2018 valuation having found the fund to be in a sound financial position. Interim actuarial valuations are concluded annually (except in years where a statutory valuation is performed), with the 31 March 2020 interim valuation currently being concluded. Where a surplus in the fund is calculated, it is for the benefit of the members, and accordingly no asset is recognised in the financial statements of the SARB. The retirement fund is regulated by the Financial Sector Conduct Authority and is a single scheme which caters for active members, pensioners on a living annuity, pensioners on a life annuity, and pensioners from the former defined benefit fund.

Active members participate on a defined contribution basis. The market risk lies fully with the active members until retirement. On retirement, former employees can commute up to one-third of their share of funds. They may use the remaining funds to buy either a living annuity or a life annuity (or a combination of both) from the fund. They may also choose to transfer their share of funds to another registered retirement annuity. The value of assets under management for active members as at 31 March 2020 was R4.1 billion (2019: R4.2 billion).

Living annuity pensioners bear the entire market risk on their funds; however, they also fully benefit from positive market returns.

The life pension quoted by the retirement fund is based on the amount of capital available to the employee, as well as marital status, gender and age. There are currently 956 life pensioners. Once quoted a life pension, the rules of the fund stipulate that it will not be reduced, and thus, although the pensioner bears the market risk with regard to the annual increase granted, the employer will contribute if there is a shortage in the pension account which supports maintaining pensions at their existing level. This is in effect the only uncovered 'defined benefit' element in the fund. The risk for the retirement fund, and ultimately the SARB, in meeting this defined benefit, is market risk and life expectancy.

Since inception in 1995, there has not been a shortage in the pension account for any given year. The most recent statutory valuation at 31 March 2019 found the fund to be fully funded, with the actuarial liability of pensions to be R1.8 billion with plan assets of R1.8 billion. The trustees of the retirement fund and the management of the SARB do not foresee a statutory liability for the SARB in terms of these pensioners.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

14. PROFIT BEFORE TAXATION

14.1 Total income includes:

	2020 Rm	2019 Rm
Income from investments	**(589)**	41
Dividends received[1]	**41**	39
Realised and unrealised profits/(losses) on investments	**(630)**	2
Commission on banking services	**1 144**	1 294

Realised and unrealised profits/losses on the SARB's investments are included in interest income in terms of the SARB's accounting policies.

	2020 Rm	2019 Rm
14.2 Impairment loss:		
Credit impairment losses	**2 315**	–
14.3 Operating costs include:		
Directors' remuneration	**38**	34
For services as non-executive directors	**6**	5
For services as executive directors	**32**	29
Depreciation, amortisation and impairment	**483**	443
Buildings	**28**	36
Plant, vehicles, furniture and equipment	**348**	312
Computer software	**107**	95
Net loss on disposal of land, plant, vehicles, furniture and equipment	**16**	53
Write-downs of inventories	**15**	30
Auditors' remuneration	**25**	18
Audit fees	**17**	16
Fees for other services	**8**	2
Consulting fees	**154**	106
Retirement benefit costs	**730**	789
Contributions to funds – Normal	**252**	233
Contributions to funds – Additional	**3**	24
Provision for post-employment medical benefits	**294**	307
Provision for post-employment group life benefits	**8**	8
Provision for post-employment retirement fund benefits	**39**	91
Premiums paid – Medical aid	**128**	120
Premiums paid – Group life	**6**	6
Remuneration and recurring staff costs	**2 384**	2 217
Cost of new currency	**427**	699
Other operating costs[2]	**3 608**	3 477

(1) Refer to note 19 for events that occurred subsequent to the reporting date.

(2) Other operating costs comprise mainly business systems and technology costs, repairs and maintenance, building maintenance costs, travel and accommodation, and training expenses.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

15. CASH (UTILISED BY)/GENERATED FROM OPERATING ACTIVITIES

	2020 Rm	2019 Rm
Reconciliation of profit before taxation to cash generated from operating activities		
Profit before taxation for the year	7 078	8 490
Adjustments for:		
Interest received[(1)]	(7 859)	(8 141)
Interest paid[(1)]	10 108	8 820
Depreciation, amortisation and impairment	484	444
Net loss on disposal of fixed assets	16	53
Impairment loss on investments	2 230	–
Credit impairment losses	2 315	–
Profit from associate	(280)	(547)
Unrealised foreign exchange loss	6	–
Fair value adjustments on investments	631	(2)
Post-employment benefits	216	298
Coupon interest accrued	108	(110)
Amortisation of coupon interest	–	(35)
Interest accrued on accommodation to Banks	(72)	–
Net cash generated from operating activities	**14 980**	9 270
Changes in working capital		
Accommodation to banks	(44 662)	5 423
Other assets	(846)	(984)
Gold and foreign exchange	(216 579)	(122 783)
Loans and advances	(10 150)	(63)
Notes and coin in circulation	4 237	4 977
Deposit accounts	59 586	7 021
Other liabilities	183	1 287
Foreign deposits	25 640	20 603
SARB debentures	(25)	(315)
Gold and Foreign Exchange Contigency Reserve Account	148 628	89 079
Cash (utilised by)/generated from changes in working capital	**(33 988)**	4 245
Cash (utilised by)/generated from operating activities	**(19 008)**	13 515

(1) Comparative figures have been amended as part of enhancements improvements to the summarised Group annual financial statements.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

16. FAIR VALUE HIERARCHY DISCLOSURES

The tables on page 126 analyse the assets and liabilities of the Group carried at fair value and amortised by the level of fair value hierarchy. The fair value hierarchy depends on the extent to which quoted prices are used in determining the fair value of the specific instruments. The different levels are defined as follows:

Level 1: Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.

Level 2: Fair value is based on input other than quoted prices included within Level 1 that is observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Fair value is based on input for the asset or liability that is not based on observable market data (i.e. unobservable inputs).

The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. The reallocation of the short-term deposits from level 1 to level 2 in the current year was due to investment prices agreed upon and negotiated between dealers and not due to a change in the valuation technique used to determine the fair value.

16.1 Valuation techniques used to derive Level 1 fair values

The fair value of financial instruments traded in active markets are based on quoted market prices as obtained from the custodians at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer broker or pricing services, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the SARB is the current price as per the custodian's pricing hierarchy. These instruments are included in Level 1.

16.2 Valuation techniques used to derive Level 2 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Specific valuation techniques used to value financial instruments include the following:

- quoted market prices or dealer quotes for similar instruments are used for gold and foreign exchange and investments;
- the fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- the fair value of FECs is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value; and
- the fair value of all other instruments are derived with reference to yields.

16.3 Valuation techniques used to derive Level 3 fair values

Immaterial Level 3 items are detailed in the Group annual financial statements and have been excluded from this report.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

16. FAIR VALUE HIERARCHY DISCLOSURES continued

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2020				
Items measured at fair value				
Financial assets				
SA government bonds	**9 237**	**–**	**–**	**9 237**
Investments	**–**	**7 369**	**–**	**7 369**
Gold and foreign exchange	**600 873**	**331 107**	**–**	**931 980**
Gold coin and bullion	**115 360**	**–**	**–**	**115 360**
Money- and capital-market instruments and deposits	**–**	**167 416**	**–**	**167 416**
Medium-term investments	**431 136**	**92 014**	**–**	**523 150**
Portfolio investments	**54 377**	**71 677**	**–**	**126 054**
Financial liabilities				
Foreign deposits	**–**	**148 198**	**–**	**148 198**
Items measured at amortised cost				
Financial assets				
Cash and cash equivalents	**803**	**19 734**	**–**	**20 537**
Accommodation to banks	**–**	**106 129**	**–**	**106 129**
Loans and advances	**–**	**25 468**	**–**	**25 468**
Financial liabilities				
Notes and coin in circulation	**–**	**155 544**	**–**	**155 544**
Deposit accounts	**–**	**346 627**	**–**	**346 627**
SARB debentures	**–**	**–**	**–**	**–**
GFECRA	**436 062**	**–**	**–**	**436 062**
2019				
Items measured at fair value				
Financial assets				
SA government bonds	8 010	–	–	8 010
Investments	11 070	5 779	–	16 849
Gold and foreign exchange	423 384	292 017	–	715 401
Gold coin and bullion	75 692	–	–	75 692
Money- and capital-market instruments and deposits	–	122 860	–	122 860
Medium-term investments	305 014	108 282	–	413 296
Portfolio investments	42 678	60 816	–	103 494
Securities lending asset	–	59	–	59
Financial liabilities				
Foreign deposits	–	122 559	–	122 559
Items measured at amortised cost				
Financial assets				
Cash and cash equivalents	36 930	–	–	36 930
Accommodation to banks	–	61 427	–	61 427
Loans and advances	–	17 633	–	17 633
Financial liabilities				
Notes and coin in circulation	–	151 307	–	151 307
Deposit accounts	–	287 041	–	287 041
SARB debentures	–	25	–	25
GFECRA	285 829	–	–	285 829

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

17. COMMITMENTS AND GUARANTEES

17.1 Guarantees

R3.0 billion (2019: R3.0 billion) has been guaranteed by the SARB to ABL undertaking to settle unrecoverable loans that Residual Debt Services Limited could not settle in terms of the indemnity agreement. By 31 March 2020 this facility had not been utilised.

In turn, R3.0 billion (2019: R3.0 billion) has been guaranteed by the National Treasury to the SARB with the same terms to assist with the above mentioned guarantee issued to ABL. A guarantee fee of 30 basis points is payable upon the utilisation of the guarantee facility. By 31 March 2020 this facility had not been utilised and no loss allowances were required.

17.2 Committed liquidity facilities

The committed liquidity facilities (CLFs) are designed to allow local banks to meet Basel III rules that require financial institutions to hold high-quality liquid assets as a buffer during times of market stress. Subsequently, the SARB has approved the provision of a CLF to assist banks to meet the liquidity coverage ratio.

Although banks can contractually draw down on the CLF with immediate effect, such a draw down would signal a degree of liquidity pressure and banks are not expected to draw down except in circumstances of extraordinary liquidity needs. The SARB monitors the liquidity positions of all banks as part of its normal supervisory processes and should be aware of any deterioration in a bank's liquidity position that could possibly result in a draw down on the CLF.

On 31 March 2020 the total CLFs granted by the SARB for the period 1 January 2020 to 31 December 2020 amounted to R140.0 billion (2019: R140.0 billion), which have not yet been utilised. Commitment fees of R620.7 million (2019: R811.9 million) have been received for the period of 1 January 2020 to 31 December 2020 of which R155.2 million (2019: R203.0 million) is accounted for as income for the year ended 31 March 2020. The balance is reflected in other liabilities.

An interest rate of repo plus 1.00% is charged on draw down for the draw down period of up to 30 days.

The available facility is limited to the lower of the facilities entered into and the available collateral after the haircut is applied. To date, residential, commercial mortgages, auto loans and asset backed securities of R128.5 (2019: R151.1 billion) (before the haircut is applied) have been ceded to the SARB as collateral as per the individual agreements. A haircut is applied to the collateral registered with the SARB as per the contractual agreement, based on the risk associated with each class of asset registered as collateral.

17.3 VBS Mutual Bank

VBS Mutual Bank (VBS) was placed under curatorship by the SARB. The SARB undertook to guarantee retail deposits of up to R100 000 per depositor. The SARB transferred an amount of R261.0 million to Nedbank for the payment of VBS depositors. The SARB has committed funds totalling R336.0 million to the depositors of VBS of which only the R261.0 million has been claimed to date. The remaining amount could be activated by depositors up to expiry of 16 months. An impairment was raised against the transferred amount in the prior year and the SARB will continue to assess the recoverability thereof. A legal claim has been lodged against the insolvent estate of VBS, of which the timing and amount is uncertain. There were no activities in the current year.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

18. RELATED PARTY INFORMATION

18.1 Investment in subsidiaries

The contribution to the Group profit attributable to the parent (pre elimination of intercompany transactions) is as follows:

	2020 Rm	2019 Rm
Corporation for Public Deposits	**(2 769)**	92
South African Bank Note Company (RF) Proprietary Limited	**106**	156
South African Mint Company (RF) Proprietary Limited	**947**	666
Total contribution to Group profit	**(1 716)**	914

18.2 Investment in associate

			2020 Rm	2019 Rm
African Bank Holdings Limited (Carrying value)	500	50	**5 417**	4 870
Profit attributable to Group			**280**	547
Impairment loss			**(2 229)**	–
Carrying value of investment in associate			**3 468**	5 417

18.2.1 Impairment loss recognised on investment in associate

The Group performs annual impairment test on the investment in associate. The recognition of the impairment loss in the current year is mainly as a result of the large scale economic impact of COVID-19 on the expected future cash flows of ABHL.

The free cash flow model was used to calculate the recoverable amount of R3.5 billion and is based on certain assumptions.

Management made the following key assumptions in its determination of the fair value:

- ABHL is a going concern and would be able to continue operating for the foreseeable future.
- The calculations use cash flow projections based on financial budgets approved by ABHL management covering a five-year period.
- A discount rate of 17.19% (2019: 14.97%) was used to calculate the present value of future cash flows.
- Funding will be sourced under market related conditions as required.

18.2.2 Sensitivity analysis

The effect of a 1% increase and decrease in the discount rate is as follows:

	GROUP	
	2020 Rm	2019 Rm
ABHL carrying value		
1% decrease	**3 529**	5 416
Valuation basis	**3 467**	5 416
1% increase	**3 408**	5 416
Impairment loss		
1% decrease	**2 167**	–
Valuation basis	**2 229**	–
1% increase	**2 288**	–

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

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18. RELATED PARTY INFORMATION continued

18.2 Investment in associate continued

18.2.2 Sensitivity analysis continued

The effect of a 10% increase and decrease in the cash flow forecast is as follows:

	GROUP	
	2020 Rm	2019 Rm
ABHL carrying value		
10% decrease	**3 121**	5 416
Valuation basis	**3 467**	5 416
10% increase	**3 814**	5 416
Impairment loss		
10% decrease	**2 575**	–
Valuation basis	**2 229**	–
10% increase	**1 882**	–

18.3 Transactions with non-controlling interests

Prestige Bullion

The South African Mint holds a 60.00% interest in Prestige Bullion. Prestige Bullion distributes, and sells bullion Krugerrand coins to local and international markets. The South African Mint is responsible for the manufacturing while the marketing and distribution of the coins is done by Rand Refinery Proprietary Limited (Rand Refinery).

Rand Refinery has a 40.00% interest, and therefore holds a non-controlling interest in Prestige Bullion.

	2020 Rm	2019 Rm
Profit attributable to non-controlling interest	**649**	438
Accumulated non-controlling interest at year-end	**162**	134
Dividends paid to non-controlling interest	**620**	368

No significant restrictions exist on the SARB's ability to access or use the assets to settle the liabilities of the Group.

18.4 Amounts due by/to related parties

Amounts due by related parties		
Corporation for Public Deposits	**17 917**	2045
South African Bank Note Company (RF) Proprietary Limited	**5**	16
SA government	**25 414**	17 576
South African Mint Company (RF) Proprietary Limited	**–**	1
Amounts due to related parties		
Corporation for Public Deposits	**17 316**	875
South African Bank Note Company (RF) Proprietary Limited	**602**	519
SA government	**628 370**	455 448
GEFCRA	**436 062**	285 829
Deposits		
Non-interest-bearing	**53 094**	41 829
Interest-bearing	**138 927**	127 541
Other liabilities	**287**	249
South African Mint Company (RF) Proprietary Limited	**5**	654
South African Reserve Bank Retirement Fund	**6**	6

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

for the year ended 31 March 2020

18. RELATED PARTY INFORMATION continued

18.5 Transactions between the SARB and its related parties

	2020 Rm	2019 Rm
Dividend received		
South African Mint Company (RF) Proprietary Limited	**1 400**	250
Dividend paid		
South African Mint Company (RF) Proprietary Limited	**1 400**	250
Interest received	**3 875**	3 711
African Bank Limited (equity accounted, not consolidated)	**1**	1
Corporation for Public Deposits	**877**	734
SA government	**2 997**	2 976
Interest paid	**6 306**	6 129
Corporation for Public Deposits	**772**	665
South African Bank Note Company (RF) Proprietary Limited	**72**	59
SA government	**5 430**	5 395
South African Mint Company (RF) Proprietary Limited	**31**	9
South African Reserve Bank Retirement Fund	**1**	1
Rent received		
South African Bank Note Company (RF) Proprietary Limited	**1**	1
Rent paid		
South African Bank Note Company (RF) Proprietary Limited	**1**	1
Admin and management fees received	**38**	36
Corporation for Public Deposits	**3**	3
South African Bank Note Company (RF) Proprietary Limited	**26**	25
South African Mint Company (RF) Proprietary Limited	**5**	5
South African Reserve Bank Retirement Fund	**4**	3
Admin and management fees paid	**34**	33
Corporation for Public Deposits	**3**	3
South African Bank Note Company (RF) Proprietary Limited	**26**	25
South African Mint Company (RF) Proprietary Limited	**5**	5
Other income	**1 717**	1 626
African Bank Limited (equity accounted, not consolidated)	**1**	1
South African Bank Note Company (RF) Proprietary Limited	**1 248**	1 228
South African Mint Company (RF) Proprietary Limited	**468**	397
Cost of new currency	**1 716**	1 625
South African Bank Note Company (RF) Proprietary Limited	**1 248**	1 228
South African Mint Company (RF) Proprietary Limited	**468**	397
Pension fund contributions		
South African Reserve Bank Retirement Fund	**250**	253

All other significant balances are shown in the statement of financial position under the appropriate headings.

NOTES TO THE SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS continued

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18. RELATED PARTY INFORMATION continued

18.6 Inventory held on behalf of the SARB by the South African Mint

At year-end, coin inventory to the value of R229.5 million (2019: R162.0 million) was held on behalf of the SARB.

	2020 R'000	2019 R'000
18.7 Directors' remuneration		
Paid by SARB		
Executive directors: Remuneration		
Governor E L Kganyago		
Remuneration and recurring fringe benefits	7 707	7 363
Other fringe benefits	147	147
	7 854	7 510
Deputy Governor A D Mminele (term ended 30 June 2019)		
Remuneration and recurring fringe benefits	1 342	5 303
Other fringe benefits	14	60
Severance (including cooling-off period payment up to 31 December 2019)	2 928	–
	4 284	5 363
Deputy Governor F E Groepe (resigned 31 January 2019)		
Remuneration and recurring fringe benefits	–	4 408
Other fringe benefits	–	49
Severance (including cooling-off period payment up to 31 July 2019)	7 308	6 325
	7 308	10 782
Deputy Governor K Naidoo		
Remuneration and recurring fringe benefits	5 506	5 262
Other fringe benefits	2	2
	5 508	5 264
Deputy Governor N Tshazibana (appointed 01 August 2019)		
Remuneration and recurring fringe benefits	3 733	–
Other fringe benefits	7	–
	3 740	–
Deputy Governor R I Cassim (appointed 01 August 2019)		
Remuneration and recurring fringe benefits	3 725	–
Other fringe benefits	16	–
	3 741	–
Total remuneration of executive directors	32 435	28 919
Non-executive directors: Remuneration for services		
B W Smit	157	438
C B du Toit	455	438
D Konar	166	159
F Cachalia	607	575
G M Ralfe	562	549
L H Molebatsi (appointed 1 April 2019)	480	–
N Vink	401	383
R J G Barrow	1 186	1 161
R le Roux	433	390
T Nombembe	528	500
V J Klein	–	177
Y G Muthien	528	285
Z Hoosen (appointed 29 July 2019)	328	–
Total remuneration of non-executive directors	5 831	5 055
Total remuneration of directors	38 266	33 974

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for the year ended 31 March 2020

19. EVENTS AFTER REPORTING DATE

The global COVID-19 pandemic developed rapidly in 2020, with South Africa recording its first case in March 2020. Subsequently there was a significant rise in the number of infections, which prompted the South African government to implement a nationwide lockdown measure to contain the spread of the virus, however, this led to a major economic down turn.

The COVID-19 pandemic has had a significant impact on the SARB's operations but limited impact on the 2019/20 financial results. The SARB will continue to follow the various national institutes' policies and advice, and in parallel do the utmost to continue operations in the best and safest way possible without jeopardising the health of its employees.

As a result of the COVID-19 pandemic, the Group draws attention to the following significant non-adjusting items that occurred subsequent to year-end.

Monetary and financial stability policy tools

As part of the SARB's continuous measures to manage liquidity during the COVID-19 pandemic, SA government bonds of R19.5 billion were purchased from the secondary market.

The SARB had an issuance of SARB debentures of R7.1 billion.

The MPC reduced the repo rate by 100bps to 4.25% and a further 50bps to 3.75% on 14 April 2020 and 21 May 2020 respectively.

Credit exposure and collateral

At the reporting date, the SARB allowed certain counterparty bills as part of its acceptable collateral pool for its refinancing operations as they were deemed HQLA.

The counterparty has been experiencing a liquidity shortfall and has accordingly been engaging various stakeholders to address the financial obligations falling due which may need to be deferred.

The measure taken to manage credit risk exposure on the counterparty collateral held at year-end, was that replacement collateral be posted. The collateral matured on 13 May 2020, following maturity of the repo for which it was held.

The SARB has taken a decision to temporarily suspend the counterparty bills as eligible collateral in its repo operations.

As a result of a counterparty default subsequent to year-end, the CPD management and Board approved a 70% impairment on the additional PNs of R420.0 million purchased subsequent to year end, but before the default was known, which will be impaired in the 2020/21 financial year.

Loan guarantee scheme

On 20 April 2020 the President announced the formation of the COVID-19 Loan Guarantee Scheme (Scheme). The Scheme has been implemented by National Treasury, the SARB and commercial banks to assist qualifying small and medium-sized businesses and ultimately the economy during the COVID-19 pandemic. R100 billion has been earmarked to be made available to commercial banks by the SARB at the repo rate. The loan facility is guaranteed by National Treasury.

These funds will enable commercial banks to provide loans, for purposes of certain operational expenses, to qualifying businesses impacted by the lockdown and the COVID-19 pandemic. The Scheme was implemented on 12 May 2020. Drawdown by qualifying businesses, under the Scheme, will be available for a 6-month period and the outstanding balance at the end of the 6-month period will be repayable over a repayment period of 60 months.

Retraction of dividend paid

As per paragraph 3(c) of the CPD Act, the CPD has power to pay the shareholder, from its net profits, annually a dividend on the paid-up capital of the CPD. A dividend of 10 cents per ordinary share was declared during the year and paid on 27 March 2020.

Due to the solvency and going-concern issues noted in the Directors' Report of the CPD's 2020 Annual Financial Statements it is recommended that the dividend be rescinded and repaid by the SARB. The CPD Board approved the withdrawal of the dividend of R200 000 and requested repayment from the shareholder (SARB).

Guarantee

The SARB issued a guarantee in favour of the CPD of R3.45 billion for all amounts required by it for the due and punctual performance of its obligations under the CPD Act. This guarantee is a continuing covering security and will remain in force for 12 months after signature date.

Capital commitments

The multi-year Tier 1 and 2 strategic projects may be delayed as a result of the COVID-19 pandemic. It is not anticipated that any contracts will be cancelled as a result of the pandemic, although the cash flow projections on these projects may be adjusted. The financial impact could not be quantified.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF THE SOUTH AFRICAN RESERVE BANK ON THE PRUDENTIAL AUTHORITY

OPINION

The Prudential Authority (the PA) summarised annual financial statements set out on pages 134 to 135, which comprise the summarised statement of financial position as at 31 March 2020, the summarised statement of profit or loss for the year then ended, and the related notes, are derived from the audited PA annual financial statements for the year ended 31 March 2020.

In our opinion, the accompanying PA summarised annual financial statements are consistent, in all material respects, with the audited PA annual financial statements, in accordance with the basis of accounting described in the PA summarised annual financial statements and the requirements of Section 55 of the Financial Sector Regulation Act 90 of 2017 (FSR Act).

EMPHASIS OF MATTER – BASIS OF ACCOUNTING

Our auditors' report on the audited PA annual financial statements includes an emphasis of matter paragraph highlighting the PA annual financial statements, which describes the basis of accounting. The emphasis of matter further states that the PA annual financial statements are prepared for the purpose as described in the PA annual financial statements, and that as a result, the PA annual financial statements may not be suitable for any other purpose. As the PA summarised annual financial statements are derived from the PA annual financial statements, the PA summarised annual financial statements may also not be suitable for any other purpose.

PA SUMMARISED ANNUAL FINANCIAL STATEMENTS

The PA summarised annual financial statements do not contain all the disclosures required by the basis of accounting described in the PA annual financial statements and the requirements of Section 55 of the FSR Act. Reading the PA summarised annual financial statements and the auditors' report thereon, therefore, is not a substitute for reading the audited PA annual financial statements and the auditors' report thereon.

THE AUDITED PA ANNUAL FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the audited PA annual financial statements in our report dated 22 June 2020.

DIRECTORS' RESPONSIBILITY FOR THE PA SUMMARISED ANNUAL FINANCIAL STATEMENTS

The directors are responsible for the preparation of the PA summarised annual financial statements in accordance with the basis described in the PA summarised annual financial statements.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on whether the PA summarised annual financial statements are consistent, in all material respects, with the audited PA annual financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Vincent Tshikhovhokhovho

Registered Auditor
4 Lisbon Lane,
Waterfall City, Jukskei View
2090

22 June 2020

SizweNtsalubaGobodo Grant Thornton Inc.

SizweNtsalubaGobodo Grant Thornton Inc.
Director: Pravesh Hiralall

Registered Auditor
20 Morris Street East
Woodmead
2191

22 June 2020

PRUDENTIAL AUTHORITY SUMMARISED ANNUAL FINANCIAL STATEMENTS

The PA is the regulator responsible for setting policy and prudential regulatory requirements and supervisor responsible for overseeing compliance with the regulatory requirements of financial institutions that provide financial products, securities services and market infrastructures in South Africa. Established on 1 April 2018 in terms of the Financial Sector Regulation Act 9 of 2017 (FSR Act), the PA is a juristic person operating within the administration of the SARB. Refer to the SARB Annual Report on the PA which can be found at https://www.Resbank.Co.Za/Publications/Reports/Pages/Annual-Reports.Aspx for more detail.

Impact of the COVID-19 pandemic

In addition to the actions taken by SARB on deploying monetary policy tools to mitigate the impact of the COVID-19 pandemic, the PA provided regulatory relief measures as well as guidance to banks in managing the crisis. The regulatory relief measures were provided for in three areas, namely capital relief on restructured loans that were in good standing before the COVID-19 pandemic, a lower liquidity coverage ratio (LCR) and lower capital requirements.

Basis of preparation

In terms of Section 55 of the FSR Act, the SARB is required to prepare financial accounts for the PA for each financial year in a manner that reflects the direct costs that accrue to the PA. As the PA is a department within the SARB, it follows the same Financial Reporting Framework and basis of presentation as the SARB. Refer to note 1 of the SARB summarised Group annual financial statements for more detail.

Summarised statement of financial position at 31 March 2020

		PRUDENTIAL AUTHORITY	
	Notes	**2020 Rm**	2019 Rm
Assets			
Other assets		**73**	71
Total assets		**73**	71
Liabilities			
Other liabilities		**2**	–
Unclaimed balances		**71**	71
Total liabilities		**73**	71

Summarised statement of comprehensive income for the year ended 31 March 2020

	Notes	2020 Rm	2019 Rm
Operating income		**7**	6
Levies	1	**–**	–
Fees	2	**7**	6
Penalties	3	**–**	–
Other operating income		**–**	–
Expenditure		**(339)**	(324)
Personnel costs	4	**(246)**	(207)
Operational costs	4	**(93)**	(117)
Amount funded by SARB	5	**332**	318
Net loss before taxation		**–**	–

PRUDENTIAL AUTHORITY SUMMARISED ANNUAL FINANCIAL STATEMENTS continued

1. **Levies:** will be charged once the new Financial Sector Levies Bill (Levies Bill) is promulgated to collect the necessary levies on the regulated financial institutions, as envisaged in the FSR Act. Levies will serve as the basis to recover the direct operating cost of running the PA and not in return for any direct service or goods that will be supplied.

2. **Fees** are "transaction-based" and are charged to fund the PA's performance of specific functions under the FSR Act and the relevant sector laws it regulates.

3. **Penalties** are raised for non-compliance by persons within the regulated sector should they be found guilty of contravening a financial sector law or an enforceable undertaking accepted by the PA. The PA deducts from this total all costs incurred in making and enforcing the administrative penalty order. The remaining balance, if any, after applying this deduction is paid into the National Revenue Fund. The SARB also has a responsibility in terms of the Financial Intelligence Centre Act 38 of 2001 Act (FIC Act) to ensure that the banks and life insurance companies comply with the FIC Act. The SARB has authority in terms of Section 45C of the FIC Act to impose administrative sanctions on these entities if and when they fail to comply with a provision, order, determination or directive made in terms of this act. The SARB issues notices with the said penalties to the relevant entities but does not account for the penalties in its financial statements as the penalties imposed are paid directly to the NRF. Total penalties issued on behalf of National Treasury in this regard amounted to R1 million (2019: R12.8 million) for the year ended 31 March 2020.

4. **Personnel and operating costs** are only the direct costs related to the administration the PA. Although the PA uses the various support departments of the SARB and incurs costs from these services (such as legal services, IT, risk management, compliance, internal audit, HR, international economic relations and policy, security and facilities) these costs are borne by the SARB.

	PRUDENTIAL AUTHORITY	
	2020 Rm	2019 Rm
Operating costs include:	**93**	117
Travel expenses (foreign and local)	**15**	14
Official functions	**3**	3
Professional fees	**65**	92
Training cost (foreign and local)	**5**	4
Membership fees	**2**	2
Other operating costs	**3**	2

5. **Amount funded by SARB** consists of both direct and indirect expenses (net of recoveries) borne by the SARB for the administration of the PA.

ADDITIONAL INFORMATION

MINUTES OF THE 99TH ANNUAL ORDINARY GENERAL MEETING

of the shareholders of the SARB

The 99th annual Ordinary General Meeting (AGM) of the shareholders of the South African Reserve Bank (SARB) was held at the SARB head office in Pretoria on Friday, 26 July 2019, at 10:00.

The AGM Chairperson, SARB Governor Lesetja Kganyago, extended a warm welcome to all present and declared the AGM duly constituted in terms of the Regulations to the amended South African Reserve Bank Act 90 of 1989 (SARB Act).

The Chairperson introduced the following persons who shared the podium with him:

> SARB Deputy Governor, Kuben Naidoo;

> SARB Deputy Governor designates, Rashad Cassim and Nomfundo Tshazibana;

> Chairperson of the Audit Committee, Rob Barrow;

> Chairperson of the Remuneration Committee, Yvonne Muthien;

> Chairperson of the Non-executive Directors' Committee, Gary Ralfe;

> the SARB's General Counsel, Johann de Jager; and

> the Secretary of the SARB, Sheenagh Reynolds.

The Chairperson addressed the AGM. His full address is attached hereto for record purposes, marked 'Annexure A'.

The Chairperson then turned to the formal business of the day and confirmed the agenda for the AGM as follows:

> Receive and accept the minutes of the AGM held on 27 July 2018.

> Receive and consider the SARB's annual financial statements for the financial year ended 31 March 2019, including the directors' report and the independent external auditors' report.

> Approve the remuneration of the SARB's independent external auditors – PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo (SNG) Grant Thornton Inc. – for completing the audit for the 2018/19 financial year (in terms of regulation 22.1(b) read with regulation 7.3(c) of the Regulations to the SARB Act).

> Approve the appointment of PricewaterhouseCoopers Inc. and SNG Grant Thornton Inc. as the SARB's independent external auditors for the 2019/20 financial year.

> Elect three non-executive directors to serve on the SARB's Board of Directors (the Board).

> Consider any further business arising from the items mentioned above (in terms of regulation 7.3(e) of the Regulations to the SARB Act).

The Chairperson confirmed that the Secretary of the SARB had not received any requests for special business to be placed on the agenda of this AGM in terms of regulation 7.3(d) of the Regulations to the SARB Act.

The Secretary of the SARB confirmed the shareholder representation at this AGM as follows:

> the total number of shares in the issued share capital of the SARB held by its shareholders was 2 000 000 (two million);

> 25 shareholders were present in person;

> eight shareholders were represented by proxy; and

> 463 votes were exercisable by the shareholders present or holding duly certified proxy forms for this purpose.

The shareholders were advised that voting on each of the matters under consideration at the AGM would take place by means of a poll conducted electronically and facilitated by LUMI Technologies SA Propriety Limited (LUMI), an independent external party.

ACCEPTANCE OF THE MINUTES OF THE 2018 AGM

The Chairperson proposed that the minutes of the 98th AGM held on 27 July 2018 (included in the SARB Annual Report 2018/19) be taken as read.

There were no objections or corrections to these minutes. Based on the results of the poll, the Chairperson declared that the minutes of the 2018 AGM were accepted by 99.76% of the votes cast.

ACCEPTANCE OF THE ANNUAL FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDED 31 MARCH 2019, INCLUDING THE DIRECTORS' REPORT AND THE INDEPENDENT EXTERNAL AUDITORS' REPORT

The Chairperson formally presented to the shareholders the annual financial statements for the financial year ended 31 March 2019, including the directors' report and the independent external auditors' report.

The summarised SARB Group annual financial statements were included in the SARB Annual Report 2018/19, which was published on the SARB's website and posted to the shareholders on 25 June 2019. The full set of the 2018/19 annual financial statements were made available on the SARB's website on the same day.

A shareholder, Mr Fondse, thanked the Chairperson for publicly clarifying the role and responsibilities of private shareholders in the SARB. He requested the SARB to consider increasing the shareholding of the SARB, as it would increase the public's participation in the activities of the SARB and financial services sector. In response, the Chairperson explained that the SARB's share capital was prescribed in the SARB Act. Therefore, it is the preserve of government to increase the share capital of the SARB. He advised Mr Fondse to direct his proposal to the Parliament of the Republic of South Africa. The Chairperson added that the issue raised by Mr Fondse was not the subject of this meeting. He thereafter prompted Mr Fondse to raise questions related to the item under discussion.

Mr Fondse referred to note 5 of the SARB Annual Report 2018/19 on gold and foreign exchange, as reflected on pages 110 to 111, and remarked that the accumulation of gold seemed very low considering that South Africa was a gold-producing country. Furthermore, in respect of note 10 on foreign deposits, Mr Fondse remarked that he had approached the SARB to allow foreign deposits from legitimate international investors. He added that it was common knowledge that 'Project Hammer' had embezzled 3 000 ounces of gold from the citizens of South Africa, but that this information was not recorded in the SARB's financial statements.

Noting the remarks, the Chairperson stated that 'Project Hammer' was not proven and had nothing to do with the SARB's financial statements. He further reminded Mr Fondse that the SARB had already responded previously to his concerns through the Office of the SARB's General Counsel.

Following the above exchange, shareholders were invited to cast their votes. Based on the results of the poll, the Chairperson declared that the SARB's audited annual financial statements for the financial year ended 31 March 2019 were accepted by 99.49% of the votes cast.

REMUNERATION OF THE SARB'S INDEPENDENT EXTERNAL AUDITORS

The Chairperson proposed that the remuneration of the SARB's independent external auditors in respect of the general statutory audit of the SARB for the financial year ended 31 March 2019 be confirmed and approved.

A shareholder, Mr Maseko, enquired whether the remuneration for the SARB's independent external auditors was increased year on year, and if so, he proposed that it should remain unchanged.

The Chairperson of the Audit Committee, Mr Barrow, explained that the Audit Committee robustly monitored the extent of increases in the annual audit fees. He stated that inflationary increases affected all companies, and the Audit Committee took cognisance of such when it considered the costs related to the statutory audit work done by the external auditors. The Audit Committee also annually reviewed the adequacy of the fees of the external auditors to ensure that the external audit fees would sustain a proper audit and provide value for money. Mr Barrow further explained that the increase in the fees for this period might have been higher than the prior year but was nevertheless reasonable. The higher increase was due to non-statutory audit work, mainly relating to the investigative work that the independent external auditors had conducted for the SARB.

In the absence of further questions, the shareholders cast their votes in respect of the item under discussion. Based on the results of the poll, the Chairperson declared that the remuneration of the SARB's independent external auditors for the general statutory audit for the financial year ended 31 March 2019, amounting to R12 711 871 (excluding value-added tax (VAT)), was approved by 86.87% of the votes cast.

APPOINTMENT OF INDEPENDENT EXTERNAL AUDITORS

The Chairperson then turned to the appointment of the SARB's independent external auditors for the 2019/20 financial year.

It was reported that the Board had recommended that PricewaterhouseCoopers Inc. and SNG Grant Thornton Inc. be reappointed as the SARB's independent external auditors for the 2019/20 financial year.

The Chairperson confirmed that the lead audit partners of both firms rotated every five years in line with best practice. Furthermore, the SARB would in due course commence the process of implementing the mandatory audit firm rotation as required by the Independent Regulatory Board for Auditors. The shareholders would be advised of the progress at the 2020 AGM.

The Chairperson proposed that PricewaterhouseCoopers Inc. and SNG Grant Thornton Inc. be reappointed as the SARB's independent external auditors for the 2019/20 financial year.

Based on the results of the poll, the Chairperson declared that PricewaterhouseCoopers Inc. and SNG Grant Thornton Inc. were reappointed as the SARB's independent external auditors for the 2019/20 financial year by 89.20% of the votes cast.

The auditors were congratulated on their reappointment.

ELECTION OF NON-EXECUTIVE DIRECTORS

The Chairperson turned to the election of non-executive directors. He advised the shareholders that there were three vacancies for shareholder-elected non-executive directors, namely for two persons with knowledge and skills in the field of industry and for one person with knowledge and skills in the field of agriculture.

The terms of office of Dr Charlotte Barbara du Toit, Professor Benjamin Willem Smit and Professor Nicholas Vink would be expiring the day after this AGM, being 27 July 2019. Dr du Toit and Professor Vink had served one term each and were available for re-election, whereas Professor Smit had already completed three terms of office and was therefore not available for re-election.

The Panel had confirmed three candidates for consideration by the shareholders for each of the three vacancies, in terms of section 4(1G) of the SARB Act. The Panel was satisfied that all nine candidates were eligible as well as 'fit and proper' to stand for election as directors of the SARB. The curricula vitae of these candidates had been sent to the shareholders for review together with the notice of this meeting.

The Panel comprised:

> the SARB Governor as Chairperson;
> retired Constitutional Court Judge, Yvonne Mokgoro, and Mr Abel Sithole (both nominated by the Minister of Finance); and
> Messrs Kaizer Moyane, Dumisani Mthalane and Bheki Ntshalintshali (all nominated by the National Economic Development and Labour Council (Nedlac)).

Dr Charlotte Barbara du Toit, Ms Xoliswa Kakana and Ms Nonkululeko Immaculate Ntshona had been selected as candidates for a person with knowledge and skills in the field of industry.

The results of the poll showed that 69.55% of the votes were cast in favour of Dr du Toit, 16.59% in favour of Ms Kakana and 13.54% in favour of Ms Ntshona. A total of 0.22% of shareholders abstained from voting.

Based on the results of the poll, the Chairperson declared that Dr du Toit was elected as a non-executive director of the SARB with knowledge and skills in the field of industry. Her appointment would be effective from 27 July 2019 until the day after the AGM in 2022.

The Chairperson congratulated Dr du Toit on her re-election as a non-executive director of the SARB.

The Chairperson then presented the election of another non-executive director to fill the vacancy for a person with knowledge and skills in the field of industry.

Mr Faizal Docrat, Ms Noluthando Primrose Gosa and Mr Zoaib Hoosen had been selected as candidates for election in this category.

The results of the poll showed that 34.56% of the votes were cast in favour of Mr Docrat, 15.33% in favour of Ms Gosa and 38.88% in favour of Mr Hoosen. A total of 11.23% of shareholders abstained from voting.

Based on the results of the poll, the Chairperson declared that Mr Hoosen was elected as a non-executive director of the SARB with knowledge and skills in the field of industry. His appointment would be effective from 27 July 2019 until the day after the AGM in 2022.

The Chairperson congratulated Mr Hoosen on his election as a non-executive director of the SARB.

The Chairperson extended a special word of thanks to the outgoing non-executive director, Professor Smit, for the valuable service he had rendered to the Board of the SARB over his three terms of office.

The Chairperson then presented the election of a non-executive director to fill the vacancy for a person with knowledge and skills in the field of agriculture.

Mr Johannes Jacobus Dique, Professor Sibusiso Vil-Nkomo and Professor Nicholas Vink had been selected as candidates for election in this category.

The results of the poll showed that 6.48% of the votes were cast in favour of Mr Dique, 30.45% in favour of Professor Vil-Nkomo and 62.85% in favour of Professor Vink. A total of 0.22% of shareholders abstained from voting.

Based on the results of the poll, the Chairperson declared that Professor Vink was elected as a non-executive director of the SARB with knowledge and skills in the field of agriculture. His appointment would be effective from 27 July 2019 until the day after the AGM in 2022.

The Chairperson congratulated Professor Vink on his re-election as a non-executive director of the SARB.

The Chairperson thanked all the candidates for their willingness to stand for election to the SARB Board and expressed his hope that, irrespective of whether they had been successful or not, they would continue to take a keen interest in the work of the SARB.

SPECIAL BUSINESS TO BE CONSIDERED AT THIS AGM

The Chairperson reiterated his earlier statement that the Secretary of the SARB had not received any requests for special business to be placed on the agenda of this AGM. However, he invited the shareholders to raise any questions arising from the matters under consideration at the AGM.

Mr Maseko remarked that he understood that the President of the Republic of South Africa had mandated the Governor of the SARB and the Minister of Finance to devise a strategy to address the high rate of unemployment in the country. He enquired about the progress that had been made regarding the matter.

The Chairperson responded that he was not aware of a mandate of that nature from the President of the Republic of South Africa. The Chairperson did, however, mention that he, as the SARB Governor, and the Minister of Finance meet routinely, in line with section 224 (2) of the Constitution of the Republic of South Africa (the Constitution). Their routine meetings ensured the effective coordination of fiscal and monetary policy, which was a central pillar of good macroeconomic policy management. The SARB has a mandate to protect the value of the local currency in the interest of balanced and sustainable economic growth. He stated that achieving and maintaining price stability contributed towards the stability of the entire financial system, but it was by no means a sufficient condition for balanced and sustainable growth. All other relevant polices needed to be taken into consideration to achieve balanced and sustainable growth in the Republic of South Africa. He also stated that, as far as he was aware, the President of the Republic of South Africa had tasked the minister responsible for employment and labour to put unemployment in the country at the centre of his mandate.

Addressing the concern that the SARB had not sourced the views of the SARB shareholders about the proposed nationalisation of the SARB, the Chairperson stated that this matter did not constitute special business of this meeting. However, he mentioned that the SARB had taken a view about its nationalisation. He advised the SARB shareholders to engage with the government, through the parliamentary process, should they wish to state their views about the possible nationalisation of the SARB.

Mr Fondse requested the SARB to reconsider its AGM agenda format, as he deemed it to be restrictive for its shareholders. He referred to the Government Gazette No. 33552, which deals mostly with the business of an AGM, and stated that it did not place limitations on the shareholders regarding the type of matters raised at an AGM. Given the way in which the SARB was conducting its AGM, Mr Fondse enquired whether the SARB had replaced the said Gazette, which according to him was in line with the supreme law of the country and should be respected by all institutions.

Responding to Mr Fondse, the SARB's General Counsel, Dr de Jager, explained that the SARB was a creature of statute and it functioned in terms of certain Acts and other applicable laws, namely the Constitution and the amended SARB Act and its Regulations. He mentioned that the current Regulations were available in Government Gazette 33552, Regulation Gazette 9378, volume 543, published on 13 September 2010. He also mentioned that the current applicable legislation clearly outlined how this meeting should be conducted and he confirmed that all the issues that were being discussed at this meeting were issues that the SARB was mandated to consider at its AGMs. Dr de Jager clarified that the SARB was not entitled to move beyond any of the legislation that pertained to it and that failure to comply with any applicable legislation would be regarded as ultra vires, which could result in the SARB being legally challenged.

Dr de Jager added that the SARB had been inundated with requests from Mr Fondse on a number of issues. The SARB's Legal Services Department had considered all of Mr Fondse's issues, which were declared not to have met the requirements of the AGM. He clarified that special business did not constitute any business that shareholders wished to raise relating to the SARB. Rather, special business had to clearly relate to the ordinary business of a general meeting and had to be framed as a resolution which would be possible to implement, if adopted.

Dr de Jager concluded by stating that he had personally engaged with Mr Fondse in writing, explaining to him that his items were not related to the ordinary business of a general meeting and therefore did not qualify as special business for consideration at the AGM. He emphasised that it was far from the truth that the SARB had ignored Mr Fondse's concerns as he was in possession of all the correspondence from the SARB pertaining to Mr Fondse's issues.

Responding to a question from Mr Maseko about the Bankorp-CIEX matter, the Chairperson advised the shareholder to access the relevant ruling of the North Gauteng High Court, which was available on the SARB website. He further clarified that this matter was not a subject for the meeting, but for the benefit of the shareholders, the Chairperson indicated that the Constitutional Court ruling that had been handed down on Monday 22 July 2019, was related to a personal and punitive costs order with regard to the Bankorp-CIEX matter.

A shareholder, Mr Brown, referred to an earlier address by the SARB Governor and enquired whether the SARB would embark on quantitative easing to try and absorb at least some of the debt of the struggling state-owned enterprises (SOEs), including Eskom.

The Chairperson explained that quantitative easing was part of the toolkit available to central banks, but it was not an option for the Republic of South Africa at the moment. He further explained that bad assets or debt problems were not the reasons for central banks to embark on quantitative easing. The SARB could only adopt a quantitative easing approach if the country were faced with the following conditions:

1

low or zero inflation, or deflation; and/or

2

if the central bank had adjusted the policy rate to the point that it was close to zero, the so-called 'zero lower bound'.

The Chairperson explained that it was for these reasons that quantitative easing was not an option for South Africa as the country did not meet the conditions stated above. Moving the debt of SOEs from investors to the SARB would not make the obligation to service the debt disappear. Furthermore, the SARB could not lend money to Eskom without collateral as this was against the law.

In the absence of further questions, the Chairperson thanked President Ramaphosa and Deputy President Mabuza, government and the Parliament of the Republic of South Africa for their continued support. He also thanked the Minister of Finance, Tito Mboweni, Deputy Minister of Finance, David Masondo, the National Treasury Director-General, Dondo Mogajane, and all the staff of the National Treasury for their ongoing support of the SARB.

Sincere thanks were expressed to the members of the Board for their continued contributions and support, and for ensuring appropriate corporate governance at the SARB.

Sincere appreciation was also expressed to Deputy Governor Naidoo as well as to the entire management and staff of the SARB for their continued dedication and commitment during, what had once again been, a challenging year. The Chairperson thanked them for their contributions and stated that he was confident that their continued efforts would ensure that the coming year would be even more successful.

He further thanked Mr Francois Groepe, who had resigned as Deputy Governor on 31 January 2019, and

Mr Daniel Mminele, who had retired as Deputy Governor on 30 June 2019, for their dedicated service to the SARB and the country.

The Chairperson then extended a special welcome to Dr Rashad Cassim and Ms Nomfundo (Fundi) Tshazibana to the Board as newly appointed Deputy Governors with effect from 1 August 2019.

The Chairperson also took the opportunity to thank a former Governor of the SARB, Dr Christian Lodewyk Stals, for attending the meeting and thanked him for his contribution to the world of central banking and to the country.

The Chairperson then gave Mr David Munro, the Chief Executive Officer of Liberty Holdings Limited, the opportunity to propose a vote of thanks to the SARB on behalf of the financial services sector.

Mr Munro expressed appreciation for the professionalism, wisdom, commitment and indeed the courage that had been displayed by the leaders and officials of the SARB in carrying out their constitutional mandate. He turned to the Governor and stated that his predecessors had, on many occasions, faced challenges in this venerable institution's history of almost 100 years, but he was certain that none of his predecessors would have relished being in the Governor's position over the last few years and months. He mentioned that courage, integrity and transparency had long been the central virtues of the SARB, and it was to the Governor's great credit that they had never wavered.

While many of the country's state institutions were currently working hard to re-establish their credibility, the SARB had remained a bastion of strong governance and independence. Mr Munro said that fellow South Africans were immensely proud of the Governor and his team. Specifically, as professionals in the financial services industry, they understood how critical the SARB's efforts had been at reassuring investors and protecting the stability of the financial sector in South Africa, at maintaining price stability and the value of the country's currency and, most importantly, at strengthening the country's resilience in the face of ongoing economic challenges.

Mr Munro took the opportunity, on behalf of the financial services sector, to echo the Governor's appreciation to the former Deputy Governors Groepe and Mminele for their many years of services. He also congratulated and welcomed Dr Cassim and Ms Tshazibana as the Deputy Governors designate.

Mr Munro stated that the importance of the SARB's independence and courage could not be overstated. It was widely accepted that the quality and strength of the state institutions and the quality of economic governance were decisive factors underpinning long-run economic growth and human development – decisive factors that, in the SARB's case, found their reference in the Constitution. Mr Munro mentioned that the citizens of South Africa were getting impatient for the country to get back on track and achieve its growth potential, to progress economic and social transformation and to gain standing as an investment destination of choice.

Mr Munro further mentioned that, personally, he believed that the country was moving in the right direction as the major SOEs had new Boards, the South African Revenue Service was under new management and the leadership of the National Prosecuting Authority had been overhauled, which included the establishment of the Investigating Directorate. It was his view, though, that the essential human qualities of passion, of confidence and of boldness were what the country and the economy presently required and, in particular, that these were the qualities that the leadership of the financial services sector needed to bring to bear.

Concluding his speech, Mr Munro emphasised that much of the progress that had been made in this country in recent times had been achieved due to the determined, courageous efforts of public sector individuals such as the SARB. He applauded the SARB team for its service to the country and its people, in this, our country's 25 years of democracy.

CLOSING

The Chairperson thanked the shareholders for their attendance and participation and confirmed that the SARB would continue to count on their support in future.

The Chairperson declared the proceedings closed.

E L Kganyago
Chairperson

ANNEXURE A

An address by Lesetja Kganyago, Governor of the SARB, to the 99th AGM of the SARB shareholders held on Friday, 26 July 2019

GLOBAL ECONOMIC CONDITIONS

The past year began with significant challenges for emerging markets, including South Africa. In contrast to the synchronised pickup in economic growth of 2017, which had surprised most observers by its magnitude, the major economies began to display divergent growth patterns in 2018. While the United States of America (USA) maintained a strong pace of growth amid a sizable fiscal stimulus and a buoyant labour market, the eurozone and Japan lost some momentum. Chinese demand felt the negative impact of earlier monetary and regulatory tightening. Growth in world trade volumes also began to slow, a move that was exacerbated by a flare-up in trade tensions as the USA slapped tariff increases on certain imports.

This confluence of factors, together with negative current account and price developments in countries like Argentina and Turkey, resulted in downward pressure on emerging market currencies and fixed-income assets. This move was compounded by the appreciation of the US dollar, as investors anticipated a further normalisation of US monetary policy and a widening of interest rate differentials with other major economies. By early July 2018, the South African rand had depreciated by 12% against the US dollar from its earlier peak of mid-February – a decline that extended to 25% when the rand reached its trough in September 2018.

So, what has changed since then?

Some of the concerns about global growth that prevailed in mid-2018 have proved accurate. Business confidence, trade flows and economic activity have continued to lose momentum in most of the major economies. Now that the impact of the 2018 fiscal stimulus has started to fade, the USA is not immune to those trends.

The trade tensions that sprang up more than a year ago remain unresolved, despite the June 'truce' between China and the USA that prevented an immediate tariff escalation. Geopolitical tensions, especially in the Middle East, are adding to a climate of uncertainty that weighs on business investment decisions globally. In this month's update on the World Economic Outlook, the International Monetary Fund is projecting global economic growth of 3.2% this year, compared to a forecast of 3.9% a year ago.

Support for the global economy and financial markets, however, has come in the form of a quick 'change of tack' by the world's major central banks as they shifted from a gradual removal of stimulus to indicating renewed easing – at least in the USA and the eurozone. The lack of inflation pressures provides room for such an approach. In fact, core inflation in both the USA and the eurozone is currently short of its 2% target, while oil prices, amid slowing global demand, are off the highs reached in October 2018.

Meanwhile in China, the authorities have loosened both fiscal and monetary policies in an attempt to limit the pace of economic deceleration. Against such a background, emerging market assets have rallied, and with inflation generally showing only a limited response to last year's currency depreciation in several emerging countries, the scope for their central banks to provide at least some accommodation has increased.

DOMESTIC ECONOMIC CONDITIONS

This less favourable global growth and trade environment has added to South Africa's economic concerns at a time when the domestic drivers of growth were already stuttering. Addressing this audience a year ago, I highlighted how the rebound in business optimism following changes in political leadership had already started to erode in the second quarter of 2018.

This erosion has unfortunately continued over the past 12 months. Both the Rand Merchant Bank / Bureau for Economic Research (BER) survey of businesses, as well as other indicators such as the Absa Purchasing Managers' Index and the Sacci Trade Conditions Indicator, are signalling low business confidence amid a challenging environment in all sectors. Such low business confidence, coupled with uncertainty about future economic growth, has weighed particularly heavily on private sector fixed investment, which contracted by 2.5% year on year in the first quarter of 2019 and, overall, has stagnated over the past half decade.

Weak private sector fixed investment has indeed been a key cause of the disappointing performance of South Africa's gross domestic product (GDP) growth. Much has been said and written about the sharp contraction in first quarter GDP growth – 3.2% on an annualised basis – and whether it was a true reflection of the state of the economy. There is no denying that, from quarter to quarter, GDP has been quite volatile of late. Indeed, the SARB's internal econometric models estimate that activity will recoup part of that first quarter decline in the second quarter of the year.

That said, the less volatile year-on-year comparison shows that GDP growth slowed to zero in the first quarter of the year, which was the weakest performance in exactly three years and one that was indeed consistent with other indicators of activity. And while our models envisage an improvement in the remaining quarters of the year, the SARB projects GDP growth of only 0.6% in 2019 after 0.8% in 2018. This means that in both years, as indeed in all but one of the past four years, real GDP would grow slower than the population growth rate of 1.6%, thus contracting on a per capita basis.

Weak economic growth does not just hinder efforts to reduce poverty and inequality, it also weakens public finances. For the current fiscal year, the National Treasury projects that the consolidated government deficit will rise to 4.5% of GDP and will only decline to 4.3% next year.

By contrast, in the 2018 Budget, projections were for a deficit of only 3.6% of GDP for both fiscal years.

INFLATION

In a constrained economic environment, it is not unexpected that some voices argue that monetary policy could do more to support economic growth. But what exactly is the SARB's margin of manoeuvre, bearing in mind that any policy move must comply with our mandate of price and financial stability?

Encouragingly, the past year has seen several favourable developments on the inflation front. First, headline consumer price inflation averaged 4.6% between July 2018 and June 2019 and stood at 4.5% over the past month. Overall, this is a more benign pace of increase than the SARB had projected a year ago, even against a background of higher oil prices, significant rand depreciation, and a one percentage point increase in the rate of VAT in 2018.

Second, the SARB's Quarterly Projection Model now forecasts average inflation of 5.1% in 2020 and 4.6% in 2021, both well within the target range. In fact, our projections for the less volatile core inflation rate are even closer to the mid-point of that range.

Finally, several measures of inflation expectations, including the quarterly BER survey of inflation expectations among analysts, businesses and unions as well as the bond market-based metrics, have shown a steady decline over the past year, after many years of remaining uncomfortably close to the top end of the target range.

Faced with rising longer-term upside risks to the inflation outlook, the SARB felt that it was appropriate to act against such risks, especially in light of policy normalisation in advanced economies – which would most likely imply a higher neutral real interest rate for a small and open economy like South Africa's. Hence, in November 2018, the Monetary Policy Committee (MPC) decided to raise the repurchase rate (repo rate) by 25 basis points, reversing the cut that had been implemented in March of the same year. By early 2019 though, inflation performance was more benign than anticipated and the risks to the inflation outlook had eased sufficiently enough for the SARB to maintain an unchanged policy stance.

At the time of its latest meeting held on 18 July 2019, the MPC felt comfortable enough with the recent downward trend in inflation outcomes as well as the ongoing decline in inflation expectations, to lower the repo rate by 25 basis points.

Overall, when looking back at the last few years, it is important to acknowledge the progress that has been made in reducing inflation volatility in South Africa, including in response to exchange rate shifts, and how this has allowed for a better anchoring of inflation expectations and, in turn, how this has also limited the need for sharp monetary adjustments. Since 2016, surveyed inflation expectations have declined by 100 basis points.

A more stable and predictable path of interest rates will enhance the environment for sustained economic growth, as the experience of many advanced economies and, increasingly, also the emerging economies have shown. The persistence of such gains is however not certain, meaning that the MPC will continue to exercise vigilance in the years ahead.

FINANCIAL STABILITY

With the implementation of the Financial Sector Regulation Act 9 of 2017 (FSR Act) in April last year, the SARB was provided with an explicit statutory mandate to protect and enhance financial stability. The FSR Act further requires the SARB to monitor and keep under review the strengths and weaknesses of the financial system as well as any risks to financial stability. To this end, the SARB has developed frameworks for identifying, monitoring and mitigating systemic risks.

On the whole, the SARB currently assesses the financial sector to be strong and stable. Nevertheless, potential vulnerabilities exist as we have observed a few emerging trends over the past year, particularly in the banking sector. While South African banks remain adequately capitalised and profitable, the implementation of the new expected credit loss accounting standard, namely the International Financial Reporting Standard 9 (IFRS 9), has resulted in a deterioration in the quality of credit on bank books. Furthermore, as persistently low domestic economic growth starts to have an increasingly tangible impact on the balance sheets of both households and corporates, credit quality may be expected to deteriorate further.

During the course of 2018, the SARB undertook stress tests on six major banks to assess the resilience of the banking sector to hypothetical yet extreme macroeconomic shocks. The outcome of the 2018 common scenario stress test exercise suggests that, at an aggregate level, the South African banking sector would be able to withstand the possible materialisation of a confluence of the main financial stability risks. With respect to solvency, the banks were assessed to be capable of maintaining their capital levels above the minimum capital adequacy requirements under the adverse macroeconomic scenarios considered. The SARB also discovered that no material risks were emanating from the liquidity positions of the six major South African banks.

The SARB regularly conducts an assessment of the prevailing financial stability risks. These assessments are reported to the Financial Stability Committee and published biannually in the Financial Stability Review. The risks identified since the second quarter of 2018, which currently form part of the SARB's assessment, include:

- A deteriorating domestic fiscal position, exacerbated by weak domestic growth, a poor revenue outlook and the fragile financial positions of SOEs, among other things.
- Spill-overs from weaker global economic growth.
- The possibility of renewed and unexpected tightening in global financial conditions and the subsequent potential rapid repricing of risk.
- Rising cyber-dependency and security risks attributed to the ever-increasing digital interconnection of people, systems and organisations.

The identification and monitoring of financial stability risks, while important, would be rendered ineffective if we did not have the necessary tools at our disposal to mitigate the occurrence and/or the impact of these risks. Over the past few years, the SARB has been actively developing a macroprudential policy framework complete with tools and instruments. This past year, work continued to enhance the framework and the financial stability toolkit.

There is a saying about the best-laid plans 'of mice and men'. Thus, while the SARB ultimately aims to mitigate systemic risks, it also needs to plan for potential crises and how to deal with them. In this regard, the SARB has taken a number of significant steps towards strengthening South Africa's resolution framework over the past year. Two separate but related projects were initiated in this area, namely to implement a resolution framework and a deposit insurance scheme.

The resolution framework, once promulgated into law, will bring South Africa's resolution framework in line with the Financial Stability Board's Key Attributes for Effective Resolution Regimes. This framework will also formalise the SARB's role as the resolution authority and will outline the responsibilities with respect to the orderly resolution of designated financial institutions.

Meanwhile, the imminent establishment of the Corporation for Deposit Insurance (CoDI), as a subsidiary of the SARB, will provide explicit guarantees to protect depositors should a bank ever fail. As a result, not only will depositor confidence in the banking system be enhanced but the CoDI will also assist government which, in the past, may have compensated depositors with taxpayers' money.

FINANCIAL SECTOR SUPERVISION AND REGULATION

As you will recall, the FSR Act lays the foundation and the financial system regulatory architecture of the Twin Peaks model. The Twin Peaks regulators, being the Financial Sector Conduct Authority and the Prudential Authority (PA), work alongside the SARB and other regulatory bodies to ensure the stability of our financial system for the well-being of all South Africans. The PA was established on 1 April 2018 and has been operating within the administration of the SARB as prescribed by the FSR Act.

While much of its first year was spent on refining and implementing the integrated framework for supervision, including assuming responsibility for the insurance industry and market infrastructures, the PA also had to complete the resolution of VBS Mutual Bank. On 25 June 2019, the PA released its first annual report, which reflects all its activities for the 2018/19 financial year.

THE PROPOSED NATIONALISATION OF THE SARB

The debate about the proposed nationalisation of the SARB continues in the public domain, fuelled by perceptions that private shareholders have control over the central bank. The SARB has clarified, on a number of occasions and through various communication channels, that its private shareholders participate as preference shareholders and do not own or control the SARB nor do they influence monetary policy or any of the other regulatory functions.

Let me reiterate what I have repeatedly been saying in the public domain: the Board of the SARB focuses on governance issues, while policy and regulatory decisions are the preserve of the Governor and Deputy Governors. The SARB Act provides for 15 Board directors, eight of which are appointed by the President of South Africa, including the Governor and three Deputy Governors. The remaining seven directors are elected by the shareholders.

As the shareholders of the SARB, you are fully aware that the SARB Act prescribes that no shareholder or their associates are allowed to beneficially hold more than 10 000 shares. A fixed annual dividend of 10 cents per share is issued if profits are made, resulting in the potential total annual dividend pay-out to shareholders by the SARB being limited to R200 000. After setting aside contingencies, reserves, tax and the like – 90% of any remaining surplus accrues to government.

CELEBRATING 25 YEARS OF DEMOCRACY

This year, we marked 25 years of democracy in South Africa through the launch of new commemorative circulation and collectable coins under the theme 'SA25'. This series includes six new commemorative circulation coins: five themed R2 coins and a themed R5 coin. Through these coins we celebrate the Constitution, and more specifically the Bill of Rights, which is considered to be the cornerstone of our democracy.

We picked this theme because, aside from being the most iconic feature of our democracy, the Constitution provides for independent institutions, including the SARB. It defines our price stability mandate. The inflation-targeting framework aims to ensure that inflation remains low to preserve the purchasing power of households and the competitiveness of firms. We have endeavoured to ensure that the financial system remains safe and that our policies aim to bolster the resilience of the economy.

CONCLUSION

As the public debate about the role of central banks continues, the SARB has ensured that it continues to execute its mandate in the public interest. In this regard, we have endeavoured to be transparent in the execution of our duties, including by providing clear reasons for our decisions and clarifying the limitations in our ability to influence long-term economic growth. In all our decisions, we must consider the trade-offs between short-term and long-term gains. Anchoring inflation expectations, gaining credibility and building institutional capability are all important elements in enhancing the resilience of the South African economy.

ABBREVIATIONS

ABHL: African Bank Holdings Limited

ABL: African Bank Limited

AGM: annual Ordinary General Meeting

AI: artificial intelligence

AML/CFT: anti-money laundering and countering the financing of terrorism

BA: Bachelor of Arts

BER: Bureau for Economic Research

BIS: Bank for International Settlements

BProc: Baccalaureus Procurationis (law degree to qualify as an attorney in South Africa, phased out in 2001 and replaced by an LLB)

BREC: Board Risk and Ethics Committee

BRICS: An association of five major emerging national economies: Brazil, Russia, India, China and South Africa

CA: combined assurance

CAF: Combined Assurance Forum

CA(SA): Chartered Accountant South Africa

CBDC: central bank digital currency

CEO: Chief Executive Officer

CFI: cooperative financial institutions

CFO: Chief Financial Officer

CIA: Chief Internal Auditor

CLF: committed liquidity facility

CoDI: Corporation for Deposit Insurance

Constitution: Constitution of South Africa Act 108 of 1996

CPD: Corporation for Public Deposits

CPD Act: Corporation for Public Deposits Act 46 of 1984

CPI: Consumer Price Index

EBITDA: earnings before interest, taxes, depreciation, an amortisation

ECL: expected credit loss

EFA: enablement focus area

EIM: enterprise information management

EVP: employee value proposition

ex officio: by virtue of one's position or status (Latin)

FATF: Financial Action Task Force

FEC: forward exchange contract

fintech: financial technology

FMA: Financial Markets Act 19 of 2012

FMIs: financial market infrastructures

FSAP: South African 2020 Financial Sector Assessment Programme

FSB: Financial Stability Board

FSC: Financial Stability Committee

FSCA: Financial Sector Conduct Authority

FSCF: Financial Sector Contingency Forum

FSLAB: Financial Sector Laws Amendment Bill

FSR: Financial Stability Review

FSR Act: Financial Sector Regulation Act 9 of 2017

FVOCI: fair value through other comprehensive income

FVPL: fair value through profit or loss

G-20: Group of Twenty Finance Ministers and Central Bank Governors

GDP: gross domestic product

GEC: Governors' Executive Committee

GFECRA: Gold and Foreign Exchange Contingency Reserve Account

Hons: Honours (degree)

I&T: information and technology

IAD: Internal Audit Department

IAS: International Accounting Standard

IAS 39: IAS 39 Financial Instruments: Recognition and Measurement

i.e.: id est (that is to say) (Latin)

IFRIC: International Financial Reporting Interpretations Committee

IFRS: International Financial Reporting Standards

IFRS 7: IFRS 7 Financial Instruments Disclosures

IFRS 9: IFRS 9 Financial Instruments

IFRS 16: IFRS 16 Leases

IFWG: Intergovernmental Fintech Working Group

IGCC: Inter-Governmental Cash Coordination

IIA: Institute of Internal Auditors

IMF: International Monetary Fund

Inc.: Incorporated

InsureCo: African Insurance Group Limited

IOSROs: Intraday Overnight Supplementary Repurchase Operations

IRB: internal ratings-based

IRBA Code: Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors

ISO: International Organization for Standardization

ITSC: Information and Technology Steering Committee

JSE: Johannesburg Stock Exchange Limited

King IV: King Report on Corporate Governance in South Africa 2016

MI: market infrastructure

Moody's: Moody's Investors Services

MoU: Memoranda of Understanding

MPC: Monetary Policy Committee

MPF: Monetary Policy Forum

NGFS: Network of Central Banks and Supervisors for Greening the Financial System

NPS: National Payment System

OCI: other comprehensive income

PA: Prudential Authority

PEB remeasurement reserve: post-employment benefit remeasurement reserve

PhD: Doctor of Philosophy / Doctorate

PPE revaluation reserve: property, plant and equipment revaluation reserve

Prestige Bullion: Prestige Bullion (RF) Proprietary Limited

PwC: PricewaterhouseCoopers Inc.

Remco: Remuneration Committee

repo: sale and repurchase agreements

repo rate: repurchase rate

reserves: gold and foreign exchange reserves

RF: ring fenced

RMC: Risk Management Committee

RMCD: Risk Management and Compliance Department

ROE: return on equity

RPP: Resolution Policy Panel

SA: South Africa(n)

SA government: South African government

SABN: South African Bank Note Company (RF) Proprietary Limited

SARB: South African Reserve Bank

SARB Act: South African Reserve Bank Act 90 of 1989, as amended

SARB Amendment Act: South African Reserve Bank Amendment Act 4 of 2010

SARB debentures: South African Reserve Bank debentures

SDR: Special Drawing Rights

SFA: strategic focus area

SICR: significant increase in credit risk

SIFIs: systemically important financial institutions

SNG Grant Thornton: SizweNtsalubaGobodo Grant Thornton Inc.

SOEs: state-owned enterprises

South African Mint: South African Mint Company (RF) Proprietary Limited

SPPI: solely payments of principal and interest

the Board: Board of Directors of the SARB

the Fed: The Federal Reserve System, the central banking system of the United States of America

the Group: South African Reserve Bank Group, including its subsidiaries and associate, referred to in the summarised annual financial statements

UCT: University of Cape Town

Unisa: University of South Africa

USA: United States of America

VAT: value-added tax

VBS: Venda Building Society Mutual Bank

Wits: University of the Witwatersrand

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