SOUTH AFRICAN RESERVE BANK

SARB 100 YEARS 1921–2021

A purposeful journey

1921 – 2021

POLICYMAKING FOR THE LONG TERM

SOUTH AFRICAN RESERVE BANK ANNUAL REPORT 2020/21

CONTENTS

ONLINE

The full annual financial statements of the SARB Group are available at **http://www.resbank.onlinereport.co.za/2021/.**

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

On 30 June 1921, the South African Reserve Bank (the SARB) opened its doors. At the time it was the only central bank in Africa, and only the fourth central bank outside of Europe. This year, celebrating its centennial, the SARB enjoys global respect and is admired for its independence, competence, transparency and integrity.

In 1996, the Constitution of the Republic of South Africa, Act 108, (the Constitution) bestowed a clear mandate on the SARB – **to achieve and maintain price stability in the interest of balanced and sustainable economic growth.** The SARB, therefore, is not driven by a profit motive but by the intent of its mandate to better the lives of all South Africans. To effectively execute its mandate the SARB must retain independence to act without fear, favour or prejudice, which is enshrined in the Constitution, and fulfil its duty to be transparent and accountable to its stakeholders.

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.

Why the SARB exists

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 financial system.

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

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 (PA).

VISION

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

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. The Board comprises 11 non-executive directors, four of whom are appointed by government and the remaining seven are elected by the SARB shareholders.

The Board is a governance board, contributing to sound corporate governance and ethical conduct. The SARB's shareholders, in addition to electing seven Board members, consider the Group's annual financial statements and appoint the external auditors and approve their remuneration. Neither the shareholders nor the Board play any role in determining monetary policy, financial stability policy or regulation and supervision.

THE SARB'S 2025 STRATEGIC PLAN

Five strategic focus areas (SFAs) drive the achievement of both price and financial stability in the longer term.

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

VALUES

Respect and trust • Open communication
Integrity • Accountability • Excellence

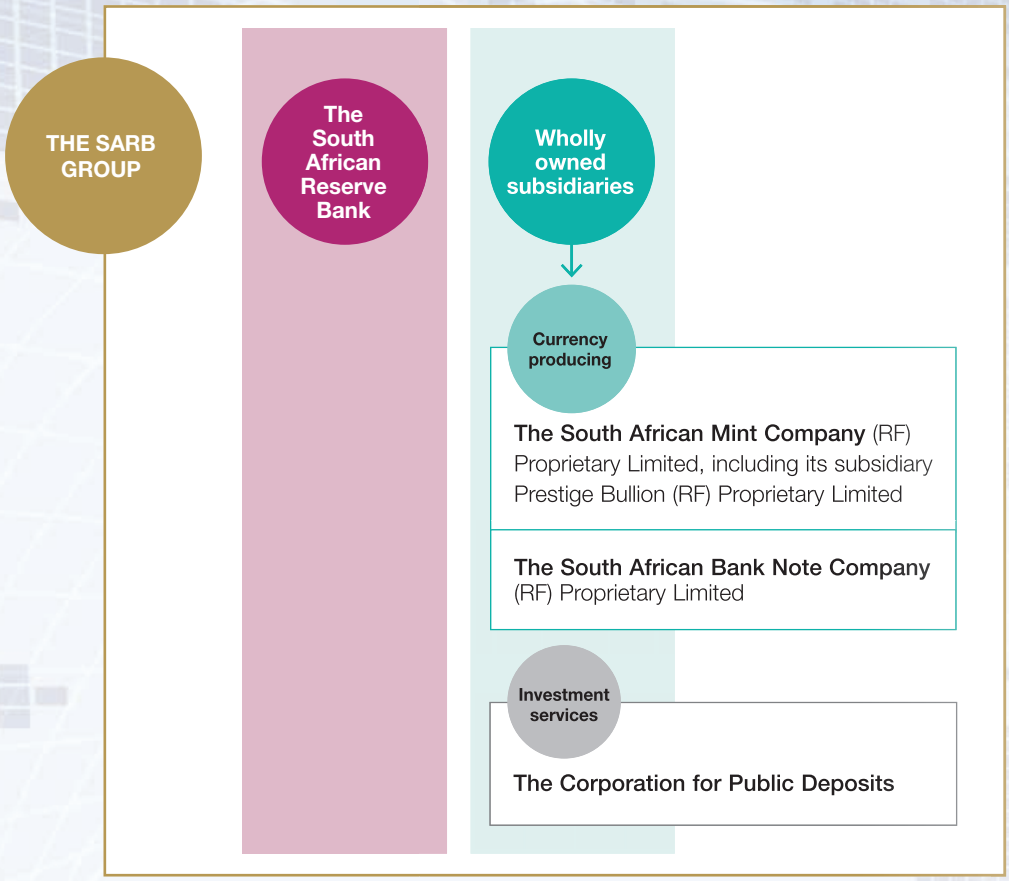
About this report

The SARB's annual report, for the year ended 31 March 2021, 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 stakeholders, including government, other regulators and broader communities. These relationships are discussed throughout the report.

Note: the SARB holds a 50% shareholding in African Bank Holdings Limited (ABHL) as a result of a successful resolution process implemented in 2014. ABHL is accordingly an associate within the SARB Group at this time; however, the SARB will dispose of its shareholding when appropriate as it is not the SARB's intention to remain a shareholder in a regulated entity for longer than is required.

Reporting frameworks

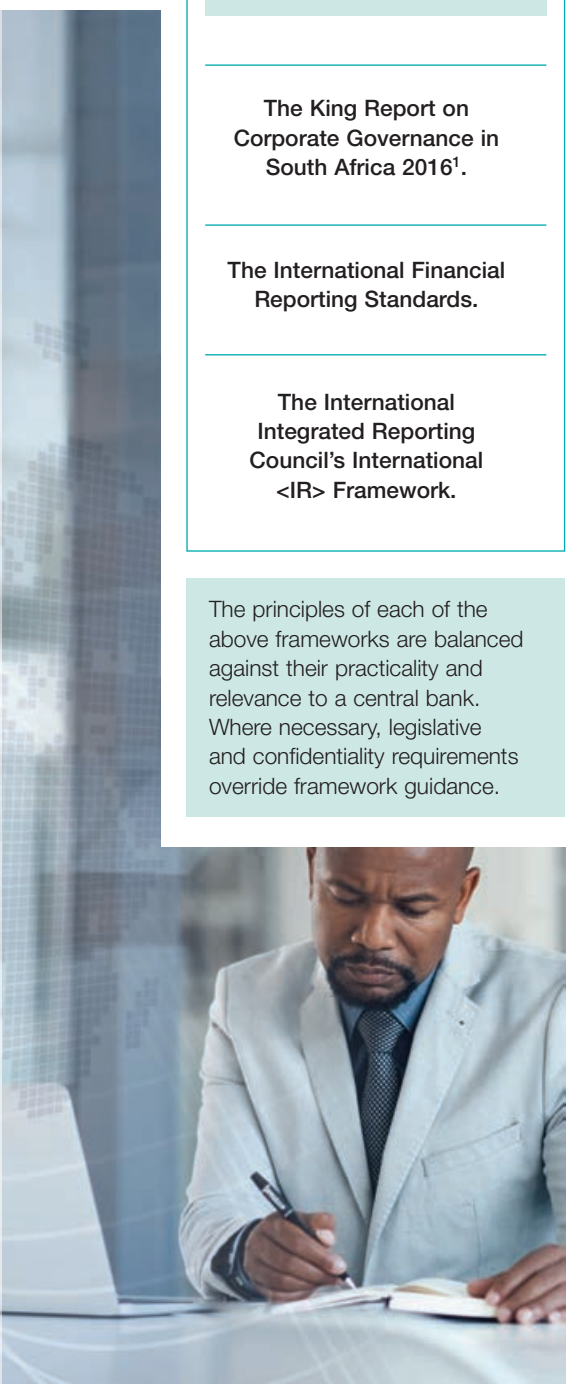
The Constitution read together with the amended South African Reserve Bank Act 90 of 1989 (SARB Act), provide the enabling framework for the SARB's operations. The annual report is therefore published in accordance with the SARB Act; however, the reporting frameworks below have been used to guide and prepare the report.

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

The International Financial Reporting Standards.

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

The principles of each of the above frameworks are balanced against their practicality and relevance to a central bank. Where 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.

The SARB's Internal Audit Department (IAD) provides objective and independent assurance on the adequacy and effectiveness of the Group's governance, risk management and control processes. During April 2021, the IAD verified the accuracy of the non-financial information.

Statement of responsibility

Section 4A (1c) of the SARB Act requires the Board to approve the annual report and financial statements of the SARB. The Act also requires the annual report and financial statements to be submitted to the annual Ordinary General Meeting of the SARB's shareholders, the Minister of Finance and Parliament.

The information included in the annual report covers what the SARB defines as material matters; being the material factors that enable it to continue to fulfil its constitutional and statutory mandate, and material information that gives substance to the SARB's values of respect and trust, open communication, integrity, excellence and accountability to Parliament and South Africans.

Information was provided and approved by the Heads of Department and senior specialists within the SARB. Iterations of the annual report were submitted to four meetings of the Governors' Executive Committee (GEC) for consideration and approval by the Governor, Deputy Governors, Chief Operating Officer, General Counsel and Group Executive of Currency Management. During these reviews, the GEC ensured that the report is factually correct and contains relevant and material information.

The annual report was submitted to the Audit Committee in May 2021, and the committee recommended it to the Board for approval.

In the Board's opinion, the annual report provides a fair and balanced account of the SARB's performance, material matters and strategic direction. The Board approved the annual report and Group annual financial statements for the year ended 31 March 2021 on 10 June 2021, signed on its behalf by:

E L (Lesetja) Kganyago
Governor of the SARB

T (Terence) Nombembe
Non-executive director and Chairperson of the Audit Committee

L P (Leanne) Pillay
Acting 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.

SARB AT 100 – POLICYMAKING FOR THE LONG TERM

In 1996, the Constitution of the Republic of South Africa, Act 108, (the Constitution) bestowed a clear mandate on the SARB – **to achieve and maintain price stability in the interest of balanced and sustainable economic growth**. The SARB, therefore, is not driven by a profit motive but by the intent of its mandate to better the lives of all South Africans.

What the SARB does

The SARB's purpose and primary outcomes as an institution beholden to the Republic of South Africa and her people, are constitutionally and statutorily defined. The stipulated mandate, as enshrined in the Constitution, bestows on the SARB the task of protecting the value of the currency in the interest of balanced and sustainable economic growth and contributing to the stability of the financial system. This mandate requires informed integrated thinking guided by the SARB's SFAs, planning and reporting as well as consistent engagement, communication and coordination with its broader stakeholders.

Inputs[1]

Social and relationship inputs

- Continual engagement with Parliament, civil society, business and labour formations to build knowledge and understanding around the benefits of price and financial stability.
- Collaborative relationships with other regulators and government ministries, especially National Treasury, on macroeconomic policies.
- Constructive relationships with financial institutions and industry bodies that provide the information needed to properly assess risks to financial stability and exercise effective oversight of the financial sector.
- Relationships with research and academic institutions to enhance the SARB's own research and inform its decision-making.
- Active participation in international and regional forums to contribute to the development and promotion of financial stability, regional integration and harmonised financial sector regulatory frameworks.
- Social initiatives and broader stakeholder engagements that strengthen the SARB's accessibility and accountability. Corporate social investment spend amounted to R17.0 million[2] (2019/20: R22.2 million).

The 2025 strategic plan: page 21.
Stakeholder engagement: page 72.
Corporate social investment: page 74.

Human and intellectual inputs

- Experienced and capable leaders and research teams with a deep understanding of local and international economic and financial systems.
- 2 251 (2019/20: 2 189) people, whose motivation, skills and diverse thinking assist the SARB to achieve its mandate and supporting objectives. Paid R2 088 million (2019/20: R1 930 million) in salaries.
- Investment in training and development, supporting careers and the ability of employees to deliver the SARB's mandate and supporting objectives. Training spend amounted to R27.6 million[2] (2019/20: R63.6 million).
- A culture that is empowering, agile, caring and collaborative; and an employee value proposition that attracts and enables the SARB to retain critical skills.
- The SARB's transformation objectives; 79% (2019/20: 76%) of the SARB's workforce are black people and 53% are women (unchanged from prior year).
- Investment in maturing the SARB's data strategy, new and efficient ways of working and new technologies to enhance the SARB's supervision capabilities.

The 2025 strategic plan: page 21.
Human resources: page 62.
Information and technology: page 70.

Financial inputs

- Sound financial and budgetary controls.
- Cash reserves that banks are required to hold with the SARB.
- Open market operations conducted to influence bank lending.
- The cost of currency, which increased 117% to R928 million (2019/20: R427 million).

Subsidiary reports: page 78.
Summarised Group annual financial statements page 82.

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.

1 Key resources, relationships and capabilities on which the SARB relies as a key component of its business model.
2 Impacted by COVID-19.

Key functions

- Formulating and implementing monetary policy.
- Compiling economic statistics and conducting 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.

PRICE STABILITY

OBJECTIVE

Maintain the consumer price index (CPI) inflation within a target of

3–6%.

Monetary policy: page 45.

FINANCIAL STABILITY

OBJECTIVE

Protect and enhance financial stability in South Africa, including strengthening the safety, soundness and integrity of financial institutions.

Financial stability: page 50.
Prudential Authority: page 54.

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 31.
Risk management: page 40.

Primary outcomes

PRICE STABILITY

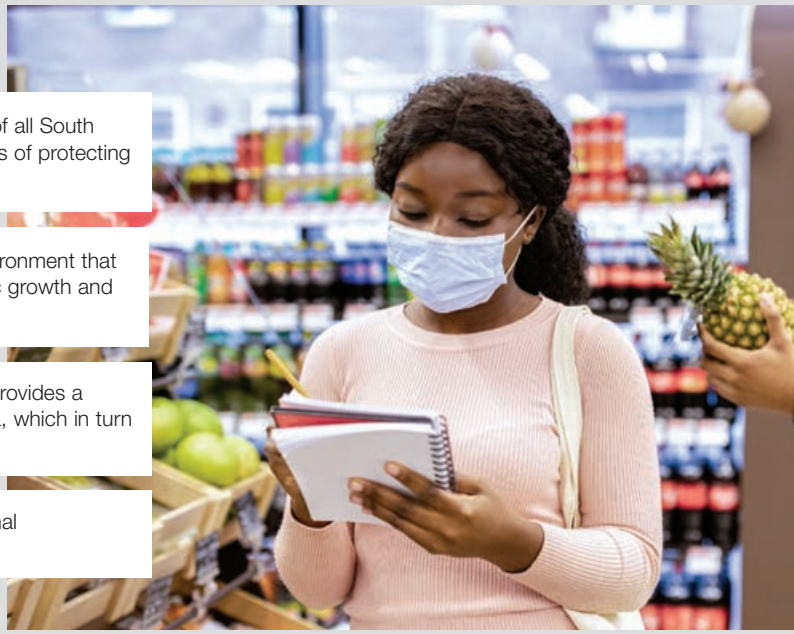
Low and stable inflation

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, creating an environment that enables 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, which in turn increases productivity.

Helps maintain and improve South Africa's international competitiveness.



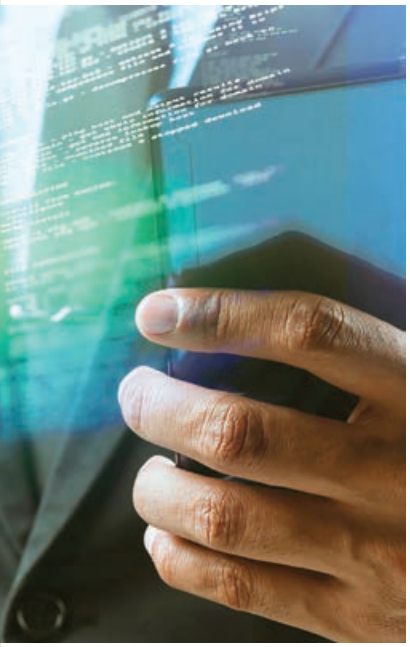
FINANCIAL STABILITY

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 spillover effects on the broader economy and society.

Promotes an efficient financial system that provides financial services to all South Africans.



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 that support priorities such as transformation, competition, financial inclusion and the integrity of the financial system.
- A credible SARB brand and reputation trusted and respected by South Africans and the country's financial institutions as well as international counterparts, regulators and governments.
- Academic partnerships that deliver enhanced depth of monetary policy, financial stability, economics and financial journalism skills in South Africa and Africa.

Human and intellectual outcomes

- A well-constituted Board that maintains best practice governance standards.
- A stimulating, rewarding, diverse and inclusive work environment that provides sustainable income, meets employee expectations for meaningful work, enhancing the SARB's ability to compete for critical skills.
- Alignment between the SARB's employees and its strategic objectives.
- A low regrettable employee turnover (much lower than that of the financial services industry). Regrettable employee turnover of 1.2% (target: <4%).
- Economic and financial knowledge and 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.

Financial outcomes

- Group profit before tax of R4.7 billion (2019/20: R7.1 billion) and SARB profit before tax of R2.4 billion (2019/20: R9.3 billion).
- R1.6 billion of SARB profit transferred to the contingency reserve and R8 million to the statutory reserve, in line with the SARB Act, to rebuild reserves.
- R75 million (2019/20: R287 million) paid by the Group to the South African government.
- Shareholder dividend of R0.2 million (2019/20: R0.2 million) in line with the SARB Act.
- A financially sound central bank.

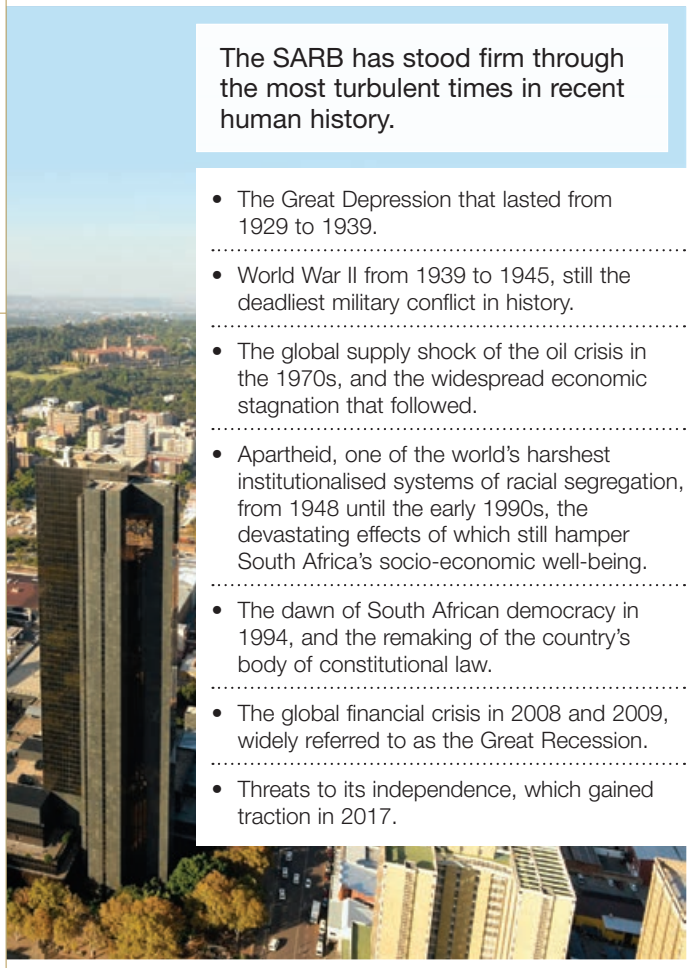
100 years of policymaking

The SARB has endured 100 years of the most defining events in world history, including the social and economic effects of World War I and II, global economic crises, the political regimes that shaped our country's history, profound socio-economic turbulence and fundamental socio-political change. Today, it stands tall as a strong, resilient and independent central bank that is deeply vested in the betterment of all South Africans, strengthened in its commitment to transparency and accountability.

Standing firm over a turbulent century

As Africa's oldest central bank, the SARB began its journey on 30 June 1921 to become internationally respected and widely reputed as the beacon of central banking excellence on the continent. Over its long history, the SARB's integrity of purpose has been tested again and again. Through all the pivotal moments and paradigm shifts shaping the last tumultuous century, the SARB has stayed true to its foundational purpose as an effective central bank; to be a pillar of stability in the economic life of South Africa.

In the early years of the SARB's existence, the world had emerged from the turmoil of World War I and the Spanish Flu of 1918, still the deadliest pandemic in recent human history. Today, there are uncanny similarities as the SARB navigates the economic devastation in the wake of the COVID-19 pandemic. But its history gives cause for confidence that the SARB will continue to stand the test of time; staying true to its mandate with unwavering focus.



The SARB has stood firm through the most turbulent times in recent human history.

- The Great Depression that lasted from 1929 to 1939.
- World War II from 1939 to 1945, still the deadliest military conflict in history.
- The global supply shock of the oil crisis in the 1970s, and the widespread economic stagnation that followed.
- Apartheid, one of the world's harshest institutionalised systems of racial segregation, from 1948 until the early 1990s, the devastating effects of which still hamper South Africa's socio-economic well-being.
- The dawn of South African democracy in 1994, and the remaking of the country's body of constitutional law.
- The global financial crisis in 2008 and 2009, widely referred to as the Great Recession.
- Threats to its independence, which gained traction in 2017.

Changing to reflect democratic ideals

Ten Governors have led the SARB since its inception. Of interest in the annals of its leadership history, the first Governor was then chief accountant of the Bank of England, who assumed his role at the recommendation of a panel that included renowned economist, John Maynard Keynes; and in what must surely be a rarity – a father and son served as Governors: Dr Michiel Hendrik de Kock (1945–1962) and Dr Gerhard de Kock (1981–1989). But more noteworthy to the SARB's standing in society today has been the transformation in its leadership since 1994, which plots its development into a public institution that proudly reflects South Africa's democratic ideals.

The first Governor appointed by our first democratically elected President, Nelson Mandela, was Dr Chris Stals; who, like the current Governor, served as Director General of National Treasury. In 1996, Mr Tim Thahane became the first black Deputy Governor, marking a substantive shift in transforming the leadership of the SARB. Mr Tito Mboweni, after a stint as an advisor to Dr Stals, would become the first black Governor of the SARB in 1999. Following Mr Mboweni's decade-long tenure, Ms Gill Marcus would replace him as the first woman to lead the SARB in 2009. Governor Lesetja Kganyago took the reins from 2014, accruing several accolades along the way, including Central Bank Governor of the year in 2018[1].

1 The Central Banking Awards highlight the outstanding performance and achievements of individuals and organisations within the global central banking community: https://www.centralbankingawards.com/.

The SARB has made considerable progress in its transformation journey. It was only in 1986 that the SARB employed its first two black professionals at head office. Today, the SARB employs over 2 000 people from all backgrounds, mirroring the demographic substance of our society. This transformation has been supported by the SARB's flagship recruitment programme, the Graduate Development Programme, which recruited its first cohort of diverse graduates in 1994. Many candidates of the programme have gone on to become leaders within the SARB and other sectors of our economy. Today, the programme continues to afford young graduates with opportunities to learn about central banking and, more importantly, to put their theoretical training into practice.

Staying in step with global best practice

The development of the SARB's monetary policies and its role as a provider of prudential oversight have kept pace in an ever-changing world, as economic theory and practice has evolved; and with it the instruments and the purview of effective and responsive central banking.

SOME POLICY MILESTONES OVER THE LAST CENTURY

- The issuing of notes and coin to the public on 19 April 1922, denominated in pound sterling as the currency of the Union of South Africa; the currency value of which was directly linked to the fixed price of gold traded in terms of the monetary system known as the gold standard.
- After the abolishment of the gold standard in the 1930s, the SARB implemented exchange control arrangements pertaining to the Sterling area, a group of countries that either pegged their currencies to the pound sterling, or used the pound as their own currency.
- From the 1940s to the 1960s, the SARB was part of the international exchange rate system in terms of the Bretton Woods agreement.
- On 14 February 1961, the rand became the official currency of South Africa; three months before the country declared itself a republic.
- With the collapse of the Bretton Woods agreement in the 1970s, the SARB pegged the local currency against a major basket of goods until a system of managed exchange rate floating was introduced in the latter part of the decade.
- From the mid-1980s to 1994, the SARB adopted a broadly defined money supply (M3) growth targeting framework.
- In 1999, the Monetary Policy Committee (MPC) sat for its first meeting, comprising the Governor, Deputy Governors and representatives of the SARB's core departments.
- In 2000, the SARB formally adopted the inflation targeting framework (target range of 3–6%).
- In 2007, the SARB published its core forecasting model to enhance transparency.
- On 20 November 2017, the SARB introduced the Quarterly Projection Model as the official forecasting model of the MPC.

In the democratic era, the SARB has continued to respond to global developments, in line with central banking best practice. When exchange controls were gradually eased in 1998, a new system of monetary accommodation started, involving daily tenders of liquidity through repurchase transactions. These were priced first at a SARB-determined rate and then at the repurchase (repo) rate late in the same year. In February 2000, the flexible inflation-targeting framework still in use today was introduced. At the time of its implementation, South Africa was only the 13th country to adopt this monetary policy framework.

In the late 2000s, the global financial crisis led to central banks across the world taking on financial stability mandates. In South Africa, the Minister of Finance confirmed this addition to the SARB's role in a letter to the Governor in February 2010, which affirmed "…the role that the SARB plays in overseeing and maintaining financial stability". The mandate was confirmed in the FSR Act, which makes the SARB responsible for protecting and enhancing financial stability, alongside other financial sector regulators and National Treasury.

On 1 April 2018, the PA was established in terms of the FSR Act. It incorporated the previous Financial Services Board's Insurance Prudential team, the Bank Supervision Department of the SARB and the Supervisory Team of the Cooperative Banks Development Agency (located in National Treasury). The PA is responsible for assisting the SARB in maintaining financial stability through the prudential supervision of banks, insurance companies, financial market infrastructures and cooperative financial institutions. Cooperating and collaborating with other regulators is an essential element of maintaining financial stability.

A key function of the SARB, which it has retained throughout its history is that of data collection, economic analysis and statistics. Since the first Quarterly Bulletin (QB) was published on 7 September 1946, its purpose has been to present an unbiased and objective view of the South African economy in each quarter of the fiscal year. The QB is widely considered as an authoritative source of economic analysis and statistics, and is sought after by economists and academics, at home and internationally. Not only does the publication serve as a reference document of economic activity through the business cycle, it also shapes economic thinking.

Looking to another era of excellence

Although the SARB's mandate has changed considerably since its inception, its constitutional mandate of maintaining price stability and legislative mandate of promoting financial stability codifies its role in improving the lives of all South Africans in the interest of balanced and sustainable economic growth. As the SARB embarks on the next 100 years, it remains cognisant of the fast-changing environment in which central banks operate, and reaffirms its commitment to being an empowering and caring organisation.

About price and financial stability

The SARB is mandated to preserve the value of money in people's pockets and to maintain financial stability; and to do so in a world buffeted by systemic crises and socio-economic threats. Inflation shocks, along with the failure of financial institutions and the economic disruption they cause, have severe consequences for ordinary citizens and more specifically the poor.

Why price stability matters

Q What is inflation?

A Inflation is the general rise in prices of typical goods and services, which means that the purchasing value of money is lower. Lower longer-term inflation is important for maintaining purchasing power, containing the costs of living and of doing business, and supporting South Africa's global competitiveness.

Q 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.

Q How does higher inflation affect South Africans?

A **Inflation erodes the purchasing power of cash savings:** 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 2011. Savings and pension plans could also lose value if the interest earned is not enough to 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, go up. 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 a rise in supply price. This uncertainty can slow down investment in businesses, leading to lower economic growth.

Higher interest rates: when lenders expect higher 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. As demand for South Africa's exports falls while the demand for imports rises, the need for foreign currency will increase, making it relatively scarce and more expensive, and the rand will lose value against other currencies.

Q	**What is the SARB's responsibility in terms of price stability?**
A	The South African government, in consultation with the SARB, has set an inflation target of 3–6% to measure price stability. To protect the value of the currency and the purchasing power of South Africans, the SARB strives to keep inflation within the target range, preferably close to the midpoint of 4.5%. 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.

Q	**Why is the inflation target range important?**
A	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 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. This is ultimately good for economic growth.

Q	**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 MPC also considers how its policy decisions will impact on economic growth and unemployment.

Q	**What is the SARB's impact on South Africa's economic growth?**
A	While the SARB has some limited influence on economic growth and unemployment rates in the short term, monetary policy alone cannot drive sustainably higher economic growth. Beyond the short-term effects of low interest rates on growth (described on page 17 of the SARB's response to COVID-19), prudent macroeconomic policies and meaningful structural reforms are required to sustainably increase South Africa's attractiveness as an investment destination, which would result in increased economic activity and therefore job growth. The recovery of the South African economy requires a multi-pronged policy approach to deal with the two biggest threats to the economy; government's constrained fiscal flexibility (public debt is expected to be 81.9% of GDP by the end of 2021/22, which undermines its ability to spend on socio-economic imperatives) and electricity shortages (expected to persist through 2021, and which interrupt economic activity and disincentivise new domestic and foreign investment). The interventions needed to address these concerns are outside of the SARB's control.

Q	**What is the SARB's outlook for inflation?**
A	The fact that inflation was low in 2020 in no way guarantees that it will stay low. The MPC will continue to assess the risks to inflation, including from weaker economic growth and those arising from wage and price pressures as well as the depreciation of the rand exchange rate. The SARB projects that South Africa's gradual recovery from the COVID-19 shock will keep headline and core inflation around the midpoint of the target range until the end of 2023.

Progress against SFA 1 and the report on monetary policy: pages 22 and 45 respectively.

Why financial stability matters

Q	**Why is the stability of the financial system important?**
A	The role of the financial system includes intermediation, which means moving money from households and businesses who save (in return for an interest return on the money they lend) to those who need financial resources or want to invest (for an interest charge on the money they borrow). The financial system also enables households and businesses to save, invest and transact and it facilitates local and international trade. It therefore directly or indirectly touches the lives and livelihoods of every South African citizen. Financial stability refers to a financial system that is resilient to systemic shocks, facilitates efficient financial intermediation and mitigates the macroeconomic costs of disruptions in such a way that confidence in the system is maintained. Financial stability is not an end in itself but, like price stability, is generally regarded as an important precondition for sustainable economic growth and employment creation.

Q	**How does the SARB ensure the stability of the financial system?**
A	The SARB's financial stability mandate is to ensure that the financial system functions even under stress, and that significant financial institutions (on which the health of the national economy depends) do not fail. This is a shared responsibility with other stakeholders, especially financial sector regulators and National Treasury. The SARB monitors global and domestic environments to identify potential risks and vulnerabilities which may impact the financial system, and recommends policy actions using a macroprudential policy toolkit to mitigate the build-up of vulnerabilities. It also conducts stress tests of the banking sector to assess the resilience of banks against defined adverse scenarios. *Progress against SFA 2 and the report on financial stability: pages 23 and 50 respectively.* The SARB also regulates and supervises individual financial institutions and identifies and ensures the safety and soundness of significant financial institutions, as their failure could result in major economic, financial and social harm. 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 24 and 54 respectively.* 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 use of buffers to support the economy during the downturn. *SARB's response to COVID-19: page 16.*

Q	**Is South Africa's financial system safe and sound?**
A	The financial system has remained resilient during the COVID-19 pandemic and ensuing socio-economic crisis. In general, finance has continued to flow, access to credit has remained open for households and firms, and financial institutions have continued to operate and serve their customers despite the majority of their staff working remotely. South African financial institutions have supported their customers through the crisis with new loans, restructured loans and payment holidays. Similarly, insurance claims have continued to be paid, with notably higher claims in some segments of the industry. Notwithstanding the significant risks that the country's financial system currently faces, the SARB expects financial stability to remain intact.

Q	**Why did the SARB buy government bonds during the COVID-19 crisis?**
A	The orderly functioning of capital markets is important for financial stability and the effectiveness of monetary policy. The objective of the SARB's programme to purchase government bonds was to reduce excessive volatility in the government bond market, make it easier for buyers and sellers to agree on prices and ease liquidity concerns. Government is the largest borrower in the economy and the government bond market is the largest and most liquid financial market. It therefore plays an important role in South Africa's capital markets. The bonds are held in the SARB's Monetary Policy Portfolio, which is used to manage money market liquidity conditions. In this regard, the SARB can purchase and/or sell government bonds depending on market conditions.

Q	**What will the future look like for prudential regulation and supervision?**
A	The banking system is undergoing significant technological advances. Marketplace lenders will introduce sophisticated artificial intelligence to automate the lending process and other aspects of banking. Central banks will have to respond and adapt to a changing financial services industry. The implementation of the Twin Peaks model has introduced a move towards a broader supervision model beyond merely banks.

The SARB's response to COVID-19

It has been a year since the first COVID-19 case was reported in South Africa. By the end of May 2021, the virus had caused over 56 000 deaths and the number of recorded infections was around 1.7 million. The country has been on lockdown for over 430 days, albeit at different stringency levels. Current data indicates the vaccination roll-out programme has reached around 0.5% of the total population, far below the world average of 4.9%.

Although lockdown measures were necessary to protect human lives, they triggered deep economic downturns of uncertain duration, with wide-ranging impact on livelihoods, economic activity and financial markets, leaving perturbing scars on the economy. Gross domestic product (GDP) in 2020 recorded its largest contraction since 1920, and unemployment recorded its highest level since Statistics South Africa began measuring unemployment trends using the Quarterly Labour Force Survey. Average annual inflation reached its lowest since 2004 (1.4%) and the second lowest since 1969 (3.0%).

Early in the pandemic, as foreign investors became more risk averse, panic-selling of emerging market bonds led to extreme volatility in asset prices and exchange rates. Moody's Investors Service lowered South Africa's local and foreign currency credit rating to sub-investment grade in March 2020, which exacerbated capital outflows. The cost of government borrowing (bond yields) surged to unsustainable levels and the South African rand depreciated by 22% against the US dollar between February and April 2020. Increased credit, market, liquidity and regulatory risk placed strain on financial institutions, as the funding that banks needed to clear transactions was curtailed. These events placed the stability of the financial system at risk.

The SARB's swift action

In anticipation of the economic shock that would ensue, the SARB responded quickly and aggressively with a broad array of actions to limit the economic damage, in line with its constitutional and legislative mandate. The SARB's policy responses encompassed monetary policy instruments, interventions in financial market operations, regulatory tools as well as collaborations with other entities to provide relief to the economy and enable the financial sector to help customers in need. In addition, through its participation in global forums, the SARB contributed to the strengthening of the global financial safety net.

		SARB ACTION	IMPACT
1	Reduction of the repo rate	South Africa entered the COVID-19 crisis with stable and low inflation rates and moderate inflation expectations, giving the SARB the flexibility to make significant interest rate cuts. The repo rate, currently at 3.5% (from 6.5% on 1 January 2020), is at an all-time low, while the prime rate, at 7.0%, is now at a 54-year low. The repo rate was cut by a cumulative 275 basis points between March and July 2020. To compare, the SARB's monetary policy response is more than double (-125 basis points) the median policy of the top 40 emerging market economies.	The low rates have increased household demand for credit, evident in the 10-year highs in mortgage applications and grants. Low short-term rates are also supporting corporates through this period of stress, while allowing government to fund spending via cheap short-term debt. Household debt also decreased for the first time since 2002, as a result of a decrease in the outstanding balances of most categories of credit extended to households.
2	Supporting market functioning	The SARB revised its liquidity management strategy to address funding strains observed in the domestic financial markets. The revised strategy introduced intraday and longer-term refinancing operations to provide funding liquidity to various segments of the money market. These operations were provided over and above the main weekly refinancing operation. In addition, the SARB implemented a bond-buying programme to add liquidity and promote the smooth functioning of the bond market. Government securities were bought in the secondary bond market[1].	Through the intraday repo facility, the SARB offered R36 billion daily. It also offered R20 billion weekly in three-month funding and R45 billion weekly through the main refinancing operation. The value of the government bonds purchased currently totals R40 billion. Liquidity conditions in the money and the government bond markets have since normalised and market functioning has been restored. The SARB's action reduced the excessive volatility in the bond market seen in the early days of the pandemic, eased liquidity concerns and has made it easier for buyers and sellers to agree on prices.
3	Administration of the Government Loan Guarantee Scheme	The SARB partnered with National Treasury and the Banking Association South Africa to establish a loan guarantee scheme. The aim of the scheme is to assist small- and medium-sized businesses with loans, where the funds can be used for operational expenses, such as salaries, rent, lease agreements and supplier payments, among other things. Interest on the loans accumulated from the date of the first drawdown, and businesses have 60 months to repay the capital and interest.	At first the scheme experienced low uptake, however, amendments to the criteria have increased uptake, albeit at a slow pace. At 8 May 2021, the scheme had received 50 344 loan applications, of which 26% were approved by banks and taken up by the applicants, with a total value of R18.4 billion. Some 47% of the applications were rejected because the businesses did not meet the eligibility criteria. The success of the loan guarantee scheme has been lower than anticipated – partly due to banks having provided significant relief to customers from their own resources. Furthermore, demand for credit by small businesses remains weak in an environment of weak growth and heightened economic uncertainty.
4	Temporary regulatory relief	The SARB provided a range of temporary regulatory and supervisory relief measures to banks, including capital relief on restructured loans for households and businesses that were in good standing before the pandemic, a lower liquidity coverage ratio from 100% to 80%, and lower minimum capital requirements with clear criteria, enabling banks to dip into their capital conservation buffer. The SARB also issued guidance to banks that they should not pay dividends and executive bonuses in 2020. However in February 2021, a further guidance note softened the earlier guidance, outlining the factors that should be considered before banks distribute dividends and bonuses to senior employees. Furthermore, aspects of the Basel III implementation framework were deferred for a year and regulatory reporting periods were relaxed to relieve some of the operational pressure faced by financial institutions.	Banks were able to continue providing loans, critical to everyday economic activity while continuing to comply with prudential regulation. At 31 May 2021, banks had provided a cumulative R50 billion[2] in financial relief and loan guarantees to individuals and businesses in financial distress. More than 84%[2] of individuals and 95%[2] of businesses who requested help, received assistance. In addition, for the duration of the crisis, restructured loans do not attract a higher capital charge. The measures also ensured that financial institutions had the capital resources needed to absorb losses resulting from the economic downturn. The financial system continues to function effectively; financial markets have stabilised and the commercial banking sector remains well capitalised.

Looking forward

The SARB will continue to act appropriately, in accordance with its mandate, to support the South African economy and ensure it is well placed to take advantage of improving global conditions.

1 The market through which those who have bought bonds directly from government can buy and sell these bonds to other market participants.

2 Source: Banking Association South Africa.

DELIVERING THE SARB STRATEGY


E L (Lesetja) Kganyago

GOVERNOR'S MESSAGE

The SARB first opened its doors in 1921, as the world and our country were navigating the aftermath of the Spanish Flu of 1918. This 2020/21 SARB Annual Report is presented a year and a half since the World Health Organization declared COVID-19 a global health pandemic. As with the Spanish Flu, COVID-19 has had a marked impact on our health systems, society and the economy.

In the 2020 calendar year, South Africa's gross domestic product (GDP) contracted by 7.0%. This represents the worst annual economic decline since 1920, when GDP contracted by 12%, and is five times larger than the contraction following the global financial crisis of 2008/9. Unemployment reached an unprecedented level of 32.5% in the fourth quarter of 2020 and many industries in our economy are not yet at full operation. This is indicative of the scars of the COVID-19 pandemic and associated lockdowns. Further waves of infection are threatening to delay the pace of the economic recovery.

Maintaining price stability, enhancing financial stability and strengthening the resilience of the economy have been central to the SARB's response to the COVID-19 shock. The SARB has utilised a variety of instruments in its policy toolkit in the interest of balanced and sustainable growth.

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 midpoint of the 3–6% target range. The steady decline in inflationary pressures resulted in overall headline inflation falling below the midpoint of the inflation target range to an average of 3.3% for 2020, the lowest rate since 2005. These improved inflation conditions have created room for the Monetary Policy Committee (MPC) to cut interest rates. During the reporting period, the repurchase (repo) rate was reduced from 6.5% to 3.5%, 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. The pandemic, however, resulted in sharp spikes in risk aversion in domestic and international financial markets. During this period, the SARB revised its liquidity management strategy to address funding strains in domestic funding markets. This included the provision of additional refinancing operations in the money market and purchasing government bonds from the secondary market, currently totalling R40 billion.

The SARB also provided regulatory relief through directives and guidance notes issued by the Prudential Authority (PA), the National Payment System Department and the Financial Surveillance Department, supporting financial institutions in the provision of credit and services to their customers and payments relief.

As the crisis unfolds, the SARB will remain vigilant and respond appropriately to support the economy in line with 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 to strengthen the financial system and adapt to increasing digitisation.

Together with relevant stakeholders, the SARB successfully executed the discontinuation of cheques. In addition, we issued a public consultation paper on the feasibility of establishing a domestic card scheme in South Africa, aimed at enabling local service providers to enter the market. Consumer behaviour is shifting to digital financial services and merchants are adopting e-commerce, particularly given the heightened consciousness around COVID-19 and social distancing. Innovation has led to the evolution of more technologically efficient payment offerings, responding to consumer needs and the circumstances under which payments can be made. Some examples include new authentication methods for debit orders, the rapid emergence of contactless card and mobile payments underpinned by cheaper point-of-sale devices, and non-card based online payments. Various initiatives are underway to support and guide these developments.

The SARB has also launched a central bank digital currency (CBDC) feasibly project to explore a retail CBDC for domestic use. The aim of the study is to understand which elements of a CBDC would be most beneficial for South Africa, explore various design considerations, understand policy impacts as well as intended and unintended consequences of using CBDC, and explore appropriate legal and regulatory regimes.

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 enabled it to quickly implement remote working for its employees. Our people responded well during the crisis, ensuring the effective and continued smooth running of the SARB's operations. All major SARB events, including the MPC press conference, Monetary Policy and Financial Stability forums and Quarterly Bulletin releases were conducted virtually, with a higher participation rate aided by our growing social media networks.

Despite the sobering economic performance of the past calendar year, the SARB remained well placed to respond to the challenges posed by the COVID-19 crisis. In line with our 2025 strategic plan, the SARB remained focused on identifying potential vulnerabilities in the South African economy and strengthening its policy toolkit. We aimed to ensure that our financial system was stable and that the financial institutions we regulate remained strong and sound. Despite high levels of volatility in the currency and other local assets, inflation expectations remained well anchored to the midpoint of the inflation target range. Institutional capacity was further strengthened in our prudential functions, enhancing our macroprudential toolkit to deal with financial stability risks, and we continued to modernise our payment system.

As we celebrate the SARB's centenary year, we acknowledge the institution's successful navigation through a number of turbulent events, including the devastating impact of the Great Depression; World War II; the harshest institutionalised system of racial segregation, apartheid; the oil crisis of the 1970s; the dawn of a new democracy; the global financial crisis in 2008/9 and today, the worst global health crisis since the 1918 Spanish Flu. Having an independent institution that is grounded by a clear mandate has ensured that the SARB continually balances short-term and longer-term trade-offs.

The 14th February 2021 marked the 60th anniversary of the South African rand. The rand is currently rated among the most traded currencies in the world and is used as a proxy for other emerging markets. This year also marks 25 years of SARB independence, which is enshrined in the Constitution of the Republic of South Africa, and tasks the SARB to perform its functions without fear, favour or prejudice. Another milestone is the now well-established inflation targeting framework introduced 21 years ago, delivering low interest rates and low inflation. At the time of its implementation in February 2000, South Africa was only the 13th country to adopt this monetary policy model. During the month of June, we will have a virtual celebration with our stakeholders, and also launch a commemorative R5 coin to mark the centenary.

As we look to the next 100 years, we are committed to anchoring our work in a strategy that takes account of the fast-changing economic environment in which central banks operate. The SARB remains committed to our culture of being an empowering, agile and caring organisation, as we collaborate to pursue our mandate of maintaining price stability and promoting financial stability. We set out our daily tasks with our values of respecting and trusting one another, promoting open communication to steer debates and invoking fresh ideas, working with integrity, buttressed by accountability and aiming for excellence at all times.

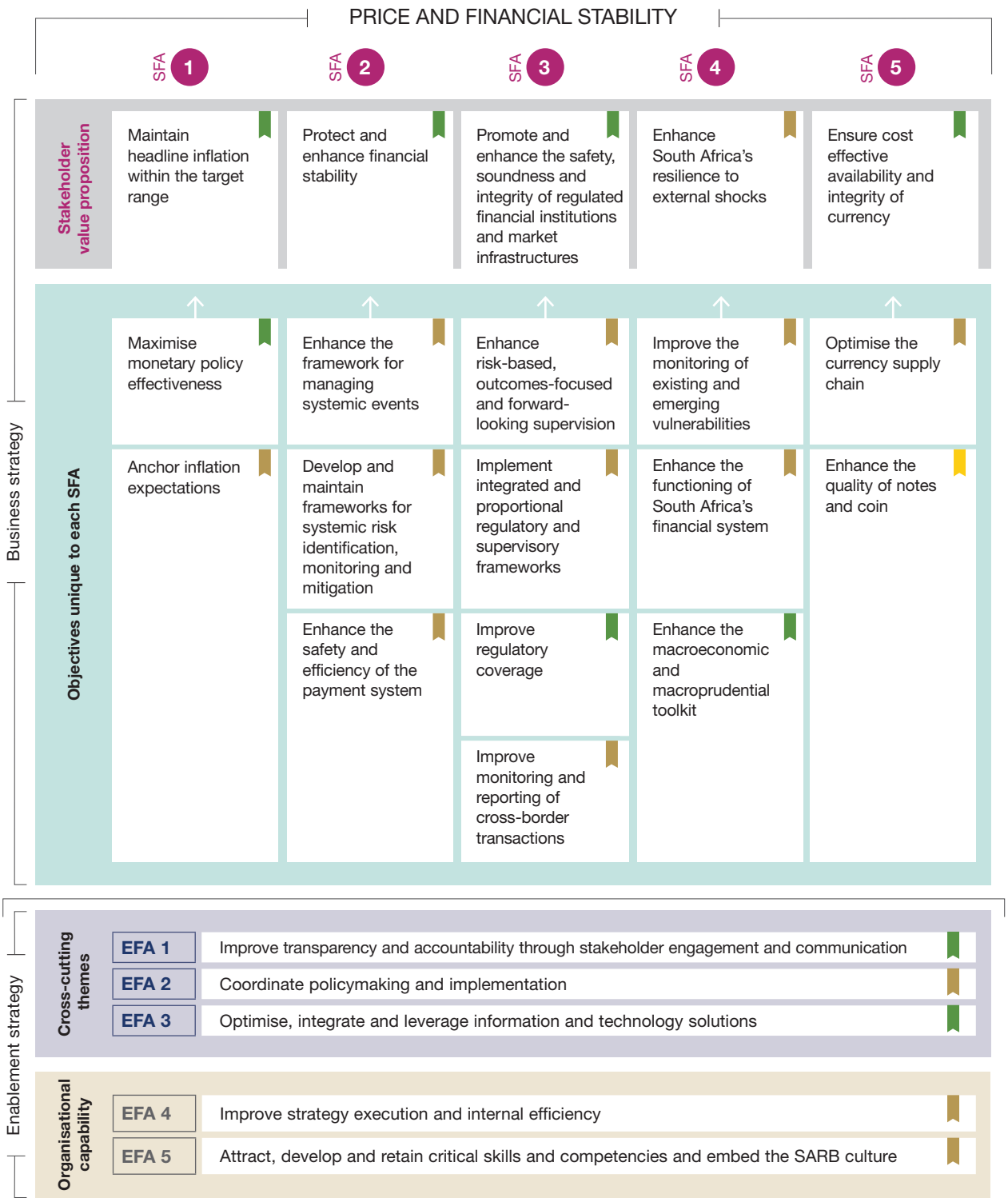
As always, we remain committed to strong, trust-based and collaborative public and private sector relationships that underpin the development of prudent and coherent macroeconomic policies that support inclusive, balanced and sustainable economic growth.

I am thankful for the meaningful insights, leadership and continued support provided by the Board of Directors and the secretariat. 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 of the SARB

The 2025 strategic plan

Strategy 2025 was launched in April 2020 and is designed to achieve the SARB's mission – price and financial stability – and the additional priorities that various legislations assign to the SARB. The strategic focus areas (SFAs) are the prioritised outcomes the SARB considers essential to achieving its mandate. Despite COVID-19, strategic delivery matured over the reporting year with improved collaboration and productivity gains across departments. The SARB's focus is to intensify the enablement focus areas (EFAs) as the foundation to a future fit organisation. Many of the complex transformational programmes reside in the EFAs.



Note: the status of an SFA is determined by the measures in its scorecard, and not the achievement of its unique objectives.

Target met | Target partially met | Target not assessed

SFA 1

Maintain headline inflation within the target range

Objectives

Improve the mechanisms used to implement monetary policy, deliver a well-structured research programme supported by strong information management and use a targeted communication and stakeholder engagement strategy to forecast inflation and anchor inflation expectations.

2020/21 performance overview

Inflation remained firmly within the target range and is projected to remain within the target range over the two-year forecast horizon. This aligns with 24-month forward-looking inflation expectations, assessed in the Bureau for Economic Research Survey, which are closer to the midpoint of the target range, averaging 4.2%.

PERFORMANCE SCORECARD

Overall status	Strategic measure	Target (annual)	2020/21 (annual)		
SFA 1	Headline inflation versus target	3–6%	3.1%	2019/20 (annual)	4.2%
				2018/19 (annual)	4.7%

Note: the overall headline inflation of 3.3% in the report on monetary policy is reported for the calendar year (January to December 2020). The scorecard reports headline inflation for the financial year (April 2020 to March 2021).

Unique strategic objectives for SFA 1

Maximise monetary policy effectiveness	• The MPC assessed the quality of the presentations presented at the MPC meetings, which informed the committee's decisions. This feedback was communicated to the presenting teams. • Achieved the intended outputs in terms of the SARB's research themes. • Implemented initiatives to improve forecasting, including the implementation of a modernised digital platform which has increased both the quality of source data and survey coverage.
Anchor inflation expectations	• Successfully delivered MPC statements, using simpler formats to improve communication and understanding by a non-specialist audience. • Developing new approaches to engage with price setters (firms and labour).

Target met Target partially met

Report on monetary policy: page 45.

SFA 2

Protect and enhance financial stability

Objectives

Continue developing the macroprudential framework and understand its effectiveness, and ensure the safety of the national payment system (NPS) and modernise it.

2020/21 performance overview

The SARB continued to monitor the financial system for signs of stress. A number of regulatory interventions were promptly, appropriately and adequately implemented to ensure the continued safety and soundness of the financial system given the impact of COVID-19. The financial system remained resilient with no systemic events.

PERFORMANCE SCORECARD

Overall status	Strategic measure	Target (annual)	2020/21 (annual)
SFA 2	Consistently test the financial stability framework to ensure it meets international standards	To maintain a financial stability framework that meets international standards and benchmarks	Tested the financial stability framework against the requirements of the Financial Sector Regulation Act 9 of 2017 (FSR Act) and participated in the International Monetary Fund (IMF)/World Bank Financial Sector Assessment Programme.

Unique strategic objectives for SFA 2

Enhance the framework for managing systemic events	• Improved the stress testing process, which determines whether South Africa's systemically important financial institutions (SIFIs) have the appropriate levels of capital and/or liquidity to withstand hypothetical macroeconomic scenarios that are severe but plausible. • Refined the resolution planning framework to manage the failure of financial institutions in an orderly way, should this unlikely event occur. • Refined the framework to introduce a deposit guarantee scheme in South Africa.
Develop and maintain frameworks for systemic risk identification, monitoring and mitigation	• The review of the financial stability framework provided a favourable survey result of 4.2 out of five. • The financial stability monitoring framework, which largely adheres to international best practice, continued to provide the data needed to inform the public about current and emerging risks to financial stability.
Enhance the safety and efficiency of the payment system	• Met the stability targets for the real-time gross settlement (RTGS) system. The average availability of critical systems was over 99%. • Engagement with National Treasury and external stakeholders is underway to amend the National Payment System Bill. • All designated payment financial market infrastructures (FMIs) were independently assessed. • Developed the programme structure and governance arrangements for the renewal of the RTGS system.

Target met Target partially met

Report on financial stability: page 50. *The SARB's response to COVID-19: page 16.*

Payments report: page 59.

SFA 3

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

Objectives

Continue to embed the PA and enhance its current regulatory and supervisory practices, drive a proactive SARB response – the right policies, frameworks and tools – to support the rapid changes in the financial sector ecosystem and enhance the capital flow management[1] policy.

2020/21 performance overview

The PA continued its intensive supervision of regulated financial institutions and their adherence to governance and risk management practices. There were no failures of SIFIs, although some smaller institutions were placed under specific regulatory action. The capital flow management framework is under development but has been impacted by COVID-19.

PERFORMANCE SCORECARD

Overall status

SFA 3

Strategic measures	Target (annual)	2020/21 (annual)		
Percentage of financial institutions that meet or exceed the quantitative prudential standards for SIFIs	100% or under adequate regulatory action	100%	2019/20 (annual)	100%
			2018/19 (annual)	100%
Weighted percentage of financial institutions that meet or exceed the quantitative prudential standards for non-SIFIs[2]	90% or under adequate regulatory action	98%	2019/20 (annual)	95%
			2018/19 (annual)	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 adequate regulatory action	100%	2019/20 (annual)	100%
			2018/19 (annual)	90%
Weighted percentage of non-SIFIs that comply with sound governance and risk management practices required by different industry legislation	90% of institutions fully compliant or under adequate regulatory action	90%	2019/20 (annual)	75%

1 Measures designed to manage capital flows to reduce systemic financial risks stemming from such flows.
2 Non-SIFIs: smaller banks or small- to medium-sized insurers.

Target met

Unique strategic objectives for SFA 3		
	Enhance risk-based, outcomes-focused and forward-looking supervision	• The effectiveness of the risk-based, outcomes-focused supervisory blueprint was not tested as the quality assurance methodology is still to be assessed. • Conducted surveys in the financial sector where potential risks were identified.
	Implement integrated and proportional regulatory and supervisory frameworks	• Issued guidelines on the integrated supervisory approach. • Issued draft prudential standards for financial conglomerates (excluding the capital standard) for public comment. Joint standards for FMIs are in progress. • Successfully completed the conversion of insurance entities to licenced insurers under the Insurance Act 18 of 2017. • Published a number of joint standards.
	Improve regulatory coverage	• Met the development targets of the regulatory framework for deposit-taking institutions. • Held workshops to deliberate the transition arrangements to expand the PA's regulatory ambit to include collective investment schemes, friendly societies, pension funds and medical schemes. • Secured a strategic partner to implement the PA's long-term technology solution. • Approved an assessment of the adequacy of the PA's regulatory framework against newer prudential business models.
	Improve monitoring and reporting of cross-border transactions	• 96.92% of authorised dealers are fully compliant or under specific regulatory action (September 2020 data). • 94.05% of institutional investors are fully compliant or under specific regulatory action.

Target met Target partially met

Financial stability report: page 50. *Report of the Prudential Authority: page 54.*

SFA 4

Enhance South Africa's resilience to external shocks

Objectives

Improve the monitoring of external financial and macroeconomic risks and vulnerabilities, continue to enhance the functioning of the financial system, enhance the macroeconomic and macroprudential toolkits and improve the coordination of policy responses.

2020/21 performance overview

The SARB improved its monitoring of external vulnerabilities given the significant impact of COVID-19. It is developing and implementing various tools to improve the policy toolkit and enhance the functioning of the financial system.

PERFORMANCE SCORECARD

Overall status SFA 4

Strategic measures	Target (annual)	2020/21 (annual)
Guidotti Ratio (GR) and Augmented GR (AGR)[1]	A ratio of reserves to short-term debt of one	GR: 1.48 AGR: 2.33 (Dec 2020)
Foreign exchange debt[2]: total foreign debt of national government	Two standard deviations from the mean of R99.1 billion	R391.0 billion (Dec 2020)
Foreign exchange debt[2]: total foreign debt of private sector	Two standard deviations from the emerging markets mean of US$332 billion	US$100.3 billion (Mar 2021)
Capital flows at risk[3]: net purchase of bonds by non-residents	Two standard deviations from the mean of -R1.2 billion	-R13.9 billion (Mar 2021)
Capital flows at risk[3]: net purchase of shares by non-residents	Two standard deviations from the mean of -R3.2 billion	R0.8 billion (Mar 2021)

Note: these are newly formulated measures and there are still some lags with the December data.
1 Monitors reserves to ensure debt is covered in the event of a sudden stop or reversal of flows.
2 Foreign exchange debt of the total economy (public and private sector).
3 The degree to which capital flows could change in a risk scenario.

Unique strategic objectives for SFA 4

Improve the monitoring of existing and emerging vulnerabilities	• Completed an assessment of vulnerabilities at end March 2021. • Developed a vulnerability heat map. • Completed a concept paper on the design of a near real-time monitoring tool for spot foreign exchange and swap markets for South Africa. • Developing a framework to enhance the SARB's coordination of its response to financial market crises.
Enhance the functioning of South Africa's financial system	• Introduced special liquidity management measures in the money market at the height of the COVID-19 crisis and launched a bond purchase programme to support market functioning. • Accessed a US dollar facility at the Fed, which provides precautionary insurance against a crisis, supplies liquidity during a crisis and incentivises sound macroeconomic policies. • Worked with National Treasury to access the Rapid Financing Instrument (rapid financial assistance to IMF member countries facing an urgent balance of payments need). • The triparty collateral system project, to support the development of the domestic financial markets and align them to global best practice, continues to mature. • Enhanced the safety and efficiency of the payment system (see SFA 2 page 23). • The Innovation Hub is supporting the development of financial technology (fintech) and informing associated regulatory policy stances.
Enhance the macroeconomic and macroprudential toolkit	• Maintained accumulated official gross gold and foreign exchange reserves above planned levels. • A review of the macroprudential toolkit approach is underway.

Target met | Target partially met | Target not met

The SARB's response to COVID-19: page 16. | *Financial stability report: page 50.* | *Payments report (Innovation Hub): page 61.*

SFA 5

Ensure cost effective availability and integrity of currency

Objectives

Ensure that notes and coins are available and of a high quality, and explore the feasibility of a central bank digital currency.

2020/21 performance overview

The currency-producing subsidiaries delivered all notes and coin orders in full. However, COVID-19 related disruptions negatively impacted production costs. Note and coin buffer stock levels are sufficient. The incidence of counterfeiting was below the target threshold.

PERFORMANCE SCORECARD

Overall status SFA 5

Strategic measures	Target (annual)	2020/21 (annual)		
On-time, in-full fulfilment of orders from the cash industry	100% of orders fulfilled within agreed timelines	100%	2019/20 (annual)	100%
			2018/19 (annual)	100%
Incidence of counterfeiting measured in parts per million (ppm) (annualised)	<12 ppm	5.68 ppm	2019/20 (annual)	10.76 ppm
			2018/19 (annual)	8.37 ppm

Unique strategic objectives for SFA 5

Optimise the currency supply chain	• Despite currency production volumes being lower, fixed overheads remained constant, resulting in the supply chain unit costs rising above targets that were set prior to the advent of COVID-19.
Enhance the quality of notes and coin	• Continued to drive the multi-year initiative to redefine the quality standard for notes. The initiative involves the entire cash industry. The new quality management approach is expected to improve the quality of the notes in circulation.

Target met | Target partially met | Target not assessed

Payments report (digital currency): page 61. *Subsidiary reports: page 78.*

Enablement focus areas

	Objectives	2020/21 performance highlights
EFA 1 Improve transparency and accountability through stakeholder engagement and communication	Improve and better coordinate internal and external stakeholder engagement and communication, particularly as large transformational programmes increasingly impact stakeholders and require closer collaboration with them.	The following favourable scores were achieved in the last reputation survey held in February 2019: **Informed stakeholders** • Citizenship: 76% (2016: 75%). • Communication: 87% (2016: 78%). • Image: 84% (2016: 76%). • Relationship management: 80% (2016: 67%). • Reputational equity: 83% (2014: 78%, 2016: 84%). **Public stakeholders** • Public awareness: 66% (2014: 56%, 2016: 44%). • Public reputation: 69% (2014: 70%, 2016: 74%). The next survey will be conducted in 2021.
EFA 2 Coordinate policymaking and implementation	Implement a more structured process to research and policy formulation, with better collaboration and capabilities to enhance the SARB's understanding of the impact and interactions between policies. This will enable the SARB to better manage trade-offs in the interest of balanced and sustainable growth.	• Aligned the cross-departmental research agenda to the strategy, prioritising 11 topics. • While good traction has been achieved in some areas, departments are experiencing research capacity constraints. Additional research funding and project management support have been approved.
EFA 3 Optimise, integrate and leverage information and technology solutions	Renew the SARB's core central banking systems, invest in building a safer bank, lay the foundation for enterprise information management (EIM), improve how information is shared internally and across the industry and build an advanced analytics capability.	• Reviewed the I&T strategy to ensure its alignment with the SARB's 2025 strategic plan. • Tier 1 and Tier 2 programmes progressed relatively well, meeting 77% and 86% of project management targets respectively. However, capacity and skill constraints have resulted in revised completion timelines. • The development of foundational EIM elements is on track. • Implemented robust cybersecurity risk management measures, resulting in good recovery measures and low residual risk. • Met the targets for incident and vulnerability management.
EFA 4 Improve strategy execution and internal efficiency	Ramp up resources for priority programmes and improve the approaches to project management and ways of working while also exploring new strategy execution capabilities.	• Partnering with strategic technology development partners and ramped up resources to ensure the successful transition of large programmes into the execution phase, supporting the SARB's change agenda. Skills development will be a key focus going forward. • Business cases for new capabilities such as business architecture and enterprise change management are underway. • The optimisation of support departments, particularly Procurement and Human Resources, continues.
EFA 5 Attract, develop and retain critical skills and competencies and embed the SARB culture	Embed the SARB culture, employee value proposition, strategic workforce planning and diversity and inclusion, and transition the SARB to new ways of working post COVID-19.	• Maintained depth of succession for critical roles at 1:1 (target: 2:1). • Improved the coverage ratio for critical roles to 88% (target: 85%). The average time to fill critical roles was 153 days (target: 60 days), impacted by scarcity of skills. • Critical roles turnover was 0.5% (target: <2%). • Achieved a Platinum Seal (highest level) in the Deloitte Best Company to Work For Survey (score: 72.3%). • Developing a programme for diversity and inclusion. • Developing the 'SARB Ways of Work' Programme in response to a changing environment.

Target met Target partially met

HOW THE SARB IS GOVERNED

Shareholding and dividend

The SARB's shareholders

At 31 March 2021, the SARB had 813 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 the following activities conducted at the SARB's annual Ordinary General Meeting (AGM):

- Considering the SARB's annual financial statements.
- Electing seven of the non-executive directors of the Board of Directors (the Board), as and when vacancies arise.
- Appointing the external auditors and approving their remuneration.

SARB shares are traded on an over-the-counter share-trading facility managed by the SARB. While some foreigners still hold shares, it is only the shareholders residing in South Africa who are entitled to vote at the AGM. 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.

For the first time in the SARB's history, the 2020 AGM was held on a virtual platform and not in person due to the COVID-19 pandemic.

Dividend

The SARB Act stipulates that shareholders are entitled to a 10 cents per share dividend on an annual basis paid from profits. The total dividend paid for the financial year was R0.2 million (2019/20: R0.2 million).

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 they 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 promotes a culture of ethical conduct and compliance. The 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 conflicts of interest. The internal audit function assists in identifying possible incidents of commercial crime and other irregularities.

The annual employee engagement survey is used to gain employee insight on ethics. The SARB achieved its highest score in the 2021 survey for the culture category, scoring 76%. The category covers trust and communication.

Employee engagement: page 66.

Employees and the public can use an independent external hotline to anonymously report dishonest or questionable practices and sensitive matters related to the SARB's business. 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 Board is ultimately responsible for governance and oversight, ensuring that the SARB's work is done correctly and in compliance with applicable laws and standards. 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 the Republic 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' criteria for Board membership, and prescribes that a Panel evaluates nominated shareholder-elected candidates, 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 in discharging 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.

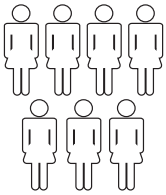
Of specific note is the Board's accountability for the governance of information and technology (I&T), which includes ensuring that the I&T strategy supports the SARB's strategic objectives. I&T investments are made within acceptable risk parameters and in line with the SARB's culture, structure and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

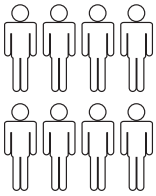
BOARD COMPOSITION AT 31 MARCH 2021

AVERAGE AGE

55.6

GENDER DIVERSITY





RACE DIVERSITY

13
black members

2
white members

GOVERNOR

E L (Lesetja) Kganyago | 55

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 National Treasury and then 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 (G20) 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

- Doctor of Commerce, honoris causa, awarded by the Stellenbosch University in December 2018.
- Leadership in Practice Award in the 2019 University of South Africa Graduate School of Business Leadership.
- Doctor of Commerce, honoris causa, awarded by the Nelson Mandela University in December 2020.

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.

EXECUTIVE DIRECTORS // at 31 March 2021

DEPUTY GOVERNOR

R (Rashad) Cassim | 55

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 System 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.

Other current roles

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

Board meeting attendance | 5/5

DEPUTY GOVERNOR

K (Kuben) Naidoo | 50

Executive director

CEO of the Prudential Authority (PA)

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 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 | 44

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 | Financial Markets, Legal Services and International Economic Relations and Policy departments.

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, National Treasury (Deputy Director-General responsible for Economic Policy and Forecasting) and as an alternate executive director at the IMF, representing South Africa and 22 sub-Saharan African countries.

Other current roles

- Chairperson of the Market Practitioners Group on the Interest Rate Benchmark Reforms.
- Chairperson of 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 | 5/5

NON EXECUTIVE DIRECTORS // at 31 March 2021

F (Firoz) Cachalia | 62

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 (LLB), Master of Laws (LLM), 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, is a director of the Mandela Institute at Wits University's Law School and serves on the boards of various organisations.

Board meeting attendance | 5/5

C B (Charlotte) du Toit | 55

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

S (Shamima) Gaibie | 57

Non-executive director

Board appointed as a casual vacancy | August 2020.

Qualifications | BA and LLB degrees from Wits University and an LLM degree from the London School of Economics.

Experience | Admitted as an attorney, practising for more than 29 years in a number of niche areas including labour law, public sector law and constitutional law. Previously served as a lecturer of law and is now a director and the Head of the Labour Law Department at Cheadle Thompson & Haysom Inc. Attorneys.

Board meeting attendance | 3/5[1]

Z (Zoaib) Hoosen | 56

Non-executive director

Shareholder elected | July 2019.

Qualifications | Bachelor of Science and Master of Business Administration (MBA) 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 | 5/5

N B (Norman) Mbazima | 62

Non-executive director

Board appointed as a casual vacancy | August 2020.

Qualifications | Fellow of the Association of Chartered Certified Accountants as well as the Zambia Institute of Chartered Accountants.

Experience | 17 years' experience as a professional accountant with Deloitte & Touche, spent 18 years as a senior executive at Anglo American, including as the CEO and Chief Financial Officer (CFO) and was a partner for services to the Bank of Zambia and the mining industry in Zambia. Currently the Chairperson of Anglo American Platinum Limited and Zambia Sugar Plc. Serves on various other boards and is a trustee of Malaria No More. Has knowledge and skills in mining.

Board meeting attendance | 3/5[1]

L H (Lerato) Molebatsi | 51

Non-executive director

Non-executive Directors' Committee Chairperson

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

J M S D (Dudu) Msomi | 49

Non-executive director

Government appointed | July 2020.

Qualifications | BA degree (Psychology and English), BA (Hons) degree (Cultural and Media Studies), postgraduate diplomas in Advertising and Marketing and Corporate Governance, and an MBA from GIBS.

Experience | Founder and CEO of Busara Leadership Partners (with expertise in facilitating the development and effectiveness of leaders, management and entrepreneurs to achieve their desired goals), adjunct faculty member at GIBS, supervisor for GIBS MBA Management Consulting, an MBA lecturer of Business Ethics and Corporate Governance at Richfield Graduate Institute of Technology, part-time Commissioner on the KwaZulu-Natal Provincial Planning Commission, and a fellow at the Institute of Directors in South Africa. Has knowledge in strategy, corporate governance, leadership and entrepreneurship.

Board meeting attendance | 4/5[1]

Y (Yvonne) Muthien | 64

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 positions include CEO of Sanlam Group Services, Chairperson of Bankserv, Vice President of Coca-Cola Africa and executive director of MTN. Has knowledge and skills in commerce and finance and extensive executive management and board experience in both the public and private sectors.

Board meeting attendance | 5/5

1 New member to the SARB Board, attending all meetings since being appointed.

T (Terence) Nombembe | 59

Non-executive director

Audit Committee Chairperson

Government appointed | July 2014, reappointed in July 2017 and again in 2020 for a final three-year term.

Qualifications | Chartered Accountant South Africa (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 (SAICA) to November 2018, when he joined the State Capture Commission as Head of Investigations.

Board meeting attendance | 5/5

M M T (Tryphosa) Ramano | 48

Non-executive director

Shareholder elected | August 2020.

Qualifications | CA(SA), postgraduate diploma in Accounting and Bachelor of Accounting degree. Currently an Advanced Leadership Initiative fellow at Harvard University, Boston.

Experience | Founder and director of Magommake Limited, a strategic consultancy. Has held various C-suite level positions in the public and private sectors in South Africa, previously served as the CFO of PPC Limited, WIPHOLD (a black women-owned investment company) and South African Airways, and was the Chief Director for Asset Liability at National Treasury. Currently serves on the boards of the International Women's Forum (South Africa) and the Solidarity Fund, and is the Chairperson of the Audit and Risk Committee for both entities. Is a professional member of SAICA and Turnaround Management Association of South Africa, and currently serves as the Chairperson of Young Leaders Connect and the Gender-based Violence and Femicide Fund Response 1. Has knowledge and skills in commerce and finance.

Board meeting attendance: | 3/5[1]

N (Nicholas) Vink | 66

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 Limited board and is President of the International Association of Agricultural Economists (2018 to 2021). Has knowledge and skills in agriculture.

Board meeting attendance | 5/5

Director changes during 2020/21: page 85.

1 New member to the SARB Board, attending all meetings since being appointed.

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 are reviewed every three years, unless otherwise required. The last review was in February 2021.

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 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.

Appointments and terms that expired during the year include:

- R J B (Rob) Barrow's term expired on 1 August 2020 (1).
- R (Rochelle) le Roux's term expired on 1 August 2020 (2).
- G M (Gary) Ralfe's term expired on 1 August 2020 (3).
- L H (Lerato) Molebatsi was appointed as Chairperson of the Non-executive Directors' Committee, effective 1 August 2020 (4).
- T (Terence) Nombembe was appointed as Chairperson of the Audit Committee, effective 1 August 2020 (5).
- S (Shamima) Gaibie was appointed as a member of the Board on 1 August 2020 and to the Remuneration Committee (Remco) on 1 October 2020 (6).
- N B (Norman) Mbazima was appointed as a member of the Board on 1 August 2020 and to the Audit Committee and Remco on 1 October 2020 (7).
- J M S D (Dudu) Msomi was appointed as a member of the Board on 1 July 2020 and to BREC and Remco on 1 October 2020 (8).
- M M T (Tryphosa) Ramano was appointed as a member of the Board on 1 August 2020 and to the Audit Committee and BREC on 1 October 2020 (9).

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.

The Chairperson of BREC is a member.

Membership and meeting attendance

Chairperson	
R J G (Rob) Barrow	1/4 (1)
T (Terence) Nombembe	4/4 (5)
Non-executive directors	
F (Firoz) Cachalia	4/4
Z (Zoaib) Hoosen	4/4
N B (Norman) Mbazima	2/4 (7)
G M (Gary) Ralfe	1/4 (3)
M M T (Tryphosa) Ramano	2/4 (9)
Attends by invitation	
E L (Lesetja) Kganyago	4/4
R (Rashad) Cassim	4/4
K (Kuben) Naidoo	4/4
N (Nomfundo) Tshazibana	4/4

Key activities in 2020/21

- Reviewed all significant internal and external audit findings and monitored management's responses to these findings. The committee was satisfied with the audit quality and independence of the external auditors.
- Received a combined assurance report in May 2021, together with the draft 2020/21 Annual Report. The committee was satisfied with the assurance that the SARB's control environment is sound.
- Received a compliance report in May 2021. The committee was satisfied that the areas of weakness identified are being appropriately addressed.
- 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.
- Assessed the SARB's internal audit and financial functions, and the external auditors.
- Considered IFRS 9 requirements as they relate to the SARB's financial reporting.

Board Risk and Ethics Committee

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

The Chairperson of the Audit Committee is a member.

Membership and meeting attendance

Chairperson	
F (Firoz) Cachalia	4/4
Non-executive directors	
R J G (Rob) Barrow	1/4 (1)
C B (Charlotte) du Toit	4/4
Z (Zoaib) Hoosen	4/4
L H (Lerato) Molebatsi	4/4
J M S D (Dudu) Msomi	2/4 (8)
T (Terence) Nombembe	3/4
M M T (Tryphosa) Ramano	2/4 (9)
Executive directors	
E L (Lesetja) Kganyago	4/4
R (Rashad) Cassim	4/4
K (Kuben) Naidoo	4/4

Key activities in 2020/21

- Reviewed the reports from the COVID-19 Joint Operations Centre on the risk mitigating activities needed to manage the pandemic.
- Considered reports on financial, security and legal risk, current and emerging threats and insurance.
- 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

L H (Lerato) Molebatsi	3/3 (4)
G M (Gary) Ralfe	1/3 (3)

Non-executive directors

R J G (Rob) Barrow	1/3 (1)
F (Firoz) Cachalia	3/3
C B (Charlotte) du Toit	3/3
S (Shamima) Gaibie	2/3 (6)
Z (Zoaib) Hoosen	3/3
R (Rochelle) le Roux	1/3 (2)
N B (Norman) Mbazima	2/3 (7)
J M S D (Dudu) Msomi	3/3 (8)
Y (Yvonne) Muthien	3/3
T (Terence) Nombembe	3/3
M M T (Tryphosa) Ramano	2/3 (9)
N (Nicholas) Vink	3/3

Key activities in 2020/21

- 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.

Remuneration Committee

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 and Deputy Governors and the annual increases for staff.

The GEC approves the remuneration and annual fee increases for the Board's non-executive directors, which the Board notes and accepts. Recommendations follow market enquiries, benchmarking against similar organisations and surveys to determine the appropriate increase.

Membership and meeting attendance

Chairperson

Y (Yvonne) Muthien	4/4

Non-executive directors

S (Shamima) Gaibie	2/4 (6)
R (Rochelle) le Roux	1/4 (2)
N B (Norman) Mbazima	2/4 (7)
L H (Lerato) Molebatsi	4/4
J M S D (Dudu) Msomi	2/4 (8)
G M (Gary) Ralfe	1/4 (3)
N (Nicholas) Vink	4/4

Attends by invitation

E L (Lesetja) Kganyago	4/4
N (Nomfundo) Tshazibana	4/4

Key activities in 2020/21

- Monitored the implementation of various initiatives, including talent management, workforce planning, performance management, the reward strategy and the implementation of a talent management system.
- Monitored the review of certain human resources policies.
- Reviewed the employee engagement survey results and the associated action plans.
- Agreed the annual remuneration increases for employees and the budget for the annual performance bonuses, for recommendation to the Board for approval.

Executive management

GOVERNORS' EXECUTIVE COMMITTEE

Per the SARB Act, 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 and Prudential Committee. The Governor chairs the GEC and the Deputy Governors are the members. The Chief Operating Officer (COO), Group Executive of Currency Management and General Counsel attend the GEC meetings in an ex officio capacity. The Secretary and Assistant Secretary of the SARB attend and maintain a record of the deliberations and resolutions arising in the meetings for dissemination to the Group, where applicable.

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** COO, M (Mogam) Pillay	Oversees the governance of procurement and ensures 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 PA.

Risk management

The role and functions of the SARB, as well as the financial system landscape, have evolved significantly and rapidly since the SARB was established in 1921.

These wide-ranging changes and their increasing levels of complexity have exposed financial systems and central banks to ever-increasing risk. As part of its accountability to South Africans, the SARB is risk averse and maintains a strong focus on risk management and the internal controls to mitigate risk.

The SARB's first coordinated risk management function was established in 2006, and it developed the foundations of the SARB's current Risk Management Policy, framework and methodologies. In 2010, the RMCD was established and has since matured the SARB's risk and compliance management approaches and functions in line with best practice. The RMCD reports to the RMC and BREC on the status, effectiveness and activities of risk management.

The SARB's risk management framework ensures that the risks that may threaten the achievement of its strategic and operational objectives are identified, and adequately and effectively managed within the SARB's risk tolerance levels. The risk management approach includes monitoring and appropriately responding to potential and actual political, economic and regulatory risks arising from global and domestic environments, as well as risks relating to the SARB's strategic initiatives and projects. The risk management framework also considers, and where appropriate, incorporates the recommended risk management principles of King IV.

Specialised cross-cutting risks

The coordinating role of the RMCD extends to the following cross-cutting risk categories.

COMPLIANCE

Group-wide initiatives to ensure compliance obligations are met

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

ETHICS

The SARB's Ethics Policy governs ethics management, and covers principles relating to whistle-blowing, external business interests, personal account trading, the receiving and giving of gifts, commercial crime and an annual employee declaration process.

BUSINESS CONTINUITY

The RMCD provides centralised coordination of the SARB's Business Continuity Management Policy and framework, and conducts business continuity impact assessments 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. The appropriate backup infrastructure and facilities further strengthen the SARB's resilience to potential business disruptions.

Risk management framework

GROUP RISK MANAGEMENT POLICY

Risk governance

HEADS OF DEPARTMENT AND MANAGING DIRECTORS	RISK MANAGEMENT AND COMPLIANCE DEPARTMENT	RISK MANAGEMENT COMMITTEE	BOARD RISK AND ETHICS COMMITTEE
Responsible for strategic, operational and project risk management	Facilitates and coordinates integrated risk management in the Group, and reporting thereon to risk oversight committees	Oversees the full spectrum of risk management in the Group on behalf of the GEC	Reviews the status and effectiveness of risk management in the Group on behalf of the Board

Risk universe

RISK ASSESSMENTS

The risk management framework governs the full spectrum of risk, including strategic, policy process[1], operational (including business continuity, cybersecurity, information security, compliance and occupational health and safety), reputational, project and financial risks (including credit, market and liquidity risk).

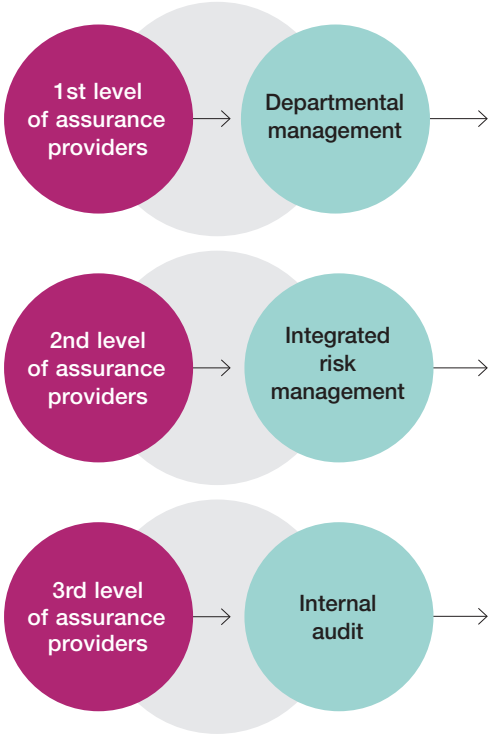
CONTINUOUS RISK MANAGEMENT

Risk incident management, monitoring action plan implementation, day-to-day risk management activities, key risk indicators, scenario analysis, monitoring and assessment of external risks.

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

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.



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.

The RMCD performs a centralised and integrated risk management coordination function to ensure that risks are managed in a way that is consistent with internationally accepted standards and guidelines.

The Internal Audit Department[1] provides objective and independent assurance on the adequacy and effectiveness of the Group's governance, risk management and control processes.

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.

COVID-19

A Joint Operations Centre steers and oversees the SARB's response to COVID-19, with guidance from local authorities and internal specialists to ensure continuity of operations. This includes safeguarding the SARB's assets, compliance with COVID-19 regulations, and protecting the physical and mental well-being of the SARB's employees as well as the safety of its external contractors and visitors.

Looking ahead (ongoing objectives)	2020/21 performance highlights
Leverage risk management to be more forward looking and to support business transformation.	Matured key risk indicators and the process to continuously scan the external environment.
Improve collaboration with stakeholders and the risk management community.	Continued to enhance collaboration between risk functions and the Strategy Management Office and other assurance providers.
Promote integration across the SARB's governance functions.	Work is underway to explore technology platforms that support integration.
Expand governance, risk and control services, including value chain-based and ethics-related services.	Conducted risk assessments across value chains, including the first risk assessment of the structures, frameworks and processes that support financial stability policy objectives.

Employee well-being: page 64.

1 The risk-based auditing approach aligns to the Institute of Internal Auditors' (IIA) International Professional Practice Framework, and uses the Committee of Sponsoring Organizations of the Treadway Commission control framework. The most recent independent external quality assurance review, undertaken in 2017/18, confirmed the auditing function's general conformance to IIA standards. The review takes place every five years.


39,694.78

THE SARB'S PERFORMANCE

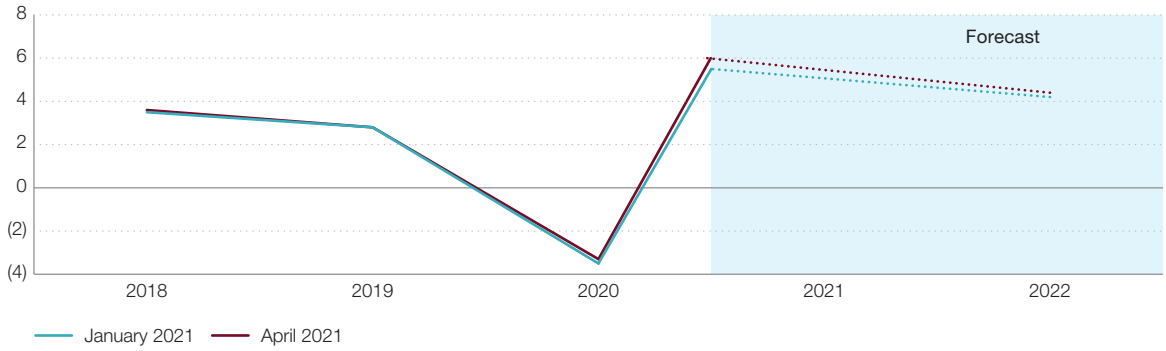
Report on monetary policy

Overview of the world economy

Global output declined by 3.3% in 2020 (from an expansion of 2.8% in 2019) as a result of the unprecedented COVID-19 pandemic.

The pandemic brought about sharp contractions in most economies around the world, as countries imposed 'lockdowns' – restrictions on economic activity to curb the spread of the virus. Lockdowns had the biggest impacts in the second quarter of 2020, with rebounds occurring through the rest of the year. The International Monetary Fund's (IMF) April 2021 *World Economic Outlook* estimated a global contraction of 3.3% for 2020, revised down from the forecasted 3.5% in January 2021. The SARB forecasts global growth[1] of 6.0% in 2021.

GLOBAL REAL GDP GROWTH (% CHANGE)



Source: IMF World Economic Outlook

Alternating peaks and troughs in COVID-19 intensity have had wide-ranging economic effects, albeit differing across the advanced, emerging and developing world. Lockdowns were most intense in advanced economies. Many emerging market and developing economies imposed fewer restrictions, in part due to younger populations that have less severe health responses to the virus. Several supply chains have experienced constraints, with global travel and tourism being severely disrupted. Advanced economies are estimated to have contracted by 4.7% in 2020 against a decline of 2.2% in the emerging market and developing world.

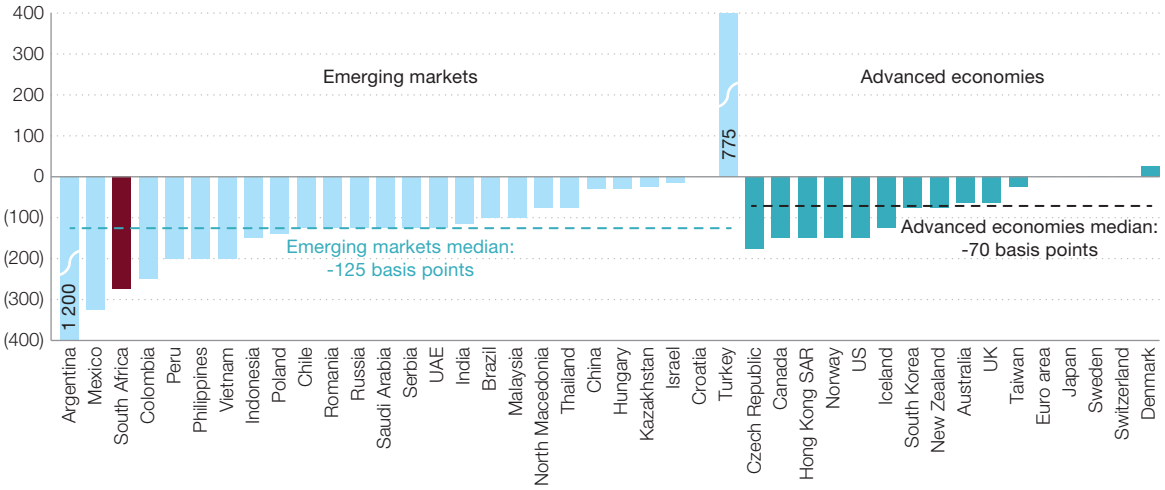
The Chinese economy, the first to experience the virus, contracted sharply in the first quarter of 2020 before bouncing back quickly in the second quarter. The growth rate for the year was 2.3%, and for 2021 it is expected to be 8.4%. India declined by 8.0% for the year but is expected to expand by 12.5% in 2021. Turkey and Brazil both weakened sharply with gross domestic product (GDP) growth of 1.8% and -4.1% respectively. The IMF anticipates emerging market and developing economies to grow by 6.7% in 2021.

Inflation across the world remained muted, with 2020 headline inflation of around 0.3% in the euro area and 1.2% in the United States (US). Inflation remained weak in emerging market and developing economies, averaging 5.1%, compared to the 2011 peak of 7.1%.

The low global inflation environment allowed central banks to ease policy sharply in response to the pandemic, and the average policy rates of the G3 (US, Japan and the euro area) now sits at 0.01%. Emerging market central banks also cut interest rates, with most cutting sharply in March, April and May 2020.

1 Global growth in the SARB's Quarterly Projection Model is a trade-weighted average of South Africa's trading partners.

MONETARY POLICY CHANGES SINCE 31 JANUARY 2020 (BASIS POINTS)



Sources: Haver and SARB

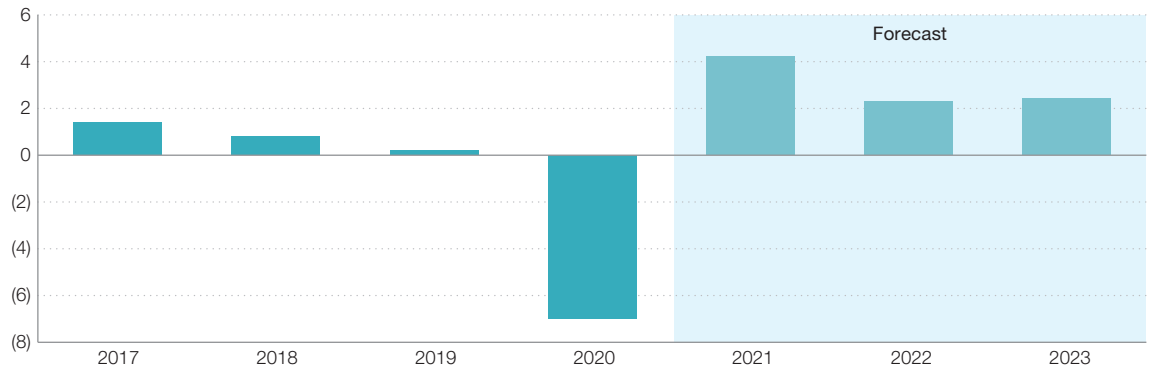
In the second half of 2020, countries relaxed lockdowns and firms and supply chains resumed economic activity, resulting in a major global economic rebound. In some sectors, like food production; supply chain constraints, erratic weather patterns and other factors have led to considerable price inflation. Other sectors are likely to experience medium- to longer-term negative impacts from the pandemic that result in greater price volatility in the coming months and years, although long-term disinflationary factors remain evident in the global economy.

Macroeconomic policies in advanced economies remain supportive of a post-pandemic recovery, giving rise to stronger growth estimates for 2021 and 2022. However, there will also be heightened risks for economies that have stretched fiscal positions, high debt and/or rising inflation. These economies will be prone to increased currency and interest rate volatility as the global recovery strengthens. Their macroeconomic policy space will remain or become more constrained, and benefits from the global recovery will be limited.

Domestic real economy developments

South Africa's real GDP contracted by 7.0% in 2020, considerably better than had been expected at the peak of the pandemic. The impact of COVID-19 was primarily led by decreases in manufacturing (contributing -1.4 percentage points to overall growth); trade, catering and accommodation (-1.3 percentage points); as well as transport, storage and communication (-1.3 percentage points). By contrast, the agricultural sector was shielded from lockdown regulations and also benefitted from bumper crops, with the output level higher than in 2019. Higher commodity prices and rapid recovery in China helped South African exports to expand significantly, especially when compared to the sharp decline in imports. The largest negative contributions from the expenditure-side of GDP came from household consumption expenditure, gross fixed capital formation and changes in inventories.

REAL GDP GROWTH (PERCENTAGE CHANGE)



Sources: Statistics South Africa and SARB

The GDP contraction was broad-based. In these difficult circumstances, the unemployment rate rose to 32.5%, with about 1.4 million jobs lost in 2020. At the bottom of the crash, about 2.3 million jobs were lost with around 876 000 jobs added back in subsequent quarters. More jobs will be created as the recovery continues, but the damage to the economy and employment (particularly in services, retail and tourism and hospitality) has been severe. The roll out of vaccines will help accelerate recovery and job creation, particularly in these sectors.

The sharp decline in economic activity has resulted in an increase in household and firm savings and a fall in government saving. This pattern of spending and saving brought about a sharp decline in imports, and together with a rise in prices for export commodities and a decline in oil prices, caused South Africa's current account balance to swing from a deficit of 3.0% in 2019 to a large surplus of 2.2% in 2020. Higher private sector saving has helped to ease the public sector borrowing constraint, which due to the pandemic has hit high levels.

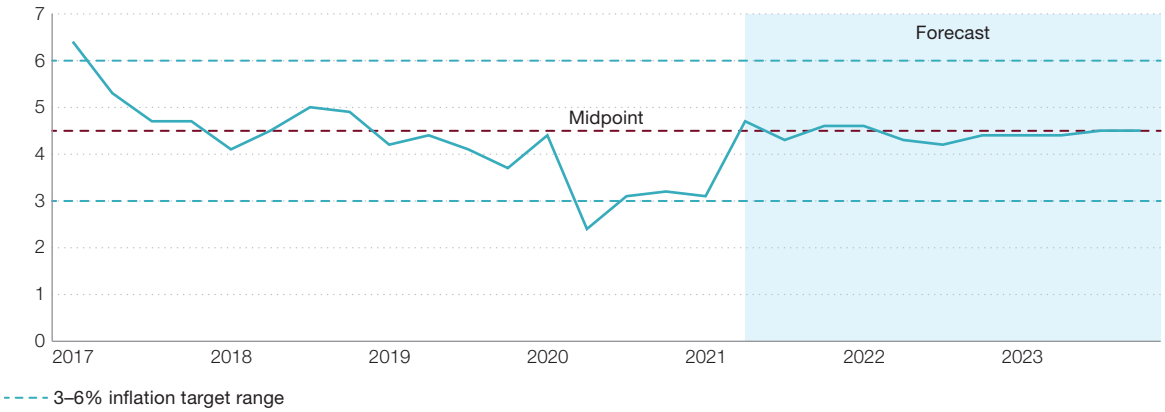
With higher spending and lower tax revenue, the fiscal deficit deteriorated to an estimated 14% for 2020/21, the largest rate of borrowing since the global financial crisis. Public debt rose to 80.3% of GDP in 2020/21 (from 63.3% in 2019/20) and is expected to be 81.9% of GDP by the end of 2021/22.

As the global and domestic economy rebounds from the pandemic, South Africa's GDP growth rate is expected to reach 4.2% in 2021 and 2.3% in 2022.

Inflation dynamics

South Africa's headline inflation rate moderated to 4.1% for 2019, the lowest rate since 2005. Food, fuel and home rental prices contributed to these favourable inflation outcomes. Food price inflation remained unusually low with abundant meat supplies and agricultural output, holding down prices despite higher global cereals prices. These trends continued into 2020 and were reinforced by deflation in imported goods prices, lower oil prices and generally weak demand pressures given the depressed economic activity caused by the pandemic. Headline inflation in 2020 was 3.3% and is expected to rise to 4.2% in 2021.

TARGETED INFLATION (PERCENTAGE CHANGE OVER FOUR QUARTERS)



Sources: Statistics South Africa and SARB

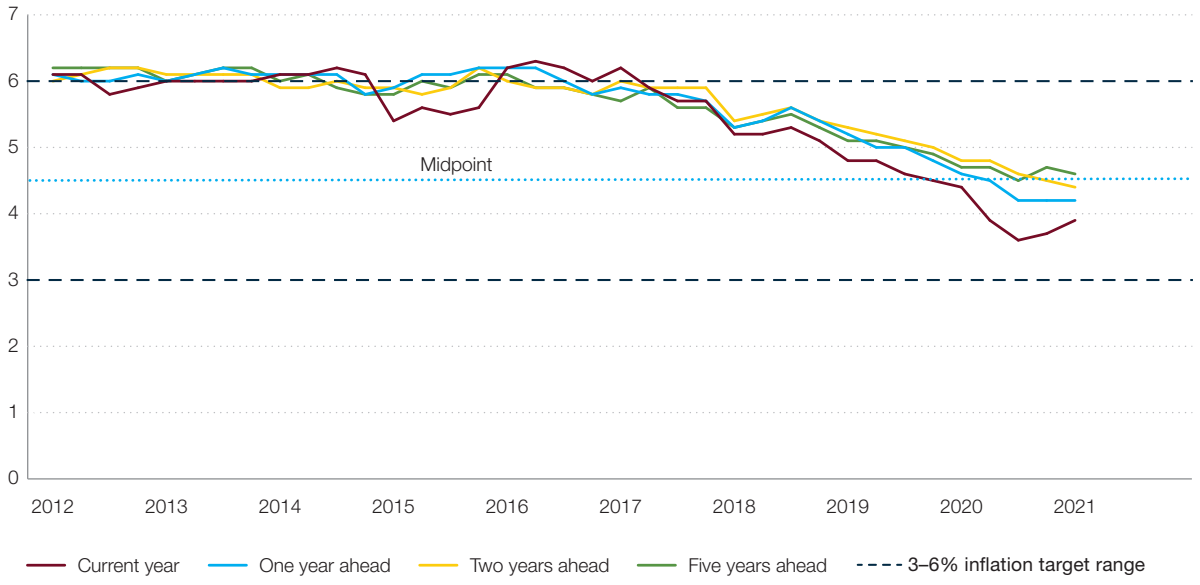
The price of Brent crude oil declined in 2019, falling from a high of US$74 per barrel in May 2019 to a low of US$58 per barrel in the latter part of the year, amid concerns about slowing global economic growth. In 2020, the price of Brent crude oil averaged US$42 per barrel.

Core inflation (excluding food and non-alcoholic beverages, fuel and energy) moderated to 3.3% in 2020, given lower inflation expectations and generally weak demand, among other factors. The SARB expects core inflation to be 3.0% in 2021.

Inflation expectations in 2020 continued along the moderating trend started in 2017, albeit at a somewhat slower pace. The Bureau for Economic Research's Survey in the first quarter of 2021, showed that the expectations of business people match those of analysts while the expectations of trade union representatives are below those of analysts – for the first time in 21 years.

Financial analysts, businesses and trade unions expect headline inflation of 3.9% in 2021 and 4.2% in 2022 from around 6.0% in 2016. Average five-years ahead inflation expectations fell to 4.6% (from 5.6% at the end of 2017) and are now at their lowest (excluding the 4.5% in the third quarter of 2020) since the series commenced in 2011. Expectations of future inflation are important for monetary policy as they are key drivers of price and wage setting behaviour in the economy.

INFLATION EXPECTATIONS (%)



Sources: Bureau for Economic Research and SARB

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 consumer price index (CPI) inflation from the midpoint 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 midpoint 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 COVID-19.

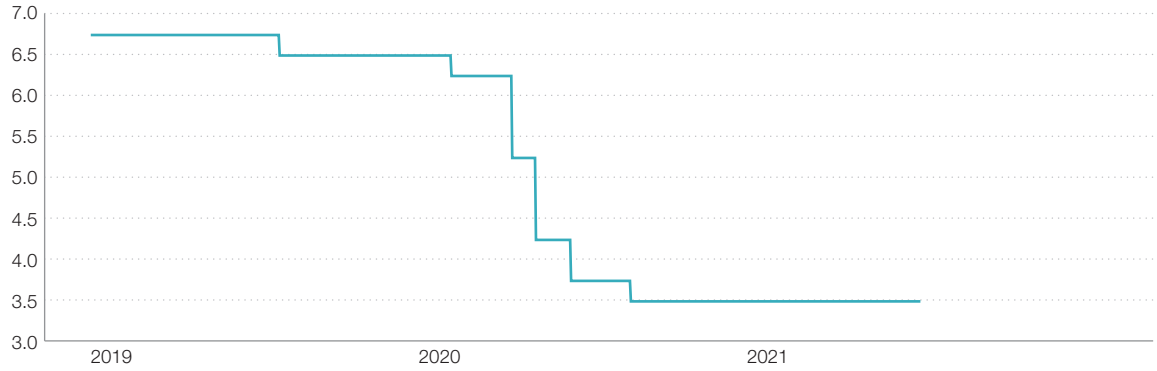
The repurchase (repo) rate is currently at 3.50%, its lowest level on record. Since the beginning of 2019, the Monetary Policy Committee (MPC) has lowered the repo rate by a cumulative 325 basis points – 25 basis points in July 2019, 25 basis points in January 2020, 100 basis points in March 2020, 100 basis points in April 2020, 50 basis points in May 2020 and a further 25 basis points in July 2020. A total of 275 basis points was effected between March and July 2020, reflecting the SARB's fast response to COVID-19.

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, which are reported on page 17 of this report.

Looking ahead

The SARB's 2025 strategic plan sets out the strategic objectives for price stability: page 22.

REPO RATE (%)



Source: SARB

Governance structure

MONETARY POLICY COMMITTEE (meets every two months)

Chairperson
Governor of the SARB

Members[1]
Deputy Governors and the Head of the Economic Research Department – C (Christopher) Loewald

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

- Adjusting the repo rate.
- 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.

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

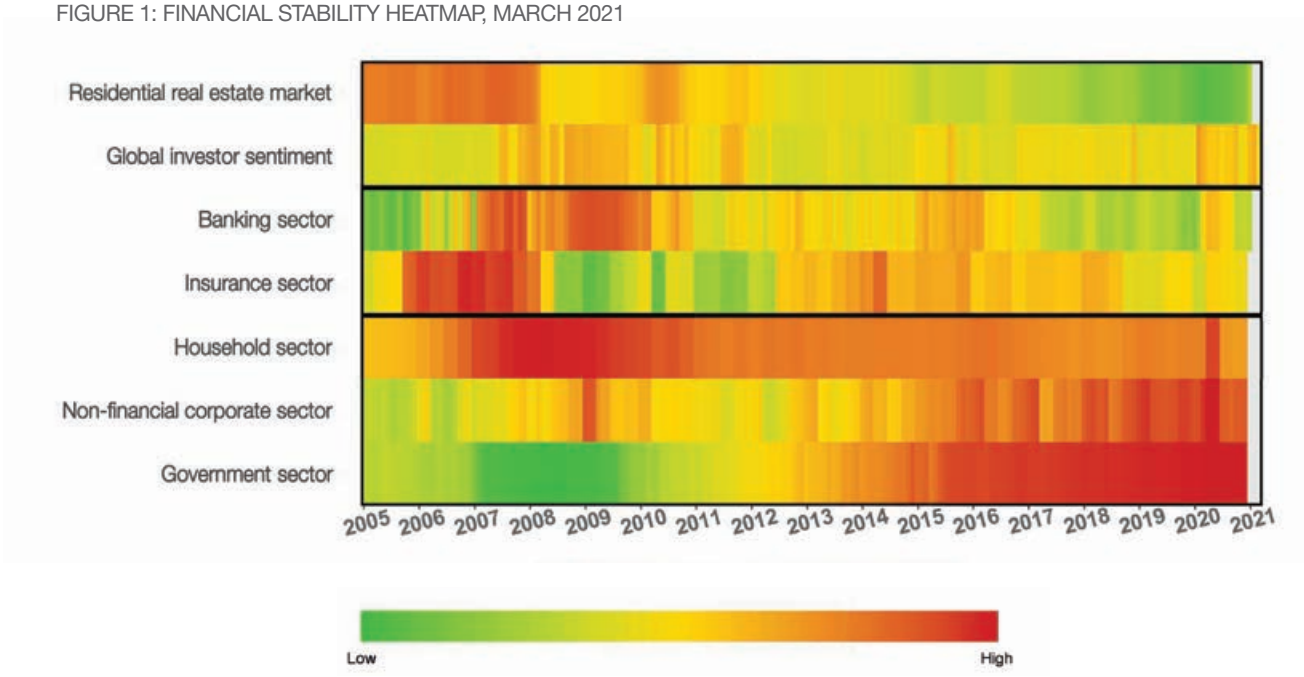
Report on financial stability

The SARB is mandated to ensure that South Africa's financial system is stable. It does this by identifying and monitoring the risks and vulnerabilities that could threaten financial stability, developing and implementing macroprudential tools to mitigate vulnerabilities, and enhancing the SARB's ability to effectively manage systemic events should they occur. The Financial Stability Committee (FSC) is responsible for the execution of the SARB's financial stability mandate.

Macroprudential analyses

The SARB monitors and analyses a large set of financial stability indicators to preemptively identify risks to financial stability and recommends policy decisions. These risks are regularly presented to and discussed at the FSC meetings. The financial stability heatmap below (Figure 1) is one tool used to illustrate risks and vulnerabilities in different sectors of the domestic economy.

FIGURE 1: FINANCIAL STABILITY HEATMAP, MARCH 2021



Key topics that received specific attention by the FSC during the year

- The risks COVID-19 posed to financial stability and the interventions implemented by the SARB to mitigate these risks.
- Emerging risks for banks and insurers, such as credit and operational risk, stress experienced by smaller banks and insurance to cover business interruptions.
- Risk resulting from the deterioration in South Africa's fiscal position and the high exposure of financial institutions to this.
- Risks to the smooth functioning of financial markets, such as liquidity pressures experienced in the money market and the bond market during the first half of 2020, and changes in foreign investor sentiment towards emerging markets.

SARB's response to COVID-19: page 17.

Financial stability review publication

The SARB's Financial Stability Review (published twice a year) is the primary tool to communicate financial stability risks and mitigating policy actions to the public. In early 2020, the Financial Stability Department (Finstab) completed an in-depth assessment of the Financial Stability Review, including extensive benchmarking against similar publications in other jurisdictions and engagement with the academic community, foreign central banks and stakeholders within the SARB. The Financial Stability Review has since been significantly redesigned to make it a more effective instrument of public communication.

Key enhancements to the Financial Stability Review

- Increased focus on policy tools and interventions in addition to content on financial stability risks.
- Using plain language and less technical jargon to enhance understanding by a non-specialist audience. The review was also made more visually appealing.
- A more flexible approach to topical issues, including the introduction of a thematic chapter which changes in each edition.

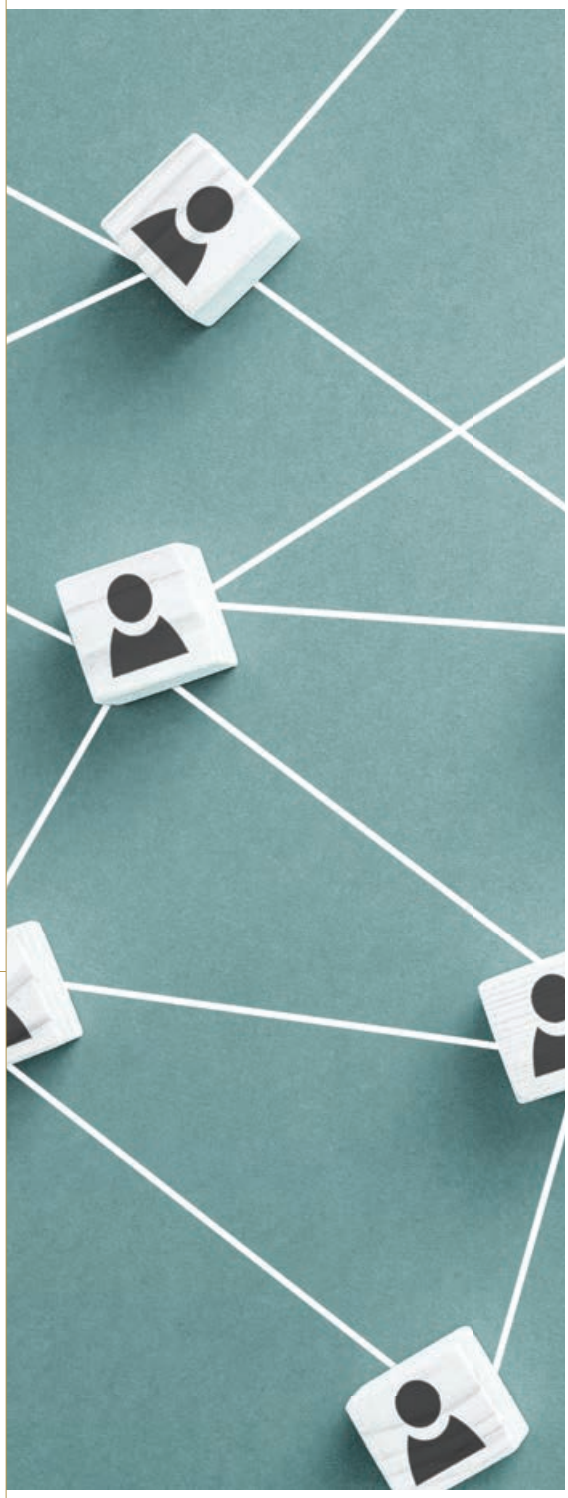
Stress testing

A stress test is an analysis conducted under hypothetical macroeconomic scenarios that are severe but plausible, to determine whether financial institutions have the appropriate level of capital and/or liquidity to withstand a negative shock such as a deep recession or a financial market crash. The SARB periodically conducts stress tests on South Africa's systemically important financial institutions (SIFIs).

At the beginning of the COVID-19 pandemic, as liquidity pressures were being felt across the financial system, the SARB conducted a liquidity stress test using high frequency data from SIFIs.

An additional, unscheduled stress test was conducted on SIFIs in March and April 2020, given the severity of the COVID-19 impact. Traditionally, stress tests comprise both top-down and bottom-up tests; however, the exercise had to be completed quickly with a sector-wide view, therefore it was completed on a top-down basis only (a SARB assessment of the SIFIs against an adverse scenario). The bottom-up tests are where SIFIs assess themselves based on the same adverse scenario. The findings of the stress test were published in the second edition of the 2020 Financial Stability Review.

The SARB is now expanding its stress-testing responsibilities beyond the banking sector. In December 2020, an exploratory sensitivity analysis was initiated to develop a framework to stress test the insurance sector. While the process is still underway, various valuable and novel insights regarding the resilience of the domestic insurance sector have already been gained.



Crisis preparedness and resolution

The Financial Sector Laws Amendment (FSLA) Bill was tabled at Parliament on 17 August 2020, proposing amendments to the Financial Sector Regulation (FSR) Act 9 of 2017. The amendments relate to the introduction of a deposit guarantee scheme in South Africa and to designate the SARB as resolution authority responsible for dealing with the failure of banks and non-bank SIFIs. A key objective of the FSLA Bill is to provide the SARB with sufficient legal powers, which together with resolution planning, will enable the SARB to manage the failure of financial institutions in an orderly way, should this unlikely event occur. This will ensure that financial stability is maintained, critical functions continue and depositors are protected, without having to revert to a government bailout as a first resort. On 16 March 2021, National Treasury presented the FSLA Bill to Parliament's Standing Committee on Finance. The committee will publish the Bill and initiate the public hearing process.

In July 2019, the SARB published a paper setting out the scope of the work to implement and operationalise the bank resolution framework. During the reporting year, further discussion papers were published, providing more detail on various elements of the framework. The SARB also developed a formal framework to guide the provision of emergency liquidity assistance to banks in distress. This policy framework was approved at the October 2020 FSC meeting. Although the SARB has provided emergency liquidity assistance to banks from time to time in the past, a formal framework should help to ensure policy consistency over time, promote the fair treatment of banks with liquidity problems, facilitate fast yet well-considered decision-making and clarify internal responsibilities.

For the deposit guarantee scheme, the Corporation for Deposit Insurance (CoDI) team was established on 1 January 2021 as a separate entity of the SARB, reporting directly to the Deputy Governor responsible for financial stability. As an independent subsidiary of the SARB, the CoDI will have its own Board and governance structures as recommended by international standards[1]. Significant policy development work was completed and discussion papers published to define the obligations of CoDI and the prospective member banks. Much of this policy work will be contained in secondary legislation after the promulgation of the FSLA Bill.

International participation

During the year, the SARB participated in several committees and international initiatives, contributing to the work of the Bank for International Settlements (BIS), the Financial Stability Board, the International Association of Deposit Insurers and the International Association of Insurance Supervisors (IAIS).

1 The Core Principles for Effective Deposit Insurance Systems.

Governance structures

FINANCIAL STABILITY COMMITTEE[1]

(meets four times a year)

Chairperson
Governor of the SARB

Members
Deputy Governors, other MPC members and the heads of the core line departments

Meetings are divided into two sessions:

- An information session in which departments report on developments in the global and domestic environments that may impact domestic financial stability.
- A policy session (with limited attendance) in which possible mitigating policy actions are considered to mitigate any adverse impact on domestic financial stability.

FINANCIAL STABILITY OVERSIGHT COMMITTEE[2] (FSOC)

(two virtual meetings during the reporting year)

Chairperson
Governor of the SARB

Members
SARB, National Treasury and representatives of financial sector regulators[3]

- Facilitates cooperation between the financial sector regulators and the SARB 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.

FINANCIAL SECTOR CONTINGENCY FORUM[2] (FSCF)

(two virtual meetings during the reporting year)

Chairperson
Deputy Governor, Rashad Cassim (responsible for financial stability)

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

Assists the FSOC and SARB with:

- Identifying potential risks that may result in a systemic event occurring.
- Coordinating appropriate plans, mechanisms and structures to mitigate these risks.

The FSCF has two subcommittees:

- The Operational Risk Subcommittee, which develops contingency measures for events that could severely disrupt operational continuity in the financial sector.
- The Financial Sector Cyber Resilience Subcommittee, which focuses on industry-wide efforts to increase the resilience of the financial sector to cyberattacks.

Looking ahead

The SARB's 2025 strategic plan sets out the strategic objectives for financial stability: pages 23 to 26.

1 An internal non-statutory committee.
2 Statutory committees prescribed by the FSR Act.
3 Financial Sector Conduct Authority (FSCA), Financial Intelligence Centre (FIC), National Credit Regulator (NCR) and Prudential Authority (PA).

Report of the Prudential Authority

During the reporting year, the PA worked closely with regulated financial institutions to ensure that they were able to continue to support their customers while remaining safe, sound, adequately capitalised and liquid. It also worked closely with National Treasury and other regulators, including the FSCA, to ensure that financial institutions implement appropriate actions to manage the impact of COVID-19. The PA provided guidance in terms of section 27(2) of the Disaster Management Act of 2002, which regulates how financial institutions deliver essential financial services during a pandemic. The relief actions provided by the PA are reported on page 17 of the SARB's response to COVID-19 section.

Regulatory strategy

The PA's regulatory strategy sets out its key priorities to 2021. A detailed review of the strategy is underway to direct the PA's action over the next three years. The PA adopts a collaborative and consultative approach to prudential regulation and supervision.

Strategic priorities	2020/21 performance highlights
Strengthen the regulation and supervision of banking institutions with updated Basel III requirements, update regulatory requirements related to mutual banks, assess the cooperative banks framework and develop prudential standards for cooperative financial institutions (CFIs).	**Banks** • Published directives on capital, liquidity and the treatment of COVID-distressed loans as well as guidance on dividend distribution and expected credit loss accounting to help banks fulfil their functions during the pandemic. • Published for public comment, proposed amendments to banking regulations relating to the supervisory framework for large exposures, the total loss-absorbing capacity holdings standard, the securitisation framework, the capital treatment for simple, transparent and comparable short-term securitisations and the standards for interest rate risk in the banking book. • Issued Guidance Note 7 of 2020 (June) on the revised implementation dates for the Basel III post-crisis reforms. • National Treasury published the Minister of Finance's amendments to section 90 of the Banks Act of 1990, effective from 1 January 2021 (Notice No. 724 and No. 1427 in the Government Gazette). Amendments were made to the net stable funding ratio, disclosure and corporate governance requirements for banks, the standardised approach for measuring counterpart credit risk exposures, capital requirements for equity investments in funds and the capital standard for bank exposures to central counterparts. **Mutual banks** • Published for public comment, the prudential standard on governance and risk management for mutual banks. **Cooperative banks and cooperative financial institutions** • Published joint communication with the Co-operative Banks Development Agency on regulatory and supervisory responses for cooperative banks and CFIs in relation to prudential measures, reporting requirements, and governance and operational matters to help their continued functioning during the pandemic. • Began drafting prudential standards for cooperative banks and CFIs. Informal public consultation with the sector on these frameworks took place in the first half of 2021. • Issued Guidance Note 2 of 2020 (June) on guidelines relating to the common bond requirement.
Implement prudential regulation and supervision of financial conglomerates, including working to obtain a holistic view of group-wide activities, intragroup transactions and large exposures.	• Published the financial conglomerate designation criteria (September 2020). • Issued for public comment, a set of draft prudential standards for financial conglomerates (October 2020). The draft capital standard for financial conglomerates was not included as the PA intends to test the standard with the industry before finalisation. • Started developing the supervisory framework for financial conglomerates.

Strategic priorities	2020/21 performance highlights
Prudentially regulate market infrastructures (MIs), including strengthening the resilience of MIs and ensuring that international principles related to MIs are adhered to, where appropriate.	• Implemented South Africa's first licensing framework for prospective central counterparts (CCPs) on 31 March 2021, allowing applications for a CCP licence. • Together with the FSCA and the SARB's Financial Stability Department, reviewed the self-assessments undertaken by MIs to determine their compliance with the Principles for Financial Market Infrastructures[1].
Prudentially regulate and supervise insurers by embedding the Solvency Assessment and Management Principles and issuing further regulatory instruments per the Insurance Act 18 of 2017 (Insurance Act).	• Published joint communication with the FSCA on regulatory and supervisory responses for insurers in relation to the solvency coverage ratio, reporting requirements, the payment of dividends and bonuses, outstanding premiums and foreign exchange limits to help insurers fulfil their functions during the pandemic. • Successfully completed the conversion of 125 insurance licences originally registered under the Long Term Insurance Act of 1998 and Short Term Insurance Act of 1998, to licenced insurers under schedule 3 of the new Insurance Act. • Published various communications on the refinement of the insurance regulatory framework, including joint audit requirements, the solvency coverage ratio, capital requirements for non-life underwriting risk and business interruption insurance cover, among others. • Actively participated in the IAIS' standard-setting initiatives and published an outline of work done and still to be done in terms of the main IAIS developments.
Establish a framework for significant owners, including the development of regulatory standards on significant ownership.	• Together with the FSCA, developed the joint standard setting out the 'fit and proper' requirements for significant owners of financial institutions, effective 1 December 2020.
Conclude Memorandums of Understanding (MoUs) with other financial sector regulators, namely the SARB, FSCA, NCR and FIC.	• Concluded MoUs forming the basis of collaboration and cooperation between the regulators themselves and between the regulators and the SARB. • Signed a multilateral MoU in November 2020 together with the SARB, FSCA, NCR and FIC to establish a single national register of outstanding credit agreements.

1 Issued by the Committee on Payment and Market Infrastructures and the Technical Committee of the International Organization of Securities Commissions in 2012.

Additional priorities

Additional priorities	2020/21 performance highlights
Transformation of the broader financial sector.	• Required insurers to submit their transformation plans as part of the insurance licence conversion process. • Finalised the approach to supporting the transformation of the financial sector in line with the objectives of the FSR Act. The approach includes formal engagements with the board of directors of regulated institutions on progress against their transformation plans.
Support financial inclusion by: • Providing clarity and guidance on establishing member-based financial institutions (CFIs, cooperative and mutual banks as well as micro-insurers). • Addressing regulatory barriers that hinder innovation which is needed to facilitate financial inclusion.	• Licensed two new micro-insurers, converted one existing insurer to a micro-insurer and licensed four new CFIs. • Continued to participate in the Intergovernmental Fintech Working Group (IFWG), including participating in a sandbox test of a soil moisture index insurance product – an innovative model that pays out when soil moisture drops below a predetermined point, which is closely linked to a drop in yield. The product increases smallholder farmer access to insurance, enhancing their resilience to extreme weather shocks. • Working with National Treasury to prioritise financial inclusion using digitisation and submitted comments on National Treasury's financial inclusion policy paper.
Integrity in terms of compliance with the anti-money laundering (AML) and combating the financing of terrorism (CFT) provisions of the Financial Intelligence Centre Act 38 of 2001.	• Started the process to remediate certain shortcomings identified during the Financial Action Task Force's (FATF)[1] assessment of South Africa in 2019. The FATF's report on South Africa will be discussed in June 2021 at its plenary (the mutual evaluation process was delayed due to COVID-19). • Conducted a survey to source information from licenced banks to inform a risk assessment, which will be published in the fourth quarter of 2021. A second risk assessment of the banking and insurance sectors is planned for 2021. • Continued with AML/CFT inspections using virtual platforms, and conducted eight inspections (six banks and two life insurers).
The prudential regulation and supervision of medical schemes, pension funds, collective investment schemes and friendly societies (sections 291 and 292 of the FSR Act).	• Together with the FSCA, requested that the Minister of Finance extend the implementation date to expand the PA's regulatory perimeter to include these institutions to 31 March 2024 (originally 1 April 2021). The request was granted and the PA, FSCA, National Treasury and the Council of Medical Schemes continue to collaborate in preparation for the transition.
Sustainable finance, including climate change.	• Continued to participate in discussions on sustainability and climate change through the PA's membership in the Sustainable Insurance Forum, Basel Committee on Banking Supervision (BCBS) and the Network of Central Banks and Supervisors for Greening the Financial System. • Established the PA Climate Think Tank to coordinate activities with National Treasury on its technical paper 'financing a sustainable economy' published in May 2020. The paper formulates a list of recommendations for financial sector regulators and supervisors, assisting their assessments of sustainable finance and climate risk. • Distributed a mandatory survey on climate risk to all registered banks, mutual banks, insurers and MIs in early 2021. The survey results together with the PA's research on climate risk will inform its overall risk assessments of financial institutions.

1 The FATF is the AML/CFT standard-setting body.

The PA funding model

In February 2021, National Treasury released for public consultation, the proposed Financial Sector Levies Bill, which allows the PA to impose levies on supervised entities to fund its operations. The PA has started the preparatory work to implement fees and levy collection for when the legislative framework and the prescribed processes come into effect. The envisaged commencement date has not yet been formally announced. Once National Treasury has finalised its processes, the PA will consult with the industry. Until then, the SARB will continue to fund the PA.

Interbank offered rates

It is expected that the publication of the London Interbank Offered Rate (LIBOR) will cease by the end of 2021, and financial market participants will have to transition all LIBOR-based exposures to alternative reference rates. The PA is undertaking a number of initiatives to understand the impact, initiatives, transition measures and financial sector exposures to the LIBOR, including an initial assessment undertaken in 2019. To date, it has also participated in the Financial Stability Board, BCBS and IAIS LIBOR transition surveys and initiated its own detailed, more granular survey in 2020. Extensive engagements at both an institutional and industry level are assisting the PA to better understand industry readiness. These efforts will enable the PA to better respond and engage with financial institutions that are inadequately equipped to deal with this historic change.

Looking ahead

The SARB's 2025 strategic plan sets out the strategic objectives for the PA: page 24.

The Prudential Authority Annual Report for the year ending 31 March 2021 is available online.

Governance structure

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 Chief Executive Officer (CEO) of the PA

Standing invitees
The four PA Heads of Department

The Prudential Committee oversees the management and administration of the PA to ensure its efficiency and effectiveness. The committee's key activities during the reporting year included:

- Approved the PA's COVID-19 relief measures.
- Oversaw the implementation of key matters assigned to the PA by various financial sector laws.
- Made three joint standards and approved various regulatory instruments (including prudential and joint standards) to be issued for public consultation.
- Authorised the CEO of the PA to sign MoUs with other regulators.
- Approved the Prudential Authority Annual Report for the period ending 31 March 2021 for tabling at National Assembly.
- Contributed to the SARB's strategic focus areas for the new 2025 strategic cycle.

Payments report

The national payment system (NPS) encompasses the entire payment infrastructure that allows consumers, businesses and other entities to make financial transactions, and includes settlement between banks. The NPS impacts the lives of all South Africans. The SARB oversees the NPS to reduce associated risks which may cause systemic risk in the financial system.

Modernising the payment system

Starting in the early 1990s, the SARB has been reforming the payment system leading to today's Vision 2025. The initial reform of the NPS in 1998, enabled South African banks and other intermediaries in the payment system to align the needs of the domestic economy with global developments. The real-time gross settlement (RTGS) system is regularly updated to ensure it is secure and robust and meets international requirements. In recent years, it has supported various retail payment system reforms.

Settlement system milestones

1998

Launched the South African Multiple Option Settlement (SAMOS) system; the RTGS system is the heart of the NPS, facilitating domestic interbank settlements. The system has 33 participants and for the year ended 31 March 2021 the average value settled through the system was around R12.3 trillion a month.

2013

Launched the Southern African Development Community (SADC) RTGS system, a proof of concept ultimately aimed at integrating the payment systems in the region to support trade and investment. The SADC-RTGS system has 82 participants drawn from 15 SADC countries, and by 31 March 2021 had processed 2 080 million transactions, valued at R8.15 trillion.

Consumer behaviour is shifting to digital financial services and merchants are adopting e-commerce, particularly over the past year with heightened consciousness around COVID-19 and social distancing. Innovation has led to the evolution of payment offerings, responding to consumer needs and the circumstances under which payments can be made. Some examples include new authentication methods for debit orders, the rapid emergence of contactless card and mobile payments underpinned by cheaper point-of-sale devices, and non-card based online payments.

New developments present unprecedented regulatory, supervisory, oversight and operational (settlement) challenges, requiring a flexible, adaptable and agile response. As a result, there is a need for regulators to ensure an enabling environment for innovation to thrive, while remaining robust and resilient to the risks that may impact the safety and efficiency of the payment system.

The SARB provides guidance on changes to the domestic RTGS system in its NPS framework and strategy documents (Vision 2005, 2010, 2015 and 2025)[1]. To support the rapid changes in retail payments and related enhancements to the safety, efficiency and integrity of the NPS, the SARB has provided various policy and regulatory interventions, some of which relate to:

- Access of non-banks in the NPS service offering.
- Effective, faster and real-time retail payment offerings.
- Development of policy positions that enable new methods of payment.
- Digital payments, including the phasing out of cheques, to address risks.
- New methods of authentication as part of the payment modernisation programme.

1 https://www.resbank.co.za/en/home/what-we-do/payments-and-settlements.

2020/21 performance highlights

- Working in collaboration with National Treasury, the Department of Trade, Industry and Competition, the Department of Employment and Labour, the NCR, the FSCA and the Department of Public Service and Administration, a preferred regulatory option for payroll deductions is being finalised. This will be ratified by the Payroll Deductions Steering Committee. The selection of the potential regulatory option has followed an informed, robust and comprehensive approach. The aim of the final regulatory option will be to promote the safety, efficiency and integrity of the payroll deduction system, and to protect and positively impact the well-being of employees. The public will be consulted on the preferred regulatory option prior to implementation.
- Published for comment, a consultation paper on the proposed measures to facilitate faster payments in South Africa – aimed at improving the efficiency of the NPS.
- Issued a consultation paper on open banking, that is, the sharing of financial data (with the consent of consumers) between banks, data holders and third parties to develop innovative payment solutions.
- Together with the FSCA and the Payments Association of South Africa (PASA), issued an alert warning to consumers about the risks associated with 'instant electronic funds transfers1 (EFTs)' for online payments. The SARB is exploring measures to mitigate the impact of these risks.
- Following extensive consultation with various stakeholders, issued a joint statement with the FSCA, PASA and the Banking Association South Africa (BASA), informing the public that cheques would cease to be a method of payment from 31 December 2020 given the lengthy processing period, fraud, high costs and declining use associated with cheques.
- Published a consultation paper on the feasibility of establishing a domestic card scheme in South Africa – currently Visa, MasterCard, Diners Club and American Express are international card schemes that operate in South Africa. A card scheme plays a critical role in the card payment ecosystem, enabling banks and designated issuers to provide cards to make payments, withdraw cash and transfer funds.
- Continued the investigation on how to protect South Africa's domestic processing capability given that offshore processors are dominating the market, and to further the safety and efficiency objectives of the NPS. Once a legal opinion has been received on the operational aspects of domestic processing, the SARB will communicate its position.
- Extended the effective date of Directive 1 of 2020, which will ensure that all domestic card transactions are subject to South African legislation, payment clearing house agreements, and clearing and settlement rules. The extension provides entities with more time to comply given the impact of COVID-19.
- Together with the FIC, revised the FATF EFT directive to introduce a R5 000 threshold for cross-border EFTs, with EFTs below this amount subjected to less strict AML/CFT requirements to promote financial inclusion. The revised directive will be gazetted following engagements with BASA and National Treasury on its application to payments within the Common Monetary Area.
- Engaging with various stakeholders on the impact of crypto assets as a payment instrument in the NPS, including the impact on other policy areas such as financial stability and monetary policy.
- Developing a policy and regulatory framework for interchange fee determination (the fee paid by the acquirer of a transaction to the card issuer when a consumer uses the issuer's card to make a purchase).
- Engaging with National Treasury on how to proceed with the NPS Bill, which recommends changes to the NPS Act 78 of 1998.
- The authenticated collections (AC/Debicheck) system – a world first – enables consumers to electronically mandate a debit order. It facilitates trust in the debit order payment system by addressing unmandated debit orders and fraud and disputes associated with the early debit order (EDO) payment system. It also protects consumers, ensures customers are treated fairly and aligns with international standards. All banks participating in EDO collection payment streams have fully implemented the system. From 1 May 2021, all new debit orders must be mandated through the system and all other debit order payment systems are to cease operating by 1 October 2021. User on-boarding and transaction volumes are expected to ramp up significantly following the May deadline.

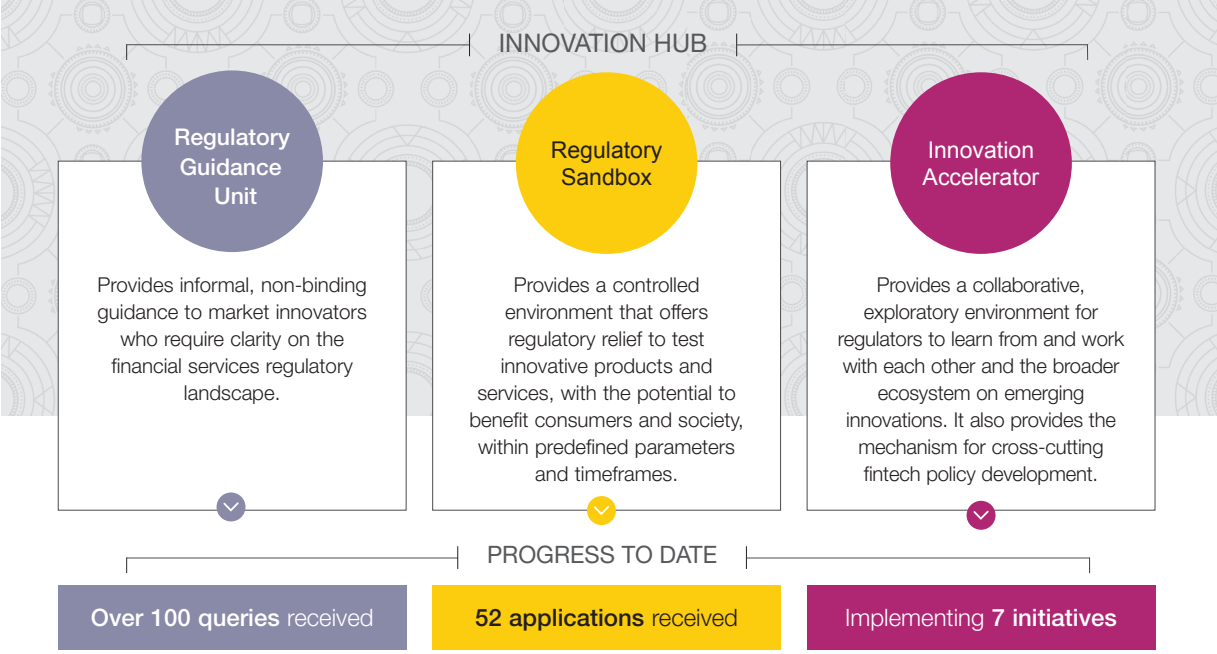
1 'Instant EFT' uses screen scraping to directly access consumer financial information using the consumer's online banking credentials to make online payments for e-commerce purchases.

Innovation hub

In this fast-changing environment, new ways of assessing and responding to innovations in a timely, transparent and consistent manner are crucial. To this end, the SARB's Financial Technology (Fintech) Unit, established in 2017, adopts a collaborative approach to embrace the benefits of fintech based on a sound understanding of the potential risks.

A key benefit of fintech is how it has helped a growing number of small businesses to 'go online and digital' during the COVID-19 crisis. Fintech start-ups, however, face a number of regulatory challenges, including access to the network of regulators to gain the right compliance information and having their voices heard during the policymaking process. In addition, the cross-cutting nature of innovations requires not only the authorities to work together, but also ongoing engagement between the regulators and industry incumbents and fintechs to shape policy thinking and policy stances.

Since its inception in 2016, the IFWG[1] has grown from four to seven regulators and policymakers in South Africa covering a wide spectrum of financial services activities. The IFWG launched the Innovation Hub in April 2020 to demystify the regulatory landscape, provide a space for safe experimentation and actively advance innovation.



In November 2020, the SARB signed a statement of intent with the US Commodity Futures Trading Commission to support innovation through international collaboration and the sharing of knowledge on complex fintech matters.

CENTRAL BANK DIGITAL CURRENCY INITIATIVES

Project KhoKha tests payment settlement in South Africa using digital currency, blockchain and tokenised money. Project KhoKha1[2], undertaken in 2018, developed a proof of concept of a wholesale payment system for interbank settlement using a tokenised South African rand on distributed ledger technology. The project identified the following issues for further attention; the practicalities of implementation, the legal and regulatory factors and the broader economic impact. Project KhoKha2 has just started and focuses on issuing, clearing and settlement of debentures on distributed ledger technology and will provide insight on policy and regulatory challenges associated with the innovation.

The SARB has also launched a central bank digital currency (CBDC) feasibly project to explore a retail CBDC for domestic use. Some of the secondary objectives of the feasibility study include design considerations, policy impact, intended and unintended consequences, a supportive legal and regulatory regime, processes for ongoing monitoring and incorporating learnings, and perspectives from other central banks and related local and international forums.

RECOGNITION

Through collaboration with other regulators and policymakers in the IFWG, the SARB was recognised as one of the central banks that are leading the way in creating a fintech ecosystem, winning the Fintech Policy of the Year Award at the Central Banking 2020 FinTech and RegTech Global Awards.

Looking ahead

- Progress phase 2 of Project KhoKha.
- Establish the Open Banking Integration Working Group to share information among regulators on open banking activities, with a focus on how to govern access to data and the new challenges this poses for the industry and regulatory authorities.

1 See www.ifwg.co.za.
2 https://www.resbank.co.za/content/dam/sarb/quick-links/fintech/SARB_ProjectKhokha_20180605.pdf.

Human resources report

The SARB's people and their tenacity, resilience, integrity and agility have enabled it to maintain a record of excellence and earned it global respect.

They are also key assets enabling the SARB to deliver on its mandate and 2025 strategic plan. The SARB's 2025 people strategy is designed to drive performance; attract, develop and retain talent; and create a great place to work, where employees are motivated, engaged and appropriately skilled to continue the SARB's purposeful journey for another 100 years.

As an employer of choice, the SARB provides its people with an employee value proposition (EVP) that reaches beyond merely working for the SARB to encompass personal aspirations and meaningful work that positively influences the well-being of all South Africans. The attributes that differentiate the SARB from its talent competitors are its reputation, its purposeful journey and organisational stability, and how the work that it does contributes to the public good.

2025 people strategy

Strategic objectives	2020/21 performance highlights
Embed the EVP in people processes.	• Continued to implement stringent measures to contain the spread of COVID-19 and protect employees. • Continued to train and develop leaders and employees, albeit not at the same levels as prior years given the constraints of social distancing and COVID-19. • Launched a new SARB careers website page to enhance candidate experience. • Kept employees motivated and engaged using campaigns relating to the SARB's purposeful journey and tailored to various working arrangements.
Develop and embed a workforce plan that supports the SARB's strategy.	• Developed and approved a new strategic and responsive workforce planning approach, which will ensure that the SARB has the skills it will need in the future.
Continue to mature talent and succession management.	• Successfully retained talent, evidenced by only a slight increase in regrettable turnover and a decrease in overall employee turnover.
Develop and implement the 'SARB Ways of Work' Programme to respond to the shift to remote working and digital advances.	• Continued to socialise the 'SARB Work from Home Pledge', which guides managers and employees with a values-based approach to remote working and engagement. • Provided webinars and toolkits for employees on how to effectively work from home and maintain their well-being.
Align employee experience to foster employee engagement.	• Conducted the employee engagement survey in February and March 2021, with a workforce participation rate of 84% (2019/20: 83%) and achieving a score of 72.3%. This qualifies as a Platinum Seal, the highest level in the Deloitte Best Company to Work For Survey.

Strategic objectives	2020/21 performance highlights
Strengthen organisational culture to be empowering, agile, caring and collaborative.	• Leveraged the 2020 Leadership Conference to inspire and empower leadership commitment to driving the SARB's culture. A key outcome was an articulation on how a SARB leader should lead, particularly in terms of the evolving ways of work. Interventions will be developed to enhance this leadership capability. • To strengthen the desired culture sometimes requires a change in culture symbols and artefacts. New dress code guidelines were implemented, including for virtual engagements, allowing for greater flexibility and choice.
Foster a diverse and inclusive workplace to enhance employee experience.	• Partnered with a consulting service provider to develop and implement a three-year diversity and inclusion programme. The programme is designed to enhance awareness and understanding of diversity within the SARB and build a sense of belonging for all employees. This will drive an inclusive culture, enhancing team, leadership and organisational effectiveness that supports the delivery of the SARB's strategic objectives.
Continue to mature performance management and its alignment to reward and recognition.	• Paid salary increases and performance bonuses to qualifying employees, and awarded out-of-cycle salary adjustments to retain talent. • Enhanced the performance management process to incorporate the culture statement[1]. Going forward, this will provide insights on the extent to which the desired culture is embedded in the SARB.
Simplify human resources processes and practices using digitisation.	• Developed and implemented the COVID-19 personnel management system to track and trace employees testing positive for COVID-19 or displaying symptoms. This ensures that the SARB creates a safe working environment for all employees in line with Occupational Health and Safety Act requirements.

1 Culture statement: empowering, agile, caring, we collaborate to pursue our constitutional mandate.

Employee well-being

The capacity of the SARB's medical and wellness team was increased to provide screening, medical support, contact tracing and proactive mass testing drives to protect its people during the COVID-19 pandemic. The SARB complies with the protocols of the National Institute for Communicable Diseases and Department of Health.

The number of onsite essential workers is not allowed to exceed 30% of the workforce and employees with comorbidities continue to work from home. The SARB's facilities are frequently decontaminated. Employees working from home have been provided with equipment, internet access and ergonomic chairs, where required, to support their productivity.

Initiatives implemented for all employees

- Care packs to raise awareness on personal protection and provide personal protective equipment.
- Ongoing and coordinated communication to convey important information on COVID-19 protocols and measures.
- A 24-hour wellness hotline as well as a dedicated medical support line, staffed by medical professionals who provide COVID-19 advice, screening, escalation and case management services, ensuring that employees testing positive, and their families, receive the right care.
- Access to medical personnel at all SARB facilities responsible for COVID-19 training and awareness, screening and escalation.

Despite the SARB's best efforts and over 4 494 tests conducted, 478 employees tested positive for COVID-19 from the start of the pandemic to the end of March 2021, with multiple hospitalisations. Sadly, four passed away, with the first death recorded in December 2020.

2020/21 performance highlights

COVID-19 has tested the mindsets and resilience of people worldwide. A well-being questionnaire enabled the SARB to gain insight into how its people are coping with the impact of the pandemic and new ways of working. The responses will inform various initiatives to provide further assistance and support to employees.

COVID-19 has amplified South Africa's socio-economic challenges. To contribute to alleviating some of this hardship, 25% of the 2019/20 performance bonus pool was donated to the Solidarity Fund. Employees were also allowed to voluntarily donate some of their leave days to the fund.

VACCINATION PLAN

The SARB has set a target to vaccinate 75% of the employees in each of its facilities and is well equipped to manage and execute its vaccination plan. This will require:

- **Obtaining Department of Health approval** to be a registered vaccine administering entity.
- **Sourcing the vaccine, and implementing the measures and infrastructure** required to acquire, transport, store and administer it.
- **Providing vaccine education,** identifying those willing to be vaccinated and prioritising employees according to their risk exposure.
- **Implementing administration processes** to track and report on vaccines administered.

Talent management and workforce planning

2020/21 performance highlights

Depth of succession for critical roles

1:1

(target: 2:1)[1]

2019/20: 1:1

Coverage ratio for critical roles

88%

(target: 85%)

2019/20: 82%

Critical roles turnover[2]

0.5%

(target: <2%)

Average time to fill critical roles

153 days

(target: 60 days)[3]

2019/20: 139 days

Regrettable employee turnover

1.2%

(target: <4%)

2019/20: 1.1%

Overall employee turnover rate

4.5%

(target: 4%)

2019/20: 5.3%

Developed 167 (2019/20: 324) managers across all levels who attended at least one of the development programmes alongside.

- Management Fundamentals Programme (10 modules): developed 107 managers and team leaders (2019/20: 189).
- Transitions Programme (five-day programme): developed 13 managers who experienced a change in their role, providing them with the support needed to transition effectively (2019/20: 40).
- Emerging Leaders Programme (seven-month programme): developed 49 newly appointed managers and team leaders with limited managerial experience (2019/20: 57).

Permanently employed 19 postgraduates who are participating in the 2020/21 Graduate Development Programme (2019/20: 17). A key element of this programme is introducing the graduates to central banking and teaching them communication and leaderships skills.

1 The SARB is maturing its talent management to ensure that potential candidates are ready to take up critical positions when they become available.
2 New measure introduced in 2020/21.
3 Scarcity of skills remains a challenge in achieving this target.

Learning and development

Since its inception in 2014, the SARB Academy has delivered 358 classroom-based programmes reaching nearly 20 000 participants covering technical central banking, business disciplines and manager, leader, personal and team effectiveness. Central banking training programmes are developed together with local and international experts and academics.

2020/21 performance highlights

- 1 516 employees participated in a training programme – 67% of the workforce (2019/20: 1 909; 87% of the workforce).
- Of the employees trained 67% are African, 56% are women and 0.5% are differently abled people.
- Training spend totalled R27.6 million – 1.7% of total payroll (2019/20: R63.6 million; 3% of total payroll). The impact of COVID-19 on the ability to host classroom-based training impacted training spend for the year.

Employee engagement

The annual SARB employee engagement survey encourages open and transparent communication. All employees are allowed to participate. The survey results are used to identify gaps and areas of improvement and to develop action plans within each department to address these. The survey measures the four critical drivers of employee experience and engagement outlined below, which in turn cover issues such as physical workspace, communication, recognition, inclusion, autonomy and learning and development.

2020/21 performance highlights

WORKPLACE

Leadership

70.4%

Measures perception of leadership behaviours which influences employee connection with the SARB. Communication relating to the SARB's vision is an area of strength; however more generally, open communication requires additional focus.

Culture

76.0%

Measures perception of ways of working which influences employee attachment to the SARB. Survey results show that employees have a strong sense of purpose and believe they are contributing to society. Areas of focus are trust and communication.

WORKFORCE

Human experience

72.5%

Measures perception of the day-to-day touchpoints which influences employee relationship with the SARB. Survey results show that employees find meaning in the work they do and enjoy their working environment.

Talent

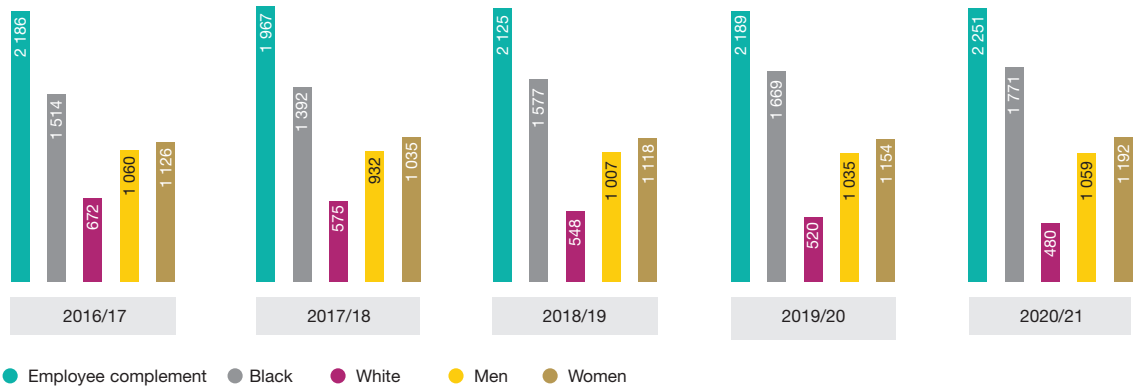
66.5%

Measures perception of the processes which influence employee attraction to the SARB. Equal opportunity, talent mobility and performance management were highlighted as areas of improvement.

Source of survey results: Deloitte Touche Tohmatsu Limited.

Employment equity

HEADCOUNT OVER FIVE YEARS
(number of employees)

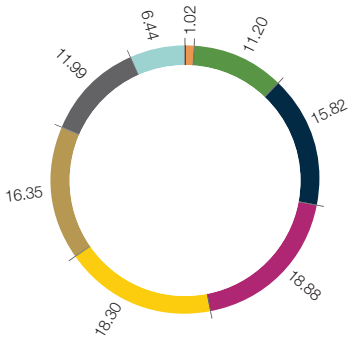


AVERAGE AGE

42
years

2019/20:
41 years

AGE GROUP BREAKDOWN (%)

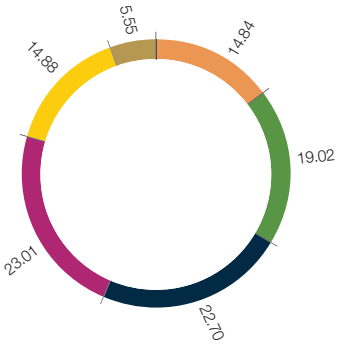


Years	Employees
<25	23
25-30	252
31-25	356
36-40	425
41-45	412
46-50	368
51-55	270
>55	145

AVERAGE YEARS OF SERVICE

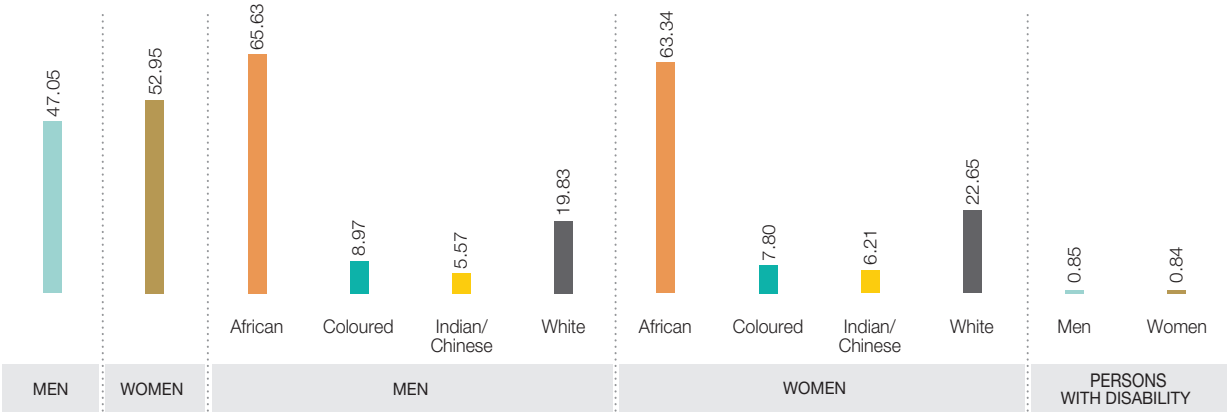
11
years

YEARS OF SERVICE BREAKDOWN (%)



Years	Employees
0-1	334
2-4	428
5-10	511
11-20	518
21-30	335
Above 30	125

EMPLOYMENT EQUITY PROFILE (%)



Performance management and reward

Performance management is rigorously applied, rewarding employees for their output and contribution to achieving 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 Job Evaluation Validation Panel promotes compliance and transparency in the job evaluation process.

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 and career progression.

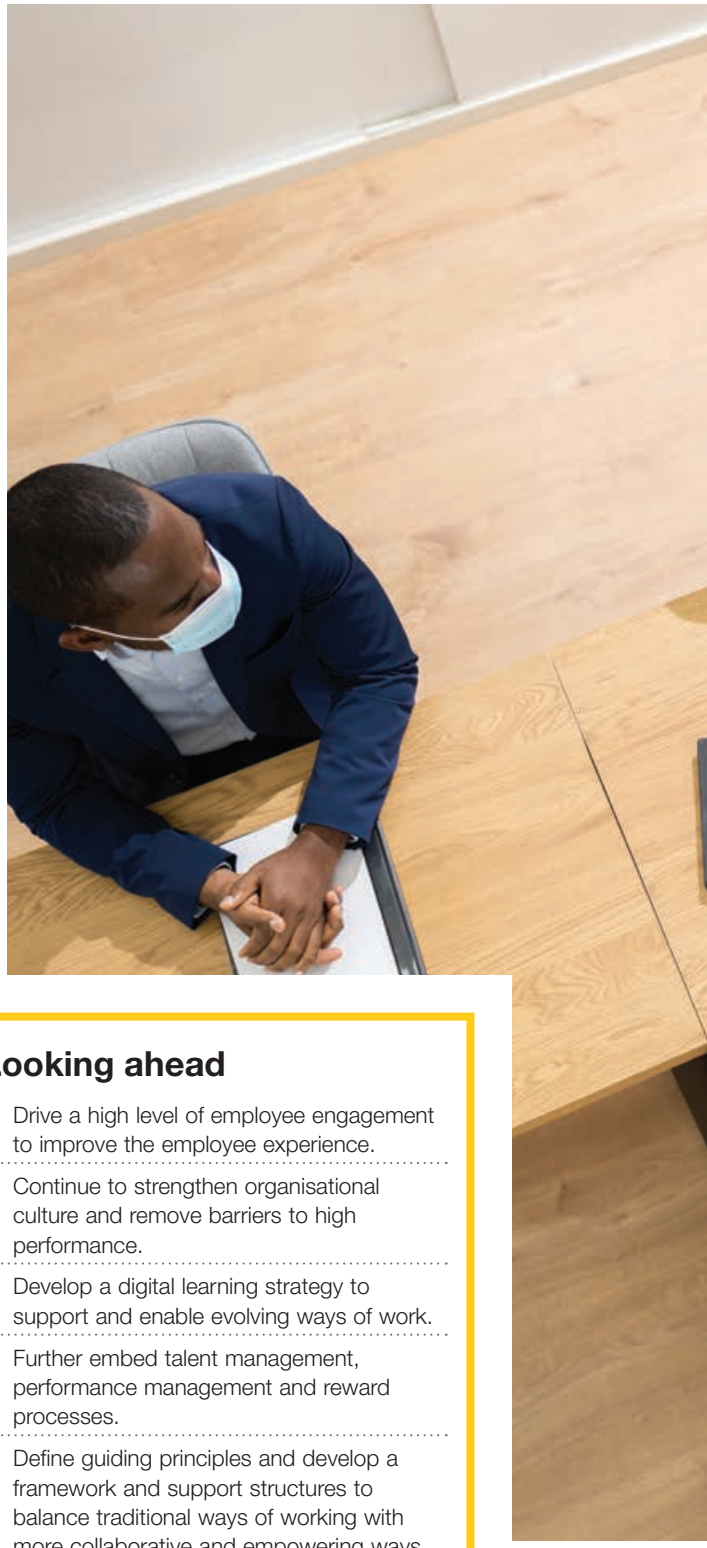
SARB retirement fund

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

At 31 March 2021, the SARB Retirement Fund had 3 033 contributing members, 127 preserved members, 1 010 life annuitants, 183 life annuities (formerly the SARB Pension Fund), 68 living annuitants, and 12 deferred retirees (members who have retired from the Group but not from the fund). The fund's total liability amounted to R7 972 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. The next statutory valuation will be based on the audited financial statements for the year ended 31 March 2021, and the valuation report is due for submission to the FSCA in March 2022.

An Investment Committee oversees the fund's external asset manager. 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

- Drive a high level of employee engagement to improve the employee experience.
- Continue to strengthen organisational culture and remove barriers to high performance.
- Develop a digital learning strategy to support and enable evolving ways of work.
- Further embed talent management, performance management and reward processes.
- Define guiding principles and develop a framework and support structures to balance traditional ways of working with more collaborative and empowering ways, enabling a digital workforce that is productive regardless of location.
- Simplify human resources processes using technology.

Information and technology report

The world of technology is growing exponentially and has permeated every facet of the SARB's work. The replacement of aging systems is ongoing to ensure that the SARB remains at the forefront of new developments and harnesses the benefits of digitisation. Information and technology (I&T) is a key enabler of the business capabilities needed to successfully deliver the SARB's strategy and mandate.

KEY I&T OBJECTIVES

1. Partner with the SARB's business functions to develop solutions that deliver value.
2. Provide mission critical core banking platforms that are stable and secure.
3. Supply high-quality information and data that informs policy and business decisions.
4. Acquire and govern technology solutions and programmes in line with industry best practice.
5. Provide collaboration tools, secure connections and robust security protocols to support remote working.

I&T strategy

The I&T strategy is designed to be adaptive so that it continues to support the objectives of the SARB's 2025 strategic plan. Progress against the I&T strategy is measured using a scorecard, which in 2020/21 covered:

- The progress of large transformational (Tier 1) programmes that support the SARB's strategic and enablement focus areas and the delivery of tactical programmes (Tier 2).
- Service delivery that enables the SARB to perform its core functions.
- Alignment with the SARB strategy, resulting in revisions to the I&T strategy to focus on maturing technologies, new initiatives and ensuring the ongoing health of the SARB's core platforms.
- Improvement of internal processes and capabilities, particularly core capabilities needed to enable the SARB strategy and ensure that the I&T function meets business expectations.

Over the next five years, the investment in new solutions will be significantly greater than in prior years given the need to replace legacy technologies, the increased number of strategic projects required to address business challenges and the growth in business-driven cloud solutions. The SARB's governance forums play a very active role in approving business cases and new technology solutions.

As the strategic programmes mature, the SARB selects strategic technology development partners to provide the necessary expertise to develop and implement the new digital solutions. The Procurement Committee oversees these appointments.

The SARB's Cyber and Information Security Unit provides strategic direction on cyber governance, risk and compliance, cybersecurity vulnerability management, cybersecurity systems and ongoing awareness training. It drives the Financial Sector Cybersecurity Resilience Workgroup, a collaboration across financial sector entities in South Africa, and with other central banks and the G20. The unit also collaborates and shares cyber threat information with BRICS central banks through the Rapid Information Sharing Channel, to create early warning and situational awareness about targeted cyberattacks on central banks.

The Enterprise Information Management Division provides data management, data modelling and data governance services for all core departments and Tier 1 programmes. The maturing of data management processes in line with international frameworks is ongoing.

2020/21 performance highlights

1 SERVICES AND SOLUTIONS THAT DELIVER VALUE

Execution of strategic projects

- Made good progress on Tier 1 and Tier 2 programmes with 77% and 86% of project management targets met respectively.
- Sourced new skills needed to implement the new technologies for Tier 1 and Tier 2 programmes.

Improved service delivery

- Implemented a new user-friendly system to administer the SARB pension fund.
- Digitised the unit trust survey form for the SARB's Economic Statistics Department.
- Replaced the legacy system which hosts long-term foreign debt data.
- Implemented a money market project for National Treasury.
- Provided a technology solution to facilitate National Treasury's Loan Guarantee Scheme for small- and medium-sized enterprises impacted by COVID-19.

2 SYSTEM RESILIENCE

Critical system availability

- Proactive preventative maintenance and monitoring resulted in the average availability of critical systems being maintained at 99.89%, above the scorecard target of 99%.
- Successfully conducted three planned IT systems recovery tests.
- Started long-term multi-year projects to redesign the SARB's network, data centres and critical business applications to be 'always on'.

Cybersecurity

- Established a Cyber and Information Steering Committee to oversee cybersecurity programmes, projects and operations, enhancing cybersecurity capability and governance.

3 ENTERPRISE INFORMATION MANAGEMENT

- Continued to develop data strategies and provide data services to support business functions and Tier 1 programmes.
- Established a data science team and introduced a data science internship programme to advance the SARB's analytics capabilities.
- Coordinated engagements with regulators and the industry to develop a standardised industry data taxonomy, which in time will provide the foundation to reduce the burden and cost of regulation.
- Completed the impact assessment and remedial actions to ensure that the SARB is fully compliant with the Protection of Personal Information Act 4 of 2013.

4 I&T GOVERNANCE AND CONTROLS

- The overall IT control environment remains adequate and effective.
- Provided executives and senior leaders with training on I&T governance, focusing on the King Report on Corporate Governance in South Africa, 2016.

Governance: page 32.

5 SECURE AND UNINTERRUPTED REMOTE WORKING

- Provided laptops, screens, headsets, data, software and other tools, as well as supporting infrastructure (network bandwidth and number of remote connections) to support the transition to remote working.
- Created a virtual events team and transitioned physical events into virtual productions.
- Adopted a hybrid onsite/offsite support model to adapt to COVID-19.
- Implemented new security protocols and processes to improve the SARB's security posture when employees work remotely.

Looking ahead

- Embed sustainable and secure onsite and remote working capabilities.
- Continue to progress the SARB's digital transformation with the Tier 1 and Tier 2 programmes.
- Relentlessly improve the SARB's cybersecurity posture.
- Attract new technology skills and invest in employee re-skilling.

Stakeholder engagement report

To ensure greater accountability to the public, the SARB transparently and consistently engages with a broad range of stakeholders to enhance their understanding of its policy decisions, to explain its 2025 strategy, to build constructive and sustainable relationships and to foster the SARB's credibility and public trust. The SARB's engagement efforts ultimately enhance monetary policy effectiveness.

The stakeholder engagement strategy sets out consistent principles and channels to engage effectively with the SARB's key stakeholder groups.

The SARB launched its first website in 1995, publishing a few pages from the Quarterly Bulletin (an unbiased and objective narrative on the state of the South African economy) – an unconventional approach for a central bank at the time. Since then the SARB has leveraged social media and online platforms to modernise its engagement and expand its reach with external stakeholders. This forward-looking approach allows the SARB to proactively manage market expectations and correct any policy misconceptions in real time. It has also enabled the SARB to keep in touch with its stakeholders during COVID-19.

While COVID-19 has impacted stakeholder engagement, the SARB successfully shifted its main stakeholder engagement activities during the year to digital formats. The virtual Monetary Policy and Financial Stability forums, economic roundtables and post-MPC analyst briefings attracted greater attendance compared to prior years.

The SARB engages with the following three broad stakeholder groups.

SARB EMPLOYEES (INTERNAL)

The primary objectives of staff engagement are to improve employee relations, ensure employees are effective ambassadors for the SARB and support its purpose, and
to build cross-departmental partnerships for effective collaboration and consistent messaging.

Employee engagement surveys over the past two years indicate that employees are increasingly satisfied with the SARB's engagement with them. Various channels are used to engage employees, including staff meetings hosted by the Governor (three during the year), a staff blog, the SARB's internal newsletter and regular communication on COVID-19 aspects. Employees can express their views and raise concerns in both the Governor's meetings and staff blog.

Employee engagement: page 66.

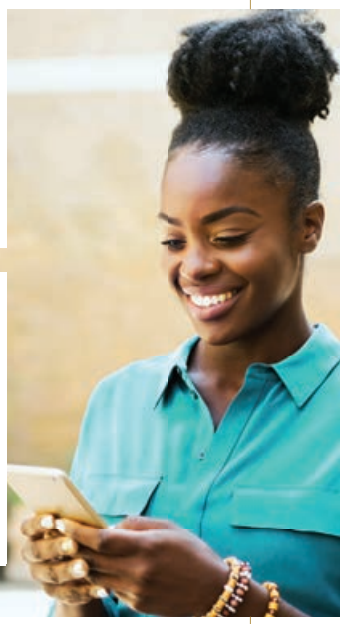
THE GENERAL PUBLIC (EXTERNAL)

The SARB's policies impact all citizens in South Africa, yet the general public remains mostly unaware of the SARB's work[1]. Unfortunately, many of the public outreach initiatives that promote knowledge on the role and functions of the SARB could not be implemented during the year due to COVID-19. The MPC Schools Challenge was suspended (in agreement with the Department of Basic Education) and rural, school and university visits to the SARB and by the SARB were put on hold.

1 According to the most recent Ipsos Corporate Reputation Survey (2019), only four out of 10 people in South Africa know about the SARB.

2020/21 performance highlights

- The Governor and Deputy Governors delivered virtual public lectures at various universities and institutions.
- Proactively used social media, radio, television, online and print media to communicate the SARB's decisions and release of publications. The SARB's following increased across all key social media platforms.
- Launched a redesigned website in December 2020, which is easier to navigate and more user-friendly. In 2020/21, more than 1.2 million users visited the site.



Twitter	Facebook	LinkedIn
89 688 followers	36 322 followers	128 483 followers
(2019/20: 62 348)	(2019/20: 30 600)	(2019/20: 105 874)

ESTABLISHED STAKEHOLDERS (EXTERNAL)

The Ipsos Corporate Reputation Survey (2019) showed that the SARB's established stakeholders have a high awareness of the SARB and are satisfied with its communication with them. Most of the planned interactions with these stakeholders during the year proceeded with minimal disruptions despite COVID-19.

Briefings to Parliament

As an independent public entity, the SARB is accountable to Parliament. In October 2020, SARB executives appeared before a virtual joint sitting of the Standing and Select Committees on Finance. The SARB and PA tabled their annual reports for discussion, and the SARB explained its monetary policy stance and responded to queries.

Economic roundtable sessions

Economic roundtable sessions are used to engage with chief economists and market analysts on various topics impacting the South African economy, and provide the SARB with valuable insights on the practical experiences of these stakeholders. Each roundtable focuses on a specific topic with time set aside to generally discuss the domestic and international economies. In 2020/21, the SARB hosted three virtual sessions attended by around 315 participants (2019/20: 240).

Monetary Policy Forums

The SARB's Monetary Policy Review is published twice a year and aims to develop public understanding of monetary policy. The review is launched at the Monetary Policy Forums (MPFs), normally hosted across South Africa's nine provinces. Due to the national COVID-19 lockdown, provincial forums were cancelled and incorporated into the national event. More than 2 300 people attended the two virtual MPFs (2019/20: 1 654).

Financial Stability Forums

The SARB's Financial Stability Review is also published twice a year and aims to identify and analyse potential risks to financial system stability, communicate these assessments and stimulate debate on pertinent issues. The Financial Stability Forum is used to launch the review. Two virtual forums were held during the year.

Looking ahead

- Continue to broaden engagement and enhance the general public's accessibility to the SARB. This will include improved quality and relevance of the material that the SARB communicates.
- Continue to explore alternative platforms that will enable the SARB to effectively implement its stakeholder agenda with fewer public engagements and address the need for new content and different channels of engagement brought about by COVID-19.

Corporate social investment report

The SARB's corporate social investment (CSI) initiatives enhance its accountability to its stakeholders and are collaborative in nature to address issues affecting society. They also stimulate SARB awareness, for example, scholars who participate in the MPC Schools Challenge can explain the SARB's role and monetary policy to their communities. Similarly, students who graduate through the SARB's strategic academic partnerships assist the SARB in the various sectors in which they become employed.

COVID-19 unfortunately forced the postponement of two key CSI programmes – the MPC Schools Challenge and employee volunteering – resulting in a decrease in CSI spend for the year. The SARB will continue to support these programmes when circumstances allow, and is investigating ways to revive some aspects of these programmes in a virtual format.

Corporate social investment objectives	2020/21 spend	2019/20 spend
Develop human capital in the fields of monetary policy and financial stability.	R5.7 million 73 beneficiaries	R5.7 million 64 beneficiaries
Improve the quality of economics and financial journalism in South Africa and on the continent.	R2.8 million 31 beneficiaries	R2.6 million 52 beneficiaries
Grow the understanding of monetary policy at high school level.	R777 000[1]	R3.7 million 1 770 beneficiaries
Support tertiary students with funding.	R7.7 million 95 beneficiaries	R7.6 million 82 beneficiaries
Provide support to special needs schools.	0	R2.6 million
Total CSI spend	R17.0 million	R22.2 million

1 The MPC Schools Challenge was cancelled due to COVID-19, however, workshops were conducted prior to cancellation.

The SARB provides financial support to academic institutions to support various programmes that relate to its mandate, and key central banking and economic issues. Under these Chairs, a number of previously disadvantaged students have been able to advance their studies.

MONETARY POLICY AND FINANCIAL STABILITY RESEARCH

University of Pretoria Chair of Monetary Economics

For more than 10 years, the SARB's partnership with this Chair at the University of Pretoria has brought the relationship between academia and policymaking closer, and connected the national research community with international trends. The strategic research collaboration between the SARB's Economic Research Department and the Chair directly contributes to sound policymaking.

To date, this strategic partnership has enabled:

- Over 60 talented young South Africans, 50% of whom are black, to specialise in a key area of policy and complete Doctorates (PhDs), Master's and international degrees through the Fordham University in New York.
- Two students, one being the first black woman, to receive an Economic Society of South Africa Founders' Medal for the best PhD research paper.

University of Cape Town Financial Stability Chair

The Chair in Financial Stability Studies at the University of Cape Town supports Master's and PhD research on regulatory complexity, financial interconnectedness, computational models and the regulation of blockchain technologies and crypto assets. The Chair also facilitates postgraduate internships at the SARB. Nine students are enrolled in the Master of Philosophy postgraduate degree in fintech.

This strategic partnership is assisting the SARB's Financial Stability Department with:

- Research on privacy-preserving data storage methods for the newly established central credit register.
- The development of additional indicators for non-bank financial intermediary activity.

JOURNALISM

Rhodes University: SARB Centre for Economic Journalism

Financial and economics journalism is critical for a healthy economy, holding decision-makers to account and keeping the public informed. In the modern economy, journalists require increased financial knowledge to keep abreast of rapidly evolving market regulations and sophisticated financial assets. The SARB's sponsorship of the Chair for Economic and Financial Journalism at Rhodes University has contributed to the pool of skilled, insightful financial journalists in South Africa, and aims to bridge the gap between traditional journalism and financial and economic literacy.

This strategic partnership has enabled:

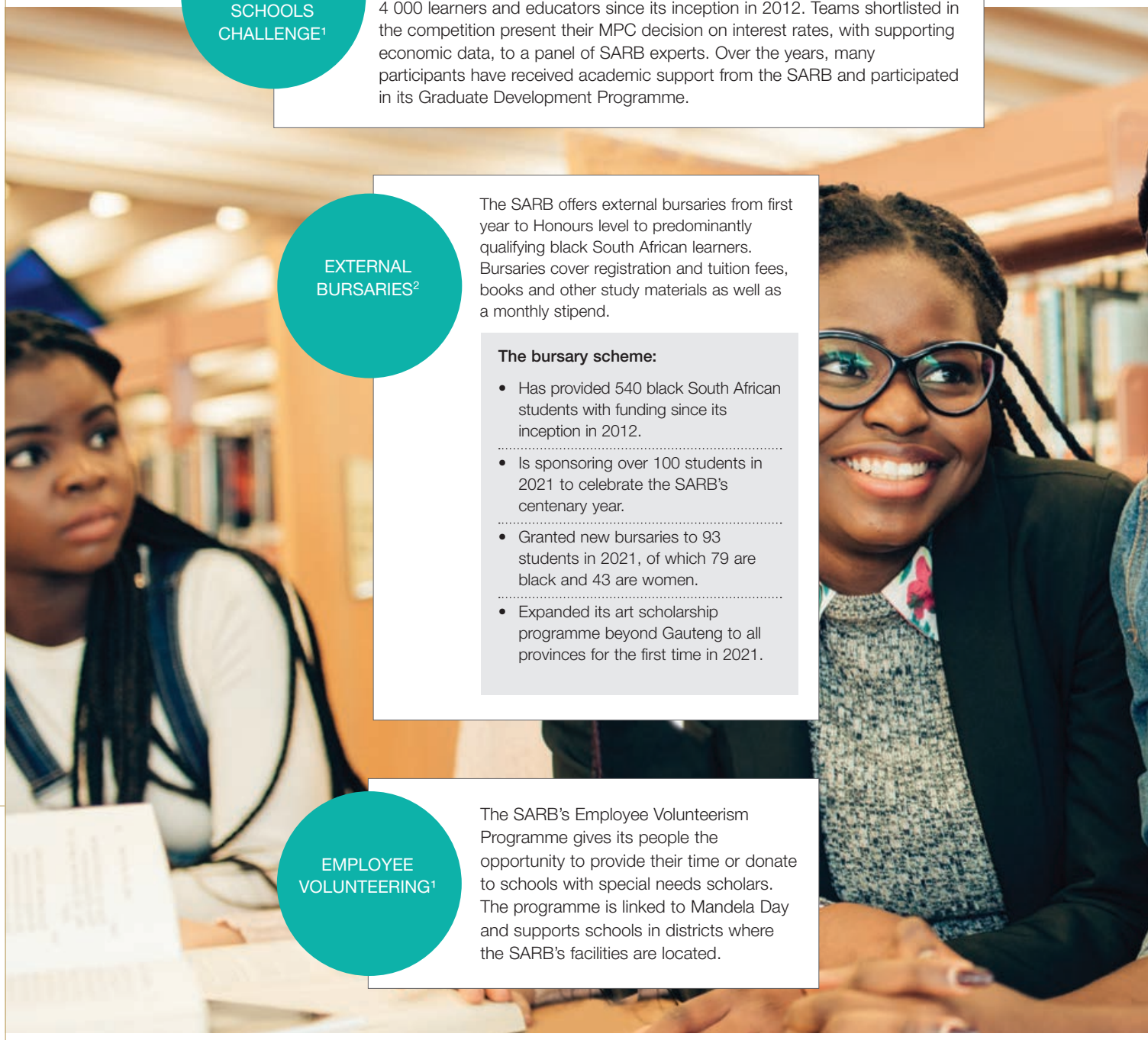
- Over 66 students and aspiring professionals to obtain postgraduate journalism qualifications since 2007 (seven in 2021). These alumni occupy positions in top media houses, government, leading non-governmental organisations and financial institutions.
- Postgraduates to raise financial and economic literacy in local Eastern Cape communities.

University of the Witwatersrand Journalism Chair

The SARB funds postgraduate training and qualifications in the University of the Witwatersrand's financial journalism programme, which provides aspirant and experienced financial journalists with a working knowledge of economics and finance. During the year, six financial journalists – four from South African media houses, one from Cameroon and one from Malawi – completed the main financial journalism course. In addition, 12 students completed the introductory course.

MONETARY POLICY COMMITTEE SCHOOLS CHALLENGE[1]

The MPC Schools Challenge targets Grade 12 learners in all nine of South Africa's provinces who are studying Economics and Mathematics, and deepens their understanding of the SARB's mandate. In collaboration with the Department of Basic Education, the programme has interacted with over 4 000 learners and educators since its inception in 2012. Teams shortlisted in the competition present their MPC decision on interest rates, with supporting economic data, to a panel of SARB experts. Over the years, many participants have received academic support from the SARB and participated in its Graduate Development Programme.



EXTERNAL BURSARIES[2]

The SARB offers external bursaries from first year to Honours level to predominantly qualifying black South African learners. Bursaries cover registration and tuition fees, books and other study materials as well as a monthly stipend.

The bursary scheme:

- Has provided 540 black South African students with funding since its inception in 2012.
- Is sponsoring over 100 students in 2021 to celebrate the SARB's centenary year.
- Granted new bursaries to 93 students in 2021, of which 79 are black and 43 are women.
- Expanded its art scholarship programme beyond Gauteng to all provinces for the first time in 2021.

EMPLOYEE VOLUNTEERING[1]

The SARB's Employee Volunteerism Programme gives its people the opportunity to provide their time or donate to schools with special needs scholars. The programme is linked to Mandela Day and supports schools in districts where the SARB's facilities are located.

Looking ahead

Restart the MPC Schools Challenge as a virtual programme in 2021.

1 Programmes postponed in 2020/21 due to COVID-19. The postponement of the MPC Schools Challenge was agreed with the Department of Basic Education.

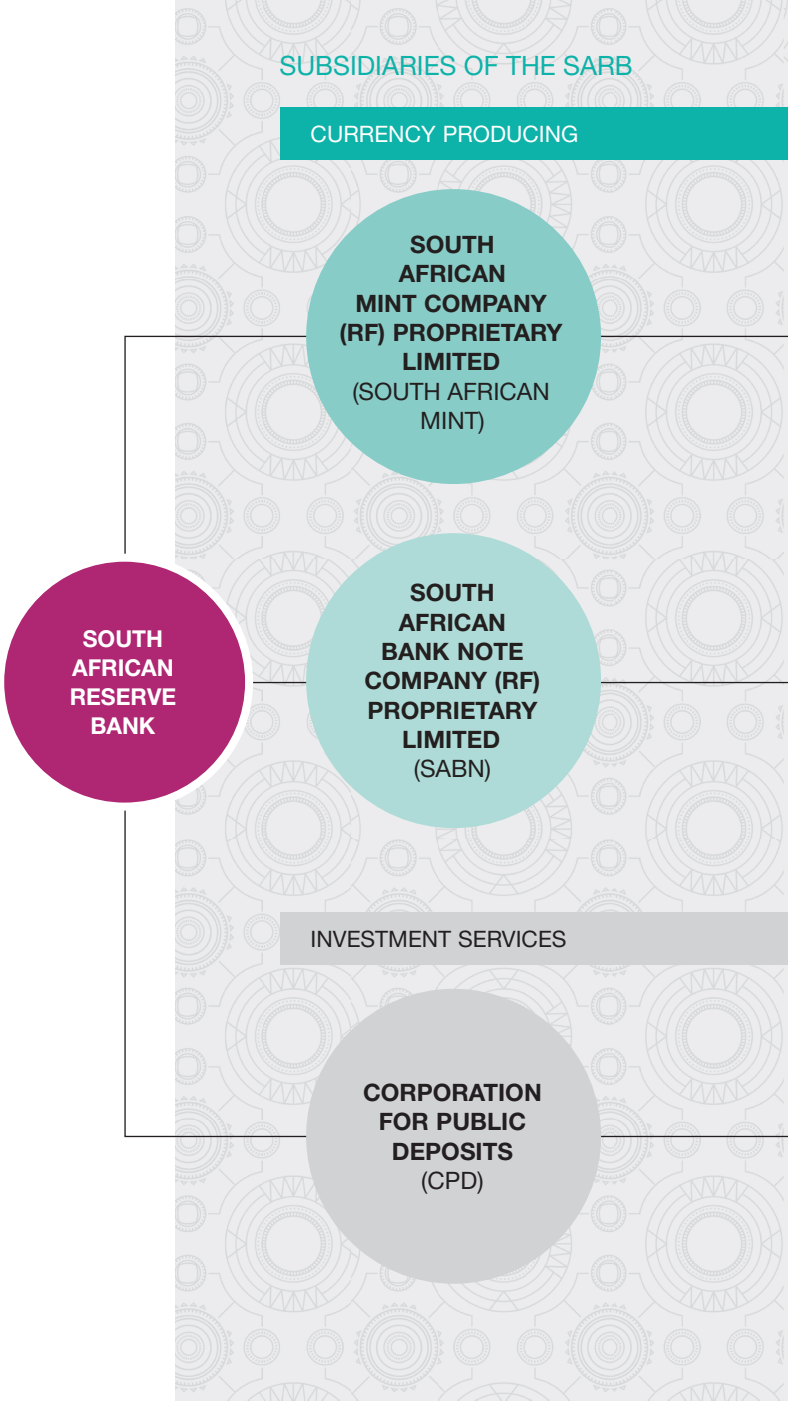
2 Over and above the bursaries granted to the children of the SARB's employees.

Subsidiary reports

Money forms the foundation of economies, providing three critical functions for societies – a measure of value, a store of value and the ability to exchange value when transacting. A key aspect of achieving the SARB's price stability mandate is ensuring a sufficient supply of trusted coin and notes.

The SARB has two currency-producing subsidiaries, each with its own Board of Directors. The Governors' Executive Committee (GEC) appoints these Board members.

The SARB's third subsidiary, the Corporation for Public Deposits, provides investment services, and its Board comprises officials from the SARB and National Treasury who are appointed by the Minister of Finance. The Corporation for Public Deposits Act 46 of 1984 governs the CPD. Given its scope and risk profile, the Board alone oversees that the CDP responsibly and adequately discharges its responsibilities.



Produces coin and coin-related products for South Africa and the export market.

BOARD CHAIRPERSON
Chief Operating Officer of the SARB, M (Mogam) Pillay

MANAGING DIRECTOR
H (Honey) Mamabolo

Produces notes for South Africa.

BOARD CHAIRPERSON
Chief Operating Officer of the SARB, M (Mogam) Pillay

MANAGING DIRECTOR
L (Liziwe) Mda

Invests call deposits from the public sector in deposits, short-term money market instruments and special Treasury bills. The CPD may also accept call deposits from other depositors, if approved by the Minister of Finance.

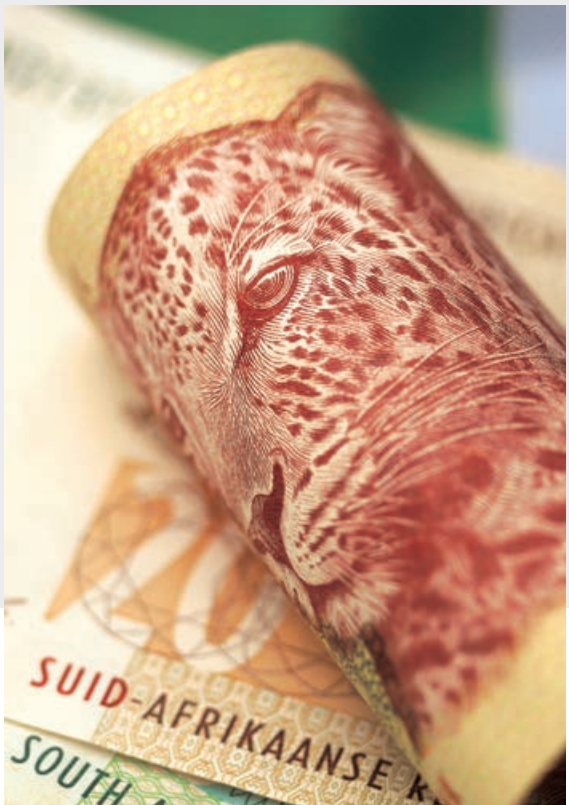
All funds invested with the CPD and the related interest earned are repayable on demand.

BOARD CHAIRPERSON
Deputy Governor N (Nomfundo) Tshazibana

The SARB's risk management, internal audit, company secretariat, finance and security services functions also cover the currency-producing subsidiaries, ensuring consistent management approaches, policies and procedures across the SARB Group and achieving operating efficiencies.

The CPD is accommodated at the SARB's head office, using 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 full and summarised annual financial statements of the SARB Group consolidate the audited financial results of the SARB's subsidiaries.



The South African Mint Company (RF) Proprietary Limited

The South African Mint is one of the world's top exporting mints, and was the first mint on the African continent. It has introduced the world's first gold bullion coin, the Krugerrand, and in 1989 brought new minting technology to Africa with the first electroplated coins. The South African Mint holds ISO9001 (quality management) accreditation – first awarded in 1996 – and ISO14001:2002 (environmental management) accreditation – first awarded in 2010. It is an active member of the global coin minting industry and has a production capacity of two billion coins. The South African Mint's focus for the year has been on ensuring the safety of its employees and the delivery of the SARB and export orders.

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.

2020/21 performance highlights

- Successfully navigated the COVID-19 pandemic, ensuring business continuity while protecting the health, safety and well-being of the South African Mint's employees and adopting remote working.
- Delivered the SARB's full order of 811 million coins despite workforce capacity constraints, and maintained healthy buffer stocks.
- Achieved EBITDA[2] of R133 million against a budget of R97 million. The South African Mint contributed profit before tax of R672 million (2019/20: R2 217 million), including Prestige Bullion, to the SARB Group. The factors influencing financial performance included:
  - COVID-19 related workforce and supply chain challenges, which hampered export delivery, resulting in force majeure and reduced revenue.
  - Record sales in the collectables business, active for only eight months of the year, driven mainly by export sales (70%) and the successful launch of the Leopard and Buffalo collectable coins in the Big Five series.
  - A decision to deprioritise the manufacture of bullion coins, coupled with subdued demand from the domestic market, which was the key driver of performance in prior years.
  - A delay in the launch of a 24-carat gold bullion coin.
- Recorded two lost-time injuries, resulting in a lost-time injury frequency rate of 0.3 (2019/20: 0.6), lower than the maximum allowable tolerance of 0.5.

Looking ahead

- Implement the South African Mint's business strategy comprising four strategic focus areas – improving the governance and internal control environment, developing an agile operating model, optimising the production plan and developing a long-term asset masterplan. Strengthening the people capability and enhancing the technology capability will enable the strategy.
- Introduce a new R5 circulation coin and collectable coin in celebration of the SARB's centenary in June 2021.

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

2 EBITDA: earnings before interest, taxes, depreciation and amortisation.

The South African Bank Note Company (RF) Proprietary Limited

In 1961, the SABN produced the first decimal series notes for the SARB. Today, South African notes are recognised as among the most secure internationally with innovative advances in design and technology to embed security features. Public education programmes are central to the release of new note series.

Since 2015, SABN has been ISO9001, ISO14001 and ISO18001 (occupational health and safety) accredited, and has now migrated to the newer ISO45001 health and safety management standard. More recently, it has achieved ISO22301 (business continuity management) certification and a Level 1 status in the Banknote Ethics Initiative, complying with the council's Code of Ethical Business Practice.

The SABN is making good progress in implementing its strategy to ensure the long-term sustainability of note production at internationally competitive prices.

A PURPOSE LED VISION

We serve the nation by providing competitively priced quality notes to contribute to the economic well-being of South Africans

VALUE PROPOSITION PERSPECTIVE

What we do to serve our stakeholders

- Guaranteed quality
- Reliable and responsive supply
- Competitive pricing

STRATEGIC INTERNAL PROCESS OBJECTIVES

How we deliver our value proposition

- Improved quality control and assurance processes
- Effective production management
- Optimised production assets availability and reliability

We ensure the availability and quality of notes at internationally competitive prices

2020/21 performance highlights

- Implemented a business continuity plan to respond to COVID-19, with the strategic intent to protect SABN's people, minimise the pandemic's impact on operations and manage the supply chain.
- Produced 974 million notes and delivered 892 million notes, ensuring the availability and quality of notes that contribute to the economic well-being of South Africans – a respectable delivery despite closure under the national lockdown.
- Achieved net profit before tax of R84 million (2019/20: R147 million) and EBITDA of R153 million (2019/20: R189 million).
- The medical treatment frequency rate improved to zero from 0.95 in 2019/20, with a strong focus on critical processes and management systems.
- Continued to roll out the learnership programme for printers, artisans and technicians, which provides a pipeline of talent to build enduring capability and provides learners with workplace experience. Approximately 13 learners participated in the programme.
- Developed a long-term asset masterplan, including scenarios and options to meet the projected future demand of notes over the next 10 years.

Looking ahead

Continue the financial modelling of the SABN's long-term asset masterplan.

SUMMARISED GROUP ANNUAL FINANCIAL STATEMENTS 2020/21

Directors' report

for the year ended 31 March 2021

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 its 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 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 directors have considered the impact of COVID-19 on the going concern of the Group. While further waves of infection are expected, the start of vaccination programmes in many countries have lifted projections for global economic growth and significantly boosted confidence. Financial markets have generally improved and stabilised in line with stronger growth and expectations that policy settings in advanced economies will remain accommodative. The directors have concluded that the impact of the pandemic has no effect on the going concern of the SARB and its subsidiaries. The use of the going concern assumption is therefore deemed appropriate.

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 the minutes of all the meetings of the Board of Directors (the Board), the Board's committees and 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, such support will be reported when the need for secrecy or confidentiality has ceased.

SUBSIDIARIES

The subsidiaries of the SARB are:

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

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

The SARB has re-issued a guarantee in favour of the CPD of R3.5 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 until 11 June 2022.

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

ASSOCIATE

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

A shareholder support transaction was concluded in terms of which the SARB will provide a collateralised loan of up to R4.0 billion over a period of four years to ABL in accordance with section 10(1)(f) of the SARB Act (referred to as 'the Transaction'). The remaining shareholders will subscribe to domestic medium-term notes (DMTN) in ABL according to the respective pro rata shareholding in ABHL. The SARB will make available R1.0 billion each year to ABL and will advance the funds to ABL at the same time as the other shareholders subscribe for DMTN notes. The loan is secured by a cession in security of a portion of ABL's customer loan portfolio, with a collateral cover ratio of 111.00%. The facility remained undrawn at 31 March 2021.

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 22 to 27.

FINANCIAL RESULTS

The significant appreciation of the rand, compounded by the impact of the movement in the yields, had a negative effect on the SARB's investment income.

The net investment income of the SARB, derived mainly from foreign investments and accommodation to banks, decreased by R6.0 billion to R8.3 billion (2020: R3.1 billion increase to R14.3 billion). Operating costs decreased by R0.8 billion to R6.8 billion (2020: R1.1 billion increase to R7.6 billion), mainly attributable to a decrease in an impairment loss on the investment in the associate offset by an increase in the cost of new notes. The net result of these factors was a profit after taxation of R1.7 billion (2020: R6.4 billion) for the year ended 31 March 2021.

The South African Mint (including Prestige Bullion) made a profit after taxation of R0.3 billion (2020: R0.9 billion) attributable to the Group and did not declare a dividend (2020: R1.4 billion dividend) to the SARB, mainly due to lower profits in Prestige Bullion. Refer to note 18 for further detail.

SABN made a profit after taxation of R0.1 billion 2020: R0.1 billion) attributable to the Group, mainly due to decreased banknote sales volumes. Refer to note 18 for further detail.

The CPD made a profit after taxation of R1.5 billion (2020: R2.8 billion loss), attributable to a reversal of expected credit loss allowance of R1.5 billion. For the year ended 31 March 2021, there was no amount due to the SA government (2020: Rnil) in accordance with the CPD Act. Refer to note 18 for further detail.

ABHL made a profit after taxation of R0.1 billion (2020: R0.3 billion) attributable to the Group. An impairment loss of R0.1 billion, limited to the Group's share of profit for the year, was recognised for the Group with no impairment for the SARB (2020: R2.2 billion attributable to the Group of which R1.5 billion was attributable to the SARB). Refer to note 18 for further detail.

FINANCIAL POSITION

The SARB's total assets decreased by R170.2 billion to R892.9 billion (2020: R264.1 billion increase to R1 063.1 billion), largely due to decreases in gold and foreign exchange reserves of R153.0 billion and accommodation to banks of R61.3 billion, offset by an increase in SA government bond holdings of R30.0 billion.

The total assets of the South African Mint (including Prestige Bullion) increased by R0.2 billion to R2.3 billion (2020: R0.6 billion decrease to R2.1 billion), attributable to higher call deposit investments.

SABN's total assets increased by R0.1 billion to R2.4 billion (2020: R0.2 billion increase to R2.3 billion), attributable to higher call deposit investments.

The CPD's total assets increased by R12.7 billion to R82.5 billion (2020: R2.0 billion decrease to R69.8 billion), largely as a result of an increase in amounts due by group companies of R21.0 billion and cash and cash equivalents of R18.1 billion, offset by a decrease in loans and advances of R25.4 billion.

The total liabilities of the SARB decreased by R171.8 billion to R867.4 billion (2020: R257.3 billion increase to R1 039.2 billion) largely due to decreases 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 R120.5 billion, foreign deposits of R54.9 billion and deposit accounts of R51.9 billion, offset by increases in SARB debentures of R15.0 billion and notes and coin in circulation of R12.8 billion.

The total liabilities of the South African Mint (including Prestige Bullion) decreased by R0.2 billion to R0.6 billion (2020: R0.2 billion decrease to R0.8 billion), mainly attributable to a decrease in trade payables as a result of lower stock levels maintained.

Directors' report continued

for the year ended 31 March 2021

SABN's total liabilities increased by R0.1 billion to R0.6 billion (2020: remained consistent at R0.5 billion), mainly attributable to higher trade payables and post employment medical benefits.

The CPD's total liabilities increased by R11.1 billion to R83.5 billion (2020: R0.8 billion increase to R72.4 billion), largely due to an increase in deposits of R9.5 billion and other liabilities of R1.1 billion.

The SARB's contingency reserve increased by R1.6 billion (2020: R6.1 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 91.

IMPACT OF THE COVID-19 PANDEMIC

The impact of the COVID-19 pandemic continues to have a lasting and detrimental effect on the economy and has had a significant impact on the SARB's functions and operations. Throughout the financial year, the SA government imposed varying levels of lockdown to discourage the movement of people and mitigate the spread of the virus. The SARB's employees have adjusted to the new ways of work, with the majority of the workforce continuing to work from remote locations. The scale and duration of the pandemic is uncertain and continuously changing.

The SARB has ensured that all critical functions and activities continue to operate, including the emergency procurement process for COVID-19 and virtual methods of conducting tender evaluations.

The measures taken by the SARB to mitigate COVID-19 related risks include:

- Continuous support provided by the SARB leadership team and workshops to equip employees with pandemic-related regulations. Productivity is monitored to ensure business continuity.
- The Joint Operations Centre continues to provide critical support and directives aligned to the Department of Health's COVID-19 Guidelines.
- Meeting the demand for personal protective equipment and information and communications technology equipment to support remote working. The back-up power requirements for essential staff were identified and addressed to minimise the impact of load shedding (power outages).
- 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 continues to enhance its cybersecurity measures using various technologies for remote working capabilities, including policy and procedure development, security assessments, security design work and the roll out of training and targeted awareness initiatives. The SARB is also actively changing its monitoring and defence approaches. The SARB will continue to implement additional security measures to address any potential security threats.

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.

The SARB's response to COVID-19 is reported on page 16.

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 10.00% 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 30 October 2020.
- The final dividend, also of five cents per share, paid on 12 May 2021.

The total dividend paid for the financial year was R0.2 million (2020: R0.2 million).

DIRECTORS

The composition of the Board at 31 March 2021 is reported on pages 32 to 35.

At the annual Ordinary General Meeting (AGM) held on 31 July 2020, the terms of office of R J B (Rob) Barrow, R (Rochelle) le Roux and G M (Gary) Ralfe expired. All three directors had completed three terms of office each, and were not available for re-election and resigned from the Board.

The Panel, established in terms of section 4(1C) of the SARB Act, considered the nominations received for the three vacancies but could only confirm three candidates for shareholder consideration for the vacancy in the commerce or finance sector, in terms of section 4(1G) of the SARB Act.

At the 2020 AGM, shareholders elected M M T (Tryphosa) Ramano, who has knowledge and skills in the commerce and finance sector, to serve a three-year term as a non-executive director.

The Panel was unable to select suitable candidates for shareholder consideration in the mining and labour categories, as an insufficient number of acceptable nominations had been received for these sectors.

In terms of section 6(1)(b) read with section 6(2)(b) of the SARB Act, the Board appointed S (Shamima) Gaibie with skills and knowledge in the field of labour and N B (Norman) Mbazima with skills and knowledge in the field of mining to fill the two vacancies. These two directors were appointed to fill a casual vacancy for a period of one year, after which they will be eligible for nomination and re-election by the shareholders. The one-year term will conclude at the AGM to be held in July 2021.

Y (Yvonne) Muthien's first term of office will expire the day after the 2021 AGM, and she is eligible for nomination and re-election by the shareholders.

At its meeting on 23 February 2021, the Board agreed that S (Shamima) Gaibie, N B (Norman) Mbazima and Y (Yvonne) Muthien had performed well in their positions on the Board, making valuable contributions to its deliberations, and should be nominated as candidates for consideration by the Panel.

Deputy Governor, K (Kuben) Naidoo, was reappointed by the President of the Republic of South Africa to serve a second term of office with effect from 1 April 2020.

At 31 March 2021 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 reporting year are disclosed in note 18.6 on page 135.

EVENTS AFTER THE REPORTING DATE

Subsequent to year-end there were no material events occurred between 31 March 2021 and 10 June 2021 requiring adjustment to the financial statements for the year ended 31 March 2021. Refer to note 19 for further details.

SECRETARY OF THE SARB

S L (Sheenagh) Reynolds

REGISTERED OFFICE

Business address:
370 Helen Joseph Street
Pretoria 0002

Postal address:
PO Box 427
Pretoria 0001

The Board approved the summarised Group annual financial statements on 10 June 2021, signed on its behalf by:

E L (Lesetja) Kganyago
Governor

T (Terence) Nombembe
Non-executive director and Chairperson of the Audit Committee

L P (Leanne) Pillay
Acting 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 2021, have been completed and are up to date.

The executive directors and management of the SARB are responsible for the controls over, and the security of the website, and, specifically, for establishing and controlling the process for electronically distributing annual reports and other financial information to shareholders.

S L (Sheenagh) Reynolds
Secretary of the SARB

10 June 2021

Report of the Audit Committee

for the year ended 31 March 2021

The Audit Committee is a subcommittee of the Board. All its members, including the Chairperson, are independent non-executive directors. 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 carried out its oversight functions independently and in full compliance with its terms of reference during the reporting year.

The SARB's executive management, internal auditors, external auditors and other assurance providers attended all the Audit Committee meetings in an ex officio capacity. Management and internal and external auditors met independently with the committee, as appropriate.

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 Acting Group Chief Financial Officer (CFO). The finance function in the SARB has the expertise and adequate resources to support the Acting 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 across the three levels model. 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 SARB Group annual financial statements 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, and approved the annual internal audit plan. The committee also reviewed the Internal Audit Department's (IAD) reports on the state of the internal control environment.

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 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. 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 Audit Committee.

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 Audit 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 Audit Committee's continuous review of assurance reports from I&T Steering Committee (at executive management level) and the internal and external auditors.

WHISTLE-BLOWING

Based on combined submissions from the Risk Management and Compliance Department and the IAD at the Board Risk and Ethics Committee, the Audit Committee is satisfied with the SARB's procedures to receive, evaluate, investigate and report on confidential and anonymous complaints regarding matters of integrity and ethics at the SARB.

T (Terence) Nombembe
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 on the summarised Group financial statements 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 91 to 136, which comprise the summarised group statement of financial position as at 31 March 2021, the summarised group statements of comprehensive income, changes in equity and cash flows 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 2021.

In our opinion, the accompanying summarised group annual financial statements are consistent, in all material respects, with the audited group financial statements, in accordance with the basis of accounting described in note 1 to the summarised group annual financial statements.

SUMMARISED GROUP FINANCIAL STATEMENTS

The summarised group financial statements do not contain all the disclosures required by the basis of accounting described in Note 1 to the audited group annual financial statements and the requirements of the South African Reserve Bank Act 90 of 1989. Reading the summarised group annual financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited group annual financial statements and the auditor's 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 10 June 2021. That report also includes an Emphasis of Matter section that draws attention to Note 1 in the audited group annual financial statements. Note 1 in the audited financial statements describes the basis of accounting. The audited group annual financial statements are prepared in accordance with the SARB's own accounting policies to satisfy the financial needs of the shareholders.

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 of accounting described in Note 1 to the summary group annual financial statements.

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
Johannesburg, South Africa

14 June 2021

SizweNtsalubaGobodo Grant Thornton Inc.

SizweNtsalubaGobodo Grant Thornton Inc.
Director: Pravesh Hiralall

Registered Auditor
Johannesburg, South Africa

14 June 2021

Summarised Group statement of financial position

at 31 March 2021

	Notes	2021 Rm	2020 Rm
Assets			
Cash and cash equivalents	2	**38 401**	20 537
Accommodation to banks	3	**44 862**	106 129
Investments	4	**6 301**	7 369
Gold and foreign exchange reserves	5	**778 938**	931 980
Loans and advances	6	**13 726**	25 468
South African government bonds	7	**39 266**	9 237
Other assets		**17 960**	17 479
Total assets		**939 454**	1 118 199
Liabilities			
Notes and coin in circulation	8	**168 339**	155 544
Deposit accounts	9	**304 270**	346 627
Foreign deposits	10	**93 285**	148 198
South African Reserve Bank debentures	11	**15 010**	–
Gold and Foreign Exchange Contingency Reserve Account	12	**315 584**	436 062
Post-employment benefits	13	**2 775**	2 317
Other liabilities		**13 366**	6 125
Total liabilities		**912 629**	1 094 873
Capital and reserves[1]			
Share capital		**2**	2
Accumulated profit/(loss)		**1 228**	(689)
Statutory reserve		**458**	450
Contingency reserve		**21 681**	20 086
Other reserves		**3 324**	3 315
Non-controlling interest		**132**	162
Total capital and reserves		**26 825**	23 326
Total liabilities, capital and reserves		**939 454**	1 118 199

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 2021

	Notes	2021 Rm	2020 Rm
Interest income		**4 902**	7 859
Interest income from fair value items		**3 588**	3 462
Interest expense		**(5 623)**	(10 108)
Net interest income		**2 867**	1 213
Fair value gains		**5 485**	12 735
Dividend income		**–**	41
Operating income		**5 421**	5 234
Total income	14.1	**13 773**	19 223
Credit impairment reversal/(loss)	14.2	**1 506**	(2 315)
Operating costs	14.3	**(10 611)**	(7 880)
Share of net profit of associate accounted for using the equity method	18.3	**119**	280
Impairment loss on investment in associate	18.3	**(119)**	(2 229)
Profit before taxation	14	**4 668**	7 078
Taxation		**(903)**	(3 577)
Profit for the year		**3 765**	3 501
Attributable to:			
The parent		**3 595**	2 852
Non-controlling interest	18.1	**170**	649
		3 765	3 501
Other comprehensive income (net of taxation)			
Items that will not be reclassified to profit or loss			
Remeasurement of post-employment benefits		**(201)**	439
Revaluation adjustments of property, plant and equipment		**7**	(7)
Net gains on investments in equity instruments designated at fair value through other comprehensive income		**203**	247
Total comprehensive income for the year (net of taxation)		**3 774**	4 180
Attributable to:			
The parent		**3 604**	3 531
Non-controlling interest		**170**	649
Total comprehensive income		**3 774**	4 180

Summarised Group statement of cash flows

for the year ended 31 March 2021

	Notes	2021 Rm	2020 Rm
Cash flows generated from/(utilised by) operating activities			
Cash generated from/(utilised by) operating activities	15	**21 144**	(19 008)
Interest received	15	**4 902**	7 859
Interest paid	15	**(5 623)**	(10 108)
Taxation received		**–**	1
Taxation paid		**(2 481)**	(2 423)
Dividends paid[1]		**(200)**	(621)
Transfer to SA government[1]		**–**	(249)
Net cash flows generated from/(utilised by) operating activities		**17 742**	(24 549)
Cash flows generated from/(utilised by) investing activities		**122**	8 156
Purchase of property, plant and equipment		**(394)**	(250)
Proceeds on disposal of property, plant and equipment		**–**	4
Purchase of intangible assets		**(299)**	(447)
Net (acquisition)/disposal of investments		**815**	8 849
Net increase/(decrease) in cash and cash equivalents		**17 864**	(16 393)
Cash and cash equivalents at the beginning of the year		**20 537**	36 930
Cash and cash equivalents at the end of the year		**38 401**	20 537

1 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 2021

	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 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	5 915	–	–	–	–
Transfer to SA government	–	(287)	–	–	–	(287)	–	(287)
Balance at 31 March 2020	2	(689)	450	20 086	3 315	23 164	162	23 326
Total comprehensive income for the year	**–**	**3 595**	**–**	**–**	**9**	**3 604**	**170**	**3 774**
Profit for the year	**–**	**3 595**	**–**	**–**	**–**	**3 595**	**170**	**3 765**
Remeasurement of PEB	**–**	**–**	**–**	**–**	**(201)**	**(201)**	**–**	**(201)**
Revaluation adjustments of PPE	**–**	**–**	**–**	**–**	**7**	**7**	**–**	**7**
Net gains on investments in equity instruments designated at FVOCI	**–**	**–**	**–**	**–**	**203**	**203**	**–**	**203**
Dividends paid	**–**	**–**	**–**	**–**	**–**	**–**	**(200)**	**(200)**
Transfer (from)/to reserves	**–**	**(1 603)**	**8**	**1 595**	**–**	**–**	**–**	**–**
Transfer to SA government	**–**	**(75)**	**–**	**–**	**–**	**(75)**	**–**	**(75)**
Balance at 31 March 2021	**2**	**1 228**	**458**	**21 681**	**3 324**	**26 692**	**132**	**26 825**

Summarised Group statement of changes in equity continued

for the year ended 31 March 2021

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 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 is recognised in accumulated profit.

Bank for international settlements (BIS) revaluation reserve

The shares held in the BIS are held as part of the SARB's function as a central bank and are thus long-standing in nature. Shares are only transferable with the prior consent of the BIS. The net fair value gains/losses on the revaluation of the BIS shares are recognised in OCI. Changes in value due to foreign exchange movements are transferred to the GFECRA.

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 2021 an amount of R75 million (2020: R287 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 2021 an amount of Rnil (2020: Rnil) was due to the SA government by the CPD.

NON-CONTROLLING INTEREST

The group discloses non-controlling interest as a result of its 100% owned subsidiary (South African Mint) that owns 60.00% in Prestige Bullion.

Notes to the summarised Group annual financial statements

for the year ended 31 March 2021

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 89.

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. The directors have considered the impact of COVID-19 on the going concern of the Group. While further waves of infection are expected, the start of vaccination programmes in many countries have lifted projections for global economic growth and significantly boosted confidence. Financial markets have generally improved and stabilised in line with stronger growth and expectations that policy settings in advanced economies will remain accommodative. The directors have concluded that the impact of the pandemic has no effect on the going concern of the SARB and its subsidiaries. The use of the going concern assumption is therefore deemed appropriate.

These summarised Group annual financial statements comprise the summarised Group statement of financial position as at 31 March 2021, 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 2021, 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 139 to 140.

The Group's functional and presentation currency is the South African rand 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 adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Amendments to IFRS 16 Leases (IFRS 16) – Rent Concessions related to COVID-19

As a result of the COVID-19 pandemic, rent concessions have been granted to lessees by lessors. The amendments to IFRS 16, which were made in May 2020, provides lessees with an option to treat qualifying rent concessions in the same way as they would if it were not a lease modification. This would likely result in the concessions being accounted for as variable lease payments in the period granted.

The amendment to IFRS 16 did not have an impact on the Group for the year ended 31 March 2021.

There are no other new or amended standards applicable to the Group for the financial year ended 31 March 2021.

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 January 2022 and have not been early adopted in preparing these summarised Group annual financial statements. These are as follows:

Amendments to IAS 1 Presentation of Financial Statements (IAS 1) – Classification of Liabilities as Current or Non-Current

The amendments clarify that liabilities are classified as either current or non-current liabilities, depending on the rights that exist at the end of the reporting period as well as clarify what IAS 1 means in reference to the "settlement" of a liability.

Amendments to IFRS 3 Business Combinations (IFRS 3) – Reference to the Conceptual Framework

Minor amendments relate to the update of references to the Conceptual Framework for Financial Reporting and the addition of an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37) and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.

1. ACCOUNTING POLICIES continued

1.2 NEW STANDARDS AND INTERPRETATIONS CONTINUED

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

Amendments to IAS 37 – Onerous Contracts: Cost of Fulfilling a Contract

The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract

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.

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. Investments in subsidiaries are stated at cost less allowance for impairment losses where appropriate, and includes 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 20.00% and 50.00% 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 associate in profit or loss, and the Group's share of movements in OCI of the associate 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);
- fair value through profit or loss (FVPL) and
- instruments measured in terms of the SARB Act;

1. ACCOUNTING POLICIES continued

1.4 FINANCIAL INSTRUMENTS CONTINUED

1.4.1 Financial assets continued

1.4.1.1 Classification continued

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 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; or
- holding for collection of contractual cash flows and for selling the assets.

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.

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 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).

1. ACCOUNTING POLICIES continued

1.4 FINANCIAL INSTRUMENTS CONTINUED

1.4.1 Financial assets continued

1.4.1.1 Classification continued

Fair value through profit or loss continued

The SARB seeks to minimise the effects of currency and interest rate risks by using such instruments to economically hedge the related risk exposures. The SARB does not enter into or trade financial instruments, including derivative financial instruments, for proprietary trading purposes. Refer to note 5 for further disclosure.

Designated:

- cash and cash equivalents;
- 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.

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.

These FECs are on the domestic managed portfolio for matching exposures on assets and liabilities, both individually and of portfolios and to manage monetary policy operations of the SARB. Forward exchange contracts are commitments to exchange one set of cash flows for another, however the Bank does not apply the hedge accounting rules of IFRS 9.

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.

1. ACCOUNTING POLICIES continued

1.4 FINANCIAL INSTRUMENTS CONTINUED

1.4.1 Financial assets continued

1.4.1.3 Subsequent measurement continued

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.

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, debt instruments carried at FVOCI and the exposure arising from loan commitments. The Group recognises a loss allowance for such losses at each reporting date. No impairment loss is recognised on equity instruments.

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 has not undergone a significant increase in credit risk (SICR) since initial recognition and is not credit-impaired is classified in 'stage 1' and has its credit risk continuously monitored by the Group.
- If a significant increase in credit risk 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. Financial instruments in Stages 2 or 3 have their ECL measured on a lifetime basis.
- 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).

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. ACCOUNTING POLICIES continued

1.4 FINANCIAL INSTRUMENTS CONTINUED

1.4.1 Financial assets continued

1.4.1.4 Impairment of financial assets continued

ECL measurement continued

The ECL assessment in terms of the financial guarantee provided to the commercial banks under the loan guarantee scheme (LGS) is summarised below:

- The ECL allowance calculated by the commercial banks for the portfolio of borrowings under the loan guarantee scheme is obtained and reviewed by the Group. Similar to the Group, the commercial banks follow a "three-stage" model for impairment based on changes in the credit quality since initial recognition and use the same key inputs in their models for measuring ECL.
- The ECL allowance is reduced by the guarantee fee premium which serve as the first and second loss buffer under the waterfall for recovery of losses and thereafter by a 6.00% borrowers risk portion (third loss buffer) which is borne by the commercial banks.
- The ECL allowance that remains after taking into account the first to third loss buffers will be recognised as an ECL in terms of the financial guarantee. The SARB's obligations under the loan guarantee scheme are covered by a full back-to-back guarantee from the SA government.

Write off policy

- Financial assets are only written off after all recovery options have been exhausted and in consultation with legal counsel. The Group writes off financial assets when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. Indicators thereof include ceasing enforcement activity or where the collateral value indicates that there is no reasonable expectation of recovery.
- Financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

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).

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 89 specifically refers to this deviation from IFRS.

1. ACCOUNTING POLICIES continued

1.4 FINANCIAL INSTRUMENTS CONTINUED

1.4.2 Financial liabilities continued

1.4.2.1 Classification continued

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.

1.4.4 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the consolidated 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 5.3 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 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.

1.4.5 Unrecognised financial assets and liabilities

1.4.5.1 Committed Liquidity Facility

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 (HQLA) 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 (LCR).

The available facility is limited to the lower of the facilities entered into and the available collateral after the haircut is applied. 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.

1. ACCOUNTING POLICIES continued

1.4 FINANCIAL INSTRUMENTS CONTINUED

1.4.5 Unrecognised financial assets and liabilities continued

1.4.5.2 Guarantees

Guarantees represent contracts where the Group undertakes to make or receive specified payments to or from a counterparty, should a counterparty or the SARB suffer loss as a result of a specified debtor failing to make payment when due in accordance with the terms of a debt instrument. This amount represents the maximum exposure not recognised in the statement of financial position.

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 market values. 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.

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.

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.

Notes to the summarised Group annual financial statements continued

for the year ended 31 March 2021

1. ACCOUNTING POLICIES continued

1.8 INTANGIBLE ASSETS CONTINUED

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.

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. ACCOUNTING POLICIES continued

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. Past service 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.

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.

Notes to the summarised Group annual financial statements continued

for the year ended 31 March 2021

1. ACCOUNTING POLICIES continued

1.12 EMPLOYEE BENEFITS CONTINUED

1.12.1 Pension and retirement funds continued

1.12.1.2 Defined contribution plans continued

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.

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 specific 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 REVENUE RECOGNITION

1.18.1 Net interest income

Interest income is recognised using the effective interest method, taking into account the principal outstanding and the effective interest rate over the period to maturity. Interest income is recognised in profit or loss for all financial assets measured at amortised cost and debt instruments measured at FVOCI. In addition, interest expense is calculated on debt instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The original effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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 includes 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.

Interest income for all financial assets measured at FVPL is presented separately from interest income from financial assets measured at amortised cost and debt instruments measured at FVOCI.

1.18.2 Non-interest revenue

Non-interest revenue consists of revenue from contracts with customers within the scope of IFRS 15 and non-interest revenue arising from financial instruments to which the SARB is party to. All non-interest revenue is included in operating income except where stated otherwise.

1.18.2.1 Revenue from contracts with customers

The Group assesses if a contract falls within the scope of IFRS 15 and follows the five-step model to recognise revenue from contracts with customers:

- identify the contract with a customer;
- identify the performance obligations in the contract;
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract; and
- recognise revenue when (or as) the performance obligations are satisfied.

The group recognises revenue in a manner that depicts the transfer of promised services to customers in an amount that reflects the consideration to which the group expects to be entitled in exchange for those services.

Revenue from contracts with customers comprises the following items:

Settlement commission income

The SARB provides settlement services for both the National payments system (NPS) and the Southern African Development Community real-time gross settlement (SADC-RTGS). The performance obligation of the SARB is to receive and process settlement instructions on behalf of NPS and SADC-RTGS participants. Revenue is recognised at the point in time when the performance obligation has been satisfied i.e settlement instruction has been executed.

1. ACCOUNTING POLICIES continued

1.18 REVENUE RECOGNITION CONTINUED

Bulk cash service fees

The SARB earns fees on banknote deposit and banknote withdrawal services provided to users of bulk cash services. The performance obligation of the SARB is the distinct service of accepting a deposit or performing a withdrawal of bulk cash. The consideration is variable depending on the number of notes being deposited or withdrawn and the penalties charged on the condition of the bank notes on deposit. The performance obligation is satisfied when the SARB has successfully processed a deposit or withdrawal. Revenue is recognised at a point in time when the deposit or withdrawal is accepted.

Licence fees

The annual license fees are fees charged by the SARB to any institution to obtain a license either to operate as a bank, to establish a branch for an existing bank or to operate a business of insurance. The performance obligation is the provision of supervisory services by operation of law. Fees are payable in advance on an annual basis and non refundable. Revenue is recognised at the point when the fees are due.

Bank charges

The SARB provides banking services to the SA government on a monthly basis and earns revenue in the form of bank charges. The performance obligations of the SARB is to provide banking services which include, but are not limited to Electronic Fund transfers, foreign and local payments and download of deposits from commercial banks. The performance obligations are satisfied when the SARB executes the specific transaction. The bank charges are recognised at a point in time when the service has been rendered.

Management fees

The Bank receives management fees from the CPD, the SARB Retirement Fund, the SABN and the SA Mint.

A fee is charged to the SABN and the SA Mint for the secretariat support provided by the SARB Group Secretariat, which includes meeting facilitation, minute taking, circulation of resolutions, and fulfilment of certain legislative requirements in term of the Companies Act and overall governance services and support.

A fee is charged to the SARB Retirement Fund for the provision of consulting support services and administrative and accounting duties.

A fee is charged to the CPD for all the functions that the Bank carries out for the CPD. The Bank carries out all the CPD functions, as the CPD has no employees of its own.

These performance obligations are satisfied over time. The fees are payable monthly. Revenue is recognised each month.

Sundry income

Sundry income relates to canteen services and commission on the money market internet system. Revenue on sundry income is recognised at a point in time when the performance obligations are satisfied.

1.18.2.2 Non-interest financial instrument revenue

Committed Liquidity Facility fees

Basel III liquidity framework requires banks to adhere to a definite liquidity coverage ratio. The SARB approved the provision of an annual CLF to assist commercial banks in meeting their LCR as there is limited availability of HQLA in South Africa. The facility runs from December to November each year and fees are receivable by the SARB annually at the end of each period.

Commitment fees

A shareholder support transaction was concluded in terms of which the SARB will provide a collateralised loan of up to R4 billion over a period of 4 years to ABL in accordance with section 10(1)(f) of the SARB Act (hereinafter referred to as “the Transaction”) and the other shareholders will subscribe to DMTN in ABL in accordance with the respective pro rata shareholding in ABHL. The SARB will make available R1 billion per year to ABL and will advance the funds to ABL at the same time as the other shareholders subscribe for DMTN notes. The loan is secured by a cession in security of a portion of ABL’s customer loan portfolio, with a collateral cover ratio of 111.00%. The facility remained undrawn as at 31 March 2021.

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 10.00% per annum on the paid-up share capital of the SARB.

1. ACCOUNTING POLICIES continued

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.

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 2021

1. ACCOUNTING POLICIES continued

1.22 KEY ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

1.22.4 Post-employment benefits

The cost of the defined-benefit pension plans and other benefit plans and the present value of the benefit obligations are determined using actuarial valuations. An actuarial valuation involves using various assumptions determined by management and reviewed annually by the actuary that may differ from future developments.

These assumptions include:

- discount rates;
- inflation rates;
- rates of compensation increases;
- rates of pension increases;
- medical cost trends; and
- mortality rates.

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 2021 statutory valuation currently in progress.

Refer to note 13 for further disclosure.

1.22.5 Inventory valuations

The group's currency-producing subsidiaries measure inventory at lower of cost and NRV. The determination of NRV is an entity-specific estimate and requires the use of judgement.

1.22.6 Property, plant and equipment

Judgement is required when determining:

- the costs that are attributable to the asset;
- for assets where valuation is applied, the fair value of the valuable art;
- the appropriate useful life over which the assets should be depreciated or amortized;
- the depreciation method; and
- whether the existing assets are subject to impairment.

1.23 LEASES

A contract is or contains a lease if it conveys the right to control the use of an identified asset for a period of time.

The Group has assessed that through the SARB's control of the SABN and the Mint, the SARB can direct the production of the banknotes and coin respectively. For this reason a lease arrangement exists between the SARB and its subsidiaries. The contracts are for 12 months, renewable annually. Although permitted under IFRS 16 to exclude leases with a term of 12 months or less, there is a reasonable expectation that the yearly contracts between the SARB and its subsidiaries would be renewed on an annual basis, thereby constituting lease agreements over a period beyond 12 months. Fixed payments on these contracts cannot be determined reliably. The SARB was therefore unable to recognise a right-of-use asset and lease liability from the date of initial application of IFRS 16 to the current year. This will be reconsidered should the lease payments become determinable based on either fixed payments or an index/rate.

2. CASH AND CASH EQUIVALENTS

	2021 Rm	2020 Rm
Amortised cost		
Bank and cash balances	**588**	12 010
Designated at FVPL	**37 813**	8 526
Fixed deposits	**7 545**	8 032
Short-term South African money market investments	**30 268**	494
Total cash and cash equivalents	**38 401**	20 537

Owing to its role in the creation and withdrawal of money, the SARB has no cash and cash equivalent balances in its statement of financial position.

Cash equivalents comprise short term highly liquid financial instruments with an original maturity of less than three months that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value and are held for the purpose of meeting short-term commitments as reflected above.

Annual interest rates range between 3.30% – 4.40% (2020: 5.20% – 6.71%) on short term deposits with financial institutions and 3.63% – 6.89% (2020: 5.11% – 8.59%) on short term money market investments.

Cash and cash equivalents exclude local and foreign short-term investments held to implement monetary policy or as part of foreign reserves. These reserves are disclosed in detail in notes 3 and 5.

Maturity structure of financial assets		
Within 1 month	**32 876**	20 537
Between 1 and 3 months	**5 525**	–
Total financial assets	**38 401**	20 537

Included in short-term South African money market investments are repurchase agreements, the following table represents details thereof:

Fair value of repo agreements	**30 268**	494
Fair value of collateral received	**30 287**	528
Fair value of collateral permitted to sell or repledge at the reporting date	**30 287**	528
Collateral cover	**100.06%**	106.94%
Maturity date	**13 April 2021**	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. When the underlying investments mature, the Group has the obligation to return the collateral.

3. ACCOMMODATION TO BANKS

	2021 Rm	2020 Rm
Amortised cost		
Repo agreements	**38 300**	101 100
Standing facility	**6 558**	4 957
Accrued interest	**4**	72
Total accommodation to banks	**44 862**	106 129

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 2021

3. ACCOMMODATION TO BANKS continued

	2021 Rm	2020 Rm
Repurchase agreements		
The SARB revised its money market liquidity management strategy in the prior year and introduced a 3 month IOSRO of R20.0 billion to provide liquidity in response to the negative impact of COVID-19 on financial markets. The 3 month IOSRO was withdrawn on 9 December 2020, this resulted in a reduction in the targeted repos from R45.0 billion to R30.0 billion (2020: R56.0 billion to R45.0 billion).		
Standard repo agreements yield interest at the repo rate[1] of the SARB (2020: repo rate)	**3.50%**	5.25%
90-day repo agreements yield interest at repo plus 0.30%	**3.80%**	5.55%
The following table presents the collateral received for repo agreements (including accrued interest):		
Fair value of collateral received	**39 685**	105 301
Fair value of collateral permitted to sell or repledge at the reporting date	**39 685**	105 301
Collateral cover	**103.61%**	104.08%

The collateral received consists of various SA government bonds and Treasury Bills with maturities ranging from six days to 28 years (2020: eight days to 27 years).

At the reporting date, there were no impairments on the collateral pledged for the repo facility (2020: R207.0 million). In the prior year, the SARB took a decision to temporarily suspend certain counterparty bills as eligible collateral in its repo operations and they remain suspended as at 31 March 2021.

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. When the underlying repos are settled, the SARB has the obligation to return the collateral.

Standing facility

The standing facility lending rate, the rate at which the SARB provides liquidity to commercial banks, was adjusted from the repo rate in the prior financial year to the repo rate plus 100 bps.

The standing facilities yields interest at the repo rate[1] plus 100 bps (2020: repo rate)	**4.50%**	5.25%
The following table presents details of collateral received for the standing facility (including accrued interest):		
Fair value of collateral received	**6 558**	5 975
Fair value of collateral permitted to sell or repledge at the reporting date	**6 558**	5 975
Collateral cover	**100.00%**	120.54%

The collateral received consists of various SA government bonds and Treasury Bills with maturities ranging from 14 days to 25 years (2020: 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 (2020: no defaults).

The counterparties are exposed to interest rate and other risks 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. When the underlying facility is settled, the SARB has the obligation to return the collateral.

1 The SARB reduced the interest rate by 1.75% to 3.50% (2020: 1.00% to 5.25%) to provide relief given the negative impact of the COVID-19 pandemic on the economy.

4. INVESTMENTS

	2021 Rm	2020 Rm
Designated at FVPL		
Short-term South African money market investments	**290**	342
Short-term South African fixed deposits	**6 011**	7 027
Total investments	**6 301**	7 369
Maturity structure of financial assets		
Within 1 month	**290**	99
Between 1 and 3 months	**6 011**	163
Between 3 and 12 months	**–**	7 107
Total financial assets	**6 301**	7 369
For investments that meet the definition of financial assets designated at fair value:		
Maximum exposure to credit risk	**6 301**	7 369

Short-term South African money market investments comprise of instruments that have an original maturity of more than 91 days or 3 months.

In terms of investment guidelines (IG), approved by the Boards of the respective subsidiaries, all investments are placed with reputable financial institutions. The CPD utilises banking institutions with a minimum credit rating of BBB- by at least two of the agencies: Standard and Poor's, Fitch or Moody's. During the year under review, a counterparty default on its Promissory Notes (PNs) resulted in the recognition of a fair value loss of R243 million (2020: R629 million).

5. GOLD AND FOREIGN EXCHANGE RESERVES

	Notes	2021 Rm	2020 Rm
Designated at FVPL			
Money market instruments and deposits	5.1	**82 488**	123 660
Securities	5.2	**550 530**	640 416
Mandatory at FVPL			
Derivatives	5.3	**170**	(460)
Securities lending asset		**–**	–
Measured in terms of the SARB Act			
Gold coin and bullion	5.4	**100 472**	115 360
IMF SDR assets	5.5	**45 278**	53 004
Total gold and foreign exchange reserves		**778 938**	931 980

Notes to the summarised Group annual financial statements continued

for the year ended 31 March 2021

5. GOLD AND FOREIGN EXCHANGE RESERVES continued

5.1 MONEY MARKET INSTRUMENTS AND DEPOSITS

	2021 Rm	2020 Rm
Cash and money market accounts	1 970	2 435
Fixed deposits	80 518	121 225
Total	**82 488**	123 660

	Current					Non-Current	
Maturity structure	Redeemable On demand Rm	Up to 1 month Rm	1 – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	More than 1 year Rm	Total
2021							
Cash and money market accounts	–	1 970	–	–	–	–	1 970
Fixed deposits	–	80 518	–	–	–	–	80 518
Total	–	82 488	–	–	–	–	82 488
2020							
Cash and money market accounts	–	2 435	–	–	–	–	2 435
Fixed deposits	–	121 225	–	–	–	–	121 225
Total	–	123 660	–	–	–	–	123 660

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.

5.2 SECURITIES

	2021 Rm	2020 Rm
Government bonds	188 853	212 632
Government agency, state, supranational bonds	134 067	231 541
Financial bonds	8 106	18 781
Corporate bonds	3 436	3 689
Commercial papers	1 011	3 515
Certificate of deposits	60 443	79 077
Mutual funds	454	1 318
Mortgage backed securities	14 200	18 985
Treasury bills	139 869	70 723
Investments	92	156
Total	**550 530**	640 416

5. GOLD AND FOREIGN EXCHANGE RESERVES continued

5.2 SECURITIES continued

	Current					Non-Current	
Maturity structure	Redeemable On demand Rm	Up to 1 month Rm	1 – 3 months Rm	4 – 6 months Rm	7 – 12 months Rm	More than 1 year Rm	Total
2021							
Financial assets designated at FVPL	–	25 624	44 204	113 821	114 847	252 034	550 530
Total	–	25 624	44 204	113 821	114 847	252 034	550 530
2020							
Financial assets designated at FVPL	–	34 153	66 669	104 451	132 257	302 885	640 416
Total	–	34 153	66 669	104 451	132 257	302 885	640 416

5.3 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 (GEC), 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 (RMC) and Board Risk and Ethics Committee (BREC). 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
2021				
FECs	140	152	(12)	34 677
Futures contracts	29	41	(12)	17 800
Interest rate swaps	–	–	–	–
Total derivatives	169	193	(24)	52 477
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

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.

Notes to the summarised Group annual financial statements continued

for the year ended 31 March 2021

5. GOLD AND FOREIGN EXCHANGE RESERVES continued

5.3 DERIVATIVES continued

5.3.1 Offsetting financial assets and financial liabilities relating to gold and foreign exchange reserves

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
2021						
FEC assets	**152**	**–**	**152**	**(3)**	**–**	**149**
Interest rate swap assets	**–**	**–**	**–**	**–**	**–**	**–**
FEC liabilities	**(12)**	**–**	**(12)**	**3**	**–**	**(9)**
Interest rate swap liabilities	**–**	**–**	**–**	**–**	**–**	**–**
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)

5.4 GOLD COIN AND BULLION

	2021 Rm	Fine ounces
2021		
As at 31 March 2020	**115 360**	**4 029 436**
Purchases during the year	**13 823**	**158 515**
Sales during the year	**(13 819)**	**(158 367)**
Change in the statutory price	**(14 892)**	**–**
As at 31 March 2021	**100 472**	**4 029 584**

2020	2020 Rm	Fine ounces
As at 31 March 2019	75 692	4 029 116
Purchases during the year	169	7 931
Sales during the year	(162)	(7 611)
Change in the statutory price	39 661	–
As at 31 March 2020	115 360	4 029 436

Gold coin and bullion consists of 4 029 584 fine ounces of gold at the statutory price of R24 933.60 per ounce (2020: 4 029 436 fine ounces at R28 629.40 per ounce).

5. GOLD AND FOREIGN EXCHANGE RESERVES continued

5.5 IMF SDR ASSETS

In accordance with the SARB Act, the SARB acts as a fiscal agent of the Government in its dealings with International Financial Institutions (IFI), transactions with the IFI and the undertaking of financial agency work for the Government. In compliance with the SARB Act, the accounts with the International Monetary Fund (IMF), which records all transactions with the IMF, have been included in these financial statements. The IMF has created an international reserve asset called the Special Drawing Right (SDR). All rights in, and commitments to the IMF are denominated in SDRs. The value of the SDR is calculated on the basis of a currency basket comprising the US dollar, Euro, Chinese renminbi, Japanese yen and pound sterling. The currency weights are adjusted each year in accordance with changes in bilateral foreign exchange rates. As at 31 March SDR 1.0 was equal to R20.97 (2020: R24.41).

The various rights are disclosed below:

	2021 Rm	2020 Rm
SDR Holdings[2]	**31 395**	36 540
IMF NAB financial transactions plan account	**204**	417
IMF SDR reserve tranche position account	**13 679**	16 047
Total	**45 278**	53 003

2 The SDR asset carries interest at an effective rate of 0.08% (2020:1.15%). SA government promissory notes have been pledged as collateral against these SDRs.

The following table presents details of collateral held:

Fair value of collateral received	**58 056**	46 436
Collateral cover	**184.92%**	127.08%

At reporting date, none of the collateralised advances were past due or impaired (2020: none). During the year under review, no defaults were experienced (2020: no defaults).

Comparative figures have been amended as part of enhancements and improvements to the summarised Group annual financial statements.

Notes to the summarised Group annual financial statements continued

for the year ended 31 March 2021

6. LOANS AND ADVANCES

	2021 Rm	2020 Rm
Amortised cost		
Secured foreign loans	–	54
Interest-bearing local loans	13 726	25 414
Inter-Governmental Cash Co-ordination loan	–	25 414
LGS loan account	13 726	–
Total loans and advances	13 726	25 468

SECURED FOREIGN LOAN

In the prior year, the counterparty promissory notes that had been pledged as collateral against the loan facility were impaired due to the counterparty failing to redeem any of its maturing debt securities, nor honour interest on outstanding debt securities. The borrower was unable to provide replacement collateral, resulting in the utilisation of the facility being temporarily suspended and capped at the outstanding amount whilst in the process of being renegotiated. At reporting date the outstanding loan balance of R42 million was fully impaired.

As part of the debt restructure arrangement by the counterparty, an amount of R4.0 million in interest on the outstanding promissory notes and R10 million as a partial return of capital from the counterparty on the pledged collateral has been received to date as repayment towards the outstanding loan amount. The counterparty negotiations to restructure its debt are still in progress.

INTEREST-BEARING LOCAL LOANS

Inter-Governmental Cash Co-ordination loans

The loans are advanced as part of the national government's Inter-Governmental Cash Co-ordination (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. The SA government 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 3.85% (2020: 5.68%).

At the reporting date, the loan was settled and none of the interest-bearing local loans were past due or impaired (2020: none). During the year under review, no defaults were experienced (2020: no defaults).

LGS LOAN ACCOUNT

The SARB entered into a LGS with participating commercial banks for the purpose of assisting qualifying small and medium-sized businesses severely impacted during the COVID-19 pandemic. Drawdowns by qualifying businesses, were available for an 11-month period commencing from the effective date (moratorium period) and the outstanding balance at the end of the moratorium period will be repayable over a repayment period of 60 months. A facility of R100.0 billion has been approved, of which R89.8 billion has been allocated to 10 commercial banks. At the reporting date R13.4 billion has been withdrawn by the commercial banks, interest income of R258 million has been capitalised until 31 March 2021. The total outstanding balance including interest is R13.7 billion. The loan facility is guaranteed by the SARB to the extent of the current exposure of R13.4 billion with a potential guarantee limited to R89.6 billion allocated to commercial banks. The moratorium period has been extended by a further 3 months from April 2021 to July 2021 (Refer to note 17 for further details).

The loan accrues interest at the prevailing repo rate, any default interest that accrues as a result of the commercials banks failing to repay the SARB at the interest repayment date will be accounted for at the default interest rate of repo rate plus 200 bps.

7. SOUTH AFRICAN GOVERNMENT BONDS

	2021 Rm	2020 Rm
Designated at FVPL		
Listed bonds: Interest-bearing	**37 784**	8 737
Fair value adjustments	**1 482**	500
Total SA government bonds	**39 266**	9 237
Effective interest rate	**13.96%**	7.75%

As part of the SARB's continuous measures to manage liquidity during the COVID-19 pandemic, R29.1 billion of SA government bonds were purchased from the secondary market during the period under review (2020: R1.4 billion).

8. NOTES AND COIN IN CIRCULATION

	2021 Rm	2020 Rm
Amortised cost		
Notes	**161 514**	149 079
Coin	**6 825**	6 465
Total notes and coin in circulation	**168 339**	155 544

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

	2021 Rm	2020 Rm
Amortised cost		
Non-interest-bearing	**170 401**	194 300
Banks' reserve accounts	**122 689**	138 362
SA government accounts	**44 950**	53 094
Other current accounts	**2 762**	2 844
Interest-bearing	**133 869**	152 327
SARB Debentures Repo	**2 000**	–
Reverse repurchase agreements	**1 001**	–
SA government special deposit	**41 157**	67 157
Banks' current accounts	**8 422**	13 289
Call deposits	**81 289**	71 775
Margin call	**–**	106
Total deposit accounts	**304 270**	346 627

Notes to the summarised Group annual financial statements continued

for the year ended 31 March 2021

9. DEPOSIT ACCOUNTS continued

	2021 Rm	2020 Rm
Maturity structure of deposit accounts		
On demand	**129 001**	127 819
Subject to negotiation with the SA government	**41 157**	67 157
Within 1 month	**134 112**	151 651
Total deposit accounts	**304 270**	346 627

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 R1.4 billion (2020: R2.7 billion). The commercial banks concerned are afforded an opportunity, subject to conditions as the Governor may determine, to comply with the relevant provision within a specified period.

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 accrued on the deposit was settled during the year under review. The SA government made a withdrawal of R26 billion on its special deposit (2020: nil).

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 15 basis points less than the repo rate (2020: rate of 15 basis points less than the repo rate). The prevailing rates at year-end were 3.75% (2020: 5.58%) and 3.25% (2020: 5.00%) respectively.

10. FOREIGN DEPOSITS

	2021 Rm	2020 Rm
Designated at FVPL		
Foreign deposits	**93 285**	148 198

Foreign deposits are placed by customers at market related rates.

11. SOUTH AFRICAN RESERVE BANK DEBENTURES

	2021 Rm	2020 Rm
Amortised cost		
Capital	14 995	–
Accrued interest	15	–
Total SARB debentures	15 010	–

The debentures are issued to the market on tender normally on a 7-, 14-, 28- or 56-day term. At the reporting date, the SARB had outstanding unsecured SARB debentures of R15.0 billion (2020: Rnil).

Maturity date	Interest rate %	Capital
Wednesday, 07 April 2021	3.80%	2 025
Wednesday, 07 April 2021	3.61%	2 965
Wednesday, 07 April 2021	3.47%	50
Wednesday, 14 April 2021	3.79%	3 035
Wednesday, 14 April 2021	3.65%	500
Wednesday, 21 April 2021	3.79%	1 035
Wednesday, 28 April 2021	3.80%	2 385
Wednesday, 05 May 2021	3.85%	500
Wednesday, 12 May 2021	3.83%	500
Wednesday, 26 May 2021	3.84%	2 000
		14 995

12. GOLD AND FOREIGN EXCHANGE CONTINGENCY RESERVE ACCOUNT

	2021 Rm	2020 Rm
Measured in terms of the SARB Act		
Opening balance	436 062	285 829
(Loss)/profit on gold price adjustment account	(14 894)	39 659
Profit/(loss) on FEC adjustment account	22 437	(33 478)
(Loss)/profit on foreign exchange adjustment account	(118 604)	142 316
Movement in unrealised (losses)/gains on FECs	(9 528)	1 605
	315 473	435 931
Payments from the SA government	111	131
Closing balance	315 584	436 062
Balance composition		
Balance currently due to SA government	323 408	434 359
Unrealised (losses)/gains on FECs	(7 824)	1 703
	315 584	436 062

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 the SA government and consists mainly of the exchange margin. During the reporting year under review, a net amount of R110.7 million was settled by the SA government (2020: R131.1 million).

Notes to the summarised Group annual financial statements continued

for the year ended 31 March 2021

13. POST-EMPLOYMENT BENEFITS

The SARB and SABN provide the following post-employment benefits to its employees:

	Notes	2021 Rm	2020 Rm
Amounts recognised in the statement of financial position			
Post-employment medical benefits	13.1	**2 566**	2 270
Post-employment group life benefits	13.2	**59**	47
Post-employment retirement fund benefits	13.3	**150**	–
Total post-employment benefits		**2 775**	2 317

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 the subsidiary 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 2021.

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 2021.

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 2021 statutory valuation currently in progress. 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 2021 was R5.1 billion (2020: R4.1 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 1 013 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 valuation at 31 March 2018 found the fund to be fully funded, with the actuarial liability of pensions to be R2.4 billion with plan assets of R2.4 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.

14. PROFIT BEFORE TAXATION

14.1 TOTAL INCOME INCLUDES:

	2021 Rm	2020 Rm
Income from investments	**(252)**	(589)
Dividends received[1]	**–**	41
Fair value adjustments on investments	**(252)**	(630)
Commission on banking services	**840**	1 144

Realised and unrealised profits/(losses) on the SARB's investments are included in interest income in terms of the SARB's accounting policies.

14.2 IMPAIRMENT LOSS:

Credit impairment (reversal)/loss	**(1 506)**	2 315

14.3 OPERATING COSTS INCLUDE:

Directors' remuneration[1]	**32**	47
For services as non-executive directors	**6**	6
For services as executive directors	**26**	41
Depreciation, amortisation and impairment	**422**	483
Buildings	**30**	28
Plant, vehicles, furniture and equipment	**314**	348
Impairment reversal	**(69)**	–
Computer software	**147**	107
Net loss on disposal of land, plant, vehicles, furniture and equipment	**8**	16
Write-downs of inventories	**16**	15
Auditors' remuneration	**34**	25
Audit fees	**25**	17
Fees for other services	**9**	8
Consulting fees	**206**	154
IT infrastructure	**300**	184
Retirement benefit costs	**717**	730
Contributions to funds – Normal	**265**	252
Contributions to funds – Additional	**–**	3
Provision for post-employment medical benefits	**302**	294
Provision for post-employment group life benefits	**7**	8
Provision for post-employment retirement fund benefits	**–**	39
Premiums paid – Medical aid	**137**	128
Premiums paid – Group life	**6**	6
Remuneration and recurring staff costs	**2 482**	2 377
Cost of sales	**4 245**	2 199
Cost of new currency	**928**	427
Other operating costs[2]	**1 221**	1 224

1 Refer to note 19 for events that occurred subsequent to the reporting date.

2 Other operating costs comprise mainly 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 2021

15. CASH GENERATED FROM/(UTILISED BY) OPERATING ACTIVITIES

	2021 Rm	2020 Rm
Reconciliation of profit before taxation to cash generated from operating activities		
Profit before taxation for the year	**4 668**	7 078
Adjustments for:		
Interest received[1]	**(4 902)**	(7 859)
Interest paid[1]	**5 623**	10 108
Depreciation, amortisation and impairment	**422**	483
Net loss on disposal of fixed assets	**8**	16
Impairment loss on investment in associate	**119**	2 230
Credit impairment (reversal)/loss	**(1 506)**	2 315
Write off in sundry expenses	**4**	–
Profit from associate	**(119)**	(280)
Unrealised foreign exchange loss	**(3)**	6
Fair value adjustments on investments	**252**	631
Post-employment benefits	**180**	216
Coupon interest accrued	**(381)**	108
Amortisation of coupon interest	**–**	–
Interest accrued on accommodation to banks	**(4)**	(72)
Net cash generated from operating activities	**4 363**	14 980
Changes in working capital		
Accommodation to banks	**61 200**	(44 662)
Other assets	**(987)**	(846)
Gold and foreign exchange reserves	**153 042**	(216 579)
Loans and advances	**13 248**	(10 150)
South African government bonds	**(29 650)**	–
Notes and coin in circulation	**12 795**	4 237
Deposit accounts	**(42 357)**	59 586
Other liabilities	**344**	183
Foreign deposits	**(54 914)**	25 640
SARB debentures	**15 010**	(25)
Gold and Foreign Exchange Contingency Reserve Account	**(110 950)**	148 628
Cash generated from/(utilised by) changes in working capital	**16 781**	(33 988)
Cash generated from/(utilised by) operating activities	**21 144**	(19 008)

1 Comparative figures have been amended as part of enhancements and improvements to the summarised Group annual financial statements.

16. FAIR VALUE HIERARCHY DISCLOSURES

The tables on page 127 analyse the assets and liabilities of the Group carried at fair value and amortised cost 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. During the year under review, there have been no transfers between any of the levels (2020: none).

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 reserves 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 2021

16. FAIR VALUE HIERARCHY DISCLOSURES continued

	Level 1 Rm	Level 2 Rm	Level 3 Rm	Total Rm
2021				
Items measured at fair value				
Financial assets				
Cash and cash equivalents	–	37 813	–	37 813
SA government bonds	39 266	–	–	39 266
Investments	–	6 301	–	6 301
Gold and foreign exchange reserves	423 421	355 517	–	778 938
Gold coin and bullion	100 472	–	–	100 472
Money market instruments and deposits	–	82 488	–	82 488
Securities	322 919	227 611	–	550 530
Derivatives	30	140	–	170
IMF SDR assets	–	45 278	–	45 278
Financial liabilities				
Foreign deposits	–	93 285	–	93 285
Items measured at amortised cost				
Financial assets				
Cash and cash equivalents	–	588	–	588
Accommodation to banks	–	44 862	–	44 862
Loans and advances	–	13 726	–	13 726
Financial liabilities				
Notes and coin in circulation	–	168 339	–	168 339
Deposit accounts	–	304 270	–	304 270
SARB debentures	–	15 010	–	15 010
GFECRA	315 584	–	–	315 584
2020				
Items measured at fair value				
Financial assets				
Cash and cash equivalents	–	8 526	–	8 526
SA government bonds	9 237	–	–	9 237
Investments	–	7 369	–	7 369
Gold and foreign exchange reserves[1]	559 531	372 448	–	931 980
Gold coin and bullion	115 360	–	–	115 360
Money market instruments and deposits	–	123 660	–	123 660
Securities	444 173	196 243	–	640 416
Derivatives	(2)	(458)	–	(460)
IMF SDR assets	–	53 004	–	53 004
Financial liabilities				
Foreign deposits	–	148 198	–	148 198
Items measured at amortised cost				
Financial assets				
Cash and cash equivalents	–	12 010	–	12 010
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

1 Comparative figures have been amended as part of enhancements and improvements to the summarised Group annual financial statements.

16. FAIR VALUE HIERARCHY DISCLOSURES continued

FAIR VALUE DISCLOSURES

Reconciliation of level 3 assets

The following table provides a reconciliation of the opening to closing balance for all assets that are measured at fair value and incorporates inputs that are not based on observable market data (level 3).

	Non-financial assets	Financial assets	
	Property, plant and equipment R'000	Equity investment in BIS R'000	Total R'000
Balance at 31 March 2020	**133**	**5 636**	**5 769**
Additions (purchases)	**2**	**–**	**2**
Revaluation adjustments of property, plant and equipment	**9**	**–**	**9**
Fair value adjustments	**–**	**262**	**262**
Disposals	**–**	**–**	**–**
Foreign exchange movements transferred to GFECRA	**–**	**(846)**	**(846)**
Balance at 31 March 2021	**144**	**5 052**	**5 196**
Balance at 31 March 2019	137	4 333	4 470
Additions (purchases)	6	–	6
Revaluation adjustments of property, plant and equipment	(10)	–	(10)
Fair value adjustments	–	318	318
Disposals	–	–	–
Foreign exchange movements transferred to GFECRA	–	985	985
Balance at 31 March 2020	133	5 636	5 769

Notes to the summarised Group annual financial statements continued

for the year ended 31 March 2021

17. COMMITMENTS AND GUARANTEES

17.1 GUARANTEES

R3.0 billion (2020: R3.0 billion) had been guaranteed by the SARB to ABL undertaking to settle unrecoverable loans that Residual Debt Services Limited (RDS) could not settle i.t.o the indemnity agreement. As at 31 March 2021 this facility had not been utilised.

In turn, R3.0 billion (2020: R3.0 billion) had been guaranteed by the SA government 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. As at 31 March 2021 this facility had not been utilised and no loss allowances were required.

17.2 COMMITTED LIQUIDITY FACILITIES

The 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 2021 the total CLFs granted by the SARB for the period 1 January 2021 to 31 December 2021 amounted to R26.2 billion (2020: R140.0 billion), which have not yet been utilised. Commitment fees of R151.7 million (2020: R620.7 million) have been received for the period of 1 January 2021 to 31 December 2021 of which R37.9 million (2020: R155.2 million) is accounted for as income for the year ended 31 March 2021. 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 R52.4 billion (2020: R128.5 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 R264.8 million to Nedbank for the payment of VBS depositors. The SARB has committed funds totalling R336.0 million to the depositors of which only R264.8 million has been claimed to date. An amount of R3.7 million was transferred for 370 qualifying retail accounts in the current year. The remaining amount could be activated by depositors up to expiry of four months. An impairment has been raised against the transferred amount and the SARB will continue to assess the recoverability. A legal claim has been lodged against the insolvent estate of VBS, of which the timing and amount remains uncertain.

17. COMMITMENTS AND GUARANTEES continued

17.4 LOAN GUARANTEE SCHEME

In May 2020, the SARB entered into a loan guarantee scheme with various participating banks for the purposes of the COVID-19 LGS. The participating banks may claim losses under the scheme subject to a waterfall, with a claim under the SARB guarantee being after the participating banks exhaust the margin entitlement account, the credit premium account and the borrowers risk portion. In turn, the SA government has issued a guarantee in favour of the SARB in respect of any losses which may be incurred by the SARB in respect of the COVID-19 LGS to the amount of R100 billion. Furthermore, the SARB has provided a guarantee to the commercial banks in respect of the COVID-19 LGS to the extent of the current exposure of R13.4bn with a potential guarantee limited to R89.6 billion allocated to commercial banks.

17.5 CPD GUARANTEE

In June 2020, the SARB provided a guarantee of R3.5 billion to the CPD a wholly-owned subsidiary of the SARB, in order to cover expected credit losses following the downgrade of the sovereign and losses related to defaults by a certain counterparty and associated impairments recognised for the financial year.

17.6 ABHL – LOAN FACILITY

A shareholder support transaction was concluded in terms of which the SARB will provide a collateralised loan of up to R4.0 billion over a period of four years to ABL in accordance with section 10(1)(f) of the SARB Act (hereinafter referred to as "the Transaction") and the other shareholders will subscribe to DMTN in ABL in accordance with the respective pro rata shareholding in ABHL. The SARB will make available R1.0 billion per year to ABL and will advance the funds to the Borrower at the same time as the other shareholder subscribe for DMTN notes. The loan is secured by a cession in security of a portion of African Bank's customer loan portfolio, with a collateral cover ratio of 111.00%. The facility remains undrawn as at 31 March 2021.

17.7 CoDI GUARANTEE

The SARB will provide a guarantee for the deposits that banks will place with the CoDI for the liquidity tier of the deposit insurance fund, in order to allow banks to recognise this guarantee in the risk-weighting of these assets for regulatory capital purposes. Member banks will have to maintain a deposit of 3.00% of each bank's covered deposit balance with the CoDI for as long as they are licenced. The interest payable will be linked to the investment returns earned on these funds. As at 31 March 2021, the Financial Sector Laws Amendment Bill (FSLAB) was not promulgated. The collection of funds is to commence after promulgation of the FSLAB.

Notes to the summarised Group annual financial statements continued

for the year ended 31 March 2021

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:

	2021 Rm	2020 Rm
Corporation for Public Deposits	**1 542**	(2 769)
South African Bank Note Company (RF) Proprietary Limited	**60**	106
South African Mint Company (RF) Proprietary Limited	**315**	947
Total contribution to Group profit	**1 917**	(1 716)

18.1.1 Investment in Prestige Bullion

Prestige Bullion (RF) Proprietary Limited is a subsidiary of the South African Mint Company (RF) Proprietary Limited (SA Mint). The SA 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).

Main business	Manufacturing of blanks, marketing and distribution of legal tender bullion coin
Country of incorporation	South Africa
Interest held as non-controlling	40.00%
Percentage voting rights held by non-controlling interest	40.00%

Rand Refinery holds the 40.00% non-controlling interest in Prestige Bullion.

Summarised financial information of Prestige Bullion

	PRESTIGE BULLION	
	2021 Rm	2020 Rm
Statement of financial position		
Current assets	**595**	738
Total assets	**595**	738
Total equity	**331**	407
Current liabilities	**264**	331
Total equity and liabilities	**595**	738
Statement of comprehensive income		
Revenue	**4 195**	3 586
Gross profit	**622**	2 215
Operating expense	**(24)**	(36)
Profit before tax	**589**	2 254
Total comprehensive income	**424**	1 623

18. RELATED PARTY INFORMATION continued

18.1 INVESTMENT IN SUBSIDIARIES CONTINUED

18.1.2 Transactions with non-controlling interests

Rand Refinery

Rand Refinery has a 40.00% interest, and therefore holds a non-controlling interest in Prestige Bullion.

	2021 Rm	2020 Rm
Profit attributable to non-controlling interest	**170**	649
Accumulated non-controlling interest at year-end	**(132)**	(162)
Dividends paid to non-controlling interest	**200**	620

No significant restrictions exist on the SARB's ability to access or use the assets to settle the liabilities of the Group.

18.2 INVENTORY HELD ON BEHALF OF THE SARB BY THE SOUTH AFRICAN MINT

At year-end, coin inventory of R161.8 million (2020: R229.5 million) was held on behalf of the SARB.

18.3 INVESTMENT IN ASSOCIATE

	Number of shares '000	% held	2021 Rm	2020 Rm
African Bank Holdings Limited (Carrying value)	500	50	**3 467**	5 417
Profit attributable to Group			**119**	280
Impairment loss			**(119)**	(2 229)
Carrying value of investment in associate			**3 467**	3 467

18.3.1 Impairment loss recognised on investment in associate

The Group performs an annual impairment test on the investment in associate. The recognition of the impairment loss in the prior year was mainly as a result of the large scale economic impact of the COVID-19 pandemic on the expected cashflows of ABHL, which has subsequently improved and as such a minimal impairment limited to the share of profit in associate has been recognised in the current year.

The recoverable amount of R3.5 billion (2020: R3.5 billion) was calculated by means of the 'value in use method' using free cash flows and was 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 15.74% (2020: 16.50%) was used to calculate the present value of future cash flows. The average discount rate is calculated using the Capital Asset Pricing Model based on market related inputs in various scenarios. The main determinants of which are the South African Risk Free Rate at the time of the valuation, Beta calculated using comparable companies, the Implied Market Risk Premium at the time of the valuation and Alpha risk adjustments based on available market information.
- Funding was secured and there has been no withdrawals as at 31 March 2021 (2020: none). (Refer to note 17 for more detail).

Notes to the summarised Group annual financial statements continued

for the year ended 31 March 2021

18. RELATED PARTY INFORMATION continued

18.3 INVESTMENT IN ASSOCIATE CONTINUED

18.3.2 Sensitivity analysis

	2021 Rm	2020 Rm
The effect of a 1% increase and decrease in the discount rate is as follows:		
ABHL carrying value		
1% decrease	**3 531**	3 529
Valuation basis	**3 467**	3 467
1% increase	**3 421**	3 408
Impairment loss		
1% decrease	**(54)**	(2 168)
Valuation basis	**(119)**	(2 230)
1% increase	**(164)**	(2 289)
The effect of a 10% increase and decrease in the cash flow forecast is as follows:		
ABHL carrying value		
10% decrease	**3 056**	3 121
Valuation basis	**3 467**	3 467
10% increase	**3 895**	3 814
Impairment loss		
10% decrease	**(530)**	(2 576)
Valuation basis	**(119)**	(2 230)
10% increase	**310**	(1 883)

18.4 AMOUNTS DUE BY/TO RELATED PARTIES

	2021 Rm	2020 Rm
Amounts due by related parties		
Corporation for Public Deposits	**39 439**	17 917
South African Bank Note Company (RF) Proprietary Limited	**–**	5
SA government	**–**	25 414
South African Mint Company (RF) Proprietary Limited	**2**	–
Amounts due to related parties		
Corporation for Public Deposits	**38 351**	17 316
South African Bank Note Company (RF) Proprietary Limited	**706**	602
SA government	**483 338**	628 370
GFECRA	**315 584**	436 062
Deposits		
Non-interest-bearing	**44 951**	53 094
Interest-bearing	**122 440**	138 927
Other liabilities	**363**	287
South African Mint Company (RF) Proprietary Limited	**384**	5
South African Reserve Bank Retirement Fund	**6**	6

18. RELATED PARTY INFORMATION continued

18.5 TRANSACTIONS BETWEEN THE SARB AND ITS RELATED PARTIES

	2021 Rm	2020 Rm
Dividend received		
South African Mint Company (RF) Proprietary Limited	–	1 400
Dividend paid		
South African Mint Company (RF) Proprietary Limited	–	1 400
Interest received	**3 210**	3 875
African Bank Limited (equity accounted, not consolidated)	**1**	1
Corporation for Public Deposits	**1 314**	877
SA government	**1 895**	2 997
Interest paid	**5 239**	6 306
Corporation for Public Deposits	**1 268**	772
South African Bank Note Company (RF) Proprietary Limited	**41**	72
SA government	**3 924**	5 430
South African Mint Company (RF) Proprietary Limited	**5**	31
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	**37**	38
Corporation for Public Deposits	**3**	3
South African Bank Note Company (RF) Proprietary Limited	**26**	26
South African Mint Company (RF) Proprietary Limited	**4**	5
South African Reserve Bank Retirement Fund	**4**	4
Admin and management fees paid	**33**	34
Corporation for Public Deposits	**3**	3
South African Bank Note Company (RF) Proprietary Limited	**26**	26
South African Mint Company (RF) Proprietary Limited	**4**	5
Other income	**1 768**	1 717
African Bank Limited (equity accounted, not consolidated)	**1**	1
South African Bank Note Company (RF) Proprietary Limited	**1 121**	1 248
South African Mint Company (RF) Proprietary Limited	**646**	468
Cost of new currency	**1 767**	1 716
South African Bank Note Company (RF) Proprietary Limited	**1 121**	1 248
South African Mint Company (RF) Proprietary Limited	**646**	468
Pension fund contributions		
South African Reserve Bank Retirement Fund	**260**	250

18. RELATED PARTY INFORMATION continued

18.6 DIRECTORS' REMUNERATION

	2021 R'000	2020 R'000
Paid by SARB		
Executive directors: Remuneration		
Governor E L Kganyago		
Remuneration and recurring fringe benefits	**8 040**	7 707
Other fringe benefits	**87**	147
	8 127	7 854
Deputy Governor A D Mminele (term ended 30 June 2019)		
Remuneration and recurring fringe benefits	**–**	1 342
Other fringe benefits	**–**	14
Severance (including cooling-off period payment up to 31 December 2019)	**–**	2 928
Fringe benefits, 2020 restated[1]	**–**	8 605
	–	12 889
Deputy Governor F E Groepe (resigned 31 January 2019)		
Remuneration and recurring fringe benefits	**–**	–
Other fringe benefits	**–**	–
Severance (including cooling-off period payment up to 31 July 2019)	**–**	7 308
Fringe benefits, 2020 restated[1]	**–**	127
	–	7 435
Deputy Governor K Naidoo		
Remuneration and recurring fringe benefits	**5 743**	5 506
Other fringe benefits	**2**	2
	5 745	5 508
Deputy Governor N Tshazibana (appointed 01 August 2019)		
Remuneration and recurring fringe benefits	**5 743**	3 733
Other fringe benefits	**16**	7
	5 759	3 740
Deputy Governor R I Cassim (appointed 01 August 2019)		
Remuneration and recurring fringe benefits	**5 733**	3 725
Other fringe benefits	**92**	16
	5 825	3 741
Total remuneration of executive directors	**25 456**	41 167

1 An amount of fringe benefit pay-out for DG A D Mminele and DG F E Groepe was paid in the 2020 financial year end but only confirmed after year end and could not be reported in the prior year.

18. RELATED PARTY INFORMATION continued

18.6 DIRECTORS' REMUNERATION CONTINUED

	2021 R'000	2020 R'000
Non-executive directors: Remuneration for services		
B W Smit (term ended 1 August 2019)	–	157
C B du Toit	474	455
F Cachalia	648	607
G M Ralfe (term ended 1 August 2020))	204	562
L H Molebatsi	575	480
N Vink	455	401
R J G Barrow (term ended 1 August 2020)	786	1 186
R le Roux (term ended 1 August 2020)	163	433
T Nombembe	640	528
Y G Muthien	559	528
Z Hoosen	565	328
D J M S Msomi (Appointed 01 July 2020)	395	–
M M T Ramano (Appointed 01 August 2020)	338	–
N B Mbazima (Appointed 01 August 2020)	336	–
S Gaibie (Appointed 01 August 2020)	284	–
Total remuneration of non-executive directors	6 440	5 665
Chairs: Retirement fund		
D Konar (term ended 31 July 2020)	71	166
T Khangala (Appointed 01 August 2020)	131	–
Total remuneration of chairs of retirement fund	202	166
Total remuneration of directors	32 080	46 998

19. EVENTS AFTER THE REPORTING DATE

CPD GUARANTEE

The GEC approved an extension to the R3.5 billion financial guarantee issued by the SARB to the CPD for a further 12 months to 11 June 2022 as a result of the continued technical insolvency position of the CPD.

SOUTH AFRICAN MINT DIVIDEND

The South African Mint board declared a dividend of R450 million to the SARB on 21 May 2021.

Independent auditors' report to the directors of the South African Reserve Bank on the Prudential Authority

OPINION

We have audited the accompanying financial statements of the Prudential Authority ("PA"), which comprise the statement of financial position as at 31 March 2021, and the statement of profit or loss for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of the PA for the year ended 31 March 2021 are prepared, in all material respects, in accordance with the basis of accounting described in Note 1 to the financial statements and the requirements of section 55 of the Financial Sector Regulation Act No.9 of 2017.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements section* of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the audit of the Financial Statements section* of our report. We are independent of the PA in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the *International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards)*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

EMPHASIS OF MATTER – BASIS OF ACCOUNTING

We draw attention to Note 1 to the financial statements, which describes the basis accounting. The financial statements are prepared for the purpose described therein. As a result, the financial statements may not be suitable for another purpose. Our opinion is not modified in respect of this matter. Our opinion is not modified in respect of this matter.

RESPONSIBILITIES OF THE DIRECTORS FOR THE FINANCIAL STATEMENTS

The directors are responsible for the preparation and presentation of the financial statements in accordance with the basis of accounting described in Note 1 to the financial statements and the requirements of section 55 of the Financial Sector Regulation Act No.9 of 2017 for determining that the basis of preparation is acceptable in the circumstances and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditors' report to the directors of the South African Reserve Bank on the Prudential Authority

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the PA's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, and related disclosures made by directors.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Director: Vincent Tshikhovhokhovho
Registered Auditor

4 Lisbon Lane,
Johannesburg, South Africa

14 June 2021

SizweNtsalubaGobodo Grant Thornton Inc.

SizweNtsalubaGobodo Grant Thornton Inc.
Director: Pravesh Hiralall
Registered Auditor

20 Morris Street East
Johannesburg, South Africa

14 June 2021

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 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.

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 2021

		PRUDENTIAL AUTHORITY	
	Notes	**2021 Rm**	2020 Rm
Assets			
Other assets		**22**	73
Total assets		**22**	73
Liabilities			
Other liabilities		**8**	2
Unclaimed balances		**14**	71
Total liabilities		**22**	73

SUMMARISED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

Operating income		**11**	7
Levies	1	**–**	–
Fees	2	**11**	7
Penalties	3	**–**	–
Other operating income		**–**	–
Expenditure		**(375)**	(339)
Personnel costs	4	**(278)**	(246)
Operational costs	4	**(97)**	(93)
Amount funded by SARB	5	**364**	332
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 after applying this deduction is paid into the National Revenue Fund (if any). The SARB also has a responsibility in terms of the Financial Intelligence Centre Act 38 of 2001 Act (FIC Act) to ensure that banks and life insurance companies comply with the FIC Act. The SARB has authority in terms of the 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 the SA government in this regard amounted to R0.2 million (2020: R1 million).

4. **Personnel and operating costs** are only the direct costs related to the administration of 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	
	2021 Rm	2020 Rm
Operating costs include:	**97**	93
Travel expenses (foreign and local)	**–**	15
Official functions	**–**	3
Professional fees	**91**	65
Training cost (foreign and local)	**2**	5
Membership fees	**2**	2
Other operating costs	**2**	3

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 100th annual Ordinary General Meeting

of the shareholders of the SARB

The 100th annual Ordinary General Meeting (AGM) of the shareholders of the South African Reserve Bank (SARB) was held on Friday, 31 July 2020, at 10:00 on a virtual platform.

The Chairperson, SARB Governor Lesetja Kganyago, extended a warm welcome to all who had joined the virtual meeting, 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 advised the shareholders that due to the COVID-19 pandemic and the unprecedented environment the world found itself in, the SARB was hosting a virtual AGM – a first in its history. This decision had been taken in line with the national COVID-19 regulations and in the interest of everyone's health and well-being.

The Chairperson reflected on the SARB's founding in 1921, opening its doors for the first time on 30 June 1921 and holding its first ordinary general meeting of the shareholders on 26 July 1921, resulting in this AGM being the 100th meeting of the SARB's shareholders. The SARB's centenary as an institution would be in 2021, and preparations for the celebration of this remarkable milestone were underway.

Continuing with the meeting, the Chairperson advised that the proceedings of the meeting were being recorded for future reference, if it became necessary. He reminded shareholders that they would be able to ask written questions related to the business of the meeting by following the instructions provided in the Notice of the Meeting. He mentioned that messages could be submitted at any time prior to a matter being put to a vote.

All shareholders attending the meeting who held 200 or more SARB shares, and who were entitled to vote in accordance with the provisions of the SARB Act and its Regulations, would be allowed to vote at any time, before the votes were closed.

The Chairperson introduced the following persons who were online to answer any questions that the shareholders might have on the matters before the meeting:

- Deputy Governors, Rashad Cassim, Kuben Naidoo 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, Chris van der Walt; and
- the Secretary of the SARB, Sheenagh Reynolds.

The Chairperson took the opportunity to announce the following recent appointments made by the President of the Republic of South Africa:

- Deputy Governor Kuben Naidoo was reappointed for a further period of five years, with effect from 1 April 2020;
- Dr Terence Nombembe, representing government, was reappointed for a further period of three years, with effect from 16 July 2020; and
- Ms Dudu Msomi was appointed for a period of three years, with effect from 1 July 2020. The Chairperson welcomed Ms Msomi to the SARB's Board of Directors (the Board).

The Chairperson presented his address, which for record purposes follows these minutes (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 26 July 2019.
- Receive and consider the SARB's annual financial statements for the financial year ended 31 March 2020, including the directors' report and the independent external auditors' report.
- Approve the remuneration of the SARB's independent external auditors – PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc. – for completing the audit for the 2019/20 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 SizweNtsalubaGobodo Grant Thornton Inc. as the SARB's independent external auditors for the 2020/21 financial year.
- Elect one non-executive director to serve on the SARB's 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 virtual 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);
- 33 shareholders were present in person online;
- Five shareholders were represented by proxy; and
- 555 votes were exercisable by the shareholders present online 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, an independent external party.

The Chairperson then invited the shareholders to submit any questions related to the first four resolutions.

A shareholder, Mr Maseko, stated that the SARB was allegedly contravening the SARB Act as it had a shareholder (with reference number 006820) who held more than 10 000 shares. He pointed out that the SARB Act does not allow shareholders to hold more than 10 000 shares each. He said that this anomaly could be perceived as the SARB promoting inequality among shareholders. Mr Maseko enquired about the reason for the SARB not acting appropriately to address the anomaly.

Mr Maseko then posed a follow-up question, asking whether the SARB was aware of this shareholder and, if so, whether consequence management had been applied to those individuals who had not acted appropriately to address the matter. He further questioned the mechanism that the SARB would use to recover the dividends that had already been paid throughout the years to this shareholder.

The SARB's General Counsel indicated that the correct shareholder code that Mr Maseko may have been referring to was 008623, belonging to the South African Mutual Life Assurance Society, which had held more than 10 000 shares since before 1949. The aforementioned shareholder was entitled to continue to hold these shares in terms of section 22 (subsections 2 to 4) of the SARB Act; however, the shareholder was only entitled to vote on a maximum of 10 000 shares i.e. 50 votes.

Another shareholder, Mr Leach, referred to page 100 in the SARB's 2019/20 Annual Report, specifically the third last line in the table for movements from 2019 to 2020, regarding the transfer (from)/to reserve – (R5 916 billion – contingency reserve). He stated that his understanding was that the transfer to the contingency reserve should be without brackets: as in '5 916' and not '(5 916)'.

In response, the SARB's Chief Operating Officer acknowledged that this was an error as the contingency reserve for the amount of R5 916 billion should indeed be without brackets; the error would be corrected accordingly.

Mr Leach further referred to page 113 in the SARB's 2019/20 Annual Report, specifically the third paragraph under note 1.1.18.2 – 'other income reference to 'Integrated Regional Electronic Settlement System' – and remarked that he was under the impression that the name of the system had changed from the Southern African Development Community (SADC) Integrated Regional Electronic Settlement System (SIRESS) to the SADC real-time gross settlement (SADC-RTGS) system.

In response, the Chairperson confirmed that the name of the national payment system (NPS) had changed to the SADC-RTGS system towards the end of 2019, but that some sections in the SARB's 2019/20 Annual Report still made reference to the system as SIRESS.

In the absence of any further questions related to the first four resolutions, the voting process commenced in the order of the motions presented.

Acceptance of the minutes of the 2019 AGM

The Chairperson proposed that the minutes of the 99th AGM held on 26 July 2019 (included in the SARB's 2019/20 Annual Report) be taken as read.

There were no objections or corrections to the minutes. Based on the results of the poll, the Chairperson declared that the minutes of the 2019 AGM were accepted by 80% of the votes cast.

Acceptance of the annual financial statements for the financial year ended 31 March 2020, including the directors' report and the independent external auditors' report

The Chairperson formally presented the annual financial statements of the SARB for the financial year ended 31 March 2020, including the directors' report and the independent external auditors' report.

The summarised SARB Group annual financial statements were included in the SARB's 2019/20 Annual Report, which was published on the SARB's website and posted to the shareholders on 29 June 2020. The full set of the 2019/20 annual financial statements was also made available on the SARB's website on the same day.

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 2020 were accepted by 80% 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 2020 be confirmed and approved.

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 2020, amounting to R15 300 034 (excluding value-added tax (VAT)), was approved by 74.95% 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 2020/21 financial year.

It was reported that the Board had recommended that PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc. be reappointed as the SARB's independent external auditors for the 2020/21 financial year.

Based on the results of the poll, the Chairperson declared that PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Grant Thornton Inc. were reappointed as the SARB's independent external auditors for the 2020/21 financial year by 72.43% of the votes cast.

The auditors were congratulated on their reappointment.

Election of a non-executive director

The Chairperson turned to the election of a non-executive director and advised that three vacancies for shareholder-elected non-executive directors would arise after this AGM.

The terms of office of Mr Rob Barrow (a non-executive director with knowledge and skills in the field of commerce or finance), Prof. Rochelle le Roux (a non-executive director with knowledge and skills in the field of labour) and Mr Gary Ralfe (a non-executive director with knowledge and skills in the field of mining) would expire the day after this AGM. All three directors had completed three terms of office each, and were not available for re-election.

The Panel, appointed in terms of section 4(1C) of the SARB Act, had considered the nominations received for the three vacancies, but could only confirm three candidates for consideration by the shareholders for the vacancy in the commerce or finance sector, in terms of section 4(1G) of the SARB Act.

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, Thulani Tshefuta and Bheki Ntshalintshali (all nominated by the National Economic Development and Labour Council (Nedlac)).

The Panel was satisfied that the three candidates that had been selected 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 the Meeting.

Ms Kabela Mahlatse Maroga, Ms Mmakeaya Magoro Tryphosa Ramano and Dr Claudelle Francine von Eck had been selected as candidates for a position as non-executive director with knowledge and skills in the field of commerce or finance.

The results of the poll showed that 34% of the votes were cast in favour of Ms Ramano, 30% in favour of Dr Von Eck and 5% in favour of Ms Maroga. A total of 9% of shareholders abstained from voting.

Based on the results of the poll, the Chairperson declared that Ms Ramano was elected as a non-executive director of the SARB with knowledge and skills in the field of commerce or finance. Her appointment would be effective from 1 August 2020 until the day after the AGM in 2023.

The Chairperson congratulated Ms Ramano on her 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.

The Chairperson informed the shareholders that the Panel had been unable to select suitable candidates for consideration by the shareholders in the mining and labour categories, as an insufficient number of acceptable nominations had been received for these sectors. A call for the nomination of suitable candidates in the mining and labour sectors would again be made in 2021, for consideration by the Panel and election by the shareholders at the AGM in 2021.

It was recorded that the Board had, in terms of section 6(1)(b) read with section 6(2)(b) of the SARB Act, appointed Ms Shamima Gaibie, who has knowledge and skills in the field of labour, and Mr Norman Mbazima, who has knowledge and skills in the field of mining, to fill the two casual vacancies that would arise after the AGM. These appointees would serve for one year with effect from 1 August 2020 until the day after the 2021 AGM. Both persons would be eligible for re-election in 2021.

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.

A shareholder, Mr Molepo, posed a question on the role of the SARB during the COVID-19 pandemic, and about the mechanisms that the SARB had put in place to assist the nation during these challenging times.

In response, the Chairperson referred back to his address and confirmed that, since January 2020 and the start of the pandemic and the associated lockdown, the SARB had lowered the repurchase (repo) rate by 300 basis points, provided regulatory relief to improve credit flow, established a R200 billion loan guarantee scheme together with National Treasury and the banking sector, and injected liquidity into the financial system.

Mr Molepo also asked who would be responsible for the repayment of the money borrowed for COVID-19 relief by the President of the Republic of South Africa and how the repayments would be made. The Chairperson explained that National Treasury, not the SARB, had borrowed the money on behalf of government and that the question should be referred to them.

Concluding remarks

In the absence of any 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, the Deputy Minister of Finance, David Masondo, National Treasury Director-General, Dondo Mogajane and all the staff of National Treasury for their ongoing support of the SARB.

The Chairperson emphasised his gratitude to Minister Mboweni for his unwavering support during these challenging times for central banking. He stated that having a Minister of Finance with the calibre of Mr Mboweni at National Treasury, who having served as the eighth SARB Governor had an understanding of central banking, lightened the burden on the SARB. He mentioned that Mr Mboweni's continued support, stewardship and spirited defence for the continued independence and integrity of the SARB did not go unnoticed and was not taken for granted by anyone at the SARB.

The Chairperson further expressed sincere thanks to the members of the Board for their continued contributions and support, and for ensuring appropriate corporate governance was maintained at the SARB.

The Chairperson took the opportunity to extend a special word of thanks to Messrs Rob Barrow, Prof. Rochelle le Roux and Gary Ralfe and for their dedicated and valuable service to the SARB Board over their three terms of office. Their contribution to the SARB has been invaluable. He requested that, as they leave the SARB Board, they should continue to emulate the service they have provided to South African society through the SARB, especially during these difficult times. He wished them well in their future endeavours.

Sincere appreciation was also expressed to the SARB's Deputy Governors and 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.

The Chairperson then gave Mr Mike Brown, the Chief Executive Officer of the Nedbank Group, the opportunity to propose a vote of thanks to the SARB on behalf of the financial services sector.

On behalf of the shareholders of the SARB, Mr Brown mentioned that it was a privilege to deliver the vote of thanks at the 100th AGM of the SARB – a milestone and the first virtual AGM.

He mentioned it was common cause that South Africa was facing very challenging times as the health crisis of the COVID-19 pandemic had led to an economic and emerging social crisis. Unfortunately, the difficult period that the South African economy had been through over the past 10 years had left the country with very limited fiscal resources at a time when these resources were needed the most to respond to the pandemic.

Mr Brown expressed his appreciation to the SARB for its swift response to the pandemic in terms of monetary policy interventions, and also for ensuring the continued orderly functioning of capital and money markets, and announcing regulatory interventions designed to ensure the continued safety and soundness of the financial system, enabling the financial sector to help customers in times of need. This action assisted in offsetting some of the COVID-19 impact on the economy and jobs.

Mr Brown continued to state that while these interventions were welcomed, only meaningful structural reforms could sustainably increase South Africa's attractiveness as an investment destination, which would result in increased economic growth and reduced unemployment rates. Unfortunately, up to this stage, insufficient progress had been made in this regard.

Institutional strength was a vital pillar for the functioning of any successful economy, and the SARB was certainly standing tall as one of the strongest institutions in the country. The importance of the continued independence of the SARB to the future of all South Africans, in pursuit of its primary mandate of achieving and maintaining price stability in the interest of balanced and sustainable economic growth in South Africa, could not be underestimated.

Mr Brown indicated that in these unprecedented times there would be increasing pressure on institutions such as the SARB to create 'magic money', which is the term that the Governor had used in a recent lecture to describe a form of substitute for making tough economic policy choices. As a country, South Africa and its citizens were very fortunate to have monetary policy and price stability in the hands of the capable team at the SARB led by Governor Kganyago with the support of the Board.

Concluding his speech, Mr Brown thanked the Board, Governor Kganyago, the Deputy Governors and the SARB staff on behalf of the shareholders as well as the people of South Africa.

Closing

The Chairperson thanked the shareholders for their attendance and participation in the virtual meeting, 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 100th AGM of the SARB shareholders held on Friday, 31 July 2020.

GLOBAL ECONOMIC CONDITIONS

We mark the 100th AGM of the SARB at a time when the world is facing one of the most disruptive and challenging crises in recent memory. The COVID-19 pandemic has placed significant pressure on the global as well as domestic economies, and the livelihoods of citizens.

The unprecedented restrictions imposed by countries to contain the spread of the virus have contributed to plunging economic activity, ending the global economic expansion that had started in 2010.

In its latest update in the *World Economic Outlook*, the International Monetary Fund estimates that global gross domestic product (GDP) will contract by about 4.9% in 2020. The World Bank highlights that this will be the deepest global contraction since 1945, with a record 93% of the world's economies expected to experience economic contraction this year.

The decline in global GDP has been compounded by increased risk aversion and extreme volatility in financial asset prices, with sharp and deep market sell-offs. Business and consumer confidence has also fallen as uncertainty levels reached new highs. Resource-exporting economies and countries with a high reliance on debt markets for funding will become even more vulnerable if capital continues to flow out of emerging market economies.

The global policy response has matched the magnitude of the crisis. Fiscal authorities have contributed by delivering stimulus packages that are estimated to be larger than the response to the global financial crisis of 2008 and 2009. This stimulus has provided support to the health sector and to vulnerable households and businesses.

Central banks around the world responded swiftly by lowering interest rates and providing liquidity to maintain market functioning. These response measures have helped to ease global financial conditions, allowing governments and companies to continue accessing domestic and international financial markets, and thus being able to sustain business operations and provide support to households. As a consequence, the high-frequency indicators suggest that the gradual lifting of lockdown restrictions in the major economies (first China, then Europe) has seen a rebound in manufacturing production and retail spending.

While major economies in Asia and Europe appear to be on the road to recovery, the United States (US) and most of the emerging world are still very much in the midst of the crisis. Many countries – especially in Africa, Latin America and South Asia – are still experiencing increases in new COVID-19 infections. This has resulted in a delay in economic reopening or, in some cases, has led to renewed lockdown restrictions.

As the pandemic persists, it is clear that some sectors of the economy, like travel and recreation, will experience a prolonged drop in demand. Households may continue to maintain high precautionary savings, and uncertainty is likely to weigh on business capital spending plans.

For many countries, the room for additional fiscal stimulus is limited should there be a 'second wave' of infections, resulting in significantly higher debt-to-GDP ratios as well as higher costs of accessing finance.

DOMESTIC ECONOMIC CONDITIONS

In South Africa, the COVID-19 crisis arose at a time when our domestic economy was already vulnerable and in a technical recession. Real GDP had contracted at an annualised rate of 0.8% and 1.4% respectively in the last two quarters of 2019. This decline accelerated to an annualised rate of 2.0% in the first quarter of 2020, despite the nationwide lockdown only coming into effect in the last few days of March. This was due to falling export demand, weak business confidence and investment, and the return of load-shedding.

While second-quarter GDP data are not yet available, there is sufficient evidence to confirm that the lockdown has exerted a drag on economic activity. For example, in April 2020, mining and manufacturing production plunged month on month by 37% and 44% respectively. And while there are signs of recovery in some sectors, much uncertainty remains. The COVID-19 outbreak is having major health, social and economic impacts, which presents challenges in forecasting.

The SARB expects that the lockdown will cause output to contract by 7.3% in 2020. The last time a figure of this magnitude appeared in our data was in 1931, during the Great Depression, when output fell by 6.2%.

In line with a partial global recovery, we expect economic activity in South Africa to start recovering as lockdown measures are gradually eased. Our projections for 2021 and 2022 are for GDP to recover to 3.7% and 2.8% respectively.

Due to global economic and financial conditions, as well as country-specific factors, South Africa experienced an increase in capital outflows and significant currency weakness between March and April 2020. The South African rand depreciated by 22% between February 2020 and the end of April. Over the same period, the yield on the 10-year government bond rose by more than 200

basis points, and money market liquidity was thin. Although many of these moves have been reversed, on balance, capital inflows remain below those of our emerging market peers.

Inflation has moderated since the beginning of the year. Consumer price index inflation fell to as low as 2.1% year on year in May 2020, down from 4.6% three months earlier. Longer-term inflation expectations have continued to decline towards 4.5%, which is the midpoint of the inflation target range. Inflation expectations for 2020 are at around 3.9%, the lowest in recorded history. Consequently, the SARB's inflation forecast now sees core inflation remaining within the lower half of the target range for the remainder of the forecast period, that is, until the end of 2022.

The SARB expects headline inflation to average 3.4% in 2020, and 4.3% in both 2021 and 2022. This benign inflation outlook has allowed the Monetary Policy Committee (MPC) room to reduce the repo rate.

THE SARB'S ACTIONS DURING THE COVID-19 CRISIS

As a reminder, let me briefly outline the measures undertaken by the SARB since March 2020.

Monetary Policy Committee decisions

The MPC reduced the repo rate four times by a cumulative 275 basis points to 3.50% per annum as follows:

- 100 basis points cut in March 2020.
- 100 basis points cut at a special MPC meeting in April 2020.
- 50 basis points cut in May 2020.
- 25 basis points cut in July 2020.

Domestic money market liquidity management

The SARB acted swiftly to ensure the continued smooth functioning of financial markets. Revisions to liquidity management operations comprised the following four elements:

- First, we put in place Intraday Overnight Supplementary Repurchase Operations to provide liquidity support to commercial banks.
- Second, we introduced a three-month term repo facility, which is offered in addition to the weekly main refinancing operations. The SARB has indicated its willingness to offer longer-term repo facilities of up to 12 months subject to liquidity conditions in the market.
- Third, the end-of-day lending rate on the standing facility was reduced from repo plus 100 basis points to the repo rate. At the same time, the borrowing rate on the standing facility, which is the rate at which the SARB absorbs liquidity, was also adjusted lower. Commercial banks' deposits at the SARB now earn interest based on the repo rate less 200 basis points, compared to the repo rate less 100 basis points previously. This measure is meant to discourage banks from depositing money at the SARB, and to encourage money market liquidity.
- Lastly, as an extra measure to add liquidity and promote the functioning of the bond market, the SARB began a programme of purchasing government securities in the secondary market. More than R30 billion worth of government bonds have been bought since the start of the programme in March 2020.

REGULATORY AND SUPERVISORY RELIEF MEASURES

Since the 2008/9 global financial crisis, South Africa has implemented reforms to strengthen its regulatory framework for financial institutions and improve the resilience of the financial system. This has enabled the Prudential Authority (PA) to deliver temporary regulatory relief for banks in a manner that is consistent with internationally agreed regulatory standards.

The PA has provided guidance covering accounting matters and imposed a limit to the payment of dividends and bonuses by banks and insurers to ensure the conservation of capital and retained capacity in an environment of heightened uncertainty caused by COVID-19.

EXPECTED IMPACT OF THE SARB'S RESPONSE

The SARB's policy responses are an important element of providing support to the economy.

Interest rate decisions are expected to play an important role in replacing displaced income. The relaxation of certain regulatory measures has enabled banks to provide support to households and businesses through continued lending activities, alongside the Government Loan Guarantee Scheme. In addition, the liquidity operations have supported market functioning, which is important for financial stability.

While there is limited information to assess the impact of interest rate adjustments and other regulatory measures, the decline in indicators of bond market frictions and the improvements in money market liquidity conditions testify to the positive impact of the SARB's liquidity management measures.

FINANCIAL STABILITY

The SARB has a statutory mandate to protect and enhance financial stability in South Africa by monitoring global and domestic conditions, using various indicators to identify the risks and vulnerabilities which may impact on the financial system.

During the past year, the main risks to financial stability were identified as weak and deteriorating domestic macroeconomic conditions, government's fiscal position, cyberattacks on key financial infrastructures and climate change.

The COVID-19 pandemic has placed all of these risks at the centre of the financial system. Government's debt issuance is higher; the deteriorating economic conditions have increased the credit risks faced by financial institutions and periods of market stress and volatility have placed a higher strain on market infrastructures. In addition, the prolonged period of remote working has increased cybersecurity risks.

The SARB continually monitors for signs of stress in the system, and will continue to act as appropriate to mitigate any risks. Our assessment to date finds that the financial system remains resilient.

COVID-19 AND SARB OPERATIONS

It would be amiss of me not to reflect on how the SARB itself is managing the impact of the pandemic. After all, everything we do is through our people.

While the focus has been on monetary policy, coupled with regulatory and liquidity management measures, it has been essential for the SARB to ensure that key functions in the economy are not negatively affected by any disruptions to the NPS and our currency operations.

The SARB initiated a process in January 2020 to monitor the effects of the pandemic on its operations, including the operations of its subsidiaries. A Joint Operations Centre was established in February 2020 to lead the SARB's response and ensure business continuity.

Since March 2020, the majority of our employees have been working remotely. We have also prioritised the implementation of medical and wellness protocols throughout the SARB Group.

The SARB's key operations have not been affected by the remote working arrangements.

To ensure the continuity of the cash supply chain, an industry forum was established to monitor the availability of cash in circulation in the economy, along with the ongoing production of new currency.

CONCLUSION

Let me conclude with some key points for reflection in the ongoing discourse about the role of the SARB in the economic recovery.

The COVID-19 pandemic has demonstrated the extent of interconnectedness of the global economy through production value chains, trade, financial markets, travel and the exchange of knowledge.

Within the central banking community, the actions of major global central banks have provided space for the SARB to respond to our unique domestic conditions.

We have also seen the value in being part of a global community through the contributions that we were able to make in global forums, strengthening the global financial safety net.

As we move towards economic recovery, the opening up of global trade channels will be important for South Africa as a small open economy. However, as policymakers, we must ensure that our economy is well placed to take advantage of improving global conditions.

To place our economy on a sound and sustainable growth path, the SARB stands ready to provide support to the economy within its mandate. Lower longer-term inflation outcomes are important for maintaining purchasing power, containing the costs of living and of doing business, and supporting our country's global competitiveness.

However, as we have indicated in the past, improving the potential growth rate of the economy cannot be left to the central bank alone. Coupled with prudent macroeconomic policies and structural reforms, a lower cost of capital can support growth in long-term investment. The recovery of the South African economy requires a multi-pronged policy approach.

As we navigate through this COVID-19 storm, the SARB will continue to deploy its tools, as appropriate, in accordance with its mandate, to provide support to the South African economy.

This is not a time to despair. Neither is it a time to venture into policies or instruments that have proved a failure in economic history. There are tough choices for us to make as a society.

Thank you.

Abbreviations

ABHL: African Bank Holdings Limited

ABL: African Bank Limited

AGM: annual Ordinary General Meeting

AGR: Augmented Guidotti Ratio

AML/CFT: anti-money laundering and combating the financing of terrorism

BA: Bachelor of Arts

BASA: The Banking Association South Africa

BCBS: Basel Committee on Banking Supervision

BER: Bureau for Economic Research

BIS: Bank for International Settlements

bps: basis points

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

CA(SA): Chartered Accountant South Africa

CBDC: central bank digital currency

CCP: central counterparts

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

COO: Chief Operating Officer

CPD: Corporation for Public Deposits

CPD Act: Corporation for Public Deposits Act 46 of 1984

CPI: consumer price index

CSI: corporate social investment

DMTN: domestic medium-term notes

EBITDA: earnings before interest, taxes, depreciation, and amortisation

ECL: expected credit loss

EDO: early debit order

EFA: enablement focus area

EFT: electronic funds transfers

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

FIC: Financial Intelligence Centre

Finstab: Financial Stability Department

fintech: financial technology

FMA: Financial Markets Act 19 of 2012

FMIs: financial market infrastructures

FSB: Financial Stability Board

FSC: Financial Stability Committee

FSCA: Financial Sector Conduct Authority

FSCF: Financial Sector Contingency Forum

FSLA Bill: Financial Sector Laws Amendment Bill

FSOC: Financial Stability Oversight Committee

FSR Act: Financial Sector Regulation Act 9 of 2017

FVOCI: fair value through other comprehensive income

FVPL: fair value through profit or loss

G20: 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

GIBS: Gordon Institute of Business Science

GR: Guidotti Ratio

Hons: Honours (degree)

I&T: information and technology

IAD: Internal Audit Department

IAIS: International Association of Insurance Supervisors

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

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

JOC: Joint Operations Centre

JSE: Johannesburg Stock Exchange

King IV: King Report on Corporate Governance in South Africa (2016)

LIBOR: London Interbank Offered Rate

LLB: Bachelor of Laws

LLM: Master of Laws

MBA: Master of Business Administration

MI: market infrastructure

MoU: Memorandum of Understanding

MPC: Monetary Policy Committee

MPF: Monetary Policy Forum

NCR: National Credit Regulator

NPS: national payment system

OCI: other comprehensive income

PA: Prudential Authority

PASA: Payments Association of South Africa

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.

QB: Quarterly Bulletin

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

RTGS: real-time gross settlement

SA: South Africa(n)

SA government: South African government

SABN: South African Bank Note Company (RF) Proprietary Limited

SADC: Southern African Development Community

SAICA: South African Institute of Chartered Accountants

SAMOS: South African Multiple Option Settlement

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.

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

the Group: South African Reserve Bank Group, including its subsidiaries and associate, referred to in the summarised annual financial statements

US: United States

VAT: value-added tax

Wits: University of the Witwatersrand

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