



STRATEGY AND RISK MANAGEMENT

STRATEGY MANAGEMENT

The successful execution of the SARB's strategy will ensure that it continues to meaningfully contribute towards the economic well-being of all South Africans by achieving its mandate.

In 2016, the SARB adopted a new strategy management framework and four-year strategic plan. Two years into this journey, the design of the strategic plan has remained fairly consistent, however, a stronger focus has been placed on both executing and tracking the strategy. The SARB is on track to achieve its 2020 targets.

Through the continual development and improvement of its strategy management framework, and associated processes and systems, the SARB is working towards a strategy-focused organisation where:

the strategic plan and strategy management framework are continually embedded into the everyday lives of its employees;

its departments work together and within the broader external eco-system to execute the strategic focus areas (SFAs) and strategic initiatives; and

change is driven and supported by the SARB's leadership team, culture and employees.

STRATEGY DESIGN

The 2020 strategic plan, summarised on page 7, drives the achievement of both price and financial stability. The five SFAs and their supporting strategic objectives prioritise key areas of work and provide a manageable strategic agenda against which performance can be measured.



STRATEGY AND RISK MANAGEMENT – continued

While the achievement of the SARB's mandate through the SFAs is the intended outcome of the strategy, it is also imperative that the SARB builds internal enabling capability to ensure that it remains a relevant and high-performing organisation over the longer term. While not core to the SARB's mandate, these cross-cutting objectives support all five SFAs and enable step change in performance; namely:

CROSS-CUTTING OBJECTIVES

Leverage and maximise the SARB's participation in regional and international forums to advance South Africa's national interest.

Improve targeted internal and external stakeholder communication and engagement as an important tool to deliver the SARB's mandate, create greater transparency around the SARB and improve citizen education. A brand and corporate identity initiative is underway and will be complemented by the SARB's stakeholder strategy and engagement initiatives.

Improve strategy, risk and performance management to enable the SARB to respond to the rapidly changing environment, understand the risks associated with its strategy and continue to build a high-performing organisation. A strategic initiative has recently been launched to better understand the role of central banking post 2020 and the implications for the SARB. Factors such as financial technology (fintech), blockchain, smart payment methods, intelligent cybersecurity and other exponential technologies are covered by the initiative.

Improve enterprise information management to address the SARB's current and future information requirements and enable it to optimally collect, analyse and disseminate information in response to increasing financial system complexity and rapid technological developments.

Establish and embed cybersecurity processes given that cyber threats remain high and no organisation is completely immune to such risks.

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

BUILDING BLOCKS

Provide fit-for-purpose technology solutions that deliver accurate and timely information to inform decision making and enable the SARB's processes in a globalised and increasingly complex environment. The revised IT strategy is being implemented and the IT portfolio has been segmented into tier 1 and tier 2 projects, with tier 1 projects requiring increased focus given their significant impact on the SFAs.

Attract, develop and retain critical skills and competencies by maturing talent management, workforce planning and performance management, as well as fostering employee engagement and developing a new employee value proposition. This focus supports the SARB's response to the changing world of work, which includes technology advances (artificial intelligence, machine learning and robotics) and a multi-generational, connected, flexible and mobile workforce.

Improve organisational effectiveness by reducing bureaucracy and silos and becoming more flexible and agile to enable rapid response to the changing environment. A number of initiatives aim to improve the SARB's agility, including a review of governance structures and committees across the organisation.

Embed a culture of performance, innovation and collaboration led by a team driven by the SARB's values. The SARB is implementing a programme that aims to embed the desired culture and strengthen its leadership. This is a focal point of the SARB's enterprise-wide initiatives, as successful strategy execution depends on alignment between culture and strategy.



STRATEGY REVIEW

A targeted analysis of disruptive environmental forces and the SARB's internal performance was undertaken during the reporting year, and it was concluded that the SARB's strategy is sufficiently robust to respond to internal and external factors. The five SFAs remain in place for the medium term to 2020. One notable refinement is the inclusion of cybersecurity as a strategic internal cross-cutting objective in the strategic plan. This is in response to the increasing number of cybercrime incidents globally and the growing sophistication of cyberattacks.

The SARB recognises that a longer-term focus is required to ensure that it is future fit, relevant and able to respond to the megatrends that impact its work. For example, fintech is one factor that may shape the strategic focus in the longer term. Work is underway to test the relevance of the strategic plan beyond 2020.

Developments in financial technology

The rapid developments in fintech such as crypto-assets, initial coin offerings and crowdfunding means that the financial sector is potentially facing innovation- and technology-driven disruptions to its products and services. This has implications for the SARB’s macro- and microprudential oversight responsibilities.

The SARB established the Fintech Programme in 2017 as part of its ‘smart central bank of the future’ strategic initiative. A dedicated unit staffed with full-time employees is tasked with strategically tracking and analysing fintech developments. The primary aim of the programme is to ensure efficient, appropriate and enabling fintech policy and/or regulatory frameworks for emerging financial services activities and innovations. The programme will facilitate the development of policy positions for the SARB across the fintech domain, taking into account the related benefits and risks of fintech. It will consider whether current policies and regulatory regimes are still appropriate for these innovations and, where required, assist policymakers in formulating new regulatory responses to these innovations.

The SARB has adopted a risk-based rather than a rules-based evaluation approach. For example, it does not evaluate the product, technologies used or the entity, which is usually a small technology company. Instead, it evaluates the underlying economic function or regulated activity which would typically include deposit taking, payments, lending, insurance and investments.

THE FINTECH PROGRAMME WILL FOCUS ON THE FOLLOWING THREE AREAS

Development of a policy and/or regulatory framework for crypto-assets: the SARB’s review will cover issues such as clearing and settlement risks, exchange control impacts, monetary policy and financial stability and cybersecurity, among others.

Assess the appropriateness of innovation facilitators¹ for the SARB: clear and transparent eligibility and participation criteria will be developed to assist the selection of applicants for a regulatory sandbox. The data collected and interactions with innovation facilitators could inform policy positions.

Fintech data collection and analysis: to fast-track learning of exponential technologies such as blockchain.

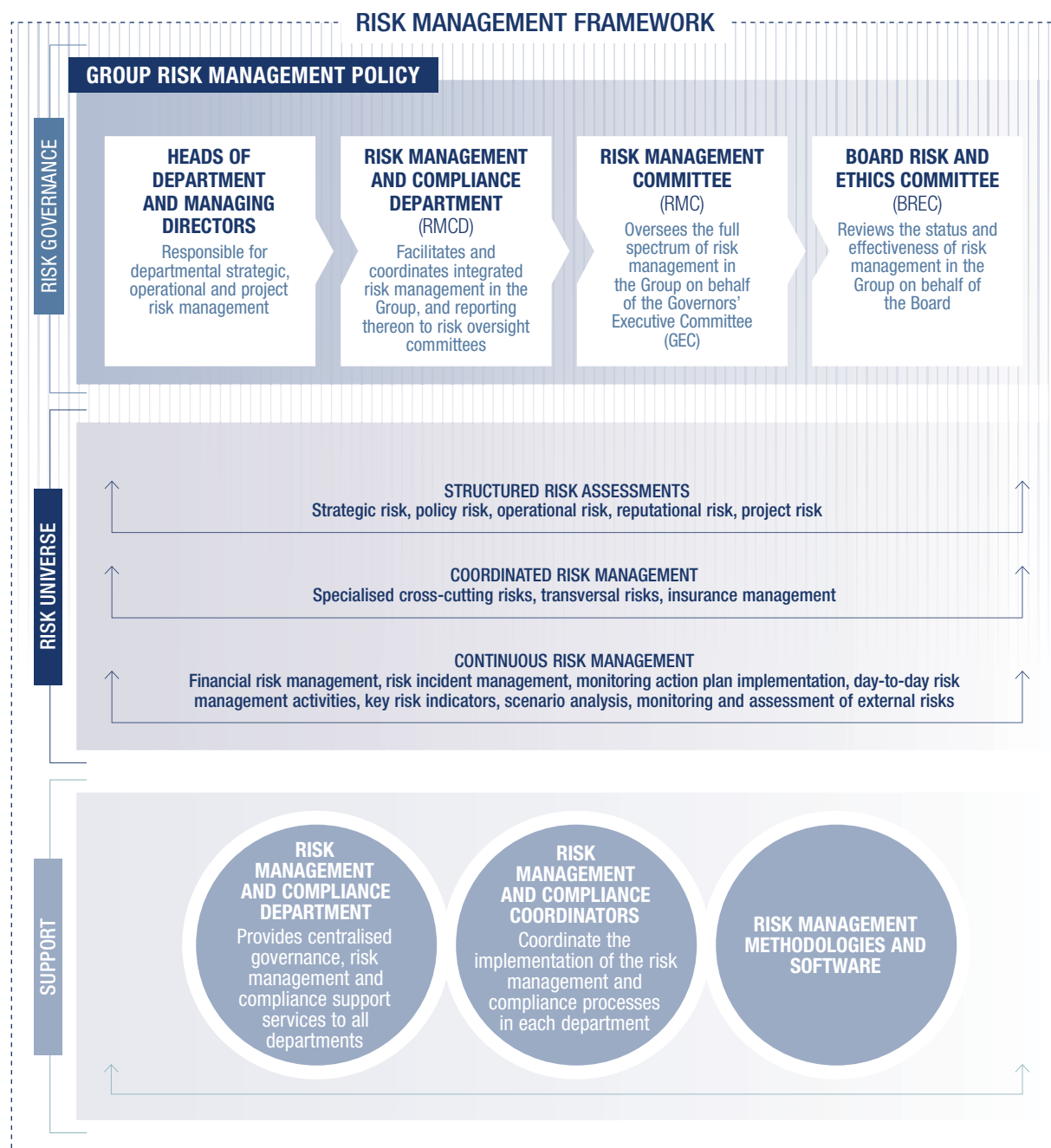
The SARB is committed to staying abreast of and contributing to global thought leadership on fintech. It collaborates with local and international regulatory and standard-setting bodies. Work undertaken by the various working groups at the Financial Stability Board and the Bank for International Settlements has been proactive in trying to understand fintech developments and robustly exploring benefits, risks and appropriate regulatory frameworks.

1. Innovation facilitators is a collective term for innovation hubs, regulatory sandboxes and accelerators. A regulatory sandbox is a set of rules that allows innovators to test their products or business models in a live environment without following some or all legal requirements and subject to predefined restrictions.

RISK MANAGEMENT

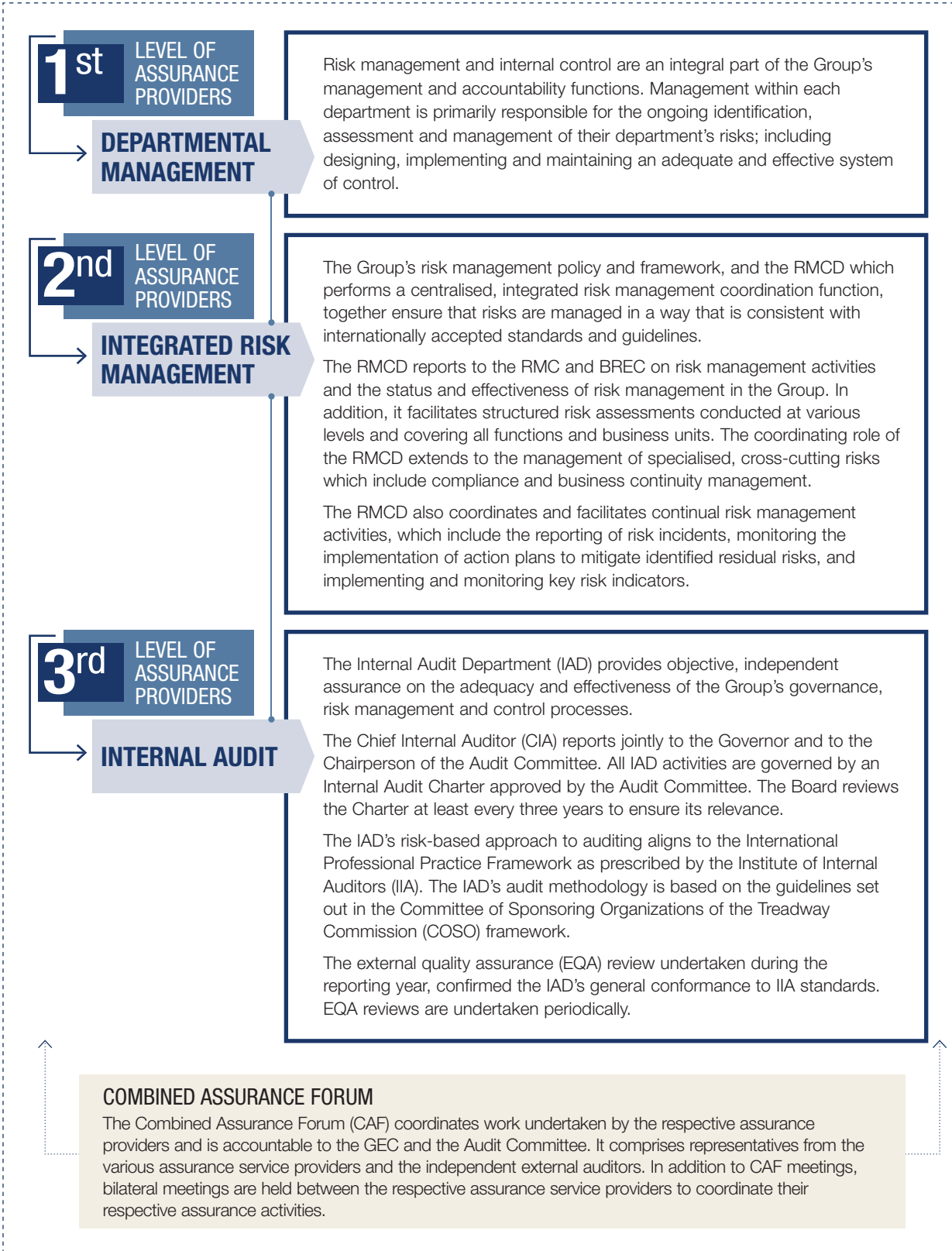
The SARB is exposed to significant inherent risks in many of its core functions. Given its unique role, the SARB’s risk management and control objectives go beyond the risks that impact its operations to include public interest in line with its constitutional and statutory responsibilities.

The SARB’s risk management framework ensures that the risks that may threaten the achievement of the SARB’s strategic objectives are adequately and effectively managed at acceptable levels. The SARB’s risk management approach includes monitoring and appropriately responding to potential and actual risks emanating from global and domestic political and economic environments. The framework governs the full spectrum of strategic, financial (including credit, market and liquidity), reputational and operational risk management and considers and, where appropriate, incorporates the risk management principles set out in the fourth King Report on Corporate Governance in South Africa (King IV).



COMBINED ASSURANCE APPROACH

The Group follows a combined assurance approach to risk management and control. This approach aims to integrate, coordinate and align the assurance processes within the Group and to optimise the level of risk, governance and control oversight.



Independent external assurance service providers

The Group's annual financial statements are audited by independent external auditors, and where deemed necessary, other external assurance providers are used to obtain independent assurance on the adequacy and effectiveness of internal processes and practices, taking into account international best practice.

SPECIALISED CROSS-CUTTING RISKS

Compliance risk management

Specific efforts, applied Group-wide, to ensure that the Group meets its compliance obligations include:

- > developing and maintaining an appropriate compliance policy and framework;
- > identifying, assessing and monitoring compliance with applicable regulatory requirements;
- > promoting a culture of compliance; and
- > reporting on compliance risks to the RMC and BREC.

Business continuity management

The SARB has a business continuity management policy and framework in place. The RMCD provides centralised coordination and the appropriate backup infrastructure and facilities further strengthen the SARB's resilience. The RMCD facilitates business impact assessments and compiles business continuity plans for all departments. It also liaises closely with the Cyber and Information Security Unit, which is responsible for ensuring holistic governance and management of the Group's cyber and information security programme.

Enhancing integrated risk management

During the reporting year, the RMCD focused on enhancing integration across the various components of the risk management value chain.

The chief risk officers of two central banks conducted a peer review of the adequacy and effectiveness of the SARB's integrated risk management framework and processes. The results showed that the SARB's integrated framework and processes encompass the essential components of a strong risk management programme and include the core components of the operational risk management principles and practices used by other central banks and monetary and supervisory authorities.

Going forward, focus will be placed on strengthening the integration between the risk and strategy management processes, and the recommendations arising from the peer review will be implemented. These recommendations include streamlining the reporting process to the RMC and BREC and further automation of some of the supporting processes.



STAKEHOLDER ENGAGEMENT

Of critical importance to the SARB, particularly given the fast changing and challenging environment in which it operates, is to make the SARB's work more accessible to all South Africans. Targeted internal and external stakeholder engagement and communication has therefore been included in the SARB's strategic plan as a cross-cutting strategic objective that supports the realisation of the SARB's intended outcomes.

Historically, the SARB's engagement initiatives focused mostly on its primary mandate – monetary policy. Recent developments, including changes to the regulation of the financial services sector, have broadened the SARB's responsibilities. This has deepened the need for more communication on the SARB's strategy, analysis and policy conduct. The SARB is therefore rebalancing its communication and engagement efforts to facilitate better understanding of its role and responsibilities, particularly among the general public.

As more South Africans start to see the positive link between what the SARB does and their own economic well-being, the more favourably they will view the SARB and place their trust in it, enhancing the SARB's credibility and reputation.

PRIMARY STAKEHOLDERS

Parliament is a primary stakeholder as it is through parliament that the SARB accounts to the citizens of South Africa. The Governor and other SARB officials engage regularly with parliament and other special interest groups on the work that the SARB does. Work is underway to broaden the scope of these engagements to cover the specific goals articulated in the SFAs.

During the reporting year, the SARB conducted two surveys to gain employee insight. The Employee Value Proposition survey and the Employee Engagement survey. The results of both surveys will be used to improve organisational culture and employee experience.

PUBLIC ENGAGEMENTS

Each Monetary Policy Committee (MPC) meeting concludes with a press conference at which the Governor delivers a statement explaining the decision of the MPC. The statement is published on the SARB's website, together with documents detailing the key forecasts and assumptions used in the meeting, for variables such as headline inflation, economic growth and the future (model-determined) policy rate. The press conference also provides an opportunity for MPC members to answer questions from stakeholders on its deliberations and decision.

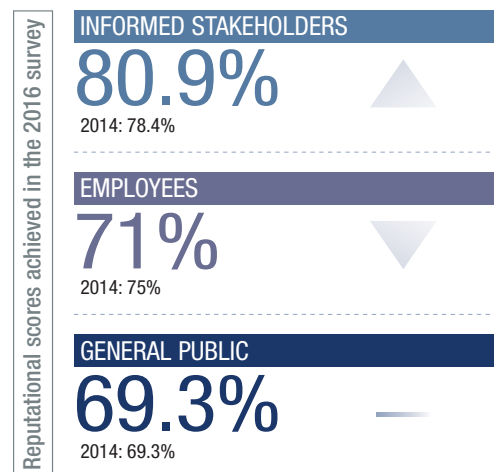
In addition, a more detailed review of monetary policy is presented to members of the public at various Monetary Policy Forums, held twice a year in major centres throughout the country.

In 2017, the SARB hosted two pilot forums in Soweto to reach new audiences. Lessons learnt are being used to redesign the SARB's approach to engaging with the general public and stakeholders outside the SARB's core group of stakeholders. For example, following the Soweto forums, the SARB hosted a workshop to explain the application process for a banking licence. Pleasingly, the workshop was attended by more than 250 people from various provinces, indicating a demand for engagement with the SARB.

Reputational survey

The Reputational Survey is undertaken every two years and assesses SARB's reputation based on familiarity, favourability, trust and advocacy. The survey provides the SARB's leadership with useful insight into how stakeholders view the organisation and the results are used to inform stakeholder communication and engagement initiatives.

The overall reputational scores among all three stakeholder groups were positive. However, informed stakeholders felt that the SARB's public visibility could be improved and employees indicated a need for better engagement from the SARB's leaders and managers. The awareness of the SARB by the general public remained low, but positive among those who were aware of the organisation.



STAKEHOLDER ENGAGEMENT – continued

These communication efforts foster economic education and literacy, helping citizens understand their economic environment so that they are better able to make informed decisions with regards to lending, savings and investment which have a direct impact on their well-being. The engagements also help the private sector to better understand the impact of changes in short-term interest rates on macroeconomic variables. Finally, clear and transparent communication helps to build public support for the measures required to support prudent monetary policy.

OUTREACH PROGRAMMES

The SARB's outreach programmes include the national MPC Schools Challenge in partnership with the Department of Basic Education (discussed on page 61 of the corporate social investment report) and high school learner visits to the SARB or SARB representatives visiting schools and universities. During these visits, the SARB engages on monetary policy and the work that it does. It targets teachers, students and learners involved with commerce subjects.

The SARB views these engagements as an effective and sustainable way in which to achieve better understanding around its work, and to broaden its reach indirectly to a wider audience through knowledge sharing. Going forward, it will focus on reaching more schools, particularly those in small towns and rural areas.

SOCIAL MEDIA

The SARB operates Twitter, Facebook, LinkedIn and Instagram accounts, which provide a wide range of stakeholders with a mechanism to quickly reach the SARB when they need information. These platforms are gaining in importance and used to address a range of issues, particularly those relating to coin and banknotes.

REGIONAL AND INTERNATIONAL FORUMS

South Africa is committed to the development of an effective and efficient global financial regulatory architecture. The SARB is a member of and actively participates in relevant and strategic international forums, including the Group of Twenty (G-20) and the FSB. This enables it to influence the global financial reform agenda.

The SARB has signed Memoranda of Understanding with the European Central Bank and Deutsche Bundesbank, and agreed to a formal programme of collaboration with the Bank of England, on technical matters relating to central banking issues.

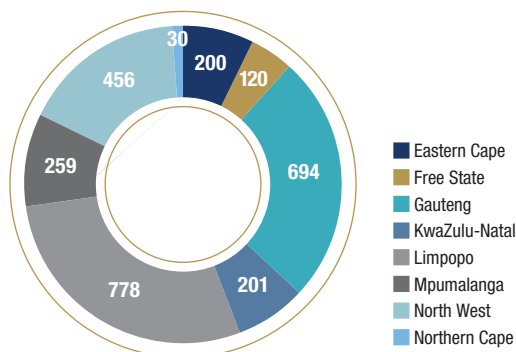
Monetary Policy Forums

2 626 people

attended Monetary Policy Forums or events in 2017. Since 2000, forums have been hosted in 10 cities and towns across South Africa, attracting a wide range of stakeholders, including business people and students.

Learner interactions

High school learner visits to the SARB's head office



Social media



SA Reserve Bank
February 26

Many South Africans wonder if the 10c and 20c pieces are still legal tender. They are and should be accepted as payment for any goods and services. However, there are limits to how many coins may be used per transaction.



SARB FOLLOWERS

March 2018



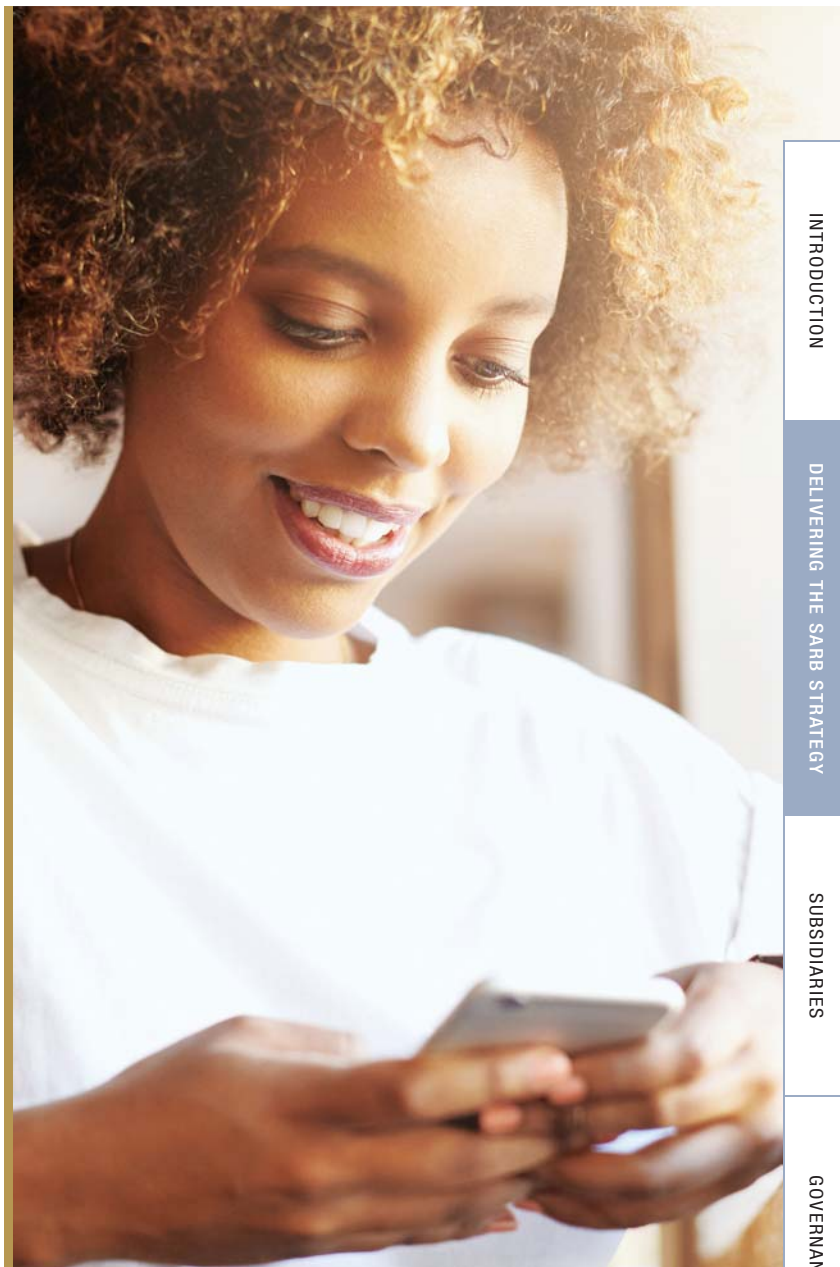
31 872 ▲
April 2017: 1 600



25 500 ▲
April 2017: 6 300



12 700 ▲
April 2017: 4 400



INTRODUCTION

DELIVERING THE SARB STRATEGY

SUBSIDIARIES

GOVERNANCE

FINANCIALS

ADDITIONAL INFORMATION

International engagements during the year

Association of African Central Banks (AACB):

the SARB hosted the annual Assembly of Governors' meeting and the Governors' Symposium. Delegates from 42 member banks in Africa, as well as delegates from Asia, Europe and the United States of America (USA) attended. The SARB's Governor chairs the AACB, which drives the African Monetary Cooperation Programme of the African Union.

Africa Local Currency Bond Markets Conference:

the SARB jointly hosted this conference to develop local currency bond markets with the Deutsche Bundesbank as part of the Compact with Africa Initiative, a G-20 Agenda initiative. The conference was attended by delegates from 20 African countries and eight G-20 countries.

BRICS¹: the SARB is driving a number of initiatives to further the work of and lend greater credibility to the BRICS Contingent Reserve Arrangement. Work to finalise the legal structure of the BRICS Bond Fund (an initiative announced in 2017 under China's BRICS Presidency) is also progressing under the leadership of the SARB as the coordinating central bank.

International Monetary and Financial Committee (IMFC):

in January 2018, Governor Lesetja Kganyago was appointed Chairperson of the IMFC and Deputy Governor, Daniel Mminele, as Chairperson for the IMFC's deputies. Both posts will be held for a three-year period. The IMFC deliberates policy issues facing the International Monetary Fund (IMF) and the IMF's agenda. This includes the global economic outlook and the IMF's operations, governance and resources, among others.

1. An association of five major emerging national economies: Brazil, Russia, India, China and South Africa.



MONETARY POLICY

OVERVIEW

Price stability reduces uncertainty in the economy, contributing to stronger economic growth and employment creation over time. Furthermore, a low and stable inflation rate protects the purchasing power of the rand. Hence the need for low inflation, particularly for the poor who have limited means of protecting themselves against continually rising prices.

ACHIEVING AND MAINTAINING PRICE STABILITY

WHAT IS MONETARY POLICY?

Monetary policy is the process through which the SARB influences interest rates in the economy to ensure price stability.

The interest rate is the main tool used to manage inflation. The SARB sets the repurchase (repo) rate, which is the rate at which banks borrow from the SARB. This in turn impacts the interest rates that banks charge their customers, as well as other interest rates in the economy.

Over the long run, central banks have a high degree of control over inflation in their economies. In the short run, shocks like droughts can cause inflation to rise, however, these effects tend to be temporary. For prices to keep increasing year after year, central banks have to create extra money. In turn, by controlling the supply of money, central banks have the capacity to manage inflation over time. Given this power, many central banks, including the SARB, have a primary mandate of controlling inflation. Low and predictable inflation provides several benefits. It protects the spending power of consumers, especially in poorer households which are often most vulnerable to inflation. It also permits lower interest rates, particularly for longer-term borrowing, as lenders can charge less to protect their investments from inflation.

Although these are the most important benefits a central bank can provide for a country, over the shorter run monetary policy can also influence the level of output and employment, albeit in a limited way. For instance, when an economy is operating below its potential, lower interest rates can help it recover. Accordingly, inflation-targeting central banks typically also consider how their decisions will affect variables like growth and unemployment. However, the central bank cannot permanently control real output in the same way it can control inflation. This is why inflation targeting is the SARB's core mission.

WHY AN INFLATION-TARGETING APPROACH?

This approach results in the target being clearly articulated, reducing uncertainty and supporting transparency and accountability. Successful implementation of inflation-targeting also helps to anchor inflation expectations.

WHAT DOES THE SARB CONSIDER WHEN MAKING INTEREST RATE DECISIONS?

The MPC decides the short-term interest rate appropriate for achieving the SARB's price stability mandate, defined as an inflation rate of 3–6%. Meetings take place once every two months, and provide an opportunity for the committee members to review economic data and discuss the appropriate monetary policy response.

The committee's decisions take into account the variable medium-term horizon for inflation and the time lags between policy adjustments and economic effects, which are between 12 to 24 months. The flexible inflation-targeting framework allows for temporary deviations from the target in response to shocks to inflation beyond the control of monetary policy.

HOW IS INFLATION MEASURED?

Inflation is measured by defining a basket of goods and services used by a 'typical' consumer and then keeping track of the changes in the cost of that basket. Statistics South Africa is the official compiler of the consumer price index (CPI) which is the measure of inflation.

 PUBLIC ENGAGEMENT ON THE MPC DECISION
PG 23

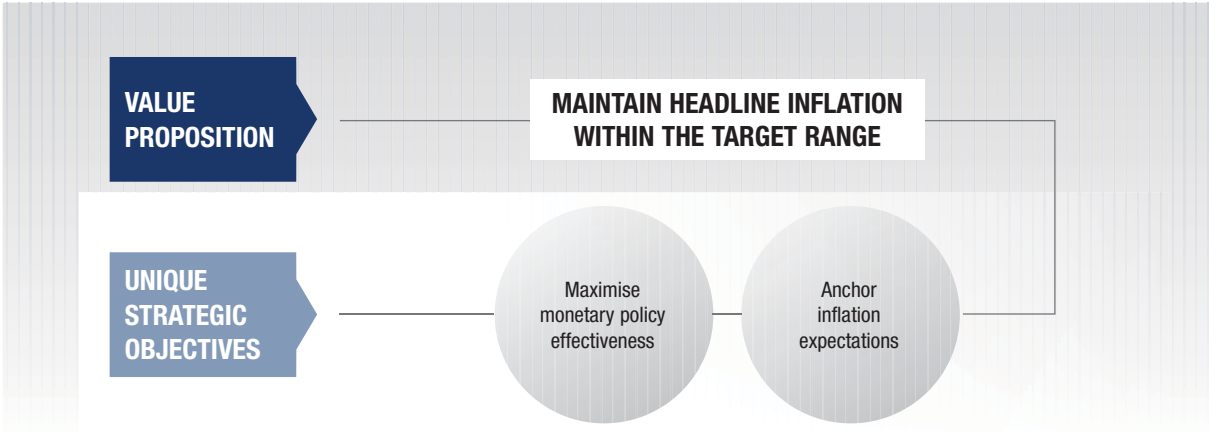
WHAT ARE THE RISKS TO MAINTAINING INFLATION WITHIN THE TARGET RANGE?

A weakening rand exchange rate could potentially accelerate inflation. For example, increasing uncertainty about future economic policy or further ratings downgrades could prompt capital outflows, pushing up borrowing costs and putting pressure on the rand.

External shocks such as increases in international oil prices or drought will make certain goods more expensive.

Remuneration increases in excess of inflation and productivity increases tend to push up prices.

SARB STRATEGIC PLAN: SFA 1



PERFORMANCE SCORECARD

	Target (annual)	2017/18 (annual)	2016/17 (annual)
STRATEGIC MEASURE Headline inflation versus target	3–6%	<input checked="" type="checkbox"/> Target met 4.7%	6.3%

The SARB achieved success for SFA 1. Since April 2017, inflation has been within the target range and is projected to remain within the range over the three-year forecast horizon. Inflation expectations, as measured through the Bureau for Economic Research (BER) survey, have also remained consistent with the target range. For most of the reporting year, expectations fluctuated around the upper end of the range, however in the first quarter of 2018 expectations for 2019 moderated, declining to 5.3%. The SARB would prefer to see inflation expectations anchored around the mid-point of the target range.

PROGRESS MADE

To maximise monetary policy effectiveness, the SARB:

Established the foundations of the cross-cutting policy-relevant research agenda. A key focus is to determine and establish how the research agenda will be delivered and a key outcome for the next financial year will be to embed and strengthen this capability. The research agenda will assist the SARB to better understand the synergies between the SFAs, particularly SFAs 1, 2 and 4.

Is reviewing the Economic Research and Statistics Department’s modelling and forecasting process with completion expected around May 2018. The department achieved its research objectives in various thematic areas of the agenda.

To anchor inflation expectations, the SARB:

Continued to publish policy relevant economic analysis and provide the public with more information about the underlying assumptions that drive the SARB’s two-year forecast of the economy. The government and other stakeholders were also provided with improved economic statistics relevant to the formulation and implementation of macroeconomic policy. To meet its objectives to anchor expectations closer to the mid-point of the target range, the SARB will continue to enhance its stakeholder engagement programme by more effectively targeting sectors and groups that influence price setting.

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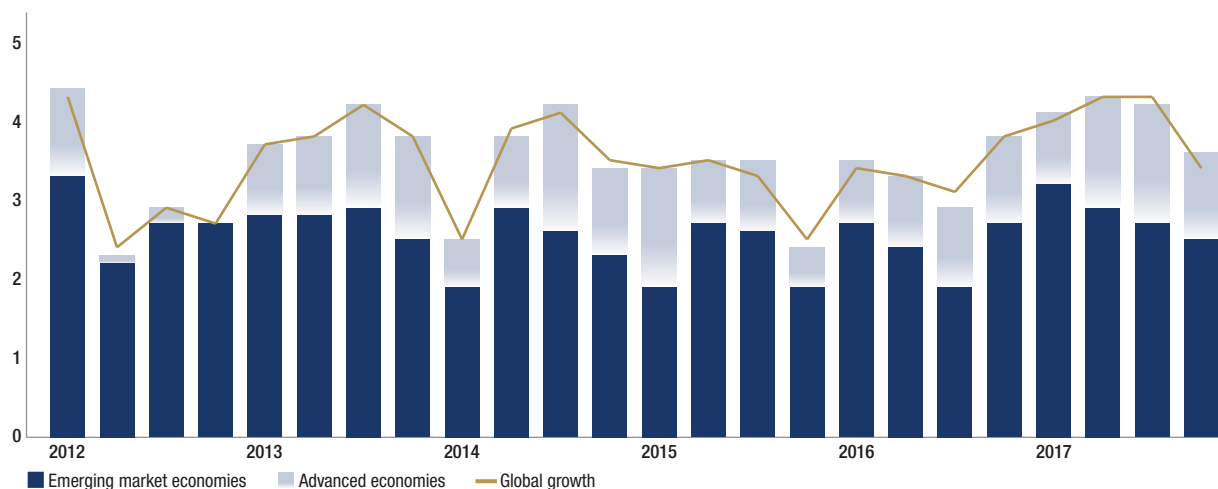
STAKEHOLDER ENGAGEMENT
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REPORT ON MONETARY POLICY

OVERVIEW OF THE WORLD ECONOMY

The global economy has enjoyed a robust and synchronised recovery, making the current upswing the strongest and most sustained growth phase since the rebound from the global financial crisis in 2010. The improvement has been broad based with notable upswings in advanced economies, while key emerging markets such as Brazil and Russia exited protracted recessions. The current upswing, however, remains largely cyclical, with few signs in recent years of an increase in global potential output growth.

REAL GLOBAL OUTPUT GROWTH AND CONTRIBUTIONS FROM ADVANCED AND EMERGING MARKET ECONOMIES (%)



Source: IMF World Economic Outlook.

Advanced economies have maintained strong growth momentum. In the USA, recovery has been solid and is likely to remain supported by fiscal stimulus in 2018 and 2019. Unemployment has fallen to an 18-year low of 3.9%, while inflation has eluded the central bank's 2.0% inflation target, resulting in a modest monetary policy tightening cycle. However, some signs of wage acceleration at the start of 2018 raised fears that the Federal Reserve may have to increase interest rates faster than expected.

Economic activity in the euro area has also been on a solid footing driven mainly by domestic demand, including a pickup in investment. Many European economies have performed relatively strongly. By contrast, economic activity in the United Kingdom (UK) lost some momentum, as higher inflation eroded consumer demand and uncertainty over the economic implications of Brexit may have weighed on corporate investment.

Emerging markets have benefitted from higher commodity prices, stronger import demand in advanced economies and accommodative monetary policy. China

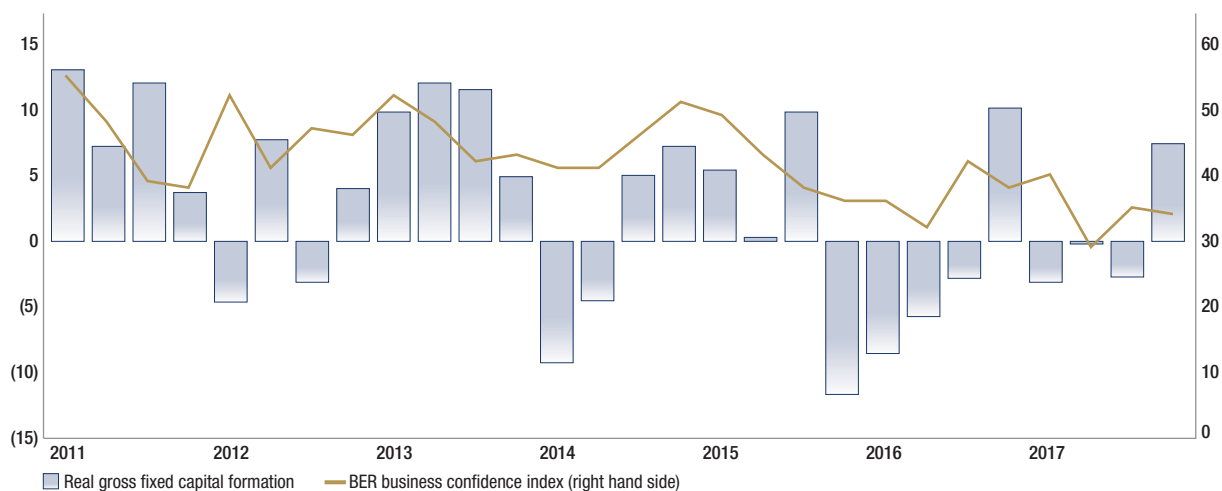
has maintained relatively high levels of growth above 6%, driven mainly by robust net exports against a backdrop of improving global trade conditions. Meanwhile, China's services sector has grown steadily, offsetting a moderation in the secondary sector and signalling an ongoing re-balancing of the economy.

DOMESTIC REAL ECONOMY DEVELOPMENTS

South Africa's real gross domestic product (GDP) expanded by a moderate 1.3% in 2017, from a post-crisis low of 0.6% in 2016. The pickup in growth mainly reflected a rebound in the agriculture and mining sectors from particularly weak levels in 2016. Nonetheless, 1.3% growth remains weak both by historical and 'peer country' standards. The average emerging market growth rate in 2017, for instance, was 4.7%. Real per capita income has also been on the decline and unemployment has remained persistently high, reaching a peak of 27.7% in the third quarter of 2017, and settling at 26.7% in the first quarter of 2018.

MONETARY POLICY – continued

REAL GROSS FIXED CAPITAL FORMATION (%) AND BUSINESS CONFIDENCE



Source: Statistics South Africa, SARB and BER.

Against the backdrop of persistently low domestic growth, government finances posted large and sustained fiscal deficits in recent years. As a consequence, government debt levels increased to 50.7% of GDP in 2017. South Africa is now rated sub-investment grade by Fitch and Standard & Poor's (S&P). While Fitch has a BB+ rating for both local and foreign currency debt, S&P has a split rating: the long-term foreign currency rating at BB and the local currency rating at BB+. Accordingly, the 2018 Budget Review proposed a number of measures to rebuild confidence and to return public finances to a sustainable path. These measures included a 1-percentage point hike in the value-added tax (VAT) rate to 15%, as well as a marginal reduction in the expenditure ceiling.

South Africa's external financing needs, on the other hand, have improved somewhat. The country's current account deficit has been declining substantially, reaching 2.5% of GDP in 2017, owing to improving terms of trade, as well as the more robust economic conditions of its trading partners. However, given South Africa's low savings rate, the country is likely to continue to run sizable twin deficits on the current account and the budget over the medium term.

The SARB's forecasts indicate some improvement over the medium term with growth anticipated to reach 2.0% in 2020. The recovery is mainly on account of stronger business confidence, which should allow for a recovery in investment. The continued upswing in the global economy should also provide additional spill-overs to South Africa in the form of firmer exports. The pickup in domestic growth also entails continued growth in household consumption in light of households' reduced debt burdens and continued gains in real disposable income, despite the rise in indirect taxes. Nonetheless, the improvement in growth is muted and expansion is projected to remain below long-term averages over the medium term.

INFLATION DYNAMICS

Domestic consumer price inflation decelerated rapidly throughout 2017 to below the mid-point of the 3–6% target range in January 2018. The moderation in consumer price inflation resulted largely from a reduction in supply side cost pressures amid relatively subdued domestic demand. Food and electricity prices slowed notably, while the appreciation in the rand exchange rate since 2016 lowered the price of imported goods significantly. Food inflation fell from 12.1% in December 2016 to 4.6% in January 2018 as drought conditions gave way to record harvests (except for the Western Cape). Underlying inflation has also declined, averaging 4.7% in 2017, versus a long-run average of 5.0% between 2003 and 2016. Core inflation receded to its lowest level in six years at the start of 2018 from a peak of 5.9% in December 2016.

The price of Brent crude oil increased by more than 70% between mid-2017 and May 2018, reaching levels over US\$70 per barrel. In November 2017, the Organization of the Petroleum Exporting Countries (OPEC) and other non-OPEC producers agreed to extend production cuts of 1.8 million barrels per day until the end of 2018. Attempts to reduce supply have also benefitted from collapsing production in Venezuela – one of the world's largest oil exporters. While higher oil prices have led to increased USA shale production, the combination of solid growth in world oil consumption, OPEC compliance with its production targets and geo-political tensions have pushed crude prices over US\$75 per barrel. Over the medium term, world oil prices are not forecast to increase significantly from current levels given the potential supply response from new producers, which have managed to reduce marginal costs significantly.

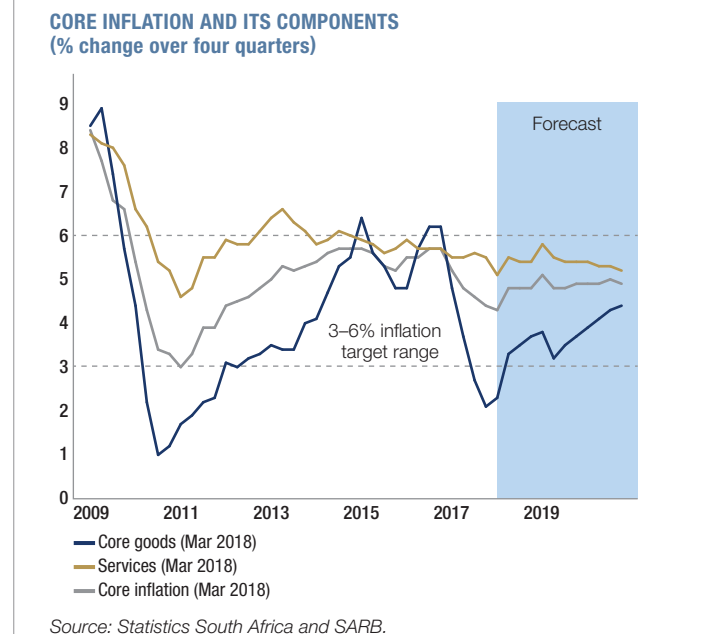
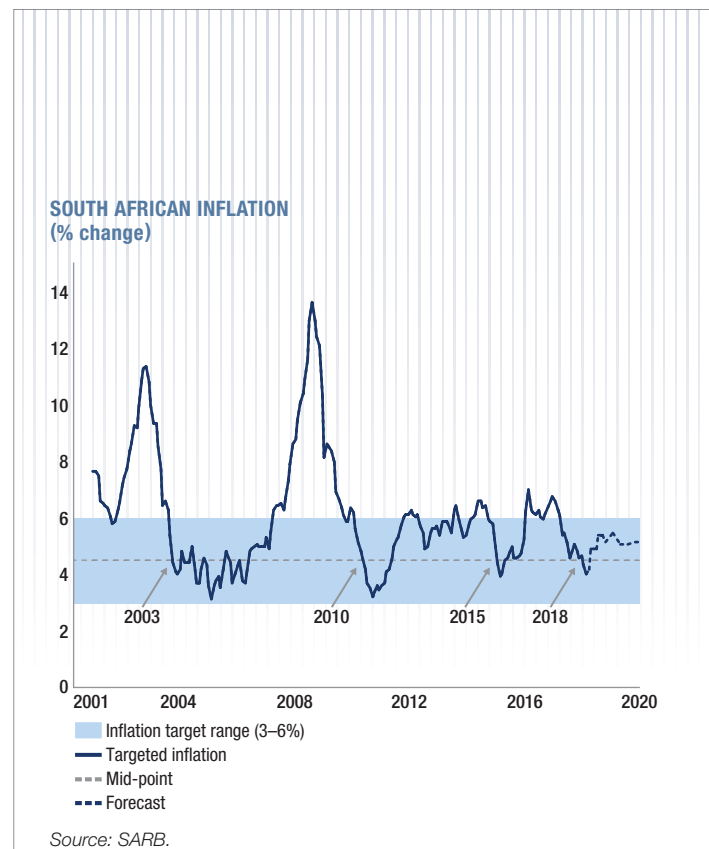
World food developments have been favourable over the past two years, with prices declining steadily in dollar terms from the high levels reached in early 2016. Bumper domestic crops, following a prolonged drought in the northern parts of South Africa in 2016, and positive exchange rate factors have further contributed to a steady decline in local food prices. South African food inflation averaged 6.9% in 2017, with a peak of 8.7% in the first quarter of 2017. Meat prices, however, have remained elevated, averaging 12.8% in 2017, thus limiting the deceleration in overall food price in 2017. Higher poultry prices contributed significantly to the acceleration in overall meat price inflation in 2017. Several factors, including import tariffs on certain poultry products, as well as the outbreak of avian flu in Europe and later in South Africa, severely affected domestic poultry and egg prices throughout most of 2017. Overall food price inflation is expected to accelerate somewhat in 2018, mainly on account of higher VAT rates.

Food and petrol prices are volatile and mostly unresponsive to monetary policy. Policymakers therefore pay close attention to underlying inflation. The composition of SARB's preferred measure of core inflation is largely two thirds services and one third goods; and excludes food, non-alcoholic beverages, petrol and electricity prices.

The goods subcomponent averaged 3.3% in 2017 and is expected to increase slightly to 3.5% by 2019. Services inflation has been more rigid, reflecting the stronger influence of relatively sticky wage growth. Nonetheless, it moderated to 5.5% in 2017 from a post-global financial crisis average of 5.8%, as a slowdown in actual and owners' equivalent rents extended to some other sectors. The varying projections of these two subcomponents are mainly explained by the fluctuations in the exchange rate and inflation expectations.

The exchange rate is one of the key drivers of inflation in South Africa and its impact is transmitted through import prices. Changes in the exchange rate tend to pass through to consumer prices with a lag. The rand exchange rate has been on an appreciating trend since early 2016. By early March 2018, the rand was back at 2015 levels against the US dollar and in trade-weighted terms. The appreciation in the rand has had a clear impact on core inflation, with the core goods subcomponent – including items such as vehicles, household appliances and clothing – slowing more abruptly than the services subcomponent.

Longer-term inflation expectations, which have been fairly sticky at the upper end of the target range over the post-crisis period, have started to come down. In fact, short-term expectations have moved quite rapidly, while longer-term expectations have adjusted more slowly. This is an important monetary policy



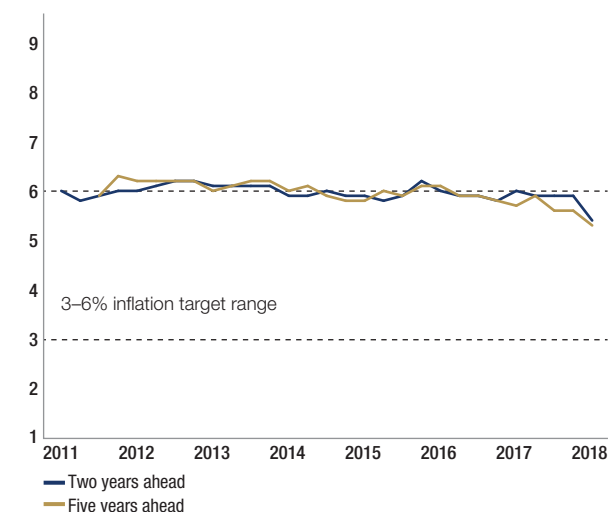
MONETARY POLICY – continued

REAL EFFECTIVE EXCHANGE RATE OF THE RAND (index)



Source: SARB.

LONGER-TERM INFLATION EXPECTATIONS (%)



Source: BER and SARB.

achievement as inflation expectations influence price- and wage-setting behaviour in the economy. With inflation expectations for the next two years having declined to 5.4% in the first quarter of 2018 – the lowest level since this question was added to the BER survey in 2011 – the prospects for inflation are encouraging.

MONETARY POLICY DECISIONS

Monetary policy decisions affect the economy with a lag of approximately one to two years. Headline inflation numbers, however, are sometimes distorted by temporary shocks such as large movements in oil prices. For this reason, policymakers aim to look through these shocks, and focus on underlying inflation trends. Moreover, policymakers also consult alternative measures of inflation designed to exclude volatile items.

Inflation has gradually declined to within the 3–6% target range, averaging 5.3% in 2017. The shocks that pushed headline inflation in early-2018 to below 4.5% (unusually low electricity and food price gains, and import price deflation from a stronger rand) are now fading, and higher taxes, particularly VAT, will raise inflation again in the near term. The SARB's inflation forecasts have also consistently projected a return to above the target mid-point. In recent years, the SARB has been emphatic that the 3–6% target should not be interpreted as a 6% target, and that policymakers would prefer to have inflation expectations anchored around the 4.5% mid-point.

Over the past few years, the mix of high political uncertainty, persistent fiscal deficits and credit rating downgrades have continued to present upside risks to the inflation outlook. In such a context, the MPC has been forced to maintain a cautious approach, even when confronted with weak domestic demand growth and a negative output gap, which typically curbs demand-driven price pressures. Consequently, the policy response has taken the form of moderate relaxation, with the repo rate declining 50 basis points from its starting point of 7% in January 2017. However, the SARB's own estimates of the neutral real interest rate suggests that policy remains marginally accommodative and hence, the room for additional rate cuts remains limited in the absence of a more durable improvement in the inflation outlook.

The growth forecast has improved steadily, but remains below long-run averages and potential growth. This is mainly due to a lack of structural reforms, which are largely outside the scope of monetary policy. Despite the higher levels of consumption expenditure by households in the latter part of 2017, overall demand remains weak; however, monetary policy is providing some support to the economic recovery as the level of real interest rates has remained slightly below long-run norms in recent quarters.





OVERVIEW

The financial system in South Africa is important to every citizen as it either directly or indirectly touches the well-being of everyone living in the country. When financial stability risks are managed well, systemic financial crises are less likely to occur, and are more easily managed if they do occur, mitigating the spill-over effects on the broader economy and society. In addition, the SARB's prudential supervision of regulated financial institutions contributes towards an efficient financial system that provides financial services to all South Africans. Financial stability is not an end in itself but, like price stability, it is generally regarded as an important precondition for sustainable economic growth, development and employment creation.

PROTECTING AND ENHANCING FINANCIAL STABILITY

FINANCIAL SECTOR REGULATION ACT 9 OF 2017 (FSRA)

The FSRA was enacted on 22 August 2017, marking a significant milestone in the implementation of the Twin Peaks framework of financial regulation. The FSRA confers on the SARB an explicit, statutory mandate to protect and enhance financial stability in South Africa. This mandate will include efforts to prevent a systemic event and, should a crisis occur, assistance with restoring financial stability in the country. The FSRA also sets out the mechanisms to achieve the intended outcomes of the Twin Peaks framework. One of these mechanisms is the Prudential Authority, which is responsible for assisting the SARB with its financial stability mandate. The Prudential Authority became effective on 1 April 2018.

“It is important to acknowledge that the financial sector and the risks associated with it are constantly evolving. It therefore follows that regulatory frameworks need to evolve with the sector. Increased regulation should not be construed as a burden of over-regulation, but should rather be viewed as evidence of the evolution of the financial sector as well as the associated risks and the regulatory response to them.”

Deputy Governor of the SARB
Francois Groepe

HOW DOES THE SARB MANAGE FINANCIAL STABILITY?

A framework to monitor financial stability

- > Monitoring and mitigating against risks to financial stability.
- > Stress testing the South African banking sector.
- > Partnering with external research experts and promoting excellence in financial stability research.
- > Evaluating the impact of regulatory reforms on the financial system and providing input into global regulatory, supervisory and financial sector standards.

A macroprudential policy framework

A calibrated toolkit of macroprudential instruments for the Financial Stability Committee (FSC) to apply in mitigating potential systemic risks.

A legal framework for resolving SIFIs¹

- > The draft Resolution Bill.
- > A deposit insurance scheme to enhance depositor protection.

1. A systemically important financial institution (SIFI) is an entity whose failure may trigger a systemic event. A systemic event is an event or circumstance that may reasonably be expected to have a substantial adverse effect on the financial system or on economic activity in South Africa, including an event or circumstance that leads to a loss of confidence in the ability of operators in the payment and settlement systems, financial institutions and financial markets to continue to provide financial services and products.



THE ROLE OF THE FINANCIAL STABILITY COMMITTEE

The SARB fulfils its responsibility to protect and enhance financial stability through the FSC. The committee comprises the Governor as Chairperson, the Deputy Governors, all members of the MPC and a maximum of seven other SARB officials.

The FSC met three times during the reporting year to monitor vulnerabilities in the global and domestic environments, assess their possible implications for domestic financial stability and decide whether any mitigating measures needed to be taken. The issues discussed by the FSC and any decisions taken are communicated in the biannual Financial Stability Review publications.

The FSRA makes provision for a Financial Stability Oversight Committee (FSOC) to support the SARB in protecting and enhancing financial stability. The FSOC will meet at least every six months and its membership comprises representatives from the SARB, National Treasury and all financial regulators. The Governor chairs the committee.

FSOC's primary objectives are to:

- > coordinate appropriate plans, mechanisms and structures in the financial sector to mitigate financial stability risks and vulnerabilities and support the SARB when it performs its functions in relation to financial stability; and
- > facilitate cooperation and collaboration, and coordination of action, between financial sector regulators and the SARB.

The FSOC, in its capacity as an advisory committee, works closely with the FSC, as the SARB's policymaking committee on financial stability.



SARB STRATEGIC PLAN: SFA 2



PERFORMANCE SCORECARD

	Target (annual)	2017/18 (annual)
STRATEGIC MEASURES	Policy action based on a set of macroprudential indicators (mitigation of vulnerabilities)	<p>Complete research on key elements of the macroprudential toolkit</p> <p><input type="checkbox"/> Progress made but target not met Policy papers on three instruments completed and presented to the FSC</p>
	Frameworks for identifying, monitoring and mitigating systemic risk	<p>Introduce enhanced systemic risk measures (SRMs)</p> <p><input checked="" type="checkbox"/> Target met Enhanced SRMs incorporated into the monitoring framework</p>
	Crisis management and resolution plans and a legal framework	<p>Complete a simulation exercise and evaluate the results</p> <p><input checked="" type="checkbox"/> Target met Simulation exercise completed and evaluated by the Financial Sector Contingency Forum¹ (FSCF)</p>

No systemic risk events occurred in the financial system during the reporting year, and there was no need to resolve any SIFIs. The SARB is on track to meet its objectives (frameworks, toolkits, policy development and simulation exercises) set out in the scorecard.

PROGRESS MADE

<p>To enhance the framework for managing systemic events, the SARB:</p> <p>Conducted and completed the public consultation process on the resolution framework, paving the way for the approval of the draft Resolution Bill. The Bill includes proposals to establish a pre-funded deposit insurance scheme. Once approved, the process to submit the Bill to Parliament for promulgation into law will begin. This work is expected to continue into the next financial year.</p>	<p>To develop and enhance the frameworks for systemic risk identification, monitoring and mitigation, the SARB:</p> <p>Completed the research paper on SRMs and presented it to the FSC for consideration and approval. Additional SRM research papers are in progress.</p>	<p>To improve and enhance the regulatory, supervisory and oversight framework of the NPS:</p> <p>While the NPS oversight framework has been approved, further enhancements to the legislation have been delayed due to the extended deadline for inputs requested from external experts.</p>
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REPORT ON FINANCIAL STABILITY
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1. The primary objective of the FSCF is to identify potential risks in the financial sector that may become systemic events and to coordinate appropriate plans, mechanisms and structures to mitigate these risks.



REPORT ON FINANCIAL STABILITY

Financial stability refers to a condition where the financial system 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.



The FSRA specifically refers to SARB's responsibility to monitor global and domestic environments, using quantitative and qualitative indicators to identify possible vulnerabilities. In ordinary circumstances, the SARB may advise financial regulators on what steps to take and information to provide to mitigate these vulnerabilities. Furthermore, the Governor may, after consultation with the Minister of Finance, declare that a systemic event has occurred or is imminent. The SARB is responsible for implementing the action required to prevent, mitigate and manage such an event, and is provided with certain additional directive powers. It may direct financial regulators to provide information and take action to increase the resilience of financial institutions, prevent the risk from spreading, and to restructure, resolve or wind-up a SIFI.

RISKS TO FINANCIAL STABILITY

The SARB regularly assesses the risks to financial stability and has developed a framework to identify vulnerabilities in South Africa's financial system and how they change over time. During the reporting year, the following key risks were identified and tracked:

- > the deteriorating domestic fiscal position as a result of lower-than-expected revenue collection and the rising contingent liabilities of state-owned enterprises (SOEs);
- > the continuing synchronised downward phases of the South African financial and business cycles, implying recessions could potentially be longer and deeper, and impact the banking sector in terms of higher impairments and lower asset quality;
- > rising prospects of trade protectionist measures by the USA and potential retaliatory measures by other jurisdictions could have negative implications for global asset prices and potentially result in a trade war, impacting global trade;
- > an abrupt repricing of risk premiums against a backdrop of global policy uncertainty opens channels of negative spill-overs and financial contagion, particularly for fragile and/or risky emerging markets; and
- > China's rising corporate, non-corporate, government and shadow-banking debt may be larger than estimated.

The amplification mechanisms and contagion effects are key for the systemic risks identified, as well as for 'other' identified risks that have not featured that prominently. Some of these 'other' risks include global geo-political events that flare up from time to time (North Korea, Gulf States, Brexit) and political uncertainty in South Africa at the time. In addition, the banking sector in South Africa could be exposed to risk depending on how the proposed policy of land expropriation without compensation is implemented.

Another event risk that arose during the reporting period, was the announcement of an investigation of accounting irregularities and the subsequent resignation of the Chief Executive Officer (CEO) of Steinhoff International Holding NV. The conglomerate's share price declined more than 90%, resulting in a short-term liquidity crisis for the company. The Steinhoff group has taken various actions to stabilise the impact of the event on its finances and operations in the medium term. Potential financial stability implications arising from this event have been assessed by the SARB and to date, have proved not to be systemic. The impact of a potential default on the conglomerate's debt exposure, and impact of this default on the South African banking sector, are being monitored.

Furthermore, an increase in the volatility of some equities listed on the JSE Limited has been observed since December 2017. This could have been triggered by a 'short-selling' strategy which is not commonly used in South African financial markets. This type of short-selling strategy has the potential to create financial instability if the target company is a deposit-taking institution and the short-selling campaign results in a negative feedback loop between declining investor confidence (as reflected in a declining equity price) and a loss of depositor confidence in the institution (as reflected in a decline in deposits or a 'run' on the bank). Although banks are potentially systemically important in nature, a significant decline in their equity price is not necessarily regarded as a systemic risk.

DOMESTIC FINANCIAL STABILITY DEVELOPMENTS

Both S&P's and Fitch downgraded South Africa's sovereign credit rating to sub-investment grade in late 2017, while Moody's Investors Service kept South Africa's rating unchanged at investment grade. Political developments since the governing party's electoral conference in December 2017 have improved confidence levels and helped to

FINANCIAL STABILITY – continued

stabilise the domestic economic outlook, resulting in the risk of a ratings downgrade abating somewhat. In March 2018, Moody's Investors Service changed the outlook for South Africa from negative to stable, with positive macroeconomic indicators, institutional changes at some SOEs and a well-received budget, contributing to the decision.

The SARB's forecast for domestic economic growth for 2018 and 2019 has been revised upwards. This improved outlook is in line with the relatively high level of the SARB's composite leading business cycle indicator of economic activity in December 2017.

Government finances

South Africa's current fiscal position remains a key domestic challenge that could impact the stability of the financial system, and therefore continues to be a focus point for financial stability analysis. The sustainability of government finances is crucial for any economy as it directly impacts on the government's debtholders, which in South Africa's case, are mainly pension and provident funds and banks. Fiscal sustainability is also a key consideration for rating agencies when they assess sovereign credit ratings. Issues of particular relevance include higher debt levels, the budget deficit, and the size of liabilities underwritten by government. Although the containment of government debt remains an important focus area for the South African Government, debt continued to trend upwards during 2017, albeit at a less concerning rate. A fine balance between maintaining spending commitments and ensuring the long-term health of government finances is required.

Governance issues at SOEs, rising contingent liabilities of government and associated liquidity shortfalls could put additional pressure on government finances. Should SOEs fail to roll over debt, the government would be liable and most likely would have to take on further debt.

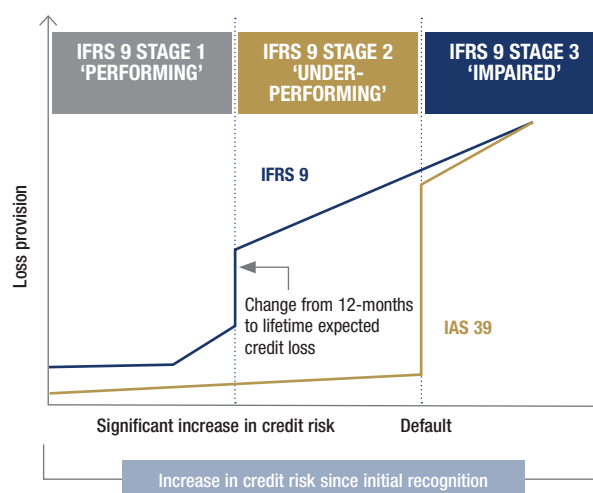
Banking sector

South African banks remained healthy and well capitalised during the reporting period, with the sector's capital adequacy ratio at 16.23%. However, credit defaults continued to increase in the first half of 2017, while the ratio of total impaired advances as a percentage of total gross loans and advances (a key indicator of credit risk), remained below 3% for most of 2017 before increasing to 3.24% in March 2018. Impaired advances increased by 16% for the quarter to March 2018, and total credit impairments increased by 25% over the same period.

IFRS 9 specifies how an entity should classify and measure financial assets, financial liabilities and some contracts to buy or sell non-financial items. Banks and other reporting entities must account for impairments on loans (financial assets or instruments) by applying the *expected credit loss model* as opposed to the *incurred loss model* used previously. IFRS 9 is forward-looking in its approach to expected credit losses and incorporates a broader range of factors such as past events, current conditions and supportable forecasts, including current macroeconomic conditions, to determine credit losses¹. This results in a sharp increase in loss provisions and a step change in the manner and timing of calculating impairments.

The SARB conducted a quantitative impact survey on the South African banking sector during November 2017. The preliminary results indicate that although the changes in the treatment of credit impairments will impact the regulatory capital of the sector over the course of 2018, it is unlikely to result in financial instability. Further analysis will be conducted. The standard is effective for annual reporting periods beginning on or after 1 January 2018.

PROVISIONING UNDER IFRS 9



Source: Fykstrom, N and Li, J., *IFRS – the new accounting standard for credit loss recognition*.

1. Novotny-Farkas, Z., *The Significance of IFRS 9 for Financial Stability and Supervisory Rules*, p12.

Profitability in the banking sector, while remaining strong, has been decreasing since the first half of 2017. Measured by return on equity, the sector's profitability has declined from 17.4% in February 2017 to 16.0% in January 2018. The sector's cost-to-income ratio (also known as the efficiency ratio) has increased marginally from 55.2% in February 2017 to 56.7% in January 2018, mainly as a result of the average growth in operating expenses exceeding the average growth in operating income. Profitability has also been impacted by subdued economic activity. Lower profitability impacts a bank's ability to accumulate retained earnings, which forms part of its regulatory capital. An ongoing, sustained decline in banking sector regulatory capital could make the banking sector less resilient to shocks and result in financial instability.

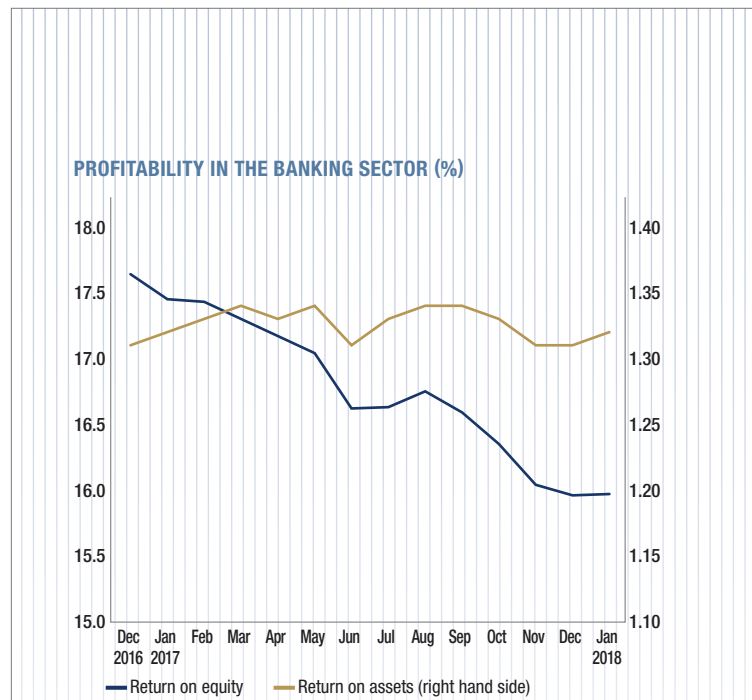
The countercyclical capital buffer

The countercyclical capital buffer (CCB) forms an integral part of the internationally agreed-upon standards for risk-based capital requirements, and is being phased in between January 2016 and January 2019. The CCB provides macroprudential supervisors with a tool to increase or decrease capital requirements for banks to protect the financial system from the boom and bust phases of the financial cycle. The Basel Committee on Banking Supervision (BCBS) has suggested in its guidance to national authorities that the credit-to-GDP gap be used as a guide for deploying Basel III CCBs, although most jurisdictions, including South Africa, supplement this with additional indicators.

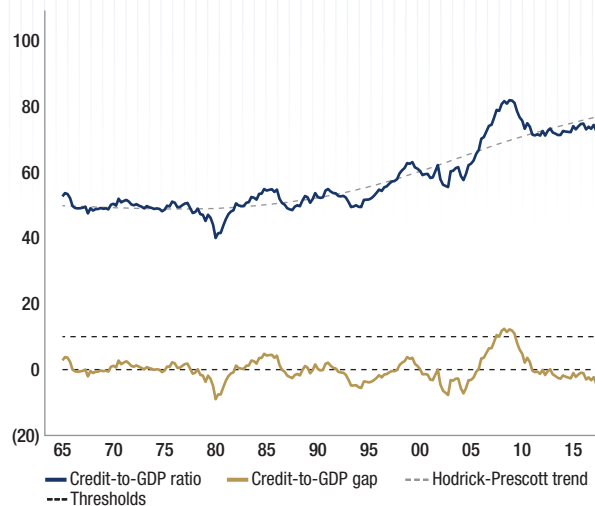
The FSC is responsible for setting the CCB rate. During the reporting period, the committee decided not to activate the CCB add-on for banks, supported by developments in the credit-to-GDP gap and other indicators.

Stress testing

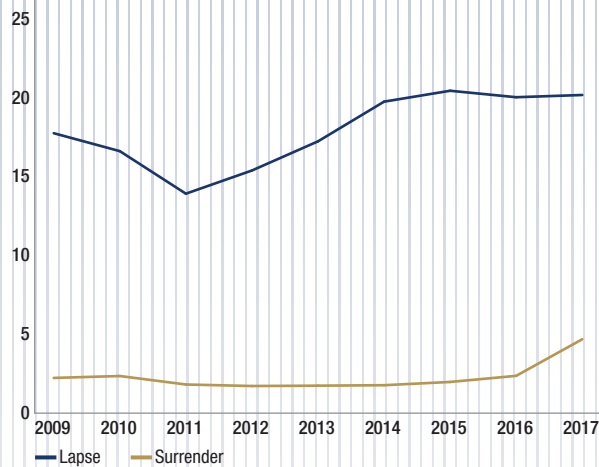
The SARB conducted a combined bottom-up and top-down common scenario stress-testing exercise during 2015/16. The exercise assessed the vulnerability of the South African banking system to adverse economic developments. To ensure the robustness of the procedures and future stress-testing exercises, the Deutsche Bundesbank and the IMF undertook peer reviews of the exercise. The outcomes have been used to refine the SARB's stress-testing models and framework, including the addition of liquidity risk. In line with the SARB's stress-testing governance framework, full stress-testing exercises are generally conducted once every two years. The SARB is preparing for the 2018 Common Scenario Stress Testing Exercise and will publish the results of the exercise in the second edition of the Financial Stability Review in 2018.



CREDIT-TO-GDP RATIO, GAP AND HODRICK-PRESCOTT TREND (%)



LAPSES AND SURRENDERS RATIOS (%)



Lapse ratio: number of policies lapsed as a percentage of the total number of policies in force.

Surrender ratio: number of policies surrendered as a percentage of the total number of policies in force.

Source: Financial Services Board.

Insurance sector

The Financial Services Board launched the SAM project in 2009 to establish a risk-based solvency regime for the prudential regulation of long- and short-term insurers. The risk-based framework, which emerged from the Twin Peaks model of financial regulation, is close to completion and is focusing on ensuring that both the industry and the Prudential Authority are ready for implementation in July 2018.

The South African insurance industry has been impacted by subdued economic activity. New business volumes and profit margins are under pressure and a strong increase in the number of surrenders and lapses indicates that many policyholders are not in a position to maintain their policies. This could negatively impact the profitability of long-term insurers as the costs associated with entering into a policy are incurred upfront and recovered over the lifetime of the policy. The growth in the gross written premiums of the short-term insurance industry has also slowed due to the subdued economic conditions.

DEVELOPMENTS IN FINANCIAL SERVICES TECHNOLOGY

The rapid adoption of technology-enabled innovation in financial services and the adoption of new business models has attracted the attention of financial authorities in a number of jurisdictions. The FSB's June 2017 report on the potential financial stability implications of fintech provides a framework to assess the fintech landscape. It defines the scope of fintech activities and explores the potential benefits and risks to financial stability. In addition, the report discusses the regulatory and supervisory issues related to fintech and identifies a number of issues that merit attention. The report prioritises managing operational risks from third-party service providers, mitigating cyber-risks and monitoring macrofinancial risks.

In 2017, the SARB established a Fintech Programme to develop its capacity to better understand the risks and benefits of fintech.

 **FINTECH PROGRAMME**
PG 18

The potential impact of fintech on financial stability is considered to be low at this stage. However, as new alternative platforms expand and experience a full business cycle, regulators will need to remain vigilant to familiar micro- and macro-level financial services risks. These include financial risks (such as maturity mismatches) and operational risks. The interconnectedness of systems may result in other risks such as procyclicality and contagion risk.



The Prudential Authority was established on 1 April 2018, in terms of the FSRA which introduces the Twin Peaks approach to financial regulation. Twin Peaks has two main aims: firstly, to strengthen the safety, soundness and integrity of financial institutions and secondly, to better protect financial customers and ensure that they are treated fairly by financial institutions (market conduct). Other objectives of the model include prevention of financial crime, financial inclusion, transformation of the financial sector and enhancing confidence in the financial system by ensuring its stability, efficiency and integrity.

INTRODUCTION
DELIVERING THE SARB STRATEGY
SUBSIDIARIES
GOVERNANCE
FINANCIALS
ADDITIONAL INFORMATION

SARB STRATEGIC PLAN: SFA 3



PERFORMANCE SCORECARD

	Target (annual)	2017/18 (annual)	2016/17 (annual)	
STRATEGIC MEASURES	Percentage of financial institutions that meet or exceed the quantitative prudential standards for SIFIs	100% or specific regulatory action	<input checked="" type="checkbox"/> Target met 100%	100%
	Percentage of financial institutions that meet or exceed quantitative prudential standards for non-SIFIs	100% or under specific regulatory action	<input type="checkbox"/> Progress made but target not met 90%¹	100%
	Financial institutions with sound governance compliance and risk management practices	All institutions fully compliant or under specific regulatory action	<input type="checkbox"/> Progress made but target not met 90%¹	100%

1. All non-compliant institutions are under specific regulatory action.

Assessments on compliance with the Principles for Financial Market Infrastructures were not conducted due to the delay in promulgating the FSRA, and the Financial Services Board remained responsible for this role during the reporting year. Going forward, the SARB will conduct these assessments.

To develop, improve and integrate the supervision of regulated financial institutions, the SARB:

PROGRESS MADE

Developed and distributed for consultation the supervisory approach for banking, insurance, cooperative financial institutions and conglomerates. The approach for FMIs is in the early stages of development.

Completed 50% of the overall integrated supervisory approach and framework.

Prudential standards are still to be developed. The Prudential Authority is preparing for the Financial Action Task Force (FATF) mutual evaluation in 2019, which will assess the compliance of South Africa's framework and laws for anti-money laundering and the combating of terrorist financing against international standards. The Solvency Asset Management (SAM) reforms are part of the overhaul of financial sector regulation in South Africa. The Insurance Bill, which is still being considered by Parliament, builds on the regulatory framework created through the FSRA and is expected to be implemented in July 2018.

REPORT OF THE PRUDENTIAL AUTHORITY
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REPORT OF THE PRUDENTIAL AUTHORITY

THE NEED FOR REGULATORY REFORM

During the most recent global financial crisis in 2008, the South African financial system proved its resilience with no major financial institutions having failed. However, the crisis highlighted the extent to which financial groups are embedded within economic and financial systems, as well as the high degree of interconnectedness. Regulators subsequently agreed that more could be done to improve the strength and adaptability of the system through the implementation of a more proactive model of financial sector regulation.

Historically, the regulatory architecture for the South African financial sector was fragmented. Different sectoral laws applied to different regulatory authorities overseeing individual institutions. For example, there were, and still are, separate pieces of legislation with differing standards and requirements for banks, insurance companies, pension funds, collective investment schemes and credit providers, among others.

The Twin Peaks reform represents a shift away from this siloed approach to reduce the possibility of regulatory arbitrage or 'forum shopping' in the financial system. The Prudential Authority's overarching objective is to harmonise and integrate the approach to prudential supervision across sectors, to the greatest extent possible.

REGULATORS

The Twin Peaks model of financial regulation places equal focus on prudential and market conduct regulation and supervision by creating dedicated authorities responsible for prudential and market conduct objectives.

The Prudential Authority, a juristic person within the SARB's administration, is the prudential regulator and supervisor of financial institutions¹ and FMIs² in South Africa. The Prudential Authority was established from the Financial Services Board Insurance Prudential team, the Bank Supervision Department of the SARB and the Supervisory Team of the Cooperative Banks Development Agency.

The FSRA also makes provision for a standalone Financial Sector Conduct Authority (FSCA), responsible for enhancing and supporting the integrity and efficiency of South Africa's financial markets and protecting financial customers.

Together with the FSCA, the Prudential Authority is responsible for licensing banks, mutual banks, cooperative banks, cooperative financial institutions, insurers and FMIs.

IMPLEMENTATION OF THE TWIN PEAKS MODEL

The transition to the Twin Peaks model of regulation will occur in a phased manner. The FSRA gives the new regulatory authorities additional powers, over and above those provided in existing industry-specific laws, to ensure that they have the required tools to perform effectively in the first phase of implementation, without being limited by gaps in existing legislation.

The respective legal frameworks for prudential and market conduct regulation will be developed, harmonised and strengthened in the second phase of implementation. Where required, industry-specific legislation will be repealed and new legislation or regulatory instruments introduced. Legislative developments relating to levies and the conduct of financial institutions and financial markets will be introduced in due course, solidly launching the Twin Peaks model of regulation into the second phase of implementation.

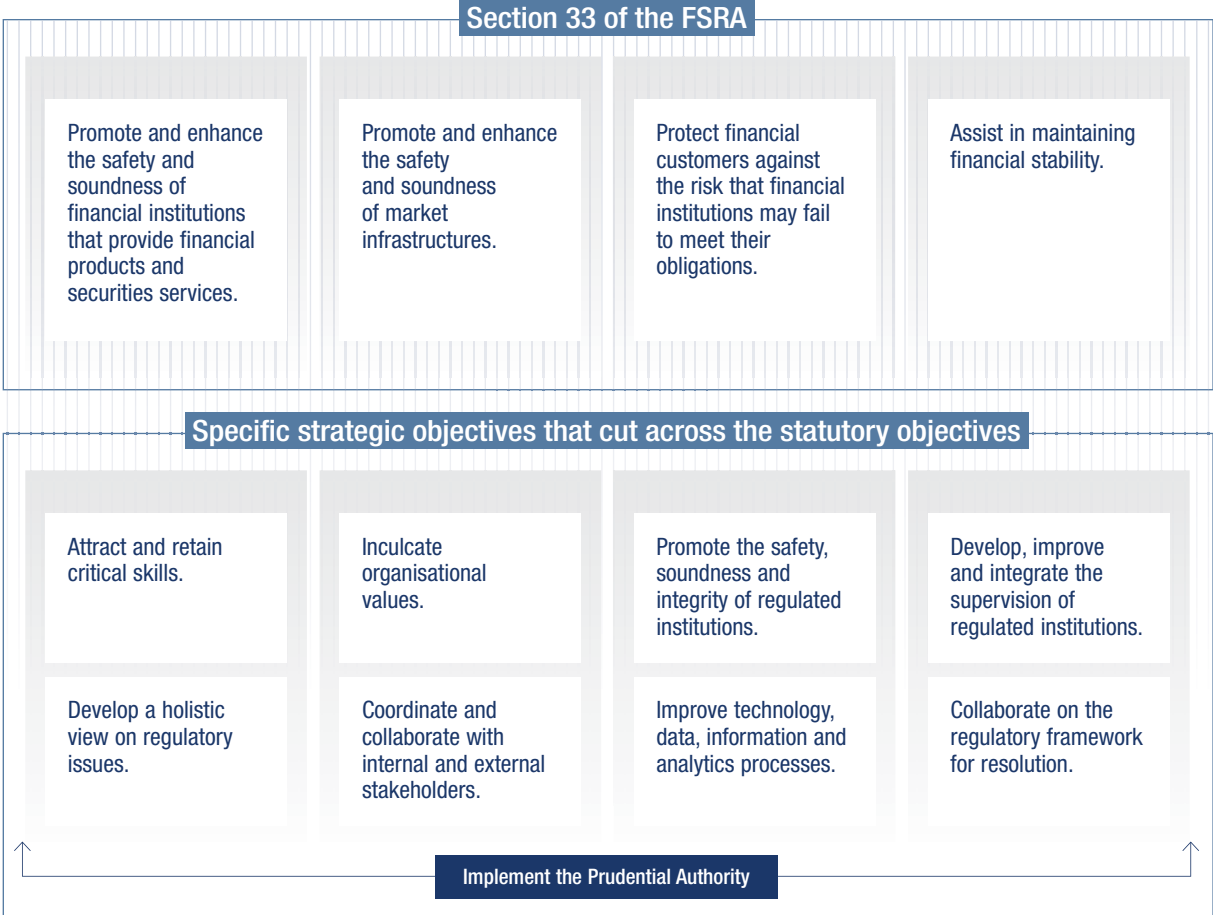
GOVERNANCE STRUCTURES

The governance structure, resources, financial management and reporting obligations of the Prudential Authority are prescribed by the FSRA. Furthermore, the Prudential Authority is required to submit a report on its activities to Parliament and to prepare financial accounts for each financial year which will be included in the SARB's annual report.

The Prudential Committee is responsible for the overall governance of the Prudential Authority. It is chaired by the Governor of the SARB and comprises the CEO of the Prudential Authority (who is also a Deputy Governor of the SARB) and the remaining Deputy Governors of the SARB.

1. A financial institution refers to licensed, regulated and/or supervised banks and insurers, as well as institutions required to be licensed in terms of applicable financial sector legislation.
2. Section 1(1) of the Financial Markets Act 19 of 2012 (FMA) defines a market infrastructure as a central counterparty, a central securities depository, a clearing house, an exchange and a trade repository.

OBJECTIVES OF THE PRUDENTIAL AUTHORITY



The Prudential Authority assesses its progress in executing its strategic objectives on a six monthly basis as part of the SARB’s strategic plan. This ensures alignment between the Prudential Authority and other departments of the SARB.

FUNCTIONS OF THE PRUDENTIAL AUTHORITY

Prudential regulation and supervision

A healthy, sound, and properly functioning financial institution is able to meet its obligations to financial customers such as depositors and policyholders. Prudential regulation aims to ensure that financial institutions comply with minimum prudential requirements related to capital, liquidity, credit and other requirements, and that they are managed by suitably qualified and skilled individuals.

A number of new areas of regulatory and supervisory responsibilities have been placed on the Prudential Authority. Two of the most significant reforms to prudential oversight relate to financial conglomerates and FMIs.

The South African financial system is dominated by a few large financial institutions. As a result of this concentration and the high level of interconnectedness, the risk of contagion is high. The FSRA allows the Prudential Authority to designate members of a group of companies as a financial conglomerate. The more detailed regulatory and supervisory requirements, for example the designation criteria for financial conglomerates, will be released by the Prudential Authority in the coming months.

The Prudential Authority, together with the FSCA (the responsible authority for the FMA), will develop a supervisory framework for FMIs during 2018/19.

The FSRA requires the Prudential Authority to follow an integrated risk-based, forward-looking and outcomes-focused supervisory approach in its microprudential supervision. In addition, financial institutions need to be aware of the risks to their businesses and have adequate corporate governance frameworks and risk management processes in place to appropriately mitigate these risks. Therefore, the Prudential Authority may issue prudential standards in addition to sector legislation, as well as joint standards with the FSCA.

It is important to note that in its development of a comprehensive and consistent prudential regulatory and supervisory approach, the Prudential Authority is committed to the implementation of internationally agreed regulatory and supervisory standards in a manner that appropriately takes into account the context, realities and the capacity of South Africa's financial institutions. It participates in the processes of international standard setting bodies and after assessing the appropriateness of various international standards for South Africa, the Prudential Authority will adopt and adapt these standards into the South African regulatory frameworks.

Financial inclusion

By achieving its objectives, the Prudential Authority will support financial inclusion and sustainable competition in the provision of financial products and services. It will monitor fintech, particularly developments that have the potential to facilitate financial inclusion through affordable and appropriate financial services and the entrance of smaller players into the market. This work will be undertaken together with the SARB and the FSCA to develop appropriate actions that support innovation and fintech.



FINTECH PROGRAMME
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Cooperation and collaboration with other regulators

The Prudential Authority values transparency, collaboration and coordination in promoting the safety and soundness of financial institutions. It is required to enter into Memoranda of Understanding with, among others, the FSCA, the SARB in its macroprudential role, the National Credit Regulator and the Financial Intelligence Centre on a number of areas of common interest to ensure effective alignment and efficiencies in the supervisory approach.

Looking ahead

The Prudential Authority's Regulatory and Supervisory Strategy document will be published on its website by 1 October 2018, in line with the requirements of the FSRA. The document will provide general guidance and information to the public regarding the Prudential Authority's approach to regulation and supervision, the principles that will guide its decisions, the key priorities over the next three years and the key outcomes it intends to achieve. The Prudential Authority appreciates that the implementation of the Twin Peaks reform will involve significant changes to existing processes, practices, structures and operations. It is therefore committed to communicating timeously and in an open and transparent manner to assist the transition of the financial sector regulatory landscape.

In the coming months, the Prudential Authority intends to publish:

- > the approach to licensing;
- > the supervisory framework for financial conglomerate supervision;
- > the supervisory framework for FMI supervision;
- > the integrated supervision framework;
- > the enforcement approach;
- > Memoranda of Understanding with other regulators; and
- > guidance on the regulation of significant owners.



RESILIENCE TO EXTERNAL SHOCKS

Resilience to external shocks is the ability to maintain price and financial stability when adverse external events occur. As a small open economy, South Africa is susceptible to global economic and financial market influences, which may have adverse effects on the economy. It is imperative that the SARB, together with other government agencies, have policies that maintain confidence in the economy and preserve macroeconomic stability during such episodes.

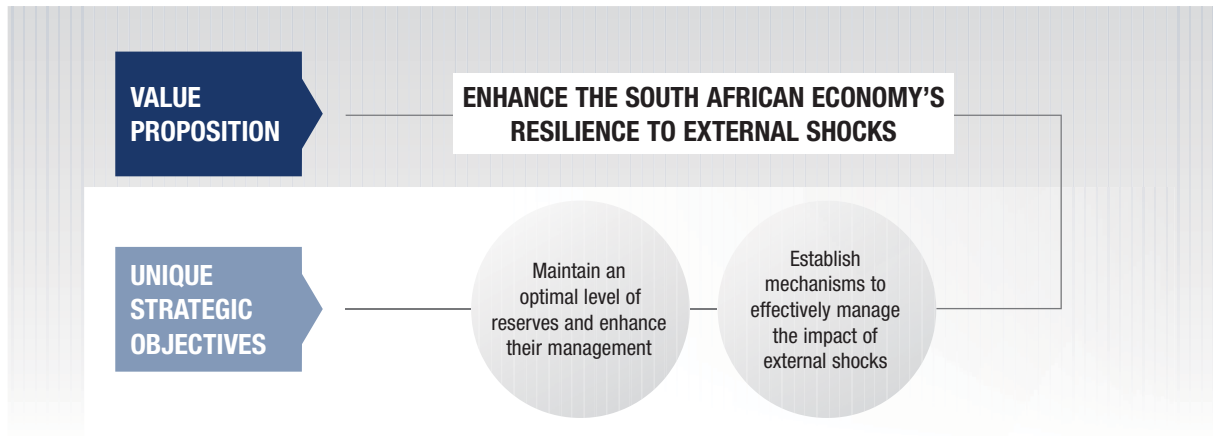
WHAT IS AN EXTERNAL SHOCK?

An external shock is an event that takes place outside South Africa and which has a negative impact on the South African economy and/or financial markets. A shock could, among others, disrupt international trade or the cross-border flow of capital, and may have a negative impact on the economic well-being of South Africans.

WHY DOES THE SARB HOLD FOREIGN-EXCHANGE RESERVES?

Gold and foreign-exchange reserves are typically held to enable the SARB to provide foreign exchange liquidity in times of financial market stress. This ensures that South Africa is able to meet all its foreign obligations, such as debt servicing or international trade, should the natural supply of foreign exchange diminish. Maintaining an adequate level of reserves boosts investor confidence, thereby helping to reduce the likelihood of capital outflows.

SARB STRATEGIC PLAN: SFA 4



PERFORMANCE SCORECARD

	Target (annual)	2017/18 (annual)
STRATEGIC MEASURE Official gross foreign-exchange reserves accumulation versus target	Accumulate adequate reserves	<input checked="" type="checkbox"/> Adequate levels of foreign-exchange reserves accumulated during the reporting period

PROGRESS MADE	To maintain an optimal level of reserves and enhance their management, the SARB:	To establish mechanisms to effectively manage the impact of external shocks, the SARB:
	Implemented the Strategic Asset Allocation. Approved the concept framework for the Broker Counterparty Selection Approval and Monitoring framework and the Bank Credit Assessment Model framework. Completed a review of the External Fund Management Programme.	Developed a framework to identify and manage systemic events in terms of the FSRA. Simulation and stress testing of the framework will continue into the new financial year.



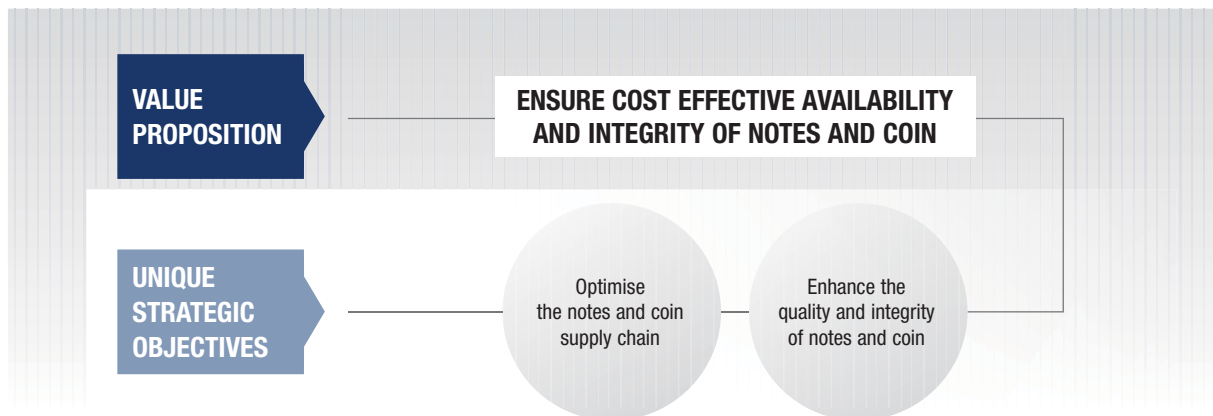
AVAILABILITY AND INTEGRITY OF NOTES AND COIN

Banknotes and coin are legal tender used to buy and sell goods, such as food, and services, such as transportation. These forms of legal tender must be readily available and in adequate supply to meet the public's demand and they must be trusted by the citizens of South Africa.

WHAT IS THE SARB'S RESPONSIBILITY IN TERMS OF NOTES AND COINS?

The SARB has the sole right to make, issue and destroy banknotes and coin in South Africa, and it is responsible for the wholesale distribution of banknotes and coin to commercial banks. The SARB also replaces soiled banknotes and settles claims for mutilated banknotes. The SARB, together with the South African Police Service and the commercial banks, work to combat the counterfeiting of banknotes and coin.

SARB STRATEGIC PLAN: SFA 5



PERFORMANCE SCORECARD

	Target (annual)	2017/18 (annual)	2016/17 (annual)
STRATEGIC MEASURES On-time in-full fulfilment of orders from the cash industry	100% of orders fulfilled within agreed timelines	<input checked="" type="checkbox"/> Target met 100%	100%
Incidence of counterfeiting measured in parts per million (ppm)	Less than 15 ppm	<input checked="" type="checkbox"/> Target met 10.52 ppm	10 ppm

Note: while both targets have been met in terms of their parameters, both have been revised to partially achieved for the reasons outlined in the South African Bank Note Company (RF) Proprietary Limited on page 65.

PROGRESS MADE

To optimise the notes and coin supply chain, the SARB:

- Fulfilled all orders from the cash industry on time.
- Streamlined its physical footprint to improve efficiency and reduce risk, and ensure the long-term sustainability of the currency management function. As part of its cash management strategy, the SARB closed its branches in Bloemfontein, East London and Port Elizabeth, and converted its remaining branches to cash-handling centres.

To enhance the quality and integrity of notes and coin (measured by the percentage yield of fit notes in circulation, where the percentage yield should be above the target), the SARB:

- Achieved a 92% yield against a target of 90%. However, the note quality assessment process has highlighted some concerns around the sample coverage.

SUBSIDIARY REPORTS
PG 62



ORGANISATIONAL CAPACITY AND CAPABILITY

INFORMATION TECHNOLOGY REPORT

To effectively execute its expanded mandate, the SARB depends on accurate and timely information to inform its decision making. It therefore regards information technology (IT) as a strategic asset that enables its strategic plan.

One of the SARB's cross-cutting objectives is to improve the management of enterprise information as well as the analytics process. It aims to achieve this by providing fit-for-purpose technology solutions that enable the effectiveness of organisational capacity and capability. Setting this foundation will support the SARB's internal processes to achieve their respective responsibilities in terms of delivering the SARB's strategic objectives.

IT STRATEGY

IT is deeply entrenched in the way the SARB conducts its business. The IT strategy enables the SARB's strategy and sets the strategic direction of the SARB's IT function. It also recognises IT's role in conducting the SARB's business in a globalised and increasingly complex environment.

A strategic IT scorecard has been developed with agreed measurable key performance indicators. Progress against the scorecard is reported quarterly to the Information Technology Steering Committee (ITSC).

The key measures of the IT scorecard are:

- ▶ how IT enhances SARB's efficiency and effectiveness;
- ▶ internal processes that assist the IT function to deliver business value; and
- ▶ capabilities such as skills, technology requirements and culture that enable internal IT processes.

The SARB is pleased with the progress made against the IT scorecard's objectives for 2017/18 and remedial actions have been put in place to address gaps where performance has not met targets.

IT GOVERNANCE

The SARB's IT strategy covers alignment with good practice IT trends and standards, and process maturity against King IV's IT governance requirements is regularly assessed. The self-assessment during the reporting year confirmed the SARB's compliance with the IT requirements of King IV's Principle 12. While the opportunities presented by IT are clear, the rapid pace of technological change introduces risk. The appropriate governance, risk and control systems are in place to manage and mitigate information and IT system risks, which remain crucial focus areas for the IT function.

The IT governance framework and IT Charter were updated during the reporting year to align to the new IT strategy and are being reviewed for approval. The framework and charter assist the Board to discharge its IT responsibilities and ensure effective two-way communication between management and the Board on IT matters.



INFORMATION TECHNOLOGY
STEERING COMMITTEE
PG 77

2017/18 PERFORMANCE

AVAILABILITY

Achieved an average availability of critical systems of 99.75%, above the target of 99% (2016/17: 99.93%).

MAJOR IT INITIATIVES COMPLETED AND WHICH SUPPORT THE SFAs

The SARB's information and communications technology (ICT) equipment was successfully migrated to its head office data centre with no impact to operations. The migration has attracted the interest of local and international sectors wanting to gain knowledge on the process.

Launched the SARB Mobile application (app), giving users access to current and historical Quarterly Bulletins. It also provides them with quick and easy access to related data and information. The app is available in major app stores.

In response to the findings of the IT strategy review and to ensure the IT function is aligned to the SARB's business imperatives, the capacity of the Business Relationship Management division within the IT function was enhanced and the SARB is maturing the demand management process.

IT OPERATIONS

Availability

In addition to the SARB's strategic IT objectives, focus is placed on ensuring that ICT environments and solutions are adequately maintained with high availability and reliability. During the reporting year, the average availability of critical systems was 99.75% and three business continuity IT recovery tests were conducted, with all three being successful.

Enterprise Information Management (EIM) Programme

The EIM strategy addresses the SARB's current and future information requirements and focuses on various data and IT initiatives that enable the SARB to optimally collect, analyse and disseminate information.

CYBERSECURITY

Cyber threats remain high and no organisation is completely immune to such risks. Cyber-risks are mitigated through continuous improvements to systems and processes to protect the SARB from cyberattacks. The SARB has chosen to implement Security Incident and Event Management technology to support effective monitoring of system security, and during the year it implemented the base infrastructure of this technology solution. During the year, cyber and information security risk, Swift compliance and attack path assessments for key systems were undertaken and the necessary action plans are in progress.

Looking ahead

The focus of this reporting period was project planning, including the sourcing of appropriate partners. Looking forward, the SARB's focus will be to implement and execute large-scale IT projects, particularly those that significantly impact the SFAs.



HUMAN RESOURCES REPORT

The successful execution of the SARB's strategy and mandate depends on the collective effort of its employees. Embedding a culture of performance, innovation and collaboration led by the SARB's values and delivering an attractive employee experience, will assist the SARB to attract, develop and retain the critical skills and competencies needed to drive strategic progress.

2017/18 PERFORMANCE

The SARB focused on the following four areas of its 2020 people strategy

Maturing talent management and workforce planning

- > Talent reviews have helped to raise awareness around the talent management process, reinforced collective accountability and encouraged talent mobility.
- > Approved a leadership development strategy and the architecture design for leader and manager development programmes.

Maturing performance management and aligning it to reward and recognition

- > Completed the alignment of the performance contracts of departmental heads to the SARB's strategy and cascaded performance objectives to all managers.
- > Implemented a new Remuneration Policy that aligns to the total reward strategy which promotes a flexible, balanced, integrated and cost-effective reward structure.
- > Rolled out total reward statements which for the first time encompassed direct (fixed and variable pay and recognition) and indirect (benefits and development) reward elements.

Fostering employee engagement

- > Conducted an Employee Value Proposition survey and Employee Engagement survey.

Developing an employee value proposition for the strategic future workforce

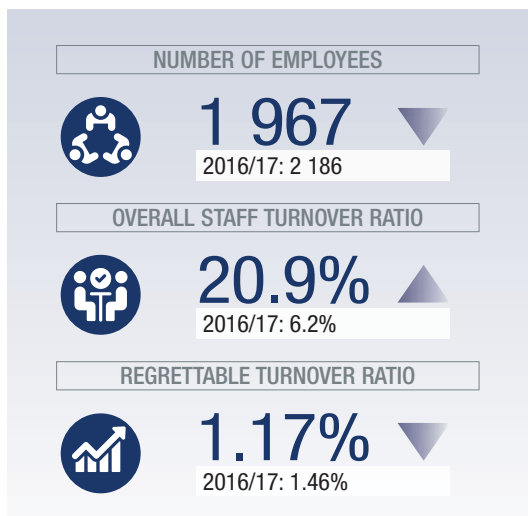
- > Spent R35 million on training and development, reaching 80% of the workforce.
- > The engagement surveys identified the attributes of an attractive employee value proposition for the SARB and the findings will be used to improve organisational culture and the employee experience.

ORGANISATIONAL CAPACITY AND CAPABILITY – continued

STAFF TURNOVER

The closure of the SARB's branches in Bloemfontein, East London and Port Elizabeth, as part of its cash management strategy, contributed to the reduction in headcount and increased overall staff turnover. Employees impacted by this organisational restructure were able to apply for enhanced early retirement and voluntary severance packages.

Pleasingly, regrettable turnover improved.



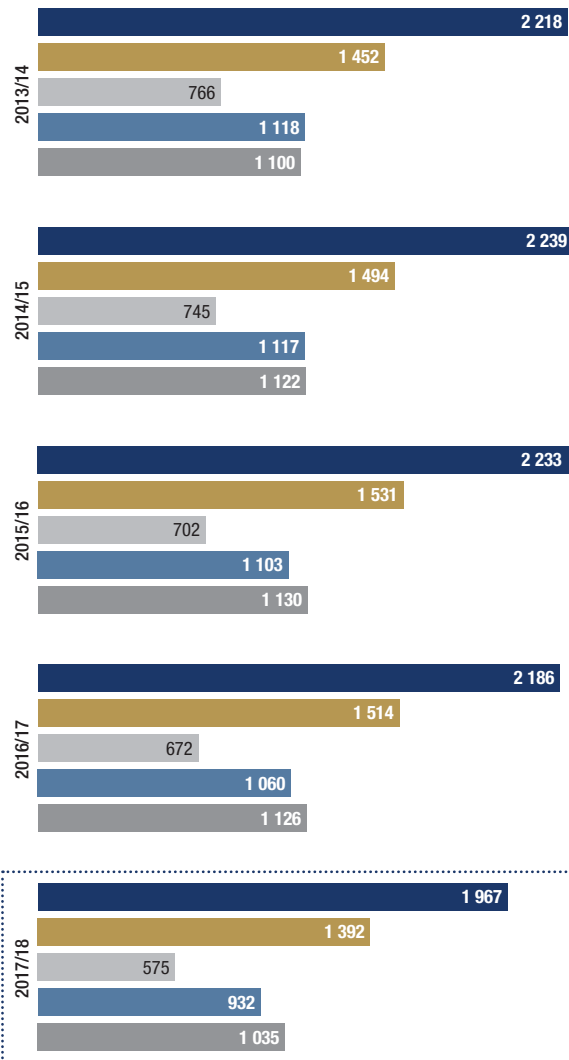
CRITICAL ROLES

The SARB experienced challenges in sourcing suitable candidates for critical roles that support the SFAs, resulting in an increased average time to fill a post. However, the successful sourcing and placing of the right candidates in critical roles has improved the SARB's coverage ratio of critical roles to 80%.



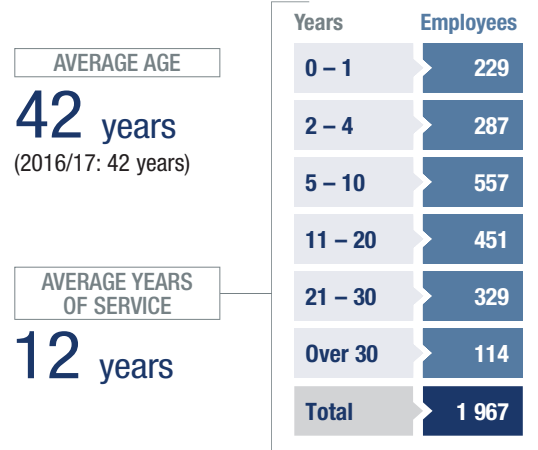
WORKFORCE PROFILE

HEADCOUNT OVER FIVE YEARS (NUMBER OF EMPLOYEES)



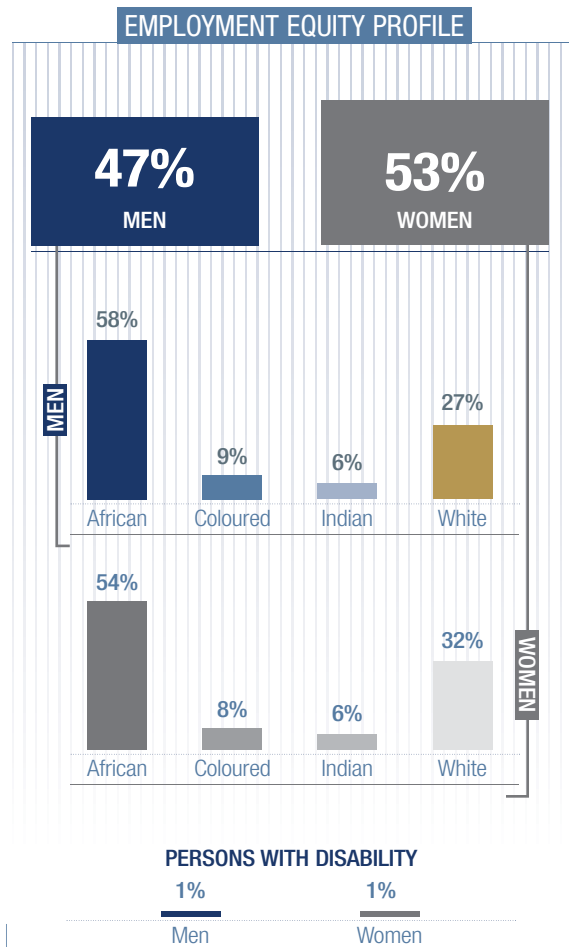
■ Employee complement ■ Black ■ White ■ Men ■ Women

Note: black includes African, Coloured and Indian.



EMPLOYMENT EQUITY

Transformation and employment equity are key focus areas and the SARB continues to build a sustainable workforce that reflects the demographics of the economically active population in South Africa. It complies with the Employment Equity Act of 1998, as amended. The SARB's 2017/18 employment equity report was accepted by the Department of Labour.



REMUNERATION

The SARB's total reward philosophy is to reward employees for their performance and contributions to its strategic objectives. The philosophy covers fixed pay, variable pay and recognition benefits, work-life balance, and career development and opportunities.



LEARNING AND DEVELOPMENT

The SARB believes that its employees should find working for the SARB a stimulating and personally enriching experience. It accepts co-responsibility for the development of each employee's full potential.

Training expenditure including study aid

R34.9 million reaching **80%** of employees

2016/17: R47.3 million reaching 72% of employees

Training spend as a percentage of total payroll

2%

2016/17: 3%

Of the **1 608** employees trained

2016/17: 1 594

75% are Africans

2016/17: 80%

51% are women

2016/17: 52%

1% are people with a disability

2016/17: 1%

GRADUATE DEVELOPMENT PROGRAMME

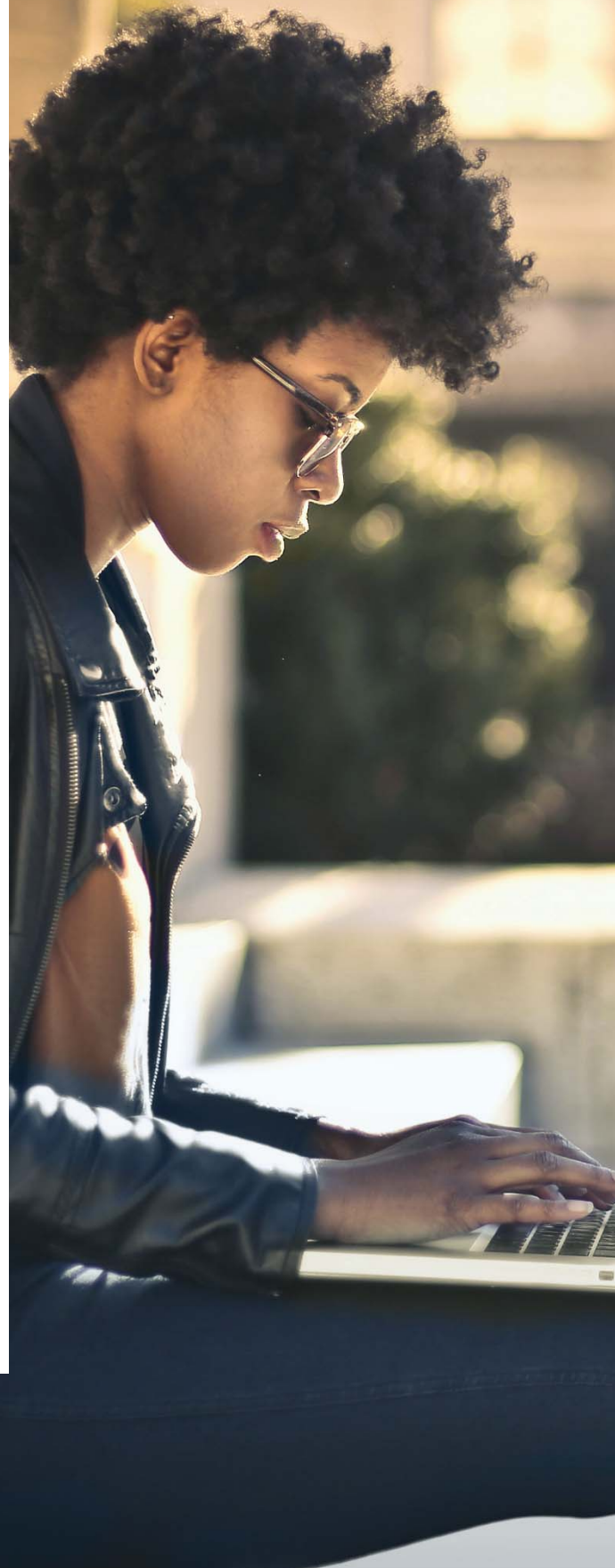
22 recruits

2016/17: seven

The Graduate Development Programme exposes participants to the role of the central bank in the economy and of the financial sector in general. Graduates gain work experience, are exposed to various roles and projects, and attend courses at the SARB Academy. Graduates showing potential may be permanently appointed by the SARB.

LEADERSHIP AND MANAGEMENT DEVELOPMENT

A framework to develop leaders and managers was developed during the year and a nine-module Management Fundamentals Programme is being rolled out.





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 2018, the SARB Retirement Fund had 2 597 contributing members, 107 preserved members, 867 life annuitants, 233 life annuities (formerly the SARB Pension Fund), 52 living annuitants, and seven deferred retirees (members who have retired from the Group but not from the fund). The fund's total liability amounted to R6 151 million at year-end.

In addition to the statutory actuarial valuations performed every three years, interim actuarial valuations are conducted annually. The last statutory actuarial valuation was at 31 March 2015, and found the fund's financial position to be sound. The fund is finalising its 31 March 2018 statutory valuation.

The fund's assets are managed by an external asset manager with oversight by an Investment Committee. The Board of Trustees actively monitors changes in the retirement industry; including retirement legislation reform, the advent of Treating Customers Fairly legislation and the implementation of the Protection of Personal Information Act 4 of 2013. Members are kept informed of any changes through road shows, circulars and fund booklets. The operations of the fund are constantly reviewed to ensure compliance with legislative changes and leading retirement fund practice.

Looking ahead

People-related initiatives for 2018/19 are to:

- > continue to drive a high level of engagement with employees;
- > introduce initiatives to strengthen organisational culture;
- > continue to develop leaders and managers; and
- > embed talent management, performance management and reward processes.

CORPORATE SOCIAL INVESTMENT REPORT

The SARB aims to conduct its business practices in a transparent way based on ethical values, compliance with legal requirements and respect for people, communities and the environment. The SARB’s social investment primarily focuses on initiatives that develop skill and support awareness of monetary policy and financial stability.



EDUCATION

Access to education through funding

External bursaries
Offer bursaries to young people studying at tertiary institutions.

Academic research

- > Support and fund the Chair of Monetary Economics at the University of Pretoria.
- > Support and fund the Centre for Economic and Financial Journalism at Rhodes University.
- > Support and fund the Chair of financial stability studies.
- > Support and fund financial stability research grants.

MPC Schools Challenge
Competition for Grade 12 Economics learners.



EMPLOYEE VOLUNTEERISM

Employees who actively volunteer their personal time to community development

Mandela Day
Encourage employees to participate in the commemoration of Nelson Mandela.



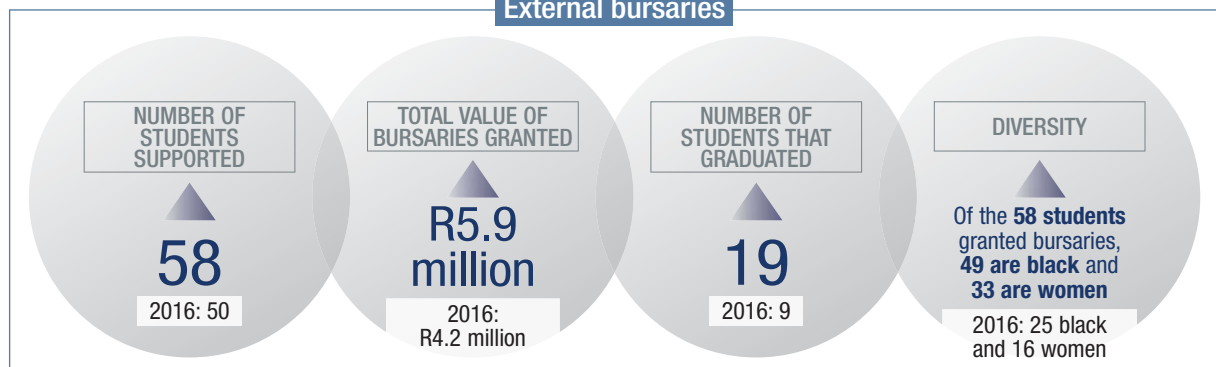
ENTERPRISE DEVELOPMENT

Support small and micro enterprises with mentorship and incubation

Continued to mature inclusive procurement and work has started on enterprise acceleration.

EDUCATION

External bursaries



Academic research

BENEFICIARIES OF EDUCATION AND SKILLS DEVELOPMENT PROGRAMMES

	2017	2016	2015
University of Pretoria (postgraduate programme in Monetary Policy)	60 ¹	39	59
Rhodes University ² (Economic Journalism Programme)	7	10	9
External bursaries	58	50	42
Arts and culture bursaries	2	1	1
South African Institute of Chartered Accountants (bursary fund)	5	5	0
Sponsorship (matriculants) ³	0	2	4
Total beneficiaries	132	107	115

1. Seven of the 60 students are enrolled for a PhD.

2. Seven students graduated with either a Master's degree in Journalism or a postgraduate diploma in Economic Journalism.

3. Scholarship students were moved to the external bursary scheme.

MPC Schools Challenge

Run in partnership with the Department of Basic Education, the MPC Schools Challenge provides an exciting opportunity for Grade 12 learners studying Economics to understand a few of the factors that the SARB needs to consider when it sets the country's repo rate. The challenge gives learners and their teachers the opportunity to step into the shoes of the MPC. In 2017, schools in the Eastern Cape, North West and Northern Cape provinces participated in the challenge for the first time and at the start of 2018, the challenge was rolled out to all nine provinces.

NUMBER OF SCHOOLS

	2017	2016	2015
Eastern Cape ¹	12	0	0
Free State	22	16	23
Gauteng	39	23	42
Limpopo	42	18	28
Mpumalanga	13	17	0
North West	9	0	0
Northern Cape	4	0	0
Total	141	74	93

1. Learner briefing workshops were held in Port Elizabeth and East London.

CSI SPEND (Rm)

	2017	2016	2015
University of Pretoria (postgraduate programme in Monetary Policy)	2.5	1.5	0.8
Rhodes University (Economic Journalism Programme)	1.6	1.6	1.6
External bursaries	5.9	4.3	2.6
Arts and culture bursaries	0.1	0.05	0.05
South African Institute of Chartered Accountants (bursary fund)	0.7	0.6	0.6
Sponsorship (matriculants) ¹	0	0.3	0.4
Employee volunteerism	1.5	2.5	0
MPC Schools Challenge ²	2.9	1.1	1.0
Total expenditure	15.2	12.0	7.1

1. Scholarship students were moved to the external bursary scheme.

2. The MPC Schools Challenge has been included in the CSI spend for the first time.

The operating model of the MPC Schools Challenge is under review, with a focus on the effectiveness of the programme in achieving its objectives. The review will aim to identify how the initiative can be made more cost effective through operational efficiencies and economies of scale.

EMPLOYEE VOLUNTEERISM

To commemorate Mandela Day on 18 July 2017, R1.5 million was allocated to 10 schools with special needs in seven provinces. Employee activities ranged from painting and tiling to electrical work and plumbing, as well as general repairs and cleaning, among others. The beneficiaries are public schools funded by the Department of Basic Education and which offer Mathematics and Economics subjects.

GOVERNANCE OF CSI

The SARB's CSI programme operates under the Executive Management Department with entrenched governance standards and structures. The Chief Operating Officer chairs the CSI Committee which is tasked with guiding, directing and overseeing the SARB's CSI initiatives and ensuring that fund allocation complies with the CSI Policy.