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

To protect the value of the currency in the interest of balanced and sustainable economic growth in South Africa.

The SARB actively encourages and strives towards the following values:

RESPECT AND TRUST
OPEN COMMUNICATION
INTEGRITY
ACCOUNTABILITY
EXCELLENCE

Achieve and maintain price stability.

Protect and enhance financial stability.

The SARB is not driven by a profit motive but by serving the best interests of the people of South Africa.

The SARB’s head office is in Pretoria, where it conducts its annual Ordinary General Meeting (AGM) of shareholders. It also operates cash centres in Cape Town, Durban and Johannesburg.

The SARB is regulated in terms of the South African Reserve Bank Act 90 of 1989, as amended (SARB Act), read with section 223 of the Constitution of the Republic of South Africa, Act 108 of 1996 (the Constitution). The SARB’s primary mandate and independence are entrenched in sections 224 and 225 of the Constitution.
The SARB is pleased to present its annual report for the year ended 31 March 2018. This report forms part of the SARB’s public accountability and responsibility to a broad range of stakeholders. It provides readers with a holistic account of the SARB’s strategy, performance and impact on society. It therefore contains financial and non-financial information that is material to the SARB’s ability to sustainably implement its mandate.

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

The SARB’s strategy aims to ensure that it remains a relevant and forward-looking central bank. The strategy comprises clear and measurable strategic focus areas (SFAs), strategic objectives and strategic initiatives for the medium term. The structure of this year’s annual report reflects the SARB’s strategic plan to 2020. An overview of the strategic plan is included on page 7 and more detailed discussions on how the SARB manages its strategy and performance against its SFAs and strategic objectives start on page 14.

The Financial Sector Regulation Act 9 of 2017 (FSRA) was enacted on 22 August 2017, marking a significant milestone in the implementation of the Twin Peaks framework of financial regulation and paving the way for the introduction of the Prudential Authority on 1 April 2018.
REPORTING FRAMEWORKS

The following best reporting practice frameworks have been used to guide and prepare the report.

<table>
<thead>
<tr>
<th>Framework</th>
<th>Details</th>
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</thead>
<tbody>
<tr>
<td>The King Report on Corporate Governance in South Africa 2016 (King IV)</td>
<td></td>
</tr>
<tr>
<td>International Financial Reporting Standards (IFRS):</td>
<td>in compiling and presenting its annual financial statements, the SARB has elected to use IFRS as a guide, except where IFRS conflicts with the provisions of the SARB Act. In such instances, the SARB Act takes precedence. The SARB’s summarised Group annual financial statements, starting on page 80 of this report, provide further detail.</td>
</tr>
<tr>
<td>The International Integrated Reporting Council’s Integrated Reporting Framework</td>
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</table>

The principles of each framework are balanced against their practicality and relevance to a central bank, taking into account overriding legislation and confidentiality requirements.

ASSURANCE

The summarised Group annual financial statements presented in this report, and the full Group annual financial statements available on the SARB’s website, have been independently audited by the SARB’s external auditors – PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Inc.

APPROVAL

The determination of material matters for inclusion in this report is undertaken at executive level, with due consideration of stakeholders’ information requirements, and with oversight provided by the Board of Directors (the Board).

The Audit Committee and the Board have reviewed this report. In the Board’s opinion, the report provides a fair and balanced account of the Group’s performance and material matters. The Group annual financial statements for the year ended 31 March 2018 were approved by the Board on 8 June 2018 and signed on its behalf by:

E L (LESETJA) KGANYAGO
GOVERNOR OF THE SARB
SERVING THE ECONOMIC WELL-BEING OF SOUTH AFRICANS

THE SARB’S MANDATE

CONSTITUTIONAL
The Constitution prescribes the primary mandate of the SARB, which is to protect the value of the currency in the interest of balanced and sustainable economic growth. Achieving and maintaining price stability contributes towards the stability of the entire financial system.

The SARB continually considers the inter-relationships between price and financial stability to ensure that decisions relating to one do not unduly negatively impact on the other.

STATUTORY
The FSRA formally mandates the SARB to protect and enhance financial stability in South Africa. Through the Prudential Authority, the Act expands the SARB’s regulatory responsibility beyond licensed deposit-taking institutions.

KEY FUNCTIONS

- Formulating and implementing monetary policy
- Issuing and destroying notes and coin
- Promoting financial stability which includes acting as the lender of last resort in exceptional circumstances
- Managing the official gold and foreign-exchange reserves of the country
- Regulating and supervising financial institutions, including banks and insurance entities
- Undertaking economic data analysis and research
- Ensuring the effective functioning of the National Payment System (NPS)
- Administering the country’s remaining exchange controls
- Acting as banker to the government

STRATEGIC PLAN

The SARB’s four-year strategic plan sets out what the SARB intends to do to achieve its vision and mission and execute its mandate.

STRATEGY AND RISK MANAGEMENT, AND GOVERNANCE
underpin the SARB’s ability to sustainably execute its mandate

The SARB Act and associated regulations set the framework and structure of the SARB, the way in which it is managed and the actions it may take.
IN PROMOTING FINANCIAL STABILITY, THE SARB STRIVES TO:

01 Monitor the financial system

02 Mitigate risks to financial stability

03 Restore or maintain financial stability if a systemic event occurs or is imminent

HOW PRICE STABILITY SERVES THE ECONOMIC WELL-BEING OF SOUTH AFRICANS

A MONETARY POLICY STANCE THAT PROVIDES A LOW AND STABLE INFLATION ENVIRONMENT:

> protects the purchasing power and living standards of all South Africans, particularly the poor;
> supports sustainable and balanced economic growth;
> contributes to South Africa’s ability to create employment;
> facilitates general trust in the value of the rand and provides a favourable environment for investment in South Africa; and
> helps to maintain and improve South Africa’s international competitiveness.

HOW FINANCIAL STABILITY SERVES THE ECONOMIC WELL-BEING OF SOUTH AFRICANS

A STABLE AND SAFE FINANCIAL SYSTEM:

> is an important precondition for sustainable economic growth and development, and employment creation;
> contributes towards the system’s resilience to vulnerabilities and shocks; and
> promotes efficient financial intermediation through sound financial institutions and market infrastructures.
The SARB’s strategy map sets out its five strategic focus areas and supporting strategic objectives. These SFAs and objectives do not represent the entire work of the SARB. Instead, they create focus and a manageable strategic agenda, distilling the most important work required to deliver the SARB’s mandate. The strategy map illustrates the relationships between the SFAs and strategic objectives across three interrelated perspectives, and provides a simple, standardised and visually-powerful way of communicating the strategy across the SARB.

**STAKEHOLDER VALUE PROPOSITION**

- Maximise monetary policy effectiveness
- Anchor inflation expectations
- Improve and enhance the regulatory, supervisory and oversight framework of the NPS

**STRATEGIC INTERNAL PROCESS OBJECTIVES**

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

**ORGANISATIONAL CAPACITY AND CAPABILITY OBJECTIVES**

- Provide fit-for-purpose technology solutions to enable strategic processes
- Attract, develop and retain critical skills and competencies to drive strategic processes
- Improve organisational effectiveness by reducing bureaucracy and silos, and becoming more flexible and agile
- Embed a culture of performance, innovation and collaboration led by a team driven by the SARB’s values
The SARB reviewed its strategy and found the design to be sufficiently robust in responding to internal and external environmental factors, however, more effective coordination and execution of the large, complex, enterprise-wide projects is needed. Greater focus will be placed on financial technology (fintech), exponential technologies, cybersecurity, data and information management, communication, stakeholder engagement and the changing world of work.

The repurchase rate (repo rate) is the primary tool used by the SARB to maintain headline inflation within the target range. The SARB engages in various open market operations to give effect to the policy rate. These include repo and reverse-repo transactions, the issue of SARB debentures, the transfer of public sector funds between the SARB and the market and foreign-exchange swaps. Other factors which impact liquidity management include market demand for notes and coin, the cash reserve balances that commercial banks must hold with the SARB and foreign-exchange spot transactions. The net effect of these factors is recorded on SARB’s statement of financial position as accommodation to banks.

The implementation of the monetary policy was executed smoothly during the year through open market transactions to give effect to the decisions of the Monetary Policy Committee (MPC). These market and investment management operations impact the SARB’s financial performance through interest earned on assets, primarily foreign reserves and outstanding repo transactions. Interest paid on liabilities, primarily local government deposits, call deposits and foreign deposits received, also impacts financial performance.

1. Changes in the work environment include technology advances such as artificial intelligence, machine learning and robotics; and a multi-generational, connected, flexible and mobile workforce.
The SARB enhances protection provided to small retail depositors and is consulting with stakeholders on the structure and funding arrangements of the deposit insurance scheme. It is envisaged that the scheme will be a wholly owned subsidiary of the SARB. Initiatives are underway to ensure that the scheme has minimal cost impact on the industry and the SARB, while providing a public benefit.

Subsequent to year-end, the Prudential Authority was officially established as a juristic person operating within the SARB on 1 April 2018. The full financial effect of the Prudential Authority will commence in the new financial year and the costs attributable to the unit are expected to be fully recovered from levies in 2019/20.

One of the ways in which countries can enhance their resilience to external shocks is to hold foreign reserves as financial buffers. The SARB has successfully grown gold and foreign-exchange reserves during the reporting period to just under US$50 billion. The year-on-year decline in the rand value of the official gross gold and foreign-exchange reserves of R25 billion (2017: R71 billion) was mostly due to the appreciation of the rand and a decrease in the statutory gold price. The growth in the US dollar value of gold and foreign reserves was attributable to National Treasury foreign currency deposits, a valuation increase due to the depreciation of the US dollar against major currencies, an increase in the US dollar gold price and other reserve accumulation activities.
The SARB recorded a R378 million decrease in the cost of currency through reduced orders and the use of buffer stocks. It is anticipated that orders will increase significantly in the next financial year as the cash management strategy is executed.

The R14 billion year-on-year increase in notes and coin in circulation was mostly due to increased demand. Order fulfilment to the cash industry was 100%.

The SARB embarked on two major initiatives:

- The implementation of the cash management strategy, including a demand-driven cash replenishment model.
- The preparation for the Nelson Mandela commemorative coin and banknote series.

The SARB recorded a profit before tax of R1.9 billion, a marginal increase of R43 million compared to the prior year.

The SABN made a minor loss before tax of R8 million (2017: R174 million profit), largely due to reduced production. A return to profitability is expected in 2018/19.

In line with the SARB Act a dividend of R0.2 million was paid to SARB shareholders. (2017: R0.2 million)

The SARB transferred R1.4 billion from current year profits to the contingency reserve in terms of the SARB Act to rebuild the reserves.

The South African Mint had an excellent year, contributing profit before tax of R952 million (2017: R668 million) to the Group, primarily on the back of a successful 50-year anniversary campaign for the Krugerrand.

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The SARB transferred R1.4 billion from current year profits to the contingency reserve in terms of the SARB Act to rebuild the reserves.

The SARB’s 50% shareholding in ABHL, which came about as part of facilitating the resolution of African Bank Limited, contributed R424 million to the Group’s profits, largely offsetting the prior year’s loss of R556 million.

The South African Mint had an excellent year, contributing profit before tax of R952 million (2017: R668 million) to the Group, primarily on the back of a successful 50-year anniversary campaign for the Krugerrand.
Completed a number of major IT initiatives that support the SARB’s SFAs, including the successful upgrade of the data centre at the SARB’s head office and a mobile application giving users access to current and historical Quarterly Bulletins.

Implemented the base infrastructure of Security Incident and Event Management technology to support effective monitoring of system security and guard against cybercrime.

Conducted two employee surveys to gain insight on how the SARB can improve the employee experience.

Spent R35 million on training and development, reaching 80% of the workforce.

The coverage ratio of critical roles improved to 80%

(2016/17: 68%)

Completed the alignment of the performance contracts of departmental heads to the SARB’s strategy and cascaded performance objectives to all managers.

Regrettably turnover ratio improved to 1.17%

(2016/17: 1.46%)

Granted external bursaries to tertiary students valued at R5.9 million

(2016: R4.2 million)

Of the 58 students granted bursaries, 49 are black (African, Coloured and Indian) and 33 are women.

Extended the MPC Schools Challenge to seven provinces, with schools in the Eastern Cape, North West and Northern Cape provinces participating for the first time. The challenge will be extended to KwaZulu-Natal and the Western Cape provinces during the 2018/19 financial year.
It gives me great pleasure to again present to South African citizens, shareholders and other stakeholders the annual report of the SARB for the financial year ended 31 March 2018. This report provides a comprehensive overview of the work of the SARB and its subsidiaries, as well as the summarised financial statements of the Group.

This past year was characterised by periods of heightened domestic political uncertainty. Nevertheless, the SARB remained focused on its primary objectives to achieve and maintain price and financial stability. During the reporting period, there was a marked improvement in inflation outcomes. Inflation was within the target range for the entire financial year, at an average of 4.7%, and it is expected to remain within the target range of 3–6% for the rest of the forecast period ending 2020. The more benign inflation performance is attributable in part to the stronger currency and the dissipation of the impact of the drought on food prices. Although inflation reached a low of 3.8% in March, this is expected to be the bottom of the current cycle, as the impact of the value-added tax (VAT) increase and higher petrol prices is likely to be felt soon.

An important focus of our activities was to get inflation expectations to decline and move closer to the mid-point of the target range. Inflation expectations are an important determinant of wage- and price-setting in the economy, and for a number of years these expectations have been stuck at the upper end of the target range. In the first quarter of 2018, we saw a marked moderation of these expectations in the various measures of expectations. While it is still too early to say that expectations have declined on a sustained basis, it is a promising development.

South Africa’s gross domestic product (GDP) growth surprised on the upside during 2017, having recorded growth of 1.3%. This despite a contraction in the first quarter. Although a stronger performance of around 1.7% is expected during 2018, growth is expected to remain below potential, and insufficient to make inroads into the high unemployment rate.

The combination of the improved inflation outlook and below-potential growth gave the MPC some room to ease the stance of monetary policy and provide some support at the margin to economic growth. In July 2017 and March 2018, the MPC reduced the repo rate by 25 basis points on each occasion to its current level of 6.5% per annum. In line with its strategic objective, the committee will remain focused on ensuring the headline inflation remains close to the mid-point of the inflation target range on a sustained basis. A detailed report on monetary policy and the rationale for the policy stance can be found on pages 26 to 32.

The SARB’s role in maintaining, promoting and enhancing financial stability has been given formal expression in the enactment of the FSRA in August 2017. The Act confers on the SARB an expanded regulatory role in the financial sector, at both the microprudential and macroprudential levels. In accordance with the Act, the Prudential Authority was officially established within the SARB on 1 April 2018.

While the banking system remains well capitalised and the financial system did not show significant signs of stress during the year, there were a number of well-publicised event risks, none of which were assessed to be systemic in nature. First, the announcement of an investigation into accounting irregularities at Steinhoff International Holding NV saw a collapse in its share price. While there may be some impact of a potential default on the company’s debt exposure on South Africa’s banking system, this exposure is relatively limited, and mainly concentrated in foreign banks. Second, a report on Capitec Bank and subsequent short-selling of the bank’s shares caused some volatility in the share price. However, the SARB’s view is that the bank is well capitalised and has ample liquidity.

Third, in March 2018, following signs of a severe liquidity crisis, the SARB placed VBS Mutual Bank under curatorship with the aim of protecting the interests of depositors. Subsequent to this step, the SARB has instituted a forensic investigation into possible fraud or material misstatements.
At the time of publication of this annual report, the curatorship and the investigations were still underway. Given the size of VBS Mutual Bank and its limited interconnectedness with the rest of the financial sector, it is not assessed to pose a systemic risk. The SARB was unfortunately not immune to attempts to undermine and capture state institutions. During the past year, the SARB faced challenges to its independence as well as to its ownership structure. Often the two issues are confused in people’s minds.

The challenge to the SARB’s primary mandate and monetary policy independence, which is enshrined in the Constitution, came from an unexpected source. The Public Protector, in her ruling on the legality of the SARB ‘lifeboat’ to Bankorp over 30 years ago, argued that Absa, as the purchasing bank, was liable to repay the facility. However, her binding remedial action called for a change in the SARB mandate, from price stability to one of “ensuring that the socio-economic well-being of the citizens are protected”. This would have required a Constitutional amendment. We challenged these findings and proposed remedial actions in court and the judgement went in our favour and the report was set aside. We will continue to vigorously defend challenges to our independence and Constitutional mandate, and we shall do so by drawing strength from fellow South Africans whose long-term interest inform our actions.

The proposed nationalisation of the SARB, by contrast, has little to do with our core mandate. Private shareholders currently have very limited rights, and have no role whatsoever in policymaking and execution. This is the preserve of the Governor and Deputy Governors, who are appointed by the President. While shareholders can vote for Board members, the majority of the Board is appointed by government. In any event, the Board itself is strictly a governance Board and plays no role in policy formulation. The SARB functions in the public interest; private shareholders and their representatives on the Board have no influence whatsoever on monetary policy, financial stability or banking regulation. Private shareholders do, however, represent an additional layer in the governance framework, and this helps strengthen accountability and transparency. Furthermore, shareholder-elected Board members add valuable expertise and inputs to the operations of the SARB.

Nationalising the SARB would also be expensive as its shares currently trade for much less than the price at which some existing shareholders are willing to sell their shares. The “buying-out” of existing shareholders will therefore result in paying large sums of money to effect cosmetic changes that will have no bearing on the manner in which the SARB carries out its mandate or executes its policy responsibilities. Irrespective of shareholding structure, the primary mandate of the SARB and its independence will remain unchanged. Despite these domestic challenges, the SARB has enjoyed some global recognition. I was honoured to be appointed as Chairperson of the International Monetary and Financial Committee, which is the policy advisory committee of the Board of Governors of the International Monetary Fund. Furthermore, I was named Central Bank Governor of the Year by Central Banking Publications. Although these honours were bestowed on me in person, they do not belong to me. They are a reflection of the people who stand behind me and a recognition of the SARB’s institutional strength.

I am pleased to report that the SARB remained profitable for the fourth consecutive financial year. The Group recorded after-tax profit of R2.4 billion compared with R1.4 billion in the previous financial year. The SARB itself accounted for R1.4 billion of this total, while the remainder of this profit came from the South African Mint – mainly due to the successful 50-year anniversary campaign for the Krugerrand – and from ABHL. However, as we always note, the SARB does not have a profit-maximising objective, and our operations are conducted in pursuit of our mandate and objectives, in the interest of the country.

We will, however, continue to strive for operational efficiency and good governance.

The SARB did not operate with a full Board for the past year. The terms of office of three government-appointed non-executive directors expired during 2017. Dr Terence Nombembe was re-appointed for a further term in July 2017. Dr Tania Ajam was not available for re-appointment and Ms Maureen Manyama resigned at the end of July. The latter two positions were still vacant at financial year-end. With respect to shareholder-elected non-executive directors, Mr Rob Barrow, Prof Rochelle le Roux and Mr Gary Ralfe were all re-elected at the 2017 AGM. The term of office of Mrs Venete Klein expires at the end of July. The latter two positions were still vacant at financial year-end. With respect to shareholder-elected non-executive directors, Mr Rob Barrow, Prof Rochelle le Roux and Mr Gary Ralfe were all re-elected at the 2017 AGM. The term of office of Mrs Venete Klein expires at the 2018 AGM and she has indicated that she is not available for re-election. A new Board member will therefore be elected by shareholders at the AGM from a shortlist compiled from nominations received by the Panel established in terms of the SARB Act.

This has once again been a difficult year, but the SARB has been able to contend with the challenges faced. This has been a strong team effort, and I would like to extend my sincere thanks and appreciation to the non-executive directors, the Deputy Governors and all employees for their hard work and commitment to this important institution. I have no doubt I can continue to rely on them for unwavering support and dedication in the execution of our mandate and objectives, in the interest of all South Africans.

E L (LESETJA) KGANYAGO
GOVERNOR