Annual Report
2009/10

South African Reserve Bank

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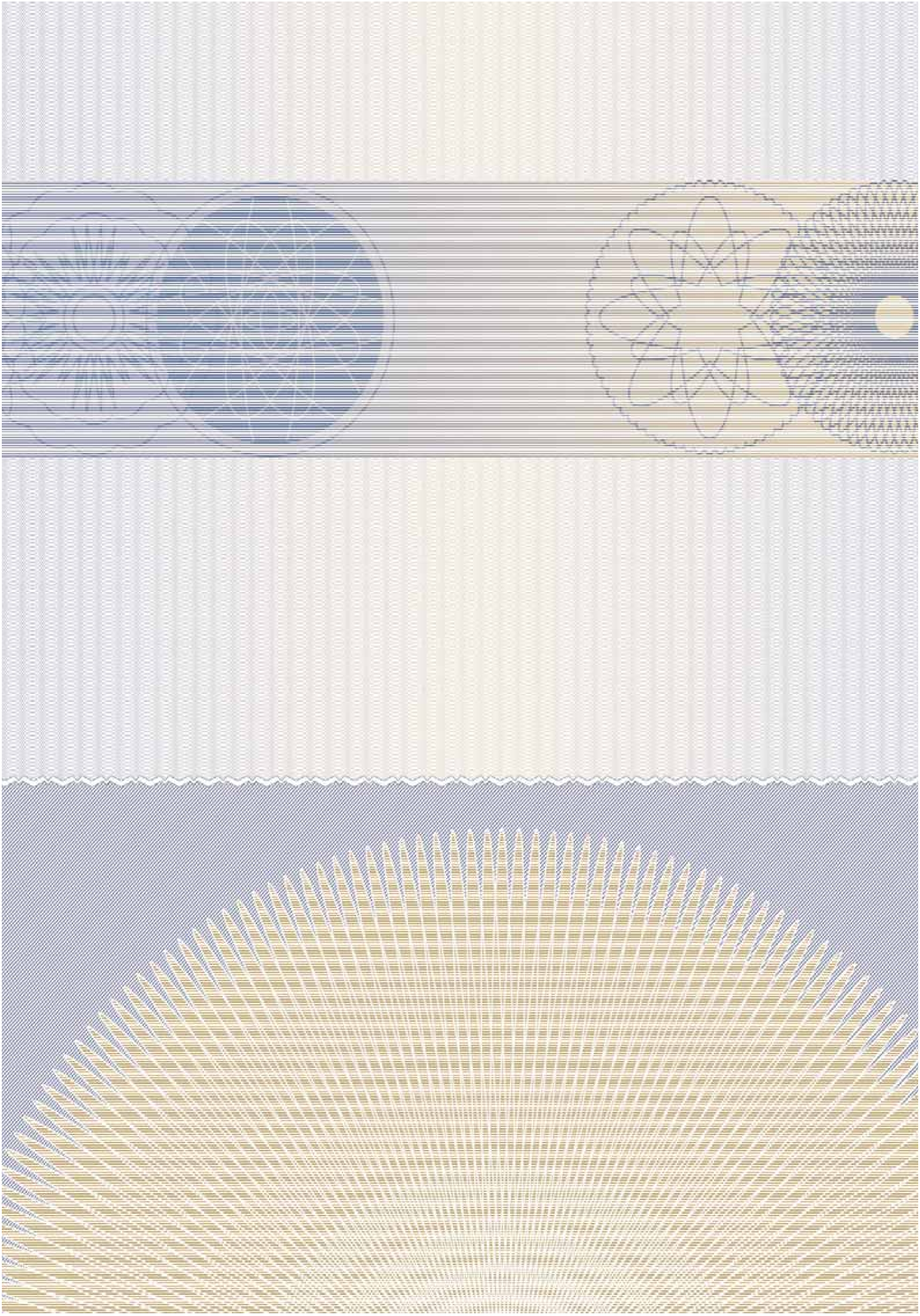


Contents

Message from the Governor

It gives me great pleasure to present the *Annual Report* of the South African Reserve Bank (the Bank) for the financial year ended 31 March 2010 to the shareholders and other stakeholders of the Bank. Apart from presenting the financial statements of the Bank, the *Annual Report* provides an insight into the operations of the Bank during the financial year. The report contains an overview of policy interventions, including a detailed analysis of monetary policy and an outline of the internal workings of the Bank, and highlights some of its broader social responsibility initiatives.

A comprehensive review of global and domestic economic developments is provided in the *Annual Economic Report*, which is published as a separate document.

To avoid delay, this year the publication of the *Annual Report* is not linked to the Ordinary General Meeting (OGM) of shareholders of the Bank.

The context in which the Bank had to conduct its operations in the past financial year remained extremely challenging. During 2009, the world economy began to emerge from the widespread recession that began in the latter part of 2008. Nevertheless, the international environment remains characterised by heightened risk and uncertainty. The hesitancy of the recovery currently being experienced in the advanced economies indicates that we have not yet emerged from the crisis. Recent events in Europe related to sovereign risk, and the economic and political ramifications of fiscal austerity programmes are of particular concern, not only because of the potential to derail the recovery in other regions, but also because of South Africa's close and significant trading relationship with Europe. There are also continued concerns over the strength and sustainability of the recovery in the United States (US), and it appears that growth in the US is likely to remain low for longer. The global banking system has also improved somewhat, but serious risks remain. Overall, these developments pose a risk to the nascent recovery in the domestic economy.

The global environment has had a pervasive impact on many of the activities of the Bank, as well as on its strategic direction. The recent crisis has demonstrated the need for central banks to have a clear focus on issues related to financial stability, in addition to a focus on inflation. The Bank has participated in discussions in international forums, and these interactions have highlighted the fact that while the need to have a financial stability focus is agreed upon, the modalities of intervention are not clear-cut. During the year, financial stability also became an explicit focus of the deliberations of the Monetary Policy Committee (MPC). In order to ensure coherence and co-ordination with monetary policy actions, the membership of the existing Financial Stability Committee will be reconstituted and the mandate of the committee enhanced.

Reforms of the supervisory and regulatory environment of the banking sector have also received increased attention at the global level, and these developments will impact on the domestic banking system. The Bank has participated in the deliberations of the Basel Committee on Banking Supervision (Basel Committee), which is drafting amendments to the existing *International Convergence of Capital Measurement and Capital Standards*: *A Revised Framework* (Basel II), the Financial Stability Board at the Bank for International Settlements (BIS), and the regular bimonthly meetings of central bank governors held at the BIS. The South African banking system was one of the few that did not experience a crisis in 2008, mainly due to appropriate regulation, and monitoring and supervision of the sector. South African banks remain well capitalised, and capital-adequacy ratios are currently in excess of the minimum proposed in the new reforms. The proposals pertaining to liquidity may be challenging, but are not insurmountable.

The past year has also seen a significant flow of capital to emerging-market economies in the face of persistently low policy interest rates in advanced economies. This trend was reinforced by rising commodity prices and a decline in global risk aversion in general. South Africa was also a beneficiary of these flows, which has resulted in a marked appreciation of the trade-weighted rand exchange rate. The Bank took advantage of these inflows to add to its foreign-exchange reserves which, although at historically high levels, are still relatively low compared with other emerging-market countries. However, the need to sterilise the impact of these purchases of foreign exchange on domestic liquidity resulted in the Bank reporting an after-tax loss of R1,05 billion during the past financial year.

Monetary policy remained accommodating during the past financial year against the backdrop of an improved inflation outlook and a relatively weak, but recovering, domestic economy. Headline consumer price inflation returned to within the inflation target range of 3 to 6 per cent in the first quarter of 2010, and declined to 3,7 per cent in July. The Bank's forecast is for inflation to remain within the target range for the remainder of the forecast period until the end of 2012. Since the onset of the crisis, the repurchase (repo) rate has been reduced by 600 basis points. The most recent change was a 50 basis point reduction in September 2010, when the improved inflation environment provided some space for an additional monetary stimulus to reinforce the sustainability of the somewhat fragile recovery without jeopardising the achievement of the inflation target.

In February 2010 the Bank received a letter from the Minister of Finance reiterating the Bank's mandate. This reaffirmed the government's commitment to the inflation-targeting framework. The letter underlined the need to conduct monetary policy in a flexible manner, and to be mindful of the impact of these actions on other variables such as growth and employment. The letter also reinforced the central role that the Bank should play in maintaining financial stability. The Bank remains committed to pursuing its objective of price stability within a flexible inflation-targeting framework in the interest of balanced and sustainable economic growth and employment in South Africa.

To address material risks facing the Bank, a significant initiative to amend the legal framework within which the Bank operates was undertaken in the period under review.

The Bank is a public entity that acts in the public interest, and is neither designed nor expected to maximise profits. It follows, therefore, that profit-making should not be a motive for holding shares in the Bank. Unfortunately, a small group of shareholders have a self-interested profit motive and have been attempting to push the Bank into a direction that would provide an undue monetary benefit to existing shareholders.

In order to maintain the integrity of the Bank as an institution operating for the public good, a process was initiated to amend the current South African Reserve Bank Act, 1989 (Act No. 90 of 1989). The Minister of Finance has agreed to the postponement of the OGM, which should have been held on 23 September 2010, to allow for these amendments and related procedural changes to be finalised. The OGM will be held on 8 December 2010 and shareholders will receive a formal notice in this regard. We will also take the opportunity to review the format of the OGM and will investigate the feasibility of introducing electronic voting in future.

There is no doubt that the years ahead will pose major challenges, both globally and domestically. This will require the Bank to have the necessary skills, resources and agility to analyse the economic and political environment, and to chart a sustainable path forward in these uncertain times.

Gill Marcus

Gill Marcus
Governor

Purpose and functions of the Bank

The primary purpose of the Bank is to achieve and maintain price stability in the interest of balanced and sustainable economic growth in South Africa. Together with other institutions, it also plays a pivotal role in promoting financial stability.

To this end, the key functions that the Bank is responsible for include
- formulating and implementing monetary policy;
- issuing banknotes and coin;
- supervising the banking system;
- ensuring the effective functioning of the national payment system (NPS);
- managing official gold and foreign-exchange reserves;
- acting as banker to the government;
- administering the country's remaining exchange controls; and
- acting as lender of last resort in exceptional circumstances.

Given its national importance and unique influence on the economic wellbeing of the general public in South Africa, the Bank promotes good corporate governance. Although it is directly accountable to Parliament, the Bank enjoys operational autonomy. The Bank is not a profit-driven institution, but strives to function efficiently. A number of corporate values specific to successful central banks apply to the Bank. These include
- maintaining trustworthiness and credibility;
- demonstrating exceptionally high degrees of integrity; and
- maintaining professionalism and excellence in the delivery of services.

In the final instance, the Bank aims to be a respected institution and a beacon of stability that follows an agile, responsive and flexible approach to its operations.

Strategic review

The Bank's corporate strategy defines the nature of the institution, as well as the goals and objectives that are pursued to make an economic contribution to South African society. A well-established strategic management process is in place to drive this strategy.

Vision

The Bank's strategy was reviewed during the past financial year to take into consideration the considerable international challenges facing central banking in general and the Bank in particular. As a result of this exercise, the Bank formulated as its vision: "A respected professional institution and a beacon of stability, exhibiting an agile, responsive and flexible operating style".

Strategic objectives

The Bank's overall strategy rests on seven pillars of management. To achieve its mandate, the Bank goes back to basics, which includes ensuring clear processes, accountability and responsibility. It promotes organisational effectiveness and efficiency, and as a unique institution and a national asset, a culture of excellence is instilled. Because public support and understanding of the complex role and responsibilities of the Bank are essential, the Bank communicates with all its stakeholders in its quest to achieve its goals and objectives. This is embodied, among other things, in the Bank's Outreach Programme. As a knowledge institution that values people, a safe and transparent working environment is created for staff to enable the Bank to achieve its goals and fulfil its mandate.

Board of Directors

In accordance with the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) the Board of Directors (the Board) comprised 14 members as at 31 March 2010. The Board functions in terms of a Board Charter that was reviewed and adopted by the Board on 25 February 2010.

The Board has as executive members the Governor and three deputy governors (one of whom is the Senior Deputy Governor), who are appointed by the President of the Republic of South Africa for five-year terms. The Governor serves as Chairperson of the Board with a casting and deliberative vote, as stipulated in the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) and as Chief Executive Officer (CEO) of the Bank.

Three non-executive directors are appointed by the President of the Republic of South Africa and seven non-executive directors are elected by the shareholders of the Bank for three-year terms. Directors are eligible for reappointment or re-election at the end of their terms.

The Board normally meets five times a year and monitors the exercising of the functions that it has delegated to executive management through a structured framework. The delegation of powers was reviewed and updated on 25 February 2010, and stipulates clearly the reserved powers of the Board and the reports that should be submitted for consideration by the Board. This includes receiving reports from the Governors' Executive Committee (GEC), which is responsible for the day-to-day activities of the Bank, various Board committees, chaired by non-executive directors, and management. Non-executive directors do not have service contracts with the Bank. The Board comprises people with integrity, and a diversity of skills and knowledge to ensure effective governance.

An evaluation process was introduced to assess the functioning of the Board and its subcommittees during the review period. This was the first time such an evaluation had been undertaken. It is envisaged that an evaluation will take place annually before the OGM to ensure that recommendations for any renewal of a Board member's term of office are done after an assessment of the needs and skills on the Board, as well as each non-executive director's contribution.

Abridged *curricula vitae* of directors

G (Gill) Marcus (61) was appointed Governor of the Bank with effect from 9 November 2009. She is the ninth Governor, and the first woman to become Governor of the Bank. She chairs the Board, the GEC and the MPC. In 1994 she was elected to Parliament and served as the first Chairperson of the Joint Standing Committee on Finance. In 1996 she was appointed as Deputy Minister of Finance. In 1999 she was appointed as Deputy Governor of the Bank. She took up the position of Professor of Policy, Leadership and Gender Studies at the Gordon Institute of Business Science (University of Pretoria) in 2004. In 2007 she became the non-executive Chairperson of the Absa Group until her appointment as Governor of the Bank. She holds a BCom degree and is currently the Chairperson of the Rhodes Scholarship Fund.

X P (Xolile) Guma (53) was appointed Deputy Governor in 2001. He serves as a member of the Board, the GEC and the MPC. Following his initial appointment to the Bank in 1995, he held a number of positions in the Research Department. He holds Master's and PhD degrees in Economics. He was appointed Senior Deputy Governor on 29 May 2010.

R D (Renosi) Mokate (52) was appointed Deputy Governor of the Bank in 2005. She served as a member of the Board, the GEC and the MPC. Before this appointment she was Chairperson and CEO of the Financial and Fiscal Commission. She is a former Executive Director of the Human Sciences Research Council, Director of the Centre for Reconstruction and Development at the University of Pretoria and Senior Policy Analyst at the Development Bank of Southern Africa. She holds a PhD degree and was an Associate Professor of Economics at Lincoln University, Pennsylvania, US, from 1986 to 1994.[1]

A D (Daniel) Mminele (45) was appointed Deputy Governor of the Bank on 1 July 2009. He serves as a member of the Board, the GEC and the MPC. After joining the Bank in September 1999 he has been, among other positions, the Head of the then International Banking Department, Head of the Financial Markets Department and Executive General Manager. He completed his professional training in Germany, qualifying with a Diploma in Banking (Bankkaufmann) and holds certificates from the Chartered Institute of Bankers in London.

S M (Stephen) Goodson (62) was elected a non-executive director representing commerce and finance in 2003. He has held various positions in the private and public sectors, and has owned a private practice investment consultancy since 1993. He holds a BA degree and licentiate in Germanic philology.

F E (Francois) Groepe (40) was appointed a non-executive director representing government in July 2004. He is the Group Managing Director and CEO of Media24. Previously he was the CEO: Newspaper Division and Financial Director of Media24. Before joining Media24, he was Senior Group Controller at Swiss Re, based at its head office in Zürich. He holds BCom (Hons), MBA and LLB degrees and a postgraduate Diploma in Tax Law. He is a chartered management accountant and an advocate of the High Court of South Africa.

F (Fatima) Jakoet (50) was elected a non-executive director representing commerce and finance in 2000. She serves as a non-executive director of various companies, including MTN West and Central Africa, Metropolitan Holdings, Tongaat Hulett Limited and Clicks Group Limited. She was previously a director of various companies, including Telkom SA and Woolworths. She holds a BSc degree and certificates in the Theory of Accounting and Financial Markets Instruments, and is a chartered accountant.

D (Len) Konar (56) was appointed a non-executive director representing commerce and finance in 1990. He is a member of the boards of various major listed and unlisted companies, locally and internationally, including Sappi, Steinhoff International, Old Mutual and Illovo Sugar. He was Professor and Head of the Department of Accountancy at the University of KwaZulu-Natal (formerly the University of Durban-Westville). He holds BCom, MA (Accounting Science) and DCom degrees, and has a postgraduate qualification in financial management and a Certificate in Tax Law. He is a chartered accountant and is a specialist in internal auditing.

1 R D Mokate's term of office expired on 31 July 2010. At the time of going to print, the Deputy Governor position was vacant.

Z P (Zodwa) Manase (49) was elected a non-executive director representing commerce and finance in 2002. She has been the CEO of Manase & Associates since 1996. She is a director of various companies and organisations, including TOTAL South Africa and the State Information Technology Agency, and previously served on the boards of Denel, the Medical Research Council and the Central Energy Fund. She is a chartered accountant, and holds BCom and BCompt degrees, and a postgraduate Diploma in Tax Law.

E (Elias) Masilela (46) was appointed a non-executive director representing government in 2008. He is Head of Policy Analysis at Sanlam. He was the Deputy Chairperson of the Policy Advisory Board and a member of the Financial Markets Advisory Board while being employed by the National Treasury. He worked at the Central Bank of Swaziland from 1986 to 1997. He holds a BA degree in Social Science (Economics and Statistics), and an MSc degree in Economic Policy and Analysis with specialisation in money, banking and international economics. He trained at Harvard University in macroeconomic policy and management, and in global financial systems structure, crisis and reform.

T N (Thandeka) Mgoduso (54) was elected a non-executive director representing industry in 2006. She is currently an executive director of Ayavuna Women's Investment. She has served in various positions, including that of psychology lecturer at Vista University; visiting psychologist at the Maudsley Institute, London; clinical psychologist at the then Baragwanath Hospital; and manager in the Human Resources Department of Wesbank. She has held various positions at Transnet Limited, Freight Dynamics and Imperial Logistics. She holds an MA (Clinical Psychology) degree.

N D (Thandi) Orleyn (54) was elected a non-executive director representing industry in 2002. She is a director of Peotona Group Holdings, an investment company owned and managed by four women, and a member of the Competition Tribunal. She is a director of various companies and organisations, including Implats, Toyota South Africa and Ceramic Industries. Previously she was a director at the commercial law firm Routledge Modise. She was a national director of the Council for Conciliation, Mediation and Arbitration. She holds BIuris, BProc and LLB degrees.

R W K (Raymond) Parsons (67) was appointed a non-executive director representing government in 2004. He teaches in the Faculty of Economic and Management Sciences at the University of Pretoria and is the Deputy CEO of Business Unity South Africa (BUSA). He is a former Director-General of the South African Chamber of Business (Sacob). From 2000 to 2003 he was a visiting professor at the School of Economic and Business Sciences at the University of the Witwatersrand, and is an honorary professor in the Department of Economics and Economic History at the Nelson Mandela Metropolitan University (NMMU). He holds a BCom degree, two Master of Arts degrees and an Honorary Doctorate from the NMMU.

J F (Hans) van der Merwe (59) was elected a non-executive director representing agriculture in 2007. He has been the Executive Director of Agri SA since 2002, which he represents at various associations and forums, including BUSA, the Southern African Confederation of Agricultural Unions, the International Federation of Agricultural Producers and Cairns Farm Leaders' Group. He is a member of the

National Economic Development and Labour Council's (Nedlac) Trade and Industry Chamber. Previously, he was a market researcher in the Department of Agriculture, lectured Business Economics at the University of Pretoria and worked at the Maize Board, before joining Agri SA as Deputy Director: Policy and Administration in 1981. He holds BCom and MBA degrees.

Functioning of the Board

The Bank is governed within a framework of effective accountability to its stakeholders in order to ensure responsible behaviour by the Bank and, ultimately, to achieve its objectives with the maximum level of effectiveness and efficiency. This framework consists of structures, operations and controls that were established in the Bank to achieve, among other things, the following:

- Fulfilment of the primary purpose of the Bank
- Effective and efficient utilisation of delegated powers, decision-making organisational structures, and monitoring and control measures
- Maintenance of good and transparent relations with the Bank's stakeholders
- Compliance with all applicable legal and regulatory requirements in terms of which the Bank carries out its activities
- Acknowledgement of the needs of the environment and the community, in terms of the physical effects of the Bank's operations on its surroundings, and its economic interaction with the general public.

The Bank has a formal governance framework that deals with four areas, namely the composition and membership of the Board, the Board and organisational matters, Board subcommittees and their terms of reference, and policies and procedures pertaining to corporate governance. Following the appointment of the current Governor on 9 November 2009, the composition and terms of reference of all Board committees were reviewed and updated, and approved by the Board on 25 February 2010.

The Bank is committed to the principles of good corporate governance and complies to a significant degree with the requirements of the *King Report on Corporate Governance in South Africa* (*King III*). The Bank is currently undertaking a review process to assess compliance with *King III*, to identify any specific gaps, and ascertain areas of non-compliance and the reasons therefor, for instance, prescriptions of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989).

A significant post-balance sheet date event is the recent amendments to the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), governing the activities of the Bank. These amendments include the expansion of the Board to 15 members; the establishment of a panel to assess whether nominated candidates for election to the Board by shareholders are "fit and proper"; and provision for the wider public to nominate people as candidates for election to the Board. Further areas covered include defining both "fit and proper" and "associate shareholders", the areas of knowledge required by board members and formalising the practice that the Board is a governance board, not a policy board. Consequently, the governance role of the Board is elaborated upon, and the authority and powers of the executive directors are now original and not delegated powers. The President can also appoint a governor or deputy governor for any period up to a maximum of five years if and when renewing a governor or deputy governor's term of office. The first appointment remains a set five-year term.

The implementation of these amendments will enhance governance in the Bank.

The expansion of the Board from 14 to 15 members also introduced a recomposition of the Board. The additional Board member will be a non-executive director appointed by the President. This will bring to four the number of non-executive directors appointed by the President. The areas of expertise of non-executive directors elected by shareholders were expanded to include knowledge of labour and mining. Previous requirements were for one elected non-executive director to have knowledge of agriculture, two of industry, and four of commerce or finance. In terms of the revised legislation, the requirements for agriculture and industry remained unchanged. However, in future two non-executive directors should have knowledge of commerce or finance, one of labour and one of mining. The amendments are expected to come into effect in the third quarter of 2010.

Frequency and attendance of Board meetings from 1 April 2009 to 31 March 2010

	22/05/09	31/07/09	16/09/09	20/11/09	25/02/10
T T Mboweni	√	√	√	Term as Governor expired on 8 November 2009	
G Marcus (Chairperson)	Appointed Governor with effect from 9 November 2009			√	√
X P Guma	√	√	√	√	√
R D Mokate	√	√	√	√	√
A D Mminele	Appointed Deputy Governor with effect from 1 July 2009	√	√	√	√
D Konar	√	√	√	√	X
F Jakoet	√	√	√	√	√
Z P Manase	√	√	√	√	√
N D Orleyn	√	√	√	√	√
S M Goodson	X	√	√	√	√
T N Mgoduso	X	√	√	√	√
J F van der Merwe	√	X	√	√	√
R W K Parsons	√	√	X	√	√
F E Groepe	√	√	√	√	X
E Masilela	√	√	√	√	√

Board committees

Audit Committee

A number of changes had been made to the composition of the Audit Committee during the review period. On 25 February 2010, X P Guma and R D Mokate stepped down as members of the committee. As at 31 March 2010, the Audit Committee comprised five non-executive directors (one of whom serves as Chairperson), and the Deputy Governor responsible for the Financial Services Department, which houses the Bank's financial reporting and administration function. Of the six members, five are independent non-executives, two are chartered accountants and all have financial expertise. The Governor is not a member of the committee, but attends by invitation.

The external and internal auditors have unrestricted access to the Chairperson of this committee. The committee meets regularly with management (i.e., the heads of business systems and technology, financial services, and risk management), the Internal Audit Department (IAD) and the external auditors.

The Audit Committee has an objective and independent role in keeping with its terms of reference, in accordance with which the committee assists the Board in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control, the audit process, and, as appropriate, the Bank's process for monitoring compliance with laws and regulations as they relate to financial reporting. The committee also reviews the minutes of the audit committees of the Bank's subsidiaries.

The committee is an advisory committee and not an executive one. Some of the committee's responsibilities have been transferred to the newly established Board Risk Committee. The Chairperson of the Audit Committee is a member of the Risk Committee.

The relatively poor attendance at the Audit Committee has been raised with the members concerned, and formed part of the Board and committee evaluation process that has been instituted in the Bank.

Frequency and attendance of Audit Committee meetings from 1 April 2009 to 31 March 2010

	03/06/09 (Special)	26/06/09	09/10/09	12/02/10
F Jakoet (Chairperson) (Appointed on 17 November 2008)	√	√	√	√
X P Guma (Member from 25 January 2008 to 25 February 2010)	√	√	X	X
R D Mokate (Member from 25 January 2008 to 25 February 2010)	√	√	√	√
Z P Manase (Appointed on 31 May 2002)	X	X	√	√ Participated by means of telephone conferencing
J F van der Merwe (Appointed on 16 March 2009)	√	√	X	√
R W K Parsons (Appointed on 16 March 2009)	X	√	√	X
F E Groepe	Appointed as member on 25 February 2010			
A D Mminele	Appointed as member on 25 February 2010. Previously attended by invitation			
G Marcus	Not a member, but has attended by invitation since her appointment as Governor			

Non-executive Directors' Committee

The Non-executive Directors' Committee comprises all the non-executive directors of the Bank. As defined by its terms of reference, the committee's primary function is to assist the Board in fulfilling its legal and fiduciary obligations and responsibilities, and to enhance corporate governance matters and practices. The committee meets at least three times a year and is presided over by one of the non-executive directors.

Frequency and attendance of Non-executive Directors' Committee meetings from 1 April 2009 to 31 March 2010

	17/07/09	13/11/09	18/02/10
Z P Manase (Chairperson) (Appointed on 17 May 2007)	√	X	√
D Konar (Appointed on 17 May 2007)	√	√	√
F Jakoet Appointed on 17 May 2007)	X	X	√ Participated by means of telephone conferencing
N D Orleyn (Appointed on 17 May 2007)	√	√	X
S M Goodson (Appointed on 17 May 2007)	√	√	√
T N Mgoduso (Appointed on 17 May 2007)	√	√	√
J F van der Merwe (Appointed on 22 November 2007)	√	√	√
R W K Parsons (Appointed on 17 May 2007)	√	√	√ Participated by means of telephone conferencing
F E Groepe (Appointed on 17 May 2007)	X	√	√ Participated by means of telephone conferencing
E Masilela (Appointed on 15 May 2008)	√	X	√

Remuneration Committee

The Remuneration Committee meets at least three times per annum to review human resources matters, remuneration practices and policies, and the appointment of directors. In keeping with its terms of reference, this committee recommends for consideration by the Board the remuneration packages of the Governor, deputy governors and non-executive directors; and the remuneration of, and incentives for, staff members. The committee is chaired by a non-executive director.

Frequency and attendance of Remuneration Committee meetings from 1 April 2009 to 31 March 2010

	14/05/09	17/07/09	30/10/09 (Special)	13/11/10	10/02/10 (Workshop)
N D Orleyn (Chairperson) (Appointed on 27 August 2007)	√	√	√	√	√
T T Mboweni	√	√	X Recused himself from the meeting	Term as Governor expired on 8 November 2009	
G Marcus	Appointed Governor with effect from 9 November 2009			√	√
S M Goodson (Appointed on 23 November 2007)	X	√	√	√	√
T N Mgoduso (Appointed on 19 July 2006)	√	√	√	√	√
J F van der Merwe (Appointed on 25 July 2008)	√	√	√	√	X

The Remuneration Committee comprises five members, one of whom is an executive who is recused during any discussion related to executive remuneration or benefits. The other four members are independent, non-executive directors.

Risk Committee

The Board established a Risk Committee on 25 February 2010. Its membership comprises four non-executive directors, one of whom is the Chairperson of the Audit Committee, and the Governor. Certain responsibilities previously entrusted to the Audit Committee have been transferred to the Risk Committee. A non-executive director has been appointed as its Chairperson, who also serves as a member of the Audit Committee. The first meeting of this committee was held in July 2010, and it will meet at least twice per annum.

Membership of the committee comprises the following members:

– F E Groepe	Independent, non-executive director and Chairperson
– G Marcus	Governor
– F Jakoet	Independent, non-executive director and Chairperson of the Audit Committee
– E Masilela	Independent, non-executive director
– J F van der Merwe	Independent, non-executive director

Management structure

Executive management, in the form of the GEC, is the highest decision-making body of the Bank. The senior management of the Bank comprises heads of department, advisers to the Governor and the Head: Strategy and Communications.

Abridged *curricula vitae* of senior management

A (André) Bezuidenhout (55) assumed duty on 1 August 2001 as Head of the Financial Stability Department, which is responsible for macroprudential oversight of the financial system as a whole. He was appointed as Supervisor of Co-operative Banks on 1 August 2009. Following his appointment to the Bank in June 1991, he served as Chief Internal Auditor and thereafter as Deputy Registrar of Banks. He holds BCom and BSc degrees, a Diploma in Treasury Management, and is a chartered accountant.

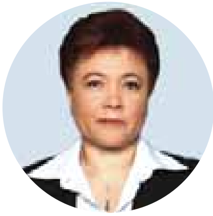
J J (Johann) de Jager (56) took up his position as General Counsel and Head of the Legal Services Department in February 1998. He is responsible for providing in-house legal services to the Bank, its staff and subsidiaries. He oversees the Monetary and Financial Law, Corporate Law, and Contracts Management divisions. He attends meetings of the GEC. Following his appointment to the Bank on 1 April 1991, he served as Head: Legal Administration Division of the Bank Supervision Department. He holds the following qualifications: Dip Iuris, BIuris, LLB, LLM and LLD, and is an advocate of the High Court of South Africa. He also passed the Attorney of the High Court Admission Examination and completed a Senior Executive Programme.

R M (Roelf) du Plooy (59) is Head of the Financial Markets Department. He assumed this position in March 2007. He is responsible for monetary policy implementation; government funding activities, which include the auctioning of Government bonds and Treasury bills; reserves management; and accounting and settlements functions. He started his career in the Bank in February 1992, and has served as an economist in the Research Department and as Secretary of the Bank. He holds a Master's degree and a PhD in Economics.

J N L (Johan) Fourie (45) has been the Executive Assistant in the Office of the Governor with responsibility as the Administrative Head of the Executive Management Department since 2002. He holds a BA (Hons) degree in Political Science.

A (Aboobaker) Ismail (56) has headed the Currency and Protection Services Department since his appointment to the Bank in February 2000. He is responsible for currency management and for the overall security of the Bank. He holds BSc and MBA degrees.

M S (Saleem) Ismail (46) assumed duty as Head of the Business Systems and Technology Department in April 2004, and is responsible for the provision of information and communications technology (ICT) solutions and services, and the maintenance and support of the ICT environments of the Bank. He joined the Bank in September 1997 as Head of Payment Systems Support. He has 28 years' experience in the ICT field, 15 of which have been in management. He holds a Diploma in Datametrics and has completed a Senior Executive Programme.



J D (Jenny) Jeftha (49) joined the Bank as Head of the Human Resources Department in August 2008. She is a human resources generalist. Her primary roles are to lead and manage the human resources function; and develop and align the Bank's human resources strategy with its business strategy. She is the Bank's representative at the Banking Sector Education and Training Authority (BANKSETA) and holds a Diploma in Social Work, a Master's degree in Sociology and a Diploma in Law.

S B (Brian) Kahn (56) was appointed in December 2009 as Adviser to the Governor. Following his appointment to the Bank in September 1999, he first served as Head of the Monetary Policy Research Unit in the Research Department and in April 2003 he was appointed as Senior Deputy Head of the Research Department. He is a member of the MPC and holds BA (Hons) and Master's degrees in Economics.

E M (Errol) Kruger (53) assumed duty as Deputy Head of the Bank Supervision Department in 2001 and was appointed as Registrar of Banks on 1 November 2003. He is a member of the GEC, and is responsible for the regulation and supervision of banks in South Africa. He joined the Bank in 1978 and previously served in the then Exchange Control, and Gold and Foreign Exchange departments of the Bank. He is a member of the Basel Committee and holds a BCom degree and certificates from the Institute of Bankers in South Africa.

H (Hlengani) Mathebula (43) was appointed as Head: Strategy and Communications in April 2010. He has extensive experience in financial services, banking and fast-moving consumer goods. He was the Managing Executive of Absa Private Bank and CEO of First National Bank Personal Banking, and previously worked for AM International, Nestlé and Nedbank. He is a council member of the University of the Western Cape, Chairperson of the Black Business Executive Circle, Chairperson of the African Leadership Group, Chairperson of the North-West Growth Fund, non-executive director of Vuma Reputation Management, a board member of the Eskom Pension Fund and a board member of DDB South Africa. He holds BA and BTh (Hons) degrees, and has completed Senior Executive and Management Development programmes.

S E (Elijah) Mazibuko (46) joined the Bank on 1 January 2000, gained experience in various departments and became Head of the Exchange Control Department on 1 August 2009. The name of this department was changed to the Financial Surveillance Department on 2 August 2010. He is responsible for compliance with exchange control regulations and the application of the exchange control system. He holds BCom (Accounting) and MBA degrees, a Diploma in Business Management, and an Advanced Diploma in Treasury and International Trade Finance. He is an associate member of the Institute of Bankers in South Africa.

D C (Dave) Mitchell (57) assumed duty as Head of the National Payment System Department in June 1999. He is responsible for payment and settlement systems, and helped develop the security infrastructure underlying the SARB link network and for an investigation into electronic money products during the development of the NPS. Following his first appointment to the Bank on 1 January 1972, he served as a programmer, system analyst and designer. He holds a BCom degree, and a certificate and a diploma from the Institute of Bankers.

M (Monde) Mnyande (52) is Adviser to the Governor, Chief Economist and Head of the Research Department. He is a member of the GEC and the MPC. He formerly served as the Executive General Manager responsible for the Financial Stability, Currency and Protection Services and Research departments. Following his appointment to the Bank in 1995, he held a number of positions in the Research Department before he became Head of Department and Chief Economist of the Bank. He holds BA, MA (Finance), MBA, MA and PhD (Economics) degrees. He serves as Vice-President of the Economic Society of South Africa.

M D (Molefi) Nkhabu (46) rejoined the Bank as Head of the IAD in May 2008 after serving as an Assistant General Manager in the same department from 1 January 2001 to 31 January 2005, when he left the Bank's service. He is responsible for providing assurance and consulting services related to controls in the Bank and its subsidiaries. He is a chartered accountant and holds a Master's degree in Financial Management.

R Z (Zingisa) Nkwali (56) joined the Bank in 1995 and became Head of the Corporate Services Department in January 2006. He is responsible for the provision of support services, including management and maintenance of the Bank's buildings, equipment, catering, publishing and central stores. He holds a BCompt degree and served a full period of articles of clerkship with Ernst & Young.

J J (Jannie) Rossouw (54) joined the Bank in 1986 and has held various positions since then, including the position of Secretary of the Bank from 1995 to 2000. He was appointed Acting Secretary of the Bank in March 2010 and performs all the duties of the Company Secretary. He holds MBA, MCom and PhD degrees, and is a member of the SA Akademie (L.Akad.SA).

G J (Gerrie) Terblanche (60) became Head of the Financial Services Department in July 1990 and retired after 20 years of service to the Bank on 31 July 2010. In the period under review he was the Chief Financial Officer of the Bank responsible for its financial administration, which is highly centralised and includes the group insurance portfolio; the Bank's procurement function; payroll; and retirement and pension fund administration. He holds BCom and BCompt degrees, and is a chartered accountant. He joined the Bank in 1989 after a career in auditing and financial management.[2]

2 G J Terblanche was succeeded by N (Naidene) Ford-Hoon as Chief Financial Officer and Head of the Financial Services Department with effect from 1 August 2010, after she had joined the Bank on 19 July 2010.

L (Bertus) van Zyl (57), Head of Special Projects since February 2010, is a member of the GEC and the MPC. Previously he served as Executive General Manager responsible for central services. Since joining the Bank in 1985, he has served in various positions related to financial markets and was Head of the former International Banking Department. He also served as Adviser to the previous Governor. He holds MCom (Economics) and MSc (International Banking and Financial) degrees.

G R (Gilbert) Wesso (49) assumed duty as Principal of the South African Reserve Bank College (the College) in May 2003. He is responsible for managing the academic programmes of the College, providing operational and strategic leadership, and performance and administration management. He started his central banking career in the Macro Models Unit of the Research Department on 1 April 1998. He holds MCom and PhD degrees, and a Senior Teacher's Diploma.

Committee structure

The Bank has a number of committees that ensure its smooth functioning in complying with principles of good corporate governance. The frequency of meetings of these committees is determined by the nature of their responsibilities. The committee structure enhances the Bank's internal controls, and compliance with its legal and regulatory framework.

Governors' Executive Committee

The Governor and deputy governors, in their capacity as executive directors of the Bank, are responsible for the day-to-day management and policy decisions of the Bank, except those reserved for the Board and for the MPC. The GEC meets fortnightly to consider policy issues and other executive management matters. These meetings are attended by the Governor as Chairperson, the deputy governors and three other executives. General Counsel attends by invitation.

Monetary Policy Committee

The MPC is responsible for deciding on the monetary policy stance. As at 31 March 2010 it comprised the Governor as Chairperson, deputy governors and three senior officials of the Bank. The MPC meets at regular intervals and a statement on its deliberations and on the Bank's monetary policy stance is issued after each meeting. Decisions are taken by consensus. There are a further 11 participants in these monetary policy discussions and analysis, but they are not part of the decision-making MPC.

Budget Committee

The committee, chaired by a deputy governor, meets monthly and develops the Bank's budget policies and procedures; co-ordinates the compilation of the annual budget for approval by the Board; monitors compliance with the budget; and considers expenditure requests of an unexpected and unforeseen nature.

As part of the approval and evaluation process, each head of department prepares a departmental budget which is discussed with the appropriate deputy governor before being tabled at the Budget Committee. Following this process, and prior to approval, each head of department presents and justifies his or her budget to the GEC on an annual basis. Once GEC approval is obtained, the budget – comprising the operational budget, the capital budget and revenue estimates – is tabled at the Board for approval.

In discharging its duties, the Budget Committee is assisted by the Procurement Committee as a subcommittee. The Procurement Committee fulfils an important oversight role in the governance of the procurement process. The committee is chaired by a senior official of the Bank.

Risk Management Committee

The primary purpose of this committee is to oversee risk management in the Bank and to report thereon to the GEC. The committee is chaired by the Governor and comprises senior executive staff members of the Bank. The main objectives of the Risk Management Committee are to facilitate the implementation of the risk management strategy, policy and structure, and to assess the adequacy and effectiveness of the risk management processes in the Bank.

Reserves Management Committee

The Reserves Management Committee's primary responsibilities are to set investment guidelines for portfolio managers; review and select benchmarks for the foreign-exchange reserves of the Bank; allocate the risk budget; and set active parameters for individual portfolios. The committee comprises senior officials of the Bank and meets approximately every second month. It is chaired by a deputy governor. Two representatives of the National Treasury attend meetings of this committee in an observer capacity. The committee was restructured during the financial year in order to strengthen the governance framework of reserves management activities.

Branch managers as at 31 March 2010

The Bank has seven branches. Their location and the names of the respective branch managers are as follows:

– Bloemfontein	M (Madeleine) Hellerle
– Cape Town	A R (Tony) Chamberlain
– Durban	M (Maggie) Mogapi (Acting)
– East London	E H (Edmund) Jacob
– Johannesburg	B P (Pat) Loving
– Port Elizabeth	A (Alicia) Maharaj
– Pretoria North	V B M (Vusi) Dhlamini

Report on monetary policy

Introduction

The primary objective of monetary policy is to achieve and maintain price stability in the interest of sustainable and balanced economic development and growth. Price stability reduces uncertainty in the economy and therefore provides a favourable environment for growth and employment creation. Furthermore, low inflation contributes to the protection of the purchasing power of all South Africans, particularly the poor who have no means of defending themselves against continually rising prices.

Since the introduction of the inflation-targeting framework by the Minister of Finance in February 2000, the specification has been reviewed on a number of occasions. In January 2009 Statistics South Africa's newly reweighted, rebased and reconstituted consumer price index for all urban areas (CPI) was adopted as the new inflation target measure. The current target is for the Bank to keep the year-on-year rate of change in CPI within a range of between 3 and 6 per cent on an ongoing basis.

While the inflation target is set by government in consultation with the Bank, the Bank has full operational autonomy in the conduct of monetary policy. The Bank, therefore, has independence as to the choice and setting of monetary policy instruments. In practice, setting the level of the repo rate is the Bank's most important policy instrument. The MPC, comprising the Governor, the deputy governors and three senior officials of the Bank, namely B Kahn, M Mnyande and L van Zyl, is responsible for monetary policy decisions, which are taken on the basis of consensus. Monetary policy decisions are taken with due regard to growth and employment, financial stability and exchange rate considerations as part of a flexible approach to inflation targeting.

Overview of monetary policy

After the global financial crisis had intensified in late 2008, central banks around the world loosened their monetary policy stances significantly. South Africa generally followed this trend, and between December 2008 and August 2009 the repo rate was reduced by a total of 500 basis points to a level of 7 per cent per annum. In line with the forward-looking approach to monetary policy, these reductions were made even though the inflation rate was well above the target range of 3 to 6 per cent, since the MPC was satisfied that the rate would return to within the target range over a reasonable time horizon. Headline inflation moved to within the target range in October 2009, when a year-on-year increase of 5,9 per cent was recorded. After again breaching the upper limit of the inflation target range for technical reasons in December 2009 and January 2010, inflation has moved back to within the target range on a sustainable basis since February 2010.

The South African economy has proven to be relatively resilient to the crisis. No systemic banking crisis has been experienced, and public infrastructure investment related, in part, to the 2010 FIFA World Cup™ tournament helped moderate the negative impact from contagion effects. These effects were experienced particularly in banks that had higher non-performing loans, and in the manufacturing and mining sectors. The economy suffered its first recession since 1998, when real gross domestic product (GDP) contracted for three consecutive quarters between the final quarter of 2008 and the second quarter of 2009. This resulted in annual real GDP contracting by 1,8 per cent in 2009, compared with growth of 3,7 per cent in 2008. Although quarterly real GDP has subsequently increased at positive annualised rates, subdued demand is expected to persist for some time and there has been a concern that adverse employment trends and employment insecurity will constrain household expenditure.

In 2009 the frequency of MPC meetings was increased to allow the committee to assess changing circumstances in a timely manner and to be able to act appropriately when necessary. The repo rate remained unchanged at the September, October and November meetings. It was noted that there were signs that the domestic economy was recovering, but that economic growth was expected to remain subdued for some time. Growth was viewed as being dependent, to some extent, on the pace of the global recovery that was under way, but which remained fragile and uneven across regions, and to be constrained by subdued domestic consumption expenditure. Prospects for inflation returning to within the inflation target range by the second quarter of 2010 were viewed as promising, although there was some uncertainty about the magnitude of the electricity price increases that the National Energy Regulator of South Africa (Nersa) would grant to Eskom. This was viewed as being the main longer-term risk to the inflation outlook.

As the intensity of the crisis declined and it appeared that the global economy was on the road to recovery, the Bank reverted to a bimonthly schedule for MPC meetings, although it was noted that this schedule would be reconsidered if the situation warranted it. Subsequent to the November 2009 meeting, the MPC met in January 2010 and then in alternate months.

At the time of the January 2010 MPC meeting, the most recent inflation outcomes were within the inflation target range. The year-on-year CPI inflation rate measured 5,9 per cent for October 2009 and 5,8 per cent for November 2009, although there was an expectation that inflation would temporarily breach the upper end of the target range as a result of adverse technical base effects that were related to petrol prices in particular. At that stage, it was expected that inflation would increase to around 6,5 per cent in December 2009 and January 2010, before returning to within the inflation target range by March 2010. The MPC stressed that the forward-looking nature of monetary policy meant that the focus remained on the longer-term expected trend of inflation and that inflation was likely to remain within the inflation target range until the end of the forecast period in the final quarter of 2011.

As it turned out, inflation declined to within the target range sooner than expected, measuring 5,7 per cent in February. In January the MPC also noted that adverse employment trends and employment insecurity were likely to constrain household expenditure. During the third quarter of 2009, the *Quarterly Employment Statistics* survey had shown further employment losses, despite signs that the economy was beginning to recover.

In assessing this inflation outlook, the MPC was of the view that the risks were fairly evenly balanced, with electricity price increases posing the biggest upside risk, counteracted by the weak state of domestic demand. Taking all these factors into consideration, it was decided to keep the repurchase rate unchanged at 7,0 per cent per annum.

In February 2010 an important development for the inflation-targeting framework was the clarification of the mandate of the Bank issued by the Minister of Finance, P J (Pravin) Gordhan. The clarification letter reiterated the constitutional mandate of the Bank, and the need to conduct monetary policy in a flexible manner, mindful of its impact on other factors such as growth, employment and financial stability. The letter also reaffirmed the primary objective of the Bank, which is to keep inflation within the target range of between 3 and 6 per cent.

When the MPC met in March 2010, the repo rate was reduced by a further 50 basis points against the backdrop of a more favourable inflation outlook and continued weakness in domestic household consumption expenditure. The Bank's forecast indicated an improved inflation outlook for 2010, compared with the previous forecast, while the forecast for 2011 was relatively unchanged. Inflation was expected to average 5,3 per cent and 5,4 per cent in 2010 and 2011 respectively, after reaching a low point at an average of 4,9 per cent during the third quarter of 2010.

There was also greater certainty with respect to electricity tariff increases following Nersa's decision to grant price increases to Eskom in the order of 25 per cent per annum, which was in line with the Bank's previous assumptions. However, because lower increases were granted to municipalities, the forecast presented to the March meeting made provision for electricity tariff increases of 20 per cent during the third quarters of 2010 and 2011. Other factors contributing to the improved expected inflation trajectory included favourable food price developments, lower-than-expected inflation outcomes, and the continued strength of the rand exchange rate that was affected by significant capital inflows. The fourth quarter employment data also suggested that employment was still declining, albeit at a slower rate.

The assessment of the MPC at the March meeting was that despite clear signs that the economy had emerged from the recession, the pace of recovery was expected to remain slow. The improved inflation environment had provided some space for an additional monetary stimulus to reinforce the sustainability of the upswing without jeopardising the achievement of the inflation target. The MPC therefore decided to reduce the repurchase rate by 50 basis points to 6,5 per cent per annum.

At the May 2010 meeting there was further improvement in the forecast, with inflation expected to reach a low point of 4,7 per cent in the third quarter of 2010. Inflation was then expected to increase moderately and remain within the inflation target range until the end of the forecast period, which had been extended to the end of 2012. The global growth outlook had improved. According to the *World Economic Outlook* published by the International Monetary Fund (IMF) in April, global growth was expected to average 4,2 per cent in 2010, compared with the October 2009 forecast of 3,1 per cent. Domestic economic growth prospects also appeared to have improved and most growth forecasts had been revised upwards, despite only a modest recovery in household consumption expenditure.

However, the risks to the relatively favourable global growth outlook changed significantly. Uncertainty related to the sustainability of fiscal deficits in a number of euro area countries, and the reaction of the financial markets to these events had renewed fears of possible negative contagion effects on the tentative recovery that was under way in most regions, including in South Africa. Despite the concerted efforts of European governments, the European Central Bank (ECB) and the IMF to calm the markets, significant risks to the global and domestic recovery remained.

Domestically, there was also a concern about the possible impact of the level of wage increases in the economy. According to Andrew Levy Employment Publications, the average wage settlement rate in the first quarter of 2010 had moderated to 8,4 per cent, compared with the 9,3 per cent increase measured in 2009. But the MPC noted that a number of wage negotiations were at significantly higher levels, and well above the current and expected inflation rate. It was noted that should a general upward trend in wage settlement rates occur without compensating increases in productivity, it could pose an upside risk to the inflation outlook. Balancing this, domestic employment trends were lagging the domestic recovery. Despite the promising signs noted at the March meeting, the *Quarterly Labour Force Survey* released ahead of the May meeting indicated that 171 000 jobs had been lost in the first quarter of 2010.

The assessment of the MPC at the May meeting was that inflation was likely to remain within the inflation target range over the forecast period. The economy was expected to continue on a recovery path, although the domestic growth outlook would be affected by global developments. The risks to the inflation forecast were seen to be more evenly balanced than at the March meeting of the MPC, with the main risks emanating from administered price trends and developments in the global economy. For these reasons, the MPC deemed it appropriate to maintain the repurchase rate at 6,5 per cent per annum.

At the July MPC meeting global economic and financial market developments continued to weigh on domestic economic growth prospects. Although the immediate concerns relating to the sovereign debt crisis seemed to have abated somewhat since the May meeting, significant risks remained. Following promising outcomes in the first quarter of the year, growth in a number of advanced economies appeared to be losing momentum. The global inflation outlook remained benign.

Domestic household consumption expenditure grew at a higher-than-expected annualised rate of 5,7 per cent in the first quarter of 2010, with the recovery being broad-based except for expenditure on services, which remained relatively subdued. Although this positive trend was expected to continue in the second quarter of 2010, the outlook for household consumption expenditure was viewed as being affected by contradictory forces. Positive factors included lower interest rates, lower inflation, positive wealth effects arising from favourable house price and equity market developments, and high levels of real wage increases for those in employment. By contrast, factors constraining consumption expenditure included continued job losses, high levels of household debt and low levels of credit extension to the private sector.

The inflation forecast presented to the MPC was relatively unchanged compared with that presented at the previous meeting, remaining within the target range during the forecast period to the final quarter of 2012. However, despite the persistent moderation of inflation within the target range, inflation expectations had remained relatively elevated. According to the survey of inflation expectations conducted by the Bureau for Economic Research (BER) at Stellenbosch University during the second quarter of 2010, average inflation expectations for both 2010 and 2011 had declined by 0,2 percentage points to 6,3 per cent and 6,5 per cent respectively, but had remained unchanged at 6,8 per cent in 2012.

A major contributor to the favourable inflation outlook was the behaviour of the rand exchange rate. During the period preceding the meeting, the exchange rate of the rand traded in a range of around R7,20 to R7,60 against the US dollar, although the uncertainty in the global financial markets in May had resulted in a brief depreciation of this rate. In commenting on the currency, the MPC acknowledged that it was cognisant of the fact that a strong rand could impact adversely on some sectors of the economy and be a cause for concern from the perspective of overall macroeconomic balance. However, the MPC noted that the rand exchange rate was influenced by a number of exogenous factors, including improved commodity prices and the sustained capital inflows into emerging markets in general, in response to abnormally low interest rates in advanced economies.

The MPC pointed out the difficulty of defining with precision the degree of over- or undervaluation of an exchange rate, and that the approach when assessing this should be guided by a sense of when the value was clearly not consistent with equilibrium, which itself changed from time to time.

Having reviewed these factors, the MPC decided to keep the repo rate unchanged at 6,5 per cent per annum in July. It assessed the risks to the inflation outlook as being evenly balanced. The main upside risks continued to emanate from cost–push pressures, particularly wage settlements and high levels of administered price increases, balanced by the fragilities and vulnerabilities in the domestic economy, driven in part by global uncertainties.

By the time of the most recent meeting of the MPC, in September 2010, domestic inflation had moderated to lower-than-expected levels following the further appreciation of the exchange rate of the rand and the relatively weak domestic demand conditions. The CPI inflation rate declined to 3,7 per cent in July 2010, compared with 4,6 per cent in May. The Bank's inflation forecast had also been revised downwards, particularly in the short to medium term, and CPI inflation was expected to average 3,7 per cent in the third quarter of 2010, 4,8 per cent in 2011 and 5,2 per cent in the final quarter of 2012. The lower inflation trend had also had a favourable impact on inflation expectations in the financial markets.

The output gap had remained negative, and economic growth was lower than market expectations in the second quarter of 2010 and was expected to remain below potential for some time. Household consumption expenditure had shown some signs of recovery, but continued to be affected by high levels of household indebtedness and unemployment, exacerbated by continued job losses, and low levels of credit extension.

The prospects for domestic economic growth were viewed against the backdrop of the global economic outlook, which continued to be characterised by heightened uncertainty and elevated downside risks. In the course of the year, forecasts of global growth had generally been downgraded in the wake of the European sovereign debt crisis, high rates of unemployment in the US and the euro area, and weak demand in many of the advanced economies. This low-growth outlook also meant that the inflationary pressures emanating from the advanced economies were likely to remain benign.

These international developments implied that the abnormally low policy rates in a number of the advanced economies were likely to remain in place for an extended period of time. This had implications for the exchange rate of the rand, which continued to be viewed as the main downside risk to the inflation outlook. The MPC noted that the appreciating trend of the rand exchange rate had been sustained despite further accumulation of foreign-exchange reserves by the Bank. The main upside risk to inflation was viewed as being from wage settlements in excess of inflation. It was noted that a number of wage demands and settlements had been made without regard to the lower inflation outcomes and the improved inflation outlook, and that unless these demands were accompanied by higher productivity, they could put pressure on domestic prices and impact negatively on international competitiveness and employment trends.

Having given due regard to the continued attainment of the inflation target and the risks to the outlook, the assessment of the MPC was that the improved inflation outlook created sufficient space for monetary policy to provide additional stimulus to the somewhat fragile recovery of the domestic economy. The MPC duly decided to reduce the repo rate by 50 basis points to 6,0 per cent per annum with effect from 10 September 2010. It noted that the scope for further downward movement was seen to be limited, but that this would be assessed on an ongoing basis. The committee's approach will remain forward-looking and will continue to be informed by close examination of the data and future developments.

Operational review

Introduction

As the central bank of the Republic of South Africa, the Bank has diverse responsibilities. The overriding objective of the Bank is to achieve and maintain price stability, which it implements within an inflation-targeting framework. In addition to monetary policy and associated domestic money-market liquidity management, the Bank is responsible for the production and issuing of notes and coin; management of gold and foreign-exchange reserves; oversight of the NPS; bank supervision; and administration of exchange control measures. The operations related to these activities are described in this section of the *Annual Report*.

Market operations

Liquidity management

Monetary policy implementation operations and the accumulation of foreign-exchange reserves continued to inject liquidity into the domestic money market. A substantial portion of this increased liquidity was drained by transfers into a special deposit account at the Bank by the National Treasury from its tax and loan accounts with commercial banks. Liquidity was also drained from the market by an increase in notes and coin in circulation of R6,6 billion between 1 April 2009 and 31 March 2010; an increase in commercial banks' cash reserves balances of R8,0 billion; and a transfer of R8,8 billion by the Corporation for Public Deposits (CPD) from commercial banks to the Bank.

Outstanding South African Reserve Bank (SARB) debentures and longer-term reverse repurchase transactions, however, declined by R5,9 billion and R2,3 billion respectively, adding approximately R8,2 billion in total to liquidity. These declines reflect a reduced level of participation in the Bank's liquidity-draining open-market operations since December 2009. The liquidity requirement of the commercial banks fluctuated between R1,9 billion and R14,7 billion during the reporting period.

Accumulation of reserves

The National Treasury continued to assist the Bank in the accumulation of reserves. In the 2009/10 financial year the Bank purchased approximately US$2,2 billion as part of the accumulation of foreign-exchange reserves. During the reporting period, the proceeds of the government's international bond issuances, amounting to approximately US$4,0 billion, were also deposited with the Bank, while official gross foreign-exchange reserves further increased as a result of the IMF's general and special allocation of Special Drawing Rights (SDRs) to South Africa. These allocations amounted to US$2,4 billion (SDR1,6 billion). There were no transactions of this nature in the previous financial year.

Additional factors contributing to the increase in the level of the official reserves were the decline in borrowed reserves from US$653 million on 31 March 2009 to US$350 million on 31 March 2010, and the impact of valuation adjustments arising from an increase in the US dollar price of gold and the depreciation of the US dollar against other major currencies. The level of the official gross gold and foreign-exchange reserves increased from US$34,1 billion on 31 March 2009 to US$42,0 billion on 31 March 2010. The international liquidity position also improved from US$33,5 billion on 31 March 2009 to US$38,3 billion at the end of the review period.

Reserves management

In managing the foreign reserves, the Bank strives to balance three main objectives, namely capital preservation, liquidity and the enhancement of returns. The last-mentioned objective implies that, subject to the first two constraints, foreign reserves are invested with the objective of achieving a market rate of return for the reserves, but within the constraints of a framework of approved risk parameters. In March 2009 the GEC approved the revised strategic asset allocation (SAA), which was subsequently implemented for both the internally and externally managed portfolios during the 2009/10 financial year. This also entailed a reconfiguration of the portfolios and specific performance benchmarks.

A project to review the external fund management mandates with private-sector managers was completed during the reporting period, culminating in the Bank contracting three new external fund managers, while retaining the services of three. Portfolios managed by the BIS and the World Bank were also aligned with the reconfigured SAA.

The Bank also participates in a securities lending programme (SLP) with the objective of recovering the costs of the custodians and the fees paid to the external fund managers. The SLP is managed by the Bank's custodians. In response to recent developments in financial markets, the securities lending guidelines were tightened in April 2009, and in February and March 2010 in terms of credit ratings, maturities and the maximum size of the SLP.

The governance structure for foreign reserves and risk management in the Bank was also enhanced substantially during the 2009/10 financial year.

Owing to the nature of its functions, the Bank is exposed to numerous risks. These risk exposures are inherent in many of the core functions of the Financial Markets Department. Prudent risk management, therefore, remains one of the main focus areas of the department. The risk exposures pertaining to the conduct of monetary policy implementation are sufficiently mitigated. However, the investment guidelines for the various foreign reserve portfolios had to be tightened to reduce market and credit risk exposure in the management of foreign-exchange reserves. The alignment of the portfolios with the revised investment guidelines and the prudent investment approach that was followed resulted in no losses in the respective portfolios during the period under review.

Administration of exchange controls

The Bank administers the exchange control function in terms of the authority delegated by the Minister of Finance. The Bank is responsible for
- implementing exchange control policy and administering exchange control regulations;
- gathering, analysing and disseminating information;
- appointing Authorised Dealers with Limited Authority (ADLAs); and
- ensuring compliance by ADLAs with anti-money laundering (AML) control measures in terms of the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001) (FICA).

Policy decisions on exchange controls vest with the Minister of Finance and the National Treasury. As part of the approach of gradually liberalising exchange controls, the Minister of Finance announced further reforms in the 2009 *Medium Term Budget Policy Statement*. These included the
- abolition of the 180-day rule requiring companies to convert their foreign currency proceeds into rand;
- abolition of the R250 000 limit on advance payments abroad;
- requirement for preapproval for companies to undertake outward investments in excess of R50 million, which was increased to R500 million;
- restriction on the granting of local financial assistance to affected persons, which was liberalised by the abolition of the 3:1 ratio applicable to working capital requirements, while retaining the 1:1 ratio on financial transactions and the acquisition of residential properties by non-residents;
- increase in the foreign capital allowance for resident individuals from R2 million to R4 million; and
- increase in the single discretionary allowance from R500 000 to R750 000.

These policy relaxations were further extended in the Budget Speech of 17 February 2010, when the Minister of Finance focused on prudential management of foreign exposure risk and on strengthening financial stability. The most significant reform announced was that Authorised Dealers (i.e., banks registered to deal in foreign exchange) may acquire direct and indirect foreign exposure up to a macroprudential limit of 25 per cent of their total liabilities, excluding shareholders' equity. Private equity funds may, in support of the broader strategy to make South Africa the investment and financial gateway into Africa, apply for annual approval to invest in the continent.

Along with further reforms of administrative controls, work is continuing with the National Treasury in the areas of legislative and policy reforms.

Indicative of the continued liberalisation and the change of focus in its responsibilties, the name of the Exchange Control Department was changed to the Financial Surveillance Department effective from 2 August 2010.

Maintaining a stable banking system

One of the key objectives of the Bank is to promote the soundness of the domestic banking system through the effective and efficient application of international regulatory and supervisory standards and best practice. In order to achieve this objective, the Bank retains two cornerstones for its regulatory and supervisory framework. The first is the *Core Principles for Effective Banking Supervision* (the Core Principles) issued for the first time in 1997 by the Basel Committee, and updated in 2006. The second is Basel II. Furthermore, to stay abreast of international regulatory and supervisory developments, the Bank participates in, and contributes to, various international forums. These include the Group of Twenty (G-20) Finance Ministers and Central Bank Governors, as well as the Basel Committee and its subgroups.

The global financial crisis, which started in 2007, revealed fundamental weaknesses in international financial markets. In response to these weaknesses, international standard-setting bodies such as the G-20, the Financial Stability Board and the Basel Committee announced various initiatives, strategies, and new or amended requirements and standards. Among others, the key aims of these are to
- enhance the Basel II framework;
- build high-quality capital in banks and mitigate procyclicality;
- introduce minimum global standards for funding liquidity;
- reform compensation practices to support financial stability;
- improve over-the-counter derivatives markets;
- address cross-border resolutions and systemically important financial institutions; and
- support the transparent assessment of countries' national regulatory systems.

Going forward, these and other measures issued by the various international standard-setting bodies will remain focus areas to ensure that the legal and regulatory framework pertaining to the domestic banking sector reflects local and international market developments, and complies with the applicable international regulatory standards and best practice. The Bank also started the process of amending the banking legislative framework to incorporate these measures as and where applicable.

A report issued by the IMF following the June 2009 Article IV of the IMF Articles of Agreement review (the Article IV review) described the South African banking system as being liquid and well capitalised. During the period under review the Bank was also the subject of an IMF and World Bank assessment of South Africa's compliance with the Core Principles. The Bank has responded to the draft report issued by the IMF and is awaiting the final report. Any findings and/or recommendations will be addressed.

The Bank has closely followed international developments regarding financial institutions' compensation schemes and continued discussions with banks in this regard. In January 2010 the Financial Stability Board issued its "Compensation Principles and Standards Assessment Methodology" to guide supervisors in reviewing financial institutions' compensation practices and assessing their compliance with the Financial Stability Board's *Principles for Sound Compensation Practices* (issued in April 2009) and their implementation standards. The Bank has begun to engage domestic banks to assess their level of compliance with these compensation standards and principles.

The Bank continued to perform both compliance-based and prudential supervision of banks, and to monitor the impact of market conditions on domestic banks' risk profiles. Initiatives to this end were as follows:

– Focused on-site reviews to determine banks' adherence to regulatory requirements in respect of the standardised and all model-based approaches for calculating capital requirements in respect of credit risk, market risk and operational risk exposures.
– Reviews of the internal capital-adequacy assessment processes (ICAAPs) of banks and the economic capital (e-cap) frameworks implemented by banks, and a comparison of these two. In terms of Basel II, banks are required to have an ICAAP in place that, among other things, relates their capital and reserve funds to the level of risk they incur. Banks generally use their e-cap as a key input in their ICAAPs to determine the level of capital to be held for regulatory purposes.
– The processing of applications by banks to implement new or revised models and rating systems, following their choice of regulatory and compliance framework with the Core Principles.
– Reassessment of eligible external credit assessment institutions (credit-rating agencies).
– Thematic reviews of liquidity risk, asset and liability management practices applied by banks.
– An analysis of the level of adherence to regulatory requirements relating to disclosure by banking institutions.

The Bank conducted further thematic stress-testing reviews at banks. 'Stress testing' can be described as a risk management technique used to evaluate the potential effects of a specific event and/or movement in a set of financial variables on an institution's financial position. Stress testing is a key tool used by the Bank in understanding the appropriate level of regulatory capital to ensure that banks remain solvent during difficult times. It seeks to identify those areas where further development would be required to improve the stress-testing frameworks implemented by banks. In addition, the Bank enhanced its internal stress-testing framework, including the development of a common scenario stress-testing model.

During the period under review the Bank proactively enhanced its consolidated supervision of South African banking groups. In this regard, regular supervisory meetings were held with the Financial Services Board to augment information sharing, identify issues of mutual relevance and, where applicable, work towards greater consistency in approach.

The Bank continued to focus on the banking industry's compliance with AML and legislation relating to AML and the combating of the financing of terrorism. Inspections and investigations in respect of persons and institutions suspected of taking deposits from the public in contravention of the provisions of the Banks Act, 1990 (Act No. 94 of 1990) were also conducted.

Supervision of co-operative banks

The implementation of the Co-operative Banks Act, 2007 (Act No. 40 of 2007) in August 2009 ensures that member-based financial services co-operatives can be acknowledged as part of the financial system in South Africa. The regulations issued in terms of this Act have been finalised and stipulate the prudential requirements to be adhered to. The Supervisors' Rules containing the administrative requirements to be met pave the way for the registration of co-operative banks in South Africa. In August 2009 a Co-operative Banking Supervision Unit was established to assume the responsibility of supervising co-operative banks.

Thirteen financial services co-operatives have submitted their applications for registration as co-operative banks. The process of engaging with applicants to acquire further information and pre-assess their compliance with minimum criteria is ongoing. It is expected that the first co-operative banks will be registered soon. In the meantime, good progress has been made with establishing a Deposit Insurance Fund for registered co-operative banks.

Developing and maintaining the payment system

The global crisis has reinforced the need to work towards a robust system in the financial sector, including the payment and settlement system. There is much to learn from the fact that throughout the financial crisis the global payment and settlement system withstood the enormous stress experienced.

A high standard has been maintained in the provision of interbank settlement services in the South African Multiple Option Settlement (SAMOS) system. Following the infrastructure review undertaken during the previous year, the Bank launched a project to enhance the settlement system and related infrastructure to ensure the continued application of best practice standards.

This year's on-site oversight visits to payment system participants focused on non-banks, namely system operators and third-party service providers. The main purpose of these visits was to enhance the Bank's understanding of the business activities of these entities. The visits also assisted the Bank in determining and identifying potential risks that these newly regulated payment system participants might introduce into the broader NPS. This information is used in mitigating risks in the payment system environment.

The Bank continued to fulfil its role as part of the foreign-exchange Continuous Linked Settlement (CLS) system oversight group, chaired by the Federal Reserve Bank of New York. In the review period there was an increased focus on CLS oversight activities as a result of the global financial crisis. Furthermore, from an oversight and operational perspective, the Bank participated in the structures of the Committee on Payment and Settlement Systems of the BIS. While such participation places significant demands on resources, it has enabled the Bank to play a role in policy development and to develop the international relationships that have stood the system in good stead during the ongoing crisis.

The Bank enhanced its ability to provide payment system information as required from a national and international perspective. An information return was developed and implemented to gather information on the various clearing and settlement banks, and the extent of their functioning within the NPS. This information will provide the Bank with a holistic view of the payment system environment and trends.

The Bank updated and reissued its "Position Paper on Electronic Money" in November 2009, primarily to clarify frequently occurring issues with regard to electronic money (e-money). The e-money environment has developed significantly since the publication of the original paper in 2006 and new payment technologies are constantly introduced into the e-money environment. The Bank aligned the definition of 'e-money' with current practices, and specifically addressed the role of banks and non-banks. Several departments in the Bank and various external parties were consulted in the revision of the position paper.

The Bank is in the process of evaluating the recommendations of the *Final Report of the Banking Enquiry* published by the Competition Commission of South Africa, which could lead to the implementation of the relevant recommendations contained in the report.

The Bank's "NPS Framework and Strategy Document" (Vision 2010) was published in 2006, and entails the vision and strategies for the NPS until 2010. The Bank initiated an extensive consultation process with payment system participants, including banks, non-banks, credit card associations, and retail and other stakeholders, with the objective of developing a new NPS framework and strategy document.

In its role as the leader of the Southern African Development Community (SADC) payment system initiative, the Bank co-ordinates a project focused on reducing costs of remittances, while ensuring the safety of these transfers in the region. Furthermore, a project to integrate the SADC payment, clearing and settlement systems has begun.

Contribution to domestic financial stability

Financial stability is essential for sound monetary policy. Central banks' responsibility to maintain financial stability has become more explicit following the international financial crisis, which demonstrated that central banks need to formulate a macroprudential policy to smooth the impact of the economic cycle on the financial system and contain the build-up of systemic risks.

Given the additional responsibilities, the question being asked is: what governance arrangements are required? There is an expectation that central banks should deal with macroprudential and microprudential issues, financial stability, crisis management, provision of liquidity and act as lender of last resort. Governance arrangements assume greater importance as, notwithstanding these expectations, there is the need to ensure independence of monetary policy. It will be increasingly important to define clearly the relationships between governments, central banks and markets, as these governance arrangements are, in fact, shared responsibilities.

In the letter issued by the Minister of Finance in February 2010 that clarified the Bank's mandate, the Bank's role in overseeing and maintaining financial stability was stated explicitly.

In pursuit of its objective of promoting a stable and resilient financial system, the Bank publishes a semi-annual *Financial Stability Review* to identify and analyse potential risks to financial system stability, communicate such assessments and stimulate debate.

The Bank participated actively in the wide-ranging debate on the need to enhance the international regulatory framework in order to strengthen the global financial system and improve its resilience to shocks. The regulatory reforms that are being considered internationally are closely followed and the possible impact of such proposals on the financial sector in South Africa is considered carefully. Not all the reform proposals are appropriate for South Africa and the focus of participation is to ensure that regulatory changes take into account domestic circumstances.

Given these developments, it is important for the Bank to reassess the skills, expertise and resources available to enable sound decision-making to meet these expanded responsibilities. This also imposes a requirement that internal structures ensure appropriate and timely information sharing.

In today's multi-objective world, central banks need a multiplicity of tools and the knowledge required to fulfil different roles. The priority focus should be the possible costs to the system, recognising that it is difficult to restore financial stability once it has been lost.

Financial crises build up over years, which reinforces the argument for a financial stability prevention role. It must be borne in mind that monetary policy tools may well be used to address financial stability matters, reinforcing the need to ensure clarity of roles and responsibilities, given that ambiguous responsibilities create the greatest risk. Thus financial stability requires a defined framework for decision-making, involving both fiscal and monetary authorities.

Maintaining the integrity and supply of currency

The average value of banknotes in circulation for the review period increased by 6,7 per cent from R64,0 billion to R68,3 billion. This rate of growth, which is slower than in the 2008/09 financial year, can be ascribed to subdued demand in the domestic economy following the global financial crisis. The maximum value of banknotes in circulation of R78,7 billion was reached in December 2009, compared with a maximum value of R77,5 million in December 2008.

The Bank continues to ensure that an adequate quantity and acceptable quality of banknotes in circulation are maintained through

- a more rigorous application of minimum standards for the recycling of banknotes;
- early warning advice on counterfeiting issued to the banking industry;
- improved management co-ordination with commercial banks and the cash-in-transit industry;
- increased interaction with central banks in the neighbouring Common Monetary Area (CMA) countries; and
- effective engagement with various stakeholders, such as consultation with the 2010 South African Local Organising Committee and the banking industry for the 2010 FIFA World Cup™ tournament, to ensure the security and efficiency of currency distribution.

Steps are being taken to review the functioning and controls in the branch environment due to the implementation of an Enterprise Resource Planning (ERP) system in the Bank, and the implementation of the Integrated Cash Management System between the Bank and the banking industry. This will include the revision of the agreements between the Bank and the industry, and the standing instructions applicable in the Bank.

The cash management industry has undertaken pilot studies into the introduction of a coin recirculation system. Should this prove viable, it could reduce the need for the Bank to manufacture increasing quantities of low-denomination coin that the public do not re-circulate and are expensive to produce.

As part of the initiatives to stabilise economic activity in Zimbabwe, it was announced by the Zimbabwean authorities that the South African rand, together with the US dollar, could be used as legal tender in commercial transactions. To this end, however, Zimbabwe has to earn rand through various (permissible) means, including remittances whereby rands are sent to families and relatives by Zimbabweans resident in South Africa. The Bank does not officially make rand-denominated banknotes available to the Zimbabwean authorities.

Currency counterfeiting is a global phenomenon made easier by continuous advances in technology. This remains a risk both to the Bank and the general economy. Concerted efforts, undertaken with the South African Police Service and other specialised agencies, are being made to combat counterfeiting and to ensure the integrity of the currency in circulation.

Security of currency distribution

The Bank continuously assesses risks to the effective functioning of the National Cash Management System. Concerns remain about the high incidence of violent crime and aggravated robberies, which not only lead to the loss of human life, but also impact on the safety and efficiency of cash management.

The minimum standards for cash security management have been finalised and the Minister of Police has started a consultation process with all role-players in the cash-in-transit industry. It is expected that the mandatory implementation of these minimum standards will be introduced by the Minister of Police by way of regulations. These regulations will be enforced by a ring-fenced Cash Security Sector Regulatory Authority within the Private Security Regulatory Authority, which falls under the purview of the Minister of Police.

Developments in the research environment

The Research Department fulfils a core function of the Bank and produces a steady output of information. The department is key to the compilation and analysis of data required for each MPC, and produces two of the authoritative publications on the South African economy, namely the *Quarterly Bulletin* and the *Monetary Policy Review*. An initiative to improve the quality of economic statistics received focused attention throughout the year.

During the review period four research papers were published on the Bank's website in the Working Papers series, while research was also published in academic journals. Staff of the Bank participated in international and domestic conferences. In particular, at the 2009 Biennial Conference of the Economic Society of South Africa 16 papers and contributions authored or co-authored by staff of the Bank were presented.

During the year under review the Bank participated in the biennial conference of the International Statistical Institute, particularly in the activities of the Irving Fisher Committee on Central Bank statistics. In August 2009 this prestigious event was held in Durban. Staff members presented papers, served as discussants and chaired conference sessions.

International and regional co-operation

The Bank's international activities remained very demanding. In the course of the year the Bank hosted two meetings of the SADC Committee of Central Bank Governors (CCBG). The CCBG Secretariat, located in the Bank, also continued to provide secretarial services to the various subcommittees of the CCBG and plays a co-ordinating role. The focus on the establishment of a single continent-wide central bank with a single currency remained a key area of discussion at both the regional and continental central bank governors' forums.

The governors of the central banks of the CMA held regular meetings to review economic developments in the region, assess the health of the financial systems and to discuss other matters of common interest. While fiscal balances deteriorated throughout the CMA in the wake of the international economic crisis, local financial systems remained resilient.

Global developments resulted in an increasing number of international meetings, seminars and conferences. Where it was deemed appropriate and likely to add significantly to the Bank's understanding of events, the Bank participated at a high level. The Bank also participated in, and provided input at, the various IMF/World Bank meetings, the BIS, as well as the G-20 meetings and workshops held that dealt with issues related to the global economy and risks, financial regulation, international financial institutions' reforms and global financial safety nets. These included the Eighth Annual Conference of the BIS, the Joint Federal Reserve System, IMF/World Bank Annual International Seminar on "Policy Challenges for the Financial Sector", IMF Seminar on "Restoring Financial Stability: The Legal Response", and Joint IMF and Financial Stability Board Roundtable Meeting to "Enhance Collaboration on Financial Stability Analysis".

During the year under review the Minister of Finance replaced the Governor of the Bank as South Africa's primary representative to the IMF. Nevertheless, the Bank continued to attend the meetings of both the IMF and World Bank.

The BIS held its global governance meetings every two months. It also convened meetings of central banks with banking supervisors to ensure ongoing discussion on banking-sector developments and regulatory reform. These meetings were attended by the Governor.

The number of G-20 meetings held increased significantly over the past year, and the Bank and National Treasury collaborate closely to address the issues raised in this forum.

The Bank Supervision Department hosted the Financial Stability Institute's annual meeting of African supervisors and regulators for the third consecutive year. The high-level international and regional participation has made this conference an important event on the supervisory calendar, and it will again be held in Cape Town in January 2011.

Outreach Programme

In an endeavour to improve its interaction and communication with various stakeholders in the South African economy, the Bank embarked on an Outreach Programme. The discussions are led by the Governor and include a number of senior Bank officials. Discussions are aimed at improving awareness and understanding of the Bank's role and its monetary policy activities; the challenges faced both domestically and globally, thereby enhancing the Bank's understanding of real economic developments; and exploring opportunities to inform, co-ordinate and create a deeper appreciation of the Bank's role in economic policy.

Separate meetings are held with each outreach stakeholder constituency, allowing the discussions to be focused on issues most relevant to that grouping. Interaction has taken place with a wide range of interest groups and organisations, and include economists and analysts, as well as representatives of agriculture, mining, manufacturing, commerce, labour, political parties and international analysts and investors. The programme will continue to be a priority for the Bank, and ways of expanding and enriching the interaction will be explored.

Information and communications technology support

Significant progress was made with the implementation of an ERP system. Its implementation required significant technical, functional and business resources. The human resources, financial and core banking modules were implemented during the year under review, as was the case with most of the logistics functionality. The project is now in a stabilisation phase, which includes clarification of roles and processes. To ensure the ongoing operational management of the implemented business solution, an ERP Support Centre is being established.

During the year under review, a Scorecard and Information System was developed and implemented as an automated analysis and reporting system that allows for the effective analysis and assessment of the robustness of the South African financial system. An export control and foreign-exchange-monitoring solution was also implemented.

The South African dematerialised Money Market Settlement System (MMSS) project was undertaken in conjunction with Strate. As the largest issuer of money-market securities, the Bank played an important role in the process. To accommodate the new system, enhancements were made to all the domestic treasury systems. Straight-through processing has been achieved from the auction process to the cash and script settlement. This system has resulted in risk mitigation for issuers and investors. South Africa is one of the few countries to have successfully implemented a complete fully electronic end-to-end solution.

The ICT support rendered to the Financial Markets Department in the area of reserves management will enhance the efficient implementation of the SAA framework. Owing to the complexity and interdependencies of this programme, a number of sub-projects have been identified and work on three of them has commenced.

There are several initiatives in progress to improve governance, control and service delivery. These include processes and tools for the management of ICT services, the establishment of a vendor management discipline and the formulation of an investment management function. These processes will assist with better demand management and prioritisation to ensure improved service delivery.

Infrastructural support

During the period under review, the Bank once again focused on the creation of an enabling environment for Head Office functions and departments, and for the branches to execute their responsibilities.

Much of the equipment and facilities in the Head Office building was installed during construction in 1987. Thus both at the Head Office and at some of the branch office buildings, installations and systems, such as fire-detection and evacuation, lifts, building management, air-conditioning, and X-ray machines used for security purposes have been replaced or are in the process of being upgraded.

The executive floors were refurbished and work will begin shortly to enlarge and improve the main entrance area of the building. Better use of office space is being assessed, as is the location of the College. Emergency backup power at the Head Office building (including uninterrupted power supply) was upgraded during the period under review and the same contingency undertaking is required at the branch offices. Such upgrades will ensure that all the operations of the Bank will be self-sufficient in the event of power failures.

Building expansions and/or the more efficient use of space has been undertaken to enable the Bank and its branches to keep pace with the increased roles and responsibilities of the Bank. Work at both the Port Elizabeth and East London branches is continuing in keeping with plans and budget.

Business continuity management

The disciplines of business continuity management (BCM) and occupational health and safety (OHS) compliance management have both matured to the level of continued process improvement and enhancement. Business continuity planning is assessed by means of scheduled and unannounced Bank-wide tests, thereby contributing towards the robustness of the BCM programme.

Internal control

Internal control structures

Internal control is a priority focus area, and is an integral part of the Bank's management and accountability function. The Board and management of the Bank share ultimate responsibility for establishing and maintaining a sound system of internal controls. The Audit Committee, acting on behalf of the Board, considers the adequacy and effectiveness of the Bank's internal control system by providing oversight of the internal audit function. The system is designed to provide reasonable assurance about the integrity and reliability of financial and management information, and is based on the established written policies and procedures of the Bank.

Policies and procedures are regularly reviewed and approved to ensure that they continue to address identified business risks. These are implemented by trained and skilled staff. Responsibilities are segregated appropriately. All staff members are required to maintain the highest level of ethical behaviour in ensuring that Bank practices are conducted in a manner that is beyond reproach.

Systems are in place to ensure the safeguarding of, and control over, assets; the economical and efficient use of resources allocated; and the effective performance of all functions.

Internal audit

The primary purpose of the IAD is to evaluate and contribute independently to the improvement of control processes, governance and risk management of the Bank and its subsidiaries. The IAD achieves its purpose by providing independent and objective assurance and consulting services regarding the adequacy and effectiveness of these processes. The full mandate and authority of the IAD are contained in an Internal Audit Charter approved by the Board. The charter is revised and updated annually to ensure that the internal audit function remains relevant, current and in line with changes to the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (the Standards), codes of governance and legislation.

Acting on a direct mandate from the Governor and the Board, the IAD is accountable to the Audit Committee of the Board with direct access to the Chairperson of the Audit Committee. The department meets regularly with, and reports functionally to, the Governor.

The IAD subscribes to the code of ethics issued by the South African Institute of Internal Auditors. An external quality assurance review of the internal audit function was performed during the review period, which concluded that the IAD "generally conforms" to the standards recommended by the institute. This is the highest rating in terms of the standards of the institute.

Strategic alliances are formed, where necessary, with other members of the profession in various industries in order to share matters of common interest.

Code of Ethics and Business Conduct

The Bank has a Board Code of Conduct and an Ethical Code of Conduct for staff members, available on the Intranet website of the Bank. Work is under way to develop and implement a value statement for the Bank.

Legal and regulatory requirements

The Bank complies with legal and regulatory requirements under which it operates. Due compliance was enhanced by means of legal research, analysis of legal updates from the legal fraternity and the attendance of legal seminars.

Risk management

Risk management philosophy

Owing to the unique role and functions of the Bank, risk management is not simply based on institutional risk and return considerations, but also takes into account national interest, in line with the statutory and constitutional responsibility of the Bank. The Bank also functions within an environment characterised by continuous change and uncertainty, which requires constant monitoring and analysis of, and appropriate response to, potential and actual risks emanating from the global political and economic environment.

In common with most central banks, the Bank is a risk-averse institution, which basically reflects the view that satisfactory fulfilment of its role and responsibilities could be seriously jeopardised if there were to be significant disruptions to its operations and/or damage to its reputation.

The executive management of the Bank is intensely aware of the high performance standards that all role-players outside the Bank expect of the central bank. The Bank views risk management as an integral part and an essential element of good corporate governance.

Risk management policy

The Bank has established a risk management policy to ensure that risks are managed in a co-ordinated, comprehensive and systematic manner that is consistent with internationally accepted standards and guidelines.

This policy regulates all risk management initiatives and activities, and facilitates their alignment with the Bank's strategic and operational objectives to ensure that the risks threatening the achievement of these objectives are adequately and effectively managed at acceptable levels. The policy governs the full spectrum of strategic, financial (i.e., credit, market and liquidity), reputational and operational risk management in the Bank. Furthermore, it specifies the risk management governance structures, general risk management principles, the Bank's risk appetite and tolerance, impact and likelihood requirements, risk management framework and processes, and the roles and responsibilities of all stakeholders.

Risk management governance structure

The Bank's Board is responsible for the oversight of the entire process of risk management. The Audit Committee, which is a subcommittee of the Board, assisted the Board in this regard during the year under review. In view of the numerous other responsibilities of the Audit Committee, the Board resolved during the latter part of the financial year to establish a Board Risk Committee, as stated earlier, to ensure a dedicated focus on the oversight of risk management in the Bank.

The GEC has overall executive responsibility for risk management in the Bank and is accountable to the Board for ensuring adequate risk management structures and processes.

The GEC also approved that the Risk Management Co-ordinating Unit, which was part of the Executive Management Department, be merged with applicable specialised risk management functions and be transformed into a Risk Management and Compliance Department (RMCD). This was done to ensure a co-ordinated and uniform approach to risk management, and to enhance the prominence and impact of the risk management function in the Bank. It will also focus specifically on compliance matters throughout the Bank.

Risk management approach and processes

The Bank's risk management approach is largely based on the principles contained in the Committee of Sponsoring Organizations (COSO) Enterprise Risk Management (ERM) Framework and is consistent with widely accepted standards, guidelines and best practice.

Although the principles contained in the COSO ERM Framework largely apply to all risk management processes in the Bank, four distinct risk management processes are used by the Bank for the management of strategic, financial, reputational and operational risk:

1 The strategic risk management process is integrated into the strategic planning process of the Bank, during which risks at a strategic level are identified and assessed.
2 The Financial Markets Department is responsible for the financial risk management process. Specialised financial risk management systems and procedures, based on best practice standards, are in place to manage financial risks pertaining to domestic and foreign-exchange market operations.
3 Reputational risk is managed by the executive management and heads of department of the Bank, while the Head of Strategy and Communications has a specific responsibility in this regard, from a communication perspective.
4 Operational risk emanating from all the operational activities of the Bank is managed by the heads of department and their management teams, whereas specialised types of operational risk or operational risks with a Bank-wide impact are managed by the structures or committees established for that purpose. These types of operational risk include business continuity risk, information security risk, and occupational health, safety and environmental risk.

A "hub-and-spoke" model is used to facilitate decentralised risk management by departments and centralised co-ordination. The centralised co-ordination function is performed by the RMCD. The role of the RMCD is to facilitate risk management ownership by management; validate that the risk management processes are adequate and effective, and comply with internationally accepted risk management standards; provide a standardised strategic and operational risk management methodology and process; and to ensure standardised and integrated reporting on risk management activities and exposures to the GEC via the Risk Management Committee and the Board Risk Committee.

Sustainability report

Introduction

This is the first year that the *Annual Report* contains a sustainability report. Its inclusion confirms the Bank's awareness of social developments and commits the Bank to ensuring sustainability in its activities. It is published as part of an ongoing initiative to improve transparency and in compliance with developments in good corporate governance. It also commits the Bank to annual reporting on sustainability in future.

Sustainability focuses on achievements in terms of the triple bottom line, comprising a social and environmental impact, over and above the narrow pursuit of financial objectives. Recognition of the broader impact of companies on society has increased the stakeholders of companies beyond their shareholders, customers and suppliers.

By its very nature as the central bank of the Republic of South Africa, the Bank does not pursue profit maximisation, but takes cognisance of the impact of its monetary policy decisions and operations on South African society, and the broader regional community that it serves.

The Bank is acutely aware that measures have to be in place to conserve energy. Sustainable development needs to be considered in any upgrading or maintenance and in future building projects. To this end, steps have been taken at Head Office that have contributed to energy saving and environmental protection. These include the use of energy-saving light fittings, the switching off of general lighting in the tower block between 19:00 and 05:00, and the installation of state-of-the art energy-saving uninterrupted power supply units. Off-peak periods are utilised for water heating. In addition, the Bank is assessing a commissioned report on proposals for future energy-saving measures. Ground water seepage, which is collected in a pit in the basement of the Head Office building, is pumped into the irrigation system of the gardens and planters. The quality of air circulating in the building and the light intensity are checked regularly, and are within the required occupational health and safety levels.

With regard to building projects, a number of energy-saving installations have been incorporated into the additions to the East London Branch building that is under construction and in the design of the new Bloemfontein Branch building scheduled to commence early in the 2011/12 financial year.

In the East London Branch building, energy-saving light fittings are occupancy-sensitive in that lights automatically switch on and off with the movement of people within any particular area. Solar panels will augment energy supply to the building, and lift motors and air-conditioning systems will incorporate energy-saving measures. Tea kitchens are provided with gas water-heating elements, and water-saving fittings have been specified for all taps and other plumbing elements.

Since the new Bloemfontein Branch building will be a green-field development, additional environmentally sustainable measures have been included in the conceptual design. These include optimally orientating the building to respond to climate, noise and energy consumption; utilising the abundant water available due to the high water table for landscaping irrigation and aesthetic features; and the use of double-glazing and cavity wall construction that serves both conservation and security purposes.

Water and electricity consumption

In terms of water and electricity consumption, feasibility studies were conducted on saving water and electricity, including utilising renewable (solar) energy. Measures are in place to replace lighting systems with energy-efficient lighting and to replace old electrical systems with more efficient technology.

The South African Mint Company (Pty) Limited (SA Mint) has already reduced energy consumption by 10,6 per cent per annum in the review period, compared with the previous financial year. In order to reduce water consumption at the manufacturing subsidiaries, water meters were installed in various production areas to provide better information on water consumption patterns.

Management of hazardous substances and pollution

The Bank conducts an environmental survey every two years as required by the Occupational Health and Safety Act, 1993 (Act No. 85 of 1993). This includes the safe handling of hazardous material. Owing to their mercury content, fluorescent tubes in buildings are removed and then crushed for disposal by a private accredited company. Ongoing research and development are conducted into reducing the risks associated with hazardous substances emanating from the Bank's operations.

Waste and refuse management

Measures are in place to save on paper by encouraging a paperless working environment. Paper is shredded on the premises and collected by a private company for recycling.

Refuse is compacted and removed. The hazardous waste management process in the manufacturing subsidiaries was formalised to ensure better management of hazardous waste disposal. These include the

- disposal of oil rags to eliminate pollution of rivers and streams, and to reduce fire hazard;
- introduction of spill kits to reduce and/or eliminate chemical spills down drains, hence reducing fire hazard and ground water pollution;
- recycling of hydraulic and cooking oil for bio-diesel production;
- utilisation of recycled water in the printing process in the effluent plant of the South African Bank Note Company (Pty) Limited (SABN) to ensure that effluent released into drains is of a regulatory standard; and
- recycling of polystyrene, plastic and cardboard to reduce paper sent to landfills.

Human resources

The Bank acknowledges that its goals and aims can be achieved only through the skill, loyalty and dedication of its staff members. Considerable attention was therefore focused on staffing and staff matters during the period under review. The Bank continues to foster a healthy relationship with SASBO (the Finance Union), through processes of consultation and negotiation. The annual wage negotiation for the 2010/11 financial year has been concluded successfully.

The Bank, as a knowledge institution, recognises that a hierarchical organisation that only rewards management is not an appropriate model. Therefore, the Bank is moving towards a multiple career strategy, where specialist knowledge is both recognised and rewarded. Furthermore, a policy of an across-the-board increase combined with a performance bonus has been implemented. There will be continued refinement of both approaches in the year ahead. These are among a number of revised and new policies that were consulted on, and agreed to, with SASBO. These policies were communicated to staff throughout the Bank.

Staff philosophy

The Bank recognises that its success as a central bank is dependent on its staff, and that attracting, developing and retaining the right skills at the right time in the right positions are imperatives that are not negotiable. In striving to be an employer of choice, the Bank recognises staff diversity as an asset, as it ensures that the Bank can harness the best strengths of its employees.

The Bank's challenge is to ensure that it continues to provide a stimulating and rewarding work environment that meets the expectations of staff in respect of career development, growth, fair employment practices, wellness and lifestyle support, and appropriate recognition and reward processes. The Bank ensures that its leaders are equipped with the necessary skills and capabilities to manage teams of people effectively, and are provided with the tools to manage performance. The Bank is mindful of the need to ensure a culture that encourages open and transparent communication and consultation in respect of staff and related matters.

Appointments and termination of service

At the beginning of the 2009/10 financial year, the Bank had a total permanent staff complement of 1 930, which increased to 2 033 by the end of the year, excluding the Governor and deputy governors. Of the net increase of 103 in staff numbers, 43 were appointed to fill long-standing vacancies in the Currency and Protection Services Department. The movement in staff is set out in Table 1.

Table 1: Total staff turnover from 1 April 2009 to 31 March 2010

Staff turnover	No.
Staff complement on 1 April 2009	1 930
New appointments	191
Terminations	-66
Employees placed on medical disability	-21
Appointment as Deputy Governor (A D Mminele)	-1
Staff complement on 31 March 2010	2 033

The overall staff turnover rate for the period was 3,4 per cent, compared with a turnover rate of 6,2 per cent in the previous financial year. The reasons furnished for termination of service during the review period are highlighted in Table 2. The Bank has a lower staff turnover rate than the domestic financial industry. This can be explained by the fact that the nature of the Bank's business provides a secure and stable environment for employees. In addition, the decline in staff turnover between the review period and the previous financial year can be explained by the downturn in domestic economic activity, with fewer positions becoming available outside the Bank.

Table 2: Reasons for termination of service from 1 April 2009 to 31 March 2010

Reason	No.
Better prospects and remuneration	29
Deceased	5
Dismissal	3
Emigration	5
Full-time studies	1
Needed a career change	1
Personal reasons	2
Poor health	1
Relocation	2
Retirement	6
Retirement (early retirement due to ill health)	1
Retirement (voluntary early retirement)	4
Start own enterprise	4
Voluntary separation	1
Wanted to avoid disciplinary action	1
Total	66

Employment equity

The Bank drafted its first five-year Employment Equity Plan (EE Plan) in 2000 in compliance with the requirements of the Employment Equity Act, 1998 (Act No. 55 of 1998). The Bank's second and current EE Plan ends on 31 March 2011. Over the years, the Bank has recognised the strategic and operational importance of employment equity and, as a result, committed considerable attention and resources to this.

In October 2009 the Bank submitted its *Ninth Annual Report on the Employment Equity Plan to the Department of Labour* covering the period 1 April 2008 to 31 March 2009. The report reflects the Bank's achievements over nine years. Highlights in the report were the absence of barriers to employment equity during the year and that there was overall racial employment equity progress, with black employees accounting for 62 per cent of the Bank's total workforce (Table 3).

Table 3: Breakdown per broad band: Racial employment equity representation

Broad band	Actual 31 March 2009 (per cent)	Actual 31 March 2010 (per cent)	2010 Bank target (per cent)
General Management (GM)	52	50	50
Senior Professional and Management (SPM)	42	42	50
Professional and Vocational Management (PVM)	49	50	50
Junior Professional and Supervisory (JPS)	51	54	50
Trainee Professional and Clerical (TPC)	70	74	50
General Worker (GW)	93	93	50
Total	60	62	50

The Bank's racial equity representation decreased by 2 percentage points at the general management level. At all other levels, racial equity representation remained static or improved.

The Bank has also made improvements with regard to gender representation in the respective broad bands, as is highlighted in Table 4, with women accounting for 48 per cent of the total workforce.

Table 4: Breakdown per broad band: Gender representation

Broad band	Actual 31 March 2009 (per cent)	Actual 31 March 2010 (per cent)	2010 Bank target (per cent)
General Management (GM)	21	24	46
Senior Professional and Management (SPM)	34	34	46
Professional and Vocational Management (PVM)	49	50	46
Junior Professional and Supervisory (JPS)	59	59	46
Trainee Professional and Clerical (TPC)	50	48	46
General Worker (GW)	37	38	46
Total	47	48	46

The detail of racial and gender equity representation is presented in Table 5.

Table 5: Breakdown per broad band: Gender and race profile as at 31 March 2010

	Male				Female				
Broad band	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
General Management (GM)	24	3	7	42	11	4	1	8	**100**
Senior Professional and Management (SPM)	32	9	8	83	27	4	5	33	**201**
Professional and Vocational Management (PVM)	65	12	9	102	74	14	14	87	**377**
Junior Professional and Supervisory (JPS)	103	25	11	69	97	24	15	165	**509**
Trainee Professional and Clerical (TPC)	215	42	15	66	147	50	16	103	**654**
General Worker (GW)	101	7	1	11	62	7	0	3	**192**
Total permanent	**540**	**98**	**51**	**373**	**418**	**103**	**51**	**399**	**2 033**
Contract workers	27	6	1	15	24	2	1	8	**84**
Total	**567**	**104**	**52**	**388**	**442**	**105**	**52**	**407**	**2 117**

The Bank is equally committed to raising awareness and addressing issues concerning people living with disabilities. To this end, the Bank held disability awareness workshops for its employees during the year under review. People living with disabilities formed more than 2 per cent of the Bank's workforce as at 1 October 2009 (Table 6).

Table 6: Breakdown per broad band: Profile of staff with disabilities as reported to the Department of Labour on 1 October 2009

	Male				Female				
Broad band	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
General Management (GM)	0	0	0	0	0	0	0	0	**0**
Senior Professional and Management (SPM)	0	0	0	1	0	0	0	0	**1**
Professional and Vocational Management (PVM)	0	0	0	4	0	0	0	1	**5**
Junior Professional and Supervisory (JPS)	0	0	0	2	0	0	0	2	**4**
Trainee Professional and Clerical (TPC)	8	1	1	18	3	0	1	6	**38**
General Worker (GW)	2	0	0	0	0	0	0	0	**2**
Total permanent	10	1	1	25	3	0	1	9	**50**
Contract workers	0	0	0	0	0	0	0	0	**0**
Total	10	1	1	25	3	0	1	9	**50**

Staffing

The staffing of the different departments of the Bank is reported in Table 7. This table shows that more than 40 per cent of staff members have responsibility for currency distribution and related protection services, which highlights the importance of the Bank's responsibility in terms of currency distribution.

Table 7: Staff complement by department as at 31 March 2010

Department	Permanent staff	Contract workers	Total
Executive Management	46	2	48
Bank Supervision	106	1	107
Business Systems and Technology	172	19	191
Corporate Services	198	4	202
Currency and Protection Services (including branches)	835	41	876
Exchange Control	156	0	156
Financial Markets	104	0	104
Financial Services	76	0	76
Financial Stability	20	0	20
Human Resources	62	4	66
Internal Audit	47	0	47
Legal Services	30	1	31
National Payment System	24	0	24
Research	147	1	148
SARB College	10	11	21
Total staff complement	2 033	84	2 117

Staff education, training, support and development

During the 2009/10 financial year the Bank's expenditure on external staff training, other than support for part-time studies at registered educational institutions, amounted to R19,6 million for local and R6,9 million for foreign training.

The Bank hosted 17 learners on the Letsema Learnership, 12 of whom were appointed in permanent positions in the Bank. A new group of 15 Letsema learners has been placed in the Bank for the 2010/11 financial year. All these learners are black, while 67 per cent are women and 13 per cent are living with disabilities.

The Bank hosted four learners on internship programmes during 2009 and all were appointed in permanent positions. A total of 21 employees in messenger positions were registered on a year-long mail-handling learnership. Successful completion of this learnership should lead to an improvement in their career prospects.

Looking forward, the Bank is examining ways to enhance artisan training and apprenticeships in various areas of expertise, including carpentry, project management, procurement, printing and finishing, and the training of electricians.

The number of individuals registered for the Adult Basic Education and Training (ABET) programme increased by 12 to 33 during the review period. ABET is aligned with a new integrated learning and development strategy that was developed and implemented. This strategy is fully aligned with the National Skills Development Strategy.

During the 2009/10 financial year, 18 employees completed the Bank's Leadership Development Programme, aimed in the main at improving the skills of middle managers.

The Bank provides study aid for Bank employees who study part time at recognised academic institutions in fields specific to the business of the Bank. During the 2009/10 financial year, 395 employees were provided with study aid at a cost of R3,2 million. The corresponding figures for the preceding period were 329 and R2,4 million respectively. Staff members are mainly enrolled for degrees in commerce, and various certificate courses and national diplomas that are relevant to the Bank. In the 2009/10 financial year 29 completed their studies, compared with 52 in the previous financial year.

The skills and knowledge of staff members are enhanced through secondments to international and local institutions. Requests for secondments are considered in terms of the Bank's secondment policy. Internationally, one staff member has been on secondment to the South African Consulate in New York since March 2005, while another was seconded to the BIS for six months. Locally, one staff member completed a secondment to the BER at Stellenbosch University and another is currently on such a secondment. Another staff member has been on secondment to the National Treasury since October 2009. Staff members also visited international institutions such as the BIS, the Bank of England and the World Bank to gain experience and share knowledge.

In the 2009/10 financial year a mandatory grant of R2,7 million (compared with R2,4 million in the previous financial year) was received for complying with the reporting provisions of the Skills Development Act, 1998 (Act No. 97 of 1998). In addition, discretionary grants totalling R535 426 were received for the first time during the 2009/10 financial year. These payments related to the mail-handling learnership (R400 000), HIV/AIDS training (R100 000) and ABET (R35 426).

The four training units in the Bank (Human Resources, ICT, Protection Services and the College) received the Best Practices in Skills Development Award in the banking sector category, and reaccreditation by the education and training quality assurance body of the BANKSETA.

To benchmark the quality of training offered by the College against international best practice, its academic programmes and the structural framework were reviewed by an international expert, Professor Peter Sinclair. Prof. Sinclair is a former head of the Centre for Central Banking Studies of the Bank of England, and is currently attached to the University of Birmingham. His suggestions will be considered for implementation in the 2010/11 financial year.

Educational support for dependants of staff

The Bank provides bursaries for higher education of dependants of all staff and pensioners. Bursaries were provided to 298 dependants at a cost of R6,6 million during the review period (317 dependants at a cost of R6,4 million in the previous review period). In the main, dependants are enrolled for BA, BCom and BSc degrees, and various certificate courses and national diplomas. In the 2009/10 financial year 16 completed their studies, compared with 19 in the previous financial year. The Bank is looking at ways to enhance support for technical and artisan training as part of this programme.

Wellness

The Bank introduced a Wellness Lifestyle Centre in the 2009/10 financial year and adopted the slogan "Be well" as a focus for staff in all areas of their life. The Wellness Lifestyle Centre is a well-resourced walk-in wellness facility employing a multidisciplinary team of health professionals. It offers comprehensive clinical care, and holistic health and wellness programmes to all employees. The multidisciplinary team of health professionals comprises a medical doctor, occupational nurses, psychologists, physiotherapists and biokineticists.

Renovations to the gymnasiums, both at the Head Office building and branches, are under way. Increased usage of these facilities should improve staff wellness. The contract with the Independent Counselling and Advisory Services (ICAS) was renewed and the Employee Assistance Programme continues to provide an external confidential counselling service through ICAS.

A Bank-wide Voluntary Counselling and Testing (VCT) campaign was introduced in October 2009. The Bank's VCT campaign was highly successful, as approximately 60 per cent of the Bank's staff was tested for HIV/AIDS.

Retirement provision

Introduction

The Bank provides for the retirement of its staff at the normal retirement age of 60 years, in compliance with good corporate governance principles. The Bank has a defined contribution retirement fund to which current staff members contribute. Previously, the Bank had a defined benefit pension fund. This fund is still in existence, mainly to provide pensions to pensioners of the Bank.

Retirement Fund

The Board of Trustees of the Bank's Retirement Fund comprises four trustees appointed by the Board of the Bank (i.e., one executive director, one non-executive director and two senior staff members) and four trustees elected by members of the Retirement Fund. The fund is assisted by a Principal Officer. The Board of Trustee elects a chairperson from the trustees. The Retirement Fund is incorporated in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956) and is a separate entity from the Bank.

Pension Fund

The Board of Trustees of the Bank's Pension Fund comprises four trustees (i.e., one executive director, two non-executive directors and a senior staff member) appointed by the Board of the Bank and four trustees elected by members of the Pension Fund. The fund is assisted by a Principal Officer. The Board of Trustees elects a chairperson and a deputy chairperson from the trustees. The Pension Fund is incorporated in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956) and, as such, is a separate entity from the Bank. Owing to the diminishing nature of the Pension Fund, a process is under way to incorporate the Pension Fund as a ring-fenced entity into the Retirement Fund. The members of the Pension Fund have consented to the incorporation and final approval from the Financial Services Board is awaited to complete the process.

Corporate social responsibility

Introduction

The Bank focuses considerable attention on its corporate social responsibility. As a public entity with a specific mandate to give effect to monetary policy, it is important for the Bank not to lose sight of its impact on the broader society. This section highlights the Bank's social responsibility activities.

Health, safety and the environment

Health and safety

The Bank and its subsidiaries comply with health, safety and environmental legislation, and are committed to the wellbeing of employees as part of their broader social responsibilities. The Bank ensures a healthy and safe working environment for its staff and for visitors through regular compliance assessments and environmental studies by external specialist organisations, accompanied by the implementation of corrective actions where required.

Environment

The Bank regards the needs of the environment and the local community as important, both in terms of the physical effects of the Bank's operations on its surroundings, and its economic and cultural interaction with the general public.

The SABN and the SA Mint, the Bank's two manufacturing subsidiaries, adhere stringently to effluent and other production waste disposal standards.

The SA Mint has entered into an agreement with the Endangered Wildlife Trust (EWT) in terms of which a half-ounce gold medallion featuring the EWT logo was included in the 2009 Natura commemorative coin launch sets depicting the endangered white rhinoceros. The proceeds from the sale of these medallions were donated to the EWT for the Strengthening the Security of the Rhino in South Africa Project, which includes the training of rangers to prevent the poaching of rhinoceros.

Community responsibility

The SA Mint launched the "Have a Heart" initiative during the review period. The proceeds from the sale of products manufactured in terms of this initiative are donated to various charity organisations such as Oliver's House (a charity for children), and the Avril Elizabeth school for the mentally disabled.

The Bank's central stores donated empty ink cartridges to the Green Office initiative. These cartridges are sold and Green Office donates the proceeds to the Mandeville Centre of Excellence, which teaches previously disadvantaged children to swim.

The Bank was involved in the rebuilding of Seikgoni High School in the Limpopo Province. After rebuilding the school and funding five learners to further their studies, the Bank gave these learners the opportunity to complete a three-month internship in the Bank which formed part of their qualification. They were subsequently all employed on a full-time basis in the Bank. In the review period the Bank visited the school and provided funding for a new borehole, thereby ensuring running water at the school. The Bank also collected books from Bank employees for donation to the school library.

Training of and support for external parties

The Bank reaches out to high school learners through participation at skills exhibitions where information about the Bank, its role in the country and career opportunities in the Bank is shared with the learners. A career guidance booklet was developed by the Bank and is made available to learners.

In terms of the Bank's bursary scheme for the general public, a total of 25 learners were funded for their second academic year of tertiary study in the 2009 academic year at a cost of some R385 000. Of these, 4 did not reapply, while 21 have been funded for their third academic year in 2010.

The Bank offers experiential training to students who study hospitality management or chef's courses at accredited institutions or service providers. During the review period, three students underwent such training at the Bank.

Training courses offered by the College were attended by 161 participants from outside the Bank during the review period. In addition, the College hosted a number of high-level workshops and seminars for specific niche markets. These included the fifth annual exchange control seminar for authorised foreign-exchange dealers in South Africa; a risk management seminar presented by the BIS; the Basel II: Pillar 3 seminar presented by the Financial Services Authority of the United Kingdom; and a seminar on small linear open-economy models for forecasting and policy analysis presented by the Czech National Bank. The College also hosted several high-level discussions, which were presented by prominent speakers from the private sector and leading academic institutions. The main intention of these events is to initiate and promote debate on relevant contemporary economic and financial issues between Bank staff and external experts.

The Bank assisted various African central banks and financial institutions with training, and hosted fact-finding visits. To this end, the Bank was visited by representatives of the central banks of Kenya, Malawi, Mauritius, Namibia, Tanzania and Uganda; the Ethiopian Bankers Association and the Dar es Salaam Stock Exchange. Staff members of the Bank visited the central banks of Lesotho and Swaziland for training of their staff members in payment and cross-border foreign-exchange reporting systems.

The School of Journalism and Media Studies at Rhodes University received funding from the Bank to establish a Centre for Economics Journalism in Africa, dedicated to teaching economics journalism to students from South Africa and elsewhere on the African continent. The funds provided assist with the employment of lecturing and administrative staff and guest lecturers, and support the hosting of short courses. A large part of the funding contributes towards scholarships for full-time Master's students.

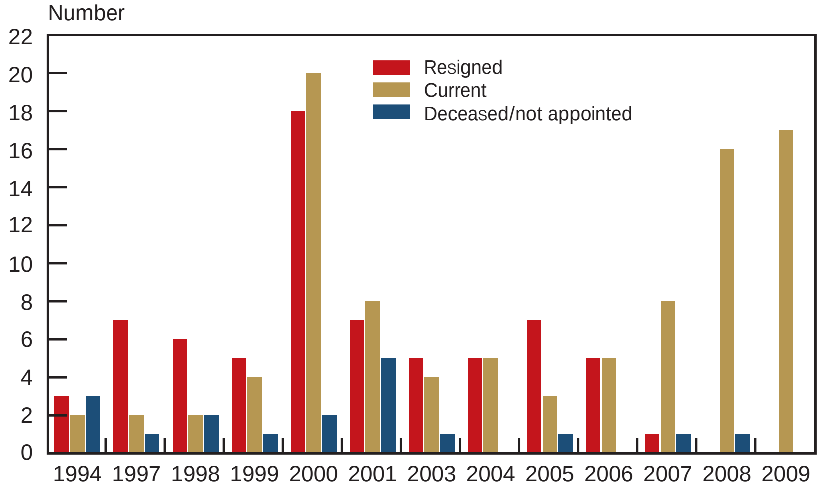
The Bank also provided a grant to the School of Journalism at the University of the Witwatersrand for its financial journalism course. The purpose of this course, started in 2009, is to afford working journalists the opportunity to complete part-time courses and degrees to enhance their skills and knowledge of financial journalism. This programme addresses the quality of financial reporting by increasing the level of financial and business literacy among journalists; training a new generation of specialist financial writers; and promoting debate and discussion among financial writers.

The Bank supports efforts to stimulate research and teaching of monetary economics at postgraduate level. Since 2006, the Bank has funded the South African Reserve Bank Chair in Monetary Economics at the University of Pretoria. The focus of this initiative is to offer postgraduate courses in monetary economics, and support research into monetary and macroeconomic policy issues. The current agreement with the university has been extended until the end of 2012.

Cadet Graduate Programme

The Cadet Graduate Programme at the College produces graduates of a high calibre who are appointed in the Bank and in other financial institutions. A total of 179 cadets have attended the Cadet Graduate Programme since 1994 and 108 are still employed in the Bank. In the 2009/10 financial year a total of 17 cadets were enrolled for the programme (see Figure 1).

Figure 1: Cadets permanently appointed (current), resigned, deceased or not appointed in the period 1994–2009



Overview of subsidiaries

Introduction

The Bank has four subsidiaries and entrusts certain demarcated responsibilities to them. The Board members of the subsidiaries are appointed by the Board of the Bank. The financial performance of the subsidiaries is consolidated with that of the Bank in the financial statements included in this *Annual Report*. Relative to the balance sheet total of the Bank, the subsidiaries are comparatively small, as is evidenced in the financial statements.

Corporation for Public Deposits

The CPD is governed by the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984). The CPD is accommodated in the Bank's Head Office building, and uses the Bank's accounting systems and other infrastructure. It accepts call deposits from the public sector and invests these funds in short-term money-market instruments and special Treasury bills. With the approval of the Minister of Finance, it may also accept call deposits from other depositors. All funds invested with the CPD and interest earned are repayable on demand.

The CPD has a Board that assumes ultimate management responsibility for the company and is chaired by a deputy governor of the Bank. The Board is appointed by the Minister of Finance, and comprises officials from both the Bank and the National Treasury. Owing to the scope and risk profile of the CPD, the Board has elected not to appoint any Board committees to support it in the discharge of its responsibilities. The administration and accounting of the funds under the control of the CPD are done by the Financial Services Department of the Bank. As at 31 March 2010 the Board comprised the following members:

– A D Mminele (Chairperson)	Director (Deputy Governor of the Bank)
– B (Bulelwa) Boqwana	Director (National Treasury)
– R M du Plooy	Director from the Bank
– L (Lungisa) Fuzile	Director (National Treasury).

As at 31 March 2010 the Company Secretary was M (Mhitlhiemang) Masibi-Malotle, who is an employee of the Bank's secretariat.

South African Bank Note Company (Pty) Limited

The SABN is a private company registered in terms of the Companies Act, 1973 (Act No. 61 of 1973). The SABN functions as an independent subsidiary with its own premises, infrastructure and accounting system.

The SABN is a wholly owned subsidiary of the Bank. By virtue of section 10 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) the SABN has the duty to make banknotes, issue or cause banknotes to be issued and destroy banknotes.

The SABN has a Board that assumes ultimate management responsibility for the company. In the discharge of its responsibilities the Board is supported by three subcommittees, namely an Audit and Risk Committee, a Human Resources Committee and a Safety, Health and Environment (SHE) Committee. The Board is chaired by a non-executive director who is usually a deputy governor of the Bank. As at 31 March 2010 the Board comprised the following members:

– R D Mokate (Chairperson)[3]	Non-executive director (Deputy Governor of the Bank)
– L G (Lilian) Boyle	Independent, non-executive director
– F Jakoet	Independent, non-executive director
– K P (Koosum) Kalyan	Independent, non-executive director

3 R D Mokate's term of office as Deputy Governor of the Bank expired on 31 July 2010. On that date she stepped down as Chairperson of the Board. The vacancy as Chairperson was filled by X P Guma with effect from 1 August 2010.

– E Masilela	Independent, non-executive director
– A D Mminele	Non-executive director
– M Mnyande	Non-executive director
– N (Nkuli) Swana	Independent, non-executive director
– M (Musa) Mbhele (Managing Director)	Executive director.

As at 31 March 2010 the Company Secretary was L (Lorraine) Mtsweni.

South African Mint Company (Pty) Limited

The SA Mint is a private company registered in terms of the Companies Act, 1973 (Act No. 61 of 1973). The SA Mint functions as an independent subsidiary with its own premises, infrastructure and accounting system.

The SA Mint is a wholly owned subsidiary of the Bank. By virtue of section 10 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) the SA Mint has the duty to make circulation and numismatic coin, issue or cause coin to be issued and destroy coin.

The SA Mint has a Board that assumes ultimate management responsibility for the company. In the discharge of its responsibilities the Board is supported by an Audit and Risk Committee, a Human Resources Committee and a SHE Committee as subcommittees. The Board is chaired by a non-executive director, who is usually a deputy governor of the Bank. As at 31 March 2010 the Board comprised the following members:

– R D Mokate (Chairperson)[4]	Non-executive director (Deputy Governor of the Bank)
– F Jakoet	Independent, non-executive director
– K P Kalyan	Independent, non-executive director
– A D Mminele	Non-executive director
– M Mnyande	Non-executive director
– R W K Parsons	Non-executive director
– N Swana	Independent, non-executive director
– S J (Joe) Tau	Independent, non-executive director
– A M (Andile) Mvinjelwa (Managing Director)	Executive director.

As at 31 March 2010 the Company Secretary was T P (Tiyani) Mongwe.

South African Reserve Bank Captive Insurance Company Limited

The South African Reserve Bank Captive Insurance Company Limited (SARBCIC) is a wholly owned subsidiary company of the Bank, registered in terms of the Companies Act, 1973 (Act No. 61 of 1973) as a public company to comply with the provisions of section 9(3)(a)(i) of the Short-term Insurance Act, 1998 (Act No. 53 of 1998). SARBCIC is housed in the Bank's Head Office building and uses the Bank's accounting systems and other infrastructure.

SARBCIC carries out short-term insurance business for, and on behalf of, the Bank and its subsidiary companies (the SARB Group).

SARBCIC has a unitary Board. The Board is supported by an Audit, Risk and Compliance Committee in the discharge of its responsibilities. The Board is chaired by a non-executive director, who is usually a deputy governor of the Bank. As at 31 March 2010 the Board comprised the following members:

– X P Guma (Chairperson)	Non-executive director (Senior Deputy Governor of the Bank)
– M (Mahomed) Akoob	Independent, non-executive director
– G H (Gert) Engelbrecht	Executive director

4 R D Mokate's term of office as Deputy Governor of the Bank expired on 31 July 2010. On that date she stepped down as Chairperson of the Board. The vacancy as Chairperson was filled by A D Mminele with effect from 1 August 2010.

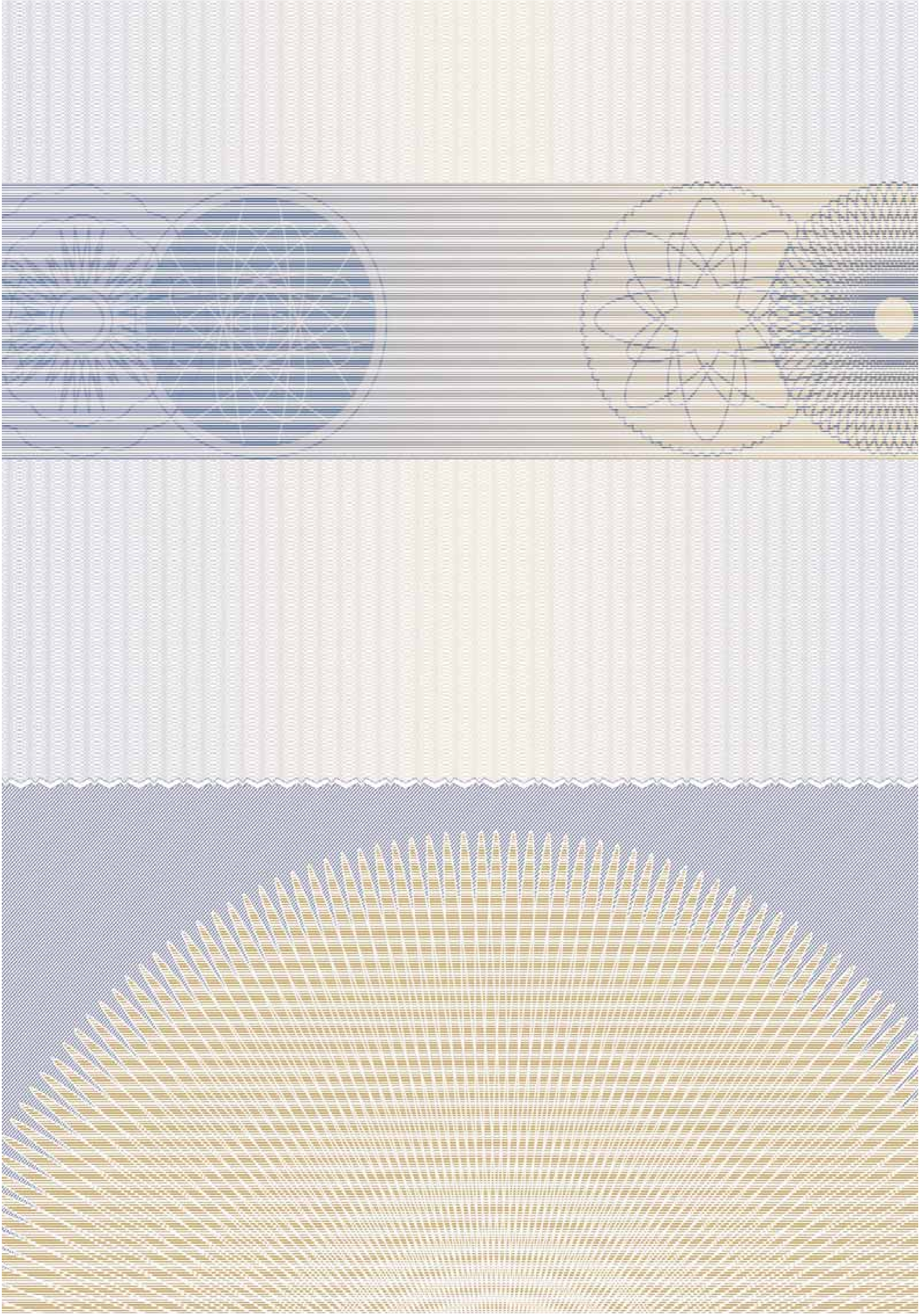
– P (Phyllis) Mabasa	Independent, non-executive director
– F G (Gerhard) Wiehman	Executive director and CEO.

As at 31 March 2010 the Company Secretary was S W (Sandile) Soga.

Shareholding

The Bank facilitates an over-the-counter market for the trading of its shares. During the financial year under review 69 transactions (40 transactions in the previous financial year) were concluded in respect of 128 139 shares (57 980 shares in the previous financial year). A final dividend of 5 cents per share was paid on 15 May 2009 in respect of the 2008/09 financial year. An interim dividend of 5 cents per share for the 2009/10 financial year was paid to shareholders on 11 December 2009. A final dividend of 5 cents per share for the 2009/10 financial year was declared on 1 April 2010 and paid on 14 May 2010. As the maximum dividend is prescribed in the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), the annual dividend per share did not change during the review period. As at the financial year-end, the Bank had 640 shareholders, compared to 630 as at 31 March 2009.

The negative role played by a number of shareholders continued to be a feature of the year under review. The Bank undertook a comprehensive review of the legal options open to it to resolve the matter. Consequently, amendments to the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) were drafted, approved by Cabinet and tabled before Parliament as the South African Reserve Bank Amendment Bill. In September 2010 the Bill was promulgated as the South African Reserve Bank Amendment Act. From the amendments, the need has arisen to review the prevailing regulations and make changes as necessary. However, an amendment to regulation 16 was made by the Minister of Finance and was published in the *Government Gazette* on Friday, 13 August 2010. This amendment enables the Bank, with the approval of the Minister, to hold its OGM at a date later than six months after its financial year-end. The Board decided to request such approval from the Minister in order for the OGM to be held in keeping with the terms of the amendment.



Annual financial statements for the year ended 31 March 2010

Contents

Financial framework

Reporting framework

These consolidated financial statements have been prepared in accordance with the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) and the accounting policies set out in Note 1 to the financial statements.

The South African Reserve Bank Act, 1989 (Act No. 90 of 1989) is not prescriptive regarding the accounting framework that the Bank should adopt, except for sections 25 and 28, which deal with the accounting treatment of gold and foreign-exchange transactions. These sections are in conflict with International Financial Reporting Standards (IFRSs). The Bank has chosen to use IFRSs as a guide in deciding on the most appropriate accounting policies to adopt, and as a model for the presentation and disclosure framework followed in its financial statements.

However, the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) takes precedence over IFRSs in the areas noted above and, as a result, the recognition and measurement criteria as set out in IFRSs have not been followed in these circumstances. In addition, the South African Reserve Bank (the Bank) considers certain disclosures inappropriate to its functions. Therefore, the Bank's financial statements disclose less detail than would be required under IFRSs. The significant departures from IFRSs as a consequence of the above may be summarised as follows:

Recognition and measurement

According to the South African Reserve Bank Act, 1989 (Act No. 90 of 1989),

1 realised and unrealised valuation gains and losses on gold and foreign-denominated assets and liabilities are for the account of government, and have, therefore, not been accounted for in profit or loss, as required by International Accounting Standard (IAS) 21: *The Effects of Changes in Foreign Exchange Rates*; and

2 gold is valued in terms of section 25 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) at the statutory gold price as published in the *Government Gazette*. Gold has been recognised as a financial asset of the Bank.

Presentation

In the financial statements

1 not all information as required by IFRS 7: *Financial Instruments: Disclosures* is disclosed. This relates specifically to a sensitivity analysis for each type of market risk to which the Bank is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date; and

2 assets and liabilities relating to securities lending activities have been disclosed, but offset in Note 7 to the financial statements because it is considered inappropriate to gross up the foreign reserves of the Bank.

Budget

Certain expenditure items, such as depreciation of fixed assets, are not included in the figures in the table below because they are not managed as part of the operational budget process.

	Budget 2010/11 R'000	Actual 2009/10 R'000	Budget 2009/10 R'000
Personnel costs	1 247 324	1 123 987	1 048 438
Operational costs	385 380	342 159	389 237
Cost of new currency	1 156 187	1 118 217	1 312 690

For the 2009/10 financial year staff costs exceeded the budget by some 7 per cent. This was mainly a result of

1. leave days accumulated by staff being higher than budgeted, which resulted in an increased provision;
2. post-retirement medical benefits being higher than budgeted, as a result of changes in inflation on medical aid and a change in the assumptions regarding mortality; and
3. overtime paid being higher than budgeted, due to various additional projects being undertaken during the financial year.

Operational costs were 12 per cent less than budgeted, mainly because of the cancellation and/or postponement of various initiatives due to other commitments and certain cost-saving initiatives.

The under-expenditure in the cost of new currency was due to the demand for new currency being less than expected and due to funds earmarked for a communication campaign regarding security features not yet utilised.

Report of the Audit Committee

The Audit Committee is a subcommittee of the Board of Directors (the Board). The responsibilities of the committee are detailed in its terms of reference as approved by the Board and reviewed annually. The committee comprises at least three non-executive members of the Board who form the majority of the members. The details of the committee members appear on pages 10 and 11 of this *Annual Report*.

The Audit Committee invites management, internal auditors, external auditors and others to attend meetings and provide pertinent information, as necessary. Such attendees do not vote on any matters at Audit Committee meetings. The members of the committee collectively possess the necessary skills and experience for the proper execution of their responsibilities.

These responsibilities include providing oversight on financial reporting and other matters such as the monitoring of controls, governance processes and financial risk management in the Bank. The committee also ensures effective communication between the internal auditors, external auditors, the Board and management. The Bank's subsidiaries (with the exception of the Corporation for Public Deposits) have their own audit committees, which subscribe to the same philosophy as the Bank's Audit Committee. The minutes of the proceedings of the audit committee meetings of the subsidiaries are tabled at meetings of the Bank's Audit Committee.

The committee is responsible for recommending the appointment of external auditors by shareholders, for overseeing their work and for maintaining a professional relationship with them. The external auditors have unrestricted access to the committee and the Board. The committee annually assesses non-audit work done by external auditors to ensure that their independence is maintained. In assessing the independence of the external auditors, the committee reviews independence letters submitted by the external auditors. These letters include non-audit services provided by the external auditors for the period under review. The Bank has a formal external audit partner rotation process in accordance with the relevant legal and regulatory requirements.

The Internal Audit Charter, which lays down the purpose, authority and responsibility of the internal audit function, is approved by the Governors' Executive Committee (GEC), the committee and the Board. The committee concurs with the appointment, replacement or dismissal of the Chief Internal Auditor. It also reviews the scope and coverage of the internal audit function, and approves its coverage and work plan for the period under review. The internal auditors have unrestricted access to all functions, records, property and personnel of the Bank. To enhance their independence, the internal auditors have unrestricted access to the Governor, committees and the Board of the Bank.

Management is focused on continuous improvements to the system of internal control and the internal audit function reviews the adequacy and effectiveness of such controls. The committee reviews internal audit reports, and assesses the role, independence and effectiveness of the internal audit function on an ongoing basis.

The committee confirms that it carried out its functions responsibly and has satisfactorily complied with its mandate for the period under review. The committee has also satisfied itself that the external auditors are independent and are able to conduct their audit functions without any undue influence from the Bank.

Fjakoet

F Jakoet
Chairperson of the Audit Committee

Report of the independent auditors

To the members of the South African Reserve Bank

We have audited the Group financial statements and financial statements of the South African Reserve Bank, which comprise the consolidated and separate statements of financial position as at 31 March 2010, and the consolidated and separate statements of comprehensive income, and the consolidated and separate statements of changes in equity, and the consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 57 to 101.

Directors' responsibility for the financial statements

The Bank's directors are responsible for the preparation and presentation of these financial statements in accordance with the basis of accounting described in Note 1 to the financial statements and in the manner required by the South African Reserve Bank Act, (Act No. 90 of 1989). This responsibility includes: determining that the basis of accounting described in Note 1 is an acceptable basis for preparing and presenting financial statements in the circumstances; designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements of the South African Reserve Bank have been prepared, in all material respects, in accordance with the basis of accounting described in Note 1 to the financial statements and in the manner required by the South African Reserve Bank Act, 1989 (Act No. 90 of 1989).

Emphasis of matter

Without qualifying our opinion, we emphasise that the basis of accounting and the presentation and disclosures contained in the financial statements are not intended to, and do not, comply with all requirements of International Financial Reporting Standards.

PricewaterhouseCoopers Inc.
Director: J Grosskopf
Registered Auditor

SizweNtsaluba VSP
Partner: P Hiralall
Registered Auditor

Johannesburg
30 July 2010

PricewaterhouseCoopers Inc. Reg. no. 1998/012/055/21 Private Bag X36 Sunninghill 2157 Tel: (011) 797 4000 Fax (011) 797 5800 Executive: S P Kana (Chief Executive Officer) T P Blandin de Chalain D J Fölscher G M Khumalo I S Sehoole S Subramoney F Tonelii. Resident Director in Charge: E R Mackeown. The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection.

SizweNtsaluba VSP 20 Morris Street East Woodmead 2191 PO Box 2939 Saxonwold 2132 Tel: (011) 231 0600 Fax: (011) 234 0933 Partners: Aaron Mthimunye Andrew Mashifane Anton van den Heever Anoosh Rooplal Dumisani Manana Hale Qangule Johann Strauss Lawrence Moepi Luthando Saunders Luyanda Dudumashe Mxolisi Mthimkhulu Natalie Arendse Nhlanhla Sigasa Pravesh Hiralall Rakesh Bhika Suleman Lockhat Theodore Josias Victor Sekese (CEO) Zaheeda Bashir.

Directors' report for the year ended 31 March 2010

Introduction

The directors present the Bank's *Annual Report* for the year ended 31 March 2010 to the ninetieth Ordinary General Meeting (OGM) of shareholders.

This report, issued in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) and the Regulations framed in terms of the said Act, addresses the performance of the Bank, its subsidiaries and relevant statutory information requirements.

It is the directors' responsibility to prepare annual financial statements and related financial information that present the state of affairs and the financial results of the Group. These financial statements have been prepared on a going-concern basis, taking cognisance of certain unique aspects relating to the Bank's ability to create and withdraw domestic currency, its role as lender of last resort, and its responsibilities in the area of financial stability, and in its relationship with government concerning foreign-exchange and gold transactions.

Management prepared the annual financial statements set out in this report. The statements include appropriate and responsible disclosure, and are based on accounting policies that have been applied consistently, and that are supported by reasonable and prudent judgements and estimates.

The prevailing global financial crisis has placed significant strain on the balance sheets of many central banks. It is important to recognise that throughout this period neither South African banks nor the banking system has required support or intervention. In fact, one of the difficulties experienced in executing monetary policy has been maintaining a money-market shortage owing to liquidity injections by the Bank associated with the continued purchase of foreign exchange.

The financial statements have been audited by independent auditors, who were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board, committees of the Board and management.

The requirements of *King III* are dealt with in the corporate governance statement which appears on page 9 ("Functioning of the Board").

Nature of business

The Bank is the central bank of the Republic of South Africa and is regulated in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989). Its primary objective is to achieve and maintain price stability in the interest of sustainable and balanced economic growth. In pursuance of this objective, the Bank assumes responsibility for the functions as set out on page 5.

The subsidiaries of the Bank are involved in the following activities:

- Corporation for Public Deposits (CPD) receives and invests call deposits from public entities;
- South African Bank Note Company (Pty) Limited (SABN) produces banknotes;
- South African Mint Company (Pty) Limited (SA Mint) produces coin; and
- South African Reserve Bank Captive Insurance Company (Pty) Limited (SARBCIC) manages certain insurable risks of the Bank and its subsidiaries.

Achievement of objectives

The Bank's achievements in respect of its objectives, including the achievement of its main objective, namely the maintenance of price stability, will be addressed by the Governor at the OGM of shareholders.

Financial results

The statement of comprehensive income appears on page 63.

All remaining profits of the Bank, after provisions normally provided for by bankers and payment of dividends, are paid to government in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989). Amounts paid and due in terms of the said Act over the past two years were as follows:

	Group R'000	Bank R'000
31 March 2010	37 463	0
31 March 2009	124 852	39 080

The Bank incurred a loss after taxation of R1 046 665 000 (R1 450 373 000 before taxation) for the year ended 31 March 2010 due to the high cost associated with holding the country's gold and foreign reserves. Owing to recent adverse economic and financial markets developments, the returns earned on foreign investments have been minimal, while the funding costs of these investments approximate the repo rate.

The amount of R37 463 000 paid by the Group to government as at 31 March 2010 emanated from the CPD. Given the loss incurred in the 2009/10 financial year, no profits were transferred from the Bank to government.

Dividends

The final dividend of 5 cents per share for the 2008/09 financial year was paid on 15 May 2009 and an interim dividend of 5 cents per share for the 2009/10 financial year was paid to shareholders on 11 December 2009. A final dividend of 5 cents per share, bringing total dividends paid to R200 000 for the 2009/10 financial year, was declared on 1 April 2010 and paid on 14 May 2010.

Financial position

The statement of financial position appears on page 62.

The Bank's total assets decreased by R13,6 billion during the year: a decrease of R14,9 billion in gross gold and foreign assets, while domestic assets increased by R1,3 billion. The decrease in the rand value of gold and foreign assets was due to downward revaluations as a result of the appreciation of the rand. This negative revaluation is for the account of government and resulted in the balance on the Gold and Foreign Exchange Contingency Reserve Account reducing by R70 billion.

Directors

The composition of the Board appears on page 6.

The term of office of S M Goodson as shareholders' representative representing commerce or finance expired on 18 September 2009. He was re-elected at the OGM held on 17 September 2009 for a further three-year term of office which will expire at the time of the 2012 OGM.

The terms of office of F Jakoet, T N Mgoduso and J F van der Merwe will expire at the time of the 2010 OGM.

The term of office of the previous Governor, T T Mboweni, expired on 8 November 2009. He was succeeded as Governor and Chairperson of the Board by G Marcus on 9 November 2009. Ms Marcus was appointed by the President of the Republic of South Africa for a five-year term which will end on 8 November 2014.

X P Guma was appointed as Senior Deputy Governor with effect from 29 May 2010.

A D Mminele was appointed as a Deputy Governor with effect from 1 July 2009 for a period of five years. He filled an existing vacancy and his term of office will run until June 2014.

The direct and indirect shareholding of directors as at 31 March 2010 is reflected in the following table:

Director	Number of shares
S M Goodson	10 000
X P Guma	5 932
F Jakoet	500
D Konar	10 000
N D Orleyn	10 000
R W K Parsons	1 000
	37 432

Subsidiaries

The following information relates to the Bank's financial interest in its subsidiaries:

	Authorised and issued share capital					
	Number of shares '000	Percentage held	Shares at cost		Net indebtedness to/(by) the Bank	
			2010 R'000	2009 R'000	2010 R'000	2009 R'000
Corporation for Public Deposits	2 000	100	**2 000**	2 000	**(10 653 737)**	(1 840 368)
South African Mint Company (Pty) Limited	60 000	100	**206 000**	206 000	**0**	0
South African Bank Note Company (Pty) Limited	61 000	100	**61 000**	61 000	**35 569**	33 148
South African Reserve Bank Captive Insurance Company Limited	10 000	100	**10 000**	10 000	0	0
Total			**279 000**	279 000	**(10 618 168)**	(1 807 220)

The Bank's interest in aggregate attributable net profits of subsidiaries is as follows:

	2010 R million	2009 R million
Aggregate profits	166	130

Contracts

No contracts were entered into during the year in which directors or officers of the Bank had interests that significantly affected the affairs or business of the Bank or any of its subsidiaries.

Post-balance sheet events

There were no events subsequent to the balance sheet date that had a significant effect on the financial statements.

Secretary of the Bank

1 April 2009 to 19 March 2010:	T P Mongwe
Since 20 March 2010:	J J Rossouw (Acting)

Business address:
370 Church Street
Pretoria
0002

Postal address:
P O Box 427
Pretoria
0001

The financial statements were approved by the Board on 28 July 2010 and signed on its behalf by:

G Marcus
Governor

X P Guma
Senior Deputy Governor

F Jakoet
Non-executive Director and
Chairperson: Audit Committee

Z P Manase
Non-executive Director and
Chairperson: Non-executive
Directors' Committee

G J Terblanche
Chief Financial Officer

J J Rossouw
Acting Secretary of the Bank

Statement by the Secretary of the Bank

In my capacity as Acting Secretary of the Bank, I certify that all the returns required to be submitted in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) for the year ended 31 March 2010 have been correctly completed and are up to date, subject to the following exceptions:

- The Treasury Statements to be transmitted to the National Treasury in terms of sections 29(1) and 29(2) of the said Act were not submitted in the review period. They were subsequently submitted for the financial year ended on 31 March 2010.
- The list of shareholders of the Bank to be transmitted to the National Treasury in terms of section 32(1)(c) of the said Act was not submitted in the review period. It was submitted on 28 May 2010 for the financial year ended on 31 March 2010.
- The financial statements of the Bank, contained in the *Annual Report*, to be transmitted to the National Treasury in terms of section 32(1)(b) of the said Act, were submitted by mutual consent after the OGM of shareholders of the Bank, rather than within three months after the close of the Bank's financial year, to provide for consideration by shareholders before they are tabled in Parliament.

J J Rossouw
Acting Secretary of the Bank

30 July 2010

Statement of financial position at 31 March 2010

		Group		Bank	
		2010	2009	2010	2009
	Notes	R'000	R'000	R'000	R'000
Assets					
Cash and cash equivalents	2	95 324	135 075	0	0
Accommodation to banks	3	11 417 793	10 311 399	11 417 793	10 311 399
South African Government bonds	4	8 361 569	8 437 030	8 361 569	8 437 030
Loans and advances	5	74 205	73 094	74 205	73 094
Current taxation prepaid		117 843	113 386	100 661	100 298
Amounts due by subsidiaries	6	0	0	199 295	189 178
Gold and foreign exchange	7	307 506 387	322 441 738	307 506 387	322 441 738
Inventories	8	424 209	394 354	10 725	5 955
Investments	9	5 359 739	8 108 758	0	0
Amounts due by the South African Government	10	856 503	924 973	856 503	924 973
Property, plant and equipment	11	1 473 653	1 369 318	730 417	680 742
Investment in subsidiaries	6	0	0	279 000	279 000
Equity investment in Bank for International Settlements	12	291 269	369 732	291 269	369 732
Deferred taxation assets	13	714 670	312 137	675 635	277 030
Forward exchange contract assets	14	2 532	0	1 877	0
Other assets	15	395 890	477 782	333 535	371 426
Total assets		337 091 586	353 468 776	330 838 871	344 461 595
Liabilities					
Deposit accounts	16	163 652 326	134 983 976	148 211 816	125 603 426
Amounts due to subsidiaries	6	0	0	10 817 463	1 996 398
South African Reserve Bank debentures	17	22 167 307	28 109 144	22 167 307	28 109 144
Foreign loans and deposits	18	27 324 181	6 201 166	27 324 181	6 201 166
Notes and coin in circulation	19	75 588 239	68 979 485	75 588 239	68 979 485
Provisions	20	136 876	120 272	117 844	103 043
Gold and Foreign Exchange Contingency Reserve Account	21	35 617 810	101 584 718	35 617 810	101 584 718
Deferred taxation liabilities	13	145 452	138 099	46 824	43 954
Forward exchange contract liabilities	14	15 314	11 790	38	0
Other financial liabilities	22	301 049	437 911	106 465	102 691
Post-retirement medical benefits	23	1 059 941	921 333	963 665	833 400
Total liabilities		326 008 495	341 487 894	320 961 652	333 557 425
Capital and reserves					
Share capital	24	2 000	2 000	2 000	2 000
Accumulated profit		1 126 412	997 196	0	0
Statutory reserve		395 164	395 164	395 164	395 164
Contingency reserve		9 186 880	10 233 801	9 107 420	10 154 285
Bond revaluation reserve		372 635	352 721	372 635	352 721
Total capital and reserves		11 083 091	11 980 882	9 877 219	10 904 170
Total liabilities, capital and reserves		337 091 586	353 468 776	330 838 871	344 461 595

Statement of comprehensive income for the year ended 31 March 2010

	Notes	Group 2010 R'000	Group 2009 R'000	Bank 2010 R'000	Bank 2009 R'000
Interest income		6 137 194	11 330 277	5 154 475	10 244 757
Interest expense		5 228 566	8 076 497	4 316 795	7 139 102
Net interest income		908 628	3 253 780	837 680	3 105 655
Dividend income		28 189	28 366	28 190	28 235
Operating income		628 632	594 242	348 295	353 112
Total income	25.1	1 565 449	3 876 388	1 214 165	3 487 002
Operating costs	25.2	2 798 605	2 485 227	2 664 538	2 243 003
(Loss)/Profit before taxation	25	(1 233 156)	1 391 161	(1 450 373)	1 243 999
Taxation	26	(353 114)	374 842	(403 708)	357 377
(Loss)/profit for the year		(880 042)	1 016 319	(1 046 665)	886 622
Other comprehensive income					
Realised gains on available-for-sale financial assets		0	(46 274)	0	(46 274)
Fair value adjustments on available-for-sale financial assets		19 914	198 486	19 914	198 486
Total comprehensive income for the year		(860 128)	1 168 531	(1 026 751)	1 038 834
Dividend per share (cents)	27	10	10	10	10

Statement of cash flow for the year ended 31 March 2010

		Group		Bank	
		2010	2009	2010	2009
	Notes	R'000	R'000	R'000	R'000
Cash flow from operating activities					
Cash (utilised by)/generated from operating activities	28	(2 466 079)	2 530 464	66 377	866 150
Taxation paid		(54 268)	(772 838)	(134)	(738 008)
Dividends paid		(200)	(200)	(200)	(200)
Transfer to government		(124 852)	(153 152)	(39 080)	(119 005)
Net cash flow (utilised by)/generated from operating activities		(2 645 399)	1 604 274	26 963	8 937
Cash flow generated from investing activities		2 605 648	(1 546 336)	(26 963)	(8 937)
Purchase of property, plant and equipment		(249 716)	(396 062)	(130 117)	(127 914)
Disposal of property, plant and equipment		236	288	35	288
Disposal of investments		2 752 009	(1 269 251)	0	0
Net investment from/(in) South African Government bonds		103 119	118 689	103 119	118 689
Net (decrease)/increase in cash and cash equivalents		(39 751)	57 938	0	0
Cash and cash equivalents at the beginning of the year		135 075	77 137	0	0
Cash and cash equivalents at the end of the year	2	95 324	135 075	0	0

Statement of changes in equity: Group for the year ended 31 March 2010

	Share capital R'000	Accumu-lated profit R'000	Statutory reserve R'000	Contingency reserve R'000	Bond re-valuation reserve R'000	Total R'000
Balance at 31 March 2008	2 000	953 097	390 822	9 390 975	200 509	10 937 403
Total comprehensive income for the year	0	1 016 319	0	0	152 212	1 168 531
Transfer to government	0	(124 852)	0	0	0	(124 852)
Transfer to reserves	0	(847 168)	4 342	842 826	0	0
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2009	2 000	997 196	395 164	10 233 801	352 721	11 980 882
Total comprehensive income for the year	0	(880 042)	0	0	19 914	(860 128)
Transfer to government	0	(37 463)	0	0	0	(37 463)
Transfer to reserves	0	1 046 921	0	(1 046 921)	0	0
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2010	2 000	1 126 412	395 164	9 186 880	372 635	11 083 091

Explanatory notes

Statutory reserve

The statutory reserve is maintained in terms of section 24 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), which stipulates that one-tenth of the surplus of the South African Reserve Bank, after provisions normally provided for by bankers and payment of dividends, has to be credited to the statutory reserve.

Contingency reserve

Contingency reserves are maintained to provide against risks to which the South African Reserve Bank, the Corporation for Public Deposits and the South African Reserve Bank Captive Insurance Company Limited are exposed.

Bond revaluation reserve

Gains and losses arising from a change in fair value of available-for-sale financial assets are recognised in other comprehensive income. When these financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

Transfer to the South African Government

In terms of section 24 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), nine-tenths of the surplus of the South African Reserve Bank, after provisions normally provided for by bankers and payment of dividends, has to be paid to government. In terms of section 15 of the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984), the balance of net profits after transfers to reserves and payment of dividends has to be paid to government.

Statement of changes in equity: Bank for the year ended 31 March 2010

	Share capital R'000	Accumu-lated profit R'000	Statutory reserve R'000	Contingency reserve R'000	Bond re-valuation reserve R'000	Total R'000
Balance at 31 March 2008	2 000	0	390 822	9 311 285	200 509	9 904 616
Total comprehensive income for the year	0	886 622	0	0	152 212	1 038 834
Transfer to government	0	(39 080)	0	0	0	(39 080)
Transfer to reserves	0	(847 342)	4 342	843 000	0	0
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2009	2 000	0	395 164	10 154 285	352 721	10 904 170
Total comprehensive income for the year	0	(1 046 665)	0	0	19 914	(1 026 751)
Transfer to government	0	0	0	0	0	0
Transfer to reserves	0	1 046 865	0	(1 046 865)	0	0
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2010	2 000	0	395 164	9 107 420	372 635	9 877 219

Explanatory notes

Statutory reserve

The statutory reserve is maintained in terms of section 24 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), which stipulates that one-tenth of the surplus of the South African Reserve Bank, after provisions normally provided for by bankers and payment of dividends, has to be credited to the statutory reserve.

Contingency reserve

A contingency reserve is maintained to provide against risks to which the South African Reserve Bank is exposed.

Bond revaluation reserve

Gains and losses arising from a change in fair value of available-for-sale financial assets are recognised in other comprehensive income. When these financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss.

Transfer to the South African Government

In terms of section 24 of the South African Reserve Bank Act, 1989 (Act No 90 of 1989), nine-tenths of the surplus of the South African Reserve Bank, after provisions normally provided for by bankers and payment of dividends, has to be paid to government.

Notes to the financial statements

1. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies have been applied consistently with those adopted in the previous year.

1.1 Basis of presentation

These consolidated annual financial statements have been prepared in accordance with the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) (the Act), and the accounting policies set out in this note.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the South African Reserve Bank (the Bank). The areas that require a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the relevant notes.

1.2 Consolidation

The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. The results of the subsidiaries are included from the effective dates on which control is transferred to the Bank until the effective dates of disposal. Control is achieved where the Bank has the power to govern the financial and operational policies of an investee enterprise so as to obtain benefits from its activities. All inter-company balances, transactions, and unrealised gains and losses on transactions within the group have been eliminated.

Investment in subsidiaries

The Bank uses the purchase method of accounting for its investments in subsidiaries as the basis for recording an acquisition. Investments in subsidiaries are stated at cost less provision for losses where appropriate. No goodwill has arisen on the acquisition of subsidiaries.

1.3 Financial instruments

Classification

Financial instruments include all financial assets and financial liabilities, including derivative instruments, but excluding investments in subsidiaries, employee benefit plans, provisions, property, plant and equipment, deferred taxation, inventories, and taxation payable or prepaid. Financial instruments are classified as follows:

Financial assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity financial assets; and available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition and re-evaluates this classification at every reporting date.

All financial assets are initially recognised at fair value plus transaction costs, except those carried at fair value through profit or loss. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option-pricing valuation techniques whose variables include only data from observable markets.

The purchases and sales of financial assets that require delivery are recognised on trade date, being the date on which the Bank commits itself to purchasing or selling the asset. Financial asset investments are initially recognised at fair value plus, in the case of all financial assets not carried at fair value through profit or loss, transaction costs that are directly attributable to their acquisition. Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or where the Bank has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, the fair values of financial assets are based on quoted bid prices, excluding transaction costs. If the market for a financial asset is not active or an instrument is an unlisted instrument, the fair value is estimated using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option-pricing models.

When a discounted cash flow analysis is used to determine the value of financial assets, estimated future cash flows are based on management's best estimates, and at the reporting date the discount rate is a market-related rate for a financial asset with similar terms and conditions. Where option-pricing models are used, inputs based on observable market indicators at the reporting date are only recognised to the extent that they relate to changes in factors that market participants will consider in setting a price.

a Financial assets at fair value through profit or loss

This category has two subcategories: (1) financial assets held-for-trading and (2) those designated at fair value through profit or loss at inception.

A financial asset is classified as 'held-for-trading' if it is acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking or if it is so designated by management. Derivatives are also classified as held for trading, unless they are designated as hedges at inception.

A financial asset is designated as 'fair value through profit or loss' because either it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset, or recognising the gains or losses on it on different bases; or a portfolio of financial assets is managed and its performance is evaluated on a fair-value basis, in accordance with a documented risk management or investment strategy, and information about the portfolio is provided internally on that basis to key management personnel. The main classes of financial assets designated by the Bank are debt securities.

Subsequent to initial recognition, these assets are measured at fair value. All related, realised and unrealised gains and losses arising from changes in fair value, excluding changes in fair value due to foreign exchange movements as explained in Note 1.4, are recognised as investment income in profit or loss.

b Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category does not include those loans and receivables that the Bank intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale.

Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment.

A provision for impairment is established when there is objective evidence that the Bank will not be able to collect all amounts due according to the original terms of the receivables. Objective evidence that receivables are impaired includes observable data that come to the attention of the Bank about the following events:

- Significant financial difficulty of the debtor
- A breach of contract, such as default or delinquency in payments
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation.

The amount of a provision is the difference between the carrying amount and the recoverable amount of the assets being the present value of expected cash flows discounted at the market rate of interest for similar borrowers. The amount of the provision is recognised as a charge in profit or loss.

c Held-to-maturity financial assets

No financial assets have been designated as ‘held-to-maturity’.

d Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period and may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices. Financial assets that are either designated in this category or not classified in any of the other categories are classified as ‘available-for-sale’ financial assets. The main classes of financial assets classified as available-for-sale are South African Government bonds and the equity investment in the Bank for International Settlements.

Subsequent to initial recognition, available-for-sale financial assets are carried at fair value. Unrealised gains and losses arising from the change in fair value are recognised in other comprehensive income until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. Interest and dividend income received on available-for-sale financial assets are recognised in profit or loss.

Impairment of financial assets

An asset is impaired if its carrying amount is greater than its estimated recoverable amount.

a Financial assets carried at amortised cost

The Bank assesses whether there is objective evidence that a financial asset is impaired at each reporting date. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a ‘loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset, which can be estimated reliably.

If there is objective evidence that an impairment loss has been incurred on loans and receivables or held-to-maturity investments carried at amortised cost, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate of the financial asset. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a held-to-maturity investment or a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument’s fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment had been recognised, such as improved credit rating, the previously recognised impairment loss is reversed and is recognised in profit or loss.

b Financial assets carried at fair value

The Bank assesses whether there is objective evidence that a financial asset carried at fair value is impaired at each reporting date. If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss had been recognised in profit or loss, the impairment loss is reversed through profit or loss.

Financial liabilities

The Bank classifies its financial liabilities into the following categories: financial liabilities at fair value through profit or loss; and financial liabilities at amortised cost. The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of financial liabilities at initial recognition and re-evaluates this classification at each reporting date.

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, generally being their issue proceeds net of transaction costs incurred.

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

a Fair value through profit or loss financial liabilities

Derivatives with negative fair values have been classified at fair value through profit or loss financial liabilities.

b Other financial liabilities

The following financial liabilities have been classified as 'other financial liabilities': notes and coin issued; foreign loans; South African Reserve Bank (SARB) debentures; deposit accounts; amounts due to subsidiaries; and creditors. Other financial liabilities are measured at amortised cost.

Recognition and derecognition

Financial assets and financial liabilities are recognised on the date on which the group becomes party to the contractual provisions. Trade date accounting is applied for 'regular way' purchases and sales. From this date, any gains or losses arising from changes in the fair value of assets and liabilities are recognised. Loans and receivables, and other financial liabilities are recognised on the day on which they are transferred to the group or the day the funds are advanced.

Measurement

a Initial measurement

A financial asset or financial liability is initially measured at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs directly attributed to the acquisition of the financial asset or liability.

b Subsequent measurement

Fair value through profit or loss financial assets and liabilities, and available-for-sale financial assets are carried at fair value. Fair values are established as follows:

(i) Derivatives

A derivative is a financial instrument whose value changes in response to an underlying variable that requires little or no initial investment and is settled at a future date. Fair values are obtained from quoted market prices (excluding transaction costs), dealer price quotations, discounted cash flow models and option-pricing models, which consider current market and contractual prices for the underlying instruments, as well as the time value of money.

(ii) Foreign marketable money-market investments

The fair value of foreign marketable money-market investments is based on quoted bid rates, excluding transaction costs.

(iii) Local and foreign portfolio investments including securities lending portfolio investments

The fair values of portfolio investments are valued using the quoted fair values as obtained from portfolio managers. Where these instruments are bank deposits, they are valued at nominal values plus accrued interest based on market rates. These values approximate fair values.

(iv) South African Government bonds

Listed bonds are valued using the quoted fair values at year-end as supplied by the Bond Exchange of South Africa (BESA).

Loans and receivables, and other liabilities

Loans and receivables, and other liabilities are measured at amortised cost, which approximates fair value, and are remeasured for impairment losses, except as set out below:

a Non-interest-bearing deposit accounts, the Gold and Foreign Exchange Contingency Reserve Account and loans to subsidiaries are accounted for at cost, as these accounts do not have fixed maturity dates.

b Notes and coin issued are measured at cost, as this liability does not have a fixed maturity date. The banknotes and coin in circulation represent the nominal value of all banknotes held by the public and banks, including recalled, still exchangeable banknotes from previous series.

c Accounts payable are stated at cost, which approximates fair value due to their short-term nature. Amortised cost is calculated on the effective interest method that discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

Gains and losses on subsequent measurement

Gains and losses arising from a change in the fair value of available-for-sale assets are recognised directly in other comprehensive income. When the financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss of the period in which it arises.

Gains and losses arising from a change in the fair value of financial assets and liabilities designated at fair value through profit or loss are recognised in profit or loss of the period in which they arise, except for gold and foreign-exchange activities, as explained in Note 1.4.

Hedge accounting

Hedge accounting has not been applied to any transactions for the year under review.

Set-off

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position where there is a legally enforceable right to set off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In addition, as set out in Note 7 to the financial statements, financial assets and liabilities arising from securities lending activities have been offset.

Minimum reserve balances of banks

Where the balances of cash reserve accounts maintained by banks with the South African Reserve Bank, as defined by the Banks Act, 1990 (Act No. 94 of 1990), are less than the minimum reserve balances required by this Act, the shortfalls are recorded in Note 3 to the financial statements as "Application of cash reserve balances".

1.4 Foreign currency activities

Foreign currency translation

a Functional and presentation currency

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements of the Bank are presented in South African rand, which is the functional currency of the Bank.

b Foreign-exchange gains and losses arising in entity accounts

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions.

Gains and losses of the subsidiaries arising on translation are recognised in profit or loss. Foreign-exchange profits and losses of the Bank, insofar as they arise from changes in the value of the rand compared with other currencies, are for the account of government and, consequently, all these profits and losses are transferred to the Gold and Foreign Exchange Contingency Reserve Account in terms of sections 25 to 28 of the Act. Investment returns on foreign-exchange reserves and interest paid on foreign loans are for the account of the Bank and are accounted for in profit or loss.

1.5 Property, plant and equipment

Freehold land is carried at cost less accumulated impairment losses. Other items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is determined separately for each significant part of an item of property, plant and equipment, and is charged so as to write off the cost or valuation of the assets (other than land and items under construction) to their residual value over their estimated useful life, using the straight-line method. The estimated useful life of the assets has been disclosed in Note 11.

Subsequent costs are included in the asset's carrying amount only when it is probable that future economic benefits associated with the items will flow to the Bank and the cost of the item can be measured reliably. All repairs and maintenance costs are charged to profit or loss when incurred.

The residual values and useful life of assets are reviewed at each reporting date and adjusted if appropriate. If the carrying amount of the asset is greater than its estimated recoverable amount, the carrying amount is written down immediately to its recoverable amount.

Intangible assets

Computer software

Computer software and the direct costs associated with its customisation and installation are capitalised and amortised over two to three years.

1.6 Impairment of other assets

The carrying amounts of the group's assets other than financial assets are reviewed at each reporting date to determine whether there is any indication of impairment, in which case their recoverable amount is estimated.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. A previously expensed impairment loss will be reversed if the recoverable amount increases as a result of a change in the estimates used previously to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised.

1.7 Gold

Gold is held by the Bank as part of its foreign reserves. In terms of section 25 of the Act, gold is initially recorded at the prevailing rates at initial recognition date, including transaction costs. Subsequent to initial measurement, it is measured as follows: physical gold held by the Bank is valued at the statutory price. The statutory price is the quoted spot rate at year-end. Gold loans are measured at the quoted spot rate at year-end. Physical gold held by the subsidiaries is also measured at the quoted spot rate at year-end.

In terms of section 25 of the Act, all gains and losses on gold achieved by the Bank are for the account of the South African Government and, consequently, all profits and losses are transferred to the Gold and Foreign Exchange Contingency Reserve Account. Profits and losses on gold of the subsidiaries are charged to profit or loss in the period in which they arise.

1.8 Taxation

The charge for current taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed for taxation purposes. It is calculated using taxation rates that have been enacted or substantially enacted by the reporting date, and any adjustment of taxation payable for previous years.

Deferred taxation is provided using the balance sheet liability method, based on temporary differences. Temporary differences are differences between the carrying amount of assets and liabilities for financial reporting purposes and their taxation base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation rates enacted at the reporting date. Deferred taxation is charged to profit or loss, except to the extent that it relates to a transaction that is recognised directly in equity. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity.

A deferred taxation asset is recognised to the extent that it is probable that future taxable profit will be available, against which the unutilised taxation losses and deductible temporary differences can be used. Deferred taxation assets are reduced to the extent that it is no longer probable that the related taxation benefits will be realised.

1.9 Employee benefits

a Pension and retirement funds

The expected costs of post-retirement defined benefits are charged to profit or loss over the expected service life of the employees entitled to these benefits according to the projected unit credit method. Costs are actuarially assessed, and expense adjustments and past-service costs resulting from plan amendments are amortised over the expected average remaining service life of the employees.

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past-service costs. The defined benefit obligation is calculated triennially by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to profit or loss when they arise. Past-service costs are recognised immediately in administrative expenses, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

A defined contribution plan is a pension plan in terms of which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

b Post-retirement medical benefits

In terms of certain employment contracts, the Bank provides post-retirement medical benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions.

Entitlement to these benefits is based on employment prior to a certain date and is conditional on employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that used for defined benefit pension plans. Past-service costs, and actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as expenses or income in the current year to the extent that they relate to retired employees or past service.

For active employees, actuarial gains and losses arising from experience adjustments for, and changes in, actuarial assumptions are recognised in the current year. The liability is provided for in an actuarially determined provision.

1.10 Sale and repurchase agreements

The Bank has entered into repurchase agreements as part of its monetary policy activities. Securities purchased under agreements to resell are recorded under the heading "Accommodation to banks" as loans and receivables. Securities sold under agreement to repurchase are disclosed as repurchase agreements included in deposit accounts.

The underlying securities purchased under repurchase agreements are not recorded by the Bank. Likewise, underlying securities sold under repurchase agreements are not derecognised by the Bank.

The differences between the purchase and sale prices are treated as interest and accrued using the effective interest method.

1.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Redundant and slow-moving stocks are identified and written down to their estimated economic or realisable values. Raw materials are valued at cost according to the first-in, first-out basis by the subsidiaries. Some raw material is valued at standard cost, which closely approximates the actual cost on a first-in, first-out basis.

Consumable stores are valued at the weighted-average cost price.

Maintenance spares are valued at average cost.

Finished goods and work in progress are valued at direct costs of conversion and production overheads on a first-in, first-out basis. Production overheads are included in the cost of manufactured goods, based on normal operating capacity.

Note-printing and coin-minting expenses include ordering, printing, minting, freight, insurance and handling costs. These costs are recorded as part of work-in-progress stock for the South African Bank Note Company (Pty) Limited and the South African Mint Company (Pty) Limited, and are released to profit or loss when the currency is sold to the Bank.

1.12 Cash flow

For the purpose of the cash flow statement, cash and cash equivalents include cash on hand and bank overdrafts of the subsidiaries. As far as the Bank is concerned, no cash and cash equivalents are shown because of the Bank's role as a central bank in the creation of money.

1.13 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provision for leave pay and bonus

Employee entitlements to annual leave and long-service leave are recognised when they accrue to employees.

The provision for leave pay at the reporting date presents the present obligation to employees as a result of employees' services provided at the reporting date. The provision is measured as the amount that is expected to be paid as a result of the unutilised leave entitlement that has accumulated at the reporting date.

Provision for staff disability

A provision for staff disability was raised by the South African Bank Note Company (Pty) Limited to cover payments to disabled staff.

1.14 Revenue recognition

Interest income and expense are recognised on a time-proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity. Interest income and expense are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method. Where financial assets have been impaired, interest income continues to be recognised on the impaired value, based on the original effective interest rate. Interest income and expense include the amortisation of any discount or premium, or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

Dividends are recognised when the right to receive payment is established.

Other revenue arising from the provision of services to clients is recognised on the accrual basis in accordance with the substance of the relevant transaction.

1.15 Use of estimates

The preparation of financial statements requires the use of certain critical accounting estimates. These estimates are based on assumptions and judgements, which depend on available information.

Estimates have been made primarily in the following areas: residual values and the useful life of property, plant and equipment; provisions; and post-retirement benefits.

The estimates made have been disclosed in Notes 11, 20 and 23.

1.16 Changes in accounting policies and accounting estimates

Change in accounting policies

Changes in accounting policies are accounted for retrospectively by applying the new policies to transactions, other events and conditions, as if the new accounting policies had always been applied.

Changes in accounting estimates

Changes in accounting estimates are accounted for prospectively by recognising the effect of the change in accounting estimates in the current and future periods affected by the change.

2. Cash and cash equivalents

	Group		Bank	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Bank and cash balances	95 324	135 075	0	0

Owing to its role in the creation and withdrawal of money, the Bank has no cash balances in its statement of financial position. All other financial instruments maturing in less than three months are shown in the statement of financial position under appropriate headings.

3. Accommodation to banks

	Group		Bank	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Repurchase agreements	11 400 000	10 000 000	11 400 000	10 000 000
Application of cash reserve balances	15 763	293 180	15 763	293 180
Accrued interest	2 030	18 219	2 030	18 219
	11 417 793	10 311 399	11 417 793	10 311 399

The repurchase agreements yield interest at the repurchase rate of the Bank.

The following table presents details of collateral received:

Fair value of collateral received	11 488 537	10 131 799	11 488 537	10 131 799
Fair value of collateral permitted to sell or repledge at the reporting date	11 488 537	10 131 799	11 488 537	10 131 799
Fair value of collateral sold or repledged at the reporting date	0	0	0	0
Collateral cover	100,76%	101,13%	100,76%	101,13%
Maturity date	7 April 2010	1 April 2009	7 April 2010	1 April 2009

As at the reporting date, none of the collateralised advances was past due or impaired.

4. South African Government bonds

Listed bonds: Interest bearing	8 265 942	8 341 404	8 265 942	8 341 404
Accrued interest	95 627	95 626	95 627	95 626
	8 361 569	8 437 030	8 361 569	8 437 030
Effective interest rate	8,53%	8,33%	8,53%	8,33%

South African Government bonds that do not qualify for derecognition:

Listed bonds pledged	5 262 390	7 513 335	5 262 390	7 513 335
Associated liability	5 274 631	7 546 761	5 274 631	7 546 761

The Bank is exposed to interest rate risk on the listed South African Government bonds pledged as security. Government bonds are pledged as collateral for repurchase agreements. In terms of these transactions, legal ownership of the bonds is transferred to the counterparty. As a result, the counterparty has the ability to sell or repledge these bonds.

5. Loans and advances

Secured foreign loans	74 205	73 094	74 205	73 094

This loan facility, amounting to R75 million in total, expires on 31 December 2010 if not renegotiated. The following table presents details of collateral held:

Fair value of collateral received	81 856	81 682	81 856	81 682
Fair value of collateral permitted to sell or repledge in the absence of default	0	0	0	0
Fair value of collateral sold or repledged at the reporting date	0	0	0	0
Collateral cover	110,31%	111,75%	110,31%	111,75%
Maturity date	3 June 2010	4 June 2009	3 June 2010	4 June 2009

Land Bank bills have been pledged as collateral against the foreign loans. Legal ownership of these Land Bank bills has not transferred to the Bank. As a result, the Bank does not have the ability to sell or repledge these Land Bank bills. As the bills mature, they are replaced with new bills.

At the reporting date, none of the collateralised advances was past due or impaired.

6. Investment in and amounts due by/(to) subsidiaries

	Bank	
	2010	2009
	R'000	R'000
Investment in subsidiaries	279 000	279 000
Corporation for Public Deposits	2 000	2 000
South African Mint Company (Pty) Limited	206 000	206 000
South African Bank Note Company (Pty) Limited	61 000	61 000
South African Reserve Bank Captive Insurance Company Limited	10 000	10 000
Amounts due by subsidiaries	199 295	189 178
South African Bank Note Company (Pty) Limited: Loan	32 229	33 148
South African Bank Note Company (Pty) Limited: Current account	3 340	0
Corporation for Public Deposits: Current account	163 726	156 030
Amounts due to subsidiaries		
Corporation for Public Deposits: Call deposit	(10 817 463)	(1 996 398)
Net investment in subsidiaries	(10 339 168)	(1 528 220)

The loan to the South African Bank Note Company (Pty) Limited bears interest at the repurchase rate and is unsecured with no fixed repayment term.

The call deposit placed with the Bank by the Corporation for Public Deposits earns interest at South African money-market rates.

The subsidiaries are all wholly owned and incorporated in the Republic of South Africa.

7. Gold and foreign exchange

	Group		Bank	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Gold coin and bullion	32 772 365	35 175 108	32 772 365	35 175 108
Money- and capital-market instruments and deposits	82 756 316	100 872 771	82 756 316	100 872 771
Medium-term notes	149 278 750	146 032 392	149 278 750	146 032 392
Portfolio investments	42 692 613	40 259 361	42 692 613	40 259 361
Accrued interest	6 343	102 106	6 343	102 106
	307 506 387	322 441 738	307 506 387	322 441 738

Gold coin and bullion consists of 4 014 325 fine ounces of gold at the statutory price of R8 163,86 per ounce (2009: 4 012 339 fine ounces at R8 766,73 per ounce).

The foreign-exchange balances yield investment returns achievable in the various currencies in which they are invested. It is not practicable to calculate effective yields on the portfolios due to the volatility caused by exchange rate fluctuations.

Securities activities

The net effect of securities lending in which the Bank is engaged at the reporting date is included in the foreign-exchange balances above. The gross position is as follows:

Liability in respect of collateral received	(66 714 025)	(88 249 328)	(66 714 025)	(88 249 328)
Fair value of underlying investments	66 469 972	87 506 385	66 469 972	87 506 385
Net fair value adjustment included above	(244 053)	(742 943)	(244 053)	(742 943)

8. Inventories

	Group		Bank	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Raw materials	195 433	154 406	0	0
Work in progress	155 076	185 559	0	0
Consumable stores	29 195	21 324	10 725	5 955
Maintenance spares	9 297	9 610	0	0
Finished goods	35 208	23 455	0	0
	424 209	394 354	10 725	5 955

9. Investments

	Group 2010	Group 2009	Bank 2010	Bank 2009
Local registered bonds	6 397	0	0	0
Short-term South African money-market investments	5 341 112	8 100 260	0	0
Local equities	12 230	8 498	0	0
	5 359 739	8 108 758	0	0
Maturity structure				
Repayable within 30 days	5 341 112	8 100 260	0	0
Repayable in more than 12 months	6 397	0	0	0
	5 347 509	8 100 260	0	0

For investments that meet the definition of loans and advances designated at fair value:

	Group 2010	Group 2009	Bank 2010	Bank 2009
Maximum exposure to credit risk	5 341 112	8 100 260	0	0
Amount by which credit mitigation or derivatives offset credit risk	0	0	0	0
The cumulative change in fair value arising from changes in credit risk [1]	0	0	0	0
The cumulative change in fair value arising from changes in credit risk associated with mitigating instrument [2]	0	0	0	0

[1] Credit risk management is based on both the South African Reserve Bank Act, 1989 (Act No. 90 of 1989) and policies formulated by the Governors' Executive Committee (GEC), in terms of which counterparty limits and security arrangements are set. According to the Act, no uncollateralised loans may be made and investment funds may only be placed with institutions accredited with ratings of at least A- by Standard & Poor's. The change in fair value due to changes in credit quality or spreads is not material and has therefore not been disclosed separately.

[2] The investments have remaining maturities of less than one month. As a result, changes in fair value due to credit risk are regarded as immaterial.

10. Amounts due by the South African Government

	Group 2010	Group 2009	Bank 2010	Bank 2009
International Monetary Fund accounts administered on behalf of the South African Government	794 057	794 051	794 057	794 051
Government of Namibia debt taken over by the South African Government	62 446	130 922	62 446	130 922
Gross amount due	63 211	141 711	63 211	141 711
Impairment loss	(765)	(10 789)	(765)	(10 789)
Net amount due by the South African Government	856 503	924 973	856 503	924 973

No settlement terms have been agreed to in respect of the International Monetary Fund (IMF) balances administered on behalf of the South African Government. The amount is interest free. The Namibian debt taken over by the South African Government is being settled over the next year in terms of an agreement with the South African Government. The outstanding balance yields a return of 17 per cent per annum.

11. Property, plant and equipment

11.1 Group: 2010

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2009	39 895	531 861	1 809 632	97 831	2 479 219
Additions	0	2 785	52 289	194 642	249 716
Transfers in/(out)	0	843	154 641	(155 484)	0
Disposals	0	0	(16 708)	0	(16 708)
Cost at 31 March 2010	39 895	535 489	1 999 854	136 989	2 712 227
Accumulated depreciation					
Accumulated depreciation at 31 March 2009	0	197 026	912 875	0	1 109 901
Charge for the year	0	11 531	133 578	0	145 109
Disposals	0	0	(16 436)	0	(16 436)
Accumulated depreciation at 31 March 2010	0	208 557	1 030 017	0	1 238 574
Net book value at 31 March 2010	**39 895**	**326 932**	**969 837**	**136 989**	**1 473 653**
Estimated useful life (years)		50	5 to 15		
Insurance value of fixed assets (on a "future replacement basis" that takes into account the expected construction times).					8 737 340

Group: 2009

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2008	39 895	508 993	1 540 361	13 670	2 102 919
Additions	0	14 256	281 622	100 184	396 062
Transfers in/(out)	0	8 612	7 411	(16 023)	0
Disposals	0	0	(19 762)	0	(19 762)
Cost at 31 March 2009	39 895	531 861	1 809 632	97 831	2 479 219
Accumulated depreciation					
Accumulated depreciation at 31 March 2008	0	186 223	829 028	0	1 015 251
Charge for the year	0	10 803	103 099	0	113 902
Disposals	0	0	(19 252)	0	(19 252)
Accumulated depreciation at 31 March 2009	0	197 026	912 875	0	1 109 901
Net book value at 31 March 2009	39 895	334 835	896 757	97 831	1 369 318
Insurance value of fixed assets (on a "future replacement basis" that takes into account the expected construction times).					8 484 223

Registers containing details of land and buildings are available for inspection by members at the registered offices of the Bank and it's subsidiaries.

11.2 Bank: 2010

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2009	30 200	379 326	907 001	77 308	1 393 835
Additions	0	0	2 279	127 838	130 117
Transfers in/(out)	0	0	130 208	(130 208)	0
Disposals	0	0	(6 805)	0	(6 805)
Cost at 31 March 2010	30 200	379 326	1 032 683	74 938	1 517 147
Accumulated depreciation					
Accumulated depreciation at 31 March 2009	0	145 212	567 881	0	713 093
Charge for the year	0	8 230	71 945	0	80 175
Disposals	0	0	(6 538)	0	(6 538)
Accumulated depreciation at 31 March 2010	0	153 442	633 288	0	786 730
Net book value at 31 March 2010	30 200	225 884	399 395	74 938	730 417
Estimated useful life (years)		50	5 to 15		
Insurance value of fixed assets (on a "future replacement basis" that takes into account the expected construction times).					4 133 395

Bank: 2009

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2008	30 200	375 489	871 604	6 907	1 284 200
Additions	0	14	63 517	64 383	127 914
Transfers in/(out)	0	3 823	(9 841)	6 018	0
Disposals	0	0	(18 279)	0	(18 279)
Cost at 31 March 2009	30 200	379 326	907 001	77 308	1 393 835
Accumulated depreciation					
Accumulated depreciation at 31 March 2008	0	137 475	517 998	0	655 473
Charge for the year	0	7 737	67 677	0	75 414
Disposals	0	0	(17 794)	0	(17 794)
Accumulated depreciation at 31 March 2009	0	145 212	567 881	0	713 093
Net book value at 31 March 2009	30 200	234 114	339 120	77 308	680 742
Insurance value of fixed assets (on a "future replacement basis" that takes into account the expected construction times).					3 960 639

Registers containing details of land and buildings are available for inspection by members at the registered offices of the Bank.

12. Equity investment in Bank for International Settlements

	Group		Bank	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Unlisted shares at cost	291 269	369 732	291 269	369 732

The equity of the Bank for International Settlements (BIS) is held by central banks. The shares cannot be sold at the discretion of the South African Reserve Bank (the Bank). The shares are held by the Bank as part of its functions as a central bank and are thus of a long-standing nature. Under IAS 39 the Bank's shareholding in the BIS is classified as 'available-for-sale' for accounting purposes. The shareholding is valued at cost with movement in the foreign-exchange rate transferred directly to the Gold and Foreign Exchange Contingency Reserve Account. The net asset value of these shares is R2 773 million.

13. Deferred taxation assets and liabilities

Balance at the beginning of the year	174 038	161 351	233 076	215 855
Statement of comprehensive income credit (Note 26)	395 180	12 687	395 735	17 221
Balance at the end of the year	569 218	174 038	628 811	233 076
Comprising:				
Deferred taxation assets	714 670	312 137	675 635	277 030
Deferred taxation liabilities	(145 452)	(138 099)	(46 824)	(43 954)
Net deferred taxation assets	569 218	174 038	628 811	233 076

Deferred taxation assets and liabilities are attributed as set out in Notes 13.1 and 13.2.

13.1 Group

	2010 R'000	Credit/(debit) to statement of comprehensive income R'000	2009 R'000
Property, plant and equipment	(145 452)	(7 353)	(138 099)
Post-retirement medical benefits	296 784	38 811	257 973
Provisions	37 183	3 505	33 678
Deferred retirement fund contributions	2 731	(10 163)	12 894
Fair value adjustment to impaired assets	4 528	(1 562)	6 090
Prepaid expenditure and other items	2 752	2 748	4
Tax loss	370 692	369 194	1 498
Total	569 218	395 180	174 038

13.2 Bank

Property, plant and equipment	(46 824)	(2 870)	(43 954)
Deferred retirement fund contributions	1 636	(9 886)	11 522
Fair value adjustment to impaired assets	214	(2 807)	3 021
Post-retirement medical benefits	269 827	36 475	233 352
Provisions	32 997	4 145	28 852
Prepaid expenditure and other items	279	(4)	283
Tax loss	370 682	370 682	0
Total	628 811	395 735	233 076

14. Forward exchange contract assets and liabilities

	Group		Bank	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Unrealised gain on forward exchange contracts	2 532	0	1 877	0
Unrealised loss on forward exchange contracts	(15 314)	(11 790)	(38)	0
Net (loss)/gain	(12 782)	(11 790)	1 839	0
Net gain credited to Gold and Foreign Exchange Contingency Reserve Account (Note 21)*	1 839	0	1 839	0
Net (loss debited)/gain credited to profit or loss	(14 621)	(11 790)	0	0

* These amounts represent unrealised gains and losses on forward exchange contracts, which will be for the account of government as and when they are realised.

15. Other assets

Financial assets	256 022	357 122	200 307	250 766
Non-financial assets	139 868	120 660	133 228	120 660
	395 890	477 782	333 535	371 426
Maturity structure of financial assets				
Repayable within 30 days	226 356	357 122	200 307	250 766

16. Deposit accounts

Non-interest bearing	75 986 451	51 277 570	75 728 780	51 250 214
Banks' reserve accounts	55 696 075	47 857 029	55 696 075	47 857 029
Government accounts	20 219 555	3 349 409	19 961 884	3 322 053
Other current accounts	70 821	71 132	70 821	71 132
Interest bearing	87 665 875	83 706 406	72 483 036	74 353 212
Repurchase agreements	5 274 631	7 546 761	5 274 631	7 546 761
Government special deposit	67 157 404	65 813 676	67 157 404	65 813 676
Margin calls: Repurchase transactions	51 001	104 555	51 001	104 555
Call deposits	15 182 839	10 241 414	0	888 220
	163 652 326	134 983 976	148 211 816	125 603 426
Maturity structure of deposit accounts				
Repayable on demand	35 473 215	13 661 955	20 032 705	4 281 405
Repayment terms subject to negotiation with National Treasury	67 157 404	65 813 676	67 157 404	65 813 676
Repayable within 30 days	61 021 707	55 508 345	61 021 707	55 508 345
	163 652 326	134 983 976	148 211 816	125 603 426

The repurchase agreements are secured by South African Government bonds as follows:

Market value	5 262 390	7 513 335	5 262 390	7 513 335
Collateral cover (per cent)	99,77	99,56	99,77	99,56

The repurchase agreements bear interest at market-related rates at or below the repurchase rate of the Bank.

Government's special deposit bears interest at a rate equivalent to the return earned on foreign-exchange investments made by the Bank.

17. South African Reserve Bank debentures

	Group		Bank	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Capital	22 074 000	27 944 000	22 074 000	27 944 000
Accrued interest	93 307	165 144	93 307	165 144
	22 167 307	28 109 144	22 167 307	28 109 144

The SARB debentures are issued to the market on tender normally on a 28- or 56-day term. The debentures are unsecured. Details of the debentures in issue at 31 March 2010 are as follows:

Maturity date	Interest rate (Per cent)	Capital (R'000)
7 April 2010	6,99	2 854 000
7 April 2010	6,99	1 375 000
14 April 2010	6,99	4 885 000
14 April 2010	7,00	3 365 000
21 April 2010	7,00	1 855 000
21 April 2010	6,96	810 000
28 April 2010	6,49	955 000
28 April 2010	6,98	2 005 000
5 May 2010	7,00	405 000
12 May 2010	6,96	115 000
19 May 2010	7,00	2 945 000
26 May 2010	6,49	505 000
		22 074 000

18. Foreign loans and deposits

	27 324 181	6 201 166	27 324 181	6 201 166

Foreign loans represent unsecured credit lines utilised and bear interest at market-related rates. Foreign deposits are overnight deposits placed by customers at market-related rates.

Analyses of the currency composition and maturity structure of these loans are set out in Note 30.

19. Notes and coin in circulation

Notes	71 718 139	65 405 039	71 718 139	65 405 039
Coin	3 870 100	3 574 446	3 870 100	3 574 446
	75 588 239	68 979 485	75 588 239	68 979 485

The liability for notes and coin issued is the net liability after offsetting notes and coin held by the South African Reserve Bank as cash on hand because cash held by the central bank does not represent currency in circulation.

20. Provisions

Group	Penalties	Provident fund contributions	Leave pay and bonus	Staff disability	Total
	R'000	R'000	R'000	R'000	R'000
Balance at 1 April 2008	0	460	97 636	2 100	100 196
Increase in provision	154	0	37 298	2 800	40 252
Utilised during the year	0	(460)	(19 716)	0	(20 176)
Balance at 31 March 2009	154	0	115 218	4 900	120 272
Increase in provision	0	0	37 037	0	37 037
Utilised during the year	(154)	0	(19 289)	(990)	(20 433)
Balance at 31 March 2010	0	0	132 966	3 910	136 876
Bank					
Balance at 1 April 2008			88 025	0	88 025
Increase in provision			23 370	0	23 370
Utilised during the year			(8 352)	0	(8 352)
Balance at 31 March 2009			103 043	0	103 043
Increase in provision			23 469	0	23 469
Utilised during the year			(8 668)	0	(8 668)
Balance at 31 March 2010			117 844	0	117 844

21. Gold and Foreign Exchange Contingency Reserve Account

	Group		Bank	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Opening balance	101 584 718	72 189 474	101 584 718	72 189 474
(Loss)/Profit on gold price adjustment account	(2 424 670)	4 747 929	(2 424 670)	4 747 929
Profit/(Loss) on forward exchange contract adjustment account	3 279 269	(135 441)	3 279 269	(135 441)
(Loss)/Profit on foreign exchange adjustment account	(66 996 090)	24 480 718	(66 996 090)	24 480 718
Movement in unrealised gains and losses on forward exchange contracts	1 839	(3 690)	1 839	(3 690)
	35 445 066	101 278 990	35 445 066	101 278 990
Net payments	172 744	305 728	172 744	305 728
Amount due to government	35 617 810	101 584 718	35 617 810	101 584 718
Balance composition				
Balance currently due to government	35 615 971	101 584 718	35 615 971	101 584 718
Unrealised gains and losses on forward exchange contracts (Note 14)	1 839	0	1 839	0
	35 617 810	101 584 718	35 617 810	101 584 718

The Gold and Foreign Exchange Contingency Reserve Account, which is operated in terms of section 28 of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), represents net revaluation profits and losses incurred on gold and foreign-exchange transactions, which are for the account of the South African Government. Settlement of this account is subject to agreement, from time to time, between the Bank and government. The current arrangement is that only transactions that have affected liquidity in the South African money market will be settled. The remainder of the transactions are in respect of the revaluation of gold and foreign exchange, and do not represent cash flow. In terms of this agreement, the balance to be settled by government in respect of the financial year amounts to R168,8 million (2009: R172,7 million).

22. Other financial liabilities

	Group		Bank	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Accounts payable and sundry balances	301 049	437 911	106 465	102 691

23. Retirement benefit information

Retirement funds

The group has made provision for pension and provident plans substantially covering all employees. With the exception of three individuals, all employees are members of defined contribution plans administered by the group or are members of funds within the various industries in which they are employed. The assets of these plans are held in administered trust funds separate from the group's assets and the funds are governed by the Pension Funds Act, 1956 (Act No. 24 of 1956).

The Bank also has a defined benefit fund, which has been closed to new members since 1 July 1995. The fund currently has three active members and 460 pensioners. Contributions to the defined benefit pension fund are charged to profit or loss based on actuarial advice. The benefits provided are based on the years of membership and salary levels. These benefits are provided from contributions made by employees and the employer, as well as income from the assets of the plan. Current contribution levels are considered to be adequate to meet future obligations. The actuarial risk in respect of current pension commitments has been fully transferred to Sanlam through an insurance policy. In view of the transfer of the pension liability to Sanlam and the insignificant number of active members, no further financial disclosures are deemed necessary in respect of the defined benefit fund, as required by IAS 19 (AC 116). The last actuarial valuation of the fund was performed as at 31 March 2008, at which date it was determined to be fully funded.

Post-retirement medical benefits

The Bank and a subsidiary provide post-retirement benefits to retired staff in the form of subsidised medical aid premiums. A provision for the liability has been created. The provision covers the total liability, that is, the accumulated post-retirement medical benefit liability at fair value as at 31 March 2010.

Net liability at the beginning of the year	921 333	804 951	833 400	733 332
Annual cost				
Interest cost	80 584	71 590	72 962	64 652
Service cost	27 361	25 145	24 554	22 795
Actuarial losses	68 689	51 461	68 642	42 568
Net cost	176 634	148 196	166 158	130 015
Total benefit payments	(38 026)	(31 814)	(35 893)	(29 947)
Net liability at the end of the year	1 059 941	921 333	963 665	833 400

Key assumptions	2010 (Per cent)	2009 (Per cent)
Discount rate	9,25	9,00
Medical inflation	7,00	6,75
Net discount rate	2,10	1,63
Valuation date	31 March 2010	31 March 2009

Post-retirement medical benefits (continued)

The effect of a 1 per cent increase and decrease in the health-care cost inflation rate is as follows:

	1% decrease	Valuation basis	1% increase
Group			
Employer's accrued liability	938 579	1 059 941	1 214 314
Employer's service and interest cost	99 902	107 945	157 307
Bank			
Employer's accrued liability	833 568	963 665	1 125 735
Employer's service and interest cost	98 208	97 516	139 181

24. Share capital

	Group		Bank	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Authorised and issued				
2 000 000 shares (2009: 2000 000 shares) of R1 each	2 000	2 000	2 000	2 000

These shares qualify for a maximum dividend of 10 cents per share per annum.

25. Profit before taxation

25.1 Total income is stated after crediting

	Group		Bank	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Income from investments	31 777	24 851	27 990	28 035
Dividends	28 189	28 366	27 990	28 035
Realised and unrealised profit/(loss) on investments	3 588	(3 515)	0	0
Income from subsidiaries			13 765	19 838
Dividends			200	200
Interest			12 593	18 734
Administration fees			972	904
Realised gains on available-for-sale financial assets	0	64 270	0	64 270
Fair value adjustments to financial instruments	3 001	3 943	0	0
Fair value adjustments to forward exchange contracts	655	0	0	0
Commission on banking services	298 595	273 891	298 595	273 891

25.2 Operating costs include

	Group 2010 R'000	Group 2009 R'000	Bank 2010 R'000	Bank 2009 R'000
Directors' remuneration (Note 31)			18 165	12 804
From the Bank for services as directors			2 584	2 487
From the Bank for other services			15 581	10 317
Depreciation	145 109	113 902	80 175	75 414
Buildings	11 531	10 803	8 230	7 737
Plant, vehicles, furniture and equipment	133 578	103 099	71 945	67 677
Net loss on disposal of:	36	223	232	197
Land	0	0	0	0
Buildings	0	0	0	0
Plant, vehicles, furniture and equipment	36	223	232	197
Auditors' remuneration	8 966	7 618	6 174	5 550
Audit fees	7 206	7 210	5 069	5 550
Underprovision for previous year	655	408	0	0
Fees for other services	1 105	0	1 105	0
Consulting fees	70 398	55 035	63 667	50 532
Net transfers to provisions	16 604	20 076	14 801	15 018
Provision for leave pay and bonuses	17 748	17 582	14 801	15 018
Provision for staff disability and penalties	(1 144)	2 954	0	0
Provision for provident fund contributions	0	(460)	0	0
Retirement benefit costs	287 751	257 934	250 895	218 322
Normal contributions to funds	101 409	86 024	86 467	74 151
Additional contributions to funds	20	16 425	20	16 425
Provision for post-retirement medical benefits	138 608	116 382	130 265	100 068
Medical aid premiums paid	47 714	39 103	34 143	27 678
Remuneration and recurring staff costs	1 069 027	908 202	858 291	728 545
Cost of new currency	136 048	113 706	1 118 217	922 479
Other operating costs	1 064 666	1 008 531	253 921	214 142

26. Taxation

	Group		Bank	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
South African normal taxation				
Current taxation	42 295	386 697	(7 744)	373 120
Adjustment in respect of prior year	(229)	832	(229)	1 478
Deferred taxation	(395 180)	(12 687)	(395 735)	(17 221)
Current year timing differences	(395 180)	(12 666)	(395 735)	(17 221)
Adjustment in respect of prior year	0	(21)	0	0
	(353 114)	374 842	(403 708)	357 377
Reconciliation of taxation rate				
South African normal taxation rate	28,00%	28,00%	28,00%	28,00%
Adjusted for:				
Disallowable expenses	(0,91%)	0,55%	(0,72%)	0,61%
Exempt income and special deductions	1,53%	(1,67%)	0,53%	0,00%
Adjustment in respect of prior years	0,02%	0,06%	0,02%	0,12%
Effective taxation rate	28,64%	26,94%	27,83%	28,73%

The negative current taxation for the Bank represents a reversal of tax provided on the revaluation of available-for-sale financial assets, which is not payable due to a tax loss incurred for the year.

27. Dividend per share (cents)

	Group 2010	Group 2009	Bank 2010	Bank 2009
27. Dividend per share (cents)	10	10	10	10
Dividends were paid as follows:				
Final dividend of 5 cents per share for the 2009 financial year	100	100	100	100
Interim dividend of 5 cents per share for the 2010 financial year	100	100	100	100
	200	200	200	200

Earnings per share have not been calculated because the shares qualify for a maximum dividend of 10 cents per share per annum in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989).

28. Cash (utilised by)/generated from operating activities

	Group		Bank	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Reconciliation of (loss)/profit before taxation to cash (utilised by)/generated from operating activities:				
(Loss)/profit before taxation for the year	(1 233 156)	1 391 161	(1 450 373)	1 243 999
Adjustments for:				
Depreciation	145 109	113 902	80 175	75 414
Net loss/(profit) on disposal of fixed assets	36	223	232	197
Unrealised foreign-exchange loss/(profit)	3 189	15 070	0	0
Notional interest on interest-free loan	(10 023)	(19 973)	(10 023)	(19 973)
Fair value adjustments to financial instruments	(3 001)	3 943	0	0
Fair value adjustments to forward exchange contracts	(655)	0	0	0
Provisions	16 604	20 076	14 801	15 018
Post-retirement medical benefits	138 608	116 382	130 265	100 068
Realised gain on available-for-sale financial assets	0	(64 270)	0	(64 270)
Net cash (utilised by)/generated from operating activities	(943 289)	1 576 514	(1 234 923)	1 350 453
Changes in working capital				
Accommodation to banks	(1 106 394)	624 045	(1 106 394)	624 045
Loans and advances	(1 111)	(835)	(1 111)	(835)
Amounts due by subsidiaries	0	0	(10 117)	(19 148)
Gold and foreign exchange	14 935 351	(44 554 020)	14 935 351	(44 554 020)
Inventories	(29 855)	(19 021)	(4 770)	385
Amounts due by the South African Government	78 493	79 019	78 493	79 019
Gold and Foreign Exchange Contingency Reserve Account	(65 968 747)	29 398 934	(65 968 747)	29 398 934
Equity investment in Bank for International Settlements	78 463	(21 319)	78 463	(21 319)
Other assets	82 201	5 574	37 891	12 347
Deposit accounts	28 668 350	3 705 702	22 608 390	7 123 124
Amounts due to subsidiaries	0	0	8 821 065	(4 775 561)
South African Reserve Bank debentures	(5 941 837)	11 180 410	(5 941 837)	11 180 410
Foreign loans and deposits	21 123 015	(5 110 356)	21 123 015	(5 110 356)
Notes and coin in circulation	6 608 754	5 607 514	6 608 754	5 607 514
Other financial liabilities	(49 473)	58 303	42 854	(28 842)
Cash (utilised by)/generated from changes in working capital	(1 522 790)	953 950	1 301 300	(484 303)
Cash (utilised by)/generated from operating activities	(2 466 079)	2 530 464	66 377	866 150

29. Capital commitments

Contracted	91 119	153 258	26 655	47 840
Not contracted	651 166	302 456	322 337	207 634
Total	742 285	455 714	348 992	255 474

These capital commitments are in respect of property, plant and equipment and will be funded from internal resources.

30. Risk management in respect of financial instruments

The policies and procedures of the Bank regarding risk management are dealt with in the section on risk management, which appears on pages 34 and 35. Certain aspects of risk management specific to financial instruments are described in more detail below.

Interest rate risk

With the exception of South African Government bonds and amounts due by the South African Government, the rand-denominated financial assets and liabilities of the Bank respectively earn and bear interest at rates linked to South African money-market rates. The level of these rates is closely linked to the Bank's repo rate, which is set by the Monetary Policy Committee (MPC). The repricing of these assets and liabilities therefore occurs at approximately the same time as changes to the repo rate are announced by the MPC.

The Bank is exposed to interest-rate risk in respect of certain foreign investments. The risk tolerance and return expectations in respect of these financial instruments are embodied in the risk budget approved by the Governors' Executive Committee (GEC).

Market price risk

Market price risk is the risk of loss resulting from changes in market conditions and prices. In its monetary policy operations, the Bank is obliged to accept certain market-related risks that would not be fully compatible with pure commercial practice. The Bank nevertheless manages its market risks responsibly, utilising modern technology and appropriate organisational structures and procedures. Exposures and limits are measured continuously and strategies are routinely reviewed by management on a daily basis and, when circumstances require, throughout the day.

Assets used as collateral and those that constitute the Monetary Policy Portfolio are subject to a daily mark-to-market valuation. In order to protect the Bank against credit and market risks, participants in the repurchase transactions have to provide securities representing market values in excess of the exposures ("haircut valuations"). This means that the value of the securities divided by an appropriate ratio, as set out by the Bank must at least be equal to the total repurchase price. Treasury bills and South African Reserve Bank (SARB) debentures are valued at the most recent auction's discount rates.

The Bank is exposed to market price risk in respect of investments in bonds denominated in US dollar, pound sterling and euro. The Bank's exposure to market price risk is largely limited by the fact that gold and foreign exchange price risks are for the account of the South African Government in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989).

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations. Credit risk arises from activities of the Bank such as advances to, and deposits made with, other institutions and the settlement of financial markets transactions.

Credit risk with respect to monetary policy operations is sufficiently mitigated, since all repurchase transactions are fully collateralised. Furthermore, in terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), no unsecured lending is allowed. The list of eligible securities is split between Category 1 and Category 2 instruments in terms of the Operational Notice. Category 1 assets consist of rand-denominated South African Government bonds, Treasury bills, SARB debentures and Land Bank bills. Category 2 securities consist of a selection of bonds included in the All-Bond Index, as determined by the BESA and are published on the website of the Bank. Furthermore, operations in the foreign-exchange market can only be conducted with Authorised Dealers.

The minimum counterparty credit rating for placing deposits and investing in government bonds is 'A' by Standard & Poor's or its Moody's or Fitch's rating equivalents, while the minimum rating for investments in corporate bonds is 'AA-'.

Certain investment securities' ratings were below 'A' at year-end due to downgrading of instruments/institutions by the rating agencies as well as owing to the tightening of investment guidelines by the Bank, which resulted in passive breaches on some of the financial assets in the Bank's portfolios. Such securities have been retained in the portfolio because they are relatively close to maturity and the risk of default is deemed low.

Concentration analysis

	Group		Bank	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000
Assets				
South African rand	29 253 454	30 807 213	23 041 215	21 800 032
Gold	32 772 365	35 175 108	32 772 365	35 175 108
United States dollar	168 808 875	198 958 309	168 796 812	198 958 309
Euro	54 766 282	58 319 097	54 737 869	58 319 097
Pound sterling	31 556 085	26 421 295	31 556 085	26 421 295
Other	19 934 525	3 787 754	19 934 525	3 787 754
	337 091 586	353 468 776	330 838 871	344 461 595
Liabilities				
South African rand	298 650 921	335 275 359	293 637 471	327 356 680
United States dollar	27 331 513	4 370 625	27 324 181	4 370 625
Euro	15 211	1 591 580	0	1 579 790
Other	10 850	250 330	0	250 330
	326 008 495	341 487 894	320 961 652	333 557 425

Liquidity risk

Liquidity risk is the risk that an entity may not be able to accommodate decreases in liabilities or fund increases in assets in full at the time that a commitment or transaction is due for settlement. In the case of the Bank, this risk is not relevant to domestic assets and liabilities because of the Bank's ability to create rands when required. However, the Bank does face liquidity risk in respect of foreign assets and liabilities.

The Bank manages its foreign liquidity risks through appropriate structuring of its foreign investment portfolios to ensure that the maturity profiles of foreign assets adequately match those of foreign commitments. This is monitored and managed on a daily basis. In addition, the Bank's foreign investment portfolio comprises mainly short-term, highly liquid investment instruments.

The table on page 92 analyses the financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to contractual maturity date.

Liabilities (R'000)	Up to 1 month	1 to 3 months	4 to 6 months	6 to 12 months	More than 1 year	Total
Group						
31 March 2010						
Deposit accounts	163 652 326	0	0	0	0	163 652 326
South African Reserve Bank debentures	18 197 307	3 970 000	0	0	0	22 167 307
Foreign loans and deposits[1]	24 756 931	0	2 567 250	0	0	27 324 181
Notes and coin in circulation	75 588 239	0	0	0	0	75 588 239
Gold and Foreign Exchange Contingency Reserve Account	35 617 810	0	0	0	0	35 617 810
Forward exchange contract liabilities [2]	2 061	3 117	6 653	3 483	0	15 314
Other financial liabilities	301 049	0	0	0	0	301 049
Total financial liabilities	318 115 723	3 973 117	2 573 903	3 483	0	324 666 226
Group						
31 March 2009						
Deposit accounts	134 983 976	0	0	0	0	134 983 976
South African Reserve Bank debentures	21 195 000	6 914 144	0	0	0	28 109 144
Foreign loans and deposits [1]	6 201 166	0	0	0	0	6 201 166
Notes and coin in circulation	68 979 485	0	0	0	0	68 979 485
Gold and Foreign Exchange Contingency Reserve Account	101 584 718	0	0	0	0	101 584 718
Forward exchange contract liabilities [2]	11 790	0	0	0	0	11 790
Other financial liabilities	437 911	0	0	0	0	437 911
Total financial liabilities	333 394 046	6 914 144	0	0	0	340 308 190

[1] Amounts reflected at fair value. Undiscounted cash flows approximate fair value due to the short-term nature of instruments.
[2] Derivative instruments are reflected at fair value in the shortest maturity bucket.

Liabilities (R'000)	Up to 1 month	1 to 3 months	4 to 6 months	6 to 12 months	More than 1 year	Total
Bank						
31 March 2010						
Deposit accounts	148 211 816	0	0	0	0	148 211 816
Amounts due to subsidiaries	10 817 463	0	0	0	0	10 817 463
South African Reserve Bank debentures	18 197 307	3 970 000	0	0	0	22 167 307
Foreign loans and deposits [1]	24 756 931	0	2 567 250	0	0	27 324 181
Notes and coin in circulation	75 588 239	0	0	0	0	75 588 239
Gold and Foreign Exchange Contingency Reserve Account	35 617 810	0	0	0	0	35 617 810
Forward exchange contract liabilities [2]	38	0	0	0	0	38
Other financial liabilities	106 465	0	0	0	0	106 465
Total financial liabilities	313 296 069	3 970 000	2 567 250	0	0	319 833 319
Bank						
31 March 2009						
Deposit accounts	125 603 426	0	0	0	0	125 603 426
Amounts due to subsidiaries	1 996 398	0	0	0	0	1 996 398
South African Reserve Bank debentures	21 195 000	6 914 144	0	0	0	28 109 144
Foreign loans and deposits [1]	6 201 166	0	0	0	0	6 201 166
Notes and coin in circulation	68 979 485	0	0	0	0	68 979 485
Gold and Foreign Exchange Contingency Reserve Account	101 584 718	0	0	0	0	101 584 718
Forward exchange contract liabilities [2]	0	0	0	0	0	0
Other financial liabilities	102 691	0	0	0	0	102 691
Total financial liabilities	325 662 884	6 914 144	0	0	0	332 577 028

[1] Amounts reflected at fair value. Undiscounted cash flows approximate fair value due to the short-term nature of instruments.
[2] Derivative instruments are reflected at fair value in the shortest maturity bucket.

Foreign-exchange operations

The framework of control regarding market operations in foreign exchange, that is in both spot and forward foreign exchange as well as gold transactions, is rigorous. Trading limits exist for these instruments and compliance is monitored and reported daily. In terms of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), all profits or losses on the gold price, foreign-exchange adjustments on assets and liabilities and on any current or future forward exchange contract shall be for the account of the South African Government.

Settlement risk

Settlement risk (i.e., the risk that the counterparty may not be able to complete a transaction) is mitigated in a number of ways. The Bank will only transfer the funds after sufficient collateral has been secured.

For outright transactions in securities, settlement risk is eliminated through the use of systems that are based on delivery versus payment, that is, the simultaneous exchange of securities and cash. In addition to restricting foreign-exchange transactions to highly rated counterparties, a transaction limit is imposed on the total value of foreign currency transactions settling with counterparty on a given day. Furthermore, the Bank is a participant in Continuous Link Settlement (CLS), a clearing house that eliminates settlement risk in foreign exchange, allowing payment versus payment in a number of major currencies. It eliminates 'temporal' settlement risk, making same-day settlement both possible and final.

Financial risk reporting in the Bank

Risk reporting is a formalised and clearly defined process within the Bank. A monthly risk report is compiled and distributed to senior management of the Bank, (e.g., Deputy Governor, Chief Internal Auditor, Chief Financial Officer). A quarterly risk management report, which focuses on the management of risks relating to foreign-exchange reserves, is distributed to the Reserves Management Committee and the Governors' Executive Committee (GEC). Moreover, a quarterly financial risk report is compiled and distributed to members of the Bank's Risk Management Committee. The objective of these risk reports is to inform management of financial risk exposures that confront the Bank, their possible impact on the key functions of the Bank, and how such risks are managed. The report, furthermore, attempts to highlight future risks that might adversely impact on the activities of the Bank. In line with international best practice, key risk types discussed in the reports are market, credit and operational risk in relation to market, monetary policy implementation and reserves management investment operations.

31. Related party information

Transactions between the Bank and its subsidiaries, which are related parties to the Bank, have been eliminated on consolidation. The following transactions took place between these entities:

	2010 R'000	2009 R'000
Interest received	12 593	18 734
Interest paid	513 832	860 172
Insurance premiums paid	10 893	10 395
Rent paid	2 187	1 900
Management fees received	972	904
Cost of currency	980 418	808 773

The Bank, as a state organisation, could be regarded as related to other state corporations. However, the only transactions that the Bank has with such related entities are on purely commercial terms.

The Bank provides banking services to the National Treasury. This is in line with central banking practice in many countries across the globe. Certain terms and conditions of transactions with the South African Government for the purpose of assisting the Bank in improving the performance of its core business have not been disclosed.

The executive directors of the Bank are regarded as being key management personnel, because they are involved in all key management decisions. Remuneration of the directors was as follows:

	2010	2009
	R'000	R'000
Executive directors: Remuneration for other services		
T T Mboweni (1 April 2009 to 8 November 2009)		
Remuneration and recurring fringe benefits	2 433	4 019
Other fringe benefits, which included encashment of leave in the year to 31 March 2009	33	315
Payments during cooling-off period up to 31 March 2010	2 624	0
Payments after 31 March 2010 amounted to R1 896 111. The cooling-off period ended on 8 May 2010.		
	5 090	4 334
G Marcus (9 November 2009 to 31 March 2010)		
Remuneration and recurring fringe benefits	1 738	0
Other fringe benefits	0	0
	1 738	0
X P Guma		
Remuneration and recurring fringe benefits	3 023	2 924
Other fringe benefits	31	17
	3 054	2 941
R D Mokate		
Remuneration and recurring fringe benefits	3 043	2 944
Other fringe benefits, including study aid for dependants	308	98
	3 351	3 042
A D Mminele (1 July 2009 to 31 March 2010)		
Remuneration and recurring fringe benefits	2 312	0
Other fringe benefits	36	0
	2 348	0
Total remuneration of executive directors	15 581	10 317
Non-executive directors: For services rendered as directors		
D Konar	281	342
N D Orleyn	293	298
F Jakoet	280	246
Z P Manase	281	260
S M Goodson	276	271
R W K Parsons	235	207
F E Groepe	207	187
T N Mgoduso	239	238
J F van der Merwe	274	231
E Masilela	218	207
	2 584	2 487
Paid by subsidiaries		
Non-executive directors: For services rendered as directors		
F Jakoet	301	312
E Masilela	218	5
R W K Parsons (22 May 2009 to 31 March 2010)	107	0
	626	317

The increase in the remuneration to executive directors is mainly due to an interim average annual increase of 3,5 per cent during the 2009/10 financial year, the appointment of A D Mminele in a vacant position and payments in respect of a cooling-off period to T T Mboweni. The interim adjustment was followed by an additional backdated adjustment after financial year-end to give an effective annual increase of 6,5 per cent for the 2009/10 financial year.

32. Segment reporting

Owing to the integrated nature of the activities of the Bank and its subsidiaries, the presentation of segmental information is not considered informative.

33. Gains and losses per category of financial assets and financial liabilities

	Total	Held-for-trading R'000	Designated at fair value R'000	Available-for-sale R'000	Loans and receivables R'000	Other liabilities R'000
Group 31 March 2010						
Interest income	6 137 194		4 394 391	709 404	1 033 399	
Interest expense	(5 228 566)					(5 228 566)
Dividend income	28 189		199	27 990		
Operating income	628 632	628 632				
Bond revaluation reserve	27 658			27 658		
Group 31 March 2009						
Interest income	11 330 277		8 041 625	743 291	2 545 361	
Interest expense	(8 076 497)					(8 076 497)
Dividend income	28 366		331	28 035		
Operating income	594 242	529 972		64 270		
Bond revaluation reserve	275 675			275 675		
Bank 31 March 2010						
Interest income	5 154 475		3 654 610	709 404	790 461	
Interest expense	(4 316 795)					(4 316 795)
Dividend income	28 190		200	27 990		
Operating income	348 295	348 295				
Bond revaluation reserve	27 658			27 658		
Bank 31 March 2009						
Interest income	10 244 757		8 041 625	743 291	1 459 841	
Interest expense	(7 139 102)					(7 139 102)
Dividend income	28 235		200	28 035		
Operating income	353 112	288 842		64 270		
Bond revaluation reserve	275 675			275 675		

34. Classification of financial assets and liabilities

	Total	Held-for-trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available-for-sale R'000	Other liabilities R'000	Fair value[1] R'000
Group							
31 March 2010							
Financial assets							
Cash and cash equivalents	95 324			95 324			95 324
Accommodation to banks	11 417 793			11 417 793			11 417 793
South African Government bonds	8 361 569				8 361 569		
Loans and advances	74 205			74 205			74 205
Gold and foreign exchange	307 506 387		307 506 387				
Investments	5 359 739		5 359 739				
Amounts due by the South African Government [2]	856 503			856 503			856 503
Equity investment in Bank for International Settlements	291 269				291 269		
Forward exchange contract assets	2 532	2 532					
Other assets	256 022			256 022			256 022
Financial liabilities							
Deposit accounts [3]	163 652 326					163 652 326	163 652 326
South African Reserve Bank debentures	22 167 307					22 167 307	22 167 307
Foreign loans and deposits	27 324 181					27 324 181	27 324 181
Notes and coin in circulation	75 588 239					75 588 239	75 588 239
Gold and Foreign Exchange Contingency Reserve Account	35 617 810					35 617 810	35 617 810
Forward exchange contract liabilities	15 314	15 314					
Other financial liabilities	301 049					301 049	301 049

(1) Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
(2) Included in the amount above are International Monetary Fund accounts administered on behalf of the South African Government. The amount is interest free and no settlement terms have been agreed.
(3) Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

34. Classification of financial assets and liabilities (continued)

	Total	Held-for-trading	Designated at fair value	Loans and receivables	Available-for-sale	Other liabilities	Fair value[1]
		R'000	R'000	R'000	R'000	R'000	R'000
Group							
31 March 2009							
Financial assets							
Cash and cash equivalents	135 075			135 075			135 075
Accommodation to banks	10 311 399			10 311 399			10 311 399
South African Government bonds	8 437 030				8 437 030		
Loans and advances	73 094			73 094			73 094
Gold and foreign exchange	322 441 738		322 441 738				
Investments	8 108 758		8 108 758				
Amounts due by the South African Government [2]	924 973			924 973			924 973
Equity investment in Bank for International Settlements	369 732				369 732		
Other assets	357 122			357 122			357 122
Financial liabilities							
Deposit accounts [3]	134 983 976					134 983 976	134 983 976
South African Reserve Bank debentures	28 109 144					28 109 144	28 109 144
Foreign loans and deposits	6 201 166					6 201 166	6 201 166
Notes and coin in circulation	68 979 485					68 979 485	68 979 485
Gold and Foreign Exchange Contingency Reserve Account	101 584 718					101 584 718	101 584 718
Forward exchange contract liabilities	11 790	11 790					
Other financial liabilities	437 911					437 911	437 911

[1] Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
[2] Included in the amount above are International Monetary Fund accounts administered on behalf of the South African Government. The amount is interest free and no settlement terms have been agreed.
[3] Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

34. Classification of financial assets and liabilities (continued)

	Total	Held-for-trading	Designated at fair value	Loans and receivables	Available-for-sale	Other liabilities	Fair value[(1)]
		R'000	R'000	R'000	R'000	R'000	R'000
Bank							
31 March 2010							
Financial assets							
Accommodation to banks	11 417 793			11 417 793			11 417 793
South African Government bonds	8 361 569				8 361 569		
Loans and advances	74 205			74 205			74 205
Amounts due to subsidiaries	199 295			199 295			199 295
Gold and foreign exchange	307 506 387		307 506 387				
Amounts due by the South African Government [(2)]	856 503			856 503			856 503
Equity investment in Bank for International Settlements	291 269				291 269		
Forward exchange contract assets	1 877	1 877					
Other financial assets	200 307			200 307			200 307
Financial liabilities							
Deposit accounts [(3)]	148 211 816					148 211 816	148 211 816
Amounts due to subsidiaries	10 817 463					10 817 463	10 817 463
South African Reserve Bank debentures	22 167 307					22 167 307	22 167 307
Foreign loans and deposits	27 324 181					27 324 181	27 324 181
Notes and coin in circulation	75 588 239					75 588 239	75 588 239
Gold and Foreign Exchange Contingency Reserve Account	35 617 810					35 617 810	35 617 810
Forward exchange contract liabilities	38	38					
Other financial liabilities	106 465					106 465	106 465

[(1)] Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
[(2)] Included in the amount above are International Monetary Fund accounts administered on behalf of the South African Government. The amount is interest free and no settlement terms have been agreed.
[(3)] Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

34. Classification of financial assets and liabilities (continued)

	Total	Held-for-trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available-for-sale R'000	Other liabilities R'000	Fair value[1] R'000
Bank							
31 March 2009							
Financial assets							
Accommodation to banks	10 311 399			10 311 399			10 311 399
South African Government bonds	8 437 030				8 437 030		
Loans and advances	73 094			73 094			73 094
Amounts due to subsidiaries	189 178			189 178			189 178
Gold and foreign exchange	322 441 738		322 441 738				
Amounts due by the South African Government [2]	924 973			924 973			924 973
Equity investment in Bank for International Settlements	369 732				369 732		
Other financial assets	250 766			250 766			250 766
Financial liabilities							
Deposit accounts [3]	125 603 426					125 603 426	125 603 426
Amounts due to subsidiaries	1 996 398					1 996 398	1 996 398
South African Reserve Bank debentures	28 109 144					28 109 144	28 109 144
Foreign loans and deposits	6 201 166					6 201 166	6 201 166
Notes and coin in circulation	68 979 485					68 979 485	68 979 485
Gold and Foreign Exchange Contingency Reserve Account	101 584 718					101 584 718	101 584 718
Other financial liabilities	102 691					102 691	102 691

[1] Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
[2] Included in the amount above are International Monetary Fund accounts administered on behalf of the South African Government. The amount is interest free and no settlement terms have been agreed.
[3] Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

35. Fair value hierarchy disclosures

The table below analyses financial instruments carried at fair value by the level of fair value hierarchy. The fair value hierarchy depends on the extent to which quoted prices are used in determining the fair value of the specific instruments. The different levels are defined as follows:

Level 1: Fair value is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. These are readily available in the market and are normally obtainable from multiple sources.

Level 2: Fair value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Fair value is based on inputs for the asset or liability that are not based on observable market data (i.e., unobservable inputs).

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group **31 March 2010**				
Financial assets				
South African Government bonds	8 361 569	0	0	8 361 569
Investments	5 359 739			5 359 739
Gold and foreign exchange				
Gold coin and bullion	32 772 365	0	0	32 772 365
Money- and capital-market instruments and deposits	82 756 316	0	0	82 756 316
Medium-term notes	25 375 115	123 903 635	0	149 278 750
Portfolio investments	22 773 444	19 925 512	0	42 698 956
	163 677 240	143 829 146	0	307 506 387
Total financial assets	177 398 548	143 829 146	0	321 227 695
Financial liabilities	0	0	0	0

Securities activities

The net effect of securities lending in which the Bank was engaged at the reporting date is included in the foreign-exchange balances above. The gross position is as follows:

Liability in respect of collateral received	(66 714 025)	0	0	(66 714 025)
Fair value of underlying investments	25 273 646	41 196 326	0	66 469 972
Net fair value adjustment included above	(41 440 379)	41 196 326	0	(244 053)

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Bank				
31 March 2010				
Financial assets				
South African Government bonds	8 361 569	0	0	8 361 569
Gold and foreign exchange				
Gold coin and bullion	32 772 365	0	0	32 772 365
Money- and capital-market instruments and deposits	82 756 316	0	0	82 756 316
Medium-term notes	25 375 130	123 903 620	0	149 278 750
Portfolio investments	22 773 446	19 925 510	0	42 698 956
	163 677 257	143 829 130	0	307 506 387
Total financial assets	172 038 826	143 829 130	0	315 867 956
Financial liabilities	0	0	0	0

Securities activities

The net effect of securities lending in which the Bank was engaged at the reporting date is included in the foreign-exchange balances above. The gross position is as follows:

	Level 1	Level 2	Level 3	Total
Liability in respect of collateral received	(66 714 025)	0	0	(66 714 025)
Fair value of underlying investments	25 273 646	41 196 326	0	66 469 972
Net fair value adjustment included above	(41 440 379)	41 196 326	0	(244 053)

Annexure A: Minutes of the eighty-ninth annual general meeting of shareholders

The eighty-ninth annual general meeting of shareholders was held at the Head Office of the Bank in Pretoria on Thursday, 17 September 2009, at 10:30.

The Governor, Mr T T Mboweni who presided over the meeting, stated that the agenda of the meeting would be as follows:

1. To approve the minutes of the annual general meeting of shareholders held on 18 September 2008.
2. To receive the annual financial statements and the reports of the Board of Directors and the auditors of the Bank for the financial year ended 31 March 2009.
3. To determine the remuneration of the auditors of the South African Reserve Bank for the past audit.
4. To appoint auditors for the 2009/10 financial year.
5. To elect a representative of the shareholders representing commerce or finance to the Board of Directors.
6. To transact any other business to be transacted at an annual general meeting.

The Chairperson declared the meeting duly constituted in terms of the regulations framed under the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), as amended (the Act).

The minutes of the meeting of 18 September 2008 were taken as read and adopted.

The Chairperson presented the *Annual Report* of the Bank for the year ended 31 March 2009, which includes the economic report that provides background information on the state of the South African economy.

The Chairperson moved that the *Annual Report*, incorporating the annual economic report, the annual financial statements, and the reports of the directors and auditors for the year ended 31 March 2009 be adopted. The motion was seconded by Mr D Botha.

Mr N H Lang, a shareholder, indicated that he had proxies from shareholders who wished to vote against the adoption of the *Annual Report*. Mr M B Pretorius, another shareholder, moved that voting on this and all subsequent items take place by means of a poll in terms of regulation 24(2) of the Act. The Chairperson acceded to Mr Pretorius's request, and ruled that the motion and all other subsequent items be decided by ballot. Shareholders were invited to cast their votes by secret ballot.

Voting commenced for the following items:

(i) The adoption of the *Annual Report*, incorporating the annual economic report, the annual financial statements for the year ended 31 March 2009, and the reports of the directors and auditors.

(ii) The recommendation for the payment of R5 549 704,00 to the independent auditors of the Bank for auditing the accounts of the Bank for the financial year ended 31 March 2009.

(iii) The endorsement of the recommendation of the Board of Directors of the Bank in terms of section 30 of the Act that PricewaterhouseCoopers Incorporated and SizweNtsaluba VSP be appointed as auditors for the accounts of the Bank for the financial year 2009/10.

(iv) The election of one shareholders' representative, representing commerce or finance. Two candidates, Messrs S M Goodson and N H Lang, had been duly nominated for the vacancy in terms of regulation 39 of the Act. Mr Goodson was the incumbent director on the Board of Directors of the Bank and his term of office was due to expire on 18 September 2009.

[The meeting was adjourned for the counting of votes and reconvened for the announcement of results and continuation of the business of the meeting.]

The Chairperson requested the scrutineers, nominated for this purpose by the Bank's independent auditors, to report on attendance, ballot papers and proxies.

Mr N Essop, on behalf of the scrutineers, reported that

1. the total number of shares issued in the ordinary share capital of the Bank held by its shareholders was 2 000 000 (two million);
2. 42 shareholders were present in person;
3. 35 shareholders were represented by proxy;
4. 1 241 votes were exercisable by the shareholders present, holding duly certified ballot papers for this purpose;
5. 1 722 votes were exercisable by means of proxy;
6. there were no spoilt proxies; and
7. 1 proxy was disallowed as it was received from a non-resident.

The scrutineers confirmed that nothing had come to their attention indicating that any shareholder attending the meeting or wishing to vote by means of proxy was refused the right to vote.

The Chairperson requested the scrutineers to inform the shareholders of the election results, which were as follows:

1. 66 shareholders present in person or represented by proxy (representing 66,7 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of the adoption of the *Annual Report,* incorporating the annual economic report, the annual financial statements for the year ended 31 March 2009, and the reports of the directors and auditors (of which 636 votes were cast by the Chairperson in terms of proxies). 9 shareholders present in person or represented by proxy (representing 33,2 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted against the adoption of the *Annual Report* for the year ended 31 March 2009 (of which zero votes were cast by the Chairperson in terms of proxies). Of the shareholders present in person or represented by proxy (representing 0,9 per cent of the total number of votes exercisable by shareholders and voting in person or by proxy at the meeting), 1 had abstained from voting. Zero proxies and 2 ballot papers were spoilt.
2. 69 shareholders present in person or represented by proxy (representing 63,9 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of the approval of the remuneration of auditors for the year ended 31 March 2009 (of which 586 votes were cast by the Chairperson in terms of proxies). Of the shareholders present in person or represented by proxy (representing 33,7 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting), 8 had voted against the approval of the remuneration of auditors for the financial year ended 31 March 2009 (of which zero votes were cast by the Chairperson in terms of proxies). Of the shareholders present in person or represented by proxy, 1 had abstained from voting. One proxy and zero ballot papers were spoilt.

3. 67 shareholders present in person or represented by proxy (representing 62,9 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of the endorsement of the appointment of PricewaterhouseCoopers Incorporated and SizweNtsaluba VSP as auditors of the accounts of the Bank for the financial year 2009/10 (of which 586 votes were cast by the Chairperson in terms of proxies). Of the shareholders present in person or represented by proxy (representing 34,8 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy), 10 had not endorsed the appointment of PricewaterhouseCoopers Incorporated and SizweNtsaluba VSP (of which zero votes were cast by the Chairperson in terms of proxies). Of the shareholders present in person or represented by proxy, 1 had abstained from voting. Zero proxies and zero ballot papers were spoilt.
4. 63 shareholders present in person or represented by proxy (representing 61,2 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Mr Goodson as a shareholders' representative for commerce or finance to the Board (of which 636 votes were cast by the Chairperson in terms of proxies). 25 shareholders present in person or represented by proxy (representing 38,2 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Mr Lang (of which zero votes were cast by the Chairperson in terms of proxies). Of the shareholders present in person or represented by proxy (representing 0,4 per cent of the total votes), 1 had abstained from voting. Zero proxies and zero ballot papers were spoilt.

On the basis of the scrutineers' report, the Chairperson declared that Mr Goodson had been re-elected as a shareholders' representative for commerce or finance to the Board of Directors of the Bank.

Mr Goodson was congratulated on his re-election. The reappointment would, in terms of sections 4 and 5 of the Act, read with regulation 37, be effective from 18 September 2009 for a period of three years.

The Chairperson requested the General Counsel, Dr J J de Jager, to report on the matters raised by Mr M Duerr for discussion at the annual meeting of shareholders.

The meeting noted that six issues had been received from Mr Duerr, with a proposal that they be dealt with as special business at the meeting.

The first item of business proposed was that "the auditors' report to the members of the Bank had to comply with all the requirements of the International Financial Reporting Standards (IFRSs), since the Bank is a listed and public company". The proposed business was not placed on the agenda as it related to financial statements, which were part of the business of the annual general meeting and could be raised at the meeting.

The second item of business proposed was that "the Bank had to enter into active investor relationships to give a wider audience the possibility to be part of the owners of the company". Dr de Jager indicated that the motivation for the item suggested that the Bank be relisted on the Johannesburg Securities Exchange. The item was not placed on the agenda because the meeting could not do anything about the proposal, since shareholders had limited powers in respect of the business of the Bank. Furthermore, the Bank was not a profit-making institution, but had a public interest role to play.

The third item of business proposed was that "the SARB has to increase its dividend payment to 10 per cent of the profit after tax". Dr de Jager informed the meeting that the role and nature of the Bank as a non-profit-making institution did not allow for profit sharing by shareholders. The meeting of shareholders had no authority to amend the Act, in terms of which the dividend of a 10 per cent return on shares currently paid to shareholders was provided. A similar motion passed by the annual general meeting of shareholders in 2003 was referred to the Minister of Finance, who then held that the Act could not be amended in this regard due to the unique nature of the Bank and the determination of a fixed dividend, which was in line with practices adopted by other central banks with private shareholding.

The fourth item of business proposed was that “Articles 22 and 23 of the SARB Act be clarified by Parliament with public hearings in the Portfolio Committee for Finance”. It was inferred that the articles referred to by the shareholder meant sections 22 and 23 of the Act. Section 22 dealt with the limitation of 10 000 shares per shareholder and section 23 dealt with the limitations on shareholders who were not resident in South Africa and who were, for that reason, barred from voting. The meeting of shareholders did not have the authority to prescribe to Parliament to hold public hearings to discuss such legislative provisions. Dr de Jager advised shareholders to obtain legal advice at their cost if they were uncertain about the content or implications of the said provisions of the Act.

The fifth item of business proposed was to “vote for an extraordinary general meeting within three months to determine the future of the share trading of SARB shares”. Dr de Jager stated that the meeting of shareholders could not, in terms of the Act, decide on the future of trade in the shares of the Bank. The regulations further prescribed the requirements for requesting a special meeting by shareholders. The Act would have to be amended to accommodate the request.

The sixth and last item of business proposed was that ”annual reports and more detailed financial information have to be issued to shareholders at the same time as to the Ministry of Finance and have to contain more in-depth and consistent particulars”. Dr de Jager advised that the proposal did not clearly state what “more in-depth” and “consistent particulars” meant. Annual reports and financial information were provided to the Minister of Finance within three months after the end of the financial year as required by the Act. No such provision was made for shareholders. An amendment to the Act would be required to effect the proposal.

After the report of the General Counsel, the Chairperson called upon the Head of the Financial Services Department, Mr G J Terblanche, to respond to Mr Duerr’s point on the statement of the auditors that the accounts of the Bank did not comply with the IFRSs.

Mr Terblanche explained that the accounts did not comply with the IFRSs where the Act specifically prescribed how matters were to be dealt with. In particular, the valuation of gold was treated as a financial asset on the balance sheet of the Bank and not as a commodity. A statutory price, which equated the actual fixing on the London market on the last day of the financial year, was used for this purpose. Any valuation, profits and losses that arose from the changes in the value of the rand in terms of other currencies would be for the account of the government and not for the income statement of the Bank. The IFRSs required that valuation adjustments to such financial investments be routed through the income statement, which was inappropriate since the Act specifically stipulated that they were not part of the income statement. There were other dealings with the government that could also not be fully disclosed. A full disclosure on the financing of a banking institution in distress would also not be made at the time when it happened as it could have systemic implications. The IFRSs were, however, generally used as a guideline and followed as far as was possible. Mr Terblanche reported that the Audit Committee had discussed the matter extensively and concurred fully with the reporting. The auditors of the Bank were also aware of the constraints, but were obliged to report as they did in terms of the International Accounting Standards.

Mr T A Boardman, the Chief Executive Officer of Nedbank, proposed a vote of thanks on behalf of the shareholders and the banks.

The Chairperson thanked the Presidency, the government and Parliament for their continued support of the Bank. The Chairperson acknowledged the maintenance of the good working relationship that had been built with the National Treasury and facilitated by an organised system of bilateral committees. The Chairperson thanked the previous Minister of Finance, Mr T A Manuel, for his support over the years and the Deputy Ministers that he had worked with, which support had also benefited senior staff members of the Bank through working with their counterparts at the National Treasury. The Chairperson thanked members of the Board of Directors for the work they had done for the benefit of the Bank, and for their co-operation and guidance. The Chairperson also congratulated Mr A D Mminele on his appointment as Deputy Governor and member of the Board. Once again, the Chairperson thanked the Presidency for the privilege and the great honour bestowed on him to serve as Governor. He congratulated Ms G Marcus on her nomination as Governor of the Bank as of 9 November 2009, and thanked the shareholders for demonstrating their commitment and defending that which was right for the Bank, including shareholders who held different views and whose views he conceded needed to be considered, deliberated and discussed.

There being no further business to transact at the meeting, the Chairperson thanked shareholders for their attendance and participation and declared the proceedings closed.

T T Mboweni
Chairperson

17 September 2009

Abbreviations

ABET	Adult Basic Education and Training
ADLA	Authorised Dealer with Limited Authority
AML	anti-money laundering
BANKSETA	Banking Sector Education and Training Authority
BCM	business continuity management
BER	Bureau for Economic Research at Stellenbosch University
BESA	Bond Exchange of South Africa
BIS	Bank for International Settlements
BUSA	Business Unity South Africa
CCBG	Committee of Central Bank Governors
CEO	Chief Executive Officer
CLS	Continuous Linked Settlement
CMA	Common Monetary Area
COSO	Committee of Sponsoring Organizations
CPD	Corporation for Public Deposits
CPI	consumer price index for all urban areas
ECB	European Central Bank
ERM	Enterprise Risk Management
ERP	Enterprise Resource Planning
EWT	Endangered Wildlife Trust
FICA	Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001)
G-20	Group of Twenty
GDP	gross domestic product
GEC	Governors' Executive Committee
GM	General Management
GW	General Worker
IAD	Internal Audit Department
IAS	International Accounting Standard
ICAAP	internal capital-adequacy assessment process
ICAS	Independent Counselling and Advisory Services
ICT	information and communications technology
IFRSs	International Financial Reporting Standards
IMF	International Monetary Fund
JPS	Junior Professional and Supervisory
MMSS	Money Market Settlement System
MPC	Monetary Policy Committee
Nedlac	National Economic Development and Labour Council
Nersa	National Energy Regulator of South Africa
NMMU	Nelson Mandela Metropolitan University
NPS	national payment system
OGM	Ordinary General Meeting
OHS	occupational health and safety
PVM	Professional and Vocational Management
RMCD	Risk Management and Compliance Department
SAA	strategic asset allocation
SABN	South African Bank Note Company (Pty) Limited
Sacob	South African Chamber of Business
SADC	Southern African Development Community
SAMOS	South African Multiple Option Settlement
SARB	South African Reserve Bank

SARBCIC	South African Reserve Bank Captive Insurance Company Limited
SDR	Special Drawing Right
SHE	Safety, Health and Environment
SLP	securities lending programme
SPM	Senior Professional and Management
TPC	Trainee Professional and Clerical
US	United States
VCT	voluntary counselling and testing

Glossary

the Act	South African Reserve Bank Act, 1989 (Act No. 90 of 1989)
the Article IV review	Article IV of the International Monetary Fund Articles of Agreement review
the Bank	South African Reserve Bank
Basel Committee	Basel Committee on Banking Supervision
Basel II	*International Convergence of Capital Measurement and Capital Standards: A Revised Framework*
the Board	Board of Directors
the College	South African Reserve Bank College
the Core Principles	Core Principles for Effective Banking Supervision
e-cap	economic capital
EE Plan	Employment Equity Plan
e-money	electronic money
the Group	South African Reserve Bank and its subsidiaries
King III	*King Report on Corporate Governance in South Africa 2009*
repo	repurchase
SA Mint	South African Mint Company (Pty) Limited
the Standards	International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors
Vision 2010	South African Reserve Bank “NPS Framework and Strategy Document”

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