

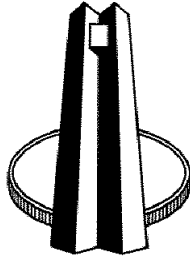
SOUTH AFRICAN RESERVE BANK

ANNUAL FINANCIAL
STATEMENTS

31 March 2002

Contents

	Page
The logo of the South African Reserve Bank.....	1
Mission statement.....	2
Risk management statement.....	4
Directors, executive management and secretary	6
Senior management	8
Organisational structure	10
Corporate governance statement.....	12
Operational review.....	15
Staff complement at 31 March 2002	29
Report of the independent auditors	30
Directors' report for the year ended 31 March 2002	31
Balance sheets at 31 March 2002.....	36
Income statements for the year ended 31 March 2002.....	37
Cash flow statements for the year ended 31 March 2002.....	38
Statement of changes in equity: Group	39
Statement of changes in equity: Bank	40
Notes to the financial statements	41
Notice of ordinary general meeting 2002	59
Shareholders' calendar.....	61
Proxy	attached

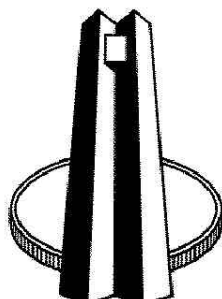


SOUTH AFRICAN RESERVE BANK

ANNUAL FINANCIAL
STATEMENTS

To be presented to shareholders at the ordinary
general meeting to be held on 27 August 2002

The logo of the South African Reserve Bank



The head office building of the Reserve Bank in Pretoria forms the nucleus of the logo of the Bank. The logo portrays the four basic functions and the mission of the Bank. Its colour is gold. Gold has, because of its monetary role in the history of the world in general and South Africa in particular over more than three thousand years, become synonymous with money, and money is the business of the Bank.

The foreground consists of the head office building with its four distinct façades, depicting symbolically the four main functions of the Bank, namely:

- to formulate and implement monetary policy;
- to manage the money and the banking system of the country;
- to provide economic and financial services to government; and
- to provide economic and statistical services to the general public.

The cross-section near the top of the building represents the viewing platform on the upper floors and depicts the corporate services (technology, etc.) that provide the supporting infrastructure to the line functions and also bond the various activities of the Bank into a unitary and smoothly functioning total organisation. Behind the head office building lies a coin which represents the South African currency.

The mission of the Bank, namely the achievement and maintenance of financial stability, is symbolically embodied in the logo, with the building representing the Bank and its functions, guarding over the coin and, in the process, achieving and maintaining financial stability.

Mission statement

The South African Reserve Bank is the central bank of the Republic of South Africa. It regards its primary goal in the South African economic system as

the achievement and maintenance of financial stability.

The South African Reserve Bank maintains that South Africa has a growing economy based on the principles of a market system, private and social initiative, effective competition and social fairness. It recognises, in the performance of its duties, the need to pursue balanced economic development and growth.

Functions

The Reserve Bank, in the pursuance of its goal, the realisation of its philosophy and the fulfilment of its responsibilities, assumes responsibility for:

- formulating and implementing monetary policy in such a way that the primary goal of the Reserve Bank will be achieved in the interest of the whole community that it serves;
- ensuring that the South African money, banking and financial system as a whole is sound, meets the requirements of the community and keeps abreast of developments in international finance;
- assisting the South African government, as well as other members of the economic community of southern Africa, in the formulation and implementation of macroeconomic policy; and
- informing the South African community and all interested stakeholders abroad about monetary policy specifically, and the South African economic situation in general.

Business philosophy

The Reserve Bank accepts that the credibility of its policy and actions is a prerequisite for the attainment of its goals and that such credibility can only be achieved and maintained through independent action, firmness of principle, resoluteness and fixed intent. Furthermore, the Bank is convinced that fairness is essential in its judgement and in its actions.

The Reserve Bank ensures, through the application of modern management practices and technology, that all its activities are conducted at the lowest possible cost.

Personnel philosophy

The Reserve Bank submits that its employees should find working for the Bank a stimulating and personally enriching experience, and consequently accepts co-responsibility for the development of each employee to his/her full potential. Career progress is based on the contribution made by the individual towards the fulfilment of the responsibilities of the Bank and therefore initiative, innovative thinking and professional expertise are systematically developed and rewarded.

The Reserve Bank is convinced that equal opportunities for all, irrespective of ethnicity, colour, gender or religion, should be pursued.

The Reserve Bank accepts that only through the loyalty and dedication of its employees will the Bank be able to achieve its goal and fulfil its aims.

Risk management statement

Risk is an inherent feature of the Bank's activities as the central bank of the Republic of South Africa. The Bank is committed to managing these risks by applying appropriate structures, systems and procedures. These structures, systems and procedures evolve continuously in response to changes in the financial and economic environment in which the Bank operates.

Management structures

The organisational structure of the Bank is designed to ensure an appropriate allocation of responsibilities. This is supported by a formal delegation of authority and a proper segregation of duties to achieve sound internal controls. The management of foreign and local financial market risks is strengthened by separate middle office functions to monitor exposures and report independently to management.

Risk elements

The main risk elements in the Bank's activities are market price, credit, market liquidity, operational, human resource, legal and reputational risks. These are discussed below.

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 which 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.

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 such activities of the Bank as advances to and deposits made with other institutions and the settlement of financial markets transactions.

Credit risk policies are formulated by the Governors' Committee, in terms of which counterparty limits and security arrangements are set.

Market liquidity risk

Market liquidity risk is the risk of loss due to the inability of the Bank to transact in large volumes at current market prices. Market liquidity risks arise in situations where it is necessary to acquire or dispose of large positions in the market within a short period, but where the execution of such large transactions is prohibited by

prevailing turnover levels in the market. In order to absorb significant losses which may arise from positions taken in the execution of monetary policy, the Bank has, over time, set aside reserves to be employed in such circumstances.

Operational risk

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, ineffective internal controls, fraud and human error.

The Bank addresses these risks through an appropriate culture and value system, comprehensive internal controls, back-up facilities, contingency planning and independent internal audit procedures. Assessments of operational risk are conducted on an ongoing basis by the appropriate organisational units where actual risks are closely monitored by executive management and the Board through both the Internal Audit Department and the Audit Committee.

Human resource risk

The particular nature of the Bank's activities necessitates specialised knowledge in certain areas.

In order to ensure an adequate knowledge base at all times, the Bank invests significantly in staff training, maintains succession plans for key personnel and is committed to remunerating its staff on a market-related basis.

Legal risk

Legal risks arise from any uncertainty of enforceability, whether through legal or judicial processes, of the obligations of the Bank's clients and counterparties. The Bank seeks to minimise such uncertainties through continuous consultation with internal and external legal advisers to understand better the nature of such risks and to improve the documentation and structure of transactions. In addition, the Bank has established legal standards and procedures on a basis designed to ensure compliance with all applicable internal, statutory and regulatory requirements.

Reputational risk

The executive management of the Bank necessarily has a measure of freedom and discretion in the exercise of central banking functions. However, this freedom is circumscribed by the fiduciary duties of good governance and by ensuring a proper balance with accountability and the best interests of the Bank and its various stakeholders. Consequently, the Bank's management follows the principles and guidelines contained in the Code of Conduct of the King Report on Corporate Governance in fulfilling their fiduciary duties, including their duties of care and skill, with a view to achieving maximum efficiency and ensuring the reputation of the Bank as the central bank of South Africa.

The Bank's function of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The Bank adheres to best practice established in keeping with international standards and, to this end, it maintains close liaison with international peers. For example, the Bank strives for full compliance with the Basel Core Principles for effective banking supervision.

Directors, executive management and secretary

Directors

Tito Titus Mboweni *
Governor

James Havelock Cross^{o•}
Senior Deputy Governor

Gill Marcus
Xolile Pallo Guma^{o~}
Deputy Governors

Mahavishnu Padayachee^{* o}
(Term of office expires on 28 August 2002 and is available for re-appointment)
Representing: Government

Deenadayalen Konar[†]
(Term of office expires on 28 August 2002 and is available for re-election)
Brian Patrick Gilbertson*
Fatima Jakoet^o
Zodwa Penelope Manase
(Appointed with effect from 22 February 2002, subject to confirmation at the ordinary general meeting of shareholders)
Representing: Commerce or finance

Jacob Wouter Raath
Representing: Agriculture

Marius Theodorus de Waal^x
(Term of office expires on 28 August 2002 and is not available for re-election)
Audrey Matshidiso Mokgabudi*
Representing: Industry

- † Chairperson of the audit committee
- x Chairperson of the remuneration committee
- o Member of the audit committee
- * Member of the remuneration committee
- Retired with effect from 1 January 2002
- ~ With effect from 1 August 2001

Executive management

Governor: Research and legal services T T Mboweni

Senior Deputy Governor: International banking,
money and capital market operations J H Cross •

Deputy Governor: Bank supervision,
exchange control, financial services,
financial stability and national payment system G Marcus

Deputy Governor: Information technology,
corporate services, human resources, the SA Reserve
Bank College, international relations, internal audit, and
currency management and protection services X P Guma ~

Secretary

Z R Matsau

Registered office

370 Church Street
Pretoria

- Retired with effect from 1 January 2002
- ~ With effect from 1 August 2001

Senior management

Chief Economist and Head: Research	E J van der Merwe
Adviser	L van Zyl
Principal: SA Reserve Bank College	R M Gidlow
Registrar and Head: Bank supervision	C F Wiese
General Manager: Human resources	T T Ngcobo
Head: Currency and protection services	A Ismail
Head: International banking	A D Mminele
Head: Exchange control	A M Bruce-Brand
Head: Financial stability	A Bezuidenhout
Head: Business systems and technology	J van Heerden
Head: National payment system	D C Mitchell
Head: Financial services	G J Terblanche
Head: Legal services	J J de Jager
Head: Money and capital market	R M du Plooy
Head: Internal audit and Chief Internal Auditor	H P Badenhorst
Head: Corporate services	Z S Gumede

Branch managers as at 31 March 2002

Bloemfontein	I Oberholster
Cape Town	Z Safodien
Durban	A C Botha
East London	A G Dent
Johannesburg	T Mdhuli
Port Elizabeth	J A Swart
Pretoria North	M Mogapi

Organisational structure

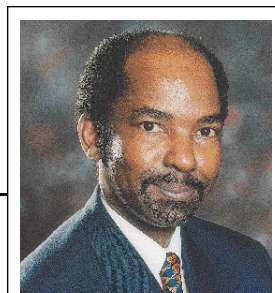
FUNCTIONS
Formulate and implement monetary policy
Analyse economy Formulate policy Implement policy Liaise with Government
Manage the money and banking system
Develop financial system Act as banker of banks Supervise banks Supply notes and coin
Provide services to Government
Render expert assistance Supply administrative support Provide banking services
Provide economic and statistical services
Compile statistics Do research Provide economic information services Provide statistical service
Corporate support services



Governor
T T Mboweni



Deputy Governor
G Marcus



Deputy Governor
Dr X P Guma



Head of Research and
Chief Economist
Dr E J van der Merwe



Note:

According to the South African Reserve Bank Act, No. 90 of 1989, provision is made for appointing three deputy governors, of which one position was vacant on 31 March 2002.

Corporate governance statement

The South African Reserve Bank is committed to the principles of, and complies to a significant degree with, the requirements of the King Report on Corporate Governance, particularly those contained in the recently released “King Report on Corporate Governance for South Africa 2002”. The Bank’s compliance with these requirements is reflected below.

Board of directors

The Board of fourteen directors must comprise:

Executive directors

- the Governor and three deputy governors appointed by the President of the Republic. In accordance with the South African Reserve Bank Act, No. 90 of 1989, the Governor serves as Chairperson of the Board and as Chief Executive of the Bank.

Non-executive directors

- three directors appointed by the President of the Republic; and
- seven directors elected by the shareholders.

The South African Reserve Bank Act (No. 90 of 1989) requires that of the directors elected by the shareholders:

- four shall be persons with experience in commerce or finance;
- one shall be a person with experience in agriculture; and
- two shall be persons with industrial experience.

The Board meets regularly (at least four times a year) and monitors the exercise of the functions that it has delegated to executive management through a structured approach. This structured approach includes receiving reports from the Governors’ Committee which is responsible for the day-to-day activities of the Bank and various subcommittees, chaired by non-executive directors. Non-executive directors have no service contracts with the Bank and are appointed for specific terms. Re-election is not automatic. There is a fair mix of both executive and non-executive directors to ensure independence and objectivity. The Board comprises people with integrity and diversity of skills and knowledge to ensure effective governance.

There are currently vacancies for a deputy governor and two government-appointed directors.

Governors’ 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, except those reserved for the Board. The Governors’ Committee meets fortnightly to

consider policy issues and other executive management matters. These meetings are also attended by the chief economist and the general counsel.

Audit committee

The composition of the audit committee, which is a subcommittee of the Board, appears on page 6. The external and internal auditors have unrestricted access to the Chairperson of this committee. The committee meets regularly with management, the Internal Audit Department and the external auditors. They review the financial statements and underlying accounting policies, the effectiveness of management information and other systems of internal control, and the effectiveness of the internal audit function. The audit committee also reviews the risk management process applicable to the Bank's operations and examines and recommends areas that internal and external auditors must cover.

Remuneration committee

The composition of the remuneration committee, a subcommittee of the Board, appears on page 6. The committee meets regularly with management to review human resource matters and remuneration practices and policies. This committee also determines the remuneration packages of the Governor and deputy governors.

Monetary Policy Committee

The Monetary Policy Committee is responsible for ensuring the transparent implementation of monetary policy in line with current international best practice. The committee comprises the Governor and deputy governors as voting members, as well as other senior staff of the Bank as non-voting members. The committee meets at approximately three-month intervals and a statement on the monetary policy stance of the Bank is issued after each meeting.

Internal audit, risk and compliance

The internal audit function is an independent appraisal function that examines and evaluates the Bank's activities, resultant business risks and compliance issues. Its objective is to assist members of executive management in the effective discharge of their responsibilities. The scope of the internal audit function includes a review of the reliability and integrity of financial and operating information, the systems of internal controls and the means of safeguarding assets. It also evaluates the efficiency with which resources are managed, and the effectiveness with which operations are conducted. The Chief Internal Auditor has the responsibility of reporting to the audit committee and has unrestricted access to its Chairperson, as well as to the Governor if he deems it necessary.

Internal control

To fulfil its responsibilities, management maintains adequate accounting records and has developed and continues to maintain an effective system of internal control. This system of internal control, which is designed to prevent material misstatement of financial statement information or loss of assets, is based on organisational structures and written policies and procedures. This includes budgeting and forecasting disciplines and the comparison of actual results against these budgets and forecasts.

The auditors, both internal and external, have satisfied themselves, by performing their normal tests in respect of internal controls, that these systems and procedures are implemented and monitored by suitably trained staff, with an appropriate segregation of their authority and duties, as well as through the comprehensive use of advanced computer hardware and software technologies. Employees are required to maintain the highest ethical standards to ensure that business practices are conducted in a manner that, in all reasonable circumstances, is above reproach.

Budget committee

The Bank ensures financial discipline through a budget committee comprising the three deputy governors, the heads of the Financial Services, Human Resources, Corporate Services and Research Departments, the Strategic Planning Unit as well as the adviser to the Governor. This committee meets regularly to oversee the preparation of the operational and capital budgets and the monitoring and management of actual financial expenditure. Quarterly reports are submitted to the Board.

Employment Equity Consultative Body and Management Steering Committee

The Bank recognises that employees play a vital role in the fulfilment of its functions and, therefore, ensures that employees participate in the running of the Bank, particularly in relation to employment equity issues. The Bank has established an Employment Equity Consultative Body (the EECB) to represent employees in consultations with the Management Steering Committee (MSC) which represents management regarding employment equity issues. The consultations are aimed at giving effect to the legislative requirements in terms of the Employment Equity Act, No. 55 of 1998 (the EE Act). The end result of the said consultations has been the formulation of an Employment Equity Plan 2005 (the EE Plan) for the Bank, which has been submitted to the Department of Labour as required by the EE Act. Consultations between the EECB and MSC are ongoing and the EE Plan is constantly reviewed.

Code of ethics and conduct

The Bank's staff members are required to adhere to and comply with defined standards of behaviour in their business dealings and actions as contained in the Personnel Regulations and Procedures.

Safety, health and environmental issues

The Bank and its subsidiaries recognise that safety, health and environmental issues are of fundamental importance to successful business strategies. To this end, the Bank has established measures to comply with safety and health legislation such as the Occupational Health and Safety Act, No. 85 of 1993 and strives to provide a safe and environmentally friendly workplace for its employees. The Bank has adopted a strategy to make employees aware of HIV/Aids as well as a policy that supports those infected and affected by the virus with a view to eliminating discrimination and ensuring, as far as possible, a productive, better quality-of-life working environment. The Bank is conscious of its obligations regarding the environment and strives to apply the best available environment-friendly practices and risk management principles to minimise any potential negative impact on its operations.

Operational review

Departmental operational reviews

Bank Supervision Department

The department contributes domestically and internationally to the stability and efficiency of the banking and depositor protection system, primarily by fulfilling the statutory obligations set out in the Banks Act, No. 94 of 1990. The underpinning philosophy remains a risk-based approach to supervision. To this end, the department's activities are performed by seven divisions.

The two analysis divisions supervise, on a consolidated basis, locally controlled and foreign-controlled banks, branches of foreign banks and registered mutual banks. The divisions analyse the risk-based supervisory information submitted by banks, identify issues of concern and discuss them with banks, monitor compliance with prudential requirements, hold discussions on strategic issues with various levels of banks' management, assess risk-management systems and controls, promote sound risk-management practices, hold annual trilateral discussions and give presentations to boards of directors of banks.

The On-site Supervision Division validates on site the key assertions made by the Analysis Division staff, with credit risk as the initial focus. The division undertakes on-site reviews to assess the adequacy of the risk management policies and systems employed by banks and the quality of bank assets. On average, the on-site reviews take two weeks per on-site review and the division's work is aimed at forming an opinion about the adequacy of each bank's risk-management policies and procedures, the effective and consistent operation of risk-management systems and controls, the quality of bank assets (mainly loans and advances), and the adequacy of the management information system for facilitating effective risk management.

The Legal and Regulatory Administration Division prepares proposed amendments to the Act, reviews regulations and drafts proposed amendments to regulations, drafts proposed circulars to banks, deals with litigation concerning banks placed under curatorship or liquidation, processes new applications for registration as banks and branches of foreign banks, investigates contraventions of the Act and processes applications for mergers and acquisitions of banks.

The Policy and Research Division researches the latest developments in the field of bank supervision. It develops policy responses to emerging issues, researches and develops consolidated supervision and capital adequacy requirements for banks' securities trading activities and analytically reviews the aggregated information submitted by all the institutions comprising the banking sector. It also compiles macro-reports on the banking sector, updates and administers training material and the training database, and presents lectures for training purposes.

The Information Systems Division collects statutory returns, captures information on an electronic database, prepares data for analytical review and processes data for and produces risk-based reports.

It also undertakes research to ensure that the technology used in the department is at the forefront of development.

The Operational Management and Correspondence Division processes and controls correspondence with banks, handles matters of an administrative nature in terms of the Act, prepares and monitors the departmental budget, and administers staff and other resources and facilities.

In the next financial year, the department will continue to extend its relations with other supervisors at local, regional and international levels.

Business Systems and Technology Department

The purpose of the Business Systems and Technology Department (BSTD) is to support the mission of the Bank by enabling effective business processes through information and communication technology. In performing its duties the department provides integrated and cost-effective information technology (IT) solutions. It provides and maintains a reliable and secure IT infrastructure; ensures the effective management of the Bank's information resources; supports the enhancement, safety and soundness of the South African financial systems IT infrastructure; enhances IT utilisation capability in SADC central banks and facilitates the development of an integrated regional financial system and infrastructure in the SADC region. It also encourages the effective use of systems and facilities; and attracts, retains and continuously develops IT staff and exploits the opportunities and benefits offered by new and emerging technologies.

The department initiated a number of major new projects during the 2001/02 financial year. Significant among these were the development of a new computer network architecture and establishing an information security discipline in BSTD. Disaster recovery plans were enhanced, upgraded and tested for several systems, including SAMOS, Finance Kit and all financial and administrative applications. Staff members were also seconded to the project team responsible for the Bank-wide initiative to develop business continuity plans for all departments.

The SARB Data Exchange (SARBDEX) facility was established as a generic facility for receiving data electronically from external business associates such as banks, authorised dealers, SADC central banks and other research data participants. Currently, large volumes of balance-of-payments (BoP) transactions are being collected through the SARBDEX facility.

The balance-of-payments system (BOPCUS) was further enhanced to enable direct reporting capability. This will allow corporates, credit card companies and parastatals to report cross-border transactions directly.

SAMOS version 4 was implemented on 7 October 2001 and introduced a new settlement option called Continuous Batch Processing Line (CBPL). This processing line allows financial market operators such as STRATE to streamline their processing so that payment settlement occurs prior to the settlement of financial instruments. This makes delivery versus payment (DvP) a reality and, as a result, minimises settlement risk in the industry.

Finance Kit version 5 was implemented in collaboration with the International Banking Department at the end of September 2001. This new version offers

improved functionality, especially regarding reserve and risk management as well as “what-if” scenario analyses and automated limit control.

Corporate Services Department

The department continued to provide facilities and support services to the South African Reserve Bank. An array of specialised services was rendered to the Bank and its branches to ensure that employees can conduct their business in a comfortable and pleasing environment, with adequate logistical support and the necessary infrastructure.

Some managerial and technical capacity deficiencies identified during a capacity review project resulted in structural changes within the department. Two assistant general manager posts were created and have been filled. The Support Services Section was split and has been renamed the Services Division. The Services Division comprises the Support Services, Procurement and Finance and Administration Sections. The Facilities Management Division, in turn, comprises the Engineering Services and Property Services Sections.

The Facilities Management Division is responsible for rendering Bank-wide services, namely property management, project management and facilities management. The key projects that were undertaken during the financial year under review included the extension to the head office building, creating an additional 10 000 m² of office space. The construction of a conference centre and new parking garage was also approved by the Board, and construction started during the year under review.

The utilisation of properties owned by the Bank is being reviewed to ensure that the Bank retains only properties that it needs.

Building alterations pertaining to Project Imali 1 were undertaken at the Cape Town, Pretoria North and Port Elizabeth branches. All these projects were completed within the agreed time frames and budget.

The Services Division is responsible for rendering administrative support to the department and for providing Bank-wide services including catering, transport, chauffeur, document handling, telephone, publications, printing, travel, procurement, stores management and fixed-asset management (excluding IT equipment).

The Governors' Committee approved a new Art Policy, and established a new Art Committee, the management of which resides with the department. The Art Committee's main role is to formulate a policy for the procurement, restoration and management of the Bank's art collection.

Currency and Protection Services Department

The face value of banknotes in circulation as at 31 March 2002 amounted to R32 726 million compared to R27 755 million on 31 March 2001, an increase of approximately 17,9 per cent. The increase in the notes in circulation is due to the growth in the economy, inflation and other factors. The value of coin in circulation on 31 March 2002 amounted to R1 994 million, compared to R1 878 million on 31 March 2001. The minting of 1c and 2c coins and their continued distribution for circulation by the South African Reserve Bank ceased on 31 March 2002. All existing 1c and 2c coins remain legal tender in South Africa.

The Currency Management Division (CMD) provides a bulk cash service to the South African banking sector. This service is currently delivered by seven South African Reserve Bank branches and by an external service provider, SBV Services Limited, under contract in Nelspruit and Polokwane. The CMD has adopted a systems approach, focusing on a productivity improvement programme.

The development of a new banknote series is under investigation. Known as project Bataki, the objective is to ensure the new note series caters for upgraded security features to combat counterfeit attempts.

The problems associated with dye-stained notes have been successfully addressed. With the co-operation of the manufacturers and users of dye-staining systems, a new industry standard has been developed and implemented.

The objective of security information analysis is to continuously identify, evaluate and manage risks to the security of the Bank. Security risks are analysed from the perspective of integrated security and comprise personnel, information and physical security, as well as project and operational security disciplines.

The strategic issues with regard to personnel security are dealt with in terms of post classification and the vetting of all personnel. Personnel security assessments are also undertaken. Physical security assessments are carried out to provide for the integrity of the security zones within the Bank and for the protection and safety of the Bank's assets, personnel and systems. The Information Security Discipline (ISD) Committee under the Management Committee comprising the Business Systems and Technology Department (BSTD) and Currency and Protection Services Department (CPSD) to jointly manage and drive the ISD requirements of the Bank, is being established.

The focus of the development of countermeasures to identify criminal and security threats to the Bank and the banking industry covers fraud, including electronic fraud, advance fee fraud (4-1-9 scams), counterfeiting, cyber crime, cash-in-transit heists and bank robberies as well as money laundering. A strategy to counter the growing threat of counterfeiting of the South African currency has been developed for use in an interactive programme between the Reserve Bank, the SAPS and other role players. The approach has also been presented at the SADC Currency Conference.

The Financial Intelligence Centre Act (FICA), which was passed towards the end of 2001, provides for the establishment and operation of the Financial Intelligence Centre. It also provides for the establishment of the Money Laundering Advisory Council, creating control measures in respect of money laundering obligations on specific persons and institutions and regulating access to specific information. Co-ordination of Bank-wide responsibilities in terms of the FICA is undertaken by CPSD.

Effective working relations have been established with domestic security agencies, NGOs and the banking sector. The Bank currently has representation on the SAPS National Committee on Priority Crimes, and liaises with the National Intelligence Co-ordinating Committee's Functional Security Committee and Defence Intelligence on all security-threatening issues.

The CPSD acted as host for a successful SADC conference on currency management practices. Assessments of "Armed Robberies in the Region", "Priority Crimes in the SADC Region", "Security Risk Management Methodology" and a "Concept Strategy for the Management of Counterfeit" were presented at various SADC conferences and training sessions.

Exchange Control Department

The department administers exchange controls on behalf of the Minister of Finance, in terms of delegated powers. The department's main functions are to implement, administer and monitor the provisions of the Exchange Control Regulations, as well as to collect, analyse and disseminate information to policy makers regarding cross-border foreign exchange flows. The 36 Authorised Dealers in foreign exchange, who have been appointed by the Treasury, assist in carrying out the day-to-day administration of exchange controls.

The concepts of the paradigm shift project, i.e. the change in philosophy permitting all transactions except certain specified exclusions, with the emphasis on accurate transaction reporting, were further crystallised and specific directions and strategies developed. The first stage of the information flow project, operational as from 1 April 2001, has been successfully engineered and implemented with the Authorised Dealers.

The first three months of 2002 saw significant resources of the department allocated to the submissions to and testimony before the Commission of Enquiry into the Rapid Depreciation of the Exchange Rate of the Rand and Related Matters (Rand Commission).

Executive Management Department

The Executive Management Department consists of the Office of the Governor, Offices of the Deputy Governors, Adviser to the Governor, Secretarial Support Services Unit, Communications Unit, Vulindlela Unit and Special Projects. The Chief Economist and Head of Research, as well as the Legal Counsel and Legal Services Department, report to the Governor.

Mr T T Thahane retired as Deputy Governor with effect from 1 April 2001 and Mr J H Cross as Senior Deputy Governor with effect from 1 January 2002. Mr Thahane was succeeded by Dr X P Guma on 1 August 2001.

Mr Bertus van Zyl, Adviser to the Governor, was appointed to the position on 1 September 2001. He has been fully involved in the implementation of the decision to apply existing exchange controls on non-residents, co-ordinating the Bank's input to the Rand Commission and researching financial markets.

The Secretarial Support Services Unit provides secretarial support to board meetings, board committees, the Governors' Committee, the Bank's other internal committees and the ordinary general meeting of shareholders. Approximately 176 meetings were held which required secretarial support from the unit.

Special Projects has been actively involved in the work of the Davis Panel which culminated in the report being released in March 2002. In addition the *Governors' Handbook* has been finalised and the Bank has been delisted from the JSE Security Exchange SA. The formulation of protocol guidelines for the Bank is an ongoing project.

The Media and Public Affairs Unit was renamed the Communications Unit during 2001, and a communication strategy was formulated and implemented. The vision of the unit is to foster an institutional image of excellence by providing high-quality communication services for the benefit of internal and external stakeholders.

A focus area of the strategy is improved internal communication with employees. This includes the optimal utilisation of communication channels such as the in-house journal *Bankindaba*, the Intranet and bulletin boards, co-ordination of internal events including the Bank's 80th anniversary and the provision of communication services to other departments in the Bank.

In order to increase the Bank's communication capacity in the branches, communication practitioners have been appointed at the following branches: Bloemfontein, Cape Town, Durban, East London, Johannesburg and Port Elizabeth.

A further focus area is the external communication strategy which seeks to promote a better understanding of the Bank's goals. This relates to issues such as media relations, the co-ordination of the Monetary Policy Forums, parliamentary briefings and other stakeholder events. The Protocol and Conferences Section, since joining the Communications Unit in April 2001, has played a vital role in the successful co-ordination of local and international events.

The Vulindlela Unit comprises two components, namely strategic management and change management. The Strategic Management Unit supports management at all levels in the Bank in determining and achieving the strategic objectives of the Bank. It acts in a consultative capacity in developing and implementing the Bank's strategy. It also acts as a communication channel between various sections and at different levels of the organisation on strategic matters and provides a control mechanism for monitoring the strategic performance of the Bank.

The Change Management Unit provides strategic guidance to the Bank on both organisational and national issues that affect transformation and equity. Change management has facilitated and supported meetings with structures related to the Employment Equity Plan (EEP), namely the Management Steering Committee (MSC) and Employment Equity Consultative Body (EECB), to ensure that issues which were perceived as barriers to the implementation of employment equity in the Bank were addressed. This unit has also facilitated the finalisation of the Constitution of the EECB.

The unit has contributed to policy formulation by preparing documents on disability in the workplace; issues of privacy and procedure as related to the disclosure of HIV/Aids status; and succession planning (incorporating issues such as career pathing, fast-tracking and skills development).

An abridged version of the Bank's EEP has been converted into a simplified, user-friendly document which has also been translated into the eleven official languages. The first annual employment equity progress report was completed and submitted to the Department of Labour's Employment Equity Registry on 1 October 2001.

Financial Services Department

The department administers the finances of the Bank and also provides banking services to customers. Its responsibilities include financial and management accounting for the Bank; budgetary control; administration of the payroll, accounts payable, fixed-asset registers, domestic payments and receipts of the Bank; managing the SWIFT system; and administration of the Corporation for Public Deposits and the Pension and Retirement Funds of the Bank.

A highlight during the year was the implementation of a dedicated electronic link between the Bank and the National Treasury to effect the telegraphic transfer of funds

through the online real-time SAMOS system, as well as to perform some other banking activities. As a result, the volume of cheques and EFT credits has been greatly reduced, in line with the implementation of item limits on retail payment streams. This has led to an increase in the number of electronic funds transfers made through SAMOS by the Bank.

Financial Stability Department

The department was established on 1 August 2001 to support the Financial Stability Committee in pursuing the Bank's objective of stability in the financial system as a whole.

During the period under review, the department made considerable progress with its intended strategies to establish reliable relationships, structures, processes and methods to ensure that the joint efforts of the various components of the Bank that contribute to financial stability are properly co-ordinated.

The department has managed to build appropriate capacity to pursue four main functions. Achievements in each of these include the following:

- The Regulatory Environment Division has been involved in assessing qualitative strengths and weaknesses of the regulatory infrastructure and has participated in initiatives to increase the safety and effectiveness of financial markets.
- The Macro-Prudential Analysis Division has worked mainly on identifying financial stability indicators and the sources of such data, as well as the building of early warning models of risk build-up.
- The Safety Net Division has mainly been involved in developing appropriate measures for crisis resolution, the establishment of a deposit insurance scheme for South Africa and participating in working groups with the purpose of resolving systemic problems.
- The Research and Information Division has been involved in research on topical issues such as Argentina, Zimbabwe and Enron, and in setting up processes for the production of routine publications.

The department will continue to support the Financial Stability Committee with important structural issues while still managing to react to urgent events in the environment.

Human Resources Department

In line with its operational plan for 2001/02, the Human Resources (HR) Department met almost all its objectives.

The HR Capacity Review was beneficial in assessing the current and future structure of the department. A roll-out plan on areas of implementation has since been prepared.

An HR Advisory Service in line with the HR 2005 Plan, budget, and staff movements was provided on an ongoing basis. A user-friendly *Labour Relations Manual* was produced for staff, and a policy on sexual harassment tabled and approved. In addition, workshops on sexual harassment were conducted Bank-wide.

In terms of recruitment and selection, 14 986 applications were received and successfully concluded in response to 108 vacancies – excluding appointments for branches. In total, 210 appointments were made in the 2001/02 financial year, including candidates who were accommodated in positions that had not been filled in the previous year.

The induction programme of the Bank was revised, and will be reviewed on an annual basis. In terms of wellness, there has been a marked increase in the demand for services by employees who appear to be strained by work-related and personal circumstances. Various policies have been approved and a report tabled on all the activities undertaken. This report will henceforth be provided on an annual basis.

Further, various awareness campaigns on health issues, including HIV/Aids, continue to receive the necessary attention with a view to promoting a healthy workforce.

An actuarial evaluation study on Aids, conducted in the financial year under review, appears to suggest that the Bank's staff overall are not at risk as yet relative to the Retirement and Pension Funds as well as investment on training. Two deaths were reported in this regard for the 2001/02 financial year.

On 1 January 2002, 770 staff members benefited from parity adjustments which were aimed at eradicating salary disparities within the Bank's pay ranges.

The highlights in terms of human resources development centred on meeting the requirements of SAQA, and playing a leading role in the Bank Seta. Further, refunds in excess of R700 000 were realised from the Bank Seta for the production of exceptional unit standards.

Internal Audit Department

In supporting all levels of management, the primary purpose of the Internal Audit Department is to independently appraise the corporate business risks of the Bank and its subsidiaries, the adequacy and effectiveness of the system of controls and the quality of performance, and also to provide consulting services concerning risk and control matters. Through the audit committee, the department also provides information about these functions to the Bank's board of directors.

The department's audit approach is risk-based and a model is applied to assess the relative risks associated with the activities of the various departments and the subsidiaries of the Bank. The model divides overall risk into inherent risk and the risk of inadequate control. Inherent risk is the level of risk relating to an activity, irrespective of the quality of the associated internal control system or the effectiveness of management.

The model was used as a guide in defining and planning audit projects for the 2001/02 financial year. The department had planned 378 projects for the year under review, including Control and Risk Self-Assessment projects and co-ordinating the issuing of annual letters of representation by heads of departments.

In total, 407 projects were completed in this financial year. Included in these projects are systems audits, verification audits, follow-up audits, preliminary surveys, analytical reviews, investigations, ad hoc client requests, compliance audits performed at monthly and quarterly intervals, continuous projects as well as business monitoring notes issued to convey concerns or obtain clarity about aspects identified by the department in the course of its continuous business-monitoring process.

Generally, the purpose and scope of every audit entailed the evaluation of the adequacy and effectiveness of all controls designed to address the risks identified. In most instances an audit opinion was formulated, supported by the relevant findings, and discussed with the responsible level of management. Details of shortcomings and/or opportunities for enhancement were also discussed and these, along with management's envisaged remedial actions, were included in a written report distributed to all parties involved.

The findings contained in each audit report were also reported to the relevant audit committee.

International Banking Department

As part of discharging its responsibilities in pursuance of the Bank's mission, the department was involved in the following operational activities during the past financial year.

In line with its key strategic focus for the year, the net open foreign currency position (NOFP) was reduced substantially, by US\$6 541,9 million to a level of US\$2 875,4 million at 31 March 2002.

This improvement resulted mainly from the purchase of foreign exchange emanating from flows related to large corporate transactions, foreign bonds issued by the Government and the drawdown of the US\$1 500 million syndicated loan by National Treasury.

The above-mentioned transactions also contributed to a reduction of the oversold forward book, which decreased by US\$6 389,2 million from US\$14 466,3 million to US\$8 077,1 million. The Bank continued to roll over the existing short-term forward book in the market.

The management of the level of gross gold and foreign exchange reserves focused on maintaining the reserves at the same level as last year in US dollar terms. As a result of a 29,7 per cent depreciation in the value of the rand against the US dollar during the financial year, such depreciation also having a positive effect on the statutory price of gold, the rand value of the Bank's gold and foreign exchange reserves improved from R60 345,4 million to R85 737,4 million at 31 March 2002.

The outstanding balance of loans utilised increased from R20 766,0 million as at 31 March 2001 to R28 297,4 million on 31 March 2002. This mainly reflected the reduction in the value of the rand as the US dollar amounts drawn were kept relatively stable at a level of around US\$2 500 million. Of particular note regarding correspondent banking operations was the signing, on 30 July 2001 in Cape Town, by the Bank and National Treasury, of a US\$1 500 million dual currency term loan facility for a period of three years. Thirty-one international banks participated in this transaction which raised more than double the amount originally planned. This syndicated loan facility was immediately fully drawn down by the Bank, with National Treasury having the option of taking over all or part of the facility as and when required. On 14 January 2002, National Treasury took over this facility.

Risk management forms an essential part of departmental operations. In this regard, the department continued to pay close attention to risk management and the adequacy of existing controls. In view of the tragic events in the United States on 11 September 2001, particular attention was paid to reviewing and updating the departmental business continuity and disaster recovery plans.

As part of the continuing effort to achieve an appropriate return within acceptable risk parameters, the governors approved a revised reserve management policy which included the appointment of an additional five external fund managers to each manage a US\$100 million tranche of the Bank's foreign exchange reserves. These portfolios, which will be managed against a Merrill Lynch 1-3 year government bond benchmark (excluding Japan) were activated as from 1 April 2002. This external fund management exercise is additional to the external management of US\$500 million against a 3-month Libor benchmark. The management of liquidity still remains of cardinal importance.

In fulfilling the need to improve the understanding of financial market developments, to provide executive management with relevant and up-to-date information as well as to provide policy input, the department continued to improve on its efforts to collect, analyse and interpret information from authorised foreign exchange dealers and the financial markets in general.

Legal Services Department

The department renders a comprehensive, centralised legal and insurance service to the South African Reserve Bank and its subsidiaries and proactively keeps abreast of progressive developments in a changing environment. The functions performed by the department encompass furnishing legal opinions requested by the governors and various departments, drafting and negotiating contracts, managing litigation and alternative dispute-resolution proceedings as well as drafting legislation, conducting legal research, performing legal administrative services, managing commercial contracts, managing the Bank's register of shareholders and insurance portfolio and providing a selective legal advice service to staff and pensioners, as well as the subsidiaries of the Bank.

Assistance was provided in respect of the Bank's preparation to testify at the Myburgh Commission of Inquiry into the Rapid Depreciation of the Exchange Rate of the Rand and Related Matters as well as the negotiation and conclusion of a syndicated loan facility that included the National Treasury.

The department participated in chairing the SADC Steering Committee that prepared a comparative study on Legal and Operational Frameworks of SADC Central Banks and is in the process of finalising a draft Model Central Bank Act.

Money and Capital Market Department

The primary responsibility of the department is to implement the South African Reserve Bank's monetary policy decisions. This entails refinancing banks' liquidity requirements through repurchase transactions and other facilities such as the averaging of cash reserves or marginal lending, as well as managing liquidity in the money market through open-market operations. Other functions of the department include participating in the formulating of government debt-management strategies, administering the auctions of government bonds and Treasury bills, and assisting National Treasury with the surveillance of primary dealers in government bonds. As part of its ongoing activities, the department conducts research and analyses of trends in the domestic financial markets and contributes to the development and efficient functioning of the financial markets in South Africa by proactively participating in these markets.

The following initiatives in 2001/02 merit special mention:

- Several changes to the Bank's refinancing system were introduced on 5 September 2001. These were the culmination of an extensive research project as well as discussions internally and with the banking sector on ways in which the refinancing system could be adapted to address certain structural shortcomings in the money and interbank market.
- A series of interbank overnight rates are collected, calculated and released via the electronic media on a daily basis. The purpose of these interest rates, of which the SAONIA rate is the most prominent, is to improve price discovery in the money market and to provide a benchmark for overnight interbank rates.
- The department improved its dissemination of financial market analyses by introducing a monthly publication that is available to all staff members, in which the main trends and events in the financial markets as well as the Bank's open-market operations are summarised and discussed.

SARB debentures were successfully dematerialised during the year under review, facilitating its trading in the secondary market. The department also commenced using the SWIFT system to streamline its operations, both within the department and with external counterparties.

National Payment System Department

The National Payment System Department (NPSD) supports the mission of the Reserve Bank by ensuring the overall effectiveness and integrity of the National Payment System (NPS).

Major progress has been made during 2001/02 with the reduction of settlement risk in the payment system. Appropriate risk-reduction measures were introduced in payment clearing houses (PCHs) with the finalisation of the signing of the PCH agreements for the main payment streams. The Card PCHs have been addressed and cater for PIN stored, signature based, fleet cards and other debit cards. After intensive consultation with the banking industry, same-day settlement was introduced on 7 May 2001. Real Time Line (RTL) settlement effected directly via the SAMOS system, as well as batch settlements forwarded from the NPS operator (Bankserv) are settled before the following day. Only the resultant interbank borrowing and lending, and final square-off take place the next day. The move to same-day settlement reduced settlement risk and aligned South African payment practices to internationally accepted core payment system principles. Item limits were introduced in high-risk payment streams from January 2001 onwards. The main objective was to settle all high-value items via the RTL of the SAMOS system. The payment streams involved are cheques, electronic fund transfers (EFTs), debit and credit payments, and ZAPS payments.

The Bank for International Settlements (BIS) identified ten core principles by which national payment system authorities could benchmark their payment systems. A self-evaluation revealed that South Africa complies with most of these principles, and is moving towards compliance in the other areas.

Cross-border payment flows in the CMA countries were investigated to align those practices and arrangements with the NPS principles. A CMA position paper was published in 2001 stating the view of the Bank. A CMA steering committee was formed in March 2002. A COMESA settlement model, the COMESA REPPS model, was evaluated by the NPSD.

In line with regional developments the department played a leading role in the development of the NPS capacity of SADC countries, and more specifically to support these countries in the development of their payment and settlement systems from project initiation to implementation.

The Bank keeps abreast of international developments in e-money, and conducts research into new payment technologies and practices on an ongoing basis. E-money product submissions were evaluated according to criteria which include the security of the proposed technology, the systemic-risk implications and compliance with relevant regulatory and legal frameworks. A number of government smart card payment initiatives have been established, and the NPSD facilitated interaction and co-operation between various government departments and the banking industry.

Research Department

The department supports economic policy formulation by providing accurate macroeconomic information, research and advice. The department collects statistical information and conducts economic research into the latest developments in the South African economy.

The department provides extensive economic statistics and other information to all interested parties. To this end, the department has established and maintains an extensive and well-documented database, as well as an effective information dissemination mechanism. During the year under review, this database was expanded to provide for international data sharing with the Bank for International Settlements (BIS) data bank.

The South African Reserve Bank was also certificated for overall compliance with the International Monetary Fund (IMF) Special Data Dissemination Standard (SDDS) and the IMF Report on Observance of Standards and Codes (ROSC) in terms of data quality. South Africa meets the SDDS specifications for the coverage, periodicity, and timeliness of all data categories and for the dissemination of advance release calendars.

The Sixth Census of Foreign Transactions, Assets and Liabilities was initiated in August 2001. It is an 18-month project and it is envisaged that the report will be published towards the end of the 2002/03 financial year. The *Institutional Sector Classification Guide for South Africa* was concluded and the report will be published in the latter part of 2002.

With regard to the enhancement of research capacity and coverage, the support mechanism which was established to manage the research function within the department and the Bank is functioning effectively. To this extent, three *Occasional Papers*, eight *Quarterly Bulletin* articles and 16 *Working Papers* were published.

Following the adoption of the inflation-targeting monetary framework, the focus of activities for the 2001/02 financial year continued to be the development and refinement of reliable and suitable macro-econometric models for inflation-forecasting purposes. Significant improvements were realised in terms of the results obtained and the models utilised.

Regular economic reviews were published in the *Quarterly Bulletin* and the *Annual Economic Report*. Reviews were presented at meetings of the Board of the Bank, the Governors' Committee, Monetary Policy Committee and the Monetary Policy Implementation Committee. In addition, presentations on domestic and international economic developments and issues were made to various interest groups.

The major publications initiated and generated during the 2001/02 financial year are: the *Monetary Policy Review* of the Monetary Research Unit and the *Labour Markets and Social Frontiers* of the Labour and Social Issues Unit. Two issues of the former were published in March and October 2001. The latter's first issue was in March 2002.

The Research Department continued with related activities in the statistical and research units. Among the activities undertaken in the statistical units were surveys for the BIS and the IMF.

The department participated in the BIS survey and the Triennial Central Bank Survey on Foreign Exchange and Derivatives Market Activity in April and June 2001. The Balance of Payments Division collected data on turnover in traditional foreign-exchange markets (spot, outright forwards and foreign-exchange swaps) and on outstanding amounts in over-the-counter currency and interest rate derivatives markets. The report was then provided to the BIS in the stipulated format. The final report was published by the BIS on 18 March 2002.

South Africa also participates in the Co-ordinated Portfolio Investment Survey 2001, an international project conducted under the auspices of the IMF. The purpose of this project is to obtain a detailed breakdown of outward portfolio investment assets as well as a country breakdown (according to the country of the issuer of the securities) as at the end of December 2001. New questionnaires/surveys were developed and introduced to collect the relevant information from institutional investors and fund managers in South Africa.

Changes to the balance-of-payments statistics for the period 1946-1990 were concluded in 2001. These changes were effected to comply with the requirements and to meet the specifications of the fifth edition of the *Balance of Payments Manual* of the IMF.

Two major events were hosted by the Research Department during 2001, namely the SADC National Accounts Meeting and the Monetary Policy Frameworks in Africa Conference. The National Accounts Division of the National Economy Unit was responsible for the former and the Macro Models Unit invited 16 experts from the BIS and SADC central banks as speakers at the latter.

South African Reserve Bank College

The college was established to improve the central banking skills of individuals to the highest level, in order to support the mission of the Bank and that of other central banks in the SADC region by offering a variety of learning opportunities itself or in conjunction with other training institutions.

During the year under review, the college placed great emphasis on co-operation with international training institutions, local universities, other central banks in the SADC region and departments in the Bank. The aim was to ensure that the latest trends and developments could be incorporated into the college's training programmes and to offer the best possible training opportunities to its internal and external clients.

In addition, the college again contributed significantly to the organising and executing of a variety of training interventions in collaboration with its partners in the SADC Training and Development Forum. The most significant of these were to secure funding from the Conference, Workshop and Culture Initiative Fund of the European Union, and to present a highly successful International Conference on Human Resources Management in Central Banks, which was held in Windhoek in 2001.

Another important development was the introduction of multimedia technology for online learning and computer-assisted learning using CD-ROM technology. Although still in the initial stages, these technologies have proven highly effective to enhance learning and to curtail the need for more traditional classroom learning.

The college once again actively presented training to some private-sector and tertiary education institutions in South Africa. These initiatives are regarded as important to disseminate information about the policy decisions made by the central bank and to stimulate discussions on the topic. The initiatives also focus attention on the role the college can play as a corporate college for the financial community in Southern Africa. These efforts are supported by its marketing strategy in which the college's services are promoted through the distribution of printed brochures, the Internet and direct marketing through personal contacts.

The college also manages the cadet programme of the Bank and is particularly pleased by the high success rate achieved by the academic development of these young people. The previous group of thirty cadets all received the Diploma in Central Banking as well as the Certificated Associate of the Institute of Bankers (CAIB) of which the latter is jointly offered by the college and the Institute of Bankers of South Africa. The Bank subsequently employed 93 per cent of these cadets, and the rest accepted lucrative offers from other firms.

Lastly, the college made significant progress in transforming its workforce in accordance with the transformation policies of the Bank. Currently 45,5 per cent of its staff members are black and 36,3 per cent are women. This is already close to the institutional objectives for 2005. This process is also supported by a programme to "fast-track" these new employees by providing carefully selected training and education opportunities.

Staff complement at 31 March 2002

	Permanent staff	Contract workers	Total
Executive management (excluding governors)	49		49
Bank supervision	91	5	96
Business systems and technology	170		170
Corporate services	254	2	256
Currency and protection services (including branches)	990	4	994
Exchange control	174	1	175
Financial services	75		75
Financial stability	11	2	13
Human resources	58		58
Internal audit	43		43
International banking	62		62
Legal services	31	1	32
Money and capital market	42		42
National payment system	24	1	25
Research	151		151
SARB College (including cadets)	11	20	31
Secondment to subsidiaries	3		3
Total staff complement	2 239	36	2 275
Staff members receiving disability benefits	30		30
Total	2 269	36	2 305

Report of the independent auditors

To the members of the South African Reserve Bank

We have audited the group annual financial statements and the annual financial statements of the South African Reserve Bank set out on pages 31 to 58 for the year ended 31 March 2002. These financial statements are the responsibility of the directors of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

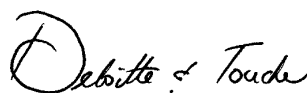
We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion these financial statements fairly present, in all material respects, the financial position of the group and the Bank at 31 March 2002, and of the results of their operations and cash flows for the year ended on that date in accordance with South African Statements of Generally Accepted Accounting Practice and the manner required by the South African Reserve Bank Act, No. 90 of 1989, and regulations thereunder.



Deloitte & Touche



PricewaterhouseCoopers Inc



Nkonki Sizwe Ntsaluba Inc

Joint auditors

Registered Accountants and Auditors
Chartered Accountants (SA)

Pretoria
31 May 2002

Directors' report for the year ended 31 March 2002

Introduction

The directors present the Bank's eighty-second annual report for the year ended 31 March 2002.

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

It is the directors' responsibility to prepare annual financial statements and related financial information that fairly 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, as well as its relationship with the government concerning foreign exchange and gold transactions.

The annual financial statements set out in this report have been prepared by management in accordance with South African Statements of Generally Accepted Accounting Practice in all material respects. They include full and responsible disclosure and are based on appropriate accounting policies which have been consistently applied, except where specifically indicated differently, and which are supported by reasonable and prudent judgements and estimates.

In exceptional circumstances, as part of its central banking functions, the Bank may provide emergency liquidity assistance to banks experiencing difficulty in order to prevent loss of confidence spreading through the financial system as a whole. Confidence in the banking system can best be sustained if the Bank's support is only disclosed when conditions giving rise to potentially systemic disturbances have improved. Accordingly, the Bank's financial statements may not explicitly identify such support.

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 shareholders, the Board, committees of the Board and management meetings.

The requirements of the King Report on Corporate Governance are dealt with in the corporate governance statement which appears on pages 12 to 14.

Nature of business

The South African Reserve Bank is the central bank of the Republic of South Africa and is regulated in terms of an Act of Parliament. The primary object of the South African Reserve Bank is the achievement and maintenance of financial stability. In pursuance of its primary objective, the Bank assumes responsibility for the functions as set out in its mission statement on pages 2 and 3.

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

- Corporation for Public Deposits receives call deposits from public entities;
- South African Bank Note Company (Proprietary) Limited produces banknotes;

- South African Mint Company (Proprietary) Limited produces coin; and
- South African Reserve Bank Captive Insurance Company Limited is a captive insurance company which 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 financial stability, will be addressed by the Governor at the ordinary general meeting of shareholders to be held on 27 August 2002. This address receives extensive media coverage and is made available to shareholders and other interested parties.

The inflation target set for the Bank as measured by the CPIX, i.e. overall consumer price index excluding interest rates on mortgage bonds for metropolitan and other urban areas, has been set at between 3 and 6 per cent for the calendar year 2002. Current projections indicate that, although inflation had dropped below the upper end of the range in September and October 2001, the required level of inflation is not likely to be achieved in 2002. Current projections indicate that the inflation target, which has been left unchanged for 2003, could be achieved.

The Bank is committed to reducing its net open foreign currency position as soon as is practically possible without adversely affecting domestic markets. Good progress has been made in this regard. The net open foreign currency position as at 31 March 2002 was US\$2,9 billion (2001: US\$9,4 billion). On 14 October 2001 the Governor stated publicly that in future only proceeds from privatisation or government's foreign borrowing would be used to further reduce the outstanding balance.

Strategic planning is undertaken annually with a medium-term time horizon. The strategic planning culminates in operational plans, objectives and budgets which are monitored regularly by the budget committee and Governors' Committee. The Bank's achievements are measured against its vision for the year 2010, which guides strategic planning.

Financial results

The income statements appear on page 37.

All remaining profits of the Bank and the Corporation for Public Deposits, after transfers to reserves and dividends paid, are paid to the Government in terms of the South African Reserve Bank and Corporation for Public Deposits Acts. Amounts paid and due in terms of the Acts over the past two years were as follows:

	Group	Bank
	R'000	R'000
31 March 2002	20 850	4 756
31 March 2001	317 870	291 575

The Bank's results have been affected by a reversal during the year of significant unrealised revaluation gains on government bonds held by the Bank, as well as the amounts due by the Government of approximately R29 billion (2001: R19,6 billion) which represent significant assets on the balance sheet (Note 7 to the financial statements). The repayment of this amount, or alternatively the raising of interest thereon, is currently being discussed with the Government. When this issue is resolved, the Bank's future profits will improve.

Dividends

The directors approved a final dividend of 5 cents per share on 10 May 2002. In terms of South African Statement of Generally Accepted Accounting Practice, AC 107, however, no accrual for the final dividend has been raised. Only the interim dividend of 5 cents per share has been accounted for in these financial statements.

Termination of the Bank's listing

The Bank, owing to its statutory nature, is unable to comply with the continuous listings requirements of the JSE Securities Exchange SA (JSE). As a result of the implementation of STRATE, paper settlement of JSE trades will cease. In view of these difficulties, the shareholders of the Bank agreed, at a special meeting held on 25 April 2002, to terminate the Bank's listing on the JSE. It was also agreed to establish an over-the-counter share transfer facility to facilitate trading in the Bank's shares.

Property, plant and equipment

Previously, depreciation was not provided on buildings. In terms of South African Statement of Generally Accepted Accounting Practice, AC 135, which is compulsory for financial periods commencing on or after 1 April 2001, these buildings should be classified as owner-occupied and, consequently, depreciated as required by South African Statement of Generally Accepted Accounting Practice, AC 123. Accordingly, these buildings are now being depreciated over their expected useful lives. A prior year adjustment in respect of accumulated depreciation as at 1 April 2001 has been made (refer to Note 2 to the financial statements).

The Bank has embarked on a major building expansion project at its head office building to cater for growth needs. The project is expected to be completed by the end of calendar year 2003 at an approximate cost of R250 million.

Directors

The composition of the Board of directors is set out on page 6.

The term of office of Mr J H Cross expired on 31 December 2001 when he retired from the service of the Bank.

Mr J W Raath whose term of office as a shareholders' representative expired on 29 August 2001, was re-elected.

The term of office of Mr I J Moolman as a shareholders' representative expired on 29 August 2001. He was not available for re-election and stepped down as director with effect from 30 August 2001. In terms of section 6(1)(b), the Board appointed Mrs Z P Manase with effect from 22 February 2002 to the vacancy owing to the retirement of Mr Moolman. Shareholders will be requested to confirm the appointment of Mrs Manase, and elect her as a director for a three-year period commencing on 28 August 2002.

The terms of office of Drs M T de Waal and D Konar as shareholders' representatives expire on 28 August 2002. Dr de Waal is not available for re-election and will step down as a director with effect from 29 August 2002. Dr Konar is eligible and offers himself for re-election.

At its meeting held on 31 May 2002, the Board resolved to propose the appointment of Mrs N D B Orleyn to replace Dr de Waal whose term of office expires on 28 August 2002 as a director representing Industry. Shareholders will be requested to confirm her appointment to the Board with effect from 29 August 2002.

Prof. M Padayachee, whose term of office as a government representative expires on 28 August 2002, is eligible for reappointment by the Government.

There are currently three vacancies on the Board, one for a deputy governor and two for representatives of Government.

Direct and indirect shareholding of directors on 31 March 2002

	Number of shares
Direct shareholding	500
Indirect shareholding	0
	500

Subsidiaries

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

	Authorised and issued share capital		Shares at cost		Indebtedness to/(by) Reserve Bank	
	Number of shares	Percentage held				
	2002 '000	2002 Per cent	2002 R'000	2001 R'000	2002 R'000	2001 R'000
Corporation for Public Deposits	2 000	100	2 000	2 000	110 059	110 042
South African Mint Company (Pty) Limited	60 000	100	206 000	206 000	0	2
South African Bank Note Company (Pty) Limited	61 000	100	61 000	61 000	12 247	12 218
South African Reserve Bank Captive Insurance Company Limited	10 000	100	10 000	10 000	(1)	0
Total			279 000	279 000	122 305	122 262

The Bank's interest in the aggregate attributable net profits and losses in subsidiaries, is as follows:

	Bank	
	2002 R million	2001 R million
Aggregate profits	88	82

Post balance sheet events

The Bank was delisted from the JSE Securities Exchange SA on 2 May 2002.

Secretary

Ms Z R Matsau

Business address:

370 Church Street
Pretoria
0002

Postal address:

PO Box 427
Pretoria
0001

The financial statements were approved by the Board of directors on 31 May 2002 and signed on its behalf by:



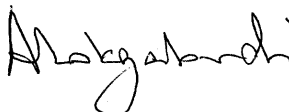
T T Mboweni
Governor



G Marcus
Deputy Governor



M T de Waal
Director



A M Mokgabudi
Director



G J Terblanche
Chief Financial Officer

In my capacity as Secretary of the Bank, I certify that all the returns required to be submitted in terms of the South African Reserve Bank Act, No. 90 of 1989, for the year ended 31 March 2002, have been correctly completed and are up to date.



Z R Matsau
Secretary

Pretoria
31 May 2002

Balance sheets at 31 March 2002

	Notes	Group		Bank	
		2002 R'000	2001 R'000	2002 R'000	2001 R'000
Assets					
Property, plant and equipment	3	606 223	695 755	453 090	532 980
Investment in subsidiaries	4	0	0	401 305	401 262
Loans and advances	5	74 058	72 754	74 058	72 754
Investments	6	4 204 375	4 861 159	0	0
Amounts due by the					
South African Government	7	29 384 518	19 554 793	29 384 518	19 554 793
Gold and foreign exchange	8	85 737 416	60 345 398	85 737 416	60 345 398
Accommodation to banks	9	12 085 326	10 607 698	12 085 326	10 607 698
Internal registered bonds	10	6 516 322	6 778 388	6 516 322	6 778 388
Debtors and other accounts		11 483 300	692 435	11 450 871	650 379
Inventories	11	161 451	142 749	0	0
Cash and cash equivalents	12	91 700	77 467	0	0
Deferred tax asset	17	93 250	714	91 493	0
Total assets		150 437 939	103 829 310	146 194 399	98 943 652
Liabilities and equity					
Liabilities					
Notes and coin issued	13	34 720 793	29 633 857	34 720 793	29 633 857
Reserve Bank debentures	14	4 000 000	3 725 000	4 000 000	3 725 000
Deposit accounts	15	71 582 774	45 137 866	67 821 884	40 701 185
Foreign loans	16	28 297 412	20 765 980	28 297 412	20 765 980
Deferred tax liability	17	1 633	2 610	0	1 854
Creditors and other accounts	18	8 017 584	501 550	7 923 173	385 259
Total liabilities		146 620 196	99 766 863	142 763 262	95 213 135
Equity					
Share capital	19	2 000	2 000	2 000	2 000
Statutory reserve fund		335 724	335 196	335 724	335 196
Other reserves	20	3 426 329	3 709 083	3 093 413	3 393 321
Accumulated profits		53 690	16 168	0	0
Total equity		3 817 743	4 062 447	3 431 137	3 730 517
Total liabilities and equity		150 437 939	103 829 310	146 194 399	98 943 652

Income statements for the year ended 31 March 2002

	Notes	Group		Bank	
		2002 R'000	2001 R'000	2002 R'000	2001 R'000
Interest income		3 962 536	4 289 372	3 636 686	3 943 493
Interest expense		3 268 367	3 168 387	2 992 781	2 817 813
Net interest income		694 169	1 120 985	643 905	1 125 680
Other income	21.1	1 112 604	1 534 175	940 269	1 370 921
Total income		1 806 773	2 655 160	1 584 174	2 496 601
Operating costs		1 696 395	1 202 445	1 568 764	1 099 299
Personnel costs	21.2	608 395	490 018	501 274	388 378
Other operating costs	21.2	1 088 000	712 427	1 067 490	710 921
Profit before tax		110 378	1 452 715	15 410	1 397 302
Tax	22	22 800	425 682	(1 398)	404 825
Profit after tax		87 578	1 027 033	16 808	992 477
Dividend per share (cents)	23	5,0	10,0	5,0	10,0

Cash flow statements for the year ended 31 March 2002

	Notes	Group		Bank	
		2002 R'000	2001 R'000	2002 R'000	2001 R'000
Cash flows from operating activities					
Cash utilised by operating activities	24	(5 067 431)	(1 522 372)	(4 501 699)	(1 037 130)
Tax paid		(192 609)	(557 595)	(177 996)	(550 177)
Dividends paid		(200)	(200)	(200)	(200)
Transfer to Government		(317 870)	(344 355)	(291 575)	(311 314)
Net cash utilised by operations		(5 578 110)	(2 424 522)	(4 971 470)	(1 898 821)
Cash flows from financing activities					
Notes and coin issued		5 086 936	1 991 231	5 086 936	1 991 231
Cash flow from/(utilised by) investing activities		505 407	447 199	(115 466)	(92 410)
Purchase of property, plant and equipment		(129 342)	(69 375)	(114 488)	(49 043)
Disposal of property, plant and equipment		4 468	1 843	3 574	1 437
Disposal of investments		634 790	578 547	0	0
Internal registered stock purchased		(4 509)	(63 816)	(4 509)	(63 816)
Liquidation of subsidiary		0	0	0	28 672
Investment in subsidiaries		0	0	(43)	(9 660)
Net increase in cash and cash equivalents		14 233	13 908	0	0
Cash and cash equivalents at beginning of the year		77 467	63 559	0	0
Cash and cash equivalents at end of the year	12	91 700	77 467	0	0

Due to its role in the creation and withdrawal of money, the Bank has no cash balances on its balance sheet.

Statement of changes in equity: Group

For the year ended 31 March 2002

	Accumulated profit R'000	Share capital R'000	Statutory reserves R'000	Other reserves R'000	Total R'000
Balances at 31 March 2000	43 171	2 000	302 799	3 005 514	3 353 484
Profit after tax	1 027 033	0	0	0	1 027 033
Transfer to Government	(317 870)	0	0	0	(317 870)
Transfer to reserves	(735 966)	0	32 397	703 569	0
Dividends paid	(200)	0	0	0	(200)
Balances at 31 March 2001	16 168	2 000	335 196	3 709 083	4 062 447
Adjustments due to changes in accounting policies (Note 2)					
Accumulated depreciation on buildings	0	0	0	(118 643)	(118 643)
Provision for leave pay	(18 945)	0	0	0	(18 945)
Provision for post-retirement benefits to employees	(63 744)	0	0	(110 000)	(173 744)
Adjusted balances at 1 April 2001	(66 521)	2 000	335 196	3 480 440	3 751 115
Profit after tax	87 578	0	0	0	87 578
Transfer to Government	(20 850)	0	0	0	(20 850)
Transfer from reserves	53 583	0	528	(54 111)	0
Dividends paid	(100)	0	0	0	(100)
Balances at 31 March 2002	53 690	2 000	335 724	3 426 329	3 817 743

Explanatory notes

Statutory reserve

The statutory reserve fund is maintained in terms of section 24 of the South African Reserve Bank Act, which stipulates that one-tenth of the profit after transfers to reserves and payment of dividends has to be credited to the statutory reserve fund.

Transfer to Government

In terms of section 24 of the South African Reserve Bank Act, nine-tenths of the surplus remaining after transfers to reserves and payment of dividends is paid to the Government. In terms of section 15 of the Corporation for Public Deposits Act, the balance of net profits after transfers to reserves and payment of dividends is paid to the Government.

Statement of changes in equity: Bank

For the year ended 31 March 2002

	Accumulated profit R'000	Share capital R'000	Statutory reserves R'000	Other reserves R'000	Total R'000
Balances at 31 March 2000	0	2 000	302 799	2 725 016	3 029 815
Profit after tax	992 477				992 477
Transfer to Government	(291 575)				(291 575)
Transfer to reserves	(700 702)		32 397	668 305	0
Dividends paid	(200)				(200)
Balances at 31 March 2001	0	2 000	335 196	3 393 321	3 730 517
Adjustments due to changes in accounting policies (Note 2)					
Accumulated depreciation on buildings				(118 643)	(118 643)
Provision for leave pay	(18 945)				(18 945)
Provision for post-retirement benefits to employees	(63 744)			(110 000)	(173 744)
Adjusted balances at 1 April 2001	(82 689)	2 000	335 196	3 164 678	3 419 185
Profit after tax	16 808				16 808
Transfer to Government	(4 756)				(4 756)
Transfer from reserves	70 737		528	(71 265)	0
Dividends paid	(100)				(100)
Balances at 31 March 2002	0	2 000	335 724	3 093 413	3 431 137

Explanatory notes

Statutory reserve

The statutory reserve fund is maintained in terms of section 24 of the South African Reserve Bank Act, which stipulates that one-tenth of the profit after transfers to reserves and payment of dividends has to be credited to the statutory reserve fund.

Transfer to Government

In terms of section 24 of the South African Reserve Bank Act, nine-tenths of the surplus remaining after transfers to reserves and payment of dividends is paid to the Government.

Notes to the financial statements

1. Accounting policies

The following are the principal accounting policies of the group which are consistent in all material respects with those applied in the previous year, except for the changes stated in Note 2. The financial statements have been prepared on the historic cost basis, except for certain financial instruments which are stated at fair value at balance sheet date.

1.1 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 profits and losses on transactions between Group companies have been eliminated.

Where necessary, comparative figures have been reclassified and restated for disclosure purposes.

1.2 Financial instruments

Measurement

Financial instruments are initially measured at cost which includes transaction costs. Subsequent to initial recognition, all instruments are measured at fair value except for the instruments set out below. Where appropriate, the particular recognition methods adopted are disclosed in the individual policy statements and notes associated with each instrument.

Investments in subsidiaries

Investments in subsidiaries are stated at cost less provision for losses where appropriate.

Gold coin and bullion

Gold coin and bullion are valued at 90 per cent of the average of the last 10 gold price fixings determined on the London gold market before the year-end.

South African Reserve Bank debentures

The liability in respect of South African Reserve Bank debentures outstanding is stated as the amount of the consideration received at date of issue. Due to the short-term nature of these instruments, the fair value approximates the issue value thereof, regardless of interest rate fluctuations. Interest is accrued on a day-to-day basis.

1.3 Property, plant and equipment and depreciation

Property, plant and equipment are initially recorded at cost. Depreciation is calculated on the straight line method to write off the cost of each asset to its residual value over its expected useful life as follows:

- Land is not depreciated.
- Buildings are depreciated over 50 years. Previously, buildings were not depreciated. A prior year adjustment in respect of opening accumulated depreciation of buildings is shown in the Statement of changes in equity.
- Plant, vehicles, furniture and equipment are depreciated over 2 to 25 years.
- Information technology expenditure is expensed as incurred.

The recorded value of depreciated assets is periodically compared to the anticipated recoverable amount of the assets if the assets were to be sold. Where a permanent impairment of assets is identified, the impairment is recognised as an expense. The cost of renewal and maintenance of assets is expensed as incurred.

1.4 Foreign currency activities

Assets and liabilities in foreign currencies are converted to South African rands at the rates ruling at the close of the financial year. Exchange profits and losses of the Bank are for the account of the Government and are transferred to the gold and foreign exchange contingency reserve account. Exchange profits and losses of the subsidiary companies are charged to the income statement.

1.5 Taxation

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

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

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

1.6 Pension and retirement funds

The expected costs of post-retirement benefits under the defined benefit and defined contribution schemes are charged to income over the expected service lives of the employees entitled to these benefits according to the projected unit benefit method. Costs are actuarially assessed and expense adjustments and past-service costs resulting from plan amendments are amortised over the expected average remaining service lives of the employees.

1.7 Post-retirement medical benefits

The Bank provides for post-retirement medical benefits in the form of a medical aid scheme for eligible employees and pensioners. The liability for the Bank's contributions to the scheme is, in respect of current and future pensioners, provided for by means of an on-balance-sheet liability. The magnitude of the liability is based on an actuarial valuation. Actuarial gains and losses on the post-retirement medical benefits are accounted for in the year in which they arise.

Previously, the Bank's liability with regard to current pensioners was provided by way of a distributable reserve. The balance on this reserve account was transferred to the income statement and a provision account created and reflected as a prior year adjustment in the Statement of changes in equity.

1.8 Sale and repurchase agreements

Securities purchased under agreements to resell are recorded as funds receivable under the heading: "Accommodation to banks". Likewise, securities sold under agreement to repurchase are disclosed as deposits received. The differences between the purchase and sale prices are treated as interest and accrued evenly over the lives of repurchase and reverse repurchase agreements.

1.9 Inventories

Inventories stated are those held by the Bank's wholly owned subsidiaries.

Inventories are stated at the lower of cost and net realisable value, which is based on the assumption that raw materials and work in progress will become finished goods for sale.

Redundant and slow-moving stocks are identified and written down to their estimated economic or realisable values. Raw materials are valued according to the first-in, first-out basis by the SA Mint. 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 purchase 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, based on normal operating capacity, are included in the cost of manufactured goods.

1.10 Cash flow

For the purposes of the cash flow statements, cash includes cash on hand and bank overdrafts of the subsidiaries. As far as the Bank is concerned, no cash balances are shown because of the Bank's role as central bank in the creation of money.

1.11 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. Details of provisions are set out in Note 18.

1.12 Revenue recognition

Interest revenue is recognised on a time-proportion basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income is recognised when the right to receive payment has been established.

Revenue arising from the provision of services to clients is recognised on an accrual basis.

1.13 Turnover

No amounts are disclosed for turnover in view of the Bank's unique central-banking activities.

1.14 Impairment of assets

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

An impairment loss is recognised in the income statements 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.

2. Changes in accounting policies

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
<i>Prior year adjustments</i>				
Creation of a provision for post-retirement medical aid benefits. The balance of R110 million on the reserve for post-retirement benefits has been applied to partly fund the provision. The net amount after adjusting for deferred tax was debited to accumulated profits.	63 744	0	63 744	0
Creation of provision for leave pay (net of deferred tax). Debited to accumulated profits.	18 945	0	18 945	0
Raising of accumulated depreciation on buildings. This has been funded by a transfer from the contingency reserve because when the value of the fixed assets was brought onto the balance sheet the first time last year, this reserve was credited.	118 643	0	118 643	0
Raising of fixed assets previously written off when purchased, credited to the contingency reserve.	0	459 063	0	459 063
<i>Effect on profit for the year</i>				
Decrease in net profit				
Gross	(39 091)	(47 108)	(39 091)	(47 108)
Deferred tax	11 727	(17 444)	11 727	193
	(27 364)	(64 552)	(27 364)	(46 915)

3. Property, plant and equipment

3.1 Group

	Land and buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost				
Cost at 1 April 2001	434 090	888 845	62 030	1 384 965
Additions/reclassifications	7 103	90 448	31 820	129 371
Disposals	0	(25 775)	0	(25 775)
Cost at 31 March 2002	441 193	953 518	93 850	1 488 561
Accumulated depreciation				
Balance at 1 April 2001	26 747	662 463	0	689 210
Adjustment due to change in accounting policy	118 643	0	0	118 643
Adjusted balance at 1 April 2001	145 390	662 463	0	807 853
Charge for the year	5 991	88 485	0	94 476
Written back on disposals during the year	0	(19 991)	0	(19 991)
Balance at 31 March 2002	151 381	730 957	0	882 338
Net book value at 31 March 2002	289 812	222 561	93 850	606 223
Net book value at 31 March 2001	407 343	226 382	62 030	695 755

3.2 Bank

Cost				
Cost at 1 April 2001	314 243	471 974	62 030	848 247
Additions/reclassifications	1 184	84 329	28 975	114 488
Disposals	0	(21 269)	0	(21 269)
Cost at 31 March 2002	315 427	535 034	91 005	941 466
Accumulated depreciation				
Balance at 1 April 2001	0	315 267	0	315 267
Adjustment due to change in accounting policy	118 643	0	0	118 643
Adjusted balance at 1 April 2001	118 643	315 267	0	433 910
Charge for the year	5 392	65 837	0	71 229
Written back on disposals during the year	0	(16 763)	0	(16 763)
Balance at 31 March 2002	124 035	364 341	0	488 376
Net book value at 31 March 2002	191 392	170 693	91 005	453 090
Net book value at 31 March 2001	314 243	156 707	62 030	532 980

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

4. Investment in subsidiaries

	Bank	
	2002 R'000	2001 R'000
Shares at cost	279 000	279 000
Corporation for Public Deposits	2 000	2 000
South African Mint Company (Proprietary) Limited	206 000	206 000
South African Bank Note Company (Proprietary) Limited	61 000	61 000
South African Reserve Bank Captive Insurance Company Limited	10 000	10 000
Loan – South African Bank Note Company (Proprietary) Limited	12 247	12 218
Current accounts	58	44
Corporation for Public Deposits	59	42
South African Mint Company (Proprietary) Limited	0	2
South African Reserve Bank Captive Insurance Company Limited	(1)	0
Deposit account		
Corporation for Public Deposits	110 000	110 000
	401 305	401 262

The loan to the South African Bank Note Company is unsecured with no fixed repayment terms. Currently, the loan bears no interest.

5. Loans and advances

Secured foreign loans

Repayable by 31 December 2002 if not renegotiated. The loan is secured by a pledge of South African Land Bank bills and earns interest at the repurchase rate.

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
	73 808	72 254	73 808	72 254
Repayable on 31 December 2002. The loan is secured by a government guarantee and earns interest at 3 per cent per annum.	250	500	250	500
	74 058	72 754	74 058	72 754

6. Investments

Short-term South African money-market investments
Portfolio investments
(Market value – R200 965; 2001 – R179 282)

	4 003 730	4 688 597	0	0
	200 645	172 562	0	0
	4 204 375	4 861 159	0	0

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
7. Amounts due by the South African Government				
Gold and foreign-exchange contingency reserve account	28 023 684	18 169 585	28 023 684	18 169 585
IMF accounts administered on behalf of the South African Government	799 048	799 587	799 048	799 587
Government of Namibia debt taken over by the South African Government	561 786	585 621	561 786	585 621
	29 384 518	19 554 793	29 384 518	19 554 793

The gold and foreign-exchange contingency reserve account, which is operated in terms of section 28 of the South African Reserve Bank Act, represents the net amount due to the Bank by the South African Government in respect of realised profits and losses incurred on gold and foreign-exchange transactions. The amounts due are interest-free and no fixed repayment terms have been agreed on.

8. Gold and foreign exchange

Gold coin and bullion	17 477 013	11 026 542	17 477 013	11 026 542
Foreign exchange	68 260 403	49 318 856	68 260 403	49 318 856
	85 737 416	60 345 398	85 737 416	60 345 398

The foreign exchange is invested primarily in short-term US dollar money-market instruments.

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
9. Accommodation to banks				
Repurchase agreements	11 710 000	9 900 000	11 710 000	9 900 000
Application of cash reserve balances	375 326	707 698	375 326	707 698
	12 085 326	10 607 698	12 085 326	10 607 698

Repurchase agreements are treated as advances and are secured by financial instruments valued at a discount at the time of the transaction. The Bank has the right to call for additional collateral should the value of the securities decline during the tenure of the contract. All repurchase agreements expire within seven days of the transaction date.

10. Internal registered bonds

Government bonds: zero coupon	111	1 253 894	111	1 253 894
Government bonds: interest bearing	6 516 211	5 524 494	6 516 211	5 524 494
	6 516 322	6 778 388	6 516 322	6 778 388

The zero-coupon bonds have no set repayment date, but the Bank has the right to have them converted into interest-bearing bonds should it be required for monetary policy implementation. These bonds have therefore been valued at their nominal value. The interest-bearing bonds represent previously converted zero-coupon bonds and have been employed to secure reverse repurchase agreements entered into with banks. These bonds are shown at fair market values (refer to Note 15).

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
11. Inventories				
Raw materials	69 622	48 056	0	0
Work in progress	59 799	50 165	0	0
Consumable stores	8 066	6 187	0	0
Maintenance spares	5 045	4 391	0	0
Finished goods	19 151	34 182	0	0
Less: Provision for obsolescence	(232)	(232)	0	0
	161 451	142 749	0	0
12. Cash and cash equivalents				
Bank and cash balances	91 700	77 467	0	0
13. Notes and coin issued				
Notes	32 726 454	27 754 863	32 726 454	27 754 863
Coin	1 994 339	1 878 994	1 994 339	1 878 994
	34 720 793	29 633 857	34 720 793	29 633 857
Notes and coin held by the Bank as cash on hand at the end of the financial year have been netted off against the liability for notes and coin in circulation because they do not represent currency in circulation.				
14. SA Reserve Bank debentures	4 000 000	3 725 000	4 000 000	3 725 000

The SA Reserve Bank debentures are issued to the market on tender, normally for 28-day terms. Details of the bills in issue at 31 March 2002 are as follows:

Maturity date	Interest rate Per cent	Capital R million
3 April 2002	9,56	1 000
10 April 2002	9,84	1 000
14 April 2002	10,27	1 000
24 April 2002	10,36	1 000

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
15. Deposit accounts				
<i>Non-interest bearing</i>	18 036 264	12 646 419	18 036 264	12 646 419
Banks' reserve accounts	14 166 155	9 730 265	14 166 155	9 730 265
Government current accounts	3 682 205	2 774 818	3 682 205	2 774 818
Other current accounts	187 904	141 336	187 904	141 336
<i>Interest bearing</i>	53 546 510	32 491 447	49 785 620	28 054 766
Reverse repurchase agreements	5 950 000	5 425 000	5 950 000	5 425 000
Banks' foreign denominated deposits	43 835 620	22 629 766	43 835 620	22 629 766
Call deposits	3 760 890	4 436 681	0	0
	71 582 774	45 137 866	67 821 884	40 701 185

The reverse repurchase agreements are secured by government bonds valued at R6 516 million (2001 – R5 524 million).

16. Foreign loans	28 297 412	20 765 980	28 297 412	20 765 980
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Foreign loans represent credit lines utilised which bear interest at market-related rates.

17. Deferred tax asset/(liability)				
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Balance at beginning of the year	(1 896)	14 939	(1 854)	(2 047)
Adjustment due to change in accounting policy	82 581	0	82 581	0
Income statement (charge)/credit	10 932	(16 835)	10 766	193
Balance at end of the year	91 617	(1 896)	91 493	(1 854)
Comprising:				
Deferred tax asset	93 250	714	91 493	0
Deferred tax liability	(1 633)	(2 610)	0	(1 854)
<i>Net deferred tax asset/(liability)</i>	91 617	(1 896)	91 493	(1 854)

Deferred tax assets and liabilities (charged)/credited to the income statements are attributed as set out in 17.1 and 17.2.

	31 March 2002	Credit/ (charge) to income statement	31 March 2001
17.1 Group			
Property, plant and equipment	(9 470)	(94)	(9 376)
Post-retirement medical costs	89 256	85 356	3 900
Disability benefit provision	158	0	158
Provisions	11 008	8 121	2 887
Deferred retirement fund contributions	1 152	427	725
Deferred software development costs	1 618	(482)	2 100
Prepaid expenditure	(4 389)	869	(5 258)
Tax loss	0	(1 319)	1 319
Other	2 284	635	1 649
	91 617	93 513	(1 896)
<i>Less: Disclosed as a prior year adjustment</i>		82 581	
	91 617	10 932	(1 896)

17.2 Bank			
Deferred retirement fund contributions	1 152	427	725
Post-retirement medical costs	83 455	83 455	0
Deferred software development costs	1 618	(482)	2 100
Provisions	9 236	9 236	0
Employee housing allowance	(7)	0	(7)
Prepaid expenditure and other	(3 961)	711	(4 672)
	91 493	93 347	(1 854)
<i>Less: Disclosed as a prior year adjustment</i>		82 581	
	91 493	10 766	(1 854)

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
18. Creditors and other accounts				
<i>Creditors and other accounts include the following provisions:</i>				
Leave pay provisions	33 021	2 576	30 787	0
Provision for bonuses	2 007	4 875	0	0
Legal fee provision	0	145	0	0
Provision for export quality assurance	595	455	0	0
Provision for post-retirement medical costs	298 041	13 525	278 182	0
	333 664	21 576	308 969	0
Balance at beginning of the year	21 576	22 104	0	0
Adjustment due to change in accounting policy	275 270	0	275 270	0
Changes to provisions charged to income statements	36 818	(528)	33 699	0
Balance at end of the year	333 664	21 576	308 969	0

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
19. Share capital				
<i>Authorised and issued</i> 2 000 000 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.				
20. Other reserves				
Contingency reserve	3 173 644	3 363 624	3 093 413	3 283 321
Pensioners' medical aid reserve	0	110 000	0	110 000
Plant replacement reserve	252 685	235 459	0	0
	3 426 329	3 709 083	3 093 413	3 393 321
21. Operating profit				
21.1 Other income is stated after crediting				
Reduction in provision for loss in subsidiary			0	49 753
Income from investments: Dividends	39 066	13 719	39 266	11 290
Profit on internal registered bonds	0	455 074	0	455 074
Profits on foreign investments	169 810	278 057	169 810	226 987
Income from subsidiaries			11 077	11 307
Dividends			200	200
Interest			9 988	10 662
Administration fees			889	445
Commission	715 656	585 599	715 656	585 599
Surplus on liquidation of subsidiary			0	25 071

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
21.2 Personnel and other operational costs include				
Directors' remuneration			5 894	5 657
From the Bank for services as directors			730	503
From the Bank for other services			5 164	5 154
Depreciation	94 476	71 110	71 229	47 108
Loss on disposal of fixed assets	1 316	547	932	555
Loss on internal registered bonds	266 575	0	266 575	0
Auditors' remuneration	3 767	2 539	2 558	1 957
Audit fee	3 254	2 477	2 534	1 953
Under/(over)-provision for previous year	94	(50)	0	0
Fees for other services	360	93	0	0
Expenses	59	19	24	4
Transfers to provisions	36 818	(528)	33 699	0
Pension and retirement fund contributions	98 401	39 249	87 930	31 891
Normal	49 291	33 056	41 710	29 829
Additional	5 760	2 062	5 760	2 062
Other post-retirement benefits (refer to Note 26)	43 350	4 131	40 460	0
22. Tax				
South African normal tax				
Current tax	34 624	408 847	10 260	405 018
Over-provision in respect of prior years	(892)	0	(892)	0
Deferred tax	(10 932)	16 835	(10 766)	(193)
	22 800	425 682	(1 398)	404 825
<i>Reconciliation of tax rate</i>				
South African normal tax rate	30,00%	30,00%	30,00%	30,00%
Adjusted for:				
Disallowable expenses	3,22%	00,03%	18,47%	00,04%
Exempt income and special deductions	(11,76)%	(0,73)%	(51,75)%	(01,07)%
Effective tax rate	21,46%	29,30%	(3,28)%	28,97%

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
23. Dividends	100	200	100	200
Dividends were declared as follows:				
Interim dividend of 5 cents per share was declared on 1 October 2001 and paid on 26 October 2001. Final dividend of 5 cents per share was declared on 5 April 2002 and paid on 10 May 2002. In terms of GAAP, this final dividend was not accrued.				
Earnings per share have not been calculated as the shares qualify for a maximum dividend of 10 cents per share per annum in terms of the South African Reserve Bank Act.				
24. Cash utilised by operations				
Reconciliation of profit before tax to cash generated from operations:				
Profit before tax	110 378	1 452 715	15 410	1 397 302
<i>Adjustments for:</i>				
Depreciation	94 476	71 110	71 229	47 108
Net loss on disposal of fixed assets	1 316	547	932	555
Unrealised foreign exchange (gain)/loss	(1 124)	41	0	0
Employee benefits accrual	0	687	0	0
Profit on liquidation of former subsidiary	0	0	0	(25 071)
Reversal of provision for losses in subsidiary	0	0	0	(49 753)
Loss/(profit) on revaluation of internal registered bonds	266 575	(455 074)	266 575	(455 074)
Net cash generated by operating activities	471 621	1 070 026	354 146	915 067
<i>Changes in working capital:</i>				
Loans and advances	(1 304)	2 107	(1 304)	2 107
Amounts due by Government	(9 829 725)	(8 963 699)	(9 829 725)	(8 963 699)
Gold and foreign exchange	(25 392 018)	(11 894 383)	(25 392 018)	(11 894 383)
Accommodation to banks	(1 477 628)	(2 646 302)	(1 477 628)	(2 646 302)
Debtors and other accounts	(10 623 793)	113 696	(10 631 865)	115 449
Inventories	(18 703)	(40 669)	0	0
Reserve Bank debentures	275 000	725 000	275 000	725 000
Deposit accounts	26 473 063	15 734 102	27 120 699	16 360 308
Foreign loans	7 531 432	4 311 990	7 531 432	4 311 990
Creditors and other accounts	7 524 624	65 760	7 549 564	37 333
Cash utilised by changes in working capital	(5 539 052)	(2 592 398)	(4 855 845)	(1 952 197)
Cash utilised by operating activities	(5 067 431)	(1 522 372)	(4 501 699)	(1 037 130)

25. Retirement benefit information

The group has made provision for pension and provident plans covering substantially all employees. All employees are members of either defined benefit or 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. The funds are governed by the Pension Funds Act, No. 24 of 1956.

Contributions to the defined benefit fund are charged against income based upon actuarial advice. Any deficits are funded to ensure the ongoing financial soundness of the fund. The benefits provided are based on the years of membership and salary levels. These benefits are provided from contributions by employees, the employer as well as income from the assets of the plan. Current contribution levels are considered to be adequate to meet future obligations.

Principal actuarial assumptions are as follows:

- The discount rate used in determining the actuarial present value of promised benefits in respect of services rendered to the valuation date reflects the long-term rates at which such obligations are to be settled. The current rate used is 14 per cent.
- Plan assets are valued at actuarial fair value. When fair values are estimated by discounting future cash flows, the long-term rate of return reflects the average rate of total income expected to be earned on the plan assets during the time period until benefits are paid.
- When retirement benefits are based on future salaries, as in the case of final salary and career average plans, salary increases to date of termination reflect factors such as inflation and promotion.
- Automatic retirement benefit increases, such as cost of living adjustments, are taken into account. When, in the absence of formal requirements to increase benefits, it is the practice of the enterprise or the plan to grant such increases on a regular basis, it is assumed that the increases will continue.

The last actuarial valuation of the plan was performed on 31 March 2001, at which date there was an actuarial shortfall of R5,8 million. This amount was paid to the fund by the Bank during the year by way of a special contribution, thus eliminating the shortfall.

26. Post-retirement benefits

The Bank and a subsidiary provide post-retirement benefits to retired staff in the form of subsidised medical aid premiums. Previously, the Bank provided for this liability by way of maintaining a distributable reserve. A provision for the liability was created during the year by way of a prior year adjustment and a charge to the income statement in respect of the current year cost. The balance on the reserve was utilised to partly fund the provision. The provision covers the total liability, i.e. the accumulated post-retirement medical benefits liability at fair value as at 31 March 2002. Details of the provision are set out below.

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
Financial year-end at 31 March 2001				
Accrued liability	16 969	12 838	0	0
Prior year adjustment	248 206	0	248 206	0
Net liability at 31 March 2001	265 175	12 838	248 206	0
Annual cost				
Interest cost	29 812	1 662	27 941	0
Service cost	30 761	2 469	30 172	0
Recognised actuarial gains	(17 223)	0	(17 653)	0
Net cost	43 350	4 131	40 460	0
Total benefit payments	(10 484)	0	(10 484)	0
	298 041	16 969	278 182	0
Financial year-end at 31 March 2002				
Accrued liability	315 264	18 608	295 835	0
Recognised gains and losses	(17 223)	(1 639)	(17 653)	0
Net liability on balance sheet (Note 18)	298 041	16 969	278 182	0

Key assumptions:

Rate of return:	11,5%
Medical inflation:	9,5%
Average membership:	2 588 members
Valuation date:	31 March 2002

27. Contingent liabilities, commitments and other contingencies

Contingent liabilities, commitments and other contingencies arise in the normal course of the Bank's business activities. Reserves are maintained to meet these exposures. There are also future commitments in respect of forward transactions and derivative financial instruments.

	Group		Bank	
	2002 R'000	2001 R'000	2002 R'000	2001 R'000
28. Capital commitments				
Contracted	309 705	20 799	309 536	13 615
Not contracted	200 683	16 636	198 999	0
Total	510 388	37 435	508 535	13 615

These capital commitments will be funded from internal resources.

29. Risk management in respect of financial instruments

The Bank's policies and procedures regarding risk management are dealt with in the risk management statement which appears on pages 4 to 5. Certain aspects of risk management specific to financial instruments are described more fully below.

- The Bank is not exposed to liquidity risk in respect of the domestic currency in view of the Bank's unique role as central bank.
- Except in the case of internal registered bonds, the Bank is generally not subject to significant interest rate risk emanating from the short-term repricing structure of the instruments.
- It is not considered appropriate to disclose liquidity information in respect of foreign assets.

30. Related party information

During the year the company and its subsidiaries, in the ordinary course of business, entered into various transactions. These transactions were made on commercial terms and conditions at market rates.

31. Segment reporting

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

Notice of ordinary general meeting 2002

Notice is hereby given that the eighty-second ordinary general meeting of shareholders will be held at the head office of the South African Reserve Bank, 370 Church Street, Pretoria on Tuesday, 27 August 2002, at 09:00.

Agenda

1. To approve minutes of the ordinary general meeting of shareholders held on 28 August 2001 (distributed).
2. To approve minutes of the extraordinary meeting of shareholders held on 25 April 2002 (distributed).
3. To receive the annual financial statements and reports of the Board of directors and the auditors for the year ended 31 March 2002.
4. To elect shareholders' representatives to the Board of directors. Details appear on pages 6 and 33.
5. To determine the remuneration of the auditors for the past audit and to appoint auditors for the 2002/03 financial year.
6. Special resolution:

To consider, and if deemed fit, to pass, with or without modification as special business which has been initiated by Mr S M Goodson, a shareholder of the Bank, in terms of regulation 19 of the Regulations framed in terms of section 36 of the South African Reserve Bank Act, No. 90 of 1989, the following resolution as proposed by Mr Goodson –

Resolved that the South African Reserve Bank Act be amended to change the name of the Bank to the "South African Reserve Bank Limited";

Mr Goodson having, in terms of the aforesaid regulation 19, submitted the following as being the effect of and the reason for the proposed resolution –

"My motivation for changing the Bank's name is that the addition of Limited correctly identifies and reflects its status. The drafters of the Banking and Currency Act of 1920 erred in not doing so, and as a consequence this has led to the very widespread and persistent perception that the Bank is government-owned and controlled. This proposed change in name will also serve to enhance the independence of the Bank, which is stipulated in section 224(2) of the Constitution. Furthermore, the marketability of the Bank's shares should in all likelihood improve."

While the Board of directors recognises the right of Mr Goodson to propose this resolution, the members of the Board regard it as their duty to point out, especially for the benefit of shareholders who do not intend being present at the meeting but who may wish to exercise their vote by proxy, that the Board does not consider the passing of Mr Goodson's resolution to be in the best interests of the Bank, especially by reason of the fact that –

- (a) major central banks internationally, despite their status as juristic persons, do not append the word "Limited" (or any word with a similar intimation) to their names;
- (b) by appending the word "Limited" to the name of the Bank, the perception may well be created that the Bank is in the nature of a company formed under the Companies Act, No. 61 of 1973, being a perception which neither reflects nor promotes the stature and credibility of the Bank in its capacity as central bank of South Africa;
- (c) the inclusion of the word "Limited" in the Bank's name may lead to confusion both domestically and internationally between the Bank and the commercial banks;
- (d) the Bank's name has been prescribed by the provisions of the South African Reserve Bank Act, No. 90 of 1989; and
- (e) section 223 of the Constitution, Act No. 108 of 1996, by implication prescribes the name of the Bank as being the South African Reserve Bank.

7. **To transact any other business** to be transacted at an annual general meeting.

In terms of section 23(1) of the South African Reserve Bank Act, No. 90 of 1989, no shareholder is entitled to vote at an ordinary general meeting unless the shareholder has been the registered holder of shares for not less than six months prior to the date of the meeting and is ordinarily resident in the Republic.

Shareholders who are unable to attend the meeting in person may use the attached proxy form. All proxy forms must be deposited at the head office of the Bank in Pretoria at least twenty-four hours prior to the meeting.

By order of the Board



Z R Matsau
Secretary

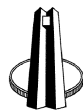
Pretoria
1 June 2002

Shareholders' calendar

Dividends

	Declared	Paid
Interim	30 September 2001	26 October 2001
Final	5 April 2002	10 May 2002

Date and time of the ordinary general meeting in Pretoria: 27 August 2002 at 09:00.



South African Reserve Bank

PROXY

I, the undersigned _____
of _____
being a shareholder of the Bank, and entitled to _____ votes,
hereby appoint _____
of _____ or failing this person
_____ of _____ or failing this person
_____ of _____ as my proxy
to vote for me at the ordinary general meeting of the Bank's shareholders to be held on the twenty-seventh day of August 2002 and at any adjournment thereof, as follows:

	In favour of	Against	Abstain
1. Approval of financial statements			
2. Election of directors			
2.1 Dr D Konar			
2.2 Mrs Z P Manase			
2.3 Mrs N D B Orleyn			
3. Remuneration of auditors			
4. Appointment of auditors			
5. Resolution proposed by Mr S M Goodson			

Please insert an "x" in the appropriate spaces provided above. Unless otherwise instructed, my proxy may vote as he/she deems fit.

Signed at _____ on the _____ day
of _____ 2002.

Signature _____

Witness _____