Annual Report

2006

South African Reserve Bank

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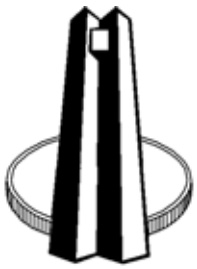

South African Reserve Bank

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Contents

Mr T T Mboweni
Governor

Governor's foreword

In the past financial year the South African Reserve Bank (the Bank) has again achieved success in the pursuit of its various strategic objectives.

The achievement and maintenance of price stability remains the primary objective of monetary policy. Consumer price inflation for metropolitan and other urban areas, excluding mortgage interest cost (CPIX), has been inside the target range of 3 to 6 per cent since September 2003. With the outlook for inflation remaining favourable and with inflation expectations declining, the repurchase rate was decreased by 50 basis points in April 2005. However, at the June 2006 Monetary Policy Committee meeting the repurchase rate was raised by 50 basis points to 7,5 per cent per annum as a result of increased risks to the inflation outlook.

Despite a growing current-account deficit, capital inflows enabled the Bank to further increase its levels of official foreign reserves, reaching US$22 969 million at the end of March 2006, compared to US$15 868 million at the end of March 2005. Over the same period the net reserves increased to US$19 499 million from US$12 381 million. With the assistance of the National Treasury, the bulk of this increase in foreign reserves was sterilised by means of a special deposit account at the Bank, ameliorating the impact on the profitability of the Bank.

Against this background the prudent and efficient management of foreign reserves has become even more important. At the end of March 2006, 81 per cent of the gross foreign reserves were managed internally, while 19 per cent were managed by external fund managers.

The Bank continued to improve the effectiveness and integrity of the national payment system and a high standard was maintained in the provision of inter-bank settlement services in the South African Multiple Option Settlement system. The settlement of the rand leg of foreign exchange transactions via the Continuous Linked Settlement system, which was implemented in December 2004, has functioned very well.

The Bank has a responsibility to ensure that the domestic banking regulatory environment incorporates international best practice. The preparation for the implementation of the new Capital Accord (Basel II) on 1 January 2008 remains a key focus area.

After the upgraded banknote series was launched in February 2005, the Bank embarked on an education and communication campaign to ensure public confidence in South Africa's banknotes. The communication campaign achieved the objective of increasing the public's vigilance in identifying counterfeit notes. Available data indicate that there has been a decrease in counterfeit notes in circulation since the introduction of the upgraded banknote series.

Mainly as a result of the accumulation of foreign reserves, the balance sheet of the Bank increased from R128 972 million at the end of March 2005 to R168 202 million at the end of March 2006. On 1 April 2005 the National Treasury made a final payment in the form of zero-coupon bonds as compensation for losses accumulated over many years in the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). Owing to these payments and revaluation profits on the net foreign reserves, the balance of the GFECRA changed from a debit of R4 747 million at the end of March 2005 to a credit of R1 824 million at the end of March 2006.

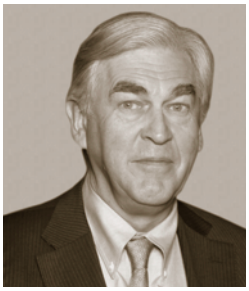
In the 2005/06 financial year the profitability of the Bank improved by a significant margin, mostly owing to a sizeable increase in net interest income and a comparatively small increase in operating costs. This improvement seems to be sustainable as it was not caused by one-off transactions, as was the case in the previous financial year. Notwithstanding this improvement, the Bank will, as always, manage expenditure prudently.

July 2006

Board of Directors

Governor and Chairperson of the Board
Mr T T Mboweni

Dr X P Guma



Mr I Plenderleith*

Dr R D Mokate

Dr D Konar

Prof M Padayachee

Mr J W Raath

Ms F Jakoet

Ms A M Mokgabudi

Ms Z P Manase

Ms N D Orleyn

Mr S M Goodson

Prof R W K Parsons

Mr F E Groepe

* Until January 2006

Board members
as at 31 March 2006

Mr T T Mboweni
Governor and Chairperson of the Board

Dr X P Guma
Deputy Governor

Dr R D Mokate
Deputy Governor

Dr D Konar
Representing Commerce or Finance

Prof M Padayachee
Representing Government

Mr J W Raath
Representing Agriculture

Ms F Jakoet
Representing Commerce or Finance

Ms A M Mokgabudi
Representing Industry

Ms Z P Manase
Representing Commerce or Finance

Ms N D Orleyn
Representing Industry

Mr S M Goodson
Representing Commerce or Finance

Prof R W K Parsons
Representing Government

Mr F E Groepe
Representing Government

As at 31 March 2006 a vacancy existed for a deputy governor

Corporate governance

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. The compliance of the Bank with these requirements is reflected below.

Board of Directors

In accordance with the South African Reserve Bank Act, No 90 of 1989 (the Act) the Board of fourteen directors must comprise:

Executive directors

The Governor and three deputy governors appointed by the President of the Republic. The Governor serves as Chairperson of the Board, as stipulated in the Act, and as Chief Executive Officer of the Bank. As at 31 March 2006, there was a vacancy for a deputy governor.

Non-executive directors

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

The Act 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 Governor's Executive 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 a specific term. Re-election is not automatic. There is a balance 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.

Governor's Executive Committee

The Governor and deputy governors, in their capacity as executive directors of the Bank, are responsible for the day-to-day management and policy decisions of the Bank, except those reserved for the Board. The Governor's Executive Committee meets fortnightly to consider policy issues and other executive management matters. These meetings are also attended by the Chief Economist, three executive general managers, and the General Counsel.

Audit Committee

The composition of the Audit Committee, which is a subcommittee of the Board, appears on page 23. The external and internal auditors have unrestricted access to

the Chairperson of this committee. The committee meets regularly with management, the Internal Audit Department (IAD) and the external auditors. The committee reviews the financial statements and underlying accounting policies, the effectiveness of management information, other systems of internal control and the internal audit function. The Audit Committee also reviews the risk management processes 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 23. The committee meets regularly to review human resources 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 formulation of monetary policy in line with current international best practice. As at 31 March 2006, the committee comprised the Governor and deputy governors, as well as four senior officials of the Bank. The committee meets at regular intervals and a statement on the monetary policy stance of the Bank is issued after each meeting. Decisions are taken by consensus.

Budget Committee

The Bank ensures financial discipline through a Budget Committee comprising the Governor, who presides over the meetings, the deputy governors, the head of the Financial Services Department and the Chairperson of the Budget Subcommittee. This committee meets regularly to oversee the preparation of the operational and capital budgets and the monitoring and management of actual expenditure. Quarterly reports are submitted to the Board.

Internal audit

The primary purpose of the IAD is to evaluate independently the Bank's and its subsidiaries' corporate business risks and to provide objective assurance and consulting services regarding the adequacy and effectiveness of the system of control, risk management, and governance processes.

Acting on a direct mandate from the Governor and the Board of Directors of the Bank, the IAD is functionally accountable to the Audit Committee of the Board of Directors with direct access to the Chairperson of the Audit Committee. The department reports administratively to a deputy governor via an executive general manager.

The IAD performs its functions in accordance with the International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors. The scope of internal audit work includes assessment of the various components of the system of control, focusing on the reliability and integrity of financial and operational information, effectiveness and efficiency of operations, safeguarding of assets, accomplishment of established objectives and compliance with laws, regulations, contracts and procedures.

Internal control

To fulfil its responsibilities, the management of the Bank has established and maintains an adequate and effective system of internal control and ensures compliance therewith. This internal control system, which is designed to provide reasonable assurance about the integrity and reliability of financial and management information, is based on the established written policies and procedures of the Bank.

Policies and procedures are implemented by trained and skilled staff, and duties are appropriately segregated. All staff members are required to maintain the highest level of ethics in ensuring that the practices of the Bank are conducted in a manner which, in all reasonable circumstances, is above reproach.

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

Employment Equity Consultative Body and Management Steering Committee

In 2000, the Bank established the Employment Equity Consultative Body (EECB) and the Management Steering Committee (MSC) as the consultative mechanism representing employees and the employer, respectively, in compliance with the Employment Equity Act, No 55 of 1998. Their mandate at that stage included only consultations on employment-equity related matters. Subsequently, the role of the EECB and the MSC has been extended to include consultation on skills development. The EECB and the MSC will in future consult on both the annual employment equity progress report to the Department of Labour and the annual skills development report to the BankSeta. A special training programme was developed and implemented to empower members to effectively perform their added functions. The Bank's inaugural employment equity plan terminated in 2005. The targets of the first plan were extended for another year to address the shortfalls that emanated from the first plan. The Bank's second employment equity plan for a period of five years has been drafted. Proposed targets for females have been increased from 33 per cent to 50 per cent at all levels of employment while the target for blacks has remained unchanged at 50 per cent at all levels. A target of 2 per cent has been proposed for people with disabilities. The proposed targets are currently being consulted within the Bank.

Code of Ethics and Conduct

After submitting the preliminary draft Code to the Board during 2004, the Bank decided to develop it further and consult on the Code with the staff of the Bank. This was done and followed up by discussions with all management teams of departments during their 2005 departmental strategy sessions. The Code was, in addition, consulted on with the rest of the staff in departments during the latter part of 2005 and beginning of 2006. On request of the union, SASBO, the Code has been deliberated with the union in April 2006. Subsequently, the Bank has embarked on a process of communicating the Code as well as integrating it into the staff policies of the Bank.

Human resources

The Bank has recently concluded an extensive consultation process with its staff and other stakeholders on the modernisation of the staff policies. The consultation was done through direct interaction in a series of open sessions, consultations with the EECB and with SASBO. To conclude the process there will be information sessions to inform staff of the finalised policy positions in the run-up to implementation on 1 October 2006.

From an employee wellness point of view, the Bank made the strategic decision to change its Employee Assistance Programme (EAP) service provider in an effort to provide an extended service to its employees. The services of Independent Counselling and Advisory Services were procured with effect from 1 November 2005. In conjunction with Bankmed, the medical-aid scheme, health risk assessments were conducted to the benefit of employees.

The HIV/Aids programme of the Bank received renewed attention with the launch of the Knowledge, Attitude, Prevalence and Behaviour (KAPB) survey during the course of the year.

Considering that staff morale is key to the functioning of the Bank, an Organisational Culture and Climate survey was conducted during March 2006. The identified areas of concern will be addressed by the Bank during 2006.

Amid ongoing development of its employees, and in support of an endeavour by the BankSeta to identify the skills shortages of the financial sector as a whole, the Bank participated in a sector skills audit.

Safety, health and environmental issues

The Bank and its subsidiaries continue to comply with health, safety and environmental legislation and are committed to the interest and wellbeing of their employees as part of their broader social responsibilities. The strategy on life-threatening diseases, including HIV/Aids, addresses various issues such as awareness, education, support, avoidance of discrimination and the impact of the work environment.

The specific requirements of the Bank's subsidiaries in terms of effluent and other production waste disposal operations, are stringently adhered to.

The Bank proactively ensures a healthy and safe working environment through the regular commissioning of compliance assessments and environmental studies by external specialist organisations, accompanied by the implementation of corrective actions where required.

The Bank further ensures, as part of its obligations towards the safety of its staff and in terms of its Business Continuity Management requirements, that evacuation exercises are held on a regular basis.

The Bank acknowledges the importance of its responsibilities and is committed to ensure that a healthy and safe working environment is maintained at all times.

Risk management

Risk is an inherent feature of the activities of the Bank. The Bank is committed to managing 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 to report independently to management.

Risk elements

The financial risk elements in the activities of the Bank are: Interest rate, market price, credit and liquidity. These risks are discussed in Note 32 to the financial statements. Operational, human resources, legal and reputational risks are discussed below.

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 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. These risks are closely monitored by executive management and the Board through both the IAD and the Audit Committee.

Human resources risk

The particular nature of the activities of the Bank necessitates specialised knowledge in many 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 or lack 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 the nature of such risks better and to improve the documentation and structure of transactions. In addition, the Bank has established legal procedures designed to ensure, as far as reasonably possible, compliance with all applicable internal, statutory and regulatory requirements.

Reputational risk

The executive management of the Bank has the necessary freedom and discretion to exercise central banking functions. However, this freedom is exercised within the context of fiduciary duties of good governance and by ensuring a proper balance between accountability and the best interests of the Bank and its various stakeholders. Consequently, the management of the Bank follows to the best of its ability the principles and guidelines contained in the Code of Conduct of the King Report on Corporate Governance in fulfilling its fiduciary duties.

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 responsibilities of the Bank regarding monetary policy, the national payment system and the issuing of notes and coin also expose the Bank to significant reputational risk. The Bank adheres to international best practice and, to this end, maintains close liaison with international peers. The Bank strives towards full compliance with the Basel Core Principles for effective banking supervision as well as the core principles for systemically important payment systems.

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 price stability.

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

1 formulating and implementing monetary policy in such a way that the primary goal of the Bank will be achieved in the interest of the whole community that it serves;

2 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 international developments;

3 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

4 informing the South African community and all interested stakeholders abroad about monetary policy and the South African economic situation.

Business philosophy

The 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 integral in its judgement and actions.

The Bank ensures, through the application of modern management practices and technology, that all its activities are conducted effectively and efficiently.

Personnel philosophy

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

The 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.

Monetary policy decision-making

In its pursuit of price stability, the Bank is guided by an inflation target that has been set by the government.

The Monetary Policy Committee (MPC) currently comprises seven members: The Governor, the two deputy governors and four senior officials of the Bank.

Meetings are scheduled for every second month, and the timetable is finalised before the beginning of the year and published on the website of the Bank. However, provision is made for unscheduled meetings should the need arise. During the past year, there were no unscheduled meetings.

Between meetings, there is a continuous monitoring of economic developments, particularly those that impact directly on inflation and monetary policy. Members receive briefing updates, analysis and research output from various departments in the Bank, as well as input from various external domestic and international sources. These include financial institutions, academic economists, and international organisations such as the International Monetary Fund and the Bank for International Settlements (BIS).

The MPC cycle begins approximately three to four weeks prior to the scheduled meeting, when committee members meet with the staff of the Research Department. The Macro Models Unit will have consulted various other units of the Research Department and the Financial Markets Department regarding the assumptions that have to be made in the models. Great emphasis is given to the forecast. However, it is important to stress that there is no mechanical relationship between the forecast and monetary policy decisions. Because of the uncertainties inherent in the forecast, the models and forecasts are tools to policy-making, but the final decision has to be a professional judgement based not only on the forecast but also on the analysis of the MPC.

Monetary policy decisions are made on the basis of current and expected economic developments. The MPC monitors a number of factors that influence inflation, including the components of domestic and external demand; money supply and credit extension; changes in wages and productivity and unit labour cost; the output gap; exchange rate developments; and import prices, oil prices and other administered prices. There is no target for any of these variables other than for CPIX, the price index which is the benchmark for monetary policy decisions.

The first day of the scheduled MPC meeting starts with presentations on special items of topical interest that are prepared on an *ad hoc* basis, usually at the prior request of the MPC. In the past, such topics have included analyses of food prices, international oil prices and the role of monetary aggregates in the inflation process. This is followed by a review of financial-market developments, prepared by the staff of various departments in the Bank and presented by senior members of the Research and Financial Markets Departments. The MPC members will have received a full set of documentation the previous week.

Each presentation is followed by discussion. These presentations usually continue until late afternoon, and up to that point the monetary policy stance is not discussed. In the evening there is a working dinner where some of the issues raised during the day are discussed further, with a focus on the implications for the monetary policy stance.

The following morning begins with a summary of the discussion of the previous evening. At this point, the discussion turns to the monetary policy stance. Committee members are then asked, in turn, to express their views on the appropriate monetary policy stance and on any interest rate changes that may be deemed appropriate. In general, decisions are made by consensus. There is no voting.

Once the MPC has reached a decision, a statement is issued to the press. The statement is also covered on national television and radio and posted on the Bank's website.

Apart from the press conference, monetary policy decisions are communicated and explained in a variety of other forums. The *Monetary Policy Review* is published twice per year, and released at the National Monetary Policy Forum in Pretoria. The forum is attended by interested persons, including financial analysts, academics, trade unionists and politicians. The MPC members also deliver presentations at nine regional Monetary Policy Forums. The aim of the forums is to explain monetary policy decisions and build up support for the low inflation objective of the Bank.

Other channels of monetary policy communication include quarterly presentations by the Governor to the Parliamentary Portfolio Committee on Finance, numerous speeches by the Governor and deputy governors of the Bank and regular presentations by senior members of the Bank to the National Economic Development and Labour Council.

Operational review

Primary function

The primary objective of the Bank's monetary policy remains the achievement and maintenance of price stability. In the execution of monetary policy, the main aim is the achievement of the inflation target. Achieving the inflation target contributes to the protection of the interests of all South Africans, but particularly the poor by protecting their purchasing power. Price stability should also contribute to sustainable growth in the long run.

It is also essential for banking regulation and supervision to stay in line with international developments, and for the financial system to be strengthened further to ensure stability of financial markets and institutions.

Operational functions

Inflation targeting

South Africa follows an inflation-targeting monetary policy, with the target specified as CPIX (year-on-year increase in the consumer price index excluding mortgage interest costs for metropolitan and other urban areas) of between 3 and 6 per cent to be achieved on a continuous basis. This target has been achieved since September 2003.

The inflation target has been set by the government as far back as February 2000. Within the inflation-targeting monetary policy framework, the central bank does not have goal independence but retains full operational autonomy in its choice of monetary policy instruments.

Discharging monetary policy responsibilities

Monetary policy decision making is entrusted to the Monetary Policy Committee (MPC) of the Bank. The MPC consists of the Governor, three deputy governors and four senior officials of the Bank. During the period under review, six MPC meetings were held. An important factor in determining the stance of monetary policy is the forecast generated by the Bank's macroeconomic models. Monetary policy, though, is not set mechanistically according to the outcome of the central forecast. Some judgement is required as well, but the model does, in a systematic way, attempt to incorporate the combined impact of the different inflation determinants on the inflation outcome. Also, forecasts presented at different meetings are subject to change, either because of a change in the assumptions about exogenous variables or forecast errors.

At the time of the meeting of the MPC in April 2005, the outlook for inflation had remained favourable, despite increased uncertainty in the global environment. Inflation had remained within the target range for the preceding 19 months (i.e. since September 2003), inflation expectations had declined significantly and it was generally expected that inflation would remain within the target range for the foreseeable future. In its deliberations, the MPC had to consider a number of issues. First, although higher oil prices impact negatively on measured inflation and oil prices were on the increase by April 2005, the MPC accepted that monetary policy should not respond to first-round inflationary effects. Second, despite a significant increase in oil prices, their inflationary impact on the international economy were far

more muted than in previous rounds of price increases. The continued subdued world inflation has been one of the considerations in the setting of domestic monetary policy. Given the muted inflationary pressures domestically and the positive outlook for inflation, the repurchase rate was lowered by 50 basis points on 14 April 2005.

Developments in wage settlements and unit labour costs are closely monitored by the MPC. At its meeting in April 2005, the MPC commented on the divergence between wage settlement trends and unit labour cost trends. However, at the time of its meeting in August 2005 there was greater consistency between the two, and unit labour costs appeared to be in line with the inflation target. These trends were confirmed at the meeting held in October 2005.

Domestic demand growth remained an important focus of MPC deliberations. Domestic expenditure remained robust and was sustained by higher consumer confidence, the moderately stronger rand, lower interest rates, higher real incomes and high asset prices. Nevertheless, although the strong consumer demand persisted over the period, there was little evidence of inflationary pressure emanating from this.

While on the output side a continued downward movement in the leading business cycle indicator and decline in manufacturing capacity utilisation were noted, the outlook had changed significantly by August 2005 with indications that the output gap had narrowed. Manufacturing production had recovered, the leading indicators were positive and the various business confidence and trade activity indices showed that expectations were strongly positive. These trends were confirmed by gross domestic product (GDP) data recording robust growth in the second quarter of 2005, accompanied by a further increase in capacity utilisation and a favourable outlook predicted by the leading business cycle indicator.

Both money supply and credit extension accelerated significantly over the review period, reflecting the robust domestic demand. In the earlier part of the year, M3 money supply growth remained fairly stable at around 12 per cent on a year-on-year basis. By July and August 2005, however, M3 was growing by almost 20 per cent year on year, and credit extension was growing even faster. The MPC noted the progressive rise in consumer indebtedness, as household debt as a percentage of disposable income rose from 60 per cent in the first quarter to 62 per cent in the second quarter of 2005. It was also noted, however, that the debt servicing ratio remained low and broadly unchanged at around 6,5 per cent of disposable income.

At its meeting in February 2006 the MPC noted a more discernible upward trend exhibited by production price inflation, with year-on-year producer price inflation measuring 4,5 per cent and 5,1 per cent in November and December 2005, respectively. Producer price inflation for 2005 as a whole averaged 3,1 per cent compared to 0,6 per cent the previous year.

During the period under review the MPC also took cognisance of the growing current-account deficit. The brisk domestic demand had an impact on the current-account deficit, which increased to more than 4 per cent of GDP in the second half of 2005. Continued strong domestic demand was expected to maintain pressure on the current account. The deficit on the current account, however, continued to be more than adequately financed by capital inflows which, in turn, were being attracted by improved prospects for economic growth. The overall balance of payments had remained in surplus, and the level of official gross gold and foreign exchange reserves increased to US$22 969 million at the end of March 2006.

An increase in the current-account deficit, however, is not in itself a threat to the inflation outlook. The potential threat to inflation comes through the possible impact on the exchange rate. During the period under review, the exchange rate of the rand remained relatively stable. The rand was also supported by high commodity prices, expectations of further foreign direct investment inflows, positive South African economic data as well as strong demand from non-residents for South African equities.

Other issues raised by the MPC included fiscal policy, which remained supportive of monetary policy; the moderate downward trend in the inflation rates of services prices and non-petrol administered prices; and the low level of food price inflation. Other factors which contributed to the positive inflation outlook include low world inflation and well-anchored inflation expectations.

The MPC remains mindful of significant risk factors to the inflation outlook. Two exogenous factors, namely oil and food price developments, are potential risks to the inflation outlook. The MPC, however, will not react to first-round effects of higher oil prices, but has to remain vigilant in anticipating second-round effects.

Refinement of monetary policy operational procedures

Following extensive consultation with various market participants, the Bank modified its refinancing system with effect from May 2005. The aim was to streamline the Bank's money-market operations, encourage commercial banks to take more responsibility for managing their own liquidity needs and to promote a more active domestic money market. The Bank is investigating the feasibility of expanding the pool of liquid assets accepted as collateral in refinancing operations.

The Money Market Liaison Group initiated a project to establish a benchmark overnight rate in the money market, following the identification of a number of deficiencies among banks and potential users of the current South African Overnight Interbank Average rate.

Administration of exchange controls

The Bank continued to administer the exchange control function. As part of the ongoing process of the gradual liberalisation of exchange controls, the Minister of Finance announced further relaxations in the *Medium Term Budget Policy Statement* and the Budget Speech in October 2005 and February 2006, respectively.

The most significant of these applied to local banks and institutional investors. South African banks are now allowed to hold foreign assets of up to 40 per cent of their domestic regulatory capital as part of the shift from exchange controls to the prudential regulation of banks' foreign exposures. Non-African foreign assets are restricted to 20 per cent, while African assets can constitute up to 40 per cent. South African banks can also extend foreign-currency denominated facilities for the financing of approved foreign direct investments by South African companies.

The foreign exposure limit on collective investment schemes was increased from 20 per cent to 25 per cent of total retail assets, and for investment managers from 15 per cent to 25 per cent of total retail assets. Furthermore, institutional investors may avail themselves of an additional five-per-cent African allowance, by acquiring foreign-currency denominated portfolio assets in Africa directly through foreign-currency transfers from South Africa, or indirectly by acquiring rand-denominated

foreign exposures via an inward-listed African security. This will further enable South African residents to diversify their investment portfolios through domestic channels and enhance the role of South African fund managers in facilitating the flow of funds to the continent.

To promote the realisation of NEPAD development goals through more direct investments in Africa, the exchange control requirement that companies and mandated parastatals must obtain a majority (i.e. 50 per cent + one share) interest in all foreign direct investments was replaced with the lower requirement of a significant interest of at least 25 per cent. The requirement that loans issued by development finance institutions to African companies or projects should have a 50-per- cent South African content, fell away. These measures will also support the growth of South African businesses and the domestic economy.

The offshore individual investment allowance was increased from R750 000 to R2 000 000 per person in February 2006.

The exchange control amnesty announced in 2003 came to a close on 15 February 2006. The bulk of the contractors employed to handle these applications has been released since the winding-up process now involves the finalisation of some administrative issues. The amnesty process had enabled South Africans to regularise their offshore financial investments and has laid the foundation for a more orderly process of portfolio diversification.

Accumulation of reserves

The Bank increased the level of official gross gold and foreign exchange reserves to US$22 969 million at the end of March 2006, from US$15 868 million at the end of March 2005. The international liquidity position (net reserves) increased to US$19 499 million from US$12 831 million over the same period. With the assistance of the National Treasury, the bulk of this increase in foreign exchange reserves was sterilised by means of a special deposit account at the Bank. The balance on this account amounted to R35,9 billion at the end of March 2006.

On 1 April 2005 the National Treasury made a final payment in the form of zero-coupon bonds as compensation for losses accumulated over many years in the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). These bonds were switched into interest-bearing bonds and were used in reverse repurchase transactions to drain liquidity from the money market.

Ensuring the availability of credit lines

At the end of March 2006, the Bank's total foreign facilities amounted to US$4,1 billion, compared with US$4,3 billion at the end of the previous financial year. Approximately US$3,5 billion was utilised. The US$1 billion 2002 and US$1 billion 2003 syndicated loans were repaid, and a new US$1,5 billion 2005 syndicated loan was drawn down at the end of July 2005.

The 2005 syndicated loan was tightly priced, with initial margins of 22,5 basis points and 30 basis points for the three and five-year tranches, respectively. On 30 August 2005, the margins were reduced to 20 and 27,5 basis points, following an upgrade in South Africa's credit rating by Standard & Poor's.

Management of international reserves

Prudent and efficient management of reserves remained a strategic priority for the Bank. At the end of March 2006, 81 per cent of gross reserves was managed internally, compared with 88 per cent last year, while 19 per cent was managed by external fund managers compared with 12 per cent in the previous year. Two additional external fund managers were appointed, namely, the World Bank and the Bank for International Settlements.

In July 2005 a securities lending programme was implemented by means of an agreement with the Bank of New York (BoNY). Under this agreement the BoNY is permitted to lend out the Bank's securities it holds in custody. The proceeds from this initiative more than offset the fees charged in the previous financial year.

Maintaining a sound regulatory framework

The Bank has a responsibility to ensure that the domestic banking regulatory environment incorporates international best practice. A key focus remains the preparation for the implementation of Basel II. The domestic banking regulatory framework has to be amended to provide for the requirements of the new Capital Accord, due to be implemented on 1 January 2008.

During the year under review, initial drafts of the amendments to the Banks Act, No 94 of 1990, and the regulations thereto, were circulated to the Accord Implementation Forum (AIF). A second draft of the regulations was circulated to all banks for comment. To determine their readiness, all registered banks, branches of foreign banks and mutual banks were required to perform a gap analysis and self-assessment for the implementation of Basel II. Banks were also required to complete the Quantitative Impact Study 4 to assess the possible impact of the implementation of Basel II on the level of capital in the banking industry.

The Bank held various high-level meetings with all banks to determine progress regarding the full implementation of anti-money laundering and anti-terror-financing measures. These include the "Know Your Client" (KYC) procedures and compliance with the provisions of section 21(2) of the Financial Intelligence Centre Act, No 38 of 2001.

The Bank participated in a joint project with the National Treasury to investigate further requirements for implementing an explicit deposit-insurance scheme. The scheme will protect insured depositors, particularly small depositors, against the consequences associated with the failure of a bank.

Following the 2003 review of the five big banks, the Bank undertook a corporate-governance review of a further 14 South African banks. The purpose was to assess compliance with sound corporate governance practices, as laid down in the Banks Act, 1990; the Mutual Banks Act, 1993; the Regulations to these Acts; the recommendations of the Myburgh Report on the standard of corporate governance in the five largest banks; and in the second King Committee Report on Corporate Governance.

Based on the twelve key financial soundness standards identified by the Financial Stability Forum, the Bank continued to assess and review the robustness of the financial regulatory system. Also, developments in other sectors that have a bearing

on the stability of the financial system, such as the household and corporate sectors, and the real-estate market were assessed continuously. The Bank redoubled efforts to develop and refine crisis management and contingency plans for appropriate responses to systemic crises.

Maintaining the integrity of banknotes and coin

The upgraded banknote series was launched at the beginning of February 2005. The public education and communication campaign to ensure public confidence in South Africa's banknotes and to highlight the security and design features incorporated in the banknotes was highly successful. The campaign received two awards in the advertising fraternity, namely the 2006 Prisa Prism award, bronze class, and the International Public Relations Association award.

The communication campaign achieved the objective of increasing the public's vigilance in identifying counterfeit notes. Data indicate that there has been a marked decrease in counterfeit banknotes in circulation since the introduction of the upgraded banknote series.

Security of currency distribution

In an effort to improve the efficiency and effectiveness of the national cash management system, the Bank developed an integrated cash management system in collaboration with the commercial banks. It has the potential to reduce the unnecessary holding of cash by commercial banks at various points in the distribution system and therefore assists in reducing the cost of cash to the public.

The Bank has embarked on an interactive programme with the commercial banks, cash-in-transit industry and the South African Police Service to develop minimum security standards for the cash management industry in an attempt to reduce the incidents of cash-in-transit heists and banking crimes.

International and regional contribution

The Bank plays an important role in the Southern African Development Community (SADC) region, on the African content and in the global arena. International relations were strengthened by the signing of Memoranda of Understanding between the Bank and the central banks of Argentina and Ukraine. Within the SADC region, the central bank governors signed Memoranda of Understanding on co-operation in the areas of information technology; payment, clearing and settlement systems; and co-operation and co-ordination of exchange control policies. Furthermore, a Memorandum of Understanding on legal and operational frameworks for central banks in SADC was approved by the SADC ministers responsible for financial matters. It provides for an appropriate degree of central bank independence and accountability.

Among the numerous interactions with the research community, three high-profile and well-attended conferences were hosted by the Bank during the period under review: A G-20 seminar on economic growth which was co-hosted with the central banks of China and Mexico; a conference on cutting-edge work in econometric modelling; and a conference on inflation targeting in the context of regional integration in SADC which was co-hosted with the Centre for Central Bank Studies at the Bank of England.

Collaborative research progressed with a number of local academics visiting the Bank, each leading a research team. Bank staff also undertook economic research in collaboration with foreign experts. Furthermore, foreign and local expertise was called on as part of a process of peer reviewing the Bank's core econometric model.

The Bank participated in a number of SADC cross-border settlement initiatives. The annual SADC regional conference in August 2005 concluded that the cross-border settlement initiatives would be aligned with the SADC macroeconomic convergence programme.

The Bank also participated in several international forums, including the workgroup which compiled a BIS guideline for the development of national payment systems.

The Bank places great emphasis on capacity building in Africa by co-operating with international training institutions and central banks in the SADC region. The Bank hosted the residential segment of the International Monetary Fund Institute's Financial Programming and Policies course for African countries. It also co-hosted, with the SADC Training and Development Forum, the Financial Markets Analysis course presented by the Joint Africa Institute for central banks in the SADC region and some other African countries.

Developing and maintaining the national payment system

The Bank continued to improve the effectiveness and integrity of the national payment system (NPS) and a high standard was maintained in the provision of inter-bank settlement services in the South African Multiple Option Settlement (SAMOS) system. Significantly, the settlement of the rand leg of foreign exchange transactions via the Continuous Linked Settlement (CLS) system, which was implemented in December 2004, has functioned extremely well. During this period Master Card was also included in the settlement system as a payment clearing house (PCH) operator for transactions generated using its cards. A new version of the SAMOS system was implemented as an initial step to cater for the immobilisation of money-market instruments which will occur during 2006.

The Bank's oversight function was further enhanced in co-operation with the banking industry and other stakeholders. Amendments necessitated by the introduction of the National Credit Act, No 34 of 2005, were made to the National Payment System Act, No 78 of 1998. The amendments are aimed at disallowing preferential treatment of payment instructions within the NPS.

A final draft of a new vision and strategy document for the NPS, the "Vision 2010" was completed. This document maps out strategies for the period 2005 to 2010. It contains principles, objectives and a high-level direction for the NPS.

Effective organisational structuring

During the period under review, Deputy Governor Ian Plenderleith completed his three-year contract with the Bank and retired in January 2006. In August 2005 the vacancy left by former Deputy Governor Gill Marcus was filled with the appointment of Dr Renosi Mokate as Deputy Governor. The position of Secretary of the Bank was filled in October 2005 with the appointment of Mr Tiyani Mongwe.

The Bank's organisational structure was amended with effect from 1 August 2005. The revised organisational structure made provision for the appointment of four

executive general managers (EGMs). Mr Bertus van Zyl, Dr Monde Mnyande, Mr Errol Kruger and Mr Daniel Mminele were appointed as EGMs. Each EGM reports to a deputy governor and is responsible for the overall management, supervision and control of the departments under him. Collectively, the Governor, the deputy governors and the EGMs constitute the Governor's Executive Committee (GEC).

The Research, Financial Stability and Currency and Protection Services Departments fall under Dr Mnyande. The Bank Supervision Department falls under Mr Kruger. Both Mr Kruger and Dr Mnyande report to Deputy Governor X P Guma.

The markets cluster, including the Exchange Control, Financial Markets, Financial Services and National Payment System Departments reported to Mr Plenderleith, whose position is now vacant. The EGM is Mr Mminele who, as an interim measure, reports to the Governor.

The central services cluster reports to Dr Mokate, with Mr van Zyl as the EGM. This cluster includes the Business Systems and Technology, Corporate Services, Human Resources, Legal Services, Internal Audit (administratively) and Executive Management Departments as well as the SARB College.

Human resources

Even though the envisaged implementation target date for revised staff policies of the Bank was not met, satisfactory progress was made in this regard. The consultation process between the Bank and its employees, the EECB and SASBO was more intensive than was initially expected.

Over-the-counter share market

The Bank implemented a live trading facility for the trading of the Bank's shares on 1 October 2005. The live trading facility replaced the previous closed auction trading in the Bank's shares on the Over-the-Counter Share Trading Facility (OTCSTF), which was introduced on 1 June 2002. The closed auction trading of the Bank's shares operated in a manner where buy and sell offers were matched only once per month, while the live trading facility currently provides for the continuous matching of offers, on a daily basis on any business day between the hours of 08:00 and 15:00. During the financial year 40 transactions were successfully concluded, representing trading of 123 808 shares. Of these transactions, 27 have been concluded on the live trading facility since 1 October 2005, representing 79 035 shares.

Executive management, secretary and directors

Executive management as at 31 March 2006

Governor: Internal audit	T T Mboweni
Deputy Governor: Bank supervision, currency and protection services, financial stability and research	X P Guma
Deputy Governor: Exchange control, financial markets, financial services and national payment system	Vacant
Deputy Governor: Business systems and technology, corporate services, executive management, human resources, internal audit, legal services and SARB College	R D Mokate
Executive General Manager	L van Zyl
Executive General Manager	A D Mminele
Executive General Manager and Chief Economist	M Mnyande
Executive General Manager and Registrar of Banks	E M Kruger
Secretary of the Bank	T Mongwe

Directors

Tito Titus Mboweni *
Governor

Xolile Pallo Guma°
Renosi Denise Mokate
Deputy governors

Mahavishnu Padayachee °*
Raymond Whitmore Knighton Parsons *
Francois Engelbrecht Groepe °
Representing: Government

Deenadayalen Konar †
Fatima Jakoet °
Zodwa Penelope Manase °
Stephen Mitford Goodson
(Term of office expires on 24 August 2006 and available for re-election)
Representing: Commerce or finance

Jacob Wouter Raath*
Representing: Agriculture

Audrey Matshidiso Mokgabudi x
Noluthando Dorian Orleyn *
Representing: Industry

† Chairperson of the Audit Committee
x Chairperson of the Remuneration Committee
° Member of the Audit Committee
* Member of the Remuneration Committee

Senior management at 31 March 2006

Executive General Manager (Consultant)	L van Zyl
Executive General Manager and Registrar	E M Kruger
Executive General Manager and Chief Economist	M Mnyande
Executive General Manager	A D Mminele
Head: Currency and protection services	A Ismail
Head: Exchange control	A M Bruce-Brand
Head: Research	J P van den Heever
Head: Financial markets	D C Moephuli
Head: Financial stability	A Bezuidenhout
Head: National payment system	D C Mitchell
Head: Financial services	G J Terblanche
Head: Legal services	J J de Jager
Head: Internal audit	H P Badenhorst
Head: Human resources	S M Motsepe
Head: Corporate services	Z S Gumede
Head: Business systems and technology	M S Ismail
Principal: South African Reserve Bank College	G R Wesso
Secretarial support services	T Mongwe
Executive management	J N L Fourie

Branch managers at 31 March 2006

Bloemfontein	T L Mtoba
Cape Town	A R Chamberlain
Durban	M T Mzizi
East London	E H Jacob
Johannesburg	H T Gape
Port Elizabeth	B P Loving
Pretoria North	M Mogapi

Organisational structure and Secretary

Governor
T T Mboweni

Deputy Governor
Financial stability and research
Dr X P Guma

Executive General Manager
and Chief Economist
Dr M Mnyande

Executive General Manager, Registrar
of Banks and Head Bank Supervision
E M Kruger

Deputy Governor
Markets
I Plenderleith*

Executive General Manager
A D Mminele

Deputy Governor
Central services
Dr R D Mokate

Executive General Manager
L van Zyl

Secretary of the Bank
T Mongwe

* Until January 2006

Head
Currency and protection services
A Ismail

Head
Research
Dr J P van den Heever

Head
Financial stability
A Bezuidenhout

Head
Exchange control
A M Bruce-Brand

Head
Financial markets
D C Moephuli

Head
National payment system
D C Mitchell

Head
Financial services
G J Terblanche

Head
Legal services
Dr J J de Jager

Head
Internal audit
H P Badenhorst

Head
Human resources
S M Motsepe

Head
Corporate services
Z S Gumede

Head
Business systems and technology
M S Ismail

Principal
SARB College
Dr G R Wesso

Human resources report

At the beginning of the 2005/06 financial year, the Bank had a total permanent staff complement of 1 988, which was reduced to 1 956 by the end of the year. The reduction of 32 in staff numbers resulted from 140 terminations and only 108 new appointments.

The overall staff turnover for the period was 7,1 per cent.

The Bank improved its equity representation at the management broad bands with the following percentage increases: General Management (3 per cent) and Professional and Vocational Management (1 per cent). This is indicated in Table 1 below.

Table 1: Breakdown per broad band: Employment equity representation
Per cent

Broad band	Actual 31-03-05	Actual 31-03-06	2006 Bank target
General Management (GM)	48	51	50
Senior Professional and Management (SPM)	43	43	50
Professional and Vocational Management (PVM)	41	42	50
Junior Professional and Supervisory (JPS)	48	50	50
Trainee Professional and Clerical (TPC)	59	62	50
General Worker (GW)	89	89	50
Total	55	56	50

The Bank has also made improvements with regard to the gender representation in the respective broad bands. Improvement in gender representation will remain a focus area in the new financial year.

Table 2: Breakdown per broad band: Female representation
Per cent

Broad band	Actual 31-03-05	Actual 31-03-06	2006 Bank target
General Management (GM)	21	20	33
Senior Professional and Management (SPM)	27	29	33
Professional and Vocational Management (PVM)	40	43	33
Junior Professional and Supervisory (JPS)	62	62	33
Trainee Professional and Clerical (TPC)	50	49	33
General Worker (GW)	33	35	33
Total	46	46	33

Table 3: Workforce profile by gender and representivity at 31 March 2006
Number

Broad band	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
General Management (GM)	24	4	4	42	11	2	2	4	93
Senior Professional and Management (SPM)	26	6	11	73	18	5	4	20	163
Professional and Vocational Management (PVM)	63	12	8	122	45	8	12	87	357
Junior Professional and Supervisory (JPS)	78	8	10	63	81	19	16	146	421
Trainee Professional and Clerical (TPC)	189	48	15	116	116	56	20	158	718
General Worker (GW)	102	9	5	17	57	9	0	5	204
Total permanent	482	87	53	433	328	99	54	420	1 956
Non-permanent	6	0	1	10	4	2	1	13	37
Total	488	87	54	443	332	101	55	433	1 993

Table 4: Staff complement at 31 March 2006
Number

Department	Permanent staff	Contract workers	Total
Executive management	36	1	37
Bank supervision	93	2	95
Business systems and technology	161	7	168
Corporate services	198	3	201
Currency and protection services (including branches)	794	2	796
Exchange control	159	11	170
Financial markets	95	0	95
Financial services	73	0	73
Financial stability	19	0	19
Human resources	54	0	54
Internal audit	50	0	50
Legal services	23	1	24
National payment system	21	0	21
Research	145	0	145
SARB College (including cadets)	10	10	20
Total staff complement	1 931	37	1 968
Staff members receiving disability benefits	25	0	25
Total	1 956	37	1 993

Financial framework for 2006/07

Introduction

The Bank strives to conduct its financial affairs in accordance with international best practice. It is subject to the South African Reserve Bank Act, No 90 of 1989 (the Act). The Bank applies the principles of International Financial Reporting Standards (IFRS), as far as they are not in conflict with the Act or where the disclosure of information could threaten financial stability. In the year under review IFRS were applied, except for the following:

1 According to the Act, realised and unrealised valuation gains and losses in gold and foreign-denominated assets and liabilities are for the account of the government, and have therefore not been accounted for in the income statement of the Bank.

2 Not all information is disclosed for each class of financial asset and liability and transaction, about the extent and nature of the financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows.

3 The terms of certain related-party transactions were not disclosed where such disclosure was considered to threaten financial stability.

Budget for 2006/07

The Bank's income depends on its activities in the financial markets, which are guided by the policy options chosen by the Bank, given the prevailing market conditions and, particularly, the expected inflation and exchange rates. The inherent volatility of these market conditions makes it impracticable for the Bank to budget for income, but the outlook for the Bank's income is monitored closely.

Expenditure is controlled closely through a formalised budget process.

Bank expenditure budget

Certain expenditure items, such as depreciation of property, plant and equipment (PPE) are not included in the figures in the table below, because they are not managed as part of the operational budget process.

Expenditure budget

	Budget 2006/07 R'000	Outturn 2005/06 R'000	Budget 2005/06 R'000
Personnel costs	710 424	698 589	631 463
Operating costs	229 181	204 753	227 447
Cost of new currency	675 436	627 483	649 711

The outturn of the 2005/06 recurring operational costs were significantly below budget. This was mainly a result of the following:

1 The cost of new currency as well as the cost of information technology for 2005/06 were below the budget as a significant saving was achieved due to the relatively strong rand.

2 The 2005/06 personnel costs were over the budget due to the activities and the staffing of the Exchange Control Amnesty Unit.

Report of the independent auditors

To the members of the South African Reserve Bank

We have audited the financial statements of the South African Reserve Bank and the group set out on pages 32 to 70 for the year ended 31 March 2006. These financial statements are the responsibility of the directors of the South African Reserve Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we 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.

In our opinion, the accompanying consolidated financial statements have been prepared, in all material respects, in accordance with the basis of accounting described in Note 1.

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

Deloitte & Touche
Registered Auditors
Per: Nazeer Essop
Partner

PricewaterhouseCoopers Inc
Registered Auditors
Johannes Grosskopf
Director

SizweNtsaluba VSP
Registered Auditors
Per: Sipho Sono
Partner

Pretoria
14 July 2006

Deloitte & Touche PO Box 11007 Hatfield 0028 Tel: (012) 482 0000 Fax: (012) 460 3633 National Executive: GG Gelink Chief Executive AE Swiegers Chief Operating Officer GM Pinnock Audit DL Kennedy Tax L Geeringh Consulting MG Crisp Financial Advisory L Bam Strategy CR Beukman Finance TJ Brown Clients & Markets SJC Sibisi Public Sector and Corporate Social Responsibility NT Mtoba Chairman of the Board J Rhynes Deputy Chairman of the Board *A full list of partners and directors is available on request*
PricewaterhouseCoopers Reg. no. 1998/012055/21 Private Bag X36 Sunninghill 2157 Tel: (011) 797 4000 Fax: (011) 797 5800 C Beggs Chief Executive Officer MJB Kitshoff Chief Operating Officer *The Company's principal place of business is at 2 Eglin Road Sunninghill where a list of directors' names is available for inspection*
SizweNtsaluba PO Box 2939 Saxonwold 2132 Tel: (011) 519 1500 Fax: (011) 656 1806/7 Chief Executive Officer: VM Sekese Partners: AM Mthimunye AP Maralack AW Mashifane A Rooplal B Petersen D Steyn HL Qangule J Strauss LD Saunders LC Dudumashe R Bhika SE Sono TH Njikizana TR Josias Z Bashir

Directors' report for the year ended 31 March 2006

Introduction

The directors present the Bank's eighty-sixth annual report for the year ended 31 March 2006.

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.

Management prepared the annual financial statements set out in this report. The statements include full and responsible disclosure and are based on appropriate accounting policies which have been consistently applied, except as noted in Note 1 to the financial statements, 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 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 financial statements of the Bank 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 4 to 7.

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 objective of the South African Reserve Bank is the achievement and maintenance of price stability. In pursuance of its primary objective, the Bank assumes responsibility for the functions as set out in its mission statement on pages 10 and 11.

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

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

3 South African Mint Company (Proprietary) Limited produces coin; and
4 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 price stability, will be addressed by the Governor at the ordinary general meeting of shareholders to be held on 23 August 2006. The Governor's Address receives extensive media coverage and is made available to shareholders and other interested parties.

Financial results

The income statement appears on page 38.

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

	Group R'000	Bank R'000
31 March 2006	28 469	15 926
31 March 2005	10 967	5 558

Dividends

The final dividend of 5 cents per share for the 2005 financial year was paid on 6 May 2005 and an interim dividend of 5 cents per share for the 2006 financial year was paid to shareholders on 28 October 2005.

A final dividend of 5 cents per share for the 2006 financial year was declared on 3 April 2006 and paid on 5 May 2006.

Financial position

The balance sheet appears on page 37.

The total assets of the Bank increased by R39 billion during the year comprising an increase of R43 billion in gross gold and foreign assets, offset by a decline of R4 billion in domestic assets. The net increase was funded mainly by increases in deposit accounts (R35 billion), and notes and coin in circulation (R3 billion).

Directors

The composition of the Board of Directors is set out on pages 2 and 3.

Dr R D Mokate was appointed as deputy governor and executive director on 1 August 2005.

The term of office of Mr I Plenderleith as deputy governor expired in January 2006.

The term of office of Dr X P Guma as deputy governor expired on 30 June 2006. Dr Guma was employed as a special advisor to the governor with effect from 1 July 2006 for a period of three years, *inter alia,* for the purpose of temporarily acting as deputy governor until the date of the official appointment of a deputy governor into the vacant position previously occupied by him.

The terms of office of Dr D Konar, Ms Z P Manase and Ms N D Orleyn as shareholders' representatives expired on 25 August 2005. They were all re-elected at the annual general meeting.

The term of office of Mr S M Goodson as shareholders' representative will expire on 24 August 2006.

Ms A M Mokgabudi, a shareholders' representative representing industry, resigned from the Board of the Bank on 8 June 2006 for professional reasons. The term of office of Ms Mokgabudi would have expired the day after the ordinary general meeting in 2007. In terms of section 6(1)(b) of the South African Reserve Bank Act, No 90 of 1989 (the Act), the Board of the Bank at a meeting held on 19 July 2006, appointed Ms T N Mgoduso to fill the casual vacancy arising from the resignation of Ms Mokgabudi. In terms of section 6(1)(b)of the Act, the appointment of Ms Mogoduso is subject to confirmation at the forthcoming ordinary general meeting of shareholders. In terms of section 6(2) of the Act, the appointment of Ms Mgoduso would be for the unexpired period of Ms Mokgabudi's term, i.e. until the day after the ordinary general meeting of shareholders in 2007.

There are currently two vacancies for deputy governors.

Direct and indirect shareholding of directors on 31 March 2006

During the year, members of the Board held the following shares in the Bank:

Mr S M Goodson	10 000
Mr J W Raath	300
Dr D Konar	10 000
Mr T T Mboweni	10 000
Dr X P Guma	5 932
Ms F Jakoet	500
Ms N D Orleyn	10 000
Prof R W K Parsons	1 000
	47 732

Subsidiaries

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

	Authorised and issued share capital					
	Number of shares	Percentage held	Shares at cost		Indebtedness to/(by) Reserve Bank	
	'000	Per cent	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Corporation for Public Deposits	2 000	100	2 000	2 000	(10 381 180)	(5 827 768)
South African Mint Company (Proprietary) Limited	60 000	100	206 000	206 000	0	0
South African Bank Note Company (Proprietary) Limited	61 000	100	61 000	61 000	25 443	13 675
South African Reserve Bank Captive Insurance Company Limited	10 000	100	10 000	10 000	(570)	(1)
Total			279 000	279 000	(10 356 307)	(5 814 094)

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

	Bank	
	2006 R million	2005 R million
Aggregate profits	105	95

Contracts

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

Post balance sheet events

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

It would be proposed at the ordinary general meeting of shareholders to be held on 23 August 2006 that PricewaterhouseCoopers Inc and SizweNtsaluba VSP be appointed as joint auditors of the Bank as from the 2006/07 financial year.

Secretary

Mr T Mongwe (Secretary)
Mr T Mongwe was appointed Secretary of the Bank on 1 October 2005.

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 14 July 2006 and signed on its behalf by:

T T Mboweni
Governor

R D Mokate
Deputy Governor

S M Goodson
Director

F W Groepe
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 2006, have been correctly completed and are up to date.

T Mongwe
Secretary

Pretoria
14 July 2006

Balance sheet at 31 March 2006

		Group		Bank	
			Restated		Restated
		2006	2005	2006	2005
	Notes	R'000	R'000	R'000	R'000
Assets					
Cash and cash equivalents	2	25 097	18 475	0	0
Accommodation to banks	3	13 233 151	13 475 841	13 233 151	13 475 841
South African Government bonds	4	9 518 922	7 421 645	9 518 922	7 421 645
Loans and advances	5	72 554	60 435	72 554	60 435
Current taxation prepaid		4 642	89 227	0	85 370
Amounts due by subsidiaries	6	0	0	172 892	154 555
Gold and foreign exchange	7	142 118 684	98 663 302	142 118 684	98 663 302
Inventories	8	217 942	202 537	7 423	6 144
Investments	9	3 872 729	4 211 463	0	0
Amounts due by the South African Government	10	1 078 741	1 098 638	1 078 741	1 098 638
Gold and Foreign Exchange Contingency Reserve Account	11	0	4 746 586	0	4 746 586
Property, plant and equipment	12	1 006 527	1 073 611	570 084	622 037
Investment in subsidiaries	6	0	0	279 000	279 000
Equity investment in Bank for International Settlements	13	233 289	169 145	233 289	169 145
Deferred taxation assets	14	228 024	218 332	208 964	207 294
Forward exchange contract assets	15	381 316	1 173 808	381 316	1 173 808
Other assets	16	344 816	830 079	326 615	807 823
Total assets		172 336 434	133 453 124	168 201 635	128 971 623
Liabilities					
Deposit accounts	17	81 164 117	41 664 798	67 603 569	32 239 992
Amounts due to subsidiaries	6	0	0	10 529 199	5 968 649
South African Reserve Bank debentures	18	6 367 929	13 035 568	6 367 929	13 035 568
Foreign loans	19	21 739 659	21 806 244	21 739 659	21 806 244
Current taxation liabilities		4 066	8 327	3 445	0
Notes and coin in circulation	20	52 822 913	49 439 694	52 822 913	49 439 694
Employment benefit liabilities and other provisions	21	678 418	604 928	617 001	552 270
Gold and Foreign Exchange Contingency Reserve Account	11	1 824 430	0	1 824 430	0
Deferred taxation liabilities	14	111 503	102 516	33 858	35 517
Forward exchange contract liabilities	15	307 815	628 363	307 815	628 363
Other financial liabilities	22	167 176	170 346	79 885	56 957
Total liabilities		165 188 026	127 460 784	161 929 703	123 763 254
Capital and reserves					
Share capital	23	2 000	2 000	2 000	2 000
Accumulated profit		796 720	395 248	0	83 896
Statutory reserve fund		364 732	362 963	364 732	362 963
Contingency reserve		5 121 041	4 320 768	5 041 285	4 241 285
Bond revaluation reserve		863 915	518 225	863 915	518 225
Plant replacement reserve		0	393 136	0	0
Total reserves		7 148 408	5 992 340	6 271 932	5 208 369
Total liabilities and reserves		172 336 434	133 453 124	168 201 635	128 971 623

Income statement for the year ended 31 March 2006

		Group		Bank	
			Restated		Restated
		2006	2005	2006	2005
	Notes	R'000	R'000	R'000	R'000
Interest income		5 796 251	3 966 469	5 462 849	3 617 049
Interest expense		3 344 611	2 671 551	3 073 179	2 378 577
Net interest income		2 451 640	1 294 918	2 389 670	1 238 472
Dividend income		18 854	16 673	19 038	16 856
Operating income		322 518	1 250 497	233 626	1 159 969
Total income	24.1	2 793 012	2 562 088	2 642 334	2 415 297
Operating costs	24.2	1 612 892	1 569 754	1 604 595	1 549 637
Profit before taxation	24	1 180 120	992 334	1 037 739	865 660
Taxation	25	341 073	306 287	303 740	274 455
Profit for the year		839 047	686 047	733 999	591 205
Dividend per share (cents)	26	10	10	10	10

Cash flow statement for the year ended 31 March 2006

		Group		Bank	
			Restated		Restated
		2006	2005	2006	2005
	Notes	R'000	R'000	R'000	R'000
Cash flows from operating activities					
Cash generated from/(utilised by) operating activities	27	1 748 140	(3 032 630)	1 968 562	(1 755 526)
Taxation paid		(402 651)	(164 790)	(359 451)	(100 676)
Dividends paid		(200)	(200)	(200)	(200)
Transfer to Government		(10 967)	(109 291)	(5 558)	(70 574)
Net cash generated from/(utilised by) operating activities		1 334 322	(3 306 911)	1 603 353	(1 926 976)
Cash flow (utilised by)/generated from investing activities		(1 327 700)	3 319 395	(1 603 353)	1 926 976
Purchase of property, plant and equipment		(53 852)	(192 257)	(25 757)	(69 767)
Disposal of property, plant and equipment		3 570	2 129	3 206	1 976
Disposal of investments		303 384	1 514 756	0	0
Net investment (in)/from Government bonds		(1 580 802)	1 994 767	(1 580 802)	1 994 767
Net increase in cash and cash equivalents		6 622	12 484	0	0
Cash and cash equivalents at beginning of the year		18 475	5 991	0	0
Cash and cash equivalents at end of the year	2	25 097	18 475	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 2006

	Share capital R'000	Accumulated profit R'000	Statutory reserve R'000	Contingency reserve R'000	Bond revaluation reserve R'000	Plant replacement reserve R'000	Total R'000
Balance at 31 March 2004 as reported	2 000	161 729	362 346	3 746 246	652 224	318 787	5 243 332
Adjustment to PPE (Note 36)	0	208 127	0	0	0	0	208 127
Gross adjustment	0	291 701	0	0	0	0	291 701
Deferred taxation thereon	0	(83 574)	0	0	0	0	(83 574)
Balance at 1 April 2004 as restated	2 000	369 856	362 346	3 746 246	652 224	318 787	5 451 459
Profit for the year (restated) (Note 36)	0	686 047	0	0	0	0	686 047
Transfer to Government	0	(10 967)	0	0	0		(10 967)
Transfer to reserves	0	(649 488)	617	574 522	0	74 349	0
Realised gains on "available-for-sale" financial assets	0	0	0	0	(568 896)	0	(568 896)
Gross realised gains	0	0	0	0	(812 709)	0	(812 709)
Taxation thereon	0	0	0	0	243 813	0	243 813
Fair value adjustments on "available-for-sale" financial assets	0	0	0	0	427 598	0	427 598
Gross adjustments	0	0	0	0	610 854	0	610 854
Taxation thereon					(183 256)		(183 256)
Effect of taxation rate change	0	0	0	0	7 299	0	7 299
Dividends paid	0	(200)	0	0	0	0	(200)
Balance at 31 March 2005	2 000	395 248	362 963	4 320 768	518 225	393 136	5 992 340
Profit for the year	0	839 047	0	0	0	0	839 047
Transfer to Government	0	(28 469)	0	0	0	0	(28 469)
Net transfer to reserves	0	(408 906)	1 769	800 273	0	(393 136)	0
Realised gains on "available-for-sale" financial assets	0	0	0	0	(21 007)	0	(21 007)
Gross realised gains	0	0	0	0	(29 588)	0	(29 588)
Taxation thereon	0	0	0	0	8 581	0	8 581
Fair value adjustments on "available-for-sale" financial assets	0	0	0	0	366 697	0	366 697
Gross adjustments	0	0	0	0	516 475	0	516 475
Taxation thereon	0	0	0	0	(149 778)	0	(149 778)
Dividends paid	0	(200)	0	0	0	0	(200)
Balance at 31 March 2006	2 000	796 720	364 732	5 121 041	863 915	0	7 148 408

* Explanatory notes

Plant replacement reserve
A plant replacement reserve was maintained by the South African Bank Note Company (Proprietary) Limited to contribute towards the periodic replacement of plant. This reserve has now been discontinued.

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

Bond revaluation reserve
Gains and losses arising from a change in fair value of available-for-sale financial assets are recognised directly in equity. When these financial assets are sold, collected or otherwise disposed of, the cumulative gain or loss recognised in equity is transferred to the income statement.

Statement of changes in equity: Bank*

For the year ended 31 March 2006

	Share capital R'000	Accumulated profit R'000	Statutory reserve R'000	Contingency reserve R'000	Bond revaluation reserve R'000	Total R'000
Balance at 31 March 2004 as reported	2 000	0	362 346	3 666 285	652 224	4 682 855
Adjustment to PPE (Note 36)	0	74 066	0	0	0	74 066
Gross adjustment	0	105 808	0	0	0	105 808
Deferred taxation thereon	0	(31 742)	0	0	0	(31 742)
Balance at 1 April 2004 as restated	2 000	74 066	362 346	3 666 285	652 224	4 756 921
Profit for the year restated	0	591 205	0	0	0	591 205
Transfer to Government	0	(5 558)	0	0	0	(5 558)
Transfer to reserves	0	(575 617)	617	575 000	0	0
Realised gains on "available-for-sale" financial assets	0	0	0	0	(568 896)	(568 896)
Gross realised gains	0	0	0	0	(812 709)	(812 709)
Taxation thereon	0	0	0	0	243 813	243 813
Fair value adjustments on "available-for-sale" financial assets	0	0	0	0	427 598	427 598
Gross adjustments	0	0	0	0	610 854	610 854
Taxation thereon	0	0	0	0	(183 256)	(183 256)
Effect of taxation rate change	0	0	0	0	7 299	7 299
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2005	2 000	83 896	362 963	4 241 285	518 225	5 208 369
Profit for the year	0	733 999	0	0	0	733 999
Transfer to Government	0	(15 926)	0	0	0	(15 926)
Transfer to reserves	0	(801 769)	1 769	800 000	0	0
Realised gains on "available-for-sale" financial assets	0	0	0	0	(21 007)	(21 007)
Gross realised gains	0	0	0	0	(29 588)	(29 588)
Taxation thereon	0	0	0	0	8 581	8 581
Fair value adjustments on "available-for-sale" financial assets	0	0	0	0	366 697	366 697
Gross adjustments	0	0	0	0	516 475	516 475
Taxation thereon	0	0	0	0	(149 778)	(149 778)
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2006	2 000	0	364 732	5 041 285	863 915	6 271 932

Explanatory notes (continued)

Statutory reserve
The statutory reserve fund is maintained in terms of section 24 of the South African Reserve Bank Act, No 90 of 1989 which stipulates that one-tenth of the surplus of the Bank, after provisions normally provided for by bankers 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, No 90 of 1989, nine-tenths of the surplus of the Bank, after provisions normally provided for by bankers and payment of dividends, have to be paid to Government. In terms of section 15 of the Corporation for Public Deposits Act, No 46 of 1984, the balance of net profits after transfers to reserves and payment of dividends is to be paid to Government.

Notes to the financial statements

1. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below. The accounting policies have been applied consistently with those adopted in the previous year except for changes as a result of the following:

Property, plant and equipment

The group has elected to measure certain items of property, plant and equipment (PPE) using the fair values as their deemed cost at 1 April 2004. The prior year's reported figures were adjusted (refer to Note 12).

Residual values were not previously applied to items of property, plant and equipment. The Bank has estimated the residual values with regard to certain items and the prior year's reported figures were adjusted as the effect on the prior year was considered to be material. The useful lives of property, plant and equipment were re-assessed and depreciation periods were changed in accordance with these estimates. The prior year's reported figures were adjusted (refer to Note 36).

Presentation of financial statements

The group has amended its balance sheet by grouping assets and liabilities by nature and listing them in an order that reflects their relative liquidity. The format of the income statement has also been amended.

1.1 Basis of presentation

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

1.2 Consolidation

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

Investments in subsidiaries

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

1.3 Financial instruments

Classification

Financial instruments as reflected on the balance sheet include all financial assets and financial liabilities, including derivative instruments, but exclude investments in subsidiaries, employee benefit plans, property, plant and equipment, deferred

taxation and taxation payable or prepaid. Management determines the appropriate classification at initial recognition of the financial instrument. Financial instruments are classified as follows:

Financial assets

Loans and receivables

The following financial assets have been classified as loans and receivables: Loans and advances; call accounts and deposits; amounts due by the South African Government; foreign deposits; accommodation to banks; other assets; and cash and cash equivalents.

Fair value through profit and loss financial assets

The following items have been designated as fair value through profit and loss financial assets: Derivatives with positive fair values; foreign money-market instruments; local and foreign portfolio investments; and other investments by subsidiaries (refer to Note 9).

Held-to-maturity financial assets

No financial assets have been classified as held to maturity.

Available-for-sale financial assets

South African Government bonds have been classified as available-for-sale financial assets.

Financial liabilities

Fair value through profit and loss financial liabilities

Derivatives with negative fair values have been classified as fair value through profit and loss financial liabilities.

Other financial liabilities

The following financial liabilities have been classified as other financial liabilities: Notes and coin issued; foreign loans; South African Reserve Bank debentures; deposit accounts; and creditors.

Related matters

Embedded derivatives

Embedded derivatives included in hybrid instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the hybrid contract is not designated as a fair value through

profit and loss financial liability. Embedded derivatives are treated as fair value through profit and loss financial instruments and the host contracts are accounted for by applying the rules of the relevant category of that financial instrument.

Recognition

Fair value through profit and loss financial assets and available-for-sale financial assets are recognised on the date the entity becomes party to the contractual provisions to purchase the assets and trade date accounting is applied for "regular way" purchases and sales. From this date any gains or losses arising from changes in fair value of the assets are recognised. Loans and receivables, and other financial liabilities, are recognised on the day they are transferred to the Bank or the day the funds are advanced.

Measurement

Initial measurement

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

Subsequent measurement

Fair value through profit and loss financial assets and available-for-sale financial assets.

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

(i) Derivatives

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

(ii) Foreign marketable money-market investments

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

(iii) Local and foreign portfolio investments

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

(iv) South African Government bonds

Listed bonds are valued using the quoted fair values at year-end as supplied by the Bond Exchange of South Africa. Unlisted bonds with indeterminate maturity dates are valued at cost.

(v) Loans and receivables, and non-trading liabilities

Loans and receivables, and non-trading liabilities are measured at amortised cost and are re-measured for impairment losses except as set out below:

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

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

c Accounts payable are stated at cost which approximates fair value due to the short-term nature thereof.

Amortised cost is calculated on the effective interest rate method that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability.

Impairment of financial assets

A review for impairment is carried out at each financial year-end. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. All impairment losses are recognised in the income statement except for “available-for-sale” financial assets.

Where a financial asset which is held available-for-sale is impaired, and an increase in the fair value of the financial asset was previously recognised in equity, the cumulative increase in the fair value of the financial asset recognised in equity is reversed to the income statement. Any additional impairment loss is recognised in the income statement. If, in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event after the write-down, the write-down is reversed through the income statement.

Gains and losses on subsequent measurement

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

Gains and losses arising from a change in the fair value of fair value through profit and loss financial instruments are recognised in the income statement of the period in which it arises.

Hedge accounting

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

Offsetting

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

1.4 Foreign currency activities

The group consists entirely of entities whose functional currency is the South African rand. Foreign currencies are all currencies other than the functional currency.

Transactions in foreign currencies are recorded at the rate of exchange ruling at the transaction date. Monetary assets and liabilities as well as non-monetary assets and liabilities at fair value, denominated in foreign currencies, are translated at the rates of exchange ruling at the balance sheet date. The appropriate quoted bid price is used for the translation of assets held or liabilities to be issued. For assets to be acquired or liabilities held the current offer price is used. When the Bank has matching asset and liability positions, mid-market rates are used for translation purposes.

Gains and losses of the subsidiaries arising on translation are recognised in the income statement. Foreign exchange profits and losses of the Bank are for the account of the Government and consequently all these profits and losses are transferred to the Gold and Foreign Exchange Contingency Reserve Account in terms of sections 25 to 28 of the Act.

1.5 Property, plant and equipment

Freehold land is carried at cost less accumulated impairment losses. Other items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is determined separately for each significant part of an item of property, plant and equipment and is charged so as to write off the cost or valuation of the assets (other than land and items under construction) to their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives of the assets have been disclosed in Note 12.

Residual values and estimated useful lives are assessed on an annual basis.

Surpluses or deficits on the disposal of property and equipment are recognised in the income statement. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

1.6 Impairment of other assets

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

An impairment loss is recognised in the income statement 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, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised.

1.7 Gold

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

All gains and losses realised on gold by the Bank are for the account of the South African Government and consequently all profits and losses are transferred to the Gold and Foreign Exchange Contingency Reserve Account. Profits and losses on gold of the subsidiaries are charged to the income statement in the period in which they arise.

1.8 Taxation

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

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

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

1.9 Pension and retirement funds

The expected costs of post-retirement defined benefits 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.

1.10 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 cost of providing benefits is determined using the projected unit credit method. 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 or losses on the post-retirement medical benefits are accounted for in the year in which they arise.

1.11 Sale and repurchase agreements

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

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

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

1.12 Inventories

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

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

Consumable stores are valued at the weighted average 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.

Note printing and coin-minting expenses include ordering, printing, minting, freight, insurance and handling costs. These costs are recorded as part of work-

in-progress stock for the South African Bank Note Company (Proprietary) Limited and the South African Mint Company (Proprietary) Limited and are released to the income statement when the currency is sold to the Bank.

1.13 Cash flow

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

1.14 Provisions

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

Provision for leave pay and bonus

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

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

Provision for post-retirement medical costs

Medical-aid premiums are paid for retired staff under certain conditions. The amount provided is determined annually by actuarial calculations as set out in more detail in Note 29.

Provision for professional fees

A provision for professional fees was raised by the South African Mint Company (Proprietary) Limited in respect of certain legal and actuarial fees.

1.15 Turnover

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

1.16 Revenue recognition

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

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

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

1.17 Use of estimates

To arrive at the carrying amounts of assets and liabilities and reported income and expenses, as well as disclosures of contingent assets and liabilities, management made certain estimates. These estimates are based on assumptions and judgements which depend on available information.

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

The estimates made have been disclosed in Notes 12 and 29.

1.18 Errors, changes in accounting policies and accounting estimates

Errors

The comparative amounts presented for the prior period in which an error occurred, or in the case of an error which occurred prior to the earliest prior period presented, the opening balances of the assets, liabilities and equity for the earliest period presented, are adjusted as if the error had not occurred.

Change in accounting policies

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

Changes in accounting estimates

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

2. Cash and cash equivalents

	Group		Bank	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Bank and cash balances	25 097	18 475	0	0

3. Accommodation to banks

Repurchase agreements	12 800 000	13 305 000	12 800 000	13 305 000
Application of cash reserve balances	425 787	165 436	425 787	165 436
Accrued interest	7 364	5 405	7 364	5 405
	13 233 151	13 475 841	13 233 151	13 475 841

The following table represents details of the collateral provided:

	Group		Bank	
	2006	2005	2006	2005
Market value of collateral (R'000)	12 866 094	13 336 324	12 866 094	13 336 324
Collateral cover	100,52%	100,24%	100,52%	100,24%
Maturity date	5 April 2006	6 April 2005	5 April 2006	6 April 2005

4. South African Government bonds

	R'000	R'000	R'000	R'000
Unlisted Government bonds: Zero coupon	111	111	111	111
Listed Government bonds: Interest bearing	9 408 037	7 341 256	9 408 037	7 341 256
Accrued interest	110 774	80 278	110 774	80 278
	9 518 922	7 421 645	9 518 922	7 421 645

The zero-coupon bonds have been valued at their nominal value. The interest-bearing bonds are shown at fair market value. Bonds to the value of R1,5 billion have been encumbered to secure reverse repurchase agreements (refer to Note 17).

5. Loans and advances

Secured foreign loans	72 554	60 435	72 554	60 435

The loan facility of R75 million expires on 31 December 2006 if not renegotiated. It is secured by a pledge of South African Land Bank bills to the value of R83,5 million and earns interest on the outstanding balance at the repurchase rate.

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

Unlisted 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
Amounts due by subsidiaries	172 892	154 555
Loan – South African Bank Note Company (Proprietary) limited	25 443	13 675
Corporation for Public Deposits – current account	147 449	140 880
Amounts due to subsidiaries	(10 529 199)	(5 968 649)
South African Reserve Bank Captive Insurance Company Limited	(570)	(1)
Corporation for Public Deposits – call deposit	(10 528 629)	(5 968 648)
Net investment in subsidiaries	(10 077 307)	(5 535 094)

The loan to the South African Bank Note Company (Proprietary) Limited is interest free and unsecured with no fixed repayment term.
The call deposit placed with the Bank by the Corporation for Public Deposits and bears interest at market rates.
The subsidiaries are all wholly owned and incorporated in the Republic of South Africa.

	Group		Bank	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000

7. Gold and foreign exchange

Gold coin and bullion	14 504 468	10 637 081	14 504 468	10 637 081
Money-market instruments and deposits	96 875 182	73 811 895	96 875 182	73 811 895
Medium-term notes	2 983 955	2 578 834	2 983 955	2 578 834
Managed funds	27 513 937	11 477 866	27 513 937	11 477 866
Accruals	241 142	157 626	241 142	157 626
	142 118 684	98 663 302	142 118 684	98 663 302

Gold coin and bullion consists of 3 987 964 fine ounces of gold at the statutory price of R3 637,06 per ounce (2005 – 3 984 649 fine ounces at R2 669,52 per ounce).

8. Inventories

Raw materials	105 700	118 132	0	0
Work in progress	77 947	54 614	0	0
Consumables stores	16 654	13 977	7 423	6 144
Maintenance spares	5 609	4 987	0	0
Finished goods	12 032	10 827	0	0
	217 942	202 537	7 423	6 144

9. Investments

Local registered bonds	160 748	219 313	0	0
Short-term South African money-market investments	3 711 667	3 981 785	0	0
Insurance products	0	10 082	0	0
Preference shares	314	283	0	0
	3 872 729	4 211 463	0	0

10. Amounts due by the South African Government

IMF accounts administered on behalf of the South African Government	796 515	797 112	796 515	797 112
Government of Namibia debt taken over by the South African Government	282 226	301 526	282 226	301 526
Net amount due by the South African Government	1 078 741	1 098 638	1 078 741	1 098 638

No settlement terms have been agreed in respect of the IMF balances administered on behalf of the South African Government. The amount is interest free. The Namibian debt taken over by the South African Government is being settled over the next five years in terms of an agreement with the Government. The outstanding balance yields a 17% return.

11. Gold and Foreign Exchange Contingency Reserve Account

	Group 2006 R'000	Group 2005 R'000	Bank 2006 R'000	Bank 2005 R'000
Opening balance	4 746 586	14 866 127	4 746 586	14 866 127
Profit on gold price adjustment account	(3 889 882)	(1 044 263)	(3 889 882)	(1 044 263)
Profit on forward-exchange contract adjustment account	(1 088 280)	(1 924 209)	(1 088 280)	(1 924 209)
(Loss)/profit on foreign-exchange adjustment account	2 474 410	(314 480)	2 474 410	(314 480)
Movement in unrealised gains and losses on forward exchange contracts	471 943	2 624 204	471 943	2 624 204
	2 714 777	14 207 379	2 714 777	14 207 379
Repayments	(4 539 207)	(9 460 793)	(4 539 207)	(9 460 793)
Amount due (to)/by Government	(1 824 430)	4 746 586	(1 824 430)	4 746 586
Balance composition				
Balance currently due (to)/by Government	(1 750 929)	5 292 031	(1 750 929)	5 292 031
Unrealised gains and losses on forward exchange contracts (Note 15)	(73 501)	(545 445)	(73 501)	(545 445)
	(1 824 430)	4 746 586	(1 824 430)	4 746 586

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 revaluation profits and losses incurred on gold and foreign exchange transactions which are for the account of the South African Government. Settlement of this account is subject to agreement from time to time between the Bank and the Government.

12. Property, plant and equipment

12.1 Group: 2006

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2005	41 257	494 391	1 272 556	45 261	1 853 465
Additions	0	12 551	31 370	9 931	53 852
Transfers in/(out)	0	11	25 946	(25 957)	0
Disposals	(1 729)	0	(60 637)	(1 758)	(64 124)
Cost at 31 March 2006	39 528	506 953	1 269 235	27 477	1 843 193
Accumulated depreciation					
Accumulated depreciation at 31 March 2005	0	154 793	625 061	0	779 854
Charge for the year	0	10 591	106 745	0	117 336
Disposals	0	0	(60 524)	0	(60 524)
Accumulated depreciation at 31 March 2006	0	165 384	671 282	0	836 666
Net book value at 31 March 2006	39 528	341 569	597 953	27 477	1 006 527
Estimated useful lives (in years)		50	5 to 15		
Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times).					6 736 617

Group: 2005

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2004	41 769	488 397	1 177 785	29 174	1 737 125
PPE adjustment*	(512)	2 086	(42 818)	0	(41 244)
Adjusted cost at 1 April 2004	41 257	490 483	1 134 967	29 174	1 695 881
Additions	0	914	152 439	38 904	192 257
Transfers in/(out)	0	4 208	14 406	(18 614)	0
Disposals	0	(1 214)	(29 256)	(4 203)	(34 673)
Cost at 31 March 2005	41 257	494 391	1 272 556	45 261	1 853 465
Accumulated depreciation					
Accumulated depreciation at 31 March 2004	0	139 718	889 639	0	1 029 357
Adjustment regarding revised expected useful lives**	0	5 779	(338 724)	0	(332 945)
Accumulated depreciation at 31 March 2004 as restated	0	145 497	550 915	0	696 412
Charge for the year (restated)	0	10 510	99 869	0	110 379
Disposals	0	(1 214)	(25 723)	0	(26 937)
Accumulated depreciation at 31 March 2005	0	154 793	625 061	0	779 854
Net book value at 31 March 2005	41 257	339 598	647 495	45 261	1 073 611

Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times).	6 521 687

* PPE adjustment

The SA Mint Company used the fair value of certain items of property, plant and equipment as its deemed cost (refer to Note 36).

**Adjustment regarding revised expected useful lives

A retrospective adjustment was made to accumulate depreciation following a review of the expected useful lives of property, plant and equipment.

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

12.2 Bank: 2006

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2005	31 562	374 682	718 330	45 261	1 169 835
Additions	0	72	18 940	6 745	25 757
Transfers in/(out)	0	11	25 946	(25 957)	0
Disposals	(1 729)	0	(51 877)	(1 758)	(55 364)
Cost at 31 March 2005	29 833	374 765	711 339	24 291	1 140 228
Accumulated depreciation					
Accumulated depreciation at 31 March 2005	0	114 542	433 256	0	547 798
Charge for the year	0	7 891	66 222	0	74 113
Disposals	0	0	(51 767)	0	(51 767)
Accumulated depreciation at 31 March 2006	0	122 433	447 711	0	570 144
Net book value at 31 March 2006	29 833	252 332	263 628	24 291	570 084
Estimated useful lives (in years)		50	5 to 15		
Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times).					3 675 672

Bank: 2005

Cost					
Cost at 31 March 2004	31 562	370 848	694 529	29 174	1 126 113
Additions	0	914	29 949	38 904	69 767
Transfers in/(out)	0	4 134	14 480	(18 614)	0
Disposals	0	(1 214)	(20 628)	(4 203)	(26 045)
Cost at 31 March 2005	31 562	374 682	718 330	45 261	1 169 835
Accumulated depreciation					
Accumulated depreciation at 31 March 2004	0	107 980	496 034	0	604 014
Adjustment regarding revised expected useful lives*	0	0	(105 808)	0	(105 808)
Accumulated depreciation at 31 March 2004 as restated	0	107 980	390 226	0	498 206
Charge for the year (restated)	0	7 776	61 773	0	69 549
Disposals	0	(1 214)	(18 743)	0	(19 957)
Accumulated depreciation at 31 March 2005	0	114 542	433 256	0	547 798
Net book value at 31 March 2005	31 562	260 140	285 074	45 261	622 037
Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times).					3 475 267

* A retrospective adjustment was made to accumulated depreciation following a review of the expected useful lives of property, plant and equipment.

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

	Group		Bank	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
13. Equity investment in Bank for International Settlements				
Unlisted shares at valuation	233 289	169 145	233 289	169 145

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The equity of the Bank for International Settlements (BIS) is held by the central banks of the world and the value of each central bank's share is calculated annually by the BIS on a net asset value basis. The shares cannot be sold at the Bank's discretion.

14. Deferred taxation assets and liabilities

Balance at beginning of the year	115 816	170 525	171 777	202 288
Adjustment due to restatement of PPE	0	(83 574)	0	(31 742)
Restated balance at beginning of the year	115 816	86 951	171 777	170 546
Income statement credit	705	28 865	3 329	1 231
Balance at end of the year	116 521	115 816	175 106	171 777
Comprising:				
Deferred taxation asset	228 024	218 332	208 964	207 294
Deferred taxation liability	(111 503)	(102 516)	(33 858)	(35 517)
Net deferred taxation asset	116 521	115 816	175 106	171 777

Deferred taxation assets and liabilities are attributed as set out in Notes 14.1 and 14.2.

14.1 Group

	Balances as at 31 March 2006 R'000	Income statement credit (debit) R'000	Balance at 31 March 2005 R'000
Property, plant and equipment	(107 249)	(5 453)	(101 796)
Post-retirement medical costs	183 751	20 597	163 154
Provisions	13 781	2 091	11 690
Deferred retirement fund contributions	1 567	(4 518)	6 085
Deferred software development costs	821	(578)	1 399
Non-vested reinsurance benefit	(4 254)	(4 254)	0
Fair value adjustment to impaired assets	27 546	(8 458)	36 004
Prepaid expenditure and other items	558	1 278	(720)
Total	116 521	705	115 816

14.2 Bank

Property, plant and equipment	(33 858)	409	(34 267)
Deferred retirement fund contributions	1 567	(4 518)	6 085
Fair value adjustments to impaired assets	27 546	(12 106)	39 652
Post-retirement medical costs	167 699	17 182	150 517
Deferred software development costs	821	(578)	1 399
Provisions	11 231	1 590	9 641
Prepaid expenditure and other items	100	1 350	(1 250)
Total	175 106	3 329	171 777

15. Forward exchange contracts

	Group 2006 R'000	Group 2005 R'000	Bank 2006 R'000	Bank 2005 R'000
Unrealised gain on forward exchange contracts	381 316	1 173 808	381 316	1 173 808
Unrealised loss on forward exchange contracts	(307 815)	(628 363)	(307 815)	(628 363)
Net gain credited to Gold and Foreign Exchange Contingency Reserve Account (refer to Note 11)	73 501	545 445	73 501	545 445

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

16. Other assets

Financial assets	246 701	753 300	232 815	736 055
Non-financial assets	98 115	76 779	93 800	71 768
	344 816	830 079	326 615	807 823

17. Deposit accounts

Non-interest bearing	66 097 236	26 621 795	66 097 236	24 992 968
Banks' reserve accounts	27 959 027	22 770 714	27 959 027	22 770 714
Government accounts	37 962 520	3 752 500	37 962 520	2 123 673
Other current accounts	175 689	98 581	175 689	98 581
Interest bearing	15 066 881	15 043 003	1 506 333	7 247 024
Reverse repurchase agreements	1 506 333	7 219 476	1 506 333	7 219 476
Margin calls – repurchase transactions	0	27 548	0	27 548
Call deposits	13 560 548	7 795 979	0	0
	81 164 117	41 664 798	67 603 569	32 239 992
Maturity structure of deposit accounts				
Repayable on demand	51 698 757	11 647 060	38 138 209	2 222 254
Repayable within 30 days	28 712 193	30 017 738	28 712 193	30 017 738
Repayable within 34 days	753 167	0	753 167	0
	81 164 117	41 664 798	67 603 569	32 239 992
The reverse repurchase agreements are secured by Government bonds as follows:				
Market value	1 517 359	7 178 997	1 517 359	7 178 997
Collateral cover (per cent)	100,73%	99,44%	100,73%	99,44%

18. South African Reserve Bank debentures

	Group		Bank	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Capital	6 350 000	13 000 000	6 350 000	13 000 000
Accrued interest	17 929	35 568	17 929	35 568
	6 367 929	13 035 568	6 367 929	13 035 568

The South African Reserve Bank debentures are issued to the market on tender, normally for 28 or 56-day terms. The debentures are unsecured. Details of the debentures in issue at 31 March 2006 are as follows:

Maturity date	Interest rate (Per cent)	Capital (R million)
5 April 2006	6,65	1 200
5 April 2006	6,80	350
12 April 2006	6,49	1 000
12 April 2006	6,82	300
19 April 2006	6,51	1 500
26 April 2006	6,51	2 000
		6 350

19. Foreign loans

	21 739 659	21 806 244	21 739 659	21 806 244

Foreign loans represent unsecured credit lines utilised and bear interest at market-related rates. Analyses of the currency composition and maturity structure of these loans are set out in Note 32.

20. Notes and coin in circulation

Notes	50 056 595	46 871 807	50 056 595	46 871 807
Coin	2 766 318	2 567 887	2 766 318	2 567 887
	52 822 913	49 439 694	52 822 913	49 439 694

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

21. Employment benefit liabilities and other provisions

Group	Leave pay and bonuses R'000	Post-retirement medical costs R'000	Retrench-ment costs R'000	Profes-sional fees R'000	Total R'000
Balance at 1 April 2004	42 061	466 570	590	93	509 314
Increase in provision	18 219	117 129	0	0	135 348
Utilised during the year	(18 518)	(20 599)	(590)	(27)	(39 734)
Balance at 31 March 2005	41 762	563 100	0	66	604 928
Increase in provision	14 787	95 233	0	73	110 093
Utilised during the year	(12 396)	(24 207)	0	0	(36 603)
Balance at 31 March 2006	44 153	634 126	0	139	678 418
Bank					
Balance at 1 April 2004	32 964	428 519	0	0	461 483
Increase in provision	7 459	109 611	0	0	117 070
Utilised during the year	(7 177)	(19 106)	0	0	(26 283)
Balance at 31 March 2005	33 246	519 024	0	0	552 270
Increase in provision	9 052	81 761	0	0	90 813
Utilised during the year	(3 571)	(22 511)	0	0	(26 082)
Balance at 31 March 2006	38 727	578 274	0	0	617 001

22. Other financial liabilities

	Group		Bank	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Accounts payable and sundry balances	167 176	170 346	79 885	56 957

23. Share capital

Authorised and issued 2 000 000 shares (2005 – 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.

	Group		Bank	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
24. Profit before taxation				
24.1 Total income is stated after crediting				
Income from investments	18 866	15 767	18 838	16 656
Dividends	18 854	16 673	18 838	16 656
Realised and unrealised (loss)/profit on investments	12	(906)	0	0
Income from subsidiaries			10 594	11 507
Dividends			200	200
Interest			9 321	10 264
Administration fees			1 073	1 043
Realised gains on South African Government bonds	29 588	812 709	29 588	812 709
Fair value adjustments to financial instruments	(1 300)	(9 778)	0	0
Commission on banking services	93 940	338 193	93 940	338 193
24.2 Operating costs include				
Directors' remuneration (Note 35)			8 720	7 794
From the Bank for services as directors			1 031	898
From the Bank for other services			7 689	6 896
Depreciation	117 336	110 379	74 113	69 549
Buildings	10 591	10 510	7 891	7 776
Plant, vehicles, furniture and equipment	106 745	99 869	66 222	61 773
Net loss on disposal of:	30	5 607	391	4 112
Land	(199)	0	(201)	0
Buildings	0	0	0	0
Plant, vehicles, furniture and equipment	229	5 607	592	4 112
Auditors' remuneration	6 695	5 849	5 084	4 482
Audit fees	6 108	5 208	4 960	4 395
Underprovision for previous year	387	361	0	0
Fees for other services	95	270	19	39
Expenses	105	10	105	48
Consulting fees	29 421	28 624	28 069	25 957
Net transfers to provisions (Note 21)	73 490	95 614	64 731	90 787
Provision for leave pay and bonus	2 391	(299)	5 481	282
Provision for post-retirement medical costs	71 026	96 530	59 250	90 505
Provision for retrenchment costs	0	(590)	0	0
Provision for consultancy fees	73	(27)	0	0
Retirement benefit costs	88 803	93 282	80 157	86 483
Normal contributions to funds	64 871	58 339	56 225	51 582
Additional contributions to funds in respect of early retirements	926	14 353	926	14 353
Medical-aid premiums paid	23 006	20 590	23 006	20 548
Remuneration and recurring staff costs	741 687	691 847	614 493	573 414
Cost of new currency	77 629	89 241	627 483	591 201
Other operating costs	693 111	652 395	278 523	258 792

25. Taxation

	Group		Bank	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
South African normal taxation				
Current taxation	340 782	334 718	305 555	275 252
Adjustment in respect of prior year	996	434	1 514	434
Deferred taxation	(705)	(28 865)	(3 329)	(1 231)
Current year timing differences	1 094	(18 868)	(1 868)	20
Adjustment in respect of prior year	(1 799)	(9 997)	(1 461)	(1 251)
	341 073	306 287	303 740	274 455
Reconciliation of taxation rate				
South African normal taxation rate	29,00%	30,00%	29,00%	30,00%
Adjusted for:				
Disallowable expenses	0,32%	0,27%	0,34%	0,13%
Exempt income and special deductions	(0,35%)	(0,74%)	(0,08%)	(0,02%)
Adjustment in respect of prior years	(0,07%)	(0,08%)	0,01%	(0,10%)
Taxation rate change	0%	1,42%	0%	1,69%
Effective taxation rate	28,90%	30,87%	29,27%	31,70%

26. Dividends per share (cents)

	Group		Bank	
	10	10	10	10
Dividends were paid as follows:	R'000	R'000	R'000	R'000
Final dividend of 5 cents per share for the 2005 financial year	100	100	100	100
Interim dividend of 5 cents per share for the 2006 financial year	100	100	100	100
	200	200	200	200

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.

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

	Group		Bank	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Reconciliation of profit before taxation to cash generated from/ (utilised by) operating activities:				
Profit before taxation	1 180 120	992 334	1 037 739	865 660
Adjustments for:				
Depreciation	117 336	110 379	74 113	69 549
Net loss on disposal of PPE	30	5 607	391	4 112
Utilisation of insurance spares	0	5	0	0
Unrealised foreign exchange loss	0	61	0	0
Notional interest on interest-free loan	(41 746)	(44 599)	(41 746)	(44 599)
Fair value adjustments to financial instruments	(1 300)	(9 778)	0	0
Movement in provisions	73 490	95 614	64 731	90 787
Gain on South African Government bonds	(29 588)	(812 709)	(29 588)	(812 709)
Net cash generated from operating activities	1 298 342	336 914	1 105 640	172 800
Changes in working capital:				
Decrease/(increase) in accommodation to banks	242 690	(723 046)	242 690	(723 046)
Increase in loans and advances	(12 119)	(60 435)	(12 119)	(60 435)
Increase in amounts due by subsidiaries	0	0	(18 337)	(70 186)
Increase in gold and foreign exchange	(43 455 382)	(35 235 811)	(43 455 382)	(35 235 811)
(Increase)/decrease in inventories	(15 405)	(63 078)	(1 279)	227
Decrease in amounts due by the South African Government	61 643	1 309 347	61 643	1 309 347
Decrease in Gold and Foreign Exchange Contingency Reserve Account	7 042 960	10 119 541	7 042 960	10 119 541
(Increase)/decrease in equity investment in Bank for International Settlements	(64 144)	964	(64 144)	964
Decrease in other assets	521 912	148 170	481 208	220 873
Increase in deposit accounts	39 499 320	9 973 304	35 363 577	5 433 069
Increase in amounts due to subsidiaries	0	0	4 560 550	5 968 648
(Decrease)/increase in South African Reserve Bank debentures	(6 667 639)	6 723 114	(6 667 639)	6 723 114
Decrease in foreign loans	(66 585)	(1 942 814)	(66 585)	(1 942 814)
Increase in notes and coin in circulation	3 383 219	6 323 789	3 383 219	6 323 789
(Decrease)/increase in other financial liabilities	(20 672)	57 411	12 560	4 394
Cash generated from/(utilised by) changes in working capital	449 798	(3 369 544)	862 922	(1 928 326)
Cash generated from/(utilised by) operating activities	1 748 140	(3 032 630)	1 968 562	(1 755 526)

28. Retirement benefit information

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

Contributions to the defined benefit fund are charged against income based on actuarial advice. The benefits provided are based on the years of membership and salary levels. These benefits are provided from contributions by employees and the employer, as well as income from the assets of the plan. Current contribution levels are considered to be adequate to meet future obligations. The actuarial risk in respect of current pension commitments has been transferred to a life insurer. The fund has been closed to new members since 1 July 1995 and has five contributing members and 485 pensioners.

The last actuarial valuation of the defined benefit plan was performed on 31 March 2005, at which date the fund was determined to be fully funded. The following key assumptions were applied:

	2006	2005
Discount rate	7,53%	8,62%
Salary inflation	5,61%	6,43%
Post-retirement interest rate	3,50%	3,84%

29. Post-retirement benefits

The Bank and a subsidiary provide post-retirement benefits to retired staff in the form of subsidised medical-aid premiums. A provision for the liability has been created. The provision covers the total liability, i.e. the accumulated post-retirement medical benefits liability at fair value as at 31 March 2006.

	Group		Bank	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Financial year end at 31 March 2005				
Net liability at 31 March 2005	563 100	466 570	519 024	428 519
Annual cost				
Interest cost	44 418	44 579	40 621	41 016
Service cost	15 603	10 706	16 813	12 775
Subsidy increases above expectations	0	0	0	0
Actuarial losses	31 820	58 858	24 327	55 820
Net cost	91 841	114 143	81 761	109 611
Total benefit payments	(20 815)	(17 613)	(22 511)	(19 106)
Net liability on balance sheet (Note 21)	634 126	563 100	578 274	519 024

	2006	2005
Key assumptions:		
Discount rate	7,75%	8,0%
Medical inflation	5,75%	6,0%
Valuation date	31 March 2006	31 March 2005

30. 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.

31. Capital commitments

Contracted	63 743	60 110	48 470	30 390
Not contracted	95 900	127 509	67 223	102 657
Total	159 643	187 619	115 693	133 047

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

32. 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 8 to 9. Certain aspects of risk management specific to financial instruments are described in more detail below.

Interest rate risk

With the exception of South African Government bonds and amounts due by the South African Government, the rand-denominated financial assets and liabilities of the Bank, respectively, earn and bear interest at rates linked to South African money-market rates. The level of these rates is managed by the Bank through its monetary policy operations. The repricing of these assets and liabilities therefore occurs at approximately the same time. Accordingly, the Bank is not subject to significant interest rate risk in respect of these instruments. Foreign investments are also predominantly invested in short-term money-market instruments. The remainder is mostly invested in liquid medium-term securities which can be disinvested in the short term.

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 reviewed routinely by management on a daily basis and, when circumstances require, throughout the day. The Bank's exposures to market price risk is largely limited by the fact that gold and foreign exchange price risks are for the account of the Government in terms of the SA Reserve Bank Act, No 90 of 1989.

Credit risk

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

Credit risk policies are formulated by the Governor's Executive Committee, in terms of which counterparty limits and security arrangements are set. These policies require that no uncollateralised loans may be made and that investment funds may only be placed with institutions accredited with ratings of at least A from Standard & Poor. Exposures are monitored daily against reports generated by the middle office function of the Financial Markets Department.

Concentration analysis 2006

	Group		Bank	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Assets				
South African rand	29 984 461	34 789 822	25 849 662	30 308 321
Gold	14 487 187	10 637 081	14 487 187	10 637 081
United States dollar	92 211 629	71 573 637	92 211 629	71 573 637
Euro	29 905 081	11 103 981	29 905 081	11 103 981
Pound sterling	3 523 869	3 253 054	3 523 869	3 253 054
Other	2 224 207	2 095 549	2 224 207	2 095 549
	172 336 434	133 453 124	168 201 635	128 971 623
Liabilities				
South African rand	150 596 775	111 646 880	146 461 976	107 165 379
United States dollar	14 744 611	13 744 551	14 744 406	13 744 551
Euro	6 671 119	7 885 541	6 671 849	7 885 541
Pound sterling	323 929	176 152	323 404	176 152
	172 336 434	133 453 124	168 201 635	128 971 623

Liquidity risk

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

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

The table on the following page analyses the foreign assets and liabilities of the Bank into relevant maturity groupings based on the remaining period at balance sheet date to contractual maturity date. No liquidity information is given for financial assets and liabilities denominated in rand because the Bank faces no liquidity risk as explained above.

As at 31 March 2006

Assets (R'000)	Up to 1 month	1 to 3 months	4 to 6 months	6 to 12 months	More than 1 year	Total
Gold	14 504 469	0	0	0	0	14 504 469
Foreign exchange investments	75 548 240	38 159 785	1 728 681	2 605 258	7 621 115	125 663 079
Special drawing rights – IMF	1 951 137	0	0	0	0	1 951 137
Equity investment – BIS	0	0	0	0	233 289	233 289
	92 003 846	38 159 785	1 728 681	2 605 258	7 854 404	142 351 974
Liabilities (R'000)						
Foreign loans	9 468 992	12 270 667	0	0	0	21 739 659
Net foreign assets	82 534 854	25 889 118	1 728 681	2 605 258	7 854 404	120 612 315

As at 31 March 2005

Assets (R'000)	Up to 1 month	1 to 3 months	4 to 6 months	6 to 12 months	More than 1 year	Total
Gold	10 637 081	0	0	0	0	10 637 081
Foreign exchange investments	46 021 071	30 706 256	822 111	1 406 215	6 966 544	85 922 197
Special drawing rights – IMF	0	0	0	2 104 024	0	2 104 024
Equity investment – BIS	0	0	0	0	169 145	169 145
	56 658 152	30 706 256	822 111	3 510 239	7 135 689	98 832 447
Liabilities (R'000)						
Foreign loans	8 562 534	6 986 575	6 257 135	0	0	21 806 244
Net foreign assets	48 095 618	23 719 681	(5 435 024)	3 510 239	7 135 689	77 026 203

33. Related party information

Transactions between the Bank and its subsidiaries, which are related parties to the Bank, have been eliminated on consolidation. A number of transactions took place between these entities and are disclosed elsewhere in this report, in the relevant notes to the financial statements.

The Bank could be regarded as related to state corporations such as Eskom. However, the only transactions that the Bank has with such related entities are on purely commercial terms such as payments to Eskom for electricity.

The Bank provides banking services to the National Treasury at no cost. This is in line with the central banking practice in many countries across the globe. Certain terms and conditions of transactions with the Government for the purpose of assisting the Bank to better perform its core business, have not been disclosed.

The executive directors of the Bank are regarded to be the only key management personnel as they are involved in all key management decisions. Remuneration of key personnel appears in Note 35.

34. Segment reporting

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

35. Directors' remuneration

The directors' remuneration for the year ended 31 March 2006, which has all been paid by the Bank, is as follows:

	Short-term employee benefits R'000	Post-employment benefits R'000	2006 Total R'000	2005 Total R'000
Executive directors – remuneration for other services				
T T Mboweni	2 554	276	2 830	2 707
G Marcus	0	0	0	768
X P Guma	1 535	161	1 696	1 520
I Plenderleith	1 949	170	2 119	1 901
R D Mokate	934	110	1 044	0
	6 972	717	7 689	6 896

No other benefits accrued to the executive directors.

Non-executive directors – for services as directors		
D Konar	145	135
M Padayachee	135	127
N D Orleyn	90	90
J W Raath	97	92
F Jakoet	92	88
A M Mokgabudi	105	104
Z P Manase	92	80
S M Goodson	79	64
R W K Parsons	99	59
F E Groepe	97	59
	1 031	898
Paid by subsidiaries		
Non-executive directors – for services as director		
F Jakoet	183	119

36. Comparative figures

The format of the balance sheet has been amended to present assets and liabilities in order of liquidity rather than current/non-current format as previously presented.

The following table summarises the changes in comparative figures:

Balance sheet

	Notes	Group Previously stated R'000	Group Restatements R'000	Group Restated R'000	Bank Previously stated R'000	Bank Restatements R'000	Bank Restated R'000
Equity and liabilities							
Accumulated profit – opening balance 31/3/2004	1	161 729	(208 127)	369 856	0	(74 066)	74 066
Profit for the year	1	687 903	1 856	686 047	581 375	(9 830)	591 205
Transfers to reserves	2	(626 180)	23 308	(649 488)	(575 617)	0	(575 617)
Transfers to Government		(10 967)	0	(10 967)	(5 558)	0	(5 558)
Dividend	1	(200)	0	(200)	(200)	0	(200)
Accumulated profit – closing balance 31/3/2005		212 285	(182 963)	395 248	0	(83 896)	83 896
Plant replacement reserve	2	369 828	(23 308)	393 136	0	0	0
Deferred taxation liabilities	3	3 942	(98 574)	102 516	0	(35 517)	35 517
Assets							
Current taxation prepaid	4	88 813	414	89 227	85 370	0	85 370
Gold and foreign exchange	5	98 832 447	(169 145)	98 663 302	98 832 447	(169 145)	98 663 302
Inventories	6	196 393	6 144	202 537	0	6 144	6 144
Investments	7	4 174 814	36 649	4 211 463	0	0	0
Amounts due by the South African Government	8	5 845 224	(4 746 586)	1 098 638	5 845 224	(4746 586)	1 098 638
Gold and Foreign Exchange Contingency Reserve Account	8	0	4 746 586	4 746 586	0	4 746 586	4 746 586
Property, plant and equipment	1	785 153	288 458	1 073 611	503 874	118 163	622 037
Equity investment in Bank for International Settlements	5	0	169 145	169 145	0	169 145	169 145
Deferred taxation assets	3	206 044	12 288	218 332	206 044	1 250	207 294
Other assets	4, 6, 7	869 187	(39 108)	830 079	813 967	(6 144)	807 823
Income statement							
Operating costs	9	1 556 549	13 205	1 569 745	1 561 992	(12 355)	1 549 637
Cash flow statement	10						
Net cash generated from/ (utilised by) operations		(9 594 051)	(6 287 140)	(3 306 911)	(14 149 227)	(12 222 251)	(1 926 976)
Net cash flow from financing activities		6 323 789	6 323 789	0	6 323 789	6 323 789	0
Cash flow generated from investing activities		3 282 746	(36 649)	3 319 395	7 825 438	5 898 462	1 926 976

Notes:

1. Property, plant and equipment
   Property, plant and equipment have been restated following a review of the expected useful lives of the individual asset categories as well as to measure certain items of PPE at their deemed cost at the SA Mint Company. The adjustments to the comparative figures regarding opening balances of property, plant and equipment and the related deferred taxation balance are shown in the statements of changes in equity and Notes 12 and 14, respectively.

2. Plant replacement reserve
   Net adjustment to PPE by SA Bank Note Company was transferred to the plant replacement reserve.

3. Deferred taxation liabilities and assets
   The deferred taxation balances have been restated due to adjustments to property, plant and equipment balances. Deferred taxation liabilities and assets are also disclosed in aggregate for the group and are not netted off per entity as previously reported.

4. Current taxation prepaid
   Amount was reclassified from other assets to current taxation prepaid.

5. Equity investment in Bank for International Settlements
   The investment was previously classified under "Gold and foreign exchange". The balance is separately disclosed on the face of the balance sheet in the current period.

6. Inventories
   Amount was reclassified from other assets to inventories.

7. Investments
   Amount was reclassified from other assets to investments.

8. Gold and foreign exchange contingency reserves
   Amount was reclassified from amounts due by the South African Government to the Gold and Foreign Exchange Contingency Reserve Account.

9. Operating costs
   The depreciation rates were adjusted following a re-assessment of the useful lives of certain items of property, plant and equipment.

10. Cash flow statement
    Cash flow items were restated as a result of the restatement of the comparative figures.

Notice of ordinary general meeting 2006

Notice is hereby given that the eighty-sixth ordinary general meeting of shareholders will be held at the Head Office of the South African Reserve Bank, 370 Church Street, Pretoria on Wednesday, 23 August 2006 at 10:30.

Agenda

1. To approve minutes of the ordinary general meeting of shareholders held on 24 August 2005 (distributed previously).
2. To receive the annual financial statements and reports of the Board of Directors and the auditors for the year ended 31 March 2006 (*Annual Report 2006*).
3. To elect a shareholders' representative, representing commerce or finance, to the Board of Directors (details appear on pages 2 to 3, 23, and 33 to 34 of the *Annual Report 2006*).
4. To confirm the appointment of a shareholders' representative, representing industry, in terms of section 6(1)(b) of the South African Reserve Bank Act, No 90 of 1989 (the Act) (details appear on pages 2 to 3, 23, and 33 to 34 of the *Annual Report 2006*).
5. To determine the remuneration of the auditors for the past audit.
6. To appoint auditors for the 2006/07 financial year. (See page 35 of the directors' report).
7. To transact any other business to be transacted at an ordinary general meeting.

In terms of section 23(1) of the Act, 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 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

T Mongwe
Secretary

Pretoria
21 July 2006

Shareholders' calendar

Dividends

	Declared	Paid
Interim	3 October 2005	28 October 2005
Final	3 April 2006	5 May 2006

Date and time of the ordinary general meeting in Pretoria: 23 August 2006 at 10:30.

This document is important and requires your immediate attention

South African Reserve Bank

(Incorporated in the Republic of South Africa in terms of The South African Reserve Bank Act, 1989 (Act No 90 of 1989) ("the Bank")

Form of proxy (Revised)

For use by the Bank's shareholders registered as such at 16:00 on Thursday, 23 February 2006 ("the shareholders") at an ordinary general meeting ("the meeting") convened in terms of Regulation 16 of the Regulations framed under section 36 of the South African Reserve Bank Act, 1989 (Act No 90 of 1989), to be held at 10:30 on Wednesday, 23 August 2006 at the Head Office of the Bank, 370 Church Street, Pretoria, 0002, South Africa.

I/We, the undersigned _____ of _____

being the holder/s of _____ of the Bank's shares, and entitled to _____ vote/s (see Note 14*), hereby appoint (see Note 1*)

1 _____ of _____ or failing him/her

2 _____ of _____ or failing him/her

3 the chairperson of the meeting

as my/our proxy to attend, speak and vote on my/our behalf at the ordinary general meeting of the Bank's shareholders to be held on 23 August 2006 and at every adjournment thereof and to vote or abstain from voting in respect of the shares registered in my/our name/s, in accordance with the following instructions (see Note 2*):

Please insert an "x" in the appropriate spaces provided	In favour of	Against	Abstain
1 Approval of financial statements			
2 Election of directors 2.1 S M Goodson Representing: Commerce or Finance (see enclosed Curriculum Vitae)			
2.2 N H Lang Representing: Commerce or Finance (see enclosed Curriculum Vitae)			
3 Confirm the appointment of T N Mgoduso as a shareholders' representative representing: Industry (see enclosed Curriculum Vitae)			
4 Remuneration of auditors			
5 Appointment of auditors			

Unless otherwise instructed, my/our proxy may vote as he/she deems fit.

Signed at _____ on _____ 2006

Signature _____

Capacity of signatory (where applicable) Note: Authority of signatory to be attached (see Note 8*)

Assisted by me (where applicable) Full name _____

Capacity _____

Signature _____

Witness _____

* Please refer to the notes on the reverse side of this proxy form.

Notes

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space/s provided, with or without deleting option 3: "the chairperson of the meeting" but any such deletion must be initialled by the shareholder. The person whose name appears first on the form of proxy and who is present at the meeting, will be entitled to act as proxy to the exclusion of those whose names follow.

2. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by the shareholder and by inserting an "x" in the appropriate box next to each resolution. Failure to comply with the above will be deemed to authorise and direct the chairperson of the meeting, if he/she is the authorised proxy, or any other proxy, to vote or abstain from voting at the meeting as he/she deems fit, in respect of all the shareholder's votes exercisable thereat.

3. Forms of proxy must be lodged with the Transfer Secretary, South African Reserve Bank, 370 Church Street, Pretoria, 0002 or posted to the Transfer Secretary at PO Box 427, Pretoria, 0001, to be received by not later than 10:30 on Tuesday, 22 August 2006.

4. The completion and lodging of this form of proxy will not preclude the relevant shareholder from attending the meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

5. The chairperson of the meeting may reject or accept any form of proxy which is completed and/or received other than in accordance with these notes, provided that he/she is satisfied as to the manner in which the shareholder concerned wishes to vote.

6. Each shareholder is entitled to appoint one or more proxies (none of whom need be a shareholder of the Bank) to attend, speak and vote in place of that shareholder at the meeting.

7. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

8. Documentary evidence establishing the authority of a person signing this form of proxy in a representative capacity (e.g. for a company, close corporation, trust, pension fund, deceased estate, etc.) must be attached to this form of proxy unless previously recorded by the Bank or its Transfer Secretary or waived by the chairperson of the meeting.

9. Where this form of proxy is signed under power of attorney, such power of attorney must accompany this form of proxy, unless it has previously been registered with the Bank.

10. Where shares are held jointly, all joint holders are required to sign.

11. A minor must be assisted by his/her parent or guardian, unless the relevant documents establishing his/her legal capacity are produced or have been registered by the Transfer Secretary of the Bank.

12. A shareholder who is not ordinarily resident in the Republic shall not be entitled to vote at the meeting.

13. No shareholder shall either directly or indirectly exercise any vote as a shareholder in respect of the number of shares in the Bank held by him or her in excess of 10 000, and no group of companies with interlocking directorates shall either directly or indirectly exercise any vote as shareholders in respect of the total number of shares in the Bank held by those companies in excess of 10 000.

14. A shareholder shall, at a meeting of shareholders where voting is conducted by means of a poll, be entitled to one vote in respect of every 200 shares of which he/she has been the registered holder for not less than six months prior to the date of the meeting, subject to a maximum of 50 votes per such shareholder.