Annual Report

2006/07

South African Reserve Bank

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Mr T T Mboweni
Governor

Governor's foreword

The *Annual Report* presented this year by the South African Reserve Bank (the Bank) includes a detailed report on monetary policy. The Bank understands that in-depth reporting of its activities improves the credibility of its actions. Many commentators will confirm that credibility is an important asset for any central bank, and such credibility is enhanced by transparent reporting.

The review period covered by this *Annual Report* was again characterised by continued better performance of the South African economy. The primary objective of the Bank remains the achievement and maintenance of price stability, embodied in the inflation-targeting framework. The Bank endeavours to keep CPIX inflation (year-on-year rate of increase in the consumer price index excluding mortgage interest costs in metropolitan and other urban areas) between 3 and 6 per cent. This is to be achieved on a continuous basis. This objective was achieved for a period of 43 months from September 2003 until April 2007 when the upper limit of the inflation target range was exceeded.

Inflation moving outside the target range brings with it the danger of rising inflation expectations. The Bank monitors inflation expectations carefully and reports in Monetary Policy Committee (MPC) statements and biannually in the *Monetary Policy Review* on indicators of inflation expectations. Domestic and international experiences confirm the importance of containing inflationary expectations.

As far back as June 2006 the Bank recognised the danger of inflation pressures increasing in the domestic economy, when the repurchase rate was increased from 7 to 7,5 per cent. Subsequently, this increase was followed by further increases in the repurchase rate, reflecting the commitment of the Bank to contain inflationary pressures.

The central forecast of the Bank indicates that the rate of increase in CPIX to a level above 6 per cent is a temporary phenomenon. The Bank will continue to assess developments in CPIX inflation in the coming months and will consider the necessary steps to be implemented in order to bring back CPIX inflation within the target range.

The domestic economy continued to grow at a brisk pace, although at a slower rate than in the 2005/06 financial year. In view of the announcement of new projects to expand infrastructure and capacity in the domestic economy, it can be expected that economic activity will continue to expand at satisfactory rates. The main contribution that the Bank can make to sustained economic performance is containing inflation, and our credibility among all stakeholders will make it easier to achieve the desirable objectives.

August 2007

Board of Directors

Governor and Chairperson of the Board
Mr T T Mboweni

Dr X P Guma

Dr R D Mokate

Dr D Konar

Prof M Padayachee

Mr J W Raath

Ms F Jakoet

Ms Z P Manase

Ms N D Orleyn

Mr S M Goodson

Prof R W K Parsons

Mr F E Groepe

Ms T N Mgoduso

Board members as at 31 March 2007

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 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

Ms T N Mgoduso
Representing Industry

As at 31 March 2007 a vacancy existed for a deputy governor

Corporate governance

The South African Reserve Bank is committed to the principles, 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 are 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 2007, there was a vacancy for a deputy governor.

Non-executive directors

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

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 framework. This structured framework includes receiving reports from the Governor's Executive Committee (GEC), which is responsible for the day-to-day activities of the Bank, and various committees and subcommittees, chaired by non-executive directors. Non-executive directors have no service contracts with the Bank and are appointed for specific terms. Re-election is not automatic. There is a balance of both executive and non-executive directors to ensure independence and objectivity. The Board comprises people with integrity and a diversity of skills and knowledge to ensure effective governance.

Non-executive Directors' Committee

In 2006, a Non-executive Directors' Committee (Nedcom) was established, comprising the non-executive directors of the Bank (see page 27). The primary function of the committee is to assist the Board in fulfilling its legal and fiduciary obligations and responsibilities and to enhance corporate governance. The members elected a non-executive director as chairperson. Nedcom held its inaugural meeting on 17 May 2007 and will meet semi-annually.

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 attended by the Governor, as the Chairperson, deputy governors, 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 27. 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 is chaired by a non-executive director, and 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 operations of the Bank and examines and recommends areas that internal and external auditors should review.

Remuneration Committee

The composition of the Remuneration Committee, a subcommittee of the Board, appears on page 27. The committee meets regularly to review human resources matters and remuneration practices and policies. This committee also determines the remuneration packages of the Governor, deputy governors, non-executive directors and the remuneration and incentives for staff. The Remuneration Committee is chaired by a non-executive director.

Monetary Policy Committee

The MPC is responsible for deciding on the monetary policy stance in line with current international best practice. As at 31 March 2007, 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 Chairperson of the Budget Subcommittee and the head of the Financial Services Department. 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.

Reserves Management Committee

In February 2007, the Governor’s Executive Committee approved the establishment of a Reserves Management Committee in the place of the Investment Committee. The status of the committee was elevated to that of a subcommittee of the Governor’s Executive Committee. The primary functions of the committee are to allocate the risk budget for active management, set active risk parameters for individual portfolios and select benchmarks and set investment guidelines for the foreign-exchange reserves of the Bank. The committee has eight members and is chaired by the Deputy Governor: Markets, with two representatives of the National Treasury in attendance. The committee meets approximately every second month.

Internal audit

The primary purpose of the Internal Audit Department (IAD) is to evaluate independently the corporate business risks of the Bank and its subsidiaries 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 functionally to the Governor and 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 is beyond reproach.

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

Employment Equity Consultative Body and Management Steering Committee

In compliance with the Employment Equity Act, No 55 of 1998, the consultative mechanism of the Bank has effectively been engaged since 2000. The scope of consultation has been widened since last year to include consultation on skills development over and above consultation on employment equity matters. The culmination of the skills consultation process is a workplace skills plan that is submitted to the Bankseta annually during June. In pursuit of wider consultation and staff involvement, the Bank recognised the need to include an official of the trade union, Sasbo, to serve on the executive of the Employment Equity Consultative Body (EECB). The Bank lodged its second five-year Employment Equity Plan to the Department of Labour during 2006. The stated intention of the Bank is to achieve a workforce that comprises 50 per cent blacks and 50 per cent females in all categories and levels of employment by 2011, which includes targets for people with disabilities. It also envisages that people with disabilities will make up at least two per cent of its total staff complement. The Bank submitted its *Sixth Annual Report* on the Employment Equity Plan to the Department of Labour in October 2006. The remaining three employment equity barriers cited in the report are job assignments, work environment and facilities, and performance and evaluation systems.

Code of Ethics and Business Conduct

A code for ethics and business conduct was developed and consulted with staff and considered by the Audit Committee. The document was subsequently adapted and discussed at the March 2007 strategy session of the executive and senior management of the Bank. It is now in the process of final consultation with staff of the Bank before it is integrated into the staff policies of the Bank.

Human resources

The consultation process pertaining to the revised staff policies was concluded in the past financial year. The process now being undertaken by the Human Resources Department relates to the implementation of the new policies as well as the monitoring of the process. The outstanding policy pertaining to outside occupations and directorships, as well as the code of ethics and business conduct, are currently being consulted with staff as they were recently approved by the Governor's Executive Committee and the relevant Board subcommittees.

Implementation of the Organisation Climate and Culture Survey recommendations is ongoing and these have been distilled into related programmes and projects.

Employee relations with staff and unions are maintained and the Wellness Management Division continues to provide the necessary support for disability and HIV/Aids management. In addition, other preventative measures are taken, such as medical-clinic and psychological wellbeing services.

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, wellness, avoidance of discrimination and the impact of the work environment.

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

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

Similar to most central banks, the Bank is a risk-averse institution, which basically reflects the view that satisfactory fulfilment of its role and responsibilities could be seriously jeopardised if the Bank were to incur significant financial losses, disruption of its operations and/or damage to its reputation.

The executive management of the Bank is intensely aware of the high performance standards that all role players outside the Bank expect of the central bank. The Bank views risk management as an essential element of good corporate governance and has established a Risk Management Committee (RMC) to oversee the risk management process in the Bank. The RMC is chaired by a deputy governor and comprises the four executive general managers of the Bank.

Management structures

The organisational structure of the Bank is designed to ensure an appropriate allocation of responsibilities, which is supported by a formal delegation of authority and a proper segregation of duties to achieve sound internal controls. The management of global 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 30 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, through the RMC 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 risk arises from any uncertainty or lack of enforceability, whether through legal or judicial processes, of the obligations of the clients and counterparties of the Bank.

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 function of the Bank 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 (NPS) 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

Primary goal

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 primary 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.

Human resources 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 initiative, innovative thinking and professional expertise are therefore systematically developed and rewarded.

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

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

Report on monetary policy

The past 18 months have seen a significant change in the monetary policy stance. The repurchase rate had remained unchanged from mid-April 2005 when it was reduced to 7 per cent per annum. However, the deterioration in the perceived medium to long-term risks to the inflation outlook resulted in the MPC raising the repurchase rate by 50 basis points at its June 2006 meeting. This was followed by successive 50-basis-point increases at the August, October and December 2006 meetings, as the MPC sought to ensure that the monetary policy stance remained consistent with the achievement of the inflation target. In 2007, after pausing in February and April, the MPC raised the repurchase rate by 50 basis points at both the June and August MPC meetings.

In early 2006, monetary policy had to balance the benign inflation outlook at the time with the evolution of a number of risk factors. In the statement issued after the April 2006 meeting, the MPC warned of the upside risks to the forecast from strong credit extension, buoyant consumer demand, the widening current-account deficit and rising international oil prices. However, at that time, CPIX inflation was nevertheless expected to peak at a level just below 5,0 per cent in the first quarter of 2007, and then decline to a level of around 4,6 per cent, and remain at that level until the end of the forecast period in 2008.

By the June 2006 MPC meeting, the risks to the inflation outlook had increased. Volatility in international financial markets, related to uncertainty regarding the future movements of interest rates in the United States of America (US), impacted negatively on a number of emerging markets. This put downward pressure on commodity prices and the domestic currency, which had depreciated by 13 per cent on a trade-weighted basis from early May. Continued geopolitical tensions also increased the risks originating in the international oil markets, where prices had reached new record highs of just below US$75 per barrel in late April, and supply-and-demand conditions remained tight.

On the domestic front, continued robust consumer demand was reflected in the year-on-year growth in bank loans and advances in excess of 27 per cent, while household indebtedness as a ratio of household disposable income had risen to record levels. The impact of higher household consumption expenditure on the deficit on the current account of the balance of payments was a further concern, with this deficit reaching a level of 6,4 per cent of gross domestic product (GDP) in the first quarter of 2006. It was noted that a significant further widening of the deficit beyond these levels could trigger market concerns regarding the sustainability of the deficit which could impact negatively on the exchange rate and the inflation outlook.

The forecasts of the Bank at that time also showed a notable deterioration, mainly as a result of a significant upward revision of the international oil price assumptions. The CPIX inflation rate was now expected to peak at a level of 6,2 per cent in the first quarter of 2007, breaching the upper end of the target range, before declining to below the upper end of the target range by the following quarter.

Weighed against these risks to the inflation outlook in June 2006 were favourable factors which included continued fiscal discipline, the moderate trend in unit labour costs and wage settlements, benign world inflation forecasts, and inflation expectations that remained firmly entrenched within the inflation target range Overall, however, it was concluded that although the central forecast showed that inflation was likely to remain within the target range for most of the forecast period, with a temporary breach of the upper end of the target range, the risks to the forecast were firmly on the upside. It was therefore decided that the repurchase rate be increased by 50 basis points at that time.

At the subsequent meetings in August and October, the repurchase rate was raised by 50 basis points on both occasions. The risks to the outlook outlined above remained in place, with consumer demand growth in fact increasing further, supported by continued strong credit extension growth and higher asset prices. The deficit on the current account of the balance of payments, although slightly narrower at 6,1 per cent of GDP in the second quarter of 2006, remained a concern.

There were also a number of new developments at these meetings. By the August 2006 meeting the exchange rate had depreciated by a further 2,5 per cent, on a trade-weighted basis, since the June meeting. In late June the rand had depreciated to a level of around R7,50 to the US dollar as a result of increased global risk aversion as well as concerns regarding the deficit on the current account of the balance of payments. The rand then appreciated again to around R6,90 at the time of the August meeting. However, by October the rand had depreciated by almost 22 per cent on a trade-weighted basis since May. It was noted that some pass-through to higher domestic prices was possible, and that the challenge for monetary policy was to ensure that any inflationary impact was minimised.

Production price inflation and food price developments were highlighted as particular concerns at the October 2006 meeting. Production prices were rising at year-on-year rates in excess of 9 per cent, and this was viewed as a short-term indicator of prospective pressures on consumer prices. The prices of a number of food products were also rising strongly, with meat prices increasing at a year-on-year rate of 15,2 per cent in August. It was also pointed out that higher maize prices were still not fully reflected in grain product prices at the consumer level.

International oil prices had, however, moderated at this stage. By the time of the October meeting the price of Brent crude oil had fallen to below US$60 per barrel. The oil price nevertheless continued to be viewed as a risk factor given the tight supply-and-demand conditions in the market, the sensitivity of oil prices to geopolitical tensions and the Organization of the Petroleum Exporting Countries' response to the downward movement in prices.

The forecasts of the Bank showed a moderate deterioration in the longer-term forecast by the time of the August 2006 meeting. CPIX inflation was expected to peak slightly above the upper end of the target range in the first two quarters of 2007 and then to decline gradually to a level marginally above 5 per cent. The October forecast, which incorporated the two previous increases in the repurchase rate, showed a marginal improvement in 2007, where the peak was projected to be around 6 per cent. However, the longer-term forecast showed inflation declining to a level of around 5,4 per cent by the end of 2008.

Inflation expectations had deteriorated slightly although they were still entrenched within the inflation target range during all the forecast years. In the third quarter of 2006 survey results showed inflation expectations increasing in every forecast year relative to the results of the previous quarter. This deterioration was confirmed by a worsening of market inflation expectations measured in terms of break-even inflation rates.

At the last MPC meeting of 2006, in December, the reaction of domestic demand to the earlier interest rate increases was an important consideration. The data presented a mixed picture. There was some tentative evidence of a slowdown in demand for non-durable and durable goods with growth in motor vehicle sales, in particular, showing signs of moderation. Despite this, private-sector credit extension remained at high levels with twelve-month growth in total loans and advances remaining at rates of around 26 per cent. Given the risks to the inflation outlook, it was decided to increase the repurchase rate by a further 50 basis points.

Food price developments continued to be identified as a threat to the inflation outlook. The effects of wheat and maize price increases were evident at the production price level, but the full extent of the increases had not yet fed through to the consumer price level. Other risks, while remaining significant, had moderated somewhat. International oil prices traded in the US$55 to US$60-per-barrel range during October and November, contributing to a reduction in domestic petrol prices. However, for the reasons set out earlier, the MPC continued to consider oil prices an upside risk to the inflation outlook. The inflation risk associated with the volatility of the exchange rate was also viewed as having eased with the rand trading at levels of around R7,10 to the US dollar compared to levels of around R7,70 at the time of the October meeting. The deficit on the current account of the balance of payments had also narrowed somewhat. There was also a moderate improvement in the inflation forecast, attributed to the tighter monetary policy stance and the lower international oil price. While inflation was still expected to breach the upper end of the inflation target by the second quarter of 2007, it was expected to decline subsequently to just above 5 per cent by the end of the forecast period at the end of 2008.

In 2007, the outlook was initially viewed as having improved sufficiently to justify a pause in the upward phase of the interest rate cycle at the first two MPC meetings in February and April. By the time the MPC met in February, inflation outcomes for both consumer and production prices were lower than expected. There was a significant decline in international oil prices, food prices had moderated and the exchange rate was relatively stable. There were also tentative signs that household consumption expenditure was responding to the tighter monetary policy stance. The improved inflation outlook was reflected in the forecasts of the Bank in February, with inflation expected to remain within the target range for the forecast period. The peak was projected to be around 5,6 per cent in the second quarter of 2007 with inflation declining to 4,7 per cent by the final quarter of 2008.

However, the inflation outlook had deteriorated somewhat by April 2007 despite evidence that inflation expectations were well anchored. International oil price movements had reversed, and there was growing concern regarding the threat posed by food prices and the continued high rate of household consumption expenditure growth and credit extension. The inflation forecast was also raised by the time of the April meeting, primarily as a result of the increases in domestic petrol prices. Inflation was now expected to peak in the second quarter of 2007 at a level just below 6 per cent and to decline to around 5 per cent by the end of 2008.

In April 2007 CPIX inflation breached the upper end of the inflation target range for the first time since August 2003. A year-on-year increase of 6,3 per cent was recorded in April and this increased further to 6,4 per cent in both May and June.

Although it is of significant concern to the Bank that inflation has breached the target range, there is little that can be done to influence current and near-term inflation, given the lags with which monetary policy operates. The South African Reserve Bank is also not alone among central banks in missing its target in the past year. The pressures primarily responsible for the breach of the inflation target range, emanating from exogenous oil and food price shocks, are global phenomena which are posing challenges to many central banks. However, this does not mean that near-term developments can be ignored. Inflation expectations and monetary policy credibility are determined in part by such considerations, and the overriding challenge for monetary policy-makers is therefore to ensure that inflation is brought back to within the target range and that inflation expectations remain anchored within this range.

When the MPC met in June and August 2007, the focus therefore remained to ensure a return of the inflation rate to within the target range. By the June meeting there had been a further deterioration in the inflation outlook, and the risks to the outlook were seen to be strongly on the upside. Oil prices were trading above US$72 per barrel once more, pressures from food prices were expected to persist and household consumption expenditure remained very strong. Furthermore, the results of the survey conducted in May showed that inflation expectations had risen to the levels recorded in the fourth quarter of 2006, a finding corroborated by evidence from long-term bond yields and break-even inflation rates.

The forecasts of the Bank also showed a further deterioration in the inflation outlook compared to the April forecast. It was projected that CPIX inflation would remain marginally above the upper level of the inflation target range in the second quarter of 2007, decline for technical reasons in the third quarter and then exceed 6 per cent in the subsequent two quarters, peaking at an average of 6,3 per cent in the first quarter of 2008. Thereafter, CPIX inflation was projected to decline to an average of 5,3 per cent in the fourth quarter of 2008.

Given these developments, it was decided that the repurchase rate be increased by 50 basis points to 9,5 per cent per annum in June 2007 to ensure that CPIX inflation returns to within the inflation target range over time.

At the time of the most recent MPC meeting in August, the international environment had become increasingly volatile and uncertain. Financial market developments in certain of the developed economies had had spill-over effects on emerging markets, including South Africa, and had prompted a number of central banks to inject substantial amounts of liquidity into their banking systems. The upside risks to the inflation outlook identified in June remained in place, however, and the central forecast of the Bank indicated a slight deterioration when compared to the June forecast. CPIX inflation was now expected to remain above the upper level of the inflation target range at an average of around 6,3 per cent before reverting to within the inflation target range in the second quarter of 2008, and reaching around 5,1 per cent by the end of 2009. There was also further evidence that the inflation pressures were not coming only from food and energy, but were more generalised. The MPC accordingly decided that a further adjustment to the monetary policy stance was required and increased the repurchase rate by 50 basis points to 10,0 per cent per annum.

Going forward, the challenge for monetary policy will be to bring CPIX inflation back to within the inflation target range. Although the breach of the target can be seen as a setback for monetary policy, the main inflation drivers were factors beyond the direct influence of monetary policy. However, the MPC is mindful of the impact of these developments on inflation expectations and also of the need to act against the emerging generalised inflation pressures. The most recent inflation forecasts of the Bank suggest that inflation should return to within the inflation target range during the second half of next year, and monetary policy will continue to act to ensure that this outcome is achieved.

Strategic review of monetary policy

During September 2006, the members of the MPC, MPC presenters, a number of other senior staff members and experts from domestic and international institutions attended a strategic planning session devoted to monetary policy. The current monetary policy framework was discussed alongside various alternatives. The monetary policy process, the content of the information presented to the MPC, the econometric models used by the Bank and the dissemination of information on monetary policy to the public were also reviewed. At the meeting it was decided that, in the interest of transparency, the macroeconometric model of the Bank should be published. After a peer review process, the model was published in July 2007.

Communication with stakeholders: *Monetary Policy Reviews*, Monetary Policy Forums and other forms of communication

The first *Monetary Policy Review* (MPR) of the Bank was published in March 2001. The purpose of this publication is to broaden the understanding of the aims and conduct of monetary policy. The Bank publishes two MPRs annually, which analyse developments in and factors influencing inflation; assess recent policy developments and inflation expectations; and consider the outlook for inflation. MPRs also report on the assessment of inflation by the MPC and the inflation forecast of the Bank, hence providing an *ex post* insight into matters deliberated by the MPC.

Towards the end of 2006 the Bank hosted a conference on macroeconomic policy challenges for South Africa. The purpose of the conference was to benchmark strategies and policies currently employed in South Africa and abroad and to provide a platform where recent ideas on macroeconomic issues could be shared. Presenters of papers included leading academics from local and international universities.

Meetings of the Monetary Policy Forums (MPFs) of the Bank coincide with the publication of MPRs. The first MPF was held in Pretoria on 20 March 2000. Currently the Bank hosts MPFs biannually in Bloemfontein, Cape Town, Durban, East London, Pretoria, Kimberley, Mafikeng, Polokwane, Port Elizabeth and Nelspruit. The MPFs provide for discussions on monetary policy over a broad geographical spectrum involving a large cross-section of stakeholders, including trade-union representatives, analysts, academics, politicians, government officials, staff members of the Bank and the media. MPFs are designed as open forums for discussion and after a presentation on recent economic developments by MPC members and senior staff members of the Bank, the proceedings are opened for a comment and question-and-answer session.

Other channels of monetary policy communication include quarterly presentations by the Governor to the Parliamentary Portfolio and Select Committees on Finance, speeches by the Governor and deputy governors and regular presentations by senior members of the Bank to the National Economic Development and Labour Council. Collaborative research between Bank staff and researchers from Oxford University culminated in several publications, including an article in the June 2006 *Quarterly Bulletin* of the Bank, presenting estimates of the balance sheet of the South African household sector.

Operational review

Primary function

As the central bank of the Republic of South Africa, the primary goal of the Bank in the South African economic system is the achievement and maintenance of price stability. In the performance of its duties, the Bank recognises the need to pursue balanced economic development and growth. Price stability is therefore not an ultimate objective in its own right, but is in the interest of all South Africans as it contributes to sustained economic growth in the long run.

The Bank is also entrusted with responsibilities for banking regulation and supervision, thereby contributing to the stability of the domestic financial system. Overall, financial stability is an important factor for the maintenance of price stability in the country.

Operational functions

Monetary policy

South Africa follows an inflation-targeting monetary policy framework. After the target was announced by the Minister of Finance in February 2000, its specification has been reviewed on a number of occasions. The target is specified in terms of the consumer price index excluding mortgage interest costs in metropolitan and other urban areas (CPIX) inflation. The target range has been set at between 3 and 6 per cent, and is to be achieved on a continuous basis.

In terms of an inflation-targeting monetary policy framework, the Bank does not have goal independence, but retains full operational autonomy (sometimes called instrument independance) in the choice and setting of monetary policy instruments, of which the repurchase rate is the most important. Responsibility for monetary policy decisions is discharged by the MPC. The MPC comprises the Governor (Chairperson), the deputy governors and four senior officials of the Bank.

Meetings of the MPC are scheduled for every second month. The timetable is finalised in advance before the beginning of a year and published on the website of the Bank. However, provision is made for possible unscheduled meetings should the need arise. During the financial year under review, there were no unscheduled meetings. A detailed report on monetary policy is included as a separate section earlier in this *Annual Report*.

Money-market developments

In 2005 the Money Market Liaison Group, comprising representatives of the Bank and money-market counterparties, initiated a project to establish a new benchmark overnight rate in the money market, following the identification of a number of deficiencies in the South African Overnight Interbank Average rate, also known as Saonia.

This project was successfully completed on 28 March 2007 when the daily releases of the Saonia, Saonia+ and carry rates were discontinued and replaced with the South African Benchmark Overnight Rate on deposits (Sabor). The Sabor is a more representative rate, reflecting not only funding between banks at a rate other than the repo rate, but also incorporating the top 20 rates which banks pay to their clients, as well as a small portion of their funding costs raised in the foreign-exchange swap market. The Sabor is more credible, less volatile and more reflective of underlying market conditions.

Liquidity management operations

The Bank increased the level of the official gross gold and foreign-exchange reserves from US$22 969 million on 31 March 2006 to a level of US$26 518 million on 31 March 2007. The international liquidity position increased from an amount of US$19 499 million to US$23 970 million over the same period. The National Treasury continued to assist in the sterilisation of foreign-exchange reserves resulting in its special deposits with the Bank increasing to R45,7 billion by 31 March 2007. Included in this amount is capitalised interest accumulated since May 2005.

Management of international reserves

The prudent and efficient management of reserves remains a strategic priority for the Bank. The reserves management policy was reviewed in the light of higher reserves levels so as to include a slightly stronger emphasis on the enhancement of returns. The 2007 review of the reserves management policy culminated in the approval by the GEC of a strategic asset allocation for reserves and the quantification of the risk tolerance in the form of a target duration and a risk budget to facilitate the active management of reserves. The primary focus in the 2007/08 financial year will be on the implementation of this strategic asset allocation.

The GEC also approved the revision of the reserves management governance structure which entailed, among other things, the establishment of a Reserves Management Committee to replace the Investment Committee.

Foreign credit lines

During the 2006/07 financial year the Bank partially prepaid US$800 million of the US$1,0 billion 2004 syndicated loan. The level of borrowed reserves was reduced from US$3,5 billion at the end of March 2006 to US$2,7 billion at the end of March 2007.

Administration of exchange controls

The Bank administers the exchange control function in terms of authority delegated by the Minister of Finance. As part of an ongoing process of gradual exchange control liberalisation, the Minister of Finance announced further relaxations in the Budget on 21 February 2007.

The most significant relaxation applies to South African companies. The exchange control requirement that South African companies must obtain a majority shareholding in foreign entities and/or projects outside South Africa was replaced with a requirement that a shareholding of at least 25 per cent should be obtained. This limit is aligned with the threshold for African investments and will assist South African companies to engage in strategic international partnerships.

To deepen South Africa's financial markets and increase liquidity in the local foreign-exchange market, the JSE Limited has been granted permission to establish a rand currency futures market. This will enable qualifying South African investors to participate directly in the currency market through a transparent and regulated domestic channel. The first products in this regard were launched by the JSE Limited on 18 June 2007.

Maintaining a sound regulatory framework

The Bank has the responsibility to ensure that the domestic banking regulatory environment incorporates international best practice. A key focus area remains the preparation for the implementation of Basel II. The implementation programme not only aims to effect the requisite amendments to the legal framework, but also to ensure the readiness of the banking industry and the supervision function in the Bank to implement Basel II successfully on 1 January 2008.

The migration to Basel II has necessitated intensified interaction with the banks to ensure that they are sufficiently prepared for full implementation. The interaction included on-site visits by staff of the Bank, requests for and the processing of specific information to assess the impact of Basel II on the capital adequacy of banks, as well as readiness-assessment meetings with banks.

Meetings on the development of a legal framework for the regulation and supervision of banks in accordance with the latest industry requirements and market developments, and also with the prescriptions of Basel II in mind, were held with the banking industry, the auditing profession and the National Treasury. A finalised draft Banks Amendment Bill, dealing, *inter alia*, with the implementation requirements of Basel II, was approved by the Standing Committee for the Revision of the Banks Act during November 2006, and was submitted to the Minister of Finance to obtain Cabinet approval. Parliamentary hearings on the draft Bill were held during mid-June 2007. It is expected that the Bill will be considered by Parliament for promulgation later this year, with implementation effective from 1 January 2008.

The regulations relating to banks have been reviewed in totality in order to comply with the prescriptions of Basel II and to provide banks in South Africa with all the options and approaches offered under Basel II.

A compliance assessment with the revised 25 Core Principles for Effective Banking Supervision of the Basel Committee on Banking Supervision was completed during October 2006. Based on this assessment, a gap analysis was completed and supervisors are in the process of implementing plans to improve the supervisory process with immediate effect where possible. Where necessary, amendments will be made to the Banks Act and Regulations to ensure effective supervision.

During the review period the level of compliance of the banking industry with the application of anti-money laundering and the combating of terrorist-financing legislation remained a focus area. At the same time, the activities of unregistered persons whose conduct relates to the use of the word *bank* in reference to their business and/or to the illegal taking of deposits from the general public as a regular feature of their business, are also addressed on a continuous basis. In the financial year under review, about 40 such business or investment schemes were under ongoing investigation. Schemes of this nature that have been investigated have all failed and have been found to be well-disguised pyramid schemes where investors have lost all or a large portion of their investments.

Maintaining the integrity of banknotes

Efforts are continuing to combat the counterfeiting of the country's currency and ensure that only banknotes and coin of acceptable quality are circulating among members of the public, with a focus on the ability to:

- detect, monitor and control counterfeiting and put measures in place to minimise the risk posed by counterfeiters; and
- collate statistical information from commercial banks and processing entities on counterfeit currency detected in order to determine the extent of counterfeiting.

Minimum standards for the recycling of banknotes and coin are prescribed and implemented to ensure that only good quality banknotes and coin are in circulation and to prevent counterfeits from being circulated. Regular inspections are carried out on industry role players to ensure compliance with the standards.

Security of currency distribution

The primary phase of the Integrated Cash Management System in collaboration with the commercial banks has been completed. This system has the potential to improve the efficiency and effectiveness of the National Cash Management System in the cash value chain, thereby reducing the cost of cash to the public.

Business continuity management

Business continuity planning for the Bank has reached the phase where extensive adequacy testing is conducted. This includes a consolidated information and communication technology disaster recovery facility that was established to enable the successful recovery and continuation of critical business processes in the event of a disaster or serious disruption at the head office building of the Bank. The Bank also makes a contribution towards the establishment of resilient business continuity processes within the broader financial sector, including the cash management industry.

Developing and maintaining the payment system

The Bank continuously improves the effectiveness and integrity of the NPS. A high standard is maintained in the provision of interbank settlement services in the South African Multiple Option Settlement (SAMOS) system. During the review period an upgrade of the SAMOS system was implemented to cater for the international securities identification number requirements and to provide functionality for the Integrated Cash Management System. The Bank maintained the high availability of SAMOS and its interfaces to the Continuous Linked Settlement (CLS) system, used to settle the rand leg of foreign-exchange transactions traded through that system.

During the current year, the Bank for International Settlements (BIS) Committee on Payment and Settlement Systems initiated a survey on the current management of foreign-exchange settlement risk within countries of the CLS settlement currencies. South Africa also participated in the survey. The Bank co-ordinated the collection of survey data within the local payment/settlement community. A draft consolidated report of the survey results has been finalised and will be published in the near future. Any challenge facing South Africa emanating from this report will receive the necessary attention.

In its oversight role and in support of its efforts to improve the integrity and effectiveness of the NPS, the Bank issued a directive for conduct within the NPS in respect of banks involved in the collection of payment instructions in the early debit payment clearing houses, to outlaw practices where certain payment instructions are granted preferential treatment. The Bank considers such preferential treatment as contrary to the efficiency, effectiveness and neutrality of the NPS. This is in line with objectives established as a result of the new National Credit Act, No 34 of 2005.

The Bank is currently finalising arrangements for the issuance of two further directives that will introduce regulation to parties other than banks involved in the provision of payment and related services. The directives will be aimed at creating minimum contractual and operational requirements for persons other than banks involved in the provision of third-party payment services and system operators. These stakeholders currently operate in a largely unregulated environment.

The South African competition authorities have launched an independent public enquiry into particular aspects of competition in retail banking and the NPS in South Africa. The Bank is awaiting the outcome of the enquiry.

International and regional contribution

The Bank continued to play an important role in the Southern African Development Community (SADC), on the African continent and in the global arena. During the year under review the Bank initiated Memoranda of Understanding (MoUs) with the central banks of Peru and the People's Republic of China in order to strengthen and formalise central bank co-operation.

During 2007 South Africa chairs the Group of Twenty (G-20) Finance Ministers and Central Bank Governors meeting. One of the G-20 seminars has already been hosted successfully by South Africa, while the G-20 Annual Meeting will also be held in South Africa in November 2007.

The Governor served as a member of the Committee of Eminent Persons of the International Monetary Fund, which studied the fund's sustainable long-term financing. The Governor remains the Chairperson of the Committee of Central Bank Governors (CCBG) of SADC, while the Bank provides the secretariat to this committee.

A large part of the work to promote regional integration in SADC is undertaken by a number of subcommittees of the CCBG. During the year under review this has, *inter alia*, resulted in the completion of an MoU on Banking Supervision and Regulation. Further work on other CCBG programmes continues, for instance, in the legal area.

Regular meetings of Governors of central banks in the Common Monetary Area continued to enhance regional monetary co-operation during the period under review.

Developments in the research environment

The Bank enhanced its monitoring of current global economic conditions and maintains an international economic indicators database. Coverage of emerging economies and developing countries was widened, as was the case with the analysis of commodity prices and trade-related matters. In addition, research on various aspects of the global economy was undertaken.

Substantial progress has been made with the development of new balance-sheet and other returns to collect statistical information from banks. Once implemented, this will improve the monetary survey and improve the analysis of the money supply and credit extension. A monetary sector lenders' survey, focusing on mortgage equity withdrawal, buy-to-let activity and refinancing, was established with the largest banks.

Research in the conversion of data of the Public Investment Corporation from book to market values progressed to the point where such data are now published by the Bank, thereby completing the conversion of balance-sheet reporting to market value by capital market institutions. Various other statistical improvements were implemented, such as splitting the value of equity capital raised by companies listed on the JSE Limited between domestic and international issues.

Contribution to domestic financial stability

In support of its objective to achieve price stability, the Bank identifies, analyses and researches potential threats to and weaknesses in the financial system. To this end, the Bank makes policy proposals and encourages regulatory and structural changes in order to contribute to the safety and effectiveness of the financial system as and when required.

The Bank stimulates debate and communicates its identification and assessment of potential risks to financial system stability through the publication of a biannual *Financial Stability Review*. Based on the twelve key financial soundness standards identified by the Financial Stability Forum of the BIS, the Bank assessed and reviewed the robustness of the financial regulatory system. The Bank furthered its efforts to prepare and maintain suitable crisis management and contingency plans to respond appropriately to systemic distress.

External training, development and education

The Bank increased its emphasis on facilitating the development of high-level specialised learning, focusing on the core skills required by a central bank. Consequently, three internationally renowned subject matter experts have been invited to share their expertise with specific staff members in the Bank in 2007. During the year under review subject experts in the line departments of the Bank contributed to the development of two new learning programmes aimed at meeting the needs of Bank staff and those of external parties.

In an effort to guarantee future accreditation for its learners, the Bank initiated a process to ensure that its formal learning programmes adhere to the principles of outcomes-based education.

In conjunction with the School of Journalism and Media Studies at Rhodes University, the Bank has initiated a training programme for journalists. The Bank made a significant financial contribution towards the establishment of an African Economics Journalism Centre (AEJC), dedicated to teaching economic and financial journalism to students from South Africa and elsewhere on the continent. The AEJC offers post-graduate training, leading to accredited qualifications, including a part-time Post-Graduate Diploma in Economics Journalism, aimed at entry-level and mid-career journalists, and a full-time or part-time Masters degree. Teaching resources will be drawn from Rhodes University's School of Journalism and other departments such as economics and statistics. A curriculum is being developed in consultation with institutional partners. The AEJC aims to provide state-of-the-art teaching facilities and much-needed postgraduate and mid-career training to journalists specialising in financial and economic reporting.

Fixed assets and supporting services

The Bank has a considerable portfolio of fixed assets that has to be maintained and managed, such as a property portfolio, furniture and an art collection. In essence, maintenance to existing buildings and additions, while aimed at enhancing the value of properties of the Bank, are also directed towards preserving the cultural heritage of the country and supporting countrywide inner-city development initiatives where possible. It is believed that these initiatives will result in enhancing the physical and social environment of cities where the Bank is represented, thereby leading to improved security and cleanliness. The Bank is a contributing member to a number of city improvement district initiatives.

During the review period the Bank continued with extensive maintenance of its head office building in Pretoria and its branch buildings in Cape Town and Johannesburg. The Bank is currently planning a new building for its Bloemfontein Branch, and maintenance and upgrading of its branch buildings in East London and Port Elizabeth are under consideration.

Corporate art collections play an important role in nurturing artistic talent. The collection of art by the Bank commenced in 1954, and over a period of more than 50 years, it has supported a wide range of emerging and established artists. The Bank has acted as a true patron of the arts and is currently finalising the publication of a book on the collection, titled *Figure/Ground: Reflections on the South African Reserve Bank Art Collection*. The book will depict many of the more than 600 works of art in the collection of the Bank. This book will make a valuable contribution to the appreciation of art and art research in South Africa.

In the period under review, the South African Reserve Bank Conference Centre has had an eighty-per-cent occupancy rate. The aim remains to market the availability of the facility to the broader conferencing community. The Conference Centre was awarded a 5-star grading status by the Tourism Grading Council of South Africa.

A new information and communication technology investment prioritisation process was introduced to increase customer and stakeholder involvement in the decision-making process, and to improve service delivery. Various technology options used in the Bank will be harmonised, thereby providing an opportunity to identify possibilities for enhanced efficiency.

Human resources

The Bank accepts that it can achieve its goals and fulfil its aims only through the loyalty and dedication of its employees, The Bank employed 1 956 staff members on 1 April 2006, which declined marginally to 1 934 at 31 March 2007. Employee relations with staff and unions are maintained and the necessary support is provided when required.

The Bank endeavours to improve services to support its staff members. Two additional psychologists were recruited, which has resulted in an increase in psychometric and other evaluations being done in-house, rather than being outsourced. Additional support for staff includes disability and HIV/Aids management and the provision of medical clinic services and psychological well-being services.

During the period under review, the Bank approved, consulted and implemented its reviewed and updated staff policies. In the implementation of these policies, care is taken to evaluate their impact on the Bank and to ensure their alignment throughout the institution.

In compliance with employment equity and skills development legislation, the Bank has developed a consultative mechanism between management and staff. Its scope was widened in 2006 to include consultation on skills development, over and above consultation on employment equity matters.

Shareholding

The Bank is one of only a few central banks internationally with public shareholders. Shareholders are important stakeholders in the Bank. The Bank facilitates the trading in its shares through the live over-the-counter share trading facility, implemented on 1 October 2005. This facility provides shareholders with a cost-efficient trading facility. In the period 1 April 2006 to 31 March 2007, 24 transactions were successfully concluded, representing the trading of 94 700 shares.

During the financial year under review a final dividend of 5 cents per share was paid on 5 May 2006 in respect of the 2005/06 financial year, while an interim dividend of 5 cents per share for the 2006/07 financial year was paid to shareholders on 27 October 2006. A final dividend of 5 cents per share for the 2006/07 financial year was declared on 2 April 2007 and paid on 4 May 2007.

Executive management, Secretary and directors

Executive management as at 31 March 2007

Governor: Financial Stability and Research	T T Mboweni
Executive General Manager and Chief Economist Currency and Protection Services, Financial Stability and Research Departments	M Mnyande
Executive General Manager and Registrar of Banks Bank Supervision Department	E M Kruger
Deputy Governor: Markets	X P Guma
Executive General Manager Exchange Control, Financial Markets, Financial Services and National Payment System Departments	A D Mminele
Deputy Governor: Central Services	R D Mokate
Executive General Manager Business Systems and Technology, Corporate Services, Executive Management, Human Resources, Internal Audit and Legal Services Departments, and SARB College	L van Zyl
Secretary of the Bank	T P Mongwe

Directors

Tito Titus Mboweni *
Governor

Xolile Pallo Guma°
Renosi Denise Mokate°
Deputy governors

Mahavishnu Padayachee[x] ◆°
Raymond Whitmore Knighton Parsons ◆*
Francois Engelbrecht Groepe ◆°
Representing: Government

Deenadayalen Konar † ◆
Fatima Jakoet ◆°
(Term of office expires on 21 September 2007 and available for re-election)
Zodwa Penelope Manase ◆°
Stephen Mitford Goodson ◆
Representing: Commerce or Finance

Jacob Wouter Raath ◆*
Representing: Agriculture
(Term of office expires on 21 September 2007 and is not available for re-election)

Thandeka Nozipho Mgoduso ◆*
(Term of office expires on 21 September 2007 and available for re-election)
Noluthando Dorian Orleyn ▲*
Representing: Industry

▲ Chairperson of the Non-executive Directors' Committee
† Chairperson of the Audit Committee
x Chairperson of the Remuneration Committee
◆ Member of the Non-executive Directors' Committee
° Member of the Audit Committee
* Member of the Remuneration Committee

Senior management at 31 March 2007

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	R M du Plooy
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: Business systems and technology	M S Ismail
Head: Corporate services	R Z Nkwali
Principal: South African Reserve Bank College	G R Wesso
Executive Assistant: Executive management	J N L Fourie
Secretary of the Bank: Secretarial support services	T P Mongwe

Branch managers at 31 March 2007

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	N I Mugumo

Organisational structure and Secretary

Governor
T T Mboweni

Deputy Governor
Markets
Dr X P Guma

Deputy Governor
Central services
Dr R D Mokate

Executive General Manager
and Chief Economist
Dr M Mnyande

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

Executive General Manager
A D Mminele

Executive General Manager
L van Zyl

Secretary of the Bank
T P Mongwe

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
R M du Plooy

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
Business systems and technology
M S Ismail

Head
Corporate services
R Z Nkwali

Principal
SARB College
Dr G R Wesso

Human resources report

At the beginning of the 2006/07 financial year, the Bank had a total permanent staff complement of 1 956, which had declined to 1 934 by the end of the year. The net reduction of 22 in staff numbers resulted from 131 terminations and 109 new appointments.

The overall staff turnover for the period was 6,8 per cent.

The equity representation of the Bank declined at top management with the following percentage decreases: General management (1 per cent) and senior professional and management (1 per cent). This is indicated in Table 1 below.

Table 1: Breakdown per broad band: Representation by race
Per cent

Broad band	Actual 31-03-06	Actual 31-03-07	2007 Bank target
General management	51	50	50
Senior professional and management	43	42	50
Professional and vocational management	42	43	50
Junior professional and supervisory	50	51	50
Trainee professional and clerical	62	64	50
General worker	89	89	50
Total	56	57	50

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

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

Broad band	Actual 31-03-06	Actual 31-03-07	2007 Bank target
General management	20	21	50
Senior professional and management	29	29	50
Professional and vocational management	43	45	50
Junior professional and supervisory	62	64	50
Trainee professional and clerical	49	49	50
General worker	35	34	50
Total	46	47	50

Table 3: Workforce profile by gender and race at 31 March 2007
Number

Broad band	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
General management	23	4	5	44	12	2	2	4	96
Senior professional and management	29	5	11	75	18	4	4	24	170
Professional and vocational management	59	12	7	118	54	9	12	83	354
Junior professional and supervisory	76	8	12	56	85	18	15	152	422
Trainee professional and clerical	187	44	16	104	115	53	22	142	683
General worker	109	8	4	18	56	8	1	5	209
Total permanent	483	81	55	415	340	94	56	410	1 934
Non-permanent	9	1	0	5	5	1	1	8	30
Total	492	82	55	420	345	95	57	418	1 964

Table 4: Staff complement at 31 March 2007
Number

Department	Permanent staff	Contract workers	Total
Executive management	37	1	38
Bank supervision	89	2	91
Business systems and technology	160	5	165
Corporate services	190	1	191
Currency and protection services (including branches)	778		778
Exchange control	162	9	171
Financial markets	96		96
Financial services	73		73
Financial stability	18	1	19
Human resources	56	1	57
Internal audit	52		52
Legal services	26		26
National payment system	23		23
Research	144		144
SARB College (including cadets)	9	10	19
Total staff complement	1 913	30	1 943
Staff members receiving disability benefits	21		21
Total	1 934	30	1 964

Financial framework

Reporting framework

These consolidated financial statements have been prepared in accordance with the Act and the accounting policies set out in Note 1 to the financial statements.

The Act is not prescriptive regarding the accounting framework that the Bank should adopt, except for sections 25 and 28 which deal with the accounting treatment of gold and foreign-exchange transactions. These sections are at variance with International Financial Reporting Standards (IFRS). The Bank has chosen to use IFRS as a guide in deciding on the most appropriate accounting policies to adopt and as a model for the presentation and disclosure framework followed in its financial statements.

However, the Act takes precedence over IFRS in the areas noted above and as a result the recognition and measurement criteria as set out in IFRS have not been followed in these instances. Additionally, the Bank considers making certain required disclosures inappropriate to its functions. Therefore, the financial statements of the Bank disclose less detail than would be required under IFRS.

The significant departures from IFRS as a consequence of the above may be summarised as follows:

Recognition and measurement

According to the Act

1. realised and unrealised valuation gains and losses on gold and foreign-denominated assets and liabilities are for the account of Government, and have therefore not been accounted for in the income statement of the Bank, as required by IAS 21: *The Effects of Changes in Foreign Exchange Rates;* and
2. all gold of the Bank is valued in terms of section 25 of the Act, at the statutory gold price as published in the *Government Gazette*. Gold is recognised as a financial asset of the Bank.

Presentation

In the financial statements

1. 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, as required by IAS 32: *Financial Instruments: Disclosure and Presentation;* and
2. the terms of certain related party transactions were not disclosed as required by IAS 24: *Related Party Disclosures*, where such disclosure was considered by the Bank to be inappropriate.

Budget for 2006/07

The income of the Bank 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 rate. The inherent volatility of these market conditions makes it impracticable for the Bank to budget for income, but the outlook for the income of the Bank is monitored closely. Expenditure is closely controlled through a formalised budget process.

Bank expenditure budget

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

	Budget 2007/08 R'000	Actual 2006/07 R'000	Budget 2006/07 R'000
Personnel costs	755 312	744 531	724 322
Operating costs	261 689	232 771	230 067
Cost of new currency	862 744	680 571	675 436

The result of the 2006/07 recurring operational costs was slightly above budget. This was mainly a result of the following:

1 A new storage and insurance agreement in respect of new coin resulted in production and distribution costs being revised. Additional distribution costs were incurred as a result of this.

2 The budget was exceeded due to legal costs and consultants pertaining to legal proceedings relating to the contravention of Exchange Control Regulations.

The 2006/07 personnel costs were over the budget mainly due to the provision for leave pay which was expanded to account for all leave that had accrued to staff up to the introduction of the new staff policies.

Report of the independent auditors

To the members of the South African Reserve Bank

We have audited the accompanying annual financial statements and group annual financial statements of the South African Reserve Bank, which comprise the directors' report, the balance sheet and the consolidated balance sheet as at 31 March 2007, the income statement and the consolidated income statement, the statement of changes in equity and the consolidated statement of changes in equity, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 38 to 75.

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Auditors' opinion

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

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

PricewaterhouseCoopers Inc.	SizweNtsaluba VSP
Director: J Grosskopf	Partner: S Sono
Registered Auditor	Registered Auditor

Pretoria
24 August 2007

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 2007

Introduction

The directors present the Bank's eighty-seventh annual report for the year ended 31 March 2007.

This report, in terms of the South African Reserve Bank Act No 90 of 1989 (the Act), 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 ability of the Bank 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 Government concerning foreign-exchange and gold transactions.

Management prepared the annual financial statements set out in this report. The statements include appropriate and responsible disclosure and are based on appropriate accounting policies which have been applied consistently, 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 support of the Bank 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 at the time support is provided.

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

The requirements of the King Report on Corporate Governance are dealt with in the corporate governance statement which appears on pages 4 to 9.

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 achievements by the Bank 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 20 September 2007. The Governor's Address receives extensive media coverage, is published on the Internet and is made available to shareholders and other interested parties.

Financial results

The income statement appears on page 44.

All remaining profits of the Bank, after provisions normally provided for by bankers and payment of dividends, are paid to Government in terms of the Act. Amounts paid and due in terms of the Act over the past two years were as follows:

	Group R'000	Bank R'000
31 March 2007	132 693	115 800
31 March 2006	28 469	15 926

Dividends

The final dividend of 5 cents per share for the 2006 financial year was paid on 5 May 2006 and an interim dividend of 5 cents per share for the 2007 financial year was paid to shareholders on 27 October 2006.

A final dividend of 5 cents per share for the 2007 financial year was declared on 2 April 2007 and paid on 4 May 2007.

Financial position

The balance sheet appears on page 43.

The total assets of the Bank increased by R51 billion during the year, comprising an increase of R50 billion in gross gold and foreign assets and an increase of R1 billion in domestic assets. The increase in total assets was funded mainly by increases in deposit accounts (R21 billion), notes and coin in circulation (R6 billion), and an increase in the Gold and Foreign Exchange Contingency Reserve Account (R26 billion). The latter increase was due mainly to revaluation profits on the gold and foreign-exchange holdings of the Bank, which are for the account of Government.

Directors

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

The term of office of Dr X P Guma as deputy governor expired on 30 June 2006. Dr Guma served as a special advisor to the Governor from 1 July 2006 until he was reappointed as deputy governor from 31 July 2006.

The term of office of Mr S M Goodson as shareholders' representative representing commerce or finance expired on 24 August 2006 and he was re-elected at the ordinary general meeting held on 23 August 2006.

Ms A M Mokgabudi, a shareholders' representative representing industry, resigned from the Board 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 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. As required in terms of section 6(1)(b) of the Act, the appointment of Ms Mgoduso was confirmed by the shareholders at the ordinary general meeting held on 23 August 2006. 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. The term of office of Ms Mgoduso as shareholders' representative representing industry will expire on 21 September 2007.

The term of office of Mr J W Raath as shareholders' representative representing agriculture will expire on 21 September 2007.

The term of office of Ms F Jakoet as shareholders' representative representing commerce or finance will expire on 21 September 2007.

The terms of office of Mr F E Groepe, Prof M Padayachee and Prof R W K Parsons representing Government expired on 20 July 2007.

There is currently one vacancy for a deputy governor.

Direct and indirect shareholding of directors on 31 March 2007

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

	Number of shares
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 financial interest of the Bank in its subsidiaries:

	Authorised and issued share capital					
	Number of shares	Percentage held	Shares at cost		Net indebtedness to/(by) Bank	
	'000	Per cent	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Corporation for Public Deposits	2 000	100	2 000	2 000	(10 057 847)	(10 381 180)
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	25 664	25 443
South African Reserve Bank Captive Insurance Company Limited	10 000	100	10 000	10 000	0	(570)
Total			279 000	279 000	(10 032 183)	(10 356 307)

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

	Bank	
	2007 R million	2006 R million
Aggregate profits	45	105

Contracts

There were no contracts entered into during the year in which directors or officers of the Bank had interests which 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.

Secretary

Mr T P Mongwe

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 24 August 2007 and signed on its behalf by:

T T Mboweni
Governor

X P Guma
Deputy Governor

J W Raath
Director

F Jakoet
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 2007, have been correctly completed and are up to date.

T P Mongwe
Secretary

Pretoria
24 August 2007

Balance sheet at 31 March 2007

		Group		Bank	
	Notes	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Assets					
Cash and cash equivalents	2	23 609	25 097	0	0
Accommodation to banks	3	15 053 447	13 233 151	15 053 447	13 233 151
South African Government bonds	4	8 918 142	9 518 922	8 918 142	9 518 922
Loans and advances	5	73 219	72 554	73 219	72 554
Current taxation prepaid		6 171	4 642	0	0
Amounts due by subsidiaries	6	0	0	225 476	172 892
Gold and foreign exchange	7	192 421 801	142 118 684	192 421 801	142 118 684
Inventories	8	291 767	217 942	9 358	7 423
Investments	9	2 881 632	3 872 729	0	0
Amounts due by the South African Government	10	1 035 115	1 078 741	1 035 115	1 078 741
Property, plant and equipment	12	1 047 336	1 006 527	630 652	570 084
Investment in subsidiaries	6	0	0	279 000	279 000
Equity investment in Bank for International Settlements	13	287 337	233 289	287 337	233 289
Deferred taxation assets	14	242 387	228 024	220 365	208 964
Forward exchange contracts asset	15	37 088	381 316	37 088	381 316
Other assets	16	405 954	344 816	354 856	326 615
Total assets		222 725 005	172 336 434	219 545 856	168 201 635
Liabilities					
Deposit accounts	17	100 471 185	81 164 117	88 234 688	67 603 569
Amounts due to subsidiaries	6	0	0	10 257 660	10 529 199
South African Reserve Bank debentures	18	5 478 530	6 367 929	5 478 530	6 367 929
Foreign loans	19	19 585 938	21 739 659	19 585 938	21 739 659
Current taxation liabilities		3 090	4 066	3 090	3 445
Notes and coin in circulation	20	58 468 958	52 822 913	58 468 958	52 822 913
Provisions	21	84 005	44 292	75 813	38 727
Gold and Foreign Exchange Contingency Reserve Account	11	28 482 310	1 824 430	28 482 310	1 824 430
Deferred taxation liabilities	14	110 727	111 503	34 789	33 858
Forward exchange contract liabilities	15	69 021	307 815	69 021	307 815
Other financial liabilities	22	356 394	167 176	209 008	79 885
Post-retirement medical benefits	23	682 254	634 126	617 862	578 274
Total liabilities		213 792 412	165 188 026	211 517 667	161 929 703
Capital and reserves					
Share capital	24	2 000	2 000	2 000	2 000
Accumulated profit		824 482	796 720	0	0
Statutory reserve		377 599	364 732	377 599	364 732
Contingency reserve		7 071 207	5 121 041	6 991 285	5 041 285
Bond revaluation reserve		657 305	863 915	657 305	863 915
Total capital and reserves		8 932 593	7 148 408	8 028 189	6 271 932
Total liabilities, capital and reserves		222 725 005	172 336 434	219 545 856	168 201 635

Income statement for the year ended 31 March 2007

		Group		Bank	
		2007	2006	2007	2006
	Notes	R'000	R'000	R'000	R'000
Interest income		9 330 931	5 796 251	8 946 989	5 462 849
Interest expense		4 872 324	3 344 611	4 565 996	3 073 179
Net interest income		4 458 607	2 451 640	4 380 993	2 389 670
Dividend income		21 957	18 854	80 141	19 038
Operating income		298 724	322 518	171 793	233 626
Total income	25.1	4 779 288	2 793 012	4 632 927	2 642 334
Operating costs	25.2	1 793 598	1 612 892	1 726 209	1 604 595
Profit before taxation	25	2 985 690	1 180 120	2 906 718	1 037 739
Taxation	26	862 002	341 073	827 851	303 740
Profit for the year		2 123 688	839 047	2 078 867	733 999
Dividend per share (cents)	27	10	10	10	10

Cash flow statement for the year ended 31 March 2007

		Group		Bank	
	Notes	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Cash flow from operating activities					
Cash (utilised by)/generated from operating activities	28	(316 977)	1 748 140	587 890	1 968 562
Taxation paid		(795 256)	(402 651)	(754 286)	(359 451)
Dividends paid		(200)	(200)	(200)	(200)
Transfer to Government		(28 469)	(10 967)	(15 926)	(5 558)
Net cash flow (utilised by)/generated from operating activities		(1 140 902)	1 334 322	(182 522)	1 603 353
Cash flow generated from investing activities		1 139 414	(1 327 700)	182 522	(1 603 353)
Purchase of property, plant and equipment		(157 417)	(53 852)	(129 499)	(25 757)
Disposal of property, plant and equipment		2 066	3 570	469	3 206
Disposal of investments		983 213	303 384	0	0
Net investment from/(in) Government bonds		311 552	(1 580 802)	311 552	(1 580 802)
Net (decrease)/increase in cash and cash equivalents		(1 488)	6 622	0	0
Cash and cash equivalents at beginning of the year		25 097	18 475	0	0
Cash and cash equivalents at end of the year	2	23 609	25 097	0	0

Statement of changes in equity: Group*

For the year ended 31 March 2007

	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 2005	2 000	395 248	362 963	4 320 768	518 225	393 136	5 992 340
Profit for the year		839 047	0	0	0	0	839 047
Transfer to Government		(28 469)	0	0	0	0	(28 469)
Transfer to reserves		(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					(29 588)		(29 588)
Taxation thereon					8 581		8 581
Fair value adjustments on available-for-sale financial assets	0	0	0	0	366 697	0	366 697
Gross adjustments					516 475		516 475
Taxation thereon					(149 778)		(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
Profit for the year	0	2 123 688	0	0	0	0	2 123 688
Transfer to Government	0	(132 693)	0	0	0	0	(132 693)
Transfer to reserves	0	(1 963 033)	12 867	1 950 166	0	0	0
Realised gains on available-for-sale financial assets	0	0	0	0	(1 258)	0	(1 258)
Gross realised gains					(1 772)	0	(1 772)
Taxation thereon					514	0	514
Fair value adjustments on available-for-sale financial assets	0	0	0	0	(205 352)	0	(205 352)
Gross adjustments					(289 228)	0	(289 228)
Taxation thereon					83 876	0	83 876
Dividends paid	0	(200)	0	0	0	0	(200)
Balance at 31 March 2007	2 000	824 482	377 599	7 071 207	657 305	0	8 932 593

* Explanatory notes

Statutory reserve
The statutory reserve 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.

Contingency reserve
A contingency reserve is 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.

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, has 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.

Statement of changes in equity: Bank*

For the year ended 31 March 2007

	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 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					(29 588)	(29 588)
Taxation thereon					8 581	8 581
Fair value adjustments on available-for-sale financial assets	0	0	0	0	366 697	366 697
Gross adjustments					516 475	516 475
Taxation thereon					(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
Profit for the year		2 078 867	0	0	0	2 078 867
Transfer to Government		(115 800)	0	0	0	(115 800)
Transfer to reserves		(1 962 867)	12 867	1 950 000	0	0
Realised gains on available-for-sale financial assets	0	0	0	0	(1 258)	(1 258)
Gross realised gains					(1 772)	(1 772)
Taxation thereon					514	514
Fair value adjustments on available-for-sale financial assets	0	0	0	0	(205 352)	(205 352)
Gross adjustments					(289 228)	(289 228)
Taxation thereon					83 876	83 876
Dividends paid		(200)			0	(200)
Balance at 31 March 2007	2 000	0	377 599	6 991 285	657 305	8 028 189

*Explanatory notes

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.

Contingency reserve
A contingency reserve is maintained to provide against risks to which the Bank is 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.

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 remaining after provisions normally provided for by bankers and payment of dividends is to be paid to Government.

Notes to the financial statements

1. Accounting policies

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

1.1 Basis of presentation

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

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

1.2 Consolidation

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

Investments in subsidiaries

The Bank uses the purchase method of accounting 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; amounts due by subsidiaries; deposit accounts; amounts due by the South African Government; foreign deposits; accommodation to banks; and other assets.

Fair value through profit and loss financial assets

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

Financial assets are designated at fair value through profit and loss when certain investments such as portfolio investments, that are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis, are designated at fair value through profit and loss.

Derivatives with positive fair values have been classified at fair value through profit and loss financial assets.

Held-to-maturity financial assets

No financial assets have been classified as held to maturity.

Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to operational needs.

South African Government bonds have been classified as available-for-sale financial assets. The fair value movements on available-for-sale financial assets are recognised in equity, while the effective interest on these financial assets is recognised in the income statement.

Financial liabilities

Fair value through profit and loss financial liabilities

Derivatives with negative fair values have been classified at 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; amounts due to subsidiaries; and creditors. Other financial liabilities are measured at amortised cost.

Recognition

Financial assets are recognised on the date the group 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 group or the day that 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 liabilities and available-for-sale financial assets are carried at fair value. Fair values are established as follows:

(i) Derivatives

A derivative is a financial instrument 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 valued using the quoted fair values as obtained from portfolio managers. Where these instruments are bank deposits they are valued at nominal values plus accrued interest based on market rates. These values approximate fair values.

(iv) South African Government bonds

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

Loans and receivables and other liabilities

Loans and receivables and other liabilities are measured at amortised cost, which approximate fair value, 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 loans to subsidiaries are accounted for at cost, as these accounts do not have fixed maturity dates.

b Notes and coin issued are measured at cost as this liability does not have a fixed maturity date. The banknotes and coin in circulation represent the nominal value of all banknotes held by the public and 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 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 reduced by the impairment. 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 financial assets and liabilities designated at fair value through profit and loss are recognised in the income statement of the period in which they arise, except for gold and foreign-exchange activities, as explained in Note 1.4 below.

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, insofar as they arise from changes in the value of the rand compared to other currencies, are for the account of Government and consequently all these profits and losses are transferred to the Gold and Foreign Exchange Contingency Reserve Account in terms of sections 25 to 28 of the Act. Investment returns on foreign-exchange reserves and interest paid on foreign loans are for the account of the Bank and are accounted for in the income statement.

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 to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognised.

1.7 Gold

Gold is held by the Bank as part of its foreign reserves. In terms of section 25 of the Act, gold is initially recorded at the prevailing prices 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 price at year-end. Gold loans are measured at the quoted spot price at year-end. Physical gold held by the subsidiaries is also measured at the quoted spot price at year-end.

In terms of section 25 of the Act, all gains and losses on gold achieved by the Bank are for the account of the South African Government and consequently all profits and losses are transferred to the Gold and Foreign Exchange Contingency Reserve Account. Profits and losses on gold of the subsidiaries are charged to 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 which 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 statements 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 Employee benefits

a 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 credit method. Costs are actuarially assessed and expense adjustments and past-service costs resulting from plan amendments are amortised over the expected average remaining service lives of the employees.

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

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

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

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

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

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

b *Post-retirement medical benefits*

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 contributions of the Bank 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.

1.10 Sale and repurchase agreements

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

1.11 Inventories

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

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

Consumable stores are valued at the weighted average 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.

1.12 Cash flow

For the purposes 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 role of the Bank as central bank in the creation of money.

1.13 Provisions

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

Provision for leave pay and bonus

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

The provision for leave pay 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 benefits

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 23.

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.

1.14 Turnover

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

1.15 Revenue recognition

Interest income and expenses are recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity. Interest income and expense are recognised in 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.

1.16 Use of estimates

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

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

The estimates made have been disclosed in Notes 12, 21 and 23.

1.17 Changes in accounting policies and accounting estimates

Change in accounting policies

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

Changes in accounting estimates

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

2. Cash and cash equivalents

	Group		Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Bank and cash balances	23 609	25 097	0	0

Due to its role in the creation and withdrawal of money, the Bank has no cash balances on its balance sheet. All other financial instruments maturing in less than three months, are shown on the face of the balance sheet under respective headings.

3. Accommodation to banks

Repurchase agreements	13 900 000	12 800 000	13 900 000	12 800 000
Application of cash reserve balances	1 139 737	425 787	1 139 737	425 787
Accrued interest	13 710	7 364	13 710	7 364
	15 053 447	13 233 151	15 053 447	13 233 151

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

The following table depicts details of the collateral provided:

	2007	2006	2007	2006
Market value of collateral (R'000)	13 947 965	12 866 094	13 947 965	12 866 094
Collateral cover	100,35%	100,52%	100,35%	100,52%
Maturity date	4 April 2007	5 April 2006	4 April 2007	5 April 2006

4. South African Government bonds

Unlisted Government bonds:				
Zero coupon	0	111	0	111
Listed Government bonds:				
Interest bearing	8 809 218	9 408 037	8 809 218	9 408 037
Accrued interest	108 924	110 774	108 924	110 774
	8 918 142	9 518 922	8 918 142	9 518 922
Effective interest rate	8,39%	8,23%	8,39%	8,23%

The zero-coupon bonds were valued at their nominal value. The interest-bearing bonds are shown at fair market value. Bonds to the value of R3,1 billion have been encumbered to secure reverse repurchase agreements (Note 17).

5. Loans and advances

Secured foreign loans	73 219	72 554	73 219	72 554

The loan facility of R75 million expires on 31 December 2007 if not renegotiated. It is secured by a pledge of South African Land Bank bills to the value of R82,5 million and earns interest on the outstanding balance at the repurchase rate.

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

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
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			225 476	172 892
South African Bank Note Company (Proprietary) Limited – loan			25 664	25 443
Corporation for Public Deposits – current account			199 812	147 449
Amounts due to subsidiaries			(10 257 660)	(10 529 199)
South African Bank Note Company (Proprietary) Limited – current account			(1)	0
South African Reserve Bank Captive Insurance Company Limited – current account			0	(570)
Corporation for Public Deposits – call deposit			(10 257 659)	(10 528 629)
Net investment in subsidiaries			(9 753 184)	(10 077 307)

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 earns interest at South African money-market rates.

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

7. Gold and foreign exchange

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Gold coin and bullion	19 224 235	14 504 468	19 224 235	14 504 468
Money and capital market instruments and deposits	140 121 689	96 875 182	140 121 689	96 875 182
Medium-term notes	4 067 175	2 983 955	4 067 175	2 983 955
Portfolio investments	28 281 525	27 513 937	28 281 525	27 513 937
Accrued interest	727 177	241 142	727 177	241 142
	192 421 801	142 118 684	192 421 801	142 118 684

Gold coin and bullion consist of 3 990 195 fine ounces of gold at the statutory price of R4 817,87 per ounce (2006 – 3 987 964 fine ounces at R3 637,06 per ounce).

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

	Group		Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000

8. Inventories

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Raw materials	126 557	105 700	0	0
Work in progress	123 864	77 947	0	0
Consumable stores	19 412	16 654	9 358	7 423
Maintenance spares	6 153	5 609	0	0
Finished goods	15 781	12 032	0	0
	291 767	217 942	9 358	7 423

9. Investments

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Local registered bonds	110 682	160 748	0	0
Short-term South African money-market investments	2 770 747	3 711 667	0	0
Preference shares	203	314	0	0
	2 881 632	3 872 729	0	0
Maturity structure of deposit accounts				
Repayable within 30 days	2 770 747	3 711 667	0	0
Repayable in more than 12 months	110 885	161 062	0	0
	2 881 632	3 872 729	0	0

10. Amounts due by the South African Government

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
IMF accounts administered on behalf of the South African Government	795 644	796 515	795 644	796 515
Government of Namibia debt taken over by the South African Government	239 471	282 226	239 471	282 226
Gross amount due	298 711	377 211	298 711	377 211
Impairment loss	(59 240)	(94 985)	(59 240)	(94 985)
Net amount due by the South African Government	1 035 115	1 078 741	1 035 115	1 078 741

No settlement terms have been agreed to 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 four years in terms of an agreement with Government. The outstanding balance yields a return of 17% per annum.

11. Gold and Foreign Exchange Contingency Reserve Account

	Group		Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Opening balance	(1 824 430)	4 746 586	(1 824 430)	4 746 586
Profit on gold price adjustment account	(4 739 645)	(3 889 882)	(4 739 645)	(3 889 882)
Loss/(profit) on forward exchange contract adjustment account	4 437 236	(1 088 280)	4 437 236	(1 088 280)
(Profit)/loss on foreign-exchange adjustment account	(26 460 905)	2 474 410	(26 460 905)	2 474 410
Movement in unrealised gains and losses on forward exchange contracts	105 434	471 943	105 434	471 943
	(28 482 310)	2 714 777	(28 482 310)	2 714 777
Repayment	0	(4 539 207)	0	(4 539 207)
Amount due to Government	(28 482 310)	(1 824 430)	(28 482 310)	(1 824 430)
Balance composition				
Balance currently due to Government	(28 514 243)	(1 750 929)	(28 514 243)	(1 750 929)
Unrealised losses and (gains) on forward exchange contracts (Note 15)	31 933	(73 501)	31 933	(73 501)
	(28 482 310)	(1 824 430)	(28 482 310)	(1 824 430)

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 Government. The current arrangement is that only transactions that have affected liquidity in the South African money market will be settled. The remainder of the transactions are in respect of the revaluation of gold and foreign exchange and do not represent cash flow. In terms of this agreement, the balance to be settled with Government in respect of the previous financial year amounts to R290 million, while an amount of R74 million is due from Government in respect of the current financial year.

12. Property, plant and equipment

12.1 Group: 2007

	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 2006	39 528	506 953	1 269 235	27 477	1 843 193
Additions	0	692	88 271	68 472	157 435
Transfers (out)/in	0	809	44 149	(44 958)	0
Disposals	0	(402)	(10 160)	0	(10 562)
Cost at 31 March 2007	39 528	508 052	1 391 495	50 991	1 990 066
Accumulated depreciation					
Accumulated depreciation at 31 March 2006	0	165 384	671 282	0	836 666
Charge for the year	0	10 448	105 707	0	116 155
Disposals	0	(401)	(9 690)	0	(10 091)
Accumulated depreciation at 31 March 2007	0	175 431	767 299	0	942 730
Net book value at 31 March 2007	39 528	332 621	624 196	50 991	1 047 336
Estimated useful lives (years)		50	5 to 15		

Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times)	6 646 742

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

Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times)	6 736 617

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: 2007

	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 2006	29 833	374 765	711 339	24 291	1 140 228
Additions	0	72	61 262	68 166	129 500
Transfers in/(out)	0	809	41 986	(42 795)	0
Disposals	0	(402)	(6 939)	0	(7 341)
Cost at 31 March 2007	29 833	375 244	807 648	49 662	1 262 387
Accumulated depreciation					
Accumulated depreciation at 31 March 2006	0	122 433	447 711	0	570 144
Charge for the year	0	7 678	60 904	0	68 582
Disposals	0	(401)	(6 590)	0	(6 991)
Accumulated depreciation at 31 March 2007	0	129 710	502 025	0	631 735
Net book value at 31 March 2007	29 833	245 534	305 623	49 662	630 652
Estimated useful lives (years)		50	5 to 15		
Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times)					3 468 873

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		72	18 940	6 745	25 757
Transfers in/(out)		11	25 946	(25 957)	0
Disposals	(1 729)	0	(51 877)	(1 758)	(55 364)
Cost at 31 March 2006	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
Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times)					3 675 672

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

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000

13. Equity investment in Bank for International Settlements

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Unlisted shares at valuation	287 337	233 289	287 337	233 289

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

14. Deferred taxation assets and liabilities

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Balance at beginning of the year	116 521	115 816	175 106	171 777
Income statement credit (Note 26)	15 139	705	10 470	3 329
Balance at end of the year	131 660	116 521	185 576	175 106
Comprising:				
Deferred taxation asset	242 387	228 024	220 365	208 964
Deferred taxation liability	(110 727)	(111 503)	(34 789)	(33 858)
Net deferred taxation asset	131 660	116 521	185 576	175 106

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

14.1 Group

	2007 R'000	Credit/(debit) to income statement R'000	2006 R'000
Property, plant and equipment	(108 762)	(1 513)	(107 249)
Post-retirement medical costs	179 180	(4 571)	183 751
Provisions	25 334	11 553	13 781
Deferred retirement fund contributions	19 177	17 610	1 567
Deferred software development costs	1 412	591	821
Non-vested reinsurance benefit	0	4 254	(4 254)
Fair value adjustment to impaired assets	15 214	(12 332)	27 546
Prepaid expenditure and other items	105	(453)	558
Total	131 660	15 139	116 521

14.2 Bank

	2007 R'000	Credit/(debit) to income statement R'000	2006 R'000
Property, plant and equipment	(34 789)	(931)	(33 858)
Deferred retirement fund contributions	503	(1 064)	1 567
Fair value adjustment to impaired assets	17 179	(10 367)	27 546
Post-retirement medical costs	179 180	11 481	167 699
Deferred software development costs	1 412	591	821
Provisions	21 986	10 755	11 231
Prepaid expenditure and other items	105	5	100
Total	185 576	10 470	175 106

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000

15. Forward exchange contracts

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Unrealised gain on forward exchange contracts	37 088	381 316	37 088	381 316
Unrealised loss on forward exchange contracts	(69 021)	(307 815)	(69 021)	(307 815)
Net (loss debited)/gain credited to Gold and Foreign Exchange Contingency Reserve Account (Note 11)	(31 933)	73 501	(31 933)	73 501

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

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Financial assets	238 759	246 701	191 648	232 815
Non-financial assets	167 195	98 115	163 208	93 800
	405 954	344 816	354 856	326 615

17. Deposit accounts

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Non-interest bearing	39 434 214	30 153 124	39 434 214	30 153 124
Banks' reserve accounts	36 747 203	27 959 027	36 747 203	27 959 027
Government accounts	2 614 810	2 018 408	2 614 810	2 018 408
Other current accounts	72 201	175 689	72 201	175 689
Interest bearing	61 036 971	51 010 993	48 800 474	37 450 445
Reverse repurchase agreements	3 114 361	1 506 333	3 114 361	1 506 333
Government special deposit	45 667 333	35 944 112	45 667 333	35 944 112
Margin calls – repurchase transactions	18 780	0	18 780	0
Call deposits	12 236 497	13 560 548	0	0
	100 471 185	81 164 117	88 234 688	67 603 569
Maturity structure of deposit accounts				
Repayable on demand	14 923 508	15 754 645	2 687 011	2 194 097
Repayment terms subject to negotiation with National Treasury	45 667 333	35 944 112	45 667 333	35 944 112
Repayable within 30 days	39 880 344	29 465 360	39 880 344	28 712 193
Repayable within 34 days	0	0	0	753 167
	100 471 185	81 164 117	88 234 688	67 603 569
The reverse repurchase agreements are secured by Government bonds as follows:				
Market value	3 111 571	1 517 359	3 111 571	1 517 359
Collateral cover (per cent)	99,91%	100,73%	99,91%	100,73%

The reverse repurchase agreements bear interest at market-related rates approximately 60 to 80 basis points below the repo rate of the Bank.

The Government special deposit bears interest at a rate equivalent to the return earned on foreign-exchange balances funded by these deposits.

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000

18. South African Reserve Bank debentures

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Capital	5 464 000	6 350 000	5 464 000	6 350 000
Accrued interest	14 530	17 929	14 530	17 929
	5 478 530	6 367 929	5 478 530	6 367 929

South African Reserve Bank debentures are issued to the market on tender, normally for a 28 or 56-day term. The debentures are unsecured. Details of the debentures in issue at 31 March 2007 are as follows:

Maturity date	Interest rate Per cent	Capital R million
2 April 2007	8,50%	564 000
4 April 2007	8,28%	980 000
11 April 2007	8,25%	1 400 000
18 April 2007	8,17%	500 000
25 April 2007	8,14%	2 000 000
2 May 2007	8,30%	20 000
		5 464 000

19. Foreign loans

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Foreign loans	19 585 938	21 739 659	19 585 938	21 739 659

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 30.

20. Notes and coin in circulation

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Notes	55 435 333	50 056 595	55 435 333	50 056 595
Coin	3 033 625	2 766 318	3 033 625	2 766 318
	58 468 958	52 822 913	58 468 958	52 822 913

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. Provisions

Group	Leave pay and bonuses R'000	Professional fees R'000	Total R'000
Balance at 1 April 2005	41 762	66	41 828
Increase in provision	14 787	73	14 860
Utilised during the year	(12 396)	0	(12 396)
Balance at 31 March 2006	44 153	139	44 292
Increase in provision	52 461		52 461
Utilised during the year	(12 609)	(139)	(12 748)
Balance at 31 March 2007	84 005	0	84 005
Bank			
Balance at 1 April 2005	33 246	0	33 246
Increase in provision	9 052	0	9 052
Utilised during the year	(3 571)	0	(3 571)
Balance at 31 March 2006	38 727	0	38 727
Increase in provision	41 445	0	41 445
Utilised during the year	(4 359)	0	(4 359)
Balance at 31 March 2007	75 813	0	75 813

Leave pay and bonuses are based on assumptions regarding the probability that staff members will be in the employ of the group at the time that the various leave types accrue.

22. Other financial liabilities

	Group		Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Accounts payable and sundry balances	356 394	167 176	209 008	79 885

23. Retirement benefit information

Retirement funds

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

The Bank also has a defined benefit fund which has been closed to new members since 1 July 1995. The fund currently has three active members and 460 pensioners. Contributions to the defined benefit pension fund are charged against income based upon 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 have been fully transferred to Sanlam through an insurance policy. In view of the transfer of the pension liability to Sanlam and the insignificant number of active members, no further financial disclosures are regarded necessary in respect of the defined benefit fund, as required by IAS 19 (AC 116). The last actuarial valuation of the fund was performed as at 31 March 2005, at which date it was determined to be fully funded. The following key assumptions were applied:

Discount rate	7,53%
Salary inflation	5,61%
Post-retirement interest rate	3,50%

Post-retirement medical benefits

The Bank and a subsidiary provide post-retirement benefits to retired staff in the form of subsidised medical aid premiums. A provision for the liability has been created. The provision covers the total liability, i.e. the accumulated post-retirement medical benefits liability at fair value as at 31 March 2007.

	Group		Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Liability at beginning of the year	634 126	563 100	578 274	519 024
Annual cost				
Interest cost	48 061	44 418	43 801	40 621
Service cost	14 065	15 603	15 371	16 813
Actuarial losses	10 092	31 820	6 609	24 327
Net cost	72 218	91 841	65 781	81 761
Total benefit payments	(24 090)	(20 815)	(26 193)	(22 511)
Liability at end of the year	682 254	634 126	617 862	578 274

	2007	2006
Key assumptions:		
Discount rate	8,25%	7,75%
Medical inflation	5,85%	5,75%
Valuation date	31 March 2007	31 March 2006

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

	1% increase	Valuation basis	1% decrease
Employer's accrued liability	723 060	617 862	533 668
Employer's service and interest cost	77 666	59 172	54 779

24. 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 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
25. Profit before taxation				
25.1 Total income is stated after crediting				
Income from investments	21 969	18 866	21 941	18 838
Dividends	21 957	18 854	21 941	18 838
Realised and unrealised (loss)/profit on investments	12	12	0	0
Income from subsidiaries			69 893	10 594
Dividends			58 200	200
Interest			10 912	9 321
Administration fees			781	1 073
Realised gains on available-for-sale financial assets	1 772	29 588	1 772	29 588
Fair value adjustments to financial instruments	3 897	(1 300)	0	0
Commission on banking services	142 583	187 381	142 583	187 381
25.2 Operating costs include				
Directors' remuneration (Note 31)			8 090	8 720
From the Bank for services as directors			1 150	1 031
From the Bank for other services			6 940	7 689
Depreciation	116 155	117 336	68 582	74 113
Buildings	10 448	10 591	7 678	7 891
Plant, vehicles, furniture and equipment	105 707	106 745	60 904	66 222
Net (profit)/loss on disposal of:	(1 613)	30	(120)	391
Land	0	(199)	0	(201)
Buildings	1	0	1	0
Plant and equipment, furniture and vehicles	(1 614)	229	(121)	592
Auditors' remuneration	5 884	6 695	4 586	5 084
Audit fees	5 415	6 108	4 520	4 960
Underprovision for previous year	309	387	0	0
Fees for other services	113	95	19	19
Expenses	47	105	47	105
Consulting fees	37 534	29 421	36 182	28 069
Net transfers to provisions	87 841	73 540	76 674	64 731
Provision for leave pay and bonuses	39 852	2 391	37 086	5 481
Provision for post-retirement medical costs (Note 23)	48 128	71 076	39 588	59 250
Provision for consultancy fees	(139)	73	0	0
Retirement benefit costs	106 251	88 803	87 446	80 157
Normal contributions to funds	68 712	64 871	59 897	56 225
Additional contributions to funds in respect of early retirements	2 139	926	2 139	926
Medical aid premiums paid	35 400	23 006	25 410	23 006
Remuneration and recurring staff costs	707 971	665 777	580 411	553 701
Cost of new currency	83 749	77 629	680 571	627 483
Other operating costs	649 826	553 661	183 787	162 146

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
26. Taxation				
South African normal taxation				
Current taxation	878 753	340 782	838 454	305 555
Adjustment in respect of prior year	(1 612)	996	(133)	1 514
Deferred taxation	(15 139)	(705)	(10 470)	(3 329)
Current year timing differences	(15 236)	1 094	(10 470)	(1 868)
Adjustment in respect of prior year	97	(1 799)	0	(1 461)
	862 002	341 073	827 851	303 740
Reconciliation of taxation rate				
South African normal taxation rate	29,00%	29,00%	29,00%	29,00%
Adjusted for:				
Disallowable expenses	0,10%	0,32%	0,08%	0,34%
Exempt income and special deductions	(0,19%)	(0,35%)	(0,59%)	(0,08%)
Adjustment in respect of prior years	(0,04%)	(0,07%)	(0,01%)	0,01%
Effective taxation rate	28,87%	28,90%	28,48%	29,27%
27. Dividends per share (cents)	10	10	10	10
Dividends were paid as follows:				
Final dividend of 5 cents per share for the 2006 financial year	100	100	100	100
Interim dividend of 5 cents per share for the 2007 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.

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

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Reconciliation of profit before taxation to cash generated from operating activities:				
Profit for the year	2 985 690	1 180 120	2 906 718	1 037 739
Adjustments for:				
Depreciation	116 155	117 336	68 582	74 113
Net (profit)/loss on disposal of fixed assets	(1 613)	30	(120)	391
Unrealised foreign exchange loss	628	0	0	0
Notional interest on interest-free loan	(35 745)	(41 746)	(35 745)	(41 746)
Fair value adjustments to financial instruments	3 897	(1 300)	0	0
Movement in provisions	39 713	2 464	37 086	5 481
Increase in post-retirement benefits liability	48 128	71 026	39 588	59 250
Realised gain on available-for-sale financial assets	(1 772)	(29 588)	(1 772)	(29 588)
Net cash generated from operating activities	3 155 081	1 298 342	3 014 337	1 105 640
Changes in working capital:				
(Increase)/decrease in accommodation to banks	(1 820 296)	242 690	(1 820 296)	242 690
Increase in loans and advances	(665)	(12 119)	(665)	(12 119)
Increase in amounts due by subsidiaries	0	0	(52 584)	(18 337)
Increase in gold and foreign exchange	(50 303 117)	(43 455 382)	(50 303 117)	(43 455 382)
Increase in inventories	(73 825)	(15 405)	(1 935)	(1 279)
Decrease in amounts due by the South African Government	79 371	61 643	79 371	61 643
Increase in Gold and Foreign Exchange Contingency Reserve Account	26 763 314	7 042 960	26 763 314	7 042 960
Increase in equity investment in Bank for International Settlements	(54 048)	(64 144)	(54 048)	(64 144)
(Increase)/decrease in other assets	(57 278)	521 912	(28 241)	481 208
Increase in deposit accounts	19 307 068	39 499 320	20 631 119	35 363 577
(Decrease)/increase in amounts due to subsidiaries	0	0	(271 539)	4 560 550
Decrease in Reserve Bank debentures	(889 399)	(6 667 639)	(889 399)	(6 667 639)
Decrease in foreign loans	(2 153 721)	(66 585)	(2 153 721)	(66 585)
Increase in notes and coin in circulation	5 646 045	3 383 219	5 646 045	3 383 219
Increase/(decrease) in other financial liabilities	84 493	(20 672)	29 249	12 560
Cash (utilised by)/generated from changes in working capital	(3 472 058)	449 798	(2 426 447)	862 922
Cash (utilised by)/generated from operating activities	(316 977)	1 748 140	587 890	1 968 562

	Group		Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000

29. Capital commitments

	Group 2007 R'000	Group 2006 R'000	Bank 2007 R'000	Bank 2006 R'000
Contracted	108 124	63 743	20 961	48 470
Not contracted	247 347	95 900	247 347	67 223
Total	355 471	159 643	268 308	115 693

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

30. Risk management in respect of financial instruments

The policies and procedures of the Bank regarding risk management are dealt with in the 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 are 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 by management on a daily basis and, when circumstances require, throughout the day. The exposure of the Bank to market price risk is largely limited by the fact that gold and foreign-exchange price risks are for the account of Government in terms of the Reserve Bank Act.

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's. Exposures are monitored daily against reports generated by the middle office function of the Financial Markets Department.

Concentration analysis

	Group		Bank	
	2007 R'000	2006 R'000	2007 R'000	2006 R'000
Assets				
South African rand	30 015 867	29 984 461	26 836 718	25 849 662
Gold	19 224 235	14 487 187	19 224 235	14 487 187
United States dollar	123 670 846	92 211 629	123 670 846	92 211 629
Euro	40 778 718	29 905 081	40 778 718	29 905 081
Pound sterling	6 601 396	3 523 869	6 601 396	3 523 869
Other	2 433 943	2 224 207	2 433 943	2 224 207
	222 725 005	172 336 434	219 545 856	168 201 635
Liabilities				
South African rand	203 139 067	150 596 775	199 959 918	146 461 976
United States dollar	11 577 673	14 744 611	11 577 673	14 744 406
Euro	7 382 087	6 671 119	7 382 087	6 671 849
Pound sterling	626 178	323 929	626 178	323 404
	222 725 005	172 336 434	219 545 856	168 201 635

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 ability of the Bank 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 foreign investment portfolio of the Bank 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 2007

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	19 224 235	0	0	0	0	19 224 235
Foreign-exchange investments	69 614 105	66 330 296	18 078 654	4 108 000	12 611 876	170 742 931
Special drawing rights – IMF	2 454 636	0	0	0	0	2 454 636
Equity investment – BIS	0	0	0	0	287 337	287 337
	91 292 976	66 330 296	18 078 654	4 108 000	12 899 213	192 709 139
Liabilities (R'000)						
Foreign loans	7 723 019	11 862 919	0	0	0	19 585 938
Net foreign assets	83 569 957	54 467 377	18 078 654	4 108 000	12 899 213	173 123 201

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	14 504 468	0	0	0	0	14 504 468
Foreign-exchange investments	75 548 240	38 159 785	1 728 681	2 605 258	7 621 116	125 663 080
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
	92 003 845	38 159 785	1 728 681	2 605 258	7 854 405	142 351 974
Liabilities (R'000)						
Foreign loans	9 468 992	12 270 667	0	0	0	21 739 659
Net foreign assets	82 534 853	25 889 118	1 728 681	2 605 258	7 854 405	120 612 315

31. 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, as a state corporation, could be regarded as related to other 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 central banking practice in many countries across the globe. Certain terms and conditions of transactions with 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 the directors is as follows:

	Remuneration including fringe benefits R'000	Retirement and medical benefit contributions R'000	2007 Total R'000	2006 Total R'000
Executive directors – Remuneration for other services				
T T Mboweni	2 618	358	2 976	2 830
X P Guma	1 445	222	1 667	1 696
I Plenderleith	173	480	653	2 119
R D Mokate	1 423	221	1 644	1 044
	5 659	1 281	6 940	7 689
No other benefits accrued to the executive directors.				
Non-executive directors – for services as directors				
D Konar			156	145
M Padayachee			163	135
N D Orleyn			117	90
J W Raath			119	97
F Jakoet			103	92
A M Mokgabudi			18	105
Z P Manase			101	92
S M Goodson			93	79
R W K Parsons			117	99
F E Groepe			94	97
T N Mgoduso			69	0
			1 150	1 031
Paid by subsidiaries				
Non-executive directors – for services as director				
D Konar			38	60
F Jakoet			216	183

32. 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.

33. Comparative figures

The balance sheet layout has been changed to provide fairer presentation as follows:

1 The balance sheet has been amended to disclose post-retirement benefits as a separate item. Previously, it was included in provisions.

2 The Gold and Foreign Exchange Contingency Reserve Account has been moved further down to reflect the current order of liquidity of balances.

Notice of ordinary general meeting 2007

Notice is hereby given that the eighty-seventh ordinary general meeting of shareholders will be held at the Head Office of the South African Reserve Bank, 370 Church Street, Pretoria on Thursday, 20 September 2007 at 10:30.

Agenda

1 To approve minutes of the ordinary general meeting of shareholders held on 23 August 2006 (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 2007 (*Annual Report 2006/07* to be distributed).

3 To elect three shareholders' representatives, representing agriculture, commerce or finance and industry, to the Board of Directors (details appear in the *Annual Report 2006/07*).

4 To determine the remuneration of the auditors for the past audit.

5 To appoint auditors for the 2007/08 financial year.

6 To transact any other business to be transacted at an ordinary general meeting.

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

Shareholders who are unable to attend the meeting in person may use the 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 P Mongwe
Secretary of the Bank

Pretoria
8 August 2007

Shareholders' calendar

Dividends

	Declared	Paid
Interim	2 October 2006	27 October 2006
Final	2 April 2007	4 May 2007

Date and time of the ordinary general meeting in Pretoria: 20 September 2007 at 10:30.