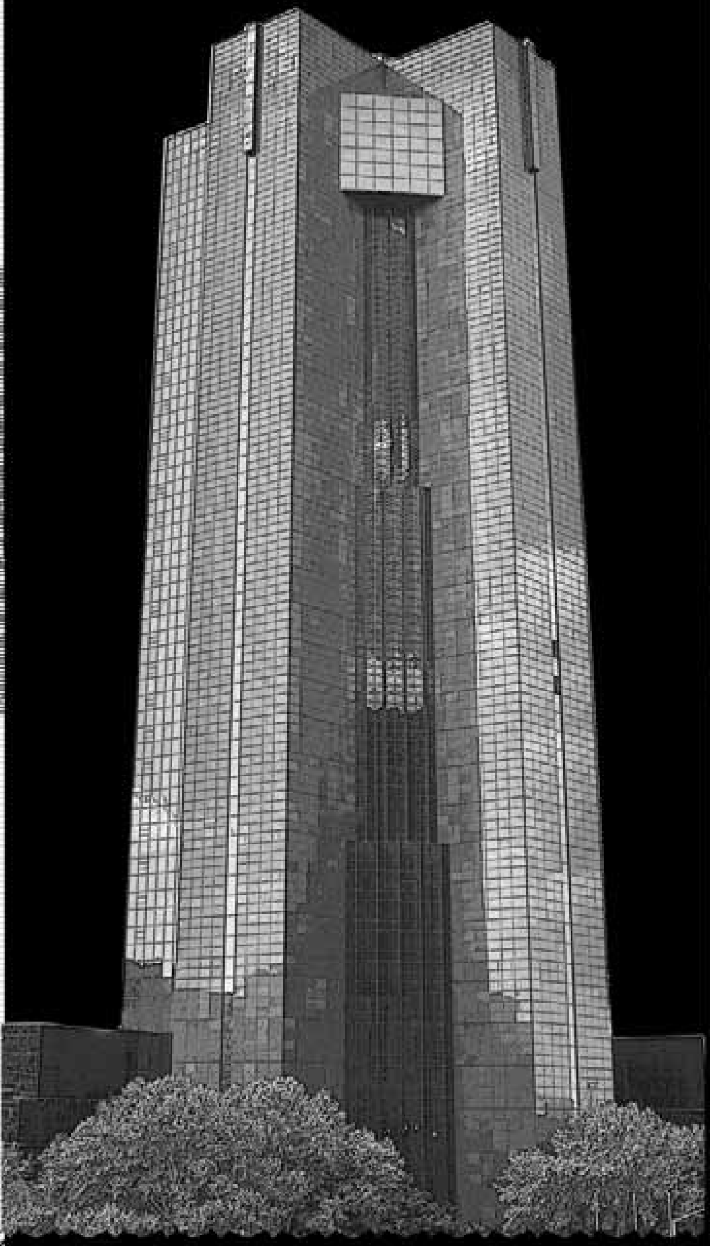


# Annual Report
## 2010/11

South African Reserve Bank

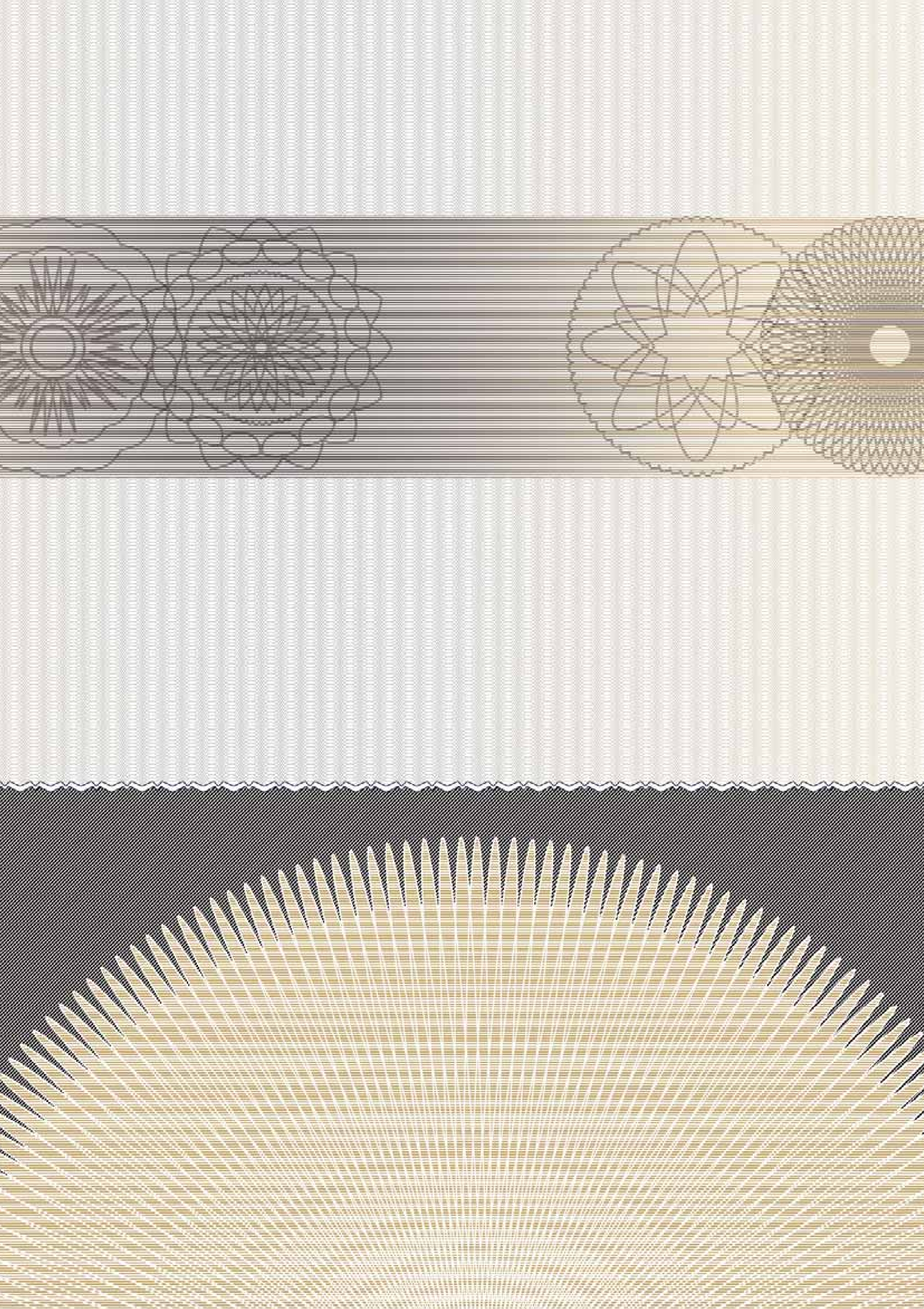
90th

Anniversary

# Annual Report
2010/11

South African Reserve Bank

90th Anniversary



# Contents

# Message from the Governor

It gives me great pleasure to present the *Annual Report* of the South African Reserve Bank (the Bank) for the financial year ended 31 March 2011 to the shareholders and other stakeholders of the Bank. This *Annual Report* is particularly significant because it coincides with the 90th anniversary of the establishment of the Bank. To mark this occasion, the Ordinary General Meeting (OGM) of the Bank will be held on 30 June, which is the date on which the Bank was established in 1921.

As usual, the *Annual Report* presents the financial statements of the Bank, as well as an overview of the main operations of the Bank during the financial year. The report covers policy interventions, including a detailed analysis of monetary policy, an outline of the internal workings of the Bank, and highlights some of its broader social responsibility initiatives. The *Annual Economic Report*, which provides a review of global and domestic economic developments, will be published as a separate document and will be released on 30 June 2011.

The Bank was established at a time of turmoil in the international monetary system when there were debates about the appropriateness of a return to the gold standard. In that context the Bank was established to ensure that the banknote issue was in line with the gold stock; in other words, the Bank had to ensure the convertibility of the currency or the maintenance of the value of the currency. The early 1920s were also characterised by a high degree of capital flows and exchange rate volatility.

Today, we find ourselves in a similar context. The global financial crisis, which is now in its fourth year, and the persistent global imbalances and volatile capital flows have again put the nature of the international monetary system and the international adjustment mechanism at the centre of much of the debate on global reform. Such turmoil and periodic systemic crises underline the need for strong central banks to be beacons of stability. Our focus therefore continues to be on stability, which includes price stability, financial stability and the stability of the banking system. Such stability provides an environment conducive to economic growth and employment creation.

Global developments have continued to impact on our domestic economic conditions and policy environment. The recovery in the advanced economies appears to be more sustained, but there are still significant risks emanating from peripheral Europe in particular. These uncertainties have resulted in periodic changes in risk perceptions in the international financial markets, resulting in continued volatility of exchange rates and capital flows. The tragic events in Japan also underlined the fragility of the recovery in the advanced economies. At the same time, the strong recovery in most of the emerging markets, and in Asia in particular, coupled with unfavourable weather conditions and political developments in the Middle East and North Africa, have put upward pressure on commodity prices, in particular oil and food. This led to an end to the benign global inflation environment which had prevailed since the onset of the financial crisis.

Since March 2010, domestic inflation has remained within the target range of 3–6 per cent. This enabled the Bank to reduce the repurchase rate to 5,5 per cent; the lowest nominal level of the policy rate in over 30 years. Real rates are also significantly below their long-run averages. This stance of monetary policy has been maintained, given the relatively fragile nature of the domestic recovery. However, there are signs that this recovery is becoming more self-sustained, while at the same time, global commodity price increases have begun to pose risks to the domestic inflation outlook. This is expected to create a challenge for monetary policy going forward. Inflation is expected to breach temporarily the upper limit of the inflation target range in the first quarter of next year, and then remain close to the upper end of the target range for the remainder of the year. The risks to the inflation outlook are assessed to be on the upside. We will continue to give primacy to our objective of price stability, and implement monetary policy within a flexible inflation-targeting framework.

The financial crisis has focused attention on financial stability issues. In the past most central banks had implicit financial stability mandates and the conventional wisdom was that price stability would ensure financial stability. The crisis showed that financial stability should be seen as a separate objective, and a number of central banks have been given explicit financial stability mandates. The Bank has also been given a mandate to take a leading role in maintaining financial stability. To this end, the Bank's Financial Stability Committee (FSC) has been reconstituted and given responsibility for macroprudential oversight and policy implementation. This is unchartered territory, and work is being undertaken to determine the exact nature of such oversight and appropriate policy instruments. Without being complacent, our view is that at this stage there are no obvious threats to domestic financial stability: credit extension by banks is subdued and there is no evidence of incipient asset market bubbles.

The Bank's microprudential responsibilities have also been impacted by global developments with respect to the regulatory and supervisory environment. The Bank, as a member of the Basel Committee on Banking Supervision (Basel Committee), has been an active participant in the deliberations on banking regulatory reform. Meetings of the committee have culminated in the publication of the global regulatory framework for more resilient banks and banking systems, December 2009 (Basel III), which incorporates the details of global regulatory standards on bank capital adequacy and liquidity. The changes should not have a material impact on South African banks which remain well capitalised and characterised by low leverage ratios. The proposals regarding liquidity are likely to pose a greater challenge, but given the relatively long phasing-in period, they are not viewed as being insurmountable.

Capital flows to many emerging markets moderated in the final quarter of 2010 and early 2011. A similar pattern was observed in South Africa, and between November 2010 and March 2011 there were cumulative net sales of bonds and equities by non-residents. More recently, renewed net purchases have been experienced. Despite this unstable pattern of capital flows, the Bank, with the assistance of National Treasury, has been able to continue with its policy of foreign-exchange reserve accumulation. In the 2010/11 financial year the Bank purchased approximately US$10,3 billion for this purpose. The need to sterilise the impact of these purchases of foreign exchange on domestic liquidity resulted in the Bank reporting an after-tax loss for the second consecutive financial year, amounting to R1,2 billion.

The amendments to the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), as amended (South African Reserve Bank Act) were promulgated in September 2010. In terms of these amendments, membership of the Board of Directors (the Board) of the Bank has been expanded to 15. The Board has also recently agreed to apply the nine-year rule contained in the *Report on Corporate Governance for South Africa 2009* (*King III*) as a guideline for the service periods of Board members. As a result, at the forthcoming OGM, three new non-executive directors will be elected by shareholders. There are currently four vacancies for non-executive directors appointed by government. Once all these appointments have been made, the Board will comprise a significant proportion of new members. While this may raise challenges for continuity, I am confident that the new-look Board will continue to maintain effective corporate governance oversight of the Bank.

As was the case at the time of the establishment of the Bank, we are facing a challenging global and domestic environment. In the 90 years of its existence, the Bank has been able to navigate successfully through many turbulent periods. Over the years, economic theory and policies have also evolved in response to changing circumstances. The Bank is fortunate to have skilled and professional staff who will enable it to continue to keep abreast of the latest developments in the policy environment, and remain focused on the implementation of appropriate and sustainable policies in the interest of all South Africans.

Gill Marcus

Gill Marcus
Governor

# Purpose and functions of the Bank

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

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

Given its national importance and unique influence on the economic wellbeing of the general public in South Africa, the Bank promotes good corporate governance within a framework of operational autonomy and accountability to Parliament. The Bank is not a profit-driven institution, but strives to function efficiently and effectively, and promotes an ethical environment based on a number of common organisational values. These include
- maintaining trustworthiness and credibility;
- demonstrating exceptionally high degrees of integrity and commitment to the greater good; and
- maintaining professionalism and excellence in the delivery of services and execution of its responsibilities.

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

# Strategic review

During February 2011, the Bank reviewed its strategy in the light of recent and envisaged future developments in the global and domestic environment, which included
- different scenarios for global economic developments and possible implications for South Africa and the responsibilities of the Bank;
- challenges facing central banks as a consequence of the global financial crisis, now in its fourth year;
- the current domestic economic outlook;
- developments in the regulatory environment in respect of both macro- and micro-prudential challenges;
- organisational priorities, including a review of the legal framework of the Bank, with a focus on the necessary authorities required, especially as this affects financial stability and macro-prudential regulation, as well as the need for alignment of other relevant pieces of legislation; and
- the value statement of the Bank.

On the basis of these deliberations, it was resolved that the Bank's activities should be guided by the following strategic focus areas:

Giving effect to the Bank's mandate

Monetary policy formulation and implementation shall be in accordance with the Constitution of the Republic of South Africa and within the context of the elaboration of the Bank's mandate contained in the letter addressed to the Governor of the Bank by the Minister of Finance dated 16 February 2010.

### Understanding the regional, continental and global environments

The Bank will draw on its participation in forums such as the Committee of Central Bank Governors (CCBG) in the Southern African Development Community (SADC), the International Monetary Fund (IMF), the Group of Twenty (G-20) and the Bank for International Settlements (BIS) to evaluate and analyse developments, so as to be able to implement policies and risk mitigation measures appropriate for South Africa.

### Building the institution and investing in people

New impetus will be given to organisational effectiveness and operational efficiency, and to enhancing a culture of excellence where people and values matter. Human resources issues in all their facets will be a priority in the forthcoming period. The focus will also be on shared values and a common purpose, as well as personal growth, empowerment and development. In view of the challenging environment, which looks set to continue for a number of years, the Bank will continue to enhance its capacity where necessary.

### Understanding the domestic environment and enhancing the role of the Bank in society

The Bank will continue to be a constructive role-player in society, actively engaging with stakeholders and working to build the country. It will focus on ensuring a deeper understanding of its role. The Bank's responsibility to provide accurate and timely data on the economy remains a core focus area, and forms an integral part of its outreach activities.

An important goal is to ensure that the Bank commands respect through its professionalism, excellence and integrity. It will always act in the interests of the country and all its people.

During the period under review, significant progress was also made with the Bank's organisational values statement embodied in the following key values which underpin the execution of the Bank's strategy:

- Dependability and trustworthiness
- Integrity
- Loyalty
- Professionalism
- Respect and dignity.

# Board of Directors

In accordance with the South African Reserve Bank Act, the Board was constituted of 15 members as at 31 March 2011. The Board functions in terms of a Board Charter that is reviewed annually by the Board.

The Board's executive members are the Governor and three deputy governors (one of whom is the Senior Deputy Governor), all of whom are appointed by the President of the Republic of South Africa, after consultation with the Minister of Finance and the Board. Such appointments are for a period of five years for a first term of office. They can be reappointed for further terms not exceeding five years at a time. The Governor serves as Chairperson of the Board with a casting and deliberative vote, as stipulated in the South African Reserve Bank Act and as Chief Executive Officer (CEO) of the Bank. As at 31 March 2011, one position for a deputy governor was vacant. However, on 25 March 2011 the appointment of E L Kganyago as Deputy Governor with effect from 16 May 2011, was announced.

Four non-executive directors are appointed by the President of the Republic of South Africa and seven non-executive directors are elected by the shareholders of the Bank for three-year terms. Directors are eligible for reappointment or re-election at the end of their terms. The Board has recently agreed to apply the nine-year rule contained in *King III* as a guideline for the service periods of Board members. As at 31 March 2011, four positions for government-appointed non-executive directors were vacant.

The Board usually meets five times a year. The South African Reserve Bank Act stipulates which matters must be considered by the Board while the Board Charter indicates which reports should be submitted for consideration by the Board to ensure proper discharge of its governance functions. The Board, *inter alia*, receives reports from the Governors' Executive Committee (GEC), which is responsible for the day-to-day activities of the Bank, various Board committees chaired by non-executive directors, and management. Non-executive directors do not have service contracts with the Bank. The Board comprises people with integrity and a diversity of skills and knowledge to ensure effective governance.

An evaluation process is in place to assess the functioning of the Board as a whole, its subcommittees and all members individually. Such a process is also used to ensure that recommendations for the renewal of a Board member's term of office are made after an assessment of the needs and skills on the Board, as well as each non-executive director's contribution.

Front row (left to right): D Konar, N D Orleyn, A D Mminele (Deputy Governor), G Marcus (Governor), X P Guma (Senior Deputy Governor), T N Mgoduso, B W Smit

Back row (left to right): J J Rossouw (Acting Secretary), J J de Jager (General Counsel), R W K Parsons, Z P Manase, J F van der Merwe, S M Goodson, M Mnyande (Chief Economist and Adviser to the Governor), H H van Gass (Assistant Secretary)

# Abridged *curricula vitae* of directors

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

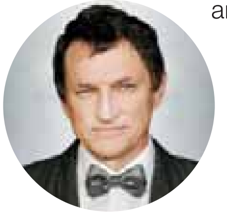
X P (Xolile) Guma (54) was appointed Deputy Governor in 2001 and designated Senior Deputy Governor on 29 May 2010. He serves as a member of the Board, the GEC, the MPC and the FSC and chairs the Board of the South African Bank Note Company (Pty) Limited (SABN). Following his initial appointment to the Bank in 1995, he held a number of positions in the Research Department. He holds Master's and PhD degrees in Economics.

A D (Daniel) Mminele (46) was appointed Deputy Governor of the Bank on 1 July 2009. He serves as a member of the Board, the GEC, the MPC and the FSC, and chairs the boards of the Corporation for Public Deposits (CPD) and the South African Mint Company (Pty) Limited (SA Mint). After joining the Bank in September 1999 he has been, among other positions, the Head of the then International Banking Department, Head of the Financial Markets Department and Executive General Manager. He completed his professional training in Germany, qualifying with a Diploma in Banking (Bankkaufmann) and holds certificates from the Chartered Institute of Bankers in London.

E L (Lesetja) Kganyago (46) was appointed Deputy Governor on 16 May 2011. He serves as a member of the Board, the GEC, the MPC and the FSC. Before his appointment as Deputy Governor, he served in various positions in National Treasury, including as Director-General from February 2004. He was employed by the Bank before joining National Treasury in 1996. He holds a BCom degree and a Master's degree in Economics.

R D (Renosi) Mokate (53) was appointed Deputy Governor of the Bank on 1 August 2005 and her term of office expired on 31 July 2010. She served as a member of the Board, the GEC and the MPC, and chaired the boards of the SABN and the SA Mint. Before joining the Bank she was Chairperson and CEO of the Financial and Fiscal Commission, Executive Director of the Human Sciences Research Council, Director of the Centre for Reconstruction and Development at the University of Pretoria, and Senior Policy Analyst at the Development Bank of Southern Africa. She holds a PhD degree.

**S M (Stephen) Goodson** (63) was elected in 2003 as a non-executive director with knowledge and skills in commerce or finance. He has held various positions in the private and public sectors, and has owned a private practice investment consultancy since 1993. He holds a BA degree and licentiate in Germanic philology.



**F E (Francois) Groepe** (41) was appointed in 2004 as a non-executive director representing government. His appointment expired on 19 March 2011. He is the Group Managing Director and CEO of Media24. Previously he was the CEO: Newspaper Division and Financial Director of Media24. Before joining Media24, he was Senior Group Controller at Swiss Re, based at its head office in Zurich. He holds BCom (Hons), MBA and LLB degrees, and a postgraduate Diploma in Tax Law. He is a chartered management accountant and an advocate of the High Court of South Africa.

**F (Fatima) Jakoet** (50) was elected in 2000 as a non-executive director with knowledge and skills in commerce or finance. She was not available for re-election when her term of office expired at the time of the OGM 2010. She serves as a non-executive director of various companies, including MTN West and Central Africa, Metropolitan Holdings, Tongaat Hulett Limited, and the Clicks Group Limited. She holds a BSc degree and certificates in the Theory of Accounting and Financial Markets Instruments, and is a chartered accountant.

**D (Len) Konar** (57) was elected in 1990 as a non-executive director with knowledge and skills in commerce or finance. He is a member of the boards of various major listed and unlisted companies, locally and internationally, including Sappi, Steinhoff International, Lonmin plc and Illovo Sugar. He was Professor and Head of the Department of Accountancy at the University of KwaZulu-Natal (formerly the University of Durban-Westville). He holds BCom, MA (Accounting Sciences) and DCom degrees, and has a postgraduate qualification in financial management and a Certificate in Tax Law. He is a chartered accountant and is a specialist in auditing and accounting.

**Z P (Zodwa) Manase** (50) was elected in 2002 as a non-executive director with knowledge and skills in commerce or finance. She has been the CEO of Manase & Associates since 1996. She is a director of various companies and organisations, including TOTAL South Africa and the State Information Technology Agency, and previously served on the boards of Denel, the Medical Research Council and the Central Energy Fund. She is a chartered accountant, and holds BCom and BCompt degrees, and a postgraduate Diploma in Tax Law.

**E (Elias) Masilela** (47) was appointed in 2008 as a non-executive director representing government. He stepped down from the Board due to his appointment as Chief Executive of the Public Investment Corporation (PIC) on 1 February 2011. He was Head of Policy Analysis at Sanlam before his appointment to the PIC. He holds a BA degree in Social Science (Economics and Statistics), and an MSc degree in Economic Policy and Analysis.

T N (Thandeka) Mgoduso (55) was elected in 2006 as a non-executive director with knowledge and skills in industry. She is currently an executive director of Ayavuna Women's Investment. She has served in various positions, including that of psychology lecturer at Vista University; visiting psychologist at the Maudsley Institute, London; clinical psychologist at the then Baragwanath Hospital; and manager in the Human Resources Department of Wesbank. She has held various positions at Transnet Limited, Freight Dynamics and Imperial Logistics. She holds an MA (Clinical Psychology) degree.

N D (Thandi) Orleyn (55) was elected in 2002 as a non-executive director with knowledge and skills in industry. Currently she serves as a non-executive director with knowledge and skills in mining. She is a director of Peotona Group Holdings, an investment company owned and managed by four women, and a member of the Competition Tribunal. She is a director of various companies and organisations, including Implats, Toyota South Africa and Ceramic Industries. Previously she was a director at a commercial law firm and served as a national director of the Commission for Conciliation, Mediation and Arbitration. She holds Bluris, BProc and LLB degrees.

R W K (Raymond) Parsons (68) was appointed in 2004 as a non-executive director representing government. His appointment expired on 19 March 2011. He teaches in the Faculty of Economic and Management Sciences at the University of Pretoria and is the Deputy CEO of Business Unity South Africa (BUSA). He is a former Director-General of the South African Chamber of Business (Sacob). From 2000 to 2003 he was a visiting professor at the School of Economic and Business Sciences at the University of the Witwatersrand, and is an honorary professor in the Department of Economics and Economic History at the Nelson Mandela Metropolitan University (NMMU). He holds a BCom degree, two Master of Arts degrees and an Honorary Doctorate from the NMMU.

B W (Ben) Smit (60) was elected as a non-executive director with knowledge and skills in industry at the OGM 2010 held on 8 December 2010. His service on the Board commenced on 9 December 2010. He is a Professor of Economics at Stellenbosch University and also serves as Director of the Bureau for Economic Research (BER) at the same university. He holds MCom and DCom degrees in Economics.

J F (Hans) van der Merwe (60) was elected in 2007 as a non-executive director with knowledge and skills in agriculture. He has been the Executive Director of Agri SA since 2002, which he represents at various associations and forums, including BUSA, the Southern African Confederation of Agricultural Unions, the International Federation of Agricultural Producers and Cairns Farm Leaders' Group. He is a member of the National Economic Development and Labour Council's (Nedlac) Trade and Industry Chamber. Previously, he was a market researcher in the Department of Agriculture, lectured Business Economics at the University of Pretoria and worked at the Maize Board, before joining Agri SA as Deputy Director: Policy and Administration in 1981. He holds BCom and MBA degrees.

# Functioning of the Board

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

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

The Bank has a formal governance framework that deals with four areas, namely the composition and membership of the Board; the Board and organisational matters; Board subcommittees and their terms of reference; and policies and procedures pertaining to corporate governance.

During the year under review, the South African Reserve Bank Act was amended and the South African Reserve Bank Amendment Act, 2010 (Act No. 4 of 2010) was promulgated. Amendments to the Regulations framed in terms of section 36 of the South African Reserve Bank Act were promulgated on 13 September 2010. These amendments formalised the practice that the Board is a governance board and not a management or a policy board. Consequently, the powers of the Governor and deputy governors are original powers, and not delegated powers.

The legislation stipulates that the Board is responsible for the corporate governance of the Bank by

(a) ensuring compliance with principles of good corporate governance;
(b) adopting rules and determining policies for the sound accounting, administration and functioning of the Bank;
(c) approving the
   (i) budget of the Bank;
   (ii) annual reports and financial statements of the Bank required for submission to the OGM of shareholders, the Minister of Finance and Parliament;
   (iii) appointment or termination of service of the Secretary and the Assistant Secretary of the Bank;
   (iv) remuneration policy of the Bank; and
   (v) allocation of funds to the retirement fund of the Bank for purposes of making good any actuarial shortfall, as well as the appointment of any employers' trustee in respect of such fund;
(d) authorising
   (i) any actions and procedures by the Bank as contemplated in sections 10(l)(c)(ii), (d), (u) and 24 of the South African Reserve Bank Act;
   (ii) the establishment or closing of any branch of the Bank in or outside the Republic; and
   (iii) the acquisition of any building or the causing of any building to be erected by the Bank;
(e) making recommendations to the Minister of Finance in respect of Regulations as contemplated under section 36 of the South African Reserve Bank Act, and in connection with any possible liquidation of the Bank in terms of section 38 of the South African Reserve Bank Act; and
(f) performing any other function specifically assigned to the Board in terms of the South African Reserve Bank Act.

Other legislative amendments include the expansion of the Board to 15 members; the establishment of a Panel to assess whether nominated candidates for election to the Board by shareholders are "fit and proper" to serve on the Board; provision for the wider public to nominate people as candidates for election to the Board; and defining "associate shareholders". The South African Reserve Bank Act states that a person shall not be appointed or elected or remain a director of the Bank if that person

- is not resident in the Republic of South Africa;
- is a director, officer or employee of a bank, bank controlling company, mutual bank, or co-operative bank;
- is a Minister or a Deputy Minister in the Government of the Republic of South Africa;
- is a member of Parliament, a provincial legislature or a municipal council;
- is an unrehabilitated insolvent;
- was dismissed from a position of trust as a result of his or her misconduct or has been disqualified or suspended from practising any profession on the grounds of his or her professional misconduct;
- was convicted of an offence listed in Part 1 or 2 of Schedule 1 to the Criminal Procedure Act, 1977 (Act No. 51 of 1977), the Prevention and Combating of Corrupt Activities Act, 2004 (Act No. 12 of 2004), the Prevention of Organised Crime Act, 1998 (Act No. 121 of 1998), the Prevention of Counterfeiting of Currency Act, 1965 (Act No. 16 of 1965), perjury, or any other offence involving an element of dishonesty in respect of which he or she has been sentenced to imprisonment without the option of a fine or to a fine exceeding R1 000;
- is mentally or physically incapable of performing the duties of a director;
- is contractually incapacitated; or
- is an employee of government.

There was a material change in the composition of the Board, including the expansion of the Board from 14 to 15 members. The additional Board member brings to four the number of non-executive directors appointed by the President of the Republic. The areas of expertise of non-executive directors elected by shareholders were expanded to include knowledge and skills in labour and in mining. Previous requirements were for one elected non-executive director to have knowledge and skills in agriculture, two in industry, and four in commerce or finance. The requirements for non-executive directors with knowledge and skills in agriculture and industry remained unchanged, but legislation now provides for only two non-executive directors with knowledge and skills in commerce or finance.

The Panel that was established to confirm candidates nominated to serve on the Board comprises the Governor, two members (one is a retired Constitutional Court Judge) nominated by the Minister of Finance and three members nominated by Nedlac. At the forthcoming OGM, three serving non-executive directors will be standing down after serving three or more consecutive terms. Thus there will be three vacancies; one each with knowledge and skills in commerce or finance, labour and mining, to be filled by shareholder elections. Advertisements calling for nominations to fill vacancies on the Board were placed in newspapers on 13 and 14 February 2011. The Panel considered these nominations on 16 April 2011 and confirmed nine candidates (three for each vacant position) for consideration for election by shareholders at the OGM 2011.

In keeping with best corporate practice and its quest to strengthen governance, the Bank conducted an analysis to determine the extent to which it applies the principles contained in *King III.* A tool developed by the Institute of Directors in South Africa (IoDSA) was used for this purpose.

The overall outcome of the analysis indicated that the Bank notably applies the principles. The outcome per category varied from highest to moderate to low application, with the last-mentioned two in some instances being the result of the Bank's applicable legislative framework, which takes precedence over the application of certain principles. Examples of such instances are that the Remuneration Committee (Remco) does not consider share option schemes, as such schemes do not exist in the Bank; the combined positions of the Governor as CEO and Chairperson of the Board; and the appointment of the Governor and Chairperson of the Board by the President of the Republic and not by the Board. In such instances, the Bank adopts the approach of providing explanations for the deviations.

Following recent guidance issued on integrated reporting, the Bank has decided to conduct a comprehensive investigation into the merits and implications of issuing in future, on a voluntary basis, an integrated report aimed at enabling all stakeholders to assess the Bank's ability to achieve all its objectives on a sustained basis. It is clear that an extensive process will be needed to develop an appropriate integrated report for the Bank, but indications are that it may be a valuable step towards improving transparency for all stakeholders.

Membership, frequency and attendance of Board meetings from 1 April 2010 to 31 March 2011

| | Date of appointment/ election | 14/04/10 (Special) | 27/05/10 | 28/07/10 | 22/09/10 | 25/11/10 | 24/02/11 |
|---|---|---|---|---|---|---|---|
| G Marcus (Chairperson) | 9/11/2009 | √ | √ | √ | √ | √ | √ |
| X P Guma | 1/08/2001 | √ | √ | √ | √ | √ | √ |
| A D Mminele | 1/07/2009 | √ | √ | √ | √ | √ | √ |
| R D Mokate | 1/08/2005 | √ | √ | √ | Term expired on 31/07/2010 | | |
| D Konar | 28/08/1990 | √ | √ | √ | √ | √ | √ |
| F Jakoet | 29/08/2000 | √ | √ | √ | √ | √ | Term expired on 9/12/2010 |
| Z P Manase | 22/02/2002 | √ | √ | √ | X | √ | √ |
| N D Orleyn | 31/05/2002 | X | √ | √ | √ | √ | √ |
| S M Goodson | 27/08/2003 | √ | √ | √ | √ | √ | √ |
| T N Mgoduso | 10/07/2006 | X | √ | √ | √ | √ | √ |
| J F van der Merwe | 21/09/2007 | √ | √ | √ | √ | √ | √ |
| R W K Parsons | 20/07/2004 | √ | √ | √ | √ | √ | √ Term expired on 19/03/2011 |
| F E Groepe | 20/07/2004 | √ | √ | √ | X | √ | √* Term expired on 19/03/2011 |
| E Masilela | 18/03/2008 | √ | √ | X | √ | √ | Resigned with effect from 1/02/2011 |
| B W Smit | 9/12/2010 | Elected with effect from 9/12/2010 | | | | | √ |

* Participated by means of teleconference
x Apologised for absence

# Board committees

## Audit Committee

A number of changes were made to the composition of the Audit Committee during the review period. The Board, at its meeting held on 28 July 2010, approved the recomposition of the Audit Committee. J F van der Merwe and R W K Parsons were deployed to other Board committees, while A D Mminele and D Konar were appointed as members. With the expiry of her term as a non-executive director on 9 December 2010, F Jakoet stepped down from the committee and as its Chairperson. D Konar was appointed as Chairperson. As at 31 March 2011, the Audit Committee comprised two non-executive directors (one of whom serves as Chairperson), and the Deputy Governor responsible for the Financial Services Department (FSD), which houses the Bank's financial reporting and administration function. Of the three members, two are independent non-executives, two are chartered accountants and all have financial expertise. The Governor is not a member of the committee but attends by invitation.

The external and internal auditors have unrestricted access to the Chairperson of this committee. The committee meets regularly with the heads of the Business Systems and Technology Department (BSTD), FSD, Risk Management and Compliance Department (RMCD), Internal Audit Department (IAD) and the external auditors.

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

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

Membership, frequency and attendance of Audit Committee meetings from 1 April 2010 to 31 March 2011

| | Date of appointment | 14/07/10 | 7/10/10 | 21/01/11 | 16/02/11 (Special) |
|---|---|---|---|---|---|
| D Konar (Chairperson from 9/12/2010) | 28/07/2010 | | √ | √ | √ |
| F Jakoet (previous Chairperson) | 17/11/2008 | √ | √ | Term expired on 9/12/2010 | |
| G Marcus | Attends by invitation since appointment as Governor on 9/11/2009 | √ | √ | √ | √ |
| Z P Manase | 31/05/2002 | √ | √ | √ | X |
| A D Mminele | 25/02/2010 | √ | X | √ | √ |
| J F van der Merwe | 16/03/2009 | √ | Stepped down as member on 28/07/2010 | | |
| R W K Parsons | 16/03/2008 | √ | Stepped down as member on 28/07/2010 | | |
| F E Groepe (Chairperson of the Board Risk Committee) | 25/02/2010 | √ | X | √ | √ Term expired on 19/03/2011 |

x Apologised for absence

The terms of reference of the Audit Committee provide, *inter alia*, for the committee to

- review the annual financial statements included in the Bank's *Annual Report* and consider whether they are complete, consistent with information known to committee members, and reflect appropriate accounting principles;
- review significant accounting and reporting issues, including complex or unusual transactions, and recent professional and regulatory pronouncements, and assess their impact on the Bank's financial statements;
- review other sections of the Bank's *Annual Report* and related regulatory requirements before release, and consider the accuracy and completeness of the information;
- consider the effectiveness of the Bank's internal control systems;
- review and agree annually with management and the Chief Internal Auditor (CIA) the charter, plans, activities, staffing and organisational structure of the internal audit function;
- review annually the performance of the CIA, the Chief Financial Officer and the Bank's financial control systems;
- ensure that no restrictions or limitations are placed on the scope and work of the internal audit function;
- ensure reporting of audit and other findings;
- review and concur with the appointment, replacement or dismissal of the CIA;
- ensure proper co-ordination between the internal and external auditors;
- review the external auditors' proposed audit scope, approach and audit fees, including co-ordination of audit efforts with internal audit;

– review the performance of the external auditors and make recommendations to the Board on the appointment, renewal or discharge of the auditors;
– review and confirm the independence of the external auditors by obtaining annual statements from them on their relationships with the Bank, including the rendering of non-audit services;
– determine the nature and extent of any non-audit services that the external auditors may render to the Bank or any of its subsidiaries, and limit any services that the external auditors may not render to the Bank or any of the subsidiaries; and
– review arrangements by which staff of the Bank may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters, with a view to ensuring that arrangements are in place for the independent investigation of such matters and for appropriate follow-up action.

## Non-executive Directors' Committee

The Non-executive Directors' Committee (Nedcom) comprises all the non-executive directors of the Bank. The committee's primary function is to assist the Board in fulfilling its legal and fiduciary obligations and responsibilities, and to enhance corporate governance. The committee is chaired by one of the non-executive directors and meets at least three times a year.

The terms of reference of Nedcom provide for the committee to consider in its deliberations matters such as
– the effective functioning of the Governor as the Chairperson of the Board;
– the effective functioning of the Governor and deputy governors;
– the effective functioning of the Bank and executive management;
– the approval of appropriate orientation, induction and education programmes for new and existing directors;
– assistance with the orientation and training of new directors;
– facilitation of its independent functioning, and maintaining an effective relationship between the Board and management of the Bank; and
– any other issues of concern to non-executive members that they wish to discuss in the absence of executive directors.

Membership, frequency and attendance of the Nedcom meetings from 1 April 2010 to 31 March 2011

| | Date of appointment | 20/05/10 | 15/07/10 | 16/11/10 | 10/02/11 |
|---|---|---|---|---|---|
| Z P Manase | 17/05/2007 | √ | √ | √ | X |
| D Konar | 17/05/2007 | √ | √ | √ | √ |
| F Jakoet | 17/05/2007 | √* | √* | X | Term expired on 9/12/2011 |
| N D Orleyn | 17/05/2007 | √ | X | √ | X |
| S M Goodson | 17/05/2007 | √ | √ | √ | √ |
| T N Mgoduso | 17/05/2007 | √ | √ | √ | √ |
| J F van der Merwe | 22/11/2007 | √ | √ | √ | √ |
| R W K Parsons | 17/05/2007 | √ | √ | X | √ Term expired on 19/03/2011 |
| F E Groepe | 17/05/2007 | √ | √ | √ | √ Term expired on 19/03/2011 |
| E Masilela | 15/05/2008 | √ | √ | √ | Resigned with effect from 1/02/2011 |
| B W Smit | 09/12/2010 | | | | √ |

* Participated by means of teleconference
x Apologised for absence

## Remuneration Committee

Remco is chaired by a non-executive director. It meets at least four times a year to review Bank-wide human resources matters, remuneration practices and policies, and the appointment of directors. In keeping with its terms of reference, Remco recommends for consideration by the Board the remuneration packages of the Governor and deputy governors, and the remuneration of, and incentives for, staff members. Executive members are recused during any discussion of executive remuneration or benefits. The executive, rather than Remco, recommends the remuneration of the non-executive directors for consideration by the Board.

The terms of reference of Remco also provide for the committee to consider in its deliberations matters such as

- the review of broad human resources strategies to ensure that the Bank has an appropriate reward structure for a knowledge-based institution;
- the review of broad human resources strategies relating to employment equity, transformation and affirmative action;
- ensuring that provisions regarding disclosure of remuneration are fulfilled for annual reporting purposes;
- the composition of the staff complement (i.e., identifying skills, gender, age, seniority and ethnicity);
- staff training and development;
- human resources philosophy and framework; and
- availing itself (in consultation with the Board) for consultation with the President of the Republic of South Africa on the appointment of the Governor and deputy governors.

Membership, frequency and attendance of the Remuneration Committee meetings from 1 April 2010 to 31 March 2011

| | Date of appointment | 20/05/10 | 27/07/10 | 16/11/10 | 10/02/11 |
|---|---|---|---|---|---|
| T N Mgoduso | 19/07/2006 Appointed Chairperson on 28/07/2010 | √ | X | √ | √ |
| N D Orleyn | 27/08/2002 Served as Chairperson until 27/07/2010 | √ | √ | √ | √ |
| G Marcus | 9/11/2009 | √ | √ | √ | √ |
| A D Mminele | 1/08/2010 | | | √ | √ |
| R D Mokate | 25/02/2010 | √ | √ | Term expired on 31/07/2010 | |
| S M Goodson | 23/11/2007 | √ | √ | √ | √ |
| R W K Parsons | 28/07/2010 | | | X | √ Term expired on 19/03/2011 |
| J F van der Merwe | 25/07/2008 | √ | √ | √ | √ |

x Apologised for absence

## Board Risk Committee

The Board Risk Committee comprises six non-executive directors, the Governor and the Senior Deputy Governor,[1] and is chaired by an independent non-executive director. The Chairperson of the Board Risk Committee serves on the Audit Committee. The Board Risk Committee oversees Bank-wide risk matters (except financial risk reporting, which remains the preserve of the Audit Committee), and assists the Board with reviewing the status of risk management, the effectiveness

1 The Deputy Governor (in this instance the Senior Deputy Governor) who serves on the Board Risk Committee is responsible for the RMCD.

of risk management activities and the mitigating measures that address key risks faced by the Bank. The committee further monitors the implementation of the risk management policy and the timely, appropriate and relevant disclosure of risk. The committee met three times during the year under review.

The terms of reference of the Board Risk Committee provide for the committee to consider in its deliberations matters such as

- reports on risk management in the Bank;
- the implementation of the risk management policy;
- ensuring that risk assessments are performed and reviewed on an ongoing basis;
- the adequacy and effectiveness of the risk management processes and reporting systems;
- the risk profile of the Bank and key risks it faces;
- the consideration and implementation of appropriate risk mitigating measures by the executive;
- the implementation by the executive of processes to identify and, as appropriate, respond to exogenous risks;
- continual risk monitoring by the executive;
- the effectiveness of the system for monitoring compliance with legislation and policies of the Bank;
- the status of the Bank's disaster recovery and business continuity plans;
- liaison with the Audit Committee to exchange information; and
- reporting to the Board on the effectiveness of the system and process of risk management.

Based on the reviews completed by the Board Risk Committee, the Board is satisfied that the Bank has an effective risk management process in place. The Board endorsed the establishment of the RMCD during the year under review, which ensures a dedicated focus on integrated and co-ordinated risk and compliance management in the Bank.

Membership, frequency and attendance of the Board Risk Committee meetings from 1 April 2010 to 31 March 2011

| | Date of appointment | 23/07/10 | 06/10/10 | 16/02/11 |
|---|---|---|---|---|
| F E Groepe | 25/02/2010 | √ | √ | √ |
| G Marcus | 25/02/2010 | √ | √ | √ |
| X P Guma | 25/02/2010 | √ | √ | √ |
| F Jakoet | 25/02/2010 | √ | √ | Term expired on 9/12/2010 |
| J F van der Merwe | 25/02/2010 | √ | X | √ |
| E Masilela | 25/02/2010 | X | √ | Resigned with effect from 1/02/2011 |
| N D Orleyn | 28/07/2010 | | X | √ |
| R W K Parsons | 28/07/2010 | | √ | X Term expired on 19/03/2011 |
| D Konar (Chairperson of the Audit Committee) | 09/12/2010 | | | √ |

x Apologised for absence

# Management structure

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

## Governors' Executive Committee

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

Front row (left to right): M Mnyande (Chief Economist and Adviser to the Governor), A D Mminele (Deputy Governor), G Marcus (Governor), X P Guma (Senior Deputy Governor)

Back row (left to right): J J Rossouw (Acting Secretary), J J de Jager, H Mathebula, L van Zyl

Insert: E M Kruger

## Monetary Policy Committee

The MPC, which operates within an inflation-targeting framework, takes decisions on the monetary policy stance through changes in the repurchase rate in pursuit of the Bank's objective of price stability. MPC members consider a wide range of data and information on recent global and domestic economic, financial market and banking-sector developments. The MPC decision on the monetary policy stance is announced at a media conference at the end of each bimonthly meeting where a full statement outlining its assessment of prevailing conditions is released. The MPC comprises the Governor as Chairperson, the deputy governors and four other executives of the Bank.

## Governor's Co-ordinating Committee

The Governor chairs the Governor's Co-ordinating Committee (GCC) and the deputy governors, the advisers to the Governor, the Head: Special Projects and heads of department serve as members of the committee. The GCC serves as a direct channel of communication between the heads of department and the executive of the Bank. The GCC meets once a month.

Front row (left to right): J J de Jager, M Mnyande, A D Mminele (Deputy Governor), G Marcus (Governor), X P Guma (Senior Deputy Governor), L van Zyl, H Mathebula

Back row (left to right): B Kahn, J J Rossouw, G R Wesso, M D Nkhabu, J Jeftha, D C Mitchell, J P van der Heever, A Ismail, R Z Nkwali, A Bezuidenhout, Z MavusoMbatha, N Ford-Hoon, S E Mazibuko

Insert: E M Kruger

## Financial Stability Committee

The FSC is responsible for formulating financial stability policy and monitoring financial stability, in support of the primary objective of the Bank. The FSC has been in existence in the Bank since August 2000. However, as a result of the recent global financial and economic crisis, the GEC reviewed the implementation of the financial stability mandate of the Bank and in August 2010 a restructured FSC was established, comprising the Governor as Chairperson, the deputy governors, all other members of the MPC and no more than seven other members, drawn from different areas of responsibility across the Bank. Members are appointed by the Governor in consultation with the deputy governors. The committee meets on alternate months to the MPC.

## Management Committee

The Management Committee (Manco) is chaired by a deputy governor, and the Head: Special Projects, the Chief Economist and Adviser to the Governor, and all heads of department serve as members of the committee. The responsibilities of Manco include

- approval of cross-cutting procedures pertaining to the internal administration of the Bank;
- approval of organisational objectives regarding the internal administration of the Bank;
- guidance in the development of new policies for the Bank; and
- assurance that the policies and administrative systems of the Bank are aligned with the best local and international practices.

## Budget Committee

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

As part of the approval and evaluation process, each head of department prepares a departmental budget which is discussed with the relevant deputy governor before being tabled at the Budget Committee. Following this process, and prior to approval, heads of department individually present and justify their budgets to the GEC. Once GEC approval is obtained, the budget – comprising the operational budget, the remuneration budget and the capital budget – is tabled at a Board meeting for approval.

The Procurement Committee is a subcommittee of the Budget Committee and fulfils an important oversight role in the governance of the procurement process. The committee is chaired by a senior official of the Bank.

## Risk Management Committee

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

## Reserves Management Committee

The primary responsibility of the Reserves Management Committee (Resmanco) is to oversee the implementation of the Gold and Foreign Exchange Reserves Investment Policy, and to facilitate the prudent investment of reserves. Resmanco, *inter alia*, determines the tranche sizes and currency composition of tranches; approves the strategic asset allocation (SAA); the allocation of the risk budget, investment guidelines, asset classes for tranches and portfolios, and recommends the appointment of external fund managers and custodians of reserves for consideration by the GEC. Resmanco is chaired by a deputy governor, comprises seven senior officials of the Bank, meets at least every second month and reports quarterly to the GEC. Two representatives of the National Treasury attend committee meetings in an observer capacity.

## Abridged *curricula vitae* of senior management

A (André) Bezuidenhout (56) was appointed as Head of RMCD on 1 December 2010. This department is responsible for co-ordinating integrated risk management throughout the South African Reserve Bank Group (SARB Group), and certain related functions. He is a member of the FSC. Since his appointment to the Bank in June 1991, he has served as CIA, Deputy Registrar of Banks and Head of the former Financial Stability Department. He holds BCompt (Hons) and BSc (Hons) degrees, an advanced Diploma in Treasury Management, and is a chartered accountant.

R (Rashad) Cassim (45) joined the Bank as Head of the Research Department on 1 March 2011. He was previously Deputy Director-General: Economic Statistics at Statistics South Africa. Before joining the statistical agency, he headed the School of Economics and Business Sciences at the University of the Witwatersrand. His expertise lies in both economic statistics and economic policy. He is part of a board of governors of an international think-tank initiative that provides research funds for research institutes in developing countries under the auspices of the International Development Research Centre, based in Canada. He holds a PhD degree in Economics.

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

N (Naidene) Ford-Hoon (43) is Head of FSD. She joined the Bank on 19 July 2010 and assumed duty as Head of Department and Chief Financial Officer of the Bank on 1 August 2010. She is responsible for financial administration, which is centralised and includes the Bank's budget, the group insurance portfolio; the Bank's procurement function; payroll; banking services, and retirement and pension fund administration. After completing her articles of clerkship, she held positions mainly in financial management, and acquired experience in structured trade and commodity finance. She holds BCom and BCompt (Hons) degrees and is a chartered accountant.

J N L (Johan) Fourie (46) has been the Executive Assistant in the Office of the Governor with responsibility as the Administrative Head of the Executive Management Department since 2002. He joined the Bank in 1999 after a career in the public service. He holds a BA (Hons) degree in Political Science.

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

M S (Saleem) Ismail (50) assumed duty as Head of BSTD in April 2004, and is responsible for the provision of information and communications technology (ICT) solutions and services, and the maintenance and support of the ICT environment of the Bank. He joined the Bank in September 1997 as Head of Payment Systems Support. He has 29 years' experience in the ICT field, 16 of which have been in management. He holds a Diploma in Datametrics and has completed a Senior Executive Programme.

J D (Jenny) Jeftha (50) joined the Bank as Head of the Human Resources Department in August 2008. She practised social work in the Western Cape for 10 years and has 20 years experience as a human resources generalist. She is responsible for managing and directing the entire value chain of human resource functions in the Bank. Her areas of expertise include transformation management, leadership, industrial relations and wellness management, and she represents the Bank at the Banking Sector Education and Training Authority (BANKSETA). She holds a Diploma in Social Work, a Master's degree in Sociology and a Diploma in Law.

S B (Brian) Kahn (57) was appointed as Adviser to the Governor in December 2009. Following his appointment to the Bank in September 1999, he first served as Head of the Monetary Policy Research Unit in the Research Department and in April 2003 he was appointed as Senior Deputy Head of the Research Department. He is a member of the MPC and the FSC. He holds BA (Hons) and Master's degrees in Economics.

E M (Errol) Kruger (53) assumed duty as Deputy Head of the Bank Supervision Department in 2001 and was appointed as Registrar of Banks on 1 November 2003. He is a member of the GEC and the FSC, and is responsible for the regulation and supervision of banks in South Africa. He joined the Bank in 1978 and previously served in the then Exchange Control and Gold and Foreign Exchange departments. He is a member of the Basel Committee and holds a BCom degree and certificates from the Institute of Bankers in South Africa. During October 2010 he received the Risk Manager of the Year Award from the Institute of Risk Management South Africa. After 34 years of service to the Bank, eight of which were as Registrar of Banks, he has decided to take early retirement, with effect from 1 August 2011.

H (Hlengani) Mathebula (44) was appointed as Head of Strategy and Communications in April 2010. He is a member of the GEC and the FSC. He has extensive experience in financial services, banking and fast-moving consumer goods. He was the Managing Executive of Absa Private Bank and CEO of First National Bank Personal Banking, and previously worked for AM International, Nestlé and Nedbank. He is a council member of the University of the Western Cape, Chairperson of the Black Business Executive Circle, Chairperson of the African Leadership Group, Chairperson of the North-West Growth Fund, non-executive director of Vuma Reputation Management and Chairperson of the Eskom Pension and Provident Fund. He holds BA and BTh (Hons) degrees, and has completed Senior Executive and Management Development programmes.

**Z (Zanele) MavusoMbatha** (40) was appointed as Head of the Financial Markets Department on 1 January 2011. She is responsible for monetary policy implementation, government funding activities, reserves management, and accounting and settlement functions. Prior to this appointment, she was Executive Assistant in the Office of the Deputy Governor. She is the former CEO and co-founder of Incwala Resources, a mining investment company, and a former Director of Abt Associates Inc., an international consultancy firm, where she played a pivotal role in establishing its regional SADC office in South Africa. Prior to this, she worked on Wall Street as an investment banker. She holds a BA in International Economics.

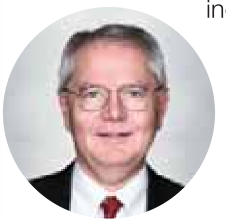
**S E (Elijah) Mazibuko** (47) joined the Bank on 1 January 2000, gained experience in various departments and became Head of the then Exchange Control Department on 1 August 2009. The name of this department was changed to the Financial Surveillance Department on 2 August 2010. He is a member of the FSC and is responsible for compliance with exchange control regulations, and the application of the exchange control system. He holds BCom (Accounting) and MBA degrees, a Diploma in Business Management, and an Advanced Diploma in Treasury and International Trade Finance. He is an associate member of the Institute of Bankers in South Africa.

**D C (Dave) Mitchell** (58) assumed duty as the Head of the National Payment System Department in June 1999. His areas of responsibility include the operation and oversight of payment and settlement systems. He is the Project Leader of the SADC Payment Systems Project. He is a member of the FSC. He started his career in the Bank in January 1972 in the then Gold and Foreign Exchange Department, but soon transferred to the information technology (IT) field where he spent most of his career before his current appointment. He holds a BCom degree, and a certificate and a diploma from the Institute of Bankers.

**M (Monde) Mnyande** (53) is Chief Economist and Adviser to the Governor. He is a member of the GEC, the MPC and the FSC, and chairs the Board of the South African Reserve Bank Captive Insurance Company Limited (SARBCIC). He formerly served as the Executive General Manager responsible for the Financial Stability, Currency and Protection Services, and Research departments. Following his appointment to the Bank in 1995, he held a number of positions in the Research Department before becoming Head of Department and Chief Economist of the Bank. He holds BA, MA (Finance), MBA, MA and PhD (Economics) degrees. He serves as a Vice-President of the Economics Society of South Africa.

**M D (Molefi) Nkhabu** (47) is the CIA and the Head of IAD of the Bank, which is primarily responsible for providing independent assurance and consulting services across the SARB Group on controls, risk and governance matters. He rejoined the Bank as CIA in May 2008 after serving as an Assistant General Manager in the IAD from 1 January 2001 to 31 January 2005. He is a chartered accountant, holds a Master's degree in Financial Management and has completed a Senior Executive Programme. He is a member of both the Audit Committee Working Group and the Corporate Governance Network of the IoDSA.

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



J J (Jannie) Rossouw (55) joined the Bank in 1986 and has held various positions since then, including the position of Secretary of the Bank from 1995 to 2000. He was appointed Acting Secretary of the Bank in March 2010 and held the position to 31 March 2011.[2] He holds BCom (Hons), MBA, MCom and PhD degrees, is a member of the Suid-Afrikaanse Akademie (L.Akad.SA) and is rated a C2 researcher by the National Research Foundation.

L (Bertus) van Zyl (58), Head of Special Projects since February 2010, is a member of the GEC, the MPC and the FSC. Previously he served as Executive General Manager responsible for central services. Since joining the Bank in 1985, he has served in various positions related to financial markets and was Head of the former International Banking Department. He also served as Adviser to the previous Governor. He holds MCom (Economics) and MSc (International Banking and Financial) degrees.

G R (Gilbert) Wesso (50) assumed duty as Principal of the South African Reserve Bank College (the College) in May 2003. He is responsible for managing the learning and development programmes of the College. He promotes and initiates capacity building in central banks in the SADC region, financial institutions, tertiary education institutions and government departments. He started his central banking career in the Macro Models Unit of the Research Department on 1 April 1998. He is the Bank's representative at the Institute of Bankers and holds a Senior Teacher's Diploma, MCom (Statistics) and PhD (Econometrics) degrees.

## Branch managers as at 31 March 2011

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

| | |
|---|---|
| – Bloemfontein | M (Madeleine) Hellerle |
| – Cape Town | A R (Tony) Chamberlain |
| – Durban | C S P (Zama) Hadebe (Acting) |
| – East London | E H (Edmund) Jacob |
| – Johannesburg | B P (Pat) Loving |
| – Port Elizabeth | A (Alicia) Maharaj |
| – Pretoria North | V B M (Vusi) Dhlamini. |

2 J J Rossouw was succeeded by S L (Sheenagh) Reynolds as Secretary of the Bank on 1 April 2011.

# Report on monetary policy

## Introduction

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

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

While the inflation target is set by government after consultation with the Bank, the Bank has full operational autonomy in the conduct of monetary policy. The Bank, therefore, has independence as to the choice and setting of monetary policy instruments. In practice, setting the level of the repurchase (repo) rate is the Bank's most important policy instrument. The MPC is responsible for monetary policy decisions, which are taken on the basis of consensus. Monetary policy decisions are taken with due regard to growth and employment, financial stability and exchange rate considerations as part of a flexible approach to inflation targeting.

## Overview of monetary policy

Despite global growth having resumed by the second half of 2009, a number of vulnerabilities have continued to characterise the global economy during the review period. The subdued growth performance and slow recovery of economic growth in developed economies have resulted in a prolonged period of abnormally low global interest rates. This encouraged continued capital flows to more dynamic, higher-yielding emerging-market economies. Concerns about financial risk in some European economies have persisted, and the international prices of a range of commodities, in particular those of oil and food, have risen sharply, following natural disasters that impacted on production in a number of countries and political upheavals in North Africa and the Middle East.

Domestically, gross domestic product (GDP) growth has remained below potential and growth has been relatively slow compared with that of South Africa's emerging-market peers. At the same time, domestic inflation moderated to lower-than-expected levels in 2010, partly as a result of the sustained strength in the rand exchange rate. Although household consumption expenditure showed signs of recovery, it continued to be adversely affected by high levels of household indebtedness, continued job losses and low levels of credit extension. These conditions created sufficient space for monetary policy to provide additional stimulus to the recovery of the economy, while remaining consistent with the continued attainment of the inflation target. The repo rate was reduced by 50 basis points in September and again in November 2010, to its current level of 5,5 per cent per annum.

At the May 2010 meeting of the MPC the repo rate was left unchanged, as the risks from global economic and financial market developments continued to weigh on the incipient recovery against the background of a benign inflation outlook. By the time of the meeting, the global growth outlook had improved. The *World Economic Outlook* published by the IMF projected in April that global growth would average 4,2 per cent in 2010, compared with the 3,1 per cent forecast in October 2009. Domestic economic growth prospects had also improved, and the domestic inflation outlook remained favourable. The Bank's forecast was for headline CPI inflation to reach a low point in the third quarter of 2010, averaging 4,7 per cent, before increasing moderately to reach 5,3 per cent at the end of 2012.

However, the risks to the global growth outlook were viewed as having changed for the worse. Uncertainty about the sustainability of fiscal deficits in a number of euro area countries, and the reaction of the financial markets to this despite the combined efforts of the European Central Bank, European governments, and the IMF to reassure the markets, rekindled fears of contagion effects from the sovereign debt crisis impacting negatively on the global recovery.

Domestically, employment trends appeared to be lagging the recovery. The *Quarterly Labour Force Survey* published by Statistics South Africa and released ahead of the May MPC meeting reported that employment had contracted by 171 000 jobs in the first quarter of 2010. The MPC also noted a concern over the level of wage increases in the economy. Although the average wage settlement rate reported by Andrew Levy Employment Publications in the first quarter of 2010 had moderated to 8,4 per cent, compared with the rate of 9,3 per cent measured in 2009, the MPC noted that a number of wage settlements were at significantly higher levels.

The assessment of the MPC at the May meeting was that it was appropriate to maintain the repurchase rate at 6,5 per cent per annum. The economy was expected to continue to recover and inflation was viewed as likely to remain within the inflation target range over the forecast period. The risks to the inflation forecast were seen to be more evenly balanced than at the previous MPC meeting, with developments in the global economy and in administered prices being particularly important factors.

By the time of the **July 2010** MPC meeting the immediate liquidity concerns relating to the sovereign debt crisis appeared to have abated somewhat, although longer-term solvency risks and uncertainties remained. Growth in a number of advanced economies appeared to be losing momentum, and planned fiscal consolidation and austerity programmes in a number of countries were expected to lead to persistently low growth going forward. Global inflationary pressures were expected to remain subdued and were not seen to pose a risk to the domestic inflation environment.

In the domestic economy, household consumption expenditure grew at a higher-than-expected annualised rate of 5,7 per cent in the first quarter of 2010, and this trend was expected to continue in the second quarter of the year. The inflation forecast presented at the July MPC meeting was relatively unchanged from that presented at the May meeting, with inflation projected to remain within the target range until the end of the forecast period in the final quarter of 2012.

The MPC noted the contribution of the exchange rate of the rand to the favourable inflation outlook. The currency had traded in a range between R7,20 to R7,60 against the United States (US) dollar before the meeting, although it had briefly depreciated beyond this range following the uncertainty in the global financial markets in May. The MPC stated that it was very aware of the impact of both the level and volatility of the exchange rate on the economy, particularly on the manufacturing, export and import-competing sectors, and that it was ready to continue to play its part, in a considered manner, such as by way of increased foreign-exchange purchases when conditions permit. However, it noted that the rand exchange rate was influenced by a number of exogenous factors, that it was difficult to define with precision the degree of over- or undervaluation of an exchange rate, and that it was important not to underestimate how difficult and costly it was to achieve a particular range for the currency.

The MPC also noted that inflation expectations had remained relatively elevated, despite favourable developments in the inflation outlook. The survey of inflation expectations conducted by the BER during the second quarter of 2010 reported that average inflation expectations had declined by a mere 0,2 percentage points to 6,3 per cent for 2010 and 6,5 per cent for 2011, and had remained unchanged at 6,8 per cent for 2012.

Following its deliberations at the July 2010 meeting, the MPC decided to keep the repo rate unchanged at 6,5 per cent per annum. The MPC assessed the risks to the inflation outlook as being evenly balanced, stating that it was aware of the fragilities and vulnerabilities in the domestic economy, driven in part by global uncertainties and the upside risks emanating from cost–push pressures, notably wage settlements and administered price increases.

By the time the MPC met in **September 2010**, the domestic inflation outlook had improved sufficiently for monetary policy to provide additional stimulus to the somewhat fragile domestic economic recovery. Further appreciation of the rand exchange rate and the relatively weak domestic demand conditions resulted in domestic inflation moderating to 3,7 per cent in July 2010 from 4,6 per cent in May. The output gap remained negative, and the economy had recorded lower growth than the market had expected in the second quarter of the year. Although household consumption expenditure had shown some signs of recovery, it continued to be affected by high levels of household indebtedness and unemployment. Inflation expectations in the financial markets had also improved, and the Bank's inflation forecast had been revised downwards, with CPI inflation now expected to average 3,7 per cent in the third quarter of 2010, rising to 4,8 per cent in 2011 and 5,2 per cent in the final quarter of 2012.

The recovery of the domestic economy continued to be viewed as being vulnerable to the uncertain global environment. Although fears of a reversion to recession in the advanced economies had diminished, the downside risks remained high. In the course of the year forecasts of global growth had generally been downgraded in the wake of the European sovereign debt crisis, high rates of unemployment in the US and the euro area, and weak demand in many of the advanced economies. As this low-growth outlook meant that the inflationary pressures emanating from the advanced economies were likely to remain benign, these international developments also implied that the abnormally low policy rates in a number of the advanced economies were likely to remain in place for an extended period of time, which had implications for the exchange rate of the rand. The appreciating trend of the rand exchange rate, which had been sustained despite further accumulation of foreign-exchange reserves by the Bank, continued to be viewed by the MPC as the main downside risk to the inflation outlook. The main upside risk to inflation was viewed as being from wage settlements in excess of inflation.

The assessment of the MPC at the September 2010 meeting was that the improved inflation outlook created sufficient space for monetary policy to provide additional stimulus to the domestic economy. The MPC viewed this action to be consistent with the continued attainment of the inflation target, having given due regard to the risks to the outlook. The repo rate was accordingly reduced by 50 basis points to 6,0 per cent per annum.

At the November 2010 meeting, the view of the MPC was that the outlook for domestic inflation had continued to improve, supported by sustained strength in the exchange rate of the rand and the continued adverse domestic output gap. The headline CPI inflation rate had declined to 3,2 per cent in September 2010, compared with 3,5 per cent in August, and the lower-than-expected inflation outcomes had contributed to a further downward adjustment in the Bank's inflation forecast throughout the forecast period to the end of 2012. Targeted CPI inflation was expected to average 4,3 per cent in 2010 and 2011, and to increase to 4,8 per cent in 2012. While it was noted that a number of cost–push factors were beginning to pose some upside risk to domestic inflation, the overall risks to the inflation outlook were assessed to be evenly balanced.

Internationally, persistently low growth, additional quantitative easing in the US and renewed concerns about the solvency of some euro area countries were expected to prolong the environment of low global interest rates. The MPC remarked on the significant risks to financial stability emanating from these developments in the advanced economies, noting that if the problems in the euro area were not resolved in an orderly manner, there were risks of a sudden reversal of capital flows to emerging markets. By contrast, it was also noted that growth in the emerging markets had remained buoyant and that, in some instances, monetary policy had been tightened in response to increased demand pressures. The strong growth in Asia, and in China in particular, had underpinned commodity prices, which contributed to inflation pressures in these countries. However, despite the higher commodity prices, global inflationary pressures were viewed as relatively benign.

The MPC emphasised that the focus of monetary policy, notwithstanding any immediate impact or influence, was on the situation that might exist 12 to 18 months hence, and argued that although monetary policy could not determine the long-term growth path of the economy, it could impact on cyclical deviations of output from potential output. Having taken cognisance of the weakness in the supply side of the economy, the improved longer-term inflation outlook and the risks to the outlook, the MPC decided to reduce the repurchase rate by 50 basis points to 5,5 per cent per annum.

At the **January 2011** MPC meeting, it was noted that there had been more convincing signs that the recovery in the global economy would be sustained, but that growth in the advanced economies was expected to remain at lower levels and subject to a number of downside risks, including those emanating from the sovereign debt crisis that continued to beset the euro area. However, the more promising global growth outlook and the unfavourable weather conditions had implications for commodity prices, particularly those of food and energy, which were viewed as likely to pose an increasing risk to both the global and domestic inflation outlook. The price of Brent crude oil, which had fluctuated in the range of US$70 to US$80 per barrel for much of 2010, began to increase in late November 2010 and was around US$98 per barrel at the time of the January MPC meeting. The domestic petrol price, despite being cushioned to some extent by exchange rate developments, had increased by 66 cents per litre since September 2010.

The domestic inflation rate was nevertheless expected to remain within the target range over the entire forecast period to the end of 2012. Mainly owing to revised assumptions regarding the international oil price, the Bank's inflation forecast had been revised upwards since the previous MPC meeting in November 2010. CPI inflation was now expected to average 4,6 per cent in 2011 and 5,3 per cent in 2012. The MPC also noted that domestic GDP growth had remained subdued, with growth of 2,6 per cent in the third quarter of 2010, although forecasts for 2011 had generally been subject to moderate upward revision. The Bank's forecast had been adjusted marginally, and growth was now expected to average 3,4 per cent in 2011 and 3,6 per cent in 2012.

It was noted at this time that during 2010 total direct foreign-exchange reserve accumulation by the Bank and the National Treasury amounted to US$7,4 billion, reflecting an expenditure of just over R53 billion. Despite this, the rand continued to strengthen, appreciating by 12 per cent against the US dollar during 2010. Portfolio and foreign direct investment inflows had continued, and the net purchases of bonds and equities by non-residents had amounted to R89,5 billion in 2010. The Bank confirmed that it would continue to accumulate foreign-exchange reserves as and when possible.

The decision of the MPC at the January 2011 meeting was that it was appropriate to maintain the repo rate at 5,5 per cent per annum. The MPC argued that there were no signs of incipient excess demand in the economy, and that the monetary policy stance could be expected to remain relatively stable for some time, unless there were significant unexpected changes in the global or domestic outlook.

At the **March 2011** MPC meeting, the global recovery was viewed as having remained on track, but note was taken of the near-term moderating influence on growth of the unresolved European sovereign debt crisis, rising international oil prices (partly a result of geopolitical events), and the tragic events in Japan. The global inflation outlook had also deteriorated in the face of higher oil and food prices. In some of the faster-growing emerging-market economies, where inflation pressures were more pronounced, monetary policy tightening had become more widespread.

The domestic growth prognosis had improved, although there were no discernible inflationary pressures from the demand side of the economy. Real GDP grew by 2,8 per cent in 2010, and at an annualised rate of 4,4 per cent in the fourth quarter of the year. The GDP forecast of the Bank had increased since the previous MPC meeting in January, with GDP growth expected to average 3,7 per cent in 2011 and 3,9 per cent in 2012. These growth rates were judged to be too low to have a significant impact on the unemployment rate, which measured 24,0 per cent in the fourth quarter of 2010. A number of high-frequency indicators were interpreted as suggesting that the growth momentum would be sustained.

The upside risks to the outlook for domestic inflation had increased, mainly as a result of cost–push pressures. The headline CPI inflation rate measured 3,7 per cent in February, and CPI inflation excluding food and petrol was 3,4 per cent. The trajectory of the CPI forecast of the Bank had changed since the previous MPC meeting, mainly due to revised assumptions regarding the international oil price, but inflation was still expected to remain within the target range over the entire forecast period. Inflation was now expected to average 4,7 per cent in 2011 and 5,7 per cent in 2012. The survey conducted by Reuters also reflected a moderate upward adjustment in inflation forecasts, as did the expectations obtained from break-even inflation rates. Inflation expectations from the survey conducted by the BER in the first quarter of 2011 indicated a slight deterioration in the expectations of financial analysts, but reported some improvement in the expectations of business executives and trade unionists.

The biggest risks to the inflation outlook at the March MPC meeting remained food and administered prices, in particular oil prices. International oil prices had already accelerated in the latter part of 2010 in response to strong global demand and this upward trend had been reinforced by the geopolitical events in North Africa and the Middle East, which had raised concerns about the security of oil supplies. Since the January 2011 MPC meeting, Brent crude oil prices had increased by almost US$20 per barrel and domestic petrol prices had increased by just under R1 per litre, with a further upward adjustment of 54 cents per litre in April 2011. By contrast, there were indications that high real wage settlements, which had been a significant upside risk to the inflation outlook, might be moderating. According to Andrew Levy Employment Publications, the overall average wage settlement rate in collective bargaining agreements amounted to 8,2 per cent in 2010, compared with a rate of 9,3 per cent in 2009. Similarly, the downward trend in year-on-year growth in unit labour costs had continued into the fourth quarter of 2010, when it measured 7,7 per cent, compared with 9,3 per cent in the previous quarter.

The strong capital inflows to emerging markets that were a feature of most of 2010 had also slowed down and, in some instances, reversed. South Africa had experienced net sales of bonds since November, and by the time of the March 2011 MPC meeting net sales of bonds and equities by non-residents amounted to R19,2 billion. Despite these net sales and the continued purchase of foreign exchange by the Bank, the rand exchange rate remained firm but volatile.

The MPC decision at the March 2011 meeting was to keep the repo rate unchanged at 5,5 per cent per annum. The MPC was of the view that the risks to the inflation outlook were on the upside, but that these risks and underlying pressures were mainly of a cost–push nature. It stated that it would closely monitor any indications of second round effects on inflation emanating from these cost pressures.

# Operational review

## Introduction

As the central bank of the Republic of South Africa, the Bank has diverse responsibilities. The Bank's overriding objective is to achieve and maintain price stability, and in pursuit of this objective it conducts monetary policy within a flexible inflation-targeting framework. In addition to monetary policy and contributing to financial stability, the Bank is responsible for domestic money-market liquidity management, the production and issuing of notes and coin, management of gold and foreign-exchange reserves, oversight of the NPS, bank regulation and supervision and administration of exchange control measures. The Bank also provides a number of internal functions to ensure its smooth functioning. The operations related to these activities are outlined in this section of the *Annual Report*.

## Market operations

### Liquidity management

During the 2010/11 financial year, domestic money-market liquidity expanded, owing mainly to foreign-exchange purchases by the Bank. Approximately R80,8 billion was injected into the money market through foreign-exchange purchases amounting to R73,0 billion and a R7,8 billion transfer of funds from the CPD account with the Bank to CPD accounts with the commercial banks. Approximately R14,2 billion was drained from the money market as a result of a combination of increases in outstanding South African Reserve Bank (SARB) debentures and longer-term reverse repurchase transactions of R12,6 billion and R0,5 billion respectively, together with a R1,1 billion increase in cash reserves balances maintained by commercial banks with the Bank.

The increase in money-market liquidity was also partly neutralised by the transfer of the National Treasury's tax and loan account balances with commercial banks to the Bank amounting to R42,5 billion and through longer-term foreign-exchange swap transactions. The Bank began to use longer-term foreign-exchange swap transactions as from August 2010 for maturities of up to 12 months. The balance of the outstanding swaps on 31 March 2011 amounted to R28,1 billion. The use of swaps allowed the Bank to manage money-market liquidity more effectively and also created greater flexibility for reserves accumulation. Notes and coin in circulation increased by R2,5 billion, further draining liquidity.

The actual liquidity requirement of commercial banks fluctuated between R1,8 billion and R22,0 billion during the reporting period.

During August 2010, a number of refinements to the Bank's monetary policy implementation framework were introduced. These changes were intended to streamline the Bank's daily activities in the money-market and to enhance participation in the Bank's open-market operations. The broader level of participation in the SARB debenture and longer-term reverse purchase auctions, together with more banks participating in the Bank's refinancing operations, is expected to improve further the implementation of monetary policy.

### Accumulation of reserves

The official gross gold and foreign-exchange reserves increased from US$42,0 billion on 31 March 2010 to US$49,3 billion on 31 March 2011. The increase of US$7,3 billion was mainly due to foreign-exchange purchases for purposes of foreign-exchange reserve accumulation amounting to US$6,0 billion, valuation adjustments of US$2,0 billion, and the proceeds of the government's foreign bond issuance, which were deposited with the Bank, amounting to US$0,8 billion, while US$1,6 billion was used to fund foreign payments on behalf of government departments.

The international liquidity position (net reserves) also improved from US$38,3 billion to US$44,7 billion during the reporting period. This increase of US$6,4 billion reflected the change in gross reserves, which was off-set by increases of US$5,3 billion and US$4,0 billion in the government's foreign currency deposit with the Bank and in the overbought forward position[3] respectively.

Valuation adjustments refer to the change in the gross reserves arising from movements in the US dollar price of gold and fluctuations of the US dollar against other major currencies and the value of the Special Drawing Right (SDR).

In the 2010/11 financial year the Bank purchased approximately US$10,3 billion for purposes of foreign-exchange reserve accumulation. These purchases were partly reflected as an increase in the government's foreign currency deposit with the Bank (and therefore the gross reserves) and partly as an increase in the overbought forward position (and therefore the international liquidity position).

The successful strategy of reserve accumulation in recent years enabled the Bank to reduce gradually the level of borrowed reserves. At the end of June 2010, the Bank cancelled the last outstanding loan facility and had no borrowed reserves.

### Reserves management

The management of the gold and foreign-exchange reserves is guided by three main objectives, namely capital preservation, liquidity and the enhancement of returns. The Bank aims to achieve a market-related rate of return on the reserves within the constraints of a framework of approved risk parameters. While the gold and SDR holdings are managed passively, the foreign-exchange reserves are managed actively by the Bank and by six external private-sector fund managers, plus the BIS and the World Bank. The external fund management programme allows the Bank to diversify its sources of returns and enhance its internal investment capacity. The bulk of foreign-exchange reserves is managed internally within an even more restrictive risk framework than the guidelines issued to external fund managers.

A revised Investment Policy for the management of the foreign reserves was approved by the GEC in April 2010. Owing to the nature of its functions, the Bank is exposed to numerous risks. Risk management remains one of the Bank's main focus areas. Guided by the Investment Policy, investment guidelines and a rigorous risk management framework which is reviewed periodically, the foreign reserves are managed in a prudent manner. Risk exposures associated with the management of foreign-exchange reserves are continually monitored, evaluated and reported on at various levels in the Bank. The SAA, which is reviewed regularly, is compiled in accordance with the Bank's investment objectives and determines the structure of the Bank's foreign-exchange reserves with respect to the currency composition, asset allocation and interest rate risk.

During the reporting period, the Bank continued with its securities lending programme (SLP) administered by its global custody partners. In response to developments in financial markets, the Bank tightened the guidelines governing the SLP in order to reduce risk exposures.

The governance structure around reserves management comprises a three-tier structure consisting of the GEC, the Reserves Management Committee and the Financial Markets Department. During the past financial year particular emphasis was placed on enhancing the oversight role of the Reserves Management Committee through targeted interventions for capacity building purposes.

## Administration of exchange controls

Policy decisions on exchange controls vest with the Minister of Finance and the Bank is responsible for the administration of exchange controls in terms of authority delegated by him. This responsibility entails

– implementing exchange control policy and administering exchange control regulations;

3 The current forward position is an *overbought* position, which is different from the *oversold* position recorded previously when the Bank provided forward cover to the market and intervened through the forward market in an attempt to prevent the rand from depreciating too rapidly. The current overbought forward position mainly reflects the sterilisation of foreign-exchange purchases through the use of foreign-exchange swaps. On the maturity dates of these swaps, the Bank will have the option either to roll them forward or add the proceeds to the country's gross reserves.

– gathering, analysing and disseminating information on cross-border flows;
– appointing Authorised Dealers in foreign exchange with Limited Authority (ADLAs); and
– ensuring compliance by ADLAs with anti-money laundering control measures in terms of the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001) (FICA).

In his 2010 Budget Speech, the Minister of Finance announced a tax and exchange control Voluntary Disclosure Programme (VDP). The VDP provides, *inter alia*, the basis for and deals with the procedures and processes applicable to regularise exchange control contraventions. The VDP was implemented on 1 November 2010 and allows applicants to apply for regularisation of their affairs until 31 October 2011.

Furthermore, the Minister announced a project to modernise the exchange control legislation and policy. The Financial Surveillance Department of the Bank and National Treasury are in the process of preparing recommendations in this regard.

As part of the gradual liberalisation of exchange controls, the Minister of Finance announced further reforms in the 2010 *Medium Term Budget Policy Statement*, including
– the withdrawal of the 10 per cent exit levy in respect of the export of liquid assets and quoted securities from emigrants' blocked assets;
– the amendment of the foreign capital allowance for emigrants to an annual allowance of R4 million for single persons and R8 million for families;
– the amendment of the foreign capital allowance for private individuals (natural persons) resident in the Republic of South Africa from a one-off limit of R4 million to an annual limit of R4 million;
– an increase in the single discretionary allowance limit to R1 million and R200 000 per adult individual and individual under the age of 18 years respectively per calendar year; and
– an announcement that, with effect from 1 January 2011, qualifying internationally headquartered companies would be allowed to raise and deploy capital offshore without exchange control approval, but subject to registration with the Bank.

In addition to the aforementioned, the following further reforms and relaxations were announced during December 2010:

– An increase of 5 percentage points in the limit that institutional investors can invest offshore.
– The implementation of an electronic export monitoring system, replacing the requirement to submit Form F178 when goods are exported from South Africa.

## Maintaining a stable banking system

The Bank continued to focus on its responsibility to promote the soundness of the domestic banking system, and to minimise systemic risk through the effective and efficient application of international regulatory and supervisory standards. In this regard, a key objective of the Bank is to ensure that the legal framework for the regulation and supervision of banks and banking groups in South Africa remains relevant, reflects local and international market developments, and that it complies with the applicable international regulatory and supervisory standards and best practice. The Bank therefore reviews banking legislation namely, the Banks Act, 1990 (Act No. 94 of 1990), the Mutual Banks Act, 1993 (Act No. 124 of 1993), the Regulations issued in respect thereof, and other pieces of related banking legislation on an ongoing basis. The Co-operative Banks Act, 2007 (Act No. 40 of 2007) also entrusts certain responsibility in respect of the supervision and regulation of co-operative banks to the Bank.

The *International Convergence of Capital Measurement and Capital Standards: A Revised Framework* (Basel II), implemented with effect from 1 January 2008, and the continued application of the *Core Principles for Effective Banking Supervision* (Core Principles), issued by the Basel Committee, remained the cornerstones of the Bank's regulatory and supervisory framework. During 2010 these cornerstones were supplemented by Basel III, issued by the Basel Committee in December 2010.

Basel III incorporates the details of global regulatory standards on bank capital adequacy and liquidity agreed to by the governors and heads of supervision, and endorsed by the G-20 leaders at their November 2010 Seoul summit. The Basel Committee has put in place processes to ensure the rigorous and consistent global implementation of the updated Basel III framework. The standards will be phased in to enable the global banking sector to move gradually to the higher capital and liquidity standards. The Bank, as a member of the Basel Committee, has been, and will continue to be, actively involved in developing reforms that not only promote the safety and soundness of the banking system, but also support long-term economic growth.

The Bank has commenced a formal process to refine and, where necessary, amend the regulatory framework in accordance with the latest internationally agreed regulatory and supervisory best practice and standards.

Notwithstanding the above-mentioned refinement and amendment process, the Bank continues to fulfil its obligations in terms of the existing supervisory framework. This implies focusing on, *inter alia*, the internal capital adequacy assessment processes implemented by banks and thematic reviews performed in respect of disclosure, remuneration standards, liquidity risk, credit risk, market risk and operational risk. It also implies the assessment of applications by banks to use the advanced approaches to calculate their minimum capital requirements in respect of credit risk, market risk and operational risk. During the annual meetings held with the boards of directors, board subcommittees and senior management of banks, the discussions included overviews of the functioning of audit committees, risk and capital management committees, and board and senior management oversight of group activities.

In line with international developments, the Bank assessed the stress-testing frameworks implemented by banks and further refined its in-house stress-testing methodology to enable effective assessment of the banking industry's stress-testing frameworks. Furthermore, the Bank performed compliance-based and prudential supervision in respect of the banking sector, which included a detailed analysis of statutory financial data submitted by banks, as part of the business-as-usual processes.

The IMF conducted a detailed assessment of the Bank's compliance with the Core Principles . The reports based on the review, namely *South Africa: Detailed Assessment of Compliance with the Basel Core Principles for Effective Banking Supervision* (Country Report No. 10/353) *and South Africa: Report on the Observance of Standards and Codes on Banking Supervision, Insurance Supervision, and Securities Regulation* (Country Report No. 10/352) were issued on 8 December 2010. Issues identified in the reports were not material in nature, and will be considered by the Bank in its ongoing enhancement of the regulatory and supervisory framework in South Africa.

The Bank, in co-operation with the Financial Action Task Force, the Financial Intelligence Centre and the banking industry, focuses on compliance of the industry with anti-money laundering and the combating of terrorism-financing legislation, and initiated and/or continued investigations in respect of various alleged illegal deposit-taking schemes.

The Bank participates and provides input to various international regulatory and supervisory subcommittees of the Basel Committee such as the Standards Implementation Group on Validation, the Standards Implementation Group on Operational Risk, the Trading Book Group, the Capital Monitoring Group and the Quantitative Impact Study Working Group. On the domestic front, the Bank was also represented and contributed in various forums and working groups such as the Structural Funding Working Group, the Solvency II Insurance Task Group and the Financial Sector Contingency Forum.

## Financial regulatory reform

In February 2011 the National Treasury released a policy paper entitled *A safer financial sector to serve South Africa better* on proposed reforms to the financial regulatory structure in South Africa. The policy document sets out five key proposals, emphasising financial stability, consumer protection and financial inclusion. The main proposal is to introduce a "twin peak" regulatory structure for South Africa by separating prudential and market conduct regulation of financial institutions.

To give effect to these regulatory reforms, careful planning will be required from the Bank and other role-players to ensure sound, effective and independent regulation. There is ongoing interaction with the National Treasury to take this process forward and the Bank will engage constructively with the National Treasury on these proposals.

## Financial stability

In a letter to the Governor dated 16 February 2010, the Minister of Finance reaffirmed the Bank's key role in overseeing and maintaining financial stability. Financial stability is generally not regarded as the sole responsibility of central banks, but a shared responsibility for which the central bank is in the best position to take a lead role. Maintaining financial stability has therefore become a core function of the Bank. To strengthen the effectiveness of this task, the Bank has elevated the role of the FSC, as is reported in the section on the structure of the FSC on page 19 of this report.

The *Financial Stability Review* continues to be published twice a year, and systemic and financial stability matters are now addressed Bank-wide, rather than primarily through the work of a specialised department with the co-ordination function carried out by the Macroprudential Supervision Unit which was established in the Bank Supervision Department.

Considerable work remains to be done to build a greater understanding of macroprudential matters and the tools available, and the relationship between macro- and micro-prudential oversight and implementation. While there is general agreement in global forums of the need for macroprudential supervision and oversight, there is less agreement as to the appropriate tools and governance structures. The relationship between macroprudential policy and monetary policy also needs to be clarified. The emerging consensus appears to be that interest rates should not be used as the main macroprudential tool, as this may result in conflicts with monetary policy. The view, which is in line with the thinking in the Bank, is that interest rate policy should remain within the domain of monetary policy, while alternative tools should be used for macroprudential purposes. These tools may include adjustments in reserve requirements, loan-to-value ratios and contracyclical capital requirements for banks. The Bank is engaging in these discussions, but it is clear that the efficacy of these policies and modalities of operating will be country-specific and dependent on the nature and structure of the domestic financial markets and banking system. Intensive research is being undertaken by the Bank into these issues.

## Developing and maintaining the payment system

A high standard was maintained in the provision of interbank settlement services in the South African Multiple Option Settlement (SAMOS) system during the review period. The project to upgrade the settlement infrastructure is under way and planned for implementation during the second half of 2011. Some of the envisaged benefits from this project relate to enhancing operational risk management in terms of moving away from infrastructure that requires scarce specialised skills.

In its payment system oversight role, the Bank has continued to interact with the clearing and settlement banks and Payment Clearing House operators, but has placed a specific focus on the role of non-bank operators and third-party service providers during the review period. Visits have been paid to the highest volume and the highest value operators in the system to assess their compliance with directives.

The Bank has also been dealing with certain issues arising from the recommendations of the *Banking Enquiry Report* as they relate to interchange and access to the NPS. Following intensive consultation between the Bank, the National Treasury, the Competition Commission and the Department of Trade and Industry, the Bank put forward proposals to facilitate a process to review interchange rates in the various payment streams in South Africa. Recommendations relating to access to the payment system contained in the report have largely been dealt with by the Bank in terms of the *NPS Framework and Strategy Document* (Vision 2010) strategies that have been implemented over the past few years, including the period of the enquiry. A position paper is being finalised for publication.

During the review period, the Bank provided comprehensive information on the payment system. From a domestic perspective, statistical information on the NPS was published. South Africa also provided extensive information for, and participated in, a BIS publication, *Statistics on payment* *and settlement systems in selected countries* (BIS Redbook). This publication covers payment system statistics for Committee on Payment and Settlement Systems (CPSS) (G-20) countries.

The Bank issued a position paper on interoperability. This paper outlines the Bank's stance to ensure interoperability of the payment system infrastructure over the longer term.

The Bank's NPS Vision 2010 was published in 2006, and entailed the vision and strategies for the NPS until 2010. The Bank has concluded an extensive consultation process with payment system participants, including banks, non-banks, credit card associations, and retail and other stakeholders, with the objective of developing a new NPS framework and strategy document. The new NPS Vision 2015 will be published during the 2011/12 financial year.

On the regional front, the SADC project team continues to work on a model for integration of the payment system in the region in terms of the SADC integration plan. A model system for implementation in the Common Monetary Area (CMA), as a platform for the SADC process, has been proposed and received support from the CMA governors at their November 2010 meeting.

The Bank also continued its active participation in the activities of the BIS CPSS and the foreign-exchange Continuous Linked Settlement (CLS) system oversight group.

## Maintaining the integrity and supply of currency

The average value of banknotes in circulation for the review period increased by 6,41 per cent to R72,7 billion from R68,3 billion in the 2009/10 financial year. The maximum value of banknotes in circulation of R82,5 billion was reached on 20 December 2010, compared with a maximum value of R78,7 billion on 22 December 2009.

The average percentage increase in the value of banknotes in circulation is lower than the nominal GDP growth. This can be ascribed in part to the withdrawal of the pre-February 2005 R200 banknotes in circulation. Circulation of the South African currency has increased in the CMA and other SADC countries (especially Zimbabwe where it is used as official legal tender alongside the US dollar).

The average value of coin in circulation increased from R3,8 billion in 2009 to R4,1 billion in 2010. This higher-than-expected increase of 11 per cent can be ascribed to an increase in demand for South African coin in Zimbabwe.

## Security of currency distribution

Currency counterfeiting remains a risk to the Bank and the economy in general. Concerted efforts are being made with the support of the South African Police Service to combat counterfeiting and to ensure the integrity of currency in circulation. The withdrawal from circulation of R200 banknotes printed before February 2005 was initiated in order to counter an emerging counterfeit threat to this banknote series. The communication campaign was successful in restoring the public's confidence in R200 banknotes with upgraded security features that have been printed since February 2005.

The Bank continues its interaction with the cash management industry in an open and transparent manner to improve the efficiency and effectiveness of the cash distribution system. The engagement with various stakeholders to ensure the security and efficiency of currency distribution in consultation with the 2010 South African Local Organising Committee and the banking industry for the 2010 FIFA World Cup™ soccer tournament was very successful.

In collaboration with the cash industry, the Bank is undertaking a complete review of the cash management strategy to ensure that an adequate quantity of banknotes of acceptable quality remains in circulation. Some of the key focus areas are

- assuring the quality of cash in circulation;
- establishing a Cash Advisory Board;
- ensuring timely issuing of early warning advice regarding counterfeiting to the banking industry;

- increasing interaction with the central banks in the CMA countries;
- reviewing the functioning and controls in the branch environment due to the introduction of the new Enterprise Resource Planning (ERP) in the Bank; and
- assessing risks to the effective functioning of the National Cash Management System to alleviate the high incidences of violent crime and aggravated robberies, which not only lead to the loss of human life, but also impact on the safety and efficiency of cash management in South Africa.

This review of the cash management strategy implies that the cash distribution strategy should also be reconsidered. This entails aspects such as
- movement towards a decentralised system for cash processing;
- improved forecasting and demand management;
- changes to the Notes Held to Order system;
- a review of the charges for cash management;
- improved materials handling and mechanisation for cash handling;
- completion of the Integrated Cash Management System; and
- improvement of management co-ordination with the commercial banks and the cash-in-transit (CiT) industry.

The minimum standards for cash security management have been finalised and the Minister of Police has completed the consultation process with all role-players in the CiT industry. It is expected that a governance mechanism and the mandatory implementation of these minimum standards will be introduced by way of regulations in the latter half of 2011.

## Developments in the research environment

The Bank held its biennial monetary policy conference in November 2010. The topic was "Monetary policy and financial stability in the post-crisis era". A panel of renowned international and local speakers presented papers at the conference. These papers were well received by participants from the private sector, universities, government institutions and the Bank.

In March 2011 the Bank also held a seminar on the improvement of data quality and adherence to sound practice in the compilation and dissemination of economic statistics. Local and international speakers participated in this seminar.

The Bank's suite of macroeconomic models was enhanced. A revised asset-price channel was added to the core macroeconomic model, while work proceeded on the expansion of the models to allow for more comprehensive capturing of macroprudential variables and fiscal effects.

Internal aggregate balance sheet estimates for the household sector were refined. This culminated in the publication of the ratio of net wealth to disposable income of the household sector in the September 2010 *Quarterly Bulletin*, and subsequent dissemination of this series on a quarterly basis.

The review period was also the first full year during which the Bank had compiled locational banking statistics and provided them to the BIS for publication. South Africa is now a fully-fledged provider of BIS locational banking statistics.[4]

Research activities culminated in the publishing of research papers on the Bank's Intranet, the Internet and in professional journals. Staff members attended various domestic and international conferences, and in many instances presented papers at these forums. A staff member undertook a two-month research visit to the BIS and three research fellows visited the Bank during the year under review, leading to the publishing of papers, and the conducting of workshops and public lectures as part of the Bank's programme of collaborative research.

4 BIS locational banking statistics, *inter alia*, show the overall asset and liability position of each BIS reporting country's private banking sector vis-à-vis every individual country in the world at the end of every quarter. They also report asset and liability breakdowns by major currency and show splits between bank and non-bank counterparties.

## International and regional co-operation

The Bank's active involvement in international and regional activities places considerable demands on the institution. The Bank hosts the CCBG Secretariat which provides secretarial services to the CCBG and its various subcommittees, and plays a co-ordinating role in CCBG activities. The CCBG is chaired by the Governor of the South African Reserve Bank.

The CCBG, which comprises 14 Governors, meets twice a year. The focus of such meetings includes macroeconomic developments in the region, and provides a platform for Governors from SADC to discuss global, regional and national economic developments and challenges as part of the approach to enhance regional growth and development, as well as working towards common platforms, such as payment systems and regulation and supervision.

The Bank is represented by the Governor at the meetings of the BIS, which are held every two months. The BIS also convenes meetings of central banks with banking supervision responsibility (Governors and Heads of Supervision – GHOS) to ensure ongoing discussion on banking-sector developments and regulatory reform.

Global developments resulted in the Bank participating in an increasing number of international meetings, seminars and conferences. The Bank also participated in, and provided input at, various meetings and workshops of the IMF/World Bank, the BIS and the G-20.

## Outreach Programme

The Outreach Programme facilitates two-way communication between the Bank and stakeholders in the South African economy. The programme is aimed at creating greater awareness and understanding of the role of the Bank, and the contribution of monetary policy to the broader national economic agenda.

The Outreach Programme is implemented by means of a two-pronged approach. First, the Governor hosts economic roundtable meetings which are mainly targeted at macroeconomists from government, corporations, trade unions and the markets. The central banks of the CMA are also invited to these meetings. The main aim is to share and debate views on topical economic issues. These meetings are held in alternate months to MPC meetings.

Second, the Governor hosts bilateral meetings with stakeholders from the main sectors and subsectors of the South African economy. These meetings focus on sector-specific issues within the broader macroeconomic policy framework.

Since the inception of the Outreach Programme in December 2009, the Governor has hosted a total of 34 outreach meetings with various stakeholder groupings, including eight economic roundtable meetings; 13 bilateral meetings with business chambers and organisations in agriculture, mining, manufacturing and commerce; and a further five bilateral meetings with trade union federations.

The Bank hosts biannual Monetary Policy Forums (MPFs) at the time of the publication of the biannual *Monetary Policy Review*. MPFs are hosted in all major centres and attended by a wide range of stakeholders.

## Information and communications technology support

During the year under review, the Bank's operational budget for ICT support amounted to R231 million and its capital budget for ICT projects amounted to R165 million. The Bank introduced 40 new ICT projects during the review period. A control system exists that provides reasonable assurance that the ICT activities are organised to obtain value from ICT investments. Due care is taken to mitigate ICT risks and to ensure that the ICT strategy supports the business strategy. An Information Technology Investment Committee was established to oversee value delivery from IT investments and to monitor the return on investment from significant IT projects.

The project to implement an ERP solution in the Bank delivered the final functional components before focusing on the stabilisation and closure phases. During the period under review, functionality for the Enterprise Asset Management, Service Management, Budgeting, HR Performance Management and HR Compensation Workbench systems were delivered. A number of enhancements and amendments are being made to the Banking Services system, including the automation of the end-of-day process and changes to the SAMOS system. An initiative to document the benefits realised from the ERP implementation is under consideration and an ERP Support Centre is being established to ensure ongoing maintenance of and support for the ERP solution.

Several new business systems were developed to address information requirements and a number of infrastructure projects were initiated during the year under review.

An integrated Foreign Loan system was developed to monitor foreign loans obtained by domestic third parties from Authorised Dealers, and to manage foreign currency exposure in respect of loans. The Portfolio Investment Reporting system was developed to monitor the investments made by institutional investors, such as pension funds, in order to determine the foreign investment exposure. In addition, a new VDP system was developed to record and calculate penalties on disclosures made by VDP applicants before reporting the information to the South African Revenue Service.

The Wall Street Suite (WSS) application is used for gold and foreign reserves management. The technology supporting WSS was upgraded to the latest, easily supported and readily available versions, which reduces the operational risk associated with the continued use of an in-house, custom-developed code while allowing more efficient quantification.

The revamping of the Bank's website to accommodate the growing needs of users and provide a powerful search engine was completed. A website was also created for SADC central banks to enhance the sharing of information among the various participants of the different committee structures of the CCBG.

Security monitoring has been improved through additional vulnerability management and intrusion-prevention solutions. Furthermore, existing encryption and patch management systems have been improved, and a secure electronic mail solution was implemented. This will provide greater security for business processes related to the Bank's activities.

## Infrastructural support

During the period under review the Bank, once again, focused on the creation of an enabling environment for its Head Office functions, departments and branches. In the provision of infrastructural support, care is taken to ensure compliance with all legal requirements. In improving the Bank's properties, due cognisance was taken of the heritage component of the buildings, while addressing shortcomings related to operational and energy efficiency, access for people living with disabilities and evacuation routes.

The roofs, ceilings and courtyards of the Johannesburg Branch building were repaired within budget at the beginning of June 2010.

Phase one of the alterations and additions to the East London Branch building was handed over to the Bank at the end of November 2010 and is fully operational. The new section has improved the immediate surroundings of the branch building. Phase two, the refurbishment of the existing building, was handed over to the building contractor for renovations and is scheduled for completion by July 2011.

Other projects in the construction phase are the erection of a fence around the Durban Branch building, which is scheduled for completion in June 2011, and the upgrading of the air-conditioning and fire control systems, and lift lobbies in the Bank's Cape Town tower block. This project posed major challenges because the building remained occupied by various tenants during implementation.

The design concept and preliminary budget for the proposed new Bloemfontein Branch building were approved by the Board on 22 September 2010, and the appropriate tender processes are under way.

A coffee shop opened its doors in the foyer area of the Head Office building at the beginning of February 2011. This improvement was a long-awaited benefit for staff. A project has commenced to make the dining area on the ground floor compliant with evacuation regulations.

As part of an energy and environmental efficiency initiative, the Bank is gradually upgrading water reticulation and is investigating the replacement of old and ineffective air-conditioning systems. At some branch buildings the fire-detection and evacuation systems are being replaced. The replacement of emergency backup power at most branch buildings is at an initial stage, and where appropriate lifts are being modernised and upgraded.

## Business continuity management

The disciplines of business continuity management (BCM) and occupational health and safety (OHS) compliance management have both matured to the levels of continued process improvement and enhancement. Business continuity preparations are assessed by means of scheduled and unannounced Bank-wide tests, thereby contributing towards the robustness of measures to ensure seamless continuity of the Bank's operations.

## Organisational effectiveness

The Bank recognises that the environment in which it operates has changed radically. This has necessitated a consideration of whether the organisation is optimally designed to meet the changing challenges that it faces, resulting in a comprehensive review of its structure. The process will be a consultative one with a view to enhancing efficiencies and organisational effectiveness in support of the Bank's strategy and responsibilities.

## Commemoration of the Bank's 90th Anniversary

The Bank celebrates its 90th Anniversary on 30 June 2011. This milestone will be commemorated in various ways, including the hosting of the OGM 2011 on that date, a seminar on 1 July examining the challenges facing central banks, a publication that covers a brief history of the Bank, and the issuing of a R5 commemorative circulation coin. A special logo was designed in commemoration of this important occasion in the Bank's institutional history. The logo appears on the cover of this *Annual Report*.

# Internal control

## Internal control structures

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

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

Systems are designed to ensure the safeguarding of, and control over, assets, the economical and efficient use of resources allocated, and the effective performance of all functions. The Bank subscribes to the principles embodied in the control framework developed by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Integrated Control Model.

## Internal Financial Controls

Internal Financial Controls (IFCs) constitute an important component of an overall internal control structure in the Bank and are designed and implemented to enhance the probability of providing assurance on the integrity of the Bank's financial information. The IAD is charged with responsibility for conducting a formal, documented review of the design, implementation and effectiveness of the Bank's IFCs system once a year through suitable testing and report-back to the Audit Committee. This enables the Audit Committee to fulfil its responsibilities of monitoring the integrity of the Bank's financial information and comment on the effectiveness of the IFCs.

## Internal audit

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

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

The IAD subscribes to the Code of Ethics issued by the South African Institute of Internal Auditors. The Internal Audit Charter approved by the Board provides for regular independent external quality assurance reviews of the internal audit function. The most recent external quality assurance review was in November 2009 and the results were positive.

Strategic alliances are formed, where necessary, with other members of the profession in various industries in order to share matters of common interest. Moreover, staff members of the IAD participate in various international and national seminars to remain abreast of developments in the audit profession.

## Code of Ethics and Business Conduct

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

## Legal and regulatory requirements

The Bank complies with legal and regulatory requirements under which it operates. Compliance has been enhanced through research, analysis of updates from the legal fraternity, and the attendance of legal seminars, conferences and workshops.

Apart from ensuring compliance with legislation applicable to its activities, the Bank also adheres, on a voluntary basis, to numerous non-binding codes and standards applicable to its functions. Examples of such standards include the core principles on banking, insurance, payment systems and supervision; and the Special Data Dissemination Standard of the IMF.

## Risk management

### Risk management philosophy

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

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

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

### Risk management policy

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

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

### Risk management governance structure

The Board is responsible for oversight of risk management. The Board Risk Committee, a subcommittee of the Board, ensures a dedicated focus on the oversight of risk management in the Bank.

The GEC has overall executive responsibility for risk management in the Bank and is accountable to the Board for ensuring adequate risk management structures and processes. The Risk Management Committee assists the GEC in discharging its executive responsibility for risk management in the Bank.

## Risk management approach and processes

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

Four distinct risk management processes are used by the Bank for the management of strategic, financial, reputational and operational risk:

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

## Risk Management and Compliance Department

A centralised risk management co-ordination function is performed by the RMCD. The structure of this department was finalised during the review period and a head of department appointed. The role of the RMCD is to facilitate risk management ownership by management; to provide a standardised strategic and operational risk management methodology and process; to validate that the risk management processes are adequate and effective and comply with internationally accepted risk management standards; and to ensure standardised and integrated reporting on all risk management activities and exposures to the GEC via the Risk Management Committee, and to the Board Risk Committee.

The RMCD is also responsible for the co-ordination and facilitation of specialised operational risk management processes, including business continuity, occupational health and safety, and compliance risk.

# Human resources

The Bank recognises that it fulfils its objectives through its employees. It is therefore critical to ensure that the Bank attracts, develops and retains the requisite skills and competencies, and that it remains an employer of choice for current and future employees. The Bank's talent management strategy needs to be a dynamic one, meeting the skills required to be effective and perform its role efficiently.

The Bank provides a wide range of appropriate training and skills development interventions, learnerships, internships and a very successful cadet graduate programme which, together, reinforce a culture of learning, professionalism and continuous growth. The Bank's career management structure is changing from that of a traditional managerial one to a multiple career approach, which will provide career opportunities for specialists, managers and professionals in their respective fields. Coupled with a vibrant performance management process and appropriate recognition and rewards, the Bank strives to create an environment which ensures that all employees have a clear understanding of the link between their development, performance and career progression.

The Bank values its relationship with SASBO (the Finance Union) and the Employment Equity Consultative Body (EECB), and attempts to engage constructively by consulting on relevant human resources policies and practices. The Bank ensures that consultation on employment equity matters is directed at bringing about meaningful organisational transformation.

Highlights during the reporting period include the successful implementation of the Bank's first-ever Women's Leadership Development Programme, the launch of a wellness centre, and a new wellness brand that provides a holistic and integrated employee wellness service. The Bank also implemented the ERP Performance Management and Compensation Workbench processes; a new Governor's award and employee recognition scheme; the effective integration of new employees through improved recruitment processes and an on-boarding and buddy system; competency profiling of all jobs in the Bank; improved effectiveness in respect of employee relations (ER) matters; and the development of the Bank's third Employment Equity Plan (EE Plan).

## Appointments and termination of service

At the start of the 2010/11 financial year, the Bank had a total permanent staff complement of 2 033, which increased to 2 101 by the end of 31 March 2011, excluding the Governor and deputy governors. The movement in staff is set out in Table 1.

Table 1: Total staff turnover from 1 April 2010 to 31 March 2011

| Staff turnover | Number |
|---|---|
| Staff complement on 1 April 2010 | 2 033 |
| New appointments | 165 |
| Terminations | -96 |
| Employees placed on medical disability | -1 |
| Staff complement on 31 March 2011 | 2 101 |

The overall staff turnover rate for the period was 4,67 per cent, compared with a turnover rate of 3,36 per cent in the previous financial year. The increased in turnover, as shown in Table 2, partly reflected the implementation of a voluntary separation programme. The reasons furnished for termination of service during the review period are highlighted in Table 2. The nature of the Bank's business provides a secure and stable environment for employees, which, together with the difficult economic conditions, might explain the relatively low staff turnover rate.

Table 2: Reasons for termination of service from 1 April 2010 to 31 March 2011

| Reason | Number |
|---|---|
| Better prospects and remuneration | 37 |
| Deceased | 3 |
| Dismissal | 5 |
| Emigration | 3 |
| Full-time studies | 1 |
| Mutual separation emanating from disciplinary procedures | 1 |
| Personal reasons | 4 |
| Relocation | 2 |
| Retirement | 12 |
| Retirement (early retirement due to ill health) | 1 |
| Retirement (enhanced early retirement – 5 years) | 9 |
| Retirement (voluntary early retirement) | 6 |
| Voluntary separation (termination in terms of competency to work programme) | 12 |
| Total | 96 |

## Staffing

The staffing of the different departments of the Bank is reported in Table 3. This table shows that more than 40 per cent of staff members have responsibility for currency distribution and related protection services.

Table 3: Staff complement by department as at 31 March 2011

| Department | Permanent staff | Contract workers | Total |
|---|---|---|---|
| Executive Management | 50 | 1 | 51 |
| Bank Supervision | 123 | 0 | 123 |
| Business Systems and Technology | 176 | 22 | 198 |
| Corporate Services | 204 | 7 | 211 |
| Currency and Protection Services (including branches) | 854 | 61 | 915 |
| Financial Markets | 116 | 1 | 117 |
| Financial Services | 80 | 1 | 81 |
| Financial Surveillance | 157 | 2 | 159 |
| Human Resources | 64 | 5 | 69 |
| Internal Audit | 51 | 0 | 51 |
| Legal Services | 29 | 1 | 30 |
| National Payment System | 28 | 0 | 28 |
| Research | 148 | 2 | 150 |
| Risk Management and Compliance | 11 | 0 | 11 |
| SARB College | 10 | 11 | 21 |
| Total staff complement | 2 101 | 114 | 2 215 |

The Bank continues to display its commitment to raising awareness of, and addressing issues related to, people living with disabilities. People living with disabilities constituted 1,7 per cent of the Bank's permanent workforce as at 31 March 2011.

Table 4: Breakdown per broad band: Profile of staff with disabilities as at 31 March 2011

| | Male | | | | Female | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Department | African | Coloured | Indian | White | African | Coloured | Indian | White | Total |
| General Management (GM) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Senior Professional and Management (SPM) | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 1 | 3 |
| Professional and Vocational Management (PVM) | 0 | 0 | 0 | 4 | 0 | 0 | 0 | 1 | 5 |
| Junior Professional and Supervisory (JPS) | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 3 | 5 |
| Trainee Professional and Clerical (TPC) | 6 | 0 | 1 | 1 | 2 | 0 | 1 | 8 | 19 |
| General Worker (GW) | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 |
| Total permanent | 8 | 0 | 1 | 9 | 2 | 0 | 1 | 13 | 34 |
| Contract workers | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total | 8 | 0 | 1 | 9 | 2 | 0 | 1 | 13 | 34 |

# Employment equity

Table 5: Breakdown per broad band: Racial employment equity representation

| Broad band | Actual 31 March 2010 | Actual 31 March 2011 | 2011 Bank target |
|---|---|---|---|
| | Per cent | Per cent | Per cent |
| General Management (GM) | 50 | 51 | 50 |
| Senior Professional and Management (SPM) | 42 | 45 | 50 |
| Professional and Vocational Management (PVM) | 50 | 49 | 50 |
| Junior Professional and Supervisory (JPS) | 54 | 57 | 50 |
| Trainee Professional and Clerical (TPC) | 74 | 77 | 50 |
| General Worker (GW) | 93 | 92 | 50 |
| Total | 62 | 63 | 50 |

Table 6: Breakdown per broad band: Female representation

| Broad band | Actual 31 March 2010 Per cent | Actual 31 March 2011 Per cent | 2011 Bank target Per cent |
|---|---|---|---|
| General Management (GM) | 24 | 28 | 50 |
| Senior Professional and Management (SPM) | 34 | 37 | 50 |
| Professional and Vocational Management (PVM) | 50 | 50 | 50 |
| Junior Professional and Supervisory (JPS) | 59 | 61 | 50 |
| Trainee Professional and Clerical (TPC) | 48 | 47 | 50 |
| General Worker (GW) | 38 | 40 | 50 |
| **Total** | **48** | **49** | **50** |

The details of racial and gender equity representation are provided in Table 7.

Table 7: Breakdown per broad band: Gender and race profile as at 31 March 2011

| | Male | | | | Female | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Department | African | Coloured | Indian | White | African | Coloured | Indian | White | Total |
| General Management (GM) | 29 | 3 | 11 | 49 | 15 | 6 | 1 | 13 | 127 |
| Senior Professional and Management (SPM) | 34 | 9 | 9 | 77 | 31 | 2 | 7 | 36 | 205 |
| Professional and Vocational Management (PVM) | 67 | 12 | 13 | 102 | 72 | 14 | 14 | 97 | 391 |
| Junior Professional and Supervisory (JPS) | 115 | 27 | 11 | 66 | 114 | 33 | 17 | 171 | 554 |
| Trainee Professional and Clerical (TPC) | 225 | 47 | 14 | 51 | 156 | 42 | 14 | 92 | 641 |
| General worker (GW) | 89 | 8 | 2 | 11 | 62 | 7 | 0 | 4 | 183 |
| **Total permanent** | **559** | **106** | **60** | **356** | **450** | **104** | **53** | **413** | **2 101** |
| Contract workers | 62 | 6 | 1 | 11 | 22 | 2 | 4 | 6 | 114 |
| **Total** | **621** | **112** | **61** | **367** | **472** | **106** | **57** | **419** | **2 215** |

In October 2010 the Bank submitted its *Tenth Annual Report on Employment Equity* to the Department of Labour (DoL), covering the period 1 April 2009 to 31 March 2010. The report reflects the Bank's achievements over a period of ten years. The Bank's report, once again, highlights the absence of barriers to employment equity during the year and shows that there was overall racial employment equity progress, with black employees accounting for 63 per cent of the Bank's total workforce (Table 3).

The Bank's current EE Plan ended on 31 March 2011. An analysis of the Bank's progress with its second EE Plan is shown in tables 3 and 4. An employment equity pulse survey was conducted throughout the Bank to assess employees' attitudes to the implementation of the Bank's EE Plan, and the progress the Bank had made in this regard since 2000. The findings of this survey have informed the drafting of the third EE Plan and will also feed into the transformation agenda of the Bank for the next few years.

The Bank's third EE Plan, which became effective from 1 April 2011 and covers the period until 31 March 2014, was submitted to the DoL. The compilation and finalisation of the third EE Plan were undertaken in consultation with the employment equity consultative structure comprising the Management Steering Committee (MSC) and the EECB. The consultation took into account the guidelines of the DoL's Code of Good Practice. One of the key focus areas for the Bank's third EE Plan is the intention to increase gradually the number of designated groups at senior levels. Tables 8 and 9 highlight the salient features of the EE Plan.

Table 8: Annual employment equity targets for 2012 to 2014

| Occupational level | Race and gender | Current | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| | | Per cent | Per cent | Per cent | Per cent |
| Top management | Black | 50,8 | 53,4 | 54,2 | 55,6 |
| | Female | 26,3 | 27,8 | 28,2 | 27,8 |
| | Black female | 17,8 | 18,8 | 19,1 | 19,0 |
| Senior management | Black | 43,7 | 45,6 | 45,8 | 46,3 |
| | Female | 36,4 | 37,8 | 37,5 | 37,9 |
| | Black female | 19,4 | 21,2 | 21,3 | 21,5 |
| Professionally qualified | Black | 48,5 | 50,4 | 50,6 | 50,8 |
| | Female | 50,3 | 51,1 | 51,3 | 51,1 |
| | Black female | 25,5 | 26,5 | 26,8 | 27,0 |
| Skilled technical | Black | 57,0 | 59,8 | 59,9 | 60,6 |
| | Female | 60,8 | 59,3 | 59,6 | 59,4 |
| | Black female | 29,6 | 30,3 | 30,6 | 30,9 |
| Semi-skilled | Black | 78,0 | 78,4 | 78,4 | 78,6 |
| | Female | 45,0 | 45,1 | 45,1 | 45,1 |
| | Black female | 31,3 | 31,6 | 31,6 | 31,7 |
| Unskilled | Black | 91,4 | 90,9 | 91,1 | 91,2 |
| | Female | 39,6 | 40,6 | 40,8 | 40,9 |
| | Black female | 36,9 | 37,4 | 37,7 | 37,8 |
| **Total** | **Black** | **63,6** | **64,6** | **64,9** | **65,4** |
| | **Female** | **47,7** | **47,9** | **48,0** | **48,0** |
| | **Black female** | **28,4** | **29,0** | **29,2** | **29,5** |

The percentages for employees with disabilities according to race and gender in Table 9 indicate the current and targeted profile of employees with disabilities as a percentage of the total number of employees with disabilities.

Table 9: Current and targeted profile of employees with disabilities

| | Race and gender | Current | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| | | Per cent | Per cent | Per cent | Per cent |
| Of people with disabilities | Black | 34,3 | 43,9 | 51,1 | 56,6 |
| | Female | 45,7 | 46,3 | 46,8 | 47,2 |
| | Black female | 8,6 | 14,6 | 19,1 | 22,6 |
| Of total staff complement | | 1,7 | 1,8 | 2,1 | 2,3 |

# Staff education, training, support and development

## Promoting and accelerating quality training for all in the workplace

During the 2010/11 financial year, the Bank's expenditure on staff training was R26,1 million (R18,7 million for local training and R7,4 million for foreign training) in respect of 1 190 employees of which 108 attended international training.

## Ensuring compliance with learning and development legislation

The *Workplace Skills Plan* for the period 2010/11 and *Annual Training Report* for 2009/10 were compiled and submitted to the BANKSETA by 30 June 2010. From this, the Bank qualified and received a mandatory grant of R4,4 million.

## Integrated learning and development strategy

An integrated learning and development strategy was developed during the 2009/10 financial year and revised during the review period. The four training units in the Bank met on a quarterly basis to report on progress, share challenges and take corrective action where necessary. Quarterly reports are compiled and submitted to management. This approach is incorporated in the newly developed human resources development strategy for the Bank.

## Educational support for dependants of staff

The Bank provides bursaries for higher education for dependants of all staff and pensioners. Bursaries were provided to 393 dependants at a cost of R9,0 million during the review period (298 dependants at a cost of R6,6 million in the previous review period). In the main, dependants are enrolled for BA, BCom and BSc degrees, and various certificate courses and national diplomas. In the 2010/11 financial year, 31 completed their studies, compared with 16 in the previous financial year.

## Wellness

During 2010, the Wellness Lifestyle Centre launched its brand and a slogan, “Be well”. Core values of compassion, care and concern, also referred to as the “3Cs”, formed part of the branding strategy. The centre initiated a Wellness Lifestyle Programme, which took the form of a wellness calendar of events that aims to raise awareness among the Bank staff about the prevention and treatment of various health conditions.

The centre also relaunched the Employee Assistance Programme (EAP) and established on-site face-to-face counselling services at all the branches. This provides all Bank employees with access to the services, and enables them to benefit from receiving prompt professional guidance and support when needed.

Targeted interventions included the destigmatisation of HIV/AIDS within the workplace and raising awareness among both male and female employees about the importance of various health assessments.

The Wellness Lifestyle Centre functions as a fully integrated wellness care centre where a team of health professionals provides a holistic approach to addressing wellness issues in the workplace.

## Cadet Graduate Programme

The Cadet Graduate Programme produces graduates of a high calibre, who are appointed either in the Bank or in other financial institutions. The annual graduation ceremony of the cadets was held in November 2010, where the cadets received the Advanced Programme in International and Central Banking qualification, awarded by the University of South Africa and a certificate of workplace competence presented by the Governor. J (Jay) Naidoo, an independent consultant and a former high-ranking government official, was the keynote speaker at this event.

# Retirement provision

## Introduction

The Bank provides for the retirement of its staff at the normal retirement age of 60 years, in accordance with good corporate governance principles. The Bank, which previously had a defined benefit pension fund, now only has a defined contribution retirement fund to which current staff members contribute.

## Retirement Fund

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

## Pension Fund

The Board of Trustees of the Bank's Pension Fund comprised four trustees (two non-executive directors and two senior staff members) appointed by the Board of the Bank and four trustees elected by members of the Pension Fund. The fund was assisted by a Principal Officer. The Board of Trustees elected a chairperson and a deputy chairperson from the trustees. The Pension Fund was incorporated in terms of the Pension Funds Act and, as such, was a separate entity from the Bank. Owing to the diminishing nature of the Pension Fund, its incorporation as a ring-fenced entity into the Retirement Fund was completed on 31 March 2011.

# Corporate social responsibility

The Bank aims to conduct its business practices in a transparent manner based on ethical values, compliance with legal requirements, and respect for people, communities and the environment. Ultimately, it adds value in a unique way to society as a whole. This review of corporate social responsibility therefore considers the entire 'footprint' that the Bank leaves in society and covers

- health and safety;
- environmental conservation, including management of hazardous products and waste;
- energy and water consumption;
- art collection and conservation;
- community support;
- educational outreach; and
- international and regional co-operation and training.

## Health and safety

The Bank assesses its health and safety procedures to ensure the wellbeing of its employees and its stakeholders. During the period under review, two particular surveys warrant reporting. The first is the Environmental Health Study which was conducted in April 2010 at Head Office. This study, which is conducted every two years by an inspection authority approved by the DoL, assesses issues of noise, illumination, micro-biological contamination, ventilation and hazardous chemical substances. A number of non-conformance areas were highlighted in the survey and corrective measures have been put in place to address all these concerns.

The second study is the accredited Hazard Identification and Risk Assessment, undertaken in November 2009. All risks identified for Head Office and the branches in the assessment have been addressed.

All staff members in the branches are provided with safety shoes, dust masks and protective hearing equipment as required under the terms of the Occupational Health and Safety Act, 1993 (Act No. 85 of 1993). Branches have also undertaken additional assessments of their facilities, either by appointed health and safety representatives who have already formed an OHS committee, or by external parties. These ongoing assessments are undertaken in order to ensure compliance with standards in respect of dust, noise and lighting levels, as well as those of occupational health and hygiene.

The SA Mint retained its OHSAS18001:1999 certification during the review period. This certification is used to manage safety and health in the workplace. The company uses a risk-based approach to manage safety and, as a result of risk assessments conducted, various projects are being implemented to enhance safety. In an effort to raise safety awareness and to involve all employees in the company's safety programme, an initiative was implemented that led to the development of the company's seven safety non-negotiables. These safety rules were developed with the participation of employees, and safety awareness and compliance have increased since being launched. As a result, the company's safety performance has improved and the number of lost-time injuries has decreased significantly compared with previous periods.

## Environmental conservation, including management of hazardous products and waste

The Bank's engineering staff oversees a number of critical building functions, including the collection and disposal of sewerage and waste, and the collection and safe disposal of used fluorescent light tubes, scrap metal, medical waste and shredded paper. At branch level, similar processes are followed to ensure environmental protection, particularly with regard to hazardous products.

## Energy and water consumption

In the light of growing concerns about energy use and water reserves, a number of steps have been taken to decrease the use of these scarce resources at the Bank's Head Office building.

Ground water (seepage) is collected in tanks on the underground levels and is pumped to the irrigation system that is used to water the gardens at Head Office.

Lighting at Head Office has been replaced with more energy-efficient lights and all incandescent lights in the building have been replaced with low wattage energy-efficient lights. At the same time, the building management system at Head Office switches off the lights in the tower building at night; meter readings on each floor monitor and correct power consumption; and three high-energy consumption rotary uninterrupted power supply (UPS) generators have been replaced with two energy-efficient UPS generators. Cumulatively, these steps have resulted in a marked saving in electricity consumption in the Head Office building.

An environmental and energy saving feasibility study was also undertaken at Head Office, recommending the upgrading of the air-conditioning system and the use of solar energy in a number of areas. These measures will be introduced in a phased manner.

Branches have followed similar processes, taking a number of steps to minimise water and electricity consumption.

During the review period the SA Mint retained its ISO14001:2004 certification. This certification is used to manage environmental practices at the SA Mint. The company aims to find a safer and more environmentally friendly process to replace the existing process used in electroplating, and the results achieved so far look promising.

The SA Mint has an ongoing initiative to increase the recycling of materials back into the manufacturing process, instead of selling the materials as scrap metal. A project has also been initiated with the aim of recovering copper and steel from rejected electroplated products for reuse in the manufacturing process. Similar projects will be initiated for other electroplated products.

## Art collection and conservation

The Bank's art collection is one of the premier corporate collections in South Africa, with its outstanding strength being landscape art produced between 1900 and 1970. While the collection contains a number of historically important works by artists of all races, the collection as a whole has not been representative of the country's diversity. This has been identified as its principal weakness.

During the period under review the Bank's Art Committee, which is responsible for co-ordinating initiatives pertaining to the curatorship and expansion of the collection, therefore identified the challenge of making the Bank's art collection more representative of the country's diversity.

## Community support

During the period under review, the Bank launched a social responsibility portal on its Intranet site. The portal allows staff members to list community projects that they support or wish to support. The portal enables and encourages employees to become active in the South African community by providing information about pragmatic and accessible ways to engage the community. The vision with the portal is to create a network of like-minded and like-hearted employees that will ignite a shared sense of social responsibility and action in the Bank.

The Bank has worked with Seikgone High School in Limpopo since 1999. During the year under review, the Bank donated R70 000 to repair the school's borehole, which supplies it with drinking and ablution water. This has had a positive impact on health issues not just at the school, but also in the community. The Bank also launched a project where staff members could donate books to stock the library at the school. Staff from the Bank's Human Resources Department delivered the books and helped set up the library at the school. This project has had a significant impact on a great number of learners and teachers in the larger Bochum community. It has given learners access to information and motivated them to read.

The Bank has a dedicated group of HIV/AIDS peer educators who undertook a number of outreach activities during the 2010/11 financial year.

Community support receives considerable attention in the Bank's branches. Community outreach programmes of the branches included participation in the 67 minutes for Mandela Day and World AIDS Day. The branches also supported children living with HIV/AIDS, orphaned and abandoned children and old-aged people.

## Educational outreach

The Bank has a key role to play in educational outreach and to this end not only supports various programmes, but has also initiated a number of its own.

The Bank's external bursary scheme is now in its second year. The scheme was expanded from 25 existing bursars (who were first awarded bursaries in their second academic year) to 50 (12 new bursars in their first academic year; 17 new bursars in their second academic year; and 21 of the existing bursars have been awarded bursaries for their third academic year). The total rand value of the external bursaries awarded for the 2010 academic year was R1 105 410.

The Bank financially supports the Chair in Monetary Economics at the University of Pretoria. The current agreement with the university was extended until the end of 2012.

Staff members of the Bank participated in a career day for high school learners held by the Provincial Department of Education in Sekhukhune in Limpopo. A large number of schools participated, and the day provided an opportunity for about 2 000 learners to learn more about the Bank and about the financial services industry as a whole.

Branches also participate in educational and other outreach initiatives. Most of the branches extend invitations to universities, schools and colleges in their region to the Bank's biannual Monetary Policy Forum feedback sessions.

The SA Mint continued its partnership with the Endangered Wildlife Trust (EWT). Part of the proceeds from the sale of special 2010 Natura coin sets was donated to the EWT for the "Strengthening the Security of the Rhino in South Africa Project". The proceeds from this Project are used, *inter alia*, for the training of rangers in the prevention of the poaching of rhinoceros.

## International and regional co-operation and training

The Bank continues to work with other central banks to develop joint expertise and to collaborate where necessary. In the year under review, the Bank was invited to jointly facilitate a strategy and visioning session for the central bank of Lebanon (Banque du Liban). The Bank also hosted a delegation of the central bank of Azerbaijan on a fact-finding mission to learn more about the implementation of strategic and risk management in the Bank. The Bank's Human Resources Department consulted with the Bank of Uganda on staffing issues at that central bank.

A total of 758 external clients from various financial institutions, government departments and central banks of SADC countries attended training and development events organised by the College.

The College hosted a number of high-level seminars and workshops for specific niche markets. These included the Sixth Annual Exchange Control Seminar for Authorised Foreign Exchange Dealers in South Africa, the Central Bank Corporate Governance and Ethics Seminar, a Senior Management Development Seminar, a Bayesian Econometrics Seminar presented by the Bank of England, a Financial Stability Seminar presented by the IMF and a Risk Management Seminar presented by the World Bank. The College also organised a series of discussion forums at the Bank where prominent speakers from the private sector and leading academic institutions made presentations.

Among others, the College co-hosted with the SADC Training and Development Forum a course on changing capital flows and the policy implications for central banks, presented by the BIS, and a board-level governance course presented by the Centre for Central Banking Studies of the Bank of England.

# Overview of subsidiaries

## Introduction

The Bank has four subsidiaries and entrusts certain defined responsibilities to them. The members of the Boards of the subsidiaries are appointed by the Board of the Bank, with the exception of the CPD, where the Minister of Finance appoints the Board members. The audited financial results of the subsidiaries are consolidated with those of the Bank in the financial statements included in this *Annual Report*.

## Corporation for Public Deposits

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

The CPD has a Board that assumes ultimate management responsibility for the corporation, and is chaired by a deputy governor of the Bank. The Board is appointed by the Minister of Finance, and comprises officials from the Bank and the National Treasury. Owing to the scope and risk profile of the CPD, its Board is of the view that it is not necessary to appoint any Board committees to support it in the discharge of its responsibilities. In accordance with best practice, the Board meets four times a year.

The administration and accounting of the funds under the control of the CPD are performed by the FSD of the Bank. As at 31 March 2011 the Board comprised the following members:

| | |
|---|---|
| – A D (Daniel) Mminele (Chairperson) | Director (Deputy Governor of the Bank) |
| – B (Bulelwa) Boqwana | Director (National Treasury) |
| – R M (Roelf) du Plooy[5] | Director (from the Bank) |
| – L (Lungisa) Fuzile | Director (National Treasury). |

As at 31 March 2011 the Company Secretary was M (Mhitlhiemang) Masibi-Malotle, who is an employee in the Bank's Secretariat.

## South African Bank Note Company (Pty) Limited

The SABN is a private company registered in terms of the Companies Act, 1973 (Act No. 61 of 1973) (Companies Act). The SABN functions as an independent subsidiary with its own premises, infrastructure and accounting systems. The SABN is a wholly owned subsidiary of the Bank. By virtue of section 10 of the South African Reserve Bank Act, the SABN has the duty to produce banknotes.

The SABN has a Board that assumes ultimate management accountability for the company. In the discharge of its responsibilities the Board is supported by three subcommittees, namely an Audit and Risk Committee, a Human Resources Committee and a Safety, Health and Environment (SHE) Committee. The Board is chaired by a non-executive director who is a deputy governor of the Bank.

5 R M du Plooy retired from the Bank on 30 April 2011. Z G G MavusoMbatha was appointed as a Board member of the CPD with effect from 3 May 2011.

X P Guma was appointed as Chairperson of the SABN on 1 August 2010, after R D Mokate retired as Deputy Governor and stepped down as Chairperson of the SABN. M V (Musa) Mbhele, the former Managing Director of the SABN, was suspended on 7 July 2010 and was subsequently dismissed pursuant to a disciplinary enquiry. On 8 July 2010 G (Gary) Zulberg was temporarily appointed as Acting Managing Director, whereafter J (Joyce) Kumbirai was appointed as Acting Managing Director on 3 December 2010 and subsequently as Managing Director from 1 May 2011. As at 31 March 2011 the Board comprised the following members:

| | |
|---|---|
| – X P (Xolile) Guma (Chairperson) | Non-executive director (Senior Deputy Governor of the Bank) |
| – A (Aboobaker) Ismail | Non-executive director |
| – K P (Koosum) Kalyan | Independent, non-executive director |
| – N (Nomkhita) Nqweni | Independent, non-executive director |
| – N (Nkuli) Swana | Independent, non-executive director |
| – L (Bertus) van Zyl | Non-executive director |
| – J (Joyce) Kumbirai | Acting Managing Director. |

As at 31 March 2011 the Acting Company Secretary was C (Chris) Roodt.

## South African Mint Company (Pty) Limited

The SA Mint is a private company registered in terms of the Companies Act. The SA Mint functions as an independent subsidiary with its own premises, infrastructure and accounting systems. The SA Mint is a wholly owned subsidiary of the Bank.

The SA Mint has a Board that assumes ultimate oversight responsibility for the company. In the discharge of its responsibilities the Board is supported by an Audit and Risk Committee, a Human Resources Committee, and a SHE Committee as subcommittees. The Board is chaired by a non-executive director, who is a deputy governor of the Bank.

A D Mminele was appointed as Chairperson of the SA Mint on 1 August 2010, after R D Mokate had retired as Deputy Governor and stepped down as Chairperson of the SA Mint. As at 31 March 2011 the Board comprised the following members:

| | |
|---|---|
| – A D (Daniel) Mminele (Chairperson) | Non-executive director (Deputy Governor of the Bank) |
| – K P (Koosum) Kalyan | Independent non-executive director |
| – R W K (Raymond) Parsons | Independent non-executive director |
| – N (Nkuli) Swana | Independent non-executive director |
| – S J (Joe) Tau | Independent non-executive director |
| – N (Nomkhita) Nqweni | Independent non-executive director |
| – L (Leanne) Pillay | Non-executive director |
| – A M (Andile) Mvinjelwa | Managing Director. |

N Nqweni was appointed non-executive director on 1 April 2010. L Pillay was appointed non-executive director on 1 June 2010.

As at 31 March 2011 the Acting Company Secretary was T P (Tiyani) Mongwe.

## South African Reserve Bank Captive Insurance Company Limited

SARBCIC is a wholly owned subsidiary of the Bank, registered in terms of the Companies Act as a public company to comply with the provisions of section 9(3)(a)(i) of the Short-term Insurance Act, 1998 (Act No. 53 of 1998). SARBCIC conducts its operations from the Bank's Head Office building, and uses the Bank's accounting systems and other infrastructure.

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

SARBCIC's Board is ultimately accountable and responsible for the performance and affairs of the company. The Board has established an Audit, Risk and Compliance Committee to assist it in the discharge of its responsibilities. The Board was chaired by X P Guma until 22 September 2010, when M Mnyande was appointed as Chairperson. As at 31 March 2011, the Board comprised the following members:

| | |
|---|---|
| – M (Monde) Mnyande (Chairperson) | Non-executive director (Adviser to the Governor and Chief Economist) |
| – M (Mahomed) Akoob | Independent, non-executive director |
| – G H (Gert) Engelbrecht | Executive director |
| – F G (Gerhard) Wiehman | Executive director and CEO. |

As at 31 March 2011 the Company Secretary was S W (Sandile) Soga, who is an employee of the Bank's FSD.

# Shareholding and dividends

The Bank facilitates an over-the-counter market for the trading of its shares. During the financial year under review 49 transactions (69 transactions in the previous year) were concluded in respect of 75 313 shares (128 139 shares in the previous financial year). A final dividend of 5 cents per share was paid on 14 May 2010 in respect of the 2009/10 financial year. An interim dividend of 5 cents per share for the 2010/11 financial year was paid to shareholders on 29 October 2010. A final dividend of 5 cents per share for the 2010/11 financial year, bringing total dividend payments for the financial year to R200 000, was declared on 1 April 2011 and paid on 13 May 2011. As the maximum dividend is prescribed in the South African Reserve Bank Act, the annual dividend per share did not change during the review period. As at the financial year-end, the Bank had 663 shareholders, compared to 640 as at 31 March 2010.

The Bank has decided to refrain from making any further payments of dividends by means of warrants/cheques to shareholders. The Bank will in future effect payment of dividends by means of electronic payment directly into a bank account or, in exceptional cases, by means of cash payments.

The electronic payment service also obviates the costly processing of dividend warrants, the subsequent delays in the receipt thereof and eliminates the inconvenience, as well as bank charges associated with depositing of such warrants.

In instances where bank account details of shareholders have not been lodged with the Bank, dividends will be held in a suspense account until the Bank has received the relevant banking account details or, owing to exceptional circumstances, arrangements for a cash payment have been made.

# Annual financial statements for the year ended 31 March 2011

## Contents

# Financial framework

## Reporting framework

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

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

However, the South African Reserve Bank Act takes precedence over IFRSs in the areas noted above, and as a result, the recognition and measurement criteria as set out in IFRSs have not been followed in these circumstances. In addition, the Bank considers certain disclosures inappropriate to its functions. Therefore, the Bank's financial statements disclose less detail than would be required under IFRSs. The significant departures from IFRSs as a consequence of the above may be summarised as follows:

## Recognition and measurement

According to the South African Reserve Bank Act,

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

2 gold is valued in terms of section 25 of the South African Reserve Bank Act at the statutory gold price as published in the *Government Gazette*. Gold has been recognised as a financial asset of the Bank.

## Presentation

In the financial statements

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

2 assets and liabilities relating to securities lending activities have been disclosed, but offset in Note 6 to the financial statements because it is considered inappropriate to gross up the foreign reserves of the Bank.

## Budget of the Bank

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

| | Budget 2011/12 R'000 | Actual 2010/11 R'000 | Budget 2010/11 R'000 |
|---|---|---|---|
| Personnel costs | 1 365 096 | 1 205 407 | 1 247 324 |
| Operational costs | 404 987 | 384 349 | 385 380 |
| Cost of new currency | 1 189 599 | 825 417 | 1 156 187 |

Personnel and operational costs for the 2010/11 financial year were in line with budget.

Cost of new currency was below budget mainly due to changes in delivery schedules.

# Report of the Audit Committee

The Audit Committee is a subcommittee of the Board of Directors (the Board). The responsibilities of the committee are detailed in its terms of reference as approved by the Board and are reviewed annually. The committee comprises at least three non-executive members of the Board who form the majority of the members.

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

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

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

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

Management is focused on continuous improvements to the system of internal control including internal financial controls and the internal audit function reviews the adequacy and effectiveness of such controls.

The committee reviews internal audit reports, and assesses the role, independence and effectiveness of the internal audit function on an ongoing basis.

The committee is satisfied with the expertise and adequacy of resources within the Financial Services Department. The committee relies on feedback obtained from both external and internal audit to make these assessments.

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

DKonar

D Konar
Chairperson of the Audit Committee

# Report of the independent auditors

## To the members of the South African Reserve Bank

We have audited the Group financial statements and financial statements of the South African Reserve Bank, which comprise the consolidated and separate statements of financial position as at 31 March 2011, and the consolidated and separate statements of comprehensive income, and the consolidated and separate statements of changes in equity, and the consolidated and separate statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 62 to 110.

## Directors' responsibility for the financial statements

The Bank's directors are responsible for the preparation and presentation of these financial statements in accordance with the basis of accounting described in Note 1 to the financial statements and in the manner required by the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), as amended (South African Reserve Bank Act), for the purpose as described in this Act and its Regulations, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. This responsibility includes determining that the basis of accounting described in Note 1 to the financial statements is an acceptable basis for preparing and presenting financial statements 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. These standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance that 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 these risk assessments, the auditors consider internal control relevant to the entity's preparation and presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, and evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the financial statements of the South African Reserve Bank have been prepared, in all material respects, in accordance with the basis of accounting described in Note 1 to the financial statements and in the manner required by the South African Reserve Bank Act.

## Basis of accounting

The financial statements of the South African Reserve Bank have been prepared in accordance with the basis of accounting described in Note 1 to the financial statements and in the manner required by the South African Reserve Bank Act for the purpose as described therein. The financial statements and our auditors' report may not be suitable for any other purpose.

PricewaterhouseCoopers Inc.
Director: J Grosskopf
Registered Auditor

SizweNtsaluba VSP
Partner: P Hiralall
Registered Auditor

Johannesburg
26 May 2011

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

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

# Directors' report for the year ended 31 March 2011

## Introduction

The directors present the Bank's *Annual Report* for the year ended 31 March 2011 to the ninety-first Ordinary General Meeting (OGM) of shareholders.

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

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

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

The 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.

*King III* compliance is dealt with in the section dealing with the Board of Directors, which appears on page 11.

## Nature of business

The Bank is the central bank of the Republic of South Africa and is regulated in terms of the South African Reserve Bank Act. Its primary objective is to achieve and maintain price stability within a framework of financial stability in the interest of sustainable and balanced economic growth. In pursuance of this objective, the Bank assumes responsibility for the functions as set out on page 5.

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

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

## Achievement of objectives

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

# Financial results

The statement of comprehensive income appears on page 67.

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

| | Group | Bank |
|---|---|---|
| | R'000 | R'000 |
| 31 March 2011 | 52 870 | 0 |
| 31 March 2010 | 37 463 | 0 |

The Bank incurred a loss after taxation of R1 166 195 000 (R1 617 159 000 before taxation) for the year ended 31 March 2011 due to the high costs associated with holding the country's gold and foreign reserves. Owing to continued adverse economic and financial markets developments, the returns earned on foreign investments have been minimal, while the funding costs of these investments approximate the repo rate.

The amount of R52 870 000 paid by the Group to government for the year ended 31 March 2011 emanated from the CPD. Given the loss incurred in the 2010/11 financial year, no profits were transferred from the Bank to government.

# Dividends

The final dividend of 5 cents per share for the 2009/10 financial year was paid on 14 May 2010 and an interim dividend of 5 cents per share for the 2010/11 financial year was paid to shareholders on 29 October 2010. A final dividend of 5 cents per share, bringing total dividends paid to R200 000 for the 2010/11 financial year, was declared on 1 April 2011 and paid on 13 May 2011.

# Financial position

The statement of financial position appears on page 66.

The Bank's total assets increased by R32,2 billion during the year under review: an increase of R26,8 billion in gross gold and foreign assets, while domestic assets increased by R5,4 billion. Owing to the appreciation of the rand, the balance on the Gold and Foreign Exchange Contingency Reserve Account (used for currency revaluation of the gross gold and foreign assets and liabilities which is for the account of government) decreased by R7,3 billion.

# Directors

The composition of the Board appears on page 7.

The terms of office of F Jakoet (commerce or finance), T N Mgoduso (industry) and J F van der Merwe (agriculture) expired at the time of the previous OGM. T N Mgoduso was re-elected as a non-executive director with knowledge and skills in industry and J F van der Merwe was re-elected as a non-executive director with knowledge and skills in agriculture.

Owing to the amendments to the South African Reserve Bank Act, N D Orleyn, who previously served as a non-executive director with knowledge and skills in industry, was redeployed as a non-executive director with knowledge and skills in mining.

As the legislation provides for two non-executive directors with knowledge and skills in commerce or finance, rather than four as was the case before, it was not necessary to elect a non-executive director with such knowledge and skills in the vacancy left by F Jakoet. It was, however, necessary to elect another non-executive director with knowledge and skills in industry and B W Smit was elected by shareholders.

The terms of office of D Konar (commerce or finance), Z P Manase (commerce or finance) and N D Orleyn (mining) will expire at the time of the 2011 OGM. These non-executive directors are not available for re-election. Owing to amendments to the South African Reserve Bank Act, one of the vacancies which has arisen due to the expiry of the terms of office of serving members should be filled by a person with knowledge and skills in labour, rather than in commerce or finance. Shareholders will, therefore, be asked at the 2011 OGM to elect one non-executive director with knowledge and skills in commerce or finance, one with knowledge and skills in industry and one with knowledge and skills in labour.

E L Kganyago was appointed Deputy Governor with effect from 16 May 2011 for a period of five years. He fills the vacancy arising from the retirement of R D Mokate on 31 July 2010.

The direct and indirect shareholding of directors as at 31 March 2011 is reflected in the following table:

| Director | Number of shares |
|---|---|
| S M Goodson | 10 000 |
| X P Guma | 5 932 |
| D Konar | 10 000 |
| N D Orleyn | 10 000 |
| | 35 932 |

## Subsidiaries

Information regarding the Bank's financial interest in its subsidiaries is reflected in Note 30 on page 100.

## Secretary of the Bank

1 April 2010 to 31 March 2011: J J Rossouw (Acting)

From 1 April 2011: S L Reynolds

Business address:
370 Church Street
Pretoria
0002

Postal address:
P O Box 427
Pretoria
0001

The financial statements were approved by the Board on 26 May 2011 and signed on its behalf by:

..................................................
G Marcus
Governor

..................................................
X P Guma
Senior Deputy Governor

..................................................
D Konar
Non-executive Director and
Chairperson: Audit Committee

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

..................................................
N Ford-Hoon
Chief Financial Officer

..................................................
S L Reynolds
Secretary of the Bank

## Statement by the Secretary of the Bank

In my capacity as Secretary of the Bank, I certify that all returns required to be submitted in terms of the South African Reserve Bank Act for the year ended 31 March 2011 have been correctly completed and are up to date.

..................................................
S L Reynolds
Secretary of the Bank

26 May 2011

# Statement of financial position

at 31 March 2011

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | Notes | R'000 | R'000 | R'000 | R'000 |
| **Assets** | | | | | |
| Cash and cash equivalents | 2 | 95 282 | 95 324 | 0 | 0 |
| Accommodation to banks | 3 | 16 416 205 | 11 417 793 | 16 416 205 | 11 417 793 |
| South African Government bonds | 4 | 8 253 367 | 8 361 569 | 8 253 367 | 8 361 569 |
| Loans and advances | 5 | 69 380 | 74 205 | 69 380 | 74 205 |
| Current taxation prepaid | | 6 131 | 117 843 | 0 | 100 661 |
| Amounts due by subsidiaries | 30.2 | 0 | 0 | 194 567 | 199 295 |
| Gold and foreign exchange | 6 | 334 337 660 | 307 506 387 | 334 337 660 | 307 506 387 |
| Inventories | 7 | 353 236 | 424 209 | 8 338 | 10 725 |
| Investments | 8 | 8 132 369 | 5 359 739 | 0 | 0 |
| Amounts due by the South African Government | 9 | 794 162 | 856 503 | 794 162 | 856 503 |
| Property, plant and equipment | 10 | 1 685 843 | 1 473 653 | 815 249 | 730 417 |
| Investment in subsidiaries | 30.1 | 0 | 0 | 279 000 | 279 000 |
| Equity investment in Bank for International Settlements | 11 | 281 432 | 291 269 | 281 432 | 291 269 |
| Deferred taxation assets | 12 | 1 191 158 | 714 670 | 1 131 751 | 675 635 |
| Forward exchange contract assets | 13 | 45 147 | 2 532 | 40 830 | 1 877 |
| Other assets | 14 | 400 437 | 395 890 | 371 197 | 333 535 |
| Total assets | | 372 061 809 | 337 091 586 | 362 993 138 | 330 838 871 |
| **Liabilities** | | | | | |
| Deposit accounts | 15 | 159 644 741 | 163 652 326 | 149 229 509 | 148 211 816 |
| Amounts due to subsidiaries | 30.2 | 0 | 0 | 3 001 008 | 10 817 463 |
| South African Reserve Bank debentures | 16 | 34 708 311 | 22 167 307 | 34 708 311 | 22 167 307 |
| Foreign loans and deposits | 17 | 58 610 330 | 27 324 181 | 58 610 330 | 27 324 181 |
| Notes and coin in circulation | 18 | 78 252 581 | 75 588 239 | 78 252 581 | 75 588 239 |
| Provisions | 19 | 153 736 | 136 876 | 124 998 | 117 844 |
| Gold and Foreign Exchange Contingency Reserve Account | 20 | 28 282 942 | 35 617 810 | 28 282 942 | 35 617 810 |
| Deferred taxation liabilities | 12 | 161 194 | 145 452 | 53 215 | 46 824 |
| Forward exchange contract liabilities | 13 | 876 958 | 15 314 | 876 958 | 38 |
| Other liabilities | 21 | 277 626 | 301 049 | 101 232 | 106 465 |
| Post-retirement medical benefits | 22 | 1 153 987 | 1 059 941 | 1 038 932 | 963 665 |
| Total liabilities | | 362 122 406 | 326 008 495 | 354 280 016 | 320 961 652 |
| **Capital and reserves** | | | | | |
| Share capital | 23 | 2 000 | 2 000 | 2 000 | 2 000 |
| Accumulated profit | | 1 146 800 | 1 126 412 | 0 | 0 |
| Statutory reserve | | 395 164 | 395 164 | 395 164 | 395 164 |
| Contingency reserve | | 8 020 506 | 9 186 880 | 7 941 025 | 9 107 420 |
| Bond revaluation reserve | | 374 933 | 372 635 | 374 933 | 372 635 |
| Total capital and reserves | | 9 939 403 | 11 083 091 | 8 713 122 | 9 877 219 |
| Total liabilities, capital and reserves | | 372 061 809 | 337 091 586 | 362 993 138 | 330 838 871 |

# Statement of comprehensive income
for the year ended 31 March 2011

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | Notes | R'000 | R'000 | R'000 | R'000 |
| Interest income | | 4 560 244 | 6 137 194 | 3 303 119 | 5 154 475 |
| Interest expense | | 4 695 795 | 5 228 566 | 3 523 387 | 4 316 795 |
| Net interest (expense)/income | | (135 551) | 908 628 | (220 268) | 837 680 |
| Dividend income | | 67 279 | 28 189 | 67 227 | 28 190 |
| Operating income | | 1 266 986 | 628 632 | 1 035 749 | 348 295 |
| **Total income** | 24.1 | 1 198 714 | 1 565 449 | 882 708 | 1 214 165 |
| Operating costs | 24.2 | 2 736 318 | 2 798 605 | 2 499 867 | 2 664 538 |
| **Loss before taxation** | 24 | (1 537 604) | (1 233 156) | (1 617 159) | (1 450 373) |
| Taxation | 25 | (444 688) | (353 114) | (450 964) | (403 708) |
| **Loss for the year** | | (1 092 916) | (880 042) | (1 166 195) | (1 046 665) |
| **Other comprehensive income** | | | | | |
| Fair value adjustments on available-for-sale financial assets | | 2 298 | 19 914 | 2 298 | 19 914 |
| **Total comprehensive loss for the year** | | (1 090 618) | (860 128) | (1 163 897) | (1 026 751) |
| Dividend per share (cents) | 26 | 10 | 10 | 10 | 10 |

# Statement of cash flows

for the year ended 31 March 2011

| | | Group | | Bank | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | 2010 |
| | Notes | R'000 | R'000 | R'000 | R'000 |
| **Cash flows from operating activities** | | | | | |
| Cash generated from/(utilised by) operating activities | 27 | 3 093 334 | (2 362 960) | 68 865 | 169 496 |
| Taxation received/(paid) | | 94 760 | (54 268) | 101 006 | (134) |
| Dividends paid | | (200) | (200) | (200) | (200) |
| Transfer to government | | (37 463) | (124 852) | 0 | (39 080) |
| **Net cash flows generated from/(utilised by) operating activities** | | 3 150 431 | (2 542 280) | 169 671 | 130 082 |
| **Cash flows (utilised by)/generated from investing activities** | | (3 150 473) | 2 502 529 | (169 671) | (130 082) |
| Purchase of property, plant and equipment | | (423 368) | (249 716) | (170 122) | (130 117) |
| Disposal of property, plant and equipment | | 50 340 | 236 | 451 | 35 |
| (Acquisition)/Disposal of investments | | (2 777 445) | 2 752 009 | 0 | 0 |
| **Net decrease in cash and cash equivalents** | | (42) | (39 751) | 0 | 0 |
| **Cash and cash equivalents at the beginning of the year** | | 95 324 | 135 075 | 0 | 0 |
| **Cash and cash equivalents at the end of the year** | 2 | 95 282 | 95 324 | 0 | 0 |

# Statement of changes in equity: Group

for the year ended 31 March 2011

| | Share capital | Accumulated profit | Statutory reserve | Contingency reserve | Bond revaluation reserve | Total |
|---|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Balance at 31 March 2009 | 2 000 | 997 196 | 395 164 | 10 233 801 | 352 721 | 11 980 882 |
| Total comprehensive income for the year | 0 | (880 042) | 0 | 0 | 19 914 | (860 128) |
| Fair value adjustments on available-for-sale financial assets | 0 | 0 | 0 | 0 | 19 914 | 19 914 |
| Loss for the year | 0 | (880 042) | 0 | 0 | 0 | (880 042) |
| Transfer to government | 0 | (37 463) | 0 | 0 | 0 | (37 463) |
| Transfer from reserves | 0 | 1 046 921 | 0 | (1 046 921) | 0 | 0 |
| Dividends paid | 0 | (200) | 0 | 0 | 0 | (200) |
| Balance at 31 March 2010 | 2 000 | 1 126 412 | 395 164 | 9 186 880 | 372 635 | 11 083 091 |
| Total comprehensive income for the year | 0 | (1 092 916) | 0 | 0 | 2 298 | (1 090 618) |
| Fair value adjustments on available-for-sale financial assets | 0 | 0 | 0 | 0 | 2 298 | 2 298 |
| Loss for the year | 0 | (1 092 916) | 0 | 0 | 0 | (1 092 916) |
| Transfer to government | 0 | (52 870) | 0 | 0 | 0 | (52 870) |
| Transfer from reserves | 0 | 1 166 374 | 0 | (1 166 374) | 0 | 0 |
| Dividends paid | 0 | (200) | 0 | 0 | 0 | (200) |
| Balance at 31 March 2011 | 2 000 | 1 146 800 | 395 164 | 8 020 506 | 374 933 | 9 939 403 |

## Explanatory notes

### Statutory reserve

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

### Contingency reserve

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

### Bond revaluation reserve

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

### Transfer to government

In terms of section 24 of the South African Reserve Bank Act, nine-tenths of any surplus of the South African Reserve Bank, after provisions normally provided for by bankers and payment of dividends, has to be paid to government. In terms of section 15 of the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984), the balance of net profits after transfers to reserves and payment of dividends has to be paid to government. For the year ended 31 March 2011 an amount of R52 870 000 (2010: R37 463 000) was transferred to government by the CPD.

# Statement of changes in equity: Bank

for the year ended 31 March 2011

| | 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 2009** | 2 000 | 0 | 395 164 | 10 154 285 | 352 721 | 10 904 170 |
| Total comprehensive income for the year | 0 | (1 046 665) | 0 | 0 | 19 914 | (1 026 751) |
| Fair value adjustments on available-for-sale financial assets | 0 | 0 | 0 | 0 | 19 914 | 19 914 |
| Loss for the year | 0 | (1 046 665) | 0 | 0 | 0 | (1 046 665) |
| Transfer to government | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer from reserves | 0 | 1 046 865 | 0 | (1 046 865) | 0 | 0 |
| Dividends paid | 0 | (200) | 0 | 0 | 0 | (200) |
| **Balance at 31 March 2010** | 2 000 | 0 | 395 164 | 9 107 420 | 372 635 | 9 877 219 |
| Total comprehensive income for the year | 0 | (1 166 195) | 0 | 0 | 2 298 | (1 163 897) |
| Fair value adjustments on available-for-sale financial assets | 0 | 0 | 0 | 0 | 2 298 | 2 298 |
| Loss for the year | 0 | (1 166 195) | 0 | 0 | 0 | (1 166 195) |
| Transfer to government | 0 | 0 | 0 | 0 | 0 | 0 |
| Transfer from reserves | 0 | 1 166 395 | 0 | (1 166 395) | 0 | 0 |
| Dividends paid | 0 | (200) | 0 | 0 | 0 | (200) |
| **Balance at 31 March 2011** | 2 000 | 0 | 395 164 | 7 941 025 | 374 933 | 8 713 122 |

## Explanatory notes

### Statutory reserve

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

### Contingency reserve

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

### Bond revaluation reserve

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

### Transfer to government

In terms of section 24 of the South African Reserve Bank Act, nine-tenths of the surplus of the South African Reserve Bank, after provisions normally provided for by bankers and payment of dividends, has to be paid to government. Since the Bank incurred a loss for the year (2010: loss), no amount was transferred to government.

# Notes to the financial statements

## 1. Accounting policies

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

## 1.1 Basis of presentation

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

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies of the South African Reserve 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 subsidiaries are included from the effective dates on which control is transferred to the Bank until the effective dates of disposal. Control is achieved where the Bank has the power to govern the financial and operational policies of an investee enterprise so as to obtain benefits from its activities. All inter-company balances, transactions and unrealised gains and losses on transactions within the Group have been eliminated.

### Investment in subsidiaries

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

## 1.3 Financial instruments

### Classification

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

### Financial assets

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

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

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

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

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

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

## a Financial assets at fair value through profit or loss

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

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

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

## b Loans and receivables

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

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

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

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

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

### c Held-to-maturity financial assets

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

### d Available-for-sale financial assets

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

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

## Impairment of financial assets

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

### a Financial assets carried at amortised cost

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

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

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

### b Financial assets carried at fair value

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

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

## Financial liabilities

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

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

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

### a Financial liabilities at fair value through profit or loss

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

### b Other liabilities

The following liabilities have been classified as other liabilities: notes and coin issued; South African Reserve Bank debentures; deposit accounts; amounts due to subsidiaries; foreign loans and deposits; Gold and Foreign Exchange Contingency Reserve Account (GFECRA); and creditors. Other liabilities are measured at amortised cost.

## Recognition and derecognition

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

## Measurement

### a Initial measurement

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

### b Subsequent measurement

Subsequent to initial recognition, these assets are measured at fair value. All related, realised and unrealised gains and losses arising from changes in fair value, excluding changes in fair value due to foreign-exchange movements as explained in Note 1.4, are recognised as interest income in profit or loss. The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that a legal right of set-off exists and there is an intention to settle on a net basis.

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

### (i) Derivatives

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

### (ii) Foreign marketable money-market investments

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

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

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

### (iv) South African Government bonds

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

## Loans and receivables, and other liabilities

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

a Non-interest-bearing deposit accounts, the GFECRA and loans to subsidiaries are accounted for at cost, as these accounts do not have fixed maturity dates.

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

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

## Gains and losses on subsequent measurement

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

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

### Hedge accounting

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

### Set-off

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

In addition, as set out in Note 6 to the financial statements, financial assets and liabilities arising from securities lending activities have been offset.

### Minimum reserve balances of banks

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

## 1.4 Foreign currency activities

### Foreign currency translation

#### a Functional and presentation currency

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

#### b Foreign-exchange gains and losses arising in entity accounts

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

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

## 1.5 Property, plant and equipment

Freehold land is carried at cost less accumulated impairment losses. Other items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is determined separately for each significant part of an item of property, plant and equipment, and is charged so as to write off the cost or valuation of the assets (other than land and items under construction) to their residual value over their estimated useful life, using the straight-line method. The estimated useful life of the assets has been disclosed in Note 10.

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

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

### Intangible assets

#### Computer software

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

## 1.6 Impairment of other assets

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

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

## 1.7 Gold

Gold is held by the Bank as part of its foreign reserves. In terms of section 25 of the South African Reserve Bank Act, gold is initially recorded at the prevailing rates at initial recognition date, including transaction costs. Subsequent to initial measurement, it is measured as follows: physical gold held by the Bank is valued at the statutory price. The statutory price is the quoted price at the reporting date. Gold loans are measured at the quoted price at the reporting date.

In terms of section 25 of the South African Reserve Bank Act, all gains and losses on gold recorded by the Bank are for the account of the South African Government and, consequently, all profits and losses are transferred to the GFECRA.

## 1.8 Taxation

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

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

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

## 1.9 Employee benefits

### Pension and retirement funds

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

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

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

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

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

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

For defined contribution plans, the Group pays contributions to publicly or privately administered pension plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expenses when they are due.

### Post-retirement medical benefits

The Bank provides post-retirement medical benefits to qualifying employees and retired personnel by subsidising a portion of their medical aid contributions.

Entitlement to these benefits is based on employment prior to a certain date and is conditional on employees remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using an accounting methodology similar to that for defined benefit pension plans.

Past-service costs, and actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as expenses or income in the current year to the extent that they relate to retired employees or past service.

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

## 1.10 Sale and repurchase agreements

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

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

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

## 1.11 Inventories

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

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

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

Maintenance spares are valued at average cost.

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

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

## 1.12 Cash flow

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

## 1.13 Provisions

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

### Provision for leave pay and bonus

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

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

### Provision for staff disability

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

## 1.14 Revenue recognition

Interest income and expense are recognised on a time-proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity. Interest income and expense are recognised in profit or loss for all interest-bearing instruments on an accrual basis using the effective interest method. Interest income includes changes in fair value of the Bank's financial assets. 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 in clude the amortisation of any discount or premium, or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

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

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

## 1.15 Use of estimates

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

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

The estimates made have been disclosed in Notes 10, 19 and 22.

## 1.16 Changes in accounting policies and accounting estimates

### Changes in accounting policies

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

### Changes in accounting estimates

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

# 2. Cash and cash equivalents

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011<br>R'000 | 2010<br>R'000 | 2011<br>R'000 | 2010<br>R'000 |
| Bank and cash balances | 95 282 | 95 324 | 0 | 0 |

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

# 3. Accommodation to banks

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Repurchase agreements | 16 200 000 | 11 400 000 | 16 200 000 | 11 400 000 |
| Application of cash reserve balances | 211 323 | 15 763 | 211 323 | 15 763 |
| Accrued interest | 4 882 | 2 030 | 4 882 | 2 030 |
| | 16 416 205 | 11 417 793 | 16 416 205 | 11 417 793 |

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

The following table presents details of collateral received:

| | | | | |
|---|---|---|---|---|
| Fair value of collateral received | 16 939 130 | 11 488 537 | 16 939 130 | 11 488 537 |
| Fair value of collateral permitted to sell or repledge at the reporting date | 16 939 130 | 11 488 537 | 16 939 130 | 11 488 537 |
| Collateral cover | 104,53% | 100,76% | 104,53% | 100,76% |
| Maturity date | 6 April 2011 | 7 April 2010 | 6 April 2011 | 7 April 2010 |

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

The counterparties are exposed to interest rate risk on the various securities pledged as collateral for repurchase agreements. The Bank has the ability to sell or repledge these securities in the event of default.

# 4. South African Government bonds

| | | | | |
|---|---|---|---|---|
| Listed bonds: Interest bearing | 8 157 741 | 8 265 942 | 8 157 741 | 8 265 942 |
| Accrued interest | 95 626 | 95 627 | 95 626 | 95 627 |
| | 8 253 367 | 8 361 569 | 8 253 367 | 8 361 569 |
| Effective interest rate | 8,54% | 8,53% | 8,54% | 8,53% |

South African Government bonds that do not qualify for derecognition:

| | | | | |
|---|---|---|---|---|
| Listed bonds pledged | 5 802 274 | 5 262 390 | 5 802 274 | 5 262 390 |
| Associated liability | 5 757 891 | 5 274 631 | 5 757 891 | 5 274 631 |

The Bank is exposed to interest rate risk on the listed South African Government bonds pledged as security. Government bonds are pledged as collateral for repurchase agreements. The counterparty has the ability to sell or repledge these bonds in the event of default.

# 5. Loans and advances

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Secured foreign loans | 69 380 | 74 205 | 69 380 | 74 205 |

This loan facility of R75 million expires on 31 December 2011 if not renegotiated. The following table presents details of collateral held:

| | | | | |
|---|---|---|---|---|
| Fair value of collateral received | 81 772 | 81 856 | 81 772 | 81 856 |
| Collateral cover | 117,86% | 110,31% | 117,86% | 110,31% |
| Maturity date | 2 June 2011 | 3 June 2010 | 2 June 2011 | 3 June 2010 |

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

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

# 6. Gold and foreign exchange

| Gold and foreign-exchange holdings | | | | |
|---|---|---|---|---|
| Gold coin and bullion | 39 098 131 | 32 772 365 | 39 098 131 | 32 772 365 |
| Money- and capital-market instruments and deposits | 110 662 166 | 82 756 316 | 110 662 166 | 82 756 316 |
| Medium-term instruments | 143 545 380 | 149 278 750 | 143 545 380 | 149 278 750 |
| Portfolio investments | 41 024 614 | 42 692 613 | 41 024 614 | 42 692 613 |
| Accrued interest | 7 369 | 6 343 | 7 369 | 6 343 |
| | 334 337 660 | 307 506 387 | 334 337 660 | 307 506 387 |

Gold coin and bullion consists of 4 017 530 fine ounces of gold at the statutory price of R9 731,88 per ounce (2010: 4 014 325 fine ounces at R8 163,86 per ounce).

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

Included in the gold and foreign-exchange holdings are the following:

## 6.1 Derivatives held-for-trading

The Bank, through its approved external fund managers, utilises financial derivative products for efficient portfolio management purposes, and seeks to minimise the effects of currency and interest rate risks by using such instruments to economically hedge the related risk exposures. The use of financial derivatives is governed by the Bank's policies approved by the Governors' Executive Committee, which provides written principles on the use of derivative financial instruments. Compliance with policies and exposure limits is reviewed by management on a continuous basis. Risk management practices also include regular reporting to the Board Risk Committee. The Bank does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

| | Net fair value | Fair value of assets | Fair value of liabilities | Contract/Notional[1] amount |
|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 |
| Group and Bank 2011 | | | | |
| Forward exchange contracts | (135 371) | 126 885 | 262 256 | 13 141 535 |
| Futures contracts | 13 984 | 31 493 | 17 509 | 8 685 989 |
| Interest rate swaps | 23 120 | 23 120 | 0 | 12 455 314 |
| Total derivatives held-for-trading | (98 267) | 181 498 | 279 765 | 34 282 838 |
| Group and Bank 2010 | | | | |
| Forward exchange contracts | (81 231) | 39 005 | 120 236 | 9 357 192 |
| Futures contracts | (2 062) | 21 113 | 23 175 | 13 326 127 |
| Interest rate swaps | 5 152 | 5 152 | 0 | 39 067 504 |
| Total derivatives held-for-trading | (78 141) | 65 270 | 143 411 | 61 750 823 |

(1) The notional amount of a financial instrument is the nominal or face value that is used to calculate payments made on that instrument.

### 6.2 Securities lending activities

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Liability in respect of collateral received | (42 819 458) | (66 714 025) | (42 819 458) | (66 714 025) |
| Fair value of underlying investments | 42 684 648 | 66 469 972 | 42 684 648 | 66 469 972 |
| Net fair value adjustment | (134 810) | (244 053) | (134 810) | (244 053) |

## 7. Inventories

| | | | | |
|---|---|---|---|---|
| Raw materials | 119 644 | 195 433 | 0 | 0 |
| Work in progress | 144 986 | 155 076 | 0 | 0 |
| Consumable stores | 28 045 | 29 195 | 8 338 | 10 725 |
| Maintenance spares | 9 460 | 9 297 | 0 | 0 |
| Finished goods | 51 101 | 35 208 | 0 | 0 |
| | 353 236 | 424 209 | 8 338 | 10 725 |

## 8. Investments

| | | | | |
|---|---|---|---|---|
| Local registered bonds | 6 924 | 6 397 | 0 | 0 |
| Short-term South African money-market investments | 8 111 519 | 5 341 112 | 0 | 0 |
| Local equities | 13 926 | 12 230 | 0 | 0 |
| | 8 132 369 | 5 359 739 | 0 | 0 |
| Maturity structure | | | | |
| Repayable within 30 days | 8 111 519 | 5 341 112 | 0 | 0 |
| Repayable in more than 12 months | 6 924 | 6 397 | 0 | 0 |
| | 8 118 443 | 5 347 509 | 0 | 0 |

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Maximum exposure to credit risk | 8 118 443 | 5 347 509 | 0 | 0 |

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

Changes in fair value due to credit risk are regarded as immaterial for investments that have remaining maturities of less than one month.

Included in the short-term South African money-market investments are repurchase agreements, the following table represents details thereof:

| | | | | |
|---|---|---|---|---|
| Fair value of repurchase agreements | 1 293 210 | 28 472 | 0 | 0 |
| Fair value of collateral received | 1 384 000 | 27 000 | 0 | 0 |
| Fair value of collateral permitted to sell or repledge at the reporting date | 1 384 000 | 27 000 | 0 | 0 |
| Collateral cover | 107,02% | 94,83% | | |
| Maturity date | 7 April 2011 | 7 April 2010 | | |

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

The counterparties are exposed to interest rate risk on the various securities pledged as collateral for repurchase agreements. The Group has the ability to sell or repledge these securities in the event of default.

# 9. Amounts due by the South African Government

| | | | | |
|---|---|---|---|---|
| International Monetary Fund accounts administered on behalf of the South African Government | 794 162 | 794 057 | 794 162 | 794 057 |
| Government of Namibia debt taken over by the South African Government | 0 | 62 446 | 0 | 62 446 |
| Gross amount due | 0 | 63 211 | 0 | 63 211 |
| Impairment loss | 0 | (765) | 0 | (765) |
| Net amount due by the South African Government | 794 162 | 856 503 | 794 162 | 856 503 |

No settlement terms have been agreed to in respect of the International Monetary Fund balances administered on behalf of the South African Government. The amount is interest-free. The Namibian debt taken over by the South African Government was settled during the year under review in terms of an agreement with the South African Government.

# 10. Property, plant and equipment

## 10.1 Group: 2011

| | Land | Buildings | Plant, vehicles, furniture and equipment | Work in progress | Total |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| **Cost** | | | | | |
| Cost at 31 March 2010 | 39 895 | 535 489 | 1 999 854 | 136 989 | 2 712 227 |
| Additions | 0 | 966 | 205 257 | 217 145 | 423 368 |
| Transfers in/(out) | 0 | (8) | 25 296 | (25 288) | 0 |
| Disposals | 0 | 0 | (63 178) | 0 | (63 178) |
| Cost at 31 March 2011 | 39 895 | 536 447 | 2 167 229 | 328 846 | 3 072 417 |
| **Accumulated depreciation** | | | | | |
| Accumulated depreciation at 31 March 2010 | 0 | 208 557 | 1 030 017 | 0 | 1 238 574 |
| Charge for the year | 0 | 11 386 | 149 453 | 0 | 160 839 |
| Disposals | 0 | 0 | (12 839) | 0 | (12 839) |
| Accumulated depreciation at 31 March 2011 | 0 | 219 943 | 1 166 631 | 0 | 1 386 574 |
| **Net book value at 31 March 2011** | **39 895** | **316 504** | **1 000 598** | **328 846** | **1 685 843** |
| Estimated useful life (years) | | 50 | 2 to 28 | | |
| Insurance value of fixed assets (on a "future replacement basis" that takes into account the expected construction times). | | | | | 9 993 311 |

## Group: 2010

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

## 10.2 Bank: 2011

| | Land | Buildings | Plant, vehicles, furniture and equipment | Work in progress | Total |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| **Cost** | | | | | |
| Cost at 31 March 2010 | 30 200 | 379 326 | 1 032 683 | 74 938 | 1 517 147 |
| Additions | 0 | 130 | 65 223 | 104 769 | 170 122 |
| Transfers in/(out) | 0 | 0 | 14 553 | (14 553) | 0 |
| Disposals | 0 | 0 | (12 401) | 0 | (12 401) |
| Cost at 31 March 2011 | 30 200 | 379 456 | 1 100 058 | 165 154 | 1 674 868 |
| **Accumulated depreciation** | | | | | |
| Accumulated depreciation at 31 March 2010 | 0 | 153 442 | 633 288 | 0 | 786 730 |
| Charge for the year | 0 | 7 514 | 77 300 | 0 | 84 814 |
| Disposals | 0 | 0 | (11 925) | 0 | (11 925) |
| Accumulated depreciation at 31 March 2011 | 0 | 160 956 | 698 663 | 0 | 859 619 |
| **Net book value at 31 March 2011** | **30 200** | **218 500** | **401 395** | **165 154** | **815 249** |
| Estimated useful life (years) | | 50 | 5 to 15 | | |
| Insurance value of fixed assets (on a "future replacement basis" that takes into account the expected construction times). | | | | | 4 783 063 |

## Bank: 2010

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

## 11. Equity investment in Bank for International Settlements

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Unlisted shares at cost | 281 432 | 291 269 | 281 432 | 291 269 |

The shares held by the Bank in the Bank for International Settlements (BIS) are held as part of its function as a central bank and are thus long-standing in nature. Shares are only transferable with the prior consent of the BIS. The Bank has no intention of selling the shares.

The Bank's investment in the BIS consists of 8 612 shares. Under IAS 39 the Bank's shareholding in the BIS is classified as 'available-for-sale'. The shareholding is valued at cost as no active market exists for these shares. The net asset value of the shares is based on Special Drawing Rights (SDR)[1] of SDR 21 243 (2010: SDR 20 220) amounting to R1 970 million (2010: R1 941 million). Changes in value due to foreign-exchange rate movements are transferred to the Gold and Foreign Exchange Contingency Reserve Account. For the year ended 31 March 2011 a negative movement of R9,8 million (2010: negative movement of R78,5 million) was transferred to the Gold and Foreign Exchange Contingency Reserve Account.

(1) The Special Drawing Right (SDR) is a monetary unit of international reserve assets defined and maintained by the International Monetary Fund (IMF). The SDR also serves as the unit of account of the BIS, among other international organisations. The unit does not represent a currency, but represents a potential claim on the currencies of the IMF members for which it may be exchanged. It is based on a basket of international currencies comprising the United States dollar, euro, Japanese yen and pound sterling.

## 12. Deferred taxation assets and liabilities

| | | | | |
|---|---|---|---|---|
| Balance at the beginning of the year | 569 218 | 174 038 | 628 811 | 233 076 |
| Movements during the year (Note 25) | 460 746 | 395 180 | 449 725 | 395 735 |
| **Balance at the end of the year** | 1 029 964 | 569 218 | 1 078 536 | 628 811 |
| Comprising: | | | | |
| Deferred taxation assets | 1 191 158 | 714 670 | 1 131 751 | 675 635 |
| Deferred taxation liabilities | (161 194) | (145 452) | (53 215) | (46 824) |
| Net deferred taxation assets | 1 029 964 | 569 218 | 1 078 536 | 628 811 |

Deferred taxation assets and liabilities are attributed as set out in Notes 12.1 and 12.2.

### 12.1 Group

| | 2011 | Credit/(debit) to statement of comprehensive income | 2010 |
|---|---|---|---|
| | R'000 | R'000 | R'000 |
| Deferred retirement fund contributions | 2 682 | (49) | 2 731 |
| Fair value adjustment to impaired assets | 0 | (4 528) | 4 528 |
| Post-retirement medical benefits | 323 116 | 26 332 | 296 784 |
| Prepaid expenditure and other items | 447 | (2 305) | 2 752 |
| Property, plant and equipment | (160 963) | (15 511) | (145 452) |
| Provisions | 42 865 | 5 682 | 37 183 |
| Tax loss | 821 817 | 451 125 | 370 692 |
| Total | 1 029 964 | 460 746 | 569 218 |

| 12.2 Bank | 2011 R'000 | Credit/(debit) to statement of comprehensive income R'000 | 2010 R'000 |
|---|---|---|---|
| Deferred retirement fund contributions | 1 279 | (357) | 1 636 |
| Fair value adjustment to impaired assets | 0 | (214) | 214 |
| Post-retirement medical benefits | 290 901 | 21 074 | 269 827 |
| Prepaid expenditure and other items | 328 | 49 | 279 |
| Property, plant and equipment | (53 215) | (6 391) | (46 824) |
| Provisions | 34 999 | 2 002 | 32 997 |
| Tax loss | 804 244 | 433 562 | 370 682 |
| Total | 1 078 536 | 449 725 | 628 811 |

# 13. Forward exchange contract assets and liabilities

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Unrealised gain on forward exchange contracts | 45 147 | 2 532 | 40 830 | 1 877 |
| Unrealised loss on forward exchange contracts | (876 958) | (15 314) | (876 958) | (38) |
| Net (loss)/gain | (831 811) | (12 782) | (836 128) | 1 839 |
| Net (loss) debited/gain credited to Gold and Foreign Exchange Contingency Reserve Account (Note 20)* | (836 128) | 1 839 | (836 128) | 1 839 |
| Net gain credited/(loss) debited to profit or loss | 4 317 | (14 621) | 0 | 0 |

* These amounts represent unrealised gains and losses on forward exchange contracts, which will be for the account of government as and when they are realised. The notional amount of the forward exchange contracts amounts to R28 146 million (2010: R186,1 million).

# 14. Other assets

| | | | | |
|---|---|---|---|---|
| Financial assets | 363 707 | 256 022 | 339 681 | 313 664 |
| Non-financial assets | 36 730 | 139 868 | 31 516 | 19 871 |
| | 400 437 | 395 890 | 371 197 | 333 535 |
| Maturity structure of financial assets | | | | |
| Repayable within 30 days | 363 707 | 256 022 | 339 681 | 313 664 |

# 15. Deposit accounts

| | | | | |
|---|---|---|---|---|
| Non-interest bearing | 76 361 570 | 75 986 451 | 76 314 214 | 75 728 780 |
| Banks' reserve accounts | 56 976 764 | 55 696 075 | 56 976 764 | 55 696 075 |
| Government accounts | 19 317 500 | 20 219 555 | 19 270 144 | 19 961 884 |
| Other current accounts | 67 306 | 70 821 | 67 306 | 70 821 |
| Interest bearing | 83 283 171 | 87 665 875 | 72 915 295 | 72 483 036 |
| Repurchase agreements | 5 757 891 | 5 274 631 | 5 757 891 | 5 274 631 |
| Government special deposit | 67 157 404 | 67 157 404 | 67 157 404 | 67 157 404 |
| Margin calls: Repurchase transactions | 0 | 51 001 | 0 | 51 001 |
| Call deposits | 10 367 876 | 15 182 839 | 0 | 0 |
| | 159 644 741 | 163 652 326 | 149 229 509 | 148 211 816 |

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| **Maturity structure of deposit accounts** | | | | |
| Repayable on demand | 29 752 682 | 35 473 215 | 19 337 450 | 20 032 705 |
| Repayment terms subject to negotiation with National Treasury | 67 157 404 | 67 157 404 | 67 157 404 | 67 157 404 |
| Repayable within 30 days | 62 734 655 | 61 021 707 | 62 734 655 | 61 021 707 |
| | 159 644 741 | 163 652 326 | 149 229 509 | 148 211 816 |

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

| | | | | |
|---|---|---|---|---|
| Market value | 5 802 274 | 5 262 390 | 5 802 274 | 5 262 390 |
| Collateral cover (per cent) | 100,77 | 99,77 | 100,77 | 99,77 |

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

Government's special deposit bears interest at a rate equivalent to the return earned on foreign-exchange investments made by the Bank. The interest was settled during the year under review.

# 16. South African Reserve Bank debentures

| | | | | |
|---|---|---|---|---|
| Capital | 34 624 000 | 22 074 000 | 34 624 000 | 22 074 000 |
| Accrued interest | 84 311 | 93 307 | 84 311 | 93 307 |
| | 34 708 311 | 22 167 307 | 34 708 311 | 22 167 307 |

The SARB debentures are issued to the market on tender normally on a 28- or 56-day term. The debentures are unsecured. Details of the debentures in issue at 31 March 2011 are as follows:

| Maturity date | Interest rate | Capital |
|---|---|---|
| | Per cent | R'000 |
| 6 April 2011 | 5,50 | 6 763 000 |
| 6 April 2011 | 5,49 | 1 051 000 |
| 13 April 2011 | 5,49 | 1 085 000 |
| 13 April 2011 | 5,49 | 7 555 000 |
| 20 April 2011 | 5,47 | 8 385 000 |
| 20 April 2011 | 5,49 | 578 000 |
| 28 April 2011 | 5,47 | 4 950 000 |
| 28 April 2011 | 5,49 | 1 410 000 |
| 4 May 2011 | 5,49 | 937 000 |
| 11 May 2011 | 5,48 | 345 000 |
| 19 May 2011 | 5,50 | 515 000 |
| 25 May 2011 | 5,49 | 1 050 000 |
| | | 34 624 000 |

## 17. Foreign loans and deposits

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| | 58 610 330 | 27 324 181 | 58 610 330 | 27 324 181 |

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

Analyses of the currency composition and maturity structure of these loans are set out in Note 29.

## 18. Notes and coin in circulation

| | | | | |
|---|---|---|---|---|
| Notes | 74 101 363 | 71 718 139 | 74 101 363 | 71 718 139 |
| Coin | 4 151 218 | 3 870 100 | 4 151 218 | 3 870 100 |
| | 78 252 581 | 75 588 239 | 78 252 581 | 75 588 239 |

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

## 19. Provisions

| Group | Penalties | Provident fund contributions | Staff disability | Leave pay and bonus | Total |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Balance at 31 March 2009 | 154 | 0 | 4 900 | 115 218 | 120 272 |
| Increase in provision | 0 | 0 | 0 | 37 037 | 37 037 |
| Utilised during the year | (154) | 0 | (990) | (19 289) | (20 433) |
| Balance at 31 March 2010 | 0 | 0 | 3 910 | 132 966 | 136 876 |
| Increase in provision | 0 | 383 | 1 100 | 21 739 | 23 222 |
| Utilised during the year | 0 | 0 | 0 | (6 362) | (6 362) |
| Balance at 31 March 2011 | 0 | 383 | 5 010 | 148 343 | 153 736 |

| Bank | Leave pay and bonus | Total |
|---|---|---|
| Balance at 31 March 2009 | 103 043 | 103 043 |
| Increase in provision | 23 469 | 23 469 |
| Utilised during the year | (8 668) | (8 668) |
| Balance at 31 March 2010 | 117 844 | 117 844 |
| Increase in provision | 7 154 | 7 154 |
| Balance at 31 March 2011 | 124 998 | 124 998 |

## 20. Gold and Foreign Exchange Contingency Reserve Account

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Opening balance | 35 617 810 | 101 584 718 | 35 617 810 | 101 584 718 |
| Profit/(Loss) on gold price adjustment account | 6 320 058 | (2 424 670) | 6 320 058 | (2 424 670) |
| Profit on forward exchange contract adjustment account | 3 733 581 | 3 279 269 | 3 733 581 | 3 279 269 |
| Loss on foreign-exchange adjustment account | (16 718 659) | (66 996 090) | (16 718 659) | (66 996 090) |
| Movement in unrealised (losses) and gains on forward exchange contracts | (837 967) | 1 839 | (837 967) | 1 839 |
| | 28 114 823 | 35 445 066 | 28 114 823 | 35 445 066 |
| Net payments | 168 119 | 172 744 | 168 119 | 172 744 |
| Amount due to government | 28 282 942 | 35 617 810 | 28 282 942 | 35 617 810 |
| Balance composition | | | | |
| Balance currently due to government | 29 119 070 | 35 615 971 | 29 119 070 | 35 617 971 |
| Unrealised (losses)/gains on forward exchange contracts (Note 13) | (836 128) | 1 839 | (836 128) | 1 839 |
| | 28 282 942 | 35 617 810 | 28 282 942 | 35 617 810 |

The Gold and Foreign Exchange Contingency Reserve Account, which is operated in terms of section 28 of the South African Reserve Bank Act, represents net revaluation profits and losses incurred on gold and foreign exchange transactions, which are for the account of the South African Government. Settlement of this account is subject to agreement, from time to time, between the Bank and government. The current arrangement is that only transactions that have affected liquidity in the South African money market will be settled. The remainder of the transactions are in respect of the revaluation of gold and foreign exchange, and do not represent cash flow. In terms of this agreement, the balance to be settled by the government in respect of the financial year amounts to R143,8 million (2010: R168,1 million).

## 21. Other liabilities

| | | | | |
|---|---|---|---|---|
| Financial liabilities | 254 771 | 285 970 | 78 377 | 91 386 |
| Non-financial liabilities | 22 855 | 15 079 | 22 855 | 15 079 |
| | 277 626 | 301 049 | 101 232 | 106 465 |
| Maturity structure of financial liabilities | | | | |
| Repayable within 30 days | 254 771 | 285 970 | 78 377 | 91 386 |

# 22. Retirement benefit information

## Retirement funds

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

The assets and liabilities of the defined benefit fund, which has been closed to new members since 1 July 1995, were transferred to the defined contribution fund on 31 March 2011. There are currently 354 pensioners qualifying for the defined benefits. The benefits provided are based on the years of membership and salary levels. These benefits were provided from contributions made by employees and the employer, and from income derived from the assets of the plan. The actuarial risk in respect of current pension commitments has mainly been transferred to Sanlam through an insurance policy. In view of the transfer of the pension liability to Sanlam, no further financial disclosures are deemed necessary in respect of the defined benefit fund, as required by IAS 19 (AC 116). The last actuarial valuation of the fund was as at 31 March 2008, at which date it was determined to be fully funded. The next valuation will be for the year ended 31 March 2011.

## Post-retirement medical benefits

The Bank and a subsidiary (South African Bank Note Company (Pty) Limited) provide post-retirement medical benefits to retired staff in the form of subsidised medical aid premiums. This benefit has been closed to all new employees at the subsidiary since 2003. A provision for the liability has been created. The provision covers the total liability, that is, the accumulated post-retirement medical benefit liability at fair value as at 31 March 2011.

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Net liability at the beginning of the year | 1 059 941 | 921 333 | 963 665 | 833 400 |
| Annual cost | | | | |
| Interest cost | 95 454 | 80 584 | 86 364 | 72 962 |
| Service cost | 32 749 | 27 361 | 29 894 | 24 554 |
| Actuarial losses | 28 626 | 68 689 | 19 014 | 68 642 |
| Net cost | 156 829 | 176 634 | 135 272 | 166 158 |
| Total benefit payments | (62 783) | (38 026) | (60 005) | (35 893) |
| Net liability at the end of the year | 1 153 987 | 1 059 941 | 1 038 932 | 963 665 |

| Key assumptions | 2011 | 2010 |
|---|---|---|
| | Per cent | Per cent |
| Discount rate | 8,75 | 9,25 |
| Medical inflation | 6,50 | 7,00 |
| Net discount rate | 2,11 | 2,10 |
| Valuation date | 31 March 2011 | 31 March 2010 |

The effect of a 1 per cent increase and decrease in the medical inflation rate is as follows:

| | 1% decrease | Valuation basis | 1% increase |
|---|---|---|---|
| Group | R'000 | R'000 | R'000 |
| Employer's accrued liability | 1 025 138 | 1 153 987 | 1 318 432 |
| Employer's service and interest cost | 106 898 | 128 203 | 170 820 |
| Bank | | | |
| Employer's accrued liability | 899 465 | 1 038 932 | 1 212 668 |
| Employer's service and interest cost | 105 571 | 116 258 | 149 584 |

## 23. Share capital

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 R'000 | 2010 R'000 | 2011 R'000 | 2010 R'000 |
| **Authorised and issued** | | | | |
| 2 000 000 shares (2010: 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.

## 24. Loss before taxation

### 24.1 Total income is stated after crediting

| | | | | |
|---|---|---|---|---|
| Income from investments | 68 925 | 31 777 | 67 027 | 27 990 |
| Dividends | 67 279 | 28 189 | 67 027 | 27 990 |
| Realised and unrealised profit on investments | 1 646 | 3 588 | 0 | 0 |
| Income from subsidiaries | | | 11 478 | 13 722 |
| Dividends | | | 200 | 200 |
| Interest | | | 10 319 | 12 593 |
| Management fees | | | 959 | 929 |
| Commission on banking services | 1 015 505 | 298 595 | 1 015 505 | 298 595 |

Realised and unrealised profits and losses on the Bank's investments are included in interest income in terms of the Bank's accounting policies.

## 24.2 Operating costs include

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Directors' remuneration (Note 30.4) | 20 397 | 18 791 | 20 125 | 18 165 |
| For services as non-executive directors | 3 845 | 3 210 | 3 573 | 2 584 |
| For services as executive directors | 16 552 | 15 581 | 16 552 | 15 581 |
| Depreciation | 160 839 | 145 109 | 84 814 | 80 175 |
| Buildings | 11 386 | 11 531 | 7 514 | 8 230 |
| Plant, vehicles, furniture and equipment | 149 453 | 133 578 | 77 300 | 71 945 |
| Net (profit)/loss on disposal of: | | | | |
| Plant, vehicles, furniture and equipment | (1) | 36 | 25 | 232 |
| Auditors' remuneration | 11 228 | 8 966 | 6 476 | 6 174 |
| Audit fees | 9 312 | 7 861 | 6 421 | 5 069 |
| Fees for other services | 1 916 | 1 105 | 55 | 1 105 |
| Consulting fees | 82 032 | 70 398 | 70 375 | 63 667 |
| Net transfers to provisions | 16 860 | 16 604 | 7 154 | 14 801 |
| Provision for leave pay and bonuses | 15 377 | 17 748 | 7 154 | 14 801 |
| Provision for staff disability and penalties | 1 100 | (1 144) | 0 | 0 |
| Provision for provident fund contributions | 383 | 0 | 0 | 0 |
| Retirement benefit costs | 268 078 | 287 751 | 216 036 | 250 895 |
| Normal contributions to funds | 117 921 | 101 409 | 101 313 | 86 467 |
| Additional contributions to funds | 681 | 20 | 681 | 20 |
| Provision for post-retirement medical benefits | 94 046 | 138 608 | 75 267 | 130 265 |
| Medical aid premiums paid | 55 430 | 47 714 | 38 775 | 34 143 |
| Remuneration and recurring staff costs | 1 178 425 | 1 052 902 | 965 665 | 858 292 |
| Cost of new currency | 123 423 | 136 048 | 825 417 | 1 118 217 |
| Other operating costs | 875 037 | 1 062 000 | 303 780 | 253 921 |

## 25. Taxation

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| South African normal taxation | | | | |
| Current taxation | 17 048 | 42 295 | (894) | (7 744) |
| Adjustment in respect of prior year | (990) | (229) | (345) | (229) |
| Deferred taxation | (460 746) | (395 180) | (449 725) | (395 735) |
| Current year timing differences | (460 667) | (395 180) | (449 725) | (395 735) |
| Adjustment in respect of prior year | (79) | 0 | 0 | 0 |
| Secondary taxation on companies | 0 | 0 | 0 | 0 |
| | (444 688) | (353 114) | (450 964) | (403 708) |
| **Reconciliation of taxation rate** | | | | |
| South African normal taxation rate | 28,00% | 28,00% | 28,00% | 28,00% |
| Adjusted for: | | | | |
| Disallowable expenses | (0,13%) | (0,91%) | (0,14%) | (0,72%) |
| Exempt income and special deductions | 1,03% | 1,53% | 0,00% | 0,53% |
| Adjustment in respect of prior years | 0,02% | 0,02% | 0,02% | 0,02% |
| Secondary taxation on companies | 0,00% | 0,00% | 0,00% | 0,00% |
| Effective taxation rate | 28,92% | 28,64% | 27,88% | 27,83% |

No secondary tax on companies is payable as the net amount of dividends is equal to zero. The credit to current taxation for the Bank represents the tax charge on the revaluation of available-for-sale financial assets.

## 26. Dividend per share (cents)

| | Group 2011 | Group 2010 | Bank 2011 | Bank 2010 |
|---|---|---|---|---|
| Dividend per share (cents) | 10 | 10 | 10 | 10 |
| Dividends were paid as follows: | | | | |
| Final dividend of 5 cents per share for the 2010 financial year | 100 | 100 | 100 | 100 |
| Interim dividend of 5 cents per share for the 2011 financial year | 100 | 100 | 100 | 100 |
| | 200 | 200 | 200 | 200 |

Earnings per share has not been calculated because the shares qualify for a maximum dividend of 10 cents per share per annum in terms of the South African Reserve Bank Act.

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

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Reconciliation of loss before taxation to cash generated from/(utilised by) operating activities: | | | | |
| Loss before taxation for the year | (1 537 604) | (1 233 156) | (1 617 159) | (1 450 373) |
| Adjustments for: | | | | |
| Depreciation | 160 839 | 145 109 | 84 814 | 80 175 |
| Net (profit)/loss on disposal of fixed assets | (1) | 36 | 25 | 232 |
| Unrealised foreign-exchange (profit)/loss | (15 276) | 3 189 | 0 | 0 |
| Notional interest on interest-free loan | (765) | (10 023) | (765) | (10 023) |
| Fair value adjustments to financial instruments | 1 153 | (3 001) | 0 | 0 |
| Fair value adjustments to forward exchange contracts | 0 | (655) | 0 | 0 |
| Provisions | 16 860 | 16 604 | 7 154 | 14 801 |
| Post-retirement medical benefits | 94 046 | 138 608 | 75 267 | 130 265 |
| Amortisation of coupon interest | 111 394 | 103 119 | 111 394 | 103 119 |
| Net cash utilised by operating activities | (1 169 354) | (840 170) | (1 339 270) | (1 131 804) |
| Changes in working capital | | | | |
| Accommodation to banks | (4 998 412) | (1 106 394) | (4 998 412) | (1 106 394) |
| Loans and advances | 4 825 | (1 111) | 4 825 | (1 111) |
| Amounts due by subsidiaries | 0 | 0 | 4 728 | (10 117) |
| Gold and foreign exchange | (26 831 273) | 14 935 351 | (26 831 273) | 14 935 351 |
| Inventories | 70 973 | (29 855) | 2 387 | (4 770) |
| Amounts due by the South African Government | 63 106 | 78 493 | 63 106 | 78 493 |
| Gold and Foreign Exchange Contingency Reserve Account | (6 496 901) | (65 968 747) | (6 496 901) | (65 968 747) |
| Equity investment in Bank for International Settlements | 9 837 | 78 463 | 9 837 | 78 463 |
| Other assets | (4 547) | 82 201 | (37 662) | 37 891 |
| Deposit accounts | (4 007 585) | 28 668 350 | 1 017 693 | 22 608 390 |
| Amounts due to subsidiaries | 0 | 0 | (7 816 455) | 8 821 065 |
| South African Reserve Bank debentures | 12 541 004 | (5 941 837) | 12 541 004 | (5 941 837) |
| Foreign loans and deposits | 31 286 149 | 21 123 015 | 31 286 149 | 21 123 015 |
| Notes and coin in circulation | 2 664 342 | 6 608 754 | 2 664 342 | 6 608 754 |
| Other financial liabilities | (38 830) | (49 473) | (5 233) | 42 854 |
| Cash generated from/(utilised by) changes in working capital | 4 262 688 | (1 522 790) | 1 408 135 | 1 301 300 |
| Cash generated from/(utilised by) operating activities | 3 093 334 | (2 362 960) | 68 865 | 169 496 |

# 28. Capital commitments

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R'000 | R'000 | R'000 | R'000 |
| Contracted | 93 618 | 91 119 | 71 562 | 26 655 |
| Not contracted | 698 652 | 651 166 | 639 098 | 322 337 |
| Total | 792 270 | 742 285 | 710 660 | 348 992 |

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

# 29. Risk management in respect of financial instruments

The policies and procedures of the Bank regarding risk management are dealt with in the section on risk management, which appears on pages 41 and 42. Certain aspects of risk management specific to financial instruments are described in more detail below.

## Interest rate risk

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

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

## Market price risk

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

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

The Bank is exposed to market price risk in respect of investments in bonds denominated in US dollar, pound sterling and euro. The Bank's exposure to market price risk is largely limited by the fact that gold and foreign-exchange price risks are for the account of the South African Government in terms of the South African Reserve Bank Act.

## Credit risk

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

Credit risk with respect to monetary policy operations is sufficiently mitigated, since all repurchase transactions are fully collateralised. Furthermore, in terms of the South African Reserve Bank Act, no unsecured lending is allowed. The list of eligible securities is split between Category 1 and Category 2 instruments in terms of the Operational Notice. Category 1 assets consist of rand-denominated South African Government bonds, Treasury bills, SARB debentures and Land

Bank bills. Category 2 securities consist of a selection of bonds included in the All-Bond Index, as determined by the Bond Exchange of South Africa (BESA) and are published on the website of the Bank. Furthermore, operations in the foreign-exchange market can only be conducted with Authorised Dealers.

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

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

## Concentration analysis

| | Group | | Bank | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | R’000 | R’000 | R’000 | R’000 |
| Assets | | | | |
| South African rand | 37 434 996 | 29 253 454 | 28 381 414 | 23 041 215 |
| Gold | 39 098 131 | 32 772 365 | 39 098 131 | 32 772 365 |
| United States dollar | 189 993 908 | 168 808 875 | 189 978 819 | 168 796 812 |
| Euro | 54 334 570 | 54 766 282 | 54 334 570 | 54 737 869 |
| Pound sterling | 31 621 482 | 31 556 085 | 31 621 482 | 31 556 085 |
| Other | 19 578 722 | 19 934 525 | 19 578 722 | 19 934 525 |
| | 372 061 809 | 337 091 586 | 362 993 138 | 330 838 871 |
| Liabilities | | | | |
| South African rand | 303 504 626 | 298 650 921 | 295 669 686 | 293 637 471 |
| United States dollar | 58 611 662 | 27 331 513 | 58 610 330 | 27 324 181 |
| Euro | 57 | 15 211 | 0 | 0 |
| Other | 6 061 | 10 850 | 0 | 0 |
| | 362 122 406 | 326 008 495 | 354 280 016 | 320 961 652 |

## Concentration risk

Concentration risk is the risk of significant exposure to a single counterparty or geographic region. Concentration risk is calculated on the basis of a percentage of the exposure to the counterparty of the Bank as a percentage of total exposures to all counterparties. This is actively monitored by the risk unit within the Financial Markets Department of the Bank.

## Liquidity risk

Liquidity risk is the risk that an entity may not be able to accommodate decreases in liabilities or fund increases in assets in full at the time that a commitment or transaction is due for settlement. In the case of the Bank, this risk is not relevant to domestic assets and liabilities because of the Bank’s ability to create rands when required. However, the Bank does face liquidity risk in respect of foreign assets and liabilities. The Bank manages its foreign liquidity risks through appropriate structuring of its foreign investment portfolios to ensure that the maturity profiles of foreign assets adequately match those of foreign commitments. This is monitored and managed on a daily basis. In addition, the Bank’s foreign investment portfolio comprises mainly short-term, highly liquid investment instruments.

The table on page 99 analyses the financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to contractual maturity date.

| Liabilities (R'000) | Up to 1 month | 2 to 3 months | 4 to 6 months | 7 to 12 months | More than 1 year | Total |
|---|---|---|---|---|---|---|
| **Group 31 March 2011** | | | | | | |
| Deposit accounts | 159 644 741 | 0 | 0 | 0 | 0 | 159 644 741 |
| South African Reserve Bank debentures | 31 861 311 | 2 847 000 | 0 | 0 | 0 | 34 708 311 |
| Foreign loans and deposits[1] | 58 610 330 | 0 | 0 | 0 | 0 | 58 610 330 |
| Notes and coin in circulation | 78 252 581 | 0 | 0 | 0 | 0 | 78 252 581 |
| Gold and Foreign Exchange Contingency Reserve Account | 28 282 942 | 0 | 0 | 0 | 0 | 28 282 942 |
| Forward exchange contract liabilities | 246 212 | 546 983 | 83 763 | 0 | 0 | 876 958 |
| Other financial liabilities | 254 771 | 0 | 0 | 0 | 0 | 254 771 |
| Total financial liabilities | 357 152 888 | 3 393 983 | 83 763 | 0 | 0 | 360 630 634 |
| **Group 31 March 2010** | | | | | | |
| Deposit accounts | 163 652 326 | 0 | 0 | 0 | 0 | 163 652 326 |
| South African Reserve Bank debentures | 18 197 307 | 3 970 000 | 0 | 0 | 0 | 22 167 307 |
| Foreign loans and deposits [1] | 24 756 931 | 0 | 2 567 250 | 0 | 0 | 27 324 181 |
| Notes and coin in circulation | 75 588 239 | 0 | 0 | 0 | 0 | 75 588 239 |
| Gold and Foreign Exchange Contingency Reserve Account | 35 617 810 | 0 | 0 | 0 | 0 | 35 617 810 |
| Forward exchange contract liabilities | 2 061 | 3 117 | 6 653 | 3 483 | 0 | 15 314 |
| Other financial liabilities | 285 970 | 0 | 0 | 0 | 0 | 285 970 |
| Total financial liabilities | 318 100 644 | 3 973 117 | 2 573 903 | 3 483 | 0 | 324 651 147 |
| **Bank 31 March 2011** | | | | | | |
| Deposit accounts | 149 229 509 | 0 | 0 | 0 | 0 | 149 229 509 |
| Amounts due to subsidiaries | 3 001 008 | 0 | 0 | 0 | 0 | 3 001 008 |
| South African Reserve Bank debentures | 31 861 311 | 2 847 000 | 0 | 0 | 0 | 34 708 311 |
| Foreign loans and deposits [1] | 58 610 330 | 0 | 0 | 0 | 0 | 58 610 330 |
| Notes and coin in circulation | 78 252 581 | 0 | 0 | 0 | 0 | 78 252 581 |
| Gold and Foreign Exchange Contingency Reserve Account | 28 282 942 | 0 | 0 | 0 | 0 | 28 282 942 |
| Forward exchange contract liabilities | 246 212 | 546 983 | 83 763 | 0 | 0 | 876 958 |
| Other financial liabilities | 78 377 | 0 | 0 | 0 | 0 | 78 377 |
| Total financial liabilities | 349 562 270 | 3 393 983 | 83 763 | 0 | 0 | 353 040 016 |
| **Bank 31 March 2010** | | | | | | |
| Deposit accounts | 148 211 816 | 0 | 0 | 0 | 0 | 148 211 816 |
| Amounts due to subsidiaries | 10 817 463 | 0 | 0 | 0 | 0 | 10 817 463 |
| South African Reserve Bank debentures | 18 197 307 | 3 970 000 | 0 | 0 | 0 | 22 167 307 |
| Foreign loans and deposits [1] | 24 756 931 | 0 | 2 567 250 | 0 | 0 | 27 324 181 |
| Notes and coin in circulation | 75 588 239 | 0 | 0 | 0 | 0 | 75 588 239 |
| Gold and Foreign Exchange Contingency Reserve Account | 35 617 810 | 0 | 0 | 0 | 0 | 35 617 810 |
| Forward exchange contract liabilities | 38 | 0 | 0 | 0 | 0 | 38 |
| Other financial liabilities | 91 386 | 0 | 0 | 0 | 0 | 91 386 |
| Total financial liabilities | 313 280 990 | 3 970 000 | 2 567 250 | 0 | 0 | 319 818 240 |

[1] Amounts reflected at fair value. Undiscounted cash flows approximate fair value due to the short-term nature of instruments.

## Foreign-exchange operations

The framework of control regarding market operations in foreign exchange, that is, in spot and forward foreign-exchange transactions, is rigorous. Trading limits exist for these instruments and compliance is monitored and reported daily. In terms of the South African Reserve Bank Act, all profits or losses on the gold price, foreign-exchange adjustments on assets and liabilities and on any current or future forward exchange contract shall be for the account of the South African Government.

## Settlement risk

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

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

## Financial risk reporting in the Bank

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

# 30. Related party information

## 30.1 Investment in subsidiaries

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

| | Authorised and issued share capital | | Bank | |
|---|---|---|---|---|
| | Number of shares | Percentage held | 2011 | 2010 |
| | R'000 | Per cent | R'000 | R'000 |
| Corporation for Public Deposits | 2 000 | 100 | 2 000 | 2 000 |
| South African Mint Company (Pty) Limited | 60 000 | 100 | 206 000 | 206 000 |
| South African Bank Note Company (Pty) Limited | 61 000 | 100 | 61 000 | 61 000 |
| South African Reserve Bank Captive Insurance Company Limited | 10 000 | 100 | 10 000 | 10 000 |
| Total | | | 279 000 | 279 000 |

The contribution to the Group profit and loss by subsidiaries is as follows:

| | 2011 R'000 | 2010 R'000 |
|---|---|---|
| Corporation for Public Deposits | 53 070 | 37 663 |
| South African Mint Company (Pty) Limited | 37 467 | 39 112 |
| South African Bank Note Company (Pty) Limited | (23 088) | 80 987 |
| South African Reserve Bank Captive Insurance Company Limited | 6 030 | 9 061 |
| Total | 73 479 | 166 823 |

## 30.2 Amounts due by/(to) subsidiaries

| | | |
|---|---|---|
| Amounts due by subsidiaries | 194 567 | 199 295 |
| South African Bank Note Company (Pty) Limited: Loan | 32 229 | 32 229 |
| South African Bank Note Company (Pty) Limited: Current account | 0 | 3 340 |
| South African Mint Company (Pty) Limited: Trading account | 12 486 | 0 |
| Corporation for Public Deposits: Current account | 149 852 | 163 726 |
| Amounts due to subsidiaries | | |
| Corporation for Public Deposits: Call deposit | (3 001 008) | (10 817 463) |

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

## 30.3 Transactions between the Bank and its subsidiaries

The following transactions took place between the Bank and its subsidiaries, which are related parties to the Bank:

| | | |
|---|---|---|
| Interest received | 10 319 | 12 593 |
| South African Bank Note Company (Pty) Limited | 2 001 | 2 476 |
| Corporation for Public Deposits | 8 318 | 10 117 |
| Interest paid | | |
| Corporation for Public Deposits | 796 555 | 513 832 |
| Insurance premiums paid | | |
| South African Reserve Bank Captive Insurance Company Limited | 10 885 | 10 893 |
| Rent paid | | |
| South African Bank Note Company (Pty) Limited | 2 263 | 2 187 |
| Management fees received | 959 | 929 |
| Corporation for Public Deposits | 581 | 581 |
| South African Reserve Bank Captive Insurance Company Limited | 378 | 348 |
| Cost of currency | 701 994 | 980 418 |
| South African Bank Note Company (Pty) Limited | 427 798 | 677 661 |
| South African Mint Company (Pty) Limited | 274 196 | 302 757 |
| Proceeds from insurance claims | | |
| South African Reserve Bank Captive Insurance Company Limited | 3 495 | 1 278 |

## 30.4 Directors' remuneration

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

| | 2011 R'000 | 2010 R'000 |
|---|---|---|
| Executive directors: Remuneration | | |
| G Marcus (appointed 9 November 2009)(1) | | |
| Remuneration and recurring fringe benefits | 4 665 | 1 738 |
| Other fringe benefits(2) | 0 | 0 |
| | 4 665 | 1 738 |
| X P Guma | | |
| Remuneration and recurring fringe benefits | 3 651 | 3 023 |
| Other fringe benefits | 40 | 31 |
| | 3 691 | 3 054 |
| A D Mminele (appointed 1 July 2009)(3) | | |
| Remuneration and recurring fringe benefits | 3 407 | 2 312 |
| Other fringe benefits | 59 | 36 |
| | 3 466 | 2 348 |
| T T Mboweni (term ended 8 November 2009)(4) | | |
| Remuneration and recurring fringe benefits | 121 | 2 433 |
| Other fringe benefits, which included encashment of leave(5) | 1 346 | 33 |
| Payments during cooling-off period up to 8 May 2010 | 550 | 2 624 |
| | 2 017 | 5 090 |
| R D Mokate (term ended 31 July 2010)(6) | | |
| Remuneration and recurring fringe benefits | 1 213 | 3 043 |
| Other fringe benefits, including study aid for dependants | 639 | 308 |
| Payments during cooling-off period up to 31 October 2010 | 861 | 0 |
| | 2 713 | 3 351 |
| Total remuneration of executive directors | 16 552 | 15 581 |
| Non-executive directors: Remuneration for services | | |
| D Konar | 466 | 281 |
| N D Orleyn | 359 | 293 |
| F Jakoet (1 April 2010 to 8 December 2010) | 269 | 280 |
| Z P Manase | 360 | 281 |
| S M Goodson | 358 | 276 |
| R W K Parsons | 336 | 235 |
| F E Groepe | 377 | 207 |
| T N Mgoduso | 328 | 239 |
| J F van der Merwe | 373 | 274 |
| E Masilela (1 April 2010 to 31 January 2011) | 261 | 218 |
| B W Smit (9 December 2010 to 31 March 2011) | 86 | 0 |
| | 3 573 | 2 584 |
| Paid by subsidiaries | | |
| Non-executive directors: Remuneration for services | | |
| F Jakoet | 4 | 301 |
| E Masilela | 116 | 218 |
| R W K Parsons | 152 | 107 |
| | 272 | 626 |

(1) The comparative figures for 2010 are for a period of approximately 3,7 months (current year: 12 months).
(2) The Bank provides accommodation to the Office of the Governor at the official residence. The deemed tax value of the benefit was R712 000 for the current year (2010: R177 000).
(3) The comparative figures for 2010 are for a 9-month period (current year: 12 months).
(4) The comparative figures for 2010 are for a period of approximately 8,3 months (current year: cooling-off payments).
(5) The Bank provided accommodation to the Office of the Governor at the official residence. The deemed tax value of the benefit was R0 for the current year (2010: R367 000).
(6) The current year's figures are for a period of 4 months (2010: 12 months)

The effective annual increase in remuneration to executive directors is due to an average annual increase of 6 per cent during the 2010/11 financial year (2009/10: 6,5 per cent), and includes payments in respect of the cooling-off periods to T T Mboweni and R D Mokate. A backdated increase adjustment of 3,1 per cent for the 2009/10 financial year-end was paid during the 2010/11 financial year.

## 31. Segment reporting

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

## 32. Gains and losses per category of financial assets and financial liabilities

| | Total | Held-for-trading | Designated at fair value | Loans and receivables | Available-for-sale | Other liabilities |
|---|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| **Group 31 March 2011** | | | | | | |
| Interest income | 4 560 244 | 439 343 | 2 577 645 | 842 126 | 701 130 | |
| Interest expense | (4 695 795) | | | | | (4 695 795) |
| Dividend income | 67 279 | | 252 | | 67 027 | |
| Bond revaluation reserve | 3 192 | | | | 3 192 | |
| **Group 31 March 2010** | | | | | | |
| Interest income | 6 137 194 | (1 187 305) | 5 581 696 | 1 033 399 | 709 404 | |
| Interest expense | (5 228 566) | | | | | (5 228 566) |
| Dividend income | 28 189 | | 199 | | 27 990 | |
| Bond revaluation reserve | 27 658 | | | | 27 658 | |
| **Bank 31 March 2011** | | | | | | |
| Interest income | 3 303 119 | 439 343 | 1 316 147 | 846 499 | 701 130 | |
| Interest expense | (3 523 387) | | | | | (3 523 387) |
| Dividend income | 67 227 | | 200 | | 67 027 | |
| Bond revaluation reserve | 3 192 | | | | 3 192 | |
| **Bank 31 March 2010** | | | | | | |
| Interest income | 5 154 475 | (1 187 305) | 4 841 915 | 790 461 | 709 404 | |
| Interest expense | (4 316 795) | | | | | (4 316 795) |
| Dividend income | 28 190 | | 200 | | 27 990 | |
| Bond revaluation reserve | 27 658 | | | | 27 658 | |

## 33. Classification of financial assets and liabilities

| | Total | Held-for-trading | Designated at fair value | Loans and receivables | Available-for-sale | Other liabilities | Fair value[1] |
|---|---|---|---|---|---|---|---|
| | | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Group<br>31 March 2011 | | | | | | | |
| Financial assets | | | | | | | |
| Cash and cash equivalents | 95 282 | | | 95 282 | | | 95 282 |
| Accommodation to banks | 16 416 205 | | | 16 416 205 | | | 16 416 205 |
| South African Government bonds | 8 253 367 | | | | 8 253 367 | | |
| Loans and advances | 69 380 | | | 69 380 | | | 69 380 |
| Gold and foreign exchange | 334 337 660 | (98 267) | 334 435 927 | | | | |
| Investments | 8 132 369 | | 8 132 369 | | | | |
| Amounts due by the South African Government [2] | 794 162 | | | 794 162 | | | 794 162 |
| Equity investment in Bank for International Settlements | 281 432 | | | | 281 432 | | |
| Forward exchange contract assets | 45 147 | 45 147 | | | | | |
| Other financial assets | 363 707 | | | 363 707 | | | 363 707 |
| Financial liabilities | | | | | | | |
| Deposit accounts [3] | 159 644 741 | | | | | 159 644 741 | 159 644 741 |
| South African Reserve Bank debentures | 34 708 311 | | | | | 34 708 311 | 34 708 311 |
| Foreign loans and deposits | 58 610 330 | | | | | 58 610 330 | 58 610 330 |
| Notes and coin in circulation | 78 252 581 | | | | | 78 252 581 | 78 252 581 |
| Gold and Foreign Exchange Contingency Reserve Account | 28 282 942 | | | | | 28 282 942 | 28 282 942 |
| Forward exchange contract liabilities | 876 958 | 876 958 | | | | | |
| Other financial liabilities | 254 771 | | | | | 254 771 | 254 771 |

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

## 33. Classification of financial assets and liabilities (continued)

| | Total | Held-for-trading R'000 | Designated at fair value R'000 | Loans and receivables R'000 | Available-for-sale R'000 | Other liabilities R'000 | Fair value[(1)] R'000 |
|---|---|---|---|---|---|---|---|
| **Group 31 March 2010** | | | | | | | |
| **Financial assets** | | | | | | | |
| Cash and cash equivalents | 95 324 | | | 95 324 | | | 95 324 |
| Accommodation to banks | 11 417 793 | | | 11 417 793 | | | 11 417 793 |
| South African Government bonds | 8 361 569 | | | | 8 361 569 | | |
| Loans and advances | 74 205 | | | 74 205 | | | 74 205 |
| Gold and foreign exchange | 307 506 387 | (78 141) | 307 584 528 | | | | |
| Investments | 5 359 739 | | 5 359 739 | | | | |
| Amounts due by the South African Government [(2)] | 856 503 | | | 856 503 | | | 856 503 |
| Equity investment in Bank for International Settlements | 291 269 | | | | 291 269 | | |
| Forward exchange contract assets | 2 532 | 2 532 | | | | | |
| Other financial assets | 256 022 | | | 256 022 | | | 256 022 |
| **Financial liabilities** | | | | | | | |
| Deposit accounts [(3)] | 163 652 326 | | | | | 163 652 326 | 163 652 326 |
| South African Reserve Bank debentures | 22 167 307 | | | | | 22 167 307 | 22 167 307 |
| Foreign loans and deposits | 27 324 181 | | | | | 27 324 181 | 27 324 181 |
| Notes and coin in circulation | 75 588 239 | | | | | 75 588 239 | 75 588 239 |
| Gold and Foreign Exchange Contingency Reserve Account | 35 617 810 | | | | | 35 617 810 | 35 617 810 |
| Forward exchange contract liabilities | 15 314 | 15 314 | | | | | |
| Other financial liabilities | 285 970 | | | | | 285 970 | 285 970 |

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

## 33. Classification of financial assets and liabilities (continued)

| | Total | Held-for-trading | Designated at fair value | Loans and receivables | Available-for-sale | Other liabilities | Fair value[1] |
|---|---|---|---|---|---|---|---|
| | | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Bank<br>31 March 2011 | | | | | | | |
| **Financial assets** | | | | | | | |
| Accommodation to banks | 16 416 205 | | | 16 416 205 | | | 16 416 205 |
| South African Government bonds | 8 253 367 | | | | 8 253 367 | | |
| Loans and advances | 69 380 | | | 69 380 | | | 69 380 |
| Amounts due by subsidiaries | 194 567 | | | 194 567 | | | 194 567 |
| Gold and foreign exchange | 334 337 660 | (98 267) | 334 435 927 | | | | |
| Amounts due by the South African Government [2] | 794 162 | | | 794 162 | | | 794 162 |
| Equity investment in Bank for International Settlements | 281 432 | | | | 281 432 | | |
| Forward exchange contract assets | 40 830 | 40 830 | | | | | |
| Other financial assets | 339 681 | | | 339 681 | | | 339 681 |
| **Financial liabilities** | | | | | | | |
| Deposit accounts [3] | 149 229 509 | | | | | 149 229 509 | 149 229 509 |
| Amounts due to subsidiaries | 3 001 008 | | | | | 3 001 008 | 3 001 008 |
| South African Reserve Bank debentures | 34 708 311 | | | | | 34 708 311 | 34 708 311 |
| Foreign loans and deposits | 58 610 330 | | | | | 58 610 330 | 58 610 330 |
| Notes and coin in circulation | 78 252 581 | | | | | 78 252 581 | 78 252 581 |
| Gold and Foreign Exchange Contingency Reserve Account | 28 282 942 | | | | | 28 282 942 | 28 282 942 |
| Forward exchange contract liabilities | 876 958 | 876 958 | | | | | |
| Other financial liabilities | 78 377 | | | | | 78 377 | 78 377 |

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

## 33. Classification of financial assets and liabilities (continued)

| | Total | Held-for-trading | Designated at fair value | Loans and receivables | Available-for-sale | Other liabilities | Fair value(1) |
|---|---|---|---|---|---|---|---|
| | | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Bank<br>31 March 2010 | | | | | | | |
| **Financial assets** | | | | | | | |
| Accommodation to banks | 11 417 793 | | | 11 417 793 | | | 11 417 793 |
| South African Government bonds | 8 361 569 | | | | 8 361 569 | | |
| Loans and advances | 74 205 | | | 74 205 | | | 74 205 |
| Amounts due by subsidiaries | 199 295 | | | 199 295 | | | 199 295 |
| Gold and foreign exchange | 307 506 387 | (78 141) | 307 584 528 | | | | |
| Amounts due by the South African Government (2) | 856 503 | | | 856 503 | | | 856 503 |
| Equity investment in Bank for International Settlements | 291 269 | | | | 291 269 | | |
| Forward exchange contract assets | 1 877 | 1 877 | | | | | |
| Other financial assets | 313 664 | | | 313 664 | | | 313 664 |
| **Financial liabilities** | | | | | | | |
| Deposit accounts (3) | 148 211 816 | | | | | 148 211 816 | 148 211 816 |
| Amounts due to subsidiaries | 10 817 463 | | | | | 10 817 463 | 10 817 463 |
| South African Reserve Bank debentures | 22 167 307 | | | | | 22 167 307 | 22 167 307 |
| Foreign loans and deposits | 27 324 181 | | | | | 27 324 181 | 27 324 181 |
| Notes and coin in circulation | 75 588 239 | | | | | 75 588 239 | 75 588 239 |
| Gold and Foreign Exchange Contingency Reserve Account | 35 617 810 | | | | | 35 617 810 | 35 617 810 |
| Forward exchange contract liabilities | 38 | 38 | | | | | |
| Other financial liabilities | 91 386 | | | | | 91 386 | 91 386 |

(1) Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.

(2) Included in the amounts above are International Monetary Fund accounts administered on behalf of the South African Government. The amounts are interest-free and no settlement terms have been agreed.

(3) Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

# 34. Fair value hierarchy disclosures

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

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

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

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

| | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Total R'000 |
|---|---|---|---|---|
| Group | | | | |
| 31 March 2011 | | | | |
| Financial instruments | | | | |
| South African Government bonds | 8 253 367 | 0 | 0 | 8 253 367 |
| Foreign-exchange contract assets | 40 830 | 4 317 | 0 | 45 147 |
| Investments | 8 132 369 | 0 | 0 | 8 132 369 |
| Total gold and foreign exchange | 253 975 606 | 80 362 054 | 0 | 334 337 660 |
| Gold coin and bullion | 39 098 131 | 0 | 0 | 39 098 131 |
| Money- and capital-market instruments and deposits | 110 662 166 | 0 | 0 | 110 662 166 |
| Medium-term instruments | 77 660 443 | 65 884 937 | 0 | 143 545 380 |
| Portfolio investments | 26 554 866 | 14 477 117 | 0 | 41 031 983 |
| Foreign-exchange contract liabilities | (876 958) | 0 | 0 | (876 958) |
| **Total financial instruments** | 269 525 214 | 80 366 371 | 0 | 349 891 585 |

## Securities lending activities

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

| | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Total R'000 |
|---|---|---|---|---|
| Liability in respect of collateral received | (42 819 458) | 0 | 0 | (42 819 458) |
| Fair value of underlying investments | 31 181 121 | 11 503 527 | 0 | 42 684 648 |
| Net fair value adjustment included above | (11 638 337) | 11 503 527 | 0 | (134 810) |

| | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Total R'000 |
|---|---|---|---|---|
| **Group** | | | | |
| **31 March 2010** | | | | |
| **Financial instruments** | | | | |
| South African Government bonds | 8 361 569 | 0 | 0 | 8 361 569 |
| Foreign-exchange contract assets | 2 532 | 0 | 0 | 2 532 |
| Investments | 5 359 739 | 0 | 0 | 5 359 739 |
| Total gold and foreign exchange | 163 677 257 | 143 829 130 | 0 | 307 506 387 |
| Gold coin and bullion | 32 772 365 | 0 | 0 | 32 772 365 |
| Money- and capital-market instruments and deposits | 82 756 316 | 0 | 0 | 82 756 316 |
| Medium-term instruments | 25 375 130 | 123 903 620 | 0 | 149 278 750 |
| Portfolio investments | 22 773 446 | 19 925 510 | 0 | 42 698 956 |
| Foreign-exchange contract liabilities | (15 314) | 0 | 0 | (15 314) |
| Total financial instruments | 177 385 783 | 143 829 130 | 0 | 321 214 913 |

### Securities lending activities

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

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

| | | | | |
|---|---|---|---|---|
| **Bank** | | | | |
| **31 March 2011** | | | | |
| **Financial instruments** | | | | |
| South African Government bonds | 8 253 367 | 0 | 0 | 8 253 367 |
| Foreign-exchange contract assets | 40 830 | 0 | 0 | 40 830 |
| Total gold and foreign exchange | 253 975 606 | 80 362 054 | 0 | 334 337 660 |
| Gold coin and bullion | 39 098 131 | 0 | 0 | 39 098 131 |
| Money- and capital-market instruments and deposits | 110 662 166 | 0 | 0 | 110 662 166 |
| Medium-term instruments | 77 660 443 | 65 884 937 | 0 | 143 545 380 |
| Portfolio investments | 26 554 866 | 14 477 117 | 0 | 41 031 983 |
| Foreign-exchange contract liabilities | (876 958) | 0 | 0 | (876 958) |
| Total financial instruments | 261 392 845 | 80 362 054 | 0 | 341 754 899 |

### Securities lending activities

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

| | | | | |
|---|---|---|---|---|
| Liability in respect of collateral received | (42 819 458) | 0 | 0 | (42 819 458) |
| Fair value of underlying investments | 31 181 121 | 11 503 527 | 0 | 42 684 648 |
| Net fair value adjustment included above | (11 638 337) | 11 503 527 | 0 | (134 810) |

| | Level 1 R'000 | Level 2 R'000 | Level 3 R'000 | Total R'000 |
|---|---|---|---|---|
| Bank | | | | |
| 31 March 2010 | | | | |
| Financial instruments | | | | |
| South African Government bonds | 8 361 569 | 0 | 0 | 8 361 569 |
| Foreign-exchange contract assets | 1 877 | 0 | 0 | 1 877 |
| Total gold and foreign exchange | 163 677 257 | 143 829 130 | 0 | 307 506 387 |
| Gold coin and bullion | 32 772 365 | 0 | 0 | 32 772 365 |
| Money- and capital-market instruments and deposits | 82 756 316 | 0 | 0 | 82 756 316 |
| Medium-term instruments | 25 375 130 | 123 903 620 | 0 | 149 278 750 |
| Portfolio investments | 22 773 446 | 19 925 510 | 0 | 42 698 956 |
| Foreign exchange contract liabilities | (38) | 0 | 0 | (38) |
| Total financial instruments | 172 040 665 | 143 829 130 | 0 | 315 869 795 |

## Securities lending activities

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

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

# Annexure A: Minutes of the ninetieth Ordinary General Meeting of shareholders of the South African Reserve Bank

The ninetieth Ordinary General Meeting (OGM) of shareholders was held at the Head Office of the South African Reserve Bank (the Bank) in Pretoria on Wednesday, 8 December 2010 at 10:30.

The Governor, Ms Gill Marcus, who chaired the meeting, welcomed attendees and introduced Senior Deputy Governor X P Guma, Deputy Governor Daniel Mminele, serving Chairperson of the Risk Committee, Mr Francois Groepe, previous Chairperson of the Audit Committee, Ms Fatima Jakoet, previous Chairperson of the Remuneration Committee, Ms Thandi Orleyn, General Counsel, Dr Johann de Jager, and Acting Secretary of the Bank, Dr Jannie Rossouw, who shared the podium with her.

The Governor stated that the agenda of the meeting would be as follows:

1. To consider the minutes of the Ordinary General Meeting of shareholders held on 17 September 2009.
2. To present and discuss the annual financial statements and the reports of the Board of Directors and the auditors of the Bank for the financial year ended 31 March 2010.
3. To determine the remuneration of the auditors of the South African Reserve Bank for the past audit.
4. To appoint auditors for the 2010/11 financial year.
5. To request shareholders to elect non-executive directors, to fill the three vacancies on the Board of Directors for persons with skill and knowledge in agriculture and industry.
6. To consider any further business duly placed and to be transacted at an Ordinary General Meeting.

The Governor declared the meeting duly constituted in terms of the regulations framed under the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), as amended (South African Reserve Bank Act). Attendees were requested to ensure that they had all signed the attendance register. All shareholders present holding two hundred or more shares in the Bank, and who were entitled to vote, were requested to ensure that they were in possession of ballot papers.

The Governor said that the Bank had received correspondence enquiring about the legality of holding the OGM on 8 December 2010, and not on a later date. The Governor explained that

- the Bank had been faced with a necessary amendment to its legislation to deal with, *inter alia*, the appointment of directors;
- this had resulted in a necessary postponement of the OGM so as to give effect to the amended legislation;
- the Minister of Finance had agreed to postpone the OGM, stating that it should be held no later than 10 December 2010;
- the OGM had been convened in accordance with the requirements of recognised legal principles which recognise that where there cannot be strict compliance with time periods in respect of administrative actions, this will not result in the invalidity of such actions;
- no person had been prejudiced by the notice regarding the nominations for directors, the constitution of the Panel and the process followed; and

– legal opinion had been obtained, which confirmed the lawfulness of the process followed. It had therefore been decided to continue with the OGM on 8 December 2010.

The Chairperson proposed that the minutes of the eighty-ninth OGM held on 17 September 2009, and published on the Bank's website and distributed with the *Annual Report 2009/10*, be taken as read and be adopted.

A shareholder, Mr N H Lang, lodged an objection to the fact that no formal vote would be taken on the adoption of the minutes. In his view, the eighty-ninth OGM was an improper meeting and he intended to vote against the adoption of the minutes as a true reflection of the proceedings.

The Chairperson noted the objection of Mr Lang and requested shareholders to indicate their acceptance of the minutes. The minutes were accepted by a majority of shareholders, with only Mr Lang voicing an objection to the acceptance of the minutes.

The Chairperson explained the way in which voting would take place. In the normal course of business, resolutions submitted for voting at the OGM were decided upon by a simple majority by means of a show of hands, except if a poll was requested by the Chairperson or the majority of shareholders present in person at the meeting. In terms of regulation 9.3(a), the Chairperson proposed that a poll be used for deciding all matters to be considered at this meeting.

No objections were lodged to voting by means of a poll.

The Chairperson informed members of a proposal that voting should in future take place by electronic means. This would be duly investigated and, if deemed suitable, shareholders would be advised before the next meeting.

The Chairperson presented the *Annual Report 2009/10* of the Bank for the year ended 31 March 2010. The *Annual Report 2009/10* had been distributed to shareholders on 22 September 2010 and had also been published on the Bank's website. The *Report* had been submitted to the Minister of Finance and Parliament in terms of sections 31 and 32 of the South African Reserve Bank Act on 23 September 2010.

The Chairperson informed members that the Bank had received a number of questions from shareholders, including at the Bank's road shows, relating to matters arising from the *Annual Report 2009/10*. These questions would be considered before the adoption of the *Annual Report 2009/10*.

In response to the first matter to be discussed, namely whether the published consolidated financial statements of the Bank disclosed sufficient information and an explanation of the legislation pertaining to the Corporation for Public Deposits (CPD), the Chairperson responded as follows:

"It is not normal practice to distribute the individual sets of financial statements of each subsidiary within a group of companies to shareholders. Their results are usually consolidated in the annual report. We will examine the consolidated report to ensure that transparent disclosure takes place. This review will also take account of the views of the boards of subsidiaries and of their external auditors.

The CPD Act provides for the establishment of the Corporation for Public Deposits for the investment of moneys held by, for, or on behalf of, the Government of the Republic of South Africa and certain other bodies, councils, funds and accounts. It is a legal person with a share capital of R2 million which may be held only by the Bank. The affairs of the CPD are managed by a board, consisting of two persons from the Bank and two officials of the Treasury. The Minister designates one of the persons of the Bank as chairperson of the CPD Board.

The persons of the Bank referred to may be a Governor, deputy governor or any officers of the Bank. Current Bank official members are Deputy Governor Daniel Mminele and Dr Roelf du Plooy. The Treasury officers are Mr Lungisa Fuzile and Ms Bulelwa Boqwana. The current chairperson of the CPD is Deputy Governor Mminele.

In accordance with the legislation, the *Annual Financial Statements* of the CPD are furnished to the Minister of Finance and tabled in Parliament. The statements for the 2009/10 financial year were tabled in Parliament on 12 August 2010."

In response to the second matter to be discussed, namely whether the Bank should utilise and own an insurance company, the South African Reserve Bank Captive Insurance Company Limited (SARBCIC) as a subsidiary, the Chairperson responded as follows:

"The primary purpose of SARBCIC, as a licensed short-term captive insurer, is to provide an efficient and cost-effective risk transfer mechanism to the SARB Group. Its focus is on reducing the SARB Group's dependency on external insurers and to reduce the overall cost of insurance and risk over the long term. Economies of scale are achieved by virtue of the group insurance programme underwritten by SARBCIC.

During the 1990s the Bank's consultants recommended on numerous occasions that it would be advisable from both an economic and risk management viewpoint to develop a group insurance programme for the Bank, the South African Bank Note Company (Pty) Limited (SABN), the South African Mint Company (Pty) Limited, the CPD, the Pension Fund of the South African Reserve Bank and the South African Reserve Bank Retirement Fund.

The Board of the Bank appointed a committee to investigate this aspect, comprising five Bank officials, namely Mr P H Bartleet (Chairperson), Adv. J J de Jager, Mr W J Kamffer, Mr G H Engelbrecht and Mr F G Wiehman, and Mr J L Luttig (Senior Partner: Werksmans Attorneys), Mr C Nortje (Managing Director: Alexander Forbes Risk Finance) and Mr R Fraser (Tax Partner: KPMG Financial Services) as external experts.

The committee concluded its investigation in March 2000 and recommended that a wholly owned short-term captive insurer would achieve the maximum benefit from the group insurance programme. The main reason for this is that there is a legal impediment on a non-insurance entity to provide group deductibles (i.e., insurance) to other legal entities, even if they are in the same group. The bulk buying power harnessed through SARBCIC ensures better negotiating power for more competitive rates and greater cover, as well as more advantageous arrangements with intermediaries (brokers). The captive facilitates the packaging and marketing of the individual company insurance portfolios into one single portfolio.

Cell captive insurance is a well-recognised and efficient method for managing large insurance risks.

SARBCIC annually obtains an actuarial report from Marsh Alternative Risk Solutions entitled *Report on the Retention Structure and Preliminary Capital Requirements of the SARBCIC*. In their report dated 28 April 2010, they estimated the annual savings in premium generated by SARBCIC, in favour of the SARB Group, at R9,89 million.

SARBCIC's *Annual Financial Statements* are lodged with the Company Intellectual Property Registration Office (CIPRO) and the Financial Services Board. CIPRO documentation is available to the public from them."

In response to the third matter to be discussed, namely responsibility for the determination of the remuneration of directors and whether it should not be determined by shareholders, the Chairperson responded as follows:

"In terms of section 5(3) of the Act, the directors (including the Governor and deputy governors) hold office in terms of such conditions and remuneration (including allowances) as determined by the Board, and upon such other conditions as may be prescribed by regulation. The matter is therefore dealt with in terms of legislation in respect of which the Bank or the shareholders have no jurisdiction.

In terms of the *Annual Report 2009/10* tabled before you, there is full disclosure of such remuneration. The Governor and deputy governors receive an annual salary, and do not receive a bonus or incentives of any kind. They are not permitted to hold any remunerated external position."

In response to the fourth matter to be discussed, namely requirements emanating from the wording of regulation 23.1(a)(1) of the Regulations framed in terms of the South African Reserve Bank Act, which stipulates that the external auditors should report whether, in their opinion, *the financial statements and any supplementary information attached to them fairly represent in all material aspects the financial position of the Bank and the results of its operations and cash flow*, the Chairperson responded as follows:

"One shareholder sent questions directly to the Bank's external auditors. The auditors did not respond to the shareholder, but raised these questions with the Bank. This is one of the questions raised by the shareholder:

The financial statements of the Bank have been prepared in accordance with the Act and the accounting policies set out in Note 1 of the annual financial statements (AFS). The SARB has chosen to use International Financial Reporting Standards (IFRS) as a guide in deciding the most appropriate accounting policies to adopt, as well as a model for the presentation and disclosure framework followed in its financial statements. The Act is not prescriptive regarding the accounting framework that the SARB should adopt, except for sections 25 to 28 of the Act which deal with the accounting treatment of gold and foreign-exchange transactions (these sections are not in accordance with IFRS). As a result, the SARB follows an 'entity specific basis of accounting' which is set out in the notes to the AFS.

Consequently, the opinion of the external auditors is based on International Standards on Auditing (ISA) 800 (Special Purpose Frameworks) and SAAPS 2 (as issued by IRBA during September 2008). SAAPS 2 specifies that the auditor should not report that the financial statements 'present fairly' (in circumstances as applicable to the SARB). In such circumstances the auditors' opinion should refer to the fact that 'the financial statements have been prepared, in all material respects, in accordance with the basis of accounting as disclosed in the financial statements'.

Given that the audit covers the 31 March 2010 year and the opinion was signed on 30 July 2010, it does not cover the South African Reserve Bank Amendment Act (Act No. 4 of 2010) and the related Regulations, promulgated by the Minister on 13 September 2010.

The 2010/11 audit will be done in terms of the Amended Act and Regulations."

In response to the fifth matter to be discussed, namely the post-retirement medical aid payments of pensioners of the Bank as a contingent liability, the Chairperson responded as follows:

"Thank you for raising this matter, which is certainly one of concern and has already received the Bank's attention.

The post-retirement medical liability of the Bank has been examined by our external actuaries. The various options identified are being evaluated and will be submitted for further consideration to the Remuneration Committee of the Board early next year. We regard this matter as one that needs to treat employees fairly, while at the same time finding a way to cap the liability."

In response to the sixth matter to be discussed, namely the legal limitation on the payment of dividends to shareholders and/or the legality of a capital distribution by the Bank to them, the Chairperson responded as follows:

"I would like to deal with these two matters separately.

Firstly, the question of dividends: Central banks worldwide are public entities that fulfil public interest roles. In practice, the pursuit of this role is not synonymous with the realisation of profits. Similarly, the Bank is required to conduct its activities in the public interest only, without any regard whatsoever to profit maximisation as a consideration. Thus, management of the Bank is tasked with managing the business of the Bank, not with a profit motive in mind, but with the ultimate goal of protecting the value of the currency in the interest of the general public.

An important factor which therefore signifies a major difference between the rights, powers and status of shareholders in an ordinary public company and those in a central bank, is the fundamental difference between the ultimate profit motive of commercial companies and the non-profit public interest purpose of central banks. This non-profit maximisation public interest role of the Bank necessitates a realignment of the rights, powers and status of shareholders in an ordinary company to suit those of shareholders in a central bank.

Considerations of public interest and fundamental principles of central banking militate against a central bank being owned and controlled by its private shareholders. The Bank is required to function independently, without regard for vested interests and not subject to undue pressure.

The dividend policy is determined by section 24 of the Act, which provides for a fixed dividend of 10 per cent per share per annum. I wish to make a few remarks relating to this matter. This is not a new position, but a 10 per cent dividend on nominal value has been a legal stipulation virtually since 1921, reconfirmed in the South African Reserve Bank Act of 1989. Therefore, all shareholders, irrespective of when they bought their shares, were aware of, or should have been aware of, this legally imposed limit to the earnings per share.

Historically, holding shares in the Bank was a means of showing commitment to the Bank, and demonstrated a willingness to be part of the affairs of the Bank, as shareholders participated in the annual meetings which were regarded as prestigious events.

Let me now turn to the second part of the question, namely a demand that there be a capital distribution or an annual payment of 10 per cent of profits. As indicated above, section 24 provides only for a fixed dividend to be paid to shareholders on an annual basis. No legal authority or basis exists for any capital distribution to shareholders whatsoever. This demand should not be entertained at all.

In terms of section 24 of the Act, 90 per cent of any surplus made by the Bank must be paid over to the government, while the remaining 10 per cent is to be used to accumulate reserves by the Bank. Such reserves serve as a buffer for circumstances such as we currently find ourselves in, where the Bank is making a loss as a result of actions taken in the interests of the national economy. Over the years, this contingency reserve has been built up and today stands at R9 186 880 000,00 as evidenced on page 62 of the *Annual Report 2009/10*. The sheer scale of this reserve indicates how ridiculous this demand is. The Bank stands firmly opposed to entertaining any such demand, from whatever quarter."

In response to the seventh matter to be discussed, namely the basis for the payment of a dividend to shareholders in the 2010 financial year, despite the Bank making a loss in that year, the Chairperson responded as follows:

"Section 24(e) of the Act prescribes that dividends must be paid out of profits of the Bank. From the financial statements of the Bank for the year ended 31 March 2010, it is apparent that the Group has 'accumulated profit' reserve of R1 126 412 000,00 (see page 62 of the *Annual Report 2009/10*). Accordingly, the payment to shareholders of a dividend, from the accumulated profit reserves, would constitute the payment of a dividend out of net profits. Ultimately, the decision to pay dividends was taken by the Board after it had taken legal advice and considered this matter."

In response to the eighth matter to be discussed, namely the reasons why the Bank does not fall under the Companies Act, the Chairperson responded as follows:

"Conclusive support exists for the notion that the ultimate objective of companies (excluding companies not incorporated for gain) should be profit maximisation.

Based on the traditional view of a company, the premise is that the maximisation of profit is to ensure shareholders' wealth, since shareholders are regarded as the owners of the company who, by virtue of their ownership, are entitled to control the company and have it serve their interests alone. The Companies Act is primarily based on these principles.

Initially, central banks also operated as commercially minded profit-maximising companies. However, this turned out to be problematic, as two serious conflicts of interest arose as a result of their then profit-maximising objective and commercial nature. The first related to their responsibility for managing the banking system and maintaining liquidity in the market, and the second related to their role of authority over the commercial banks, the very institutions it was at the same time competing with. This non-profit maximisation public interest role of the Bank necessitated a realignment of the rights, powers and status of shareholders in an ordinary company to suit the unique nature of shareholders in a central bank. Considerations of public interest and fundamental principles of central banking militated against a central bank being owned and controlled by its private shareholders.

Consequently, during the latter part of the 19th century, central banks were reformed, resulting in them reverting to non-commercial and non-profit maximising institutions that functioned in terms of their own legislation solely in the public interest.

In order to lessen concerns with regard to the sustainability of central banks, provisions were made for them to be left with a fixed sum of money each year to expunge costs and to provide for a return to their shareholders. The payment of a fixed dividend to shareholders became a norm which emphasised the absence of a profit motive and reflected the unique nature of shareholding in a central bank.

Central banks henceforth became non-competitive and unable to use their advantageous monopolistic position to their benefit and the detriment of competitors. From then on they could concentrate solely on their public interest roles with regard to the economies and health of the financial system in their respective jurisdictions.

In accordance with these internationally recognised principles relating to central banking, the Bank functions as an independent juristic person with a public interest, non-profit maximising role of protecting the value of the currency in terms of its own Act and in accordance with the prescriptions of the Constitution."

In response to the ninth matter to be discussed, namely cooling-off payments to the former Governor, Mr T T Mboweni, Ms Orleyn responded as follows:

"The Board introduced a cooling-off period of six months for the former Governor, Mr T T Mboweni. The purpose of this arrangement is to prevent any possible conflicts of interest for a former Governor after retiring from the service of the Bank. Similar arrangements had been in place previously at the time of the retirement of deputy governors from the Bank, and cooling-off payments were therefore not a new arrangement.

The payments to the former Governor were made in terms of the *Governors' Handbook*, which comprises the conditions of employment and service benefits of the Governor and deputy governors. The payments to the former Governor reported on page 94 of the *Annual Report 2009/10* include salary, certain one-off payments and long-service payments falling due at the time of retirement from the service of the Bank.

At the time of the retirement of the former Governor it transpired that certain aspects of the *Governors' Handbook* were not completely clear and were therefore subject to different interpretations. The *Handbook* was subsequently revised to ensure clarity on all matters covered. A revised draft of the *Handbook* has been considered by the Board and will be approved by the Board, subject to certain small editorial amendments, in the near future."

In response to the tenth matter to be discussed, namely the use of the Gold and Foreign Exchange Contingency Reserve Account (GFECRA), established in terms of section 28 of the South African Reserve Bank Act, Deputy Governor Mminele responded as follows:

"The Gold and Foreign Exchange Contingency Reserve Account (GFECRA) is operated in terms of section 28 of the South African Reserve Bank Act. This account represents the net revaluation of profits and losses incurred on gold and foreign-exchange transactions which are for the account of government. The GFECRA comprises three sub-accounts, namely

– Gold Price Adjustment Account: all gold-related profits and losses arising from the revaluation of gold;
– Foreign Exchange Adjustment Account: all foreign-asset related profits and losses pertaining to revaluation of foreign assets; and
– Forward Exchange Contract Adjustment Account: all profits and losses related to liability transactions, with a focus on revaluation of foreign loans, deposits and forwards.

Settlement of the GFECRA 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 domestic 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 any cash flow. In terms of this agreement, the balance settled by government in respect of the 2009/10 financial year amounted to R168,8 million."

In response to the eleventh matter to be discussed, namely the Bank's holding of gold reserves and their auditing, Deputy Governor Mminele responded as follows:

"The Bank held approximately 4 million fine ounces, with a market value of US$5,511 billion, as at 30 November 2010. This constitutes 12,7 per cent of the official gross reserves. The last significant change to the Bank's gold holdings was the repayment of a US$500 million gold-denominated syndicated term loan facility in May 2003. Since then, the Bank's gold reserves have remained at approximately 4 million fine ounces.

Where gold is stored and how it is managed is in keeping with international best practice and, for reasons that should be self-evident to shareholders, this is confidential. Appropriate storage, security and insurance arrangements are in place and subject to periodic review by the Bank.

The Bank's gold reserves are managed passively due to the prevailing short-term low rates of return earned on gold loans. The low correlation of gold with government bonds and money-market instruments makes it a valuable portfolio diversifier.

I now wish to turn to the specific question and the audit matter raised. The question was: *Do the auditors carry out an independent physical and assay identification and stock count (and/or weight) of gold bullion, precious metal coin (and other precious metals) on a subsidiary company and consolidated basis? Are precious metals encumbered in any way?*

Accepted international best practice of verification is followed by the auditors. The Bank does not hold any other precious metals nor are any of the Bank's holdings of gold encumbered."

In response to the twelfth matter to be discussed, namely the loss incurred by the Bank in the 2009/10 financial year, the Governor responded as follows:

"During the 2009/10 financial year the Bank incurred an after-tax loss of R1,05 billion. The loss was largely attributable to a decline of R5 billion or approximately 58 per cent on the Bank's return on foreign assets, mainly due to a significant reduction in global interest rates and adverse movements in international bond yields. In addition, given prevailing uncertainty during the review period, the Bank adopted a more defensive investment strategy in which capital preservation of investments received a higher priority at the expense of enhanced returns, which also led to lower investment returns.

The effect of the strengthening rand against major currencies compounded the reduction in investment income in foreign-currency terms once converted to rand for purposes of the income statement.

Another factor contributing to the loss is the negative carry cost associated with the sterilisation of foreign reserve purchases. During the year under review, the gross reserves increased from US$34,1 billion to US$42,0 billion indicating that the Bank purchased relatively large amounts of foreign exchange in the domestic forex market, which had to be sterilised through various open-market operations including the issuing of SARB debentures and reverse repo transactions. The interest rates paid on these operations are normally close to the Bank's repo rate (currently around 5,5 per cent) and significantly higher than the returns on its foreign investments (currently around 1 per cent). The negative spread between the sterilisation rate and the return on foreign assets was actually much larger for most of the year under review, given the fact that the repurchase (repo) rate stood at 9,5 per cent in April 2009.

These reserves are held by the Bank on behalf of the country and the continued build-up of reserves is in the best interest of the country."

In response to the thirteenth matter to be discussed, namely media reports dealing with problems at the SABN, the Governor responded as follows:

"Along with all other subsidiaries and departments of the South African Reserve Bank, the SABN was subjected to a rigorous review of all procedures and controls following my assumption of office as Governor of the Bank at the end of last year. The uncovering of weaknesses at the SABN led to the suspension of the company's Managing Director. The suspended MD of the SABN is currently the subject of a disciplinary process.

Senior Deputy Governor Guma has taken on the duties of the chairperson of the SABN. An acting MD is in place who has tightened procedures and implemented the necessary checks and balances to ensure that the company provides the consistent levels of superior service expected of it.

The Bank has complete confidence in the integrity of South Africa's banknotes. South Africa's banknotes incorporate a range of the latest cutting-edge security features which ensure that they meet the highest international security standards.

The South African Reserve Bank continues to encourage all South Africans and visitors to know their money. Anyone who is ever in doubt about a banknote should check the security features, which can be found on our website."

In response to the fourteenth matter to be discussed, namely the Bank's approach to the *King Code on Corporate Governance* (*King III Report*), the Governor responded as follows:

"Recognising the importance of sound corporate governance, the Bank used a governance assessment instrument, developed by the Institute of Directors, to conduct a Bank-wide gap analysis. The outcome of the assessment was a ‘BB’, which denotes notable application of the principles and recommendations of the *King III Report*. The highest assessments in the main category were obtained for performance assessment, Board role and duties, as well as accountability, while the lowest was for group boards and room for improvement on integrated reporting and disclosure. There are also areas that are not applicable to the Bank, and others where the Bank follows an ‘apply or explain’ approach.

An example of this would be that the Board does not appoint the Chief Executive – in the Bank’s instance the Governor is appointed by the President. This is unlikely to change. Another example of non-compliance is that the Remuneration Committee does not regularly review incentive schemes, as such schemes are not part of the remuneration policy of the Bank.

This assessment has identified areas where the Bank has room for improvement. It will be completed annually in future.”

There being no further questions arising from the *Annual Report 2009/10*, the Chairperson moved that it be formally adopted.

The motion was seconded by Mr A Laäs and shareholders voted by ballot.

The Chairperson moved that the Board’s recommendation that the independent auditors of the Bank’s remuneration of R6 504 646,00 in respect of the general audit of the Bank for the financial year ended 31 March 2010 be confirmed. This amount was higher than the amount reflected in the financial statements (R6 174 000,00), and represented the actual amount paid to the auditors for the period 1 April 2009 to 31 March 2010. The difference was due to timing, as payments to the auditors for a specific year’s work were partially paid during the subsequent financial year.

The motion was seconded by Mr A Jacobs and shareholders voted by ballot.

The Chairperson moved that shareholders endorse the recommendation of the Board that PricewaterhouseCoopers Incorporated and SizweNtsaluba VSP be appointed as auditors of the accounts of the Bank for the financial year 2010/11.

The motion was seconded by Ms Jakoet and shareholders voted by ballot.

The Chairperson explained that shareholders should elect three non-executive directors to fill vacancies on the Board that would fall vacant as of Thursday, 9 December 2010, that is, the day after the OGM. Vacancies were to be filled for two Board members with skills and knowledge in industry and one in agriculture. Nine candidates for these vacancies were confirmed by the Panel established for this purpose in terms of section 4(1C) of the South African Reserve Bank Act. The Governor explained the Panel process as follows:

“The candidates to be considered were confirmed by the Panel appointed in terms of section 4(1C) of the Act. This Panel comprises retired former Constitutional Court Judge Ms Yvonne Mokgoro and Mr Abel Sithole (both nominated by the Minister of Finance), and Dr Laurain Lotter, Ms Lulama Nare and Mr Bheki Ntshalintshali (nominated by Nedlac). The Panel has been appointed until 2012.

In the period running up to this OGM the Bank had to adhere to a tight deadline. Panel members are thanked for rearranging their schedules to attend to matters pertaining to the Panel’s activities, and for doing so professionally and diligently. The Panel considered 91 nominations.

We plan to hold next year’s OGM on 30 June, which is also the Bank’s 90th birthday.

At this time I would like to draw your attention to pending changes in the Board. The Board has adopted as a guideline the nine-year rule recommended by the *King III Report*. Consequently, and as a result of discussions with individual Board members, there will be vacancies for three shareholder-elected non-executive directors at the OGM of 30 June 2011. These three vacancies will be for persons with skills and knowledge in mining, in labour and in commerce or finance, and one person will be elected in each of these three areas.

Therefore, to ensure that we meet the requirements in the period running up to 30 June 2011, the necessary processes will be embarked upon very early in the new year. Shareholders, directors of the Bank and the general public will be invited during February 2011 to submit nominations for candidates to be considered by the Panel. The deadline for such nominations would be about a month later, and Panel members will consider candidates during April 2011. Shareholders will be given notice of the OGM not later than 31 May 2011. The notice will include the particulars of candidates confirmed by the Panel for consideration by shareholders for election of non-executive directors. Abridged *curricula vitae* (CVs) of candidates (rather than extensive CVs as was the case this year) will be included with next year's notice.

Furthermore, the composition of the Board may change as three of the appointments made by the President are due for renewal, or otherwise, in March 2011.

Thus, in exercising your votes today, please bear in mind the wider picture and changes that are likely to take place."

The term of office of Ms Fatima Jakoet with skills and knowledge in commerce or finance would expire on 9 December 2010. Ms Jakoet was not available for re-election. Owing to amendments to the Act, the position vacated by Ms Jakoet no longer needed to be filled by a person with skills and knowledge in commerce or finance, but with a person with skills and knowledge in industry.

Mr D C Powels, Ms S Rapeti and Prof. B W Smit had been nominated for this position in terms of section 4(1A) of the South African Reserve Bank Act, and had been confirmed as candidates by the Panel in terms of section 4(1G) of the said Act. Shareholders voted for one of the candidates by means of ballot.

The Chairperson extended a special word of thanks to Ms Jakoet for the dedicated and valuable service she had rendered to the Board of Directors of the Bank over her nine-year term of office, and also as Chairperson of the Audit Committee since 2008.

The term of office of Ms T N Mgoduso, a non-executive director with skills and knowledge in industry, would expire on 9 December 2010. She was available for re-election. Ms Mgoduso, Mr S Gounden and Mr R S Reuben had been nominated for this position in terms of section 4(1A) of the South African Reserve Bank Act and had been confirmed as candidates by the Panel in terms of section 4(1G) of the said Act. Shareholders voted for one of the candidates by means of ballot.

The term of office of Mr J F van der Merwe, a non-executive director with skills and knowledge in agriculture, would expire on 9 December 2010. He was available for re-election. Mr van der Merwe, Mr M J de Klerk and Ms Y Kwinana had been nominated for this position in terms of section 4(1A) of the South African Reserve Bank Act and had been confirmed as candidates by the Panel in terms of section 4(1G) of the said Act. Shareholders voted for one of the candidates by means of ballot.

[The meeting was adjourned for the counting of votes.]

The meeting reconvened and was addressed by the Governor as follows:

"Ladies and gentlemen, today is an opportunity for us, together, to consider a very serious overview of where the Bank stands in terms of its internal organisation, its relationship with shareholders, and its role in the South African economy as we move into what will undoubtedly be a very challenging 2011 for the world and South Africa.

In the proceedings so far today we have endeavoured to address the questions you have asked as they relate to the work of the Bank and arising from the *Annual Report 2009/10* and financial statements. While there are still a number of matters that will be addressed towards the end of the agenda, we trust that the open interaction marks a new beginning in the relationship with Bank shareholders who, in our view, have a vital role to play in ensuring independence, good governance and accountability.

I wish to assure everyone here today of two things:

– firstly, that this meeting is compliant and in line with the regulations governing ordinary general meetings of the Bank, as elaborated upon earlier; and

– secondly, the Board, executive and staff of the Bank will continue to act in the best interests of South Africa without fear or favour, and do so professionally, upholding the highest standards of governance and ethics.

We are very grateful and express our appreciation to a number of people and institutions for the professional and highly committed manner in which the amendments to the South African Reserve Bank Act, which led to the postponement of this year's OGM, were drafted, taken through an elaborate process of open and thorough consultation, and enacted into law.

Allow me specifically to mention in this connection the Minister of Finance, Pravin Gordhan, the National Treasury led by Lesetja Kganyago, and Parliament, the Chairperson of the Standing Committee on Finance, Thaba Mufamadi, and the Chairperson of the Select Committee on Finance in the National Council of Provinces, Charel de Beer, and their members.

By passing these amendments, Parliament – as the democratically elected representative of the people of South Africa – has made it unequivocally clear that it regards the South African Reserve Bank as a national asset with an indispensable role in serving the economy and the people of our country. In so doing, Parliament has underlined that the Reserve Bank is and must remain independent, and able to work in the interests of South Africa and of all South Africans.

These are very significant signals to all who believe that the long-term stability of our economy is central to what we must achieve to ensure that South Africa continues to develop, thereby offering steadily increasing numbers of our people the realistic prospects of a better life. This reconfirms that a better life for ever-increasing numbers of South Africans in a prosperous and stable country is a goal worth pursuing each and every day.

To those of us who pursue that goal via an association with the Bank – whether as serious-minded shareholders, members of the Board, or employees of the Bank – Parliament's faith in the Bank as signalled by the amendments to the Act also represents a very grave responsibility.

Ladies and gentlemen, we at the Bank intend to continue to take that responsibility very seriously in everything we do, not least because of our understanding of the significant ongoing challenges facing the global economy, and with it the challenges facing the South African economy as we move into 2011.

We as South Africans have not been, and are still not immune to, those challenges and to the international situation because we are not an island. We are part of the global economic system and the serious difficulties facing many countries become – in one way or another – our challenges too.

While the annual general meeting would normally be the occasion for a detailed analysis of all the elements affecting the South African economy, we do not plan to do so today. We felt it more appropriate to use this occasion to lay a firm foundation on which we can build our interaction for the future.

It is nevertheless appropriate to look at some of the economic issues which have faced us in the year since President Zuma appointed me to this position, and which are likely to face us in the years ahead.

Analysing the economic environment in which we operate also provides the essential backdrop against which we can look at and more clearly define the role the Bank must play as the international community works to emerge from the greatest economic crisis since the 'Crash' of 1929.

The context in which the Bank had to conduct its operations in the past year remained extremely challenging. During 2009 the world economy began to emerge from the widespread recession that began in the latter part of 2008. After a promising start to the year, the recovery in the advanced economies has become more hesitant, following the withdrawal of the fiscal stimulus in the United States (US), the sovereign debt crisis in the euro area, and widespread fiscal consolidation in the region.

The current uncertainties in Ireland continue to raise questions about the outlook for euro area growth (noting that the region grew by only 0,4 per cent in the third quarter of 2010) and concerns about systemic risk in the banking sector. The international environment therefore remains characterised by heightened risk and uncertainty, and these developments indicate that we have not yet emerged from the crisis.

The economic and political ramifications of fiscal austerity programmes are of particular concern, not only because of their potential to derail the recovery in other regions, but also because of South Africa's close and significant trading relationship with Europe. It appears that growth in the US is likely to remain low for longer as monetary policy actions attempt to combat the threat of deflation and persistently high unemployment. The global banking system has improved somewhat, but serious risks remain.

By contrast, the emerging-market economies, particularly in Asia and Latin America, appear to have recovered from the crisis. In a number of instances the strong growth in demand, coupled with pressures from higher commodity prices, has resulted in a reappearance of inflationary pressures. As a consequence, the monetary policy stance in a number of emerging markets has moved into tightening mode. But it is as yet unclear whether the strong growth in these regions can be sustained against the backdrop of weak growth in the industrialised economies.

Domestically, the recovery has been fragile, with disappointing growth despite the boost from the FIFA World Cup™, and growth is expected to average below 3 per cent in 2010. Although household consumption expenditure is showing signs of recovery, growth in private-sector gross fixed capital formation remains extremely subdued.

During the third quarter of 2010 the mining sector rebounded from its marked second quarter contraction, but both the manufacturing and construction sectors remained under pressure.

Monetary policy remained accommodating during the past financial year against the backdrop of an improved inflation outlook and the relatively weak domestic economy. Headline consumer price inflation returned to within the inflation target range of 3 to 6 per cent in the first quarter of 2010, and declined to 3,2 per cent in September before increasing to 3,4 per cent in October. The Bank's forecast is for inflation to remain within the target range for the remainder of the forecast period until the end of 2012. Since the onset of the crisis, the repo rate has been reduced by 650 basis points. The most recent change was a 50 basis point reduction in November 2010, when the improved inflation environment provided some space for an additional monetary stimulus to the economy without jeopardising the achievement of the inflation target.

The Bank remains committed to pursuing its objective of price stability within a flexible inflation-targeting framework in the interest of balanced and sustainable economic growth and employment in South Africa.

The global environment has had a pervasive impact on many of the activities of the Bank, as well as on its strategic direction.

The recent crisis has demonstrated the need for central banks to have a clear focus on issues related to financial stability, in addition to a focus on inflation. The Bank has participated in discussions in international forums, and these interactions have highlighted the fact that while the need to have a financial stability focus is agreed upon, the modalities of intervention are not clear-cut. During the year, financial stability also became an explicit focus of the deliberations of the Monetary Policy Committee. In order to ensure coherence and co-ordination with monetary policy actions, the membership of the Financial Stability Committee was reconstituted and the mandate of the Committee enhanced.

Reforms of the supervisory and regulatory environment of the banking sector have also received increased attention at the global level, and these developments will impact on the domestic banking system. The Bank has participated in the deliberations of the International Monetary Fund, World Bank, G-20 and the Basel Committee on Banking Supervision (Basel Committee), which is drafting amendments to the existing *International Convergence of Capital Measurement and Capital Standards*: *A Revised Framework* (Basel II), the working groups of the Financial Stability Board at the Bank for International Settlements (BIS), and the regular bimonthly meetings of central bank governors held at the BIS.

The South African banking system was one of the few that did not experience a crisis in 2008, mainly due to appropriate regulation, and monitoring and supervision of the sector.

South African banks remain well capitalised, and capital-adequacy ratios are currently in excess of the minimum proposed in the new reforms. The proposals pertaining to liquidity may be challenging, but are not insurmountable.

The past year has also seen a significant flow of capital to emerging-market economies in the face of persistently low policy interest rates in advanced economies. This trend was reinforced by rising commodity prices and a decline in global risk aversion in general. South Africa was also a beneficiary of these flows, which has resulted in a marked appreciation of the trade-weighted rand exchange rate.

The Bank took advantage of these inflows to add to its foreign-exchange reserves which, although at historically high levels, are still relatively low compared with other emerging-market countries. However, the need to sterilise the impact of these purchases of foreign exchange on domestic liquidity resulted in the Bank reporting an after-tax loss of R1,05 billion during the financial year under consideration.

Thus, in essence, we are seeing a fragile global economy that is experiencing significant stresses and strains. Domestically, the economic landscape is one with the lowest real interest rates in 30 years, inflation that looks likely to remain in the target band to the end of the forecast period of 2012, a currency that has continued to appreciate on a trade-weighted basis, the export-led sectors remaining under pressure, slow growth and significant unemployment. Working to ensure a cohesive, co-ordinated macroeconomic policy is part of the challenge as we enter the second decade of the 21st century.

Ladies and gentlemen, the international and domestic economic climate makes it very clear that the Bank must focus all its energies and all its human capacity on the job at hand – making the Bank's unique and indispensable contribution to the management of the economy.

This is a time to focus on ensuring that our internal policies and procedures are in place and functioning in such a way as to provide maximum support and guidance for our day-to-day operations.

But it is particularly a time to focus on our core business at the heart of the economy, which is why it is very pleasing indeed to be able to report to you that this has been an intense and demanding year of reviews, of assessments of weaknesses and strengths, and of realignment of our internal policies, procedures and structures. We have also worked to strengthen the relationship and interaction with the Minister of Finance and the National Treasury.

Allow me to illustrate some of the organisational milestones that the Bank has achieved over the past year:

- We have not only reviewed and updated all board policies, but agreed that this will be an annual exercise to ensure that we remain up to date with best practice and that we constantly evaluate our effectiveness and compliance.
- We are in the process of reviewing the Bank's internal policies, with our human resources policies at the heart of this process.
- We have instituted a new Board Risk Committee, specifically tasked with oversight of all aspects of risk and compliance that might affect the Bank.
- Within the Bank we have created a new Risk Management and Compliance Department to mirror this responsibility for managing our risk and ensuring compliance.
- The executive and Board have examined the Bank's practices and procedures against the backdrop of the *King III Report*.
- This led to an assessment of where we meet the criteria embodied in the *King III Report*, where we do not yet meet them, where we need to take measures to improve our ability to comply, as well as where we should not meet them because of the legal specifications in the South African Reserve Bank Act or the specific nature of our work as accepted practice in central banking internationally. In such instances the Bank will adopt the approach of comply or explain.
- We have also finalised an ethics policy and are in the process of taking it through a series of discussions with staff. At the same time we are developing a common understanding of the values that all of us working in the Bank aspire and commit to. We will be finalising both of these processes in the first months of the new year.
- We have restructured the Bank's communications component and upgraded it to a full department, which includes responsibility and significant capacity for strategy development. This will give us the capacity to ensure that our regular engagements with shareholders can be more frequent and productive than hitherto. Among other things, we will be expanding our annual shareholder road show next year to include Durban.
- If significant numbers of shareholders believe it would be useful to do so, we are very open to considering a second annual shareholders' road show.
- The creation of the Strategy and Communications Department ensures that we have the intellectual and implementation capacity to drive, among other things, organisational design and change management.
- Perhaps most importantly of all within our review process, we have initiated a thorough assessment and realignment of our systems for planning and managing succession. This is because it is crystal clear how very dependent an organisation of this nature is on its people. And allow me to take this opportunity to express appreciation for the sterling work the employees of the Bank are doing. By and large, they are the epitome of professionalism, dedication and competence.
- Because we stand or fall with our people, we are acutely aware of the centrality to our long-term viability of strategies which
  - build on recruitment best practice able to establish and keep a freshly supplied talent pool with sufficient depth;
  - include consistent training and mentoring;
  - encompass highly competent career planning for every individual;
  - ensure an approach to retention, which motivates the very best to make their long-term careers with the Bank; and

- centre on ensuring that the Bank remains a workplace and career of choice, able to attract and keep the right people.

Ladies and gentlemen, I hope that you will agree with me that we are on the right road, taking the steps necessary to ensure that the Bank, its policies and its practices are in line with international central banking best practice.

We are making this major effort because we believe that having the right structures, the right people and the right approaches are, and will continue to be, essential elements of our ability and capacity to fulfil our mandate, and ensure stability during a time of significant uncertainty and the current global economic difficulties.

You will find more detail on our new structures and many of the other measures we are taking to strengthen the Bank's capacity in the *Annual Report 2009/10*. Everyone should have received a copy, at the latest when you arrived here today. Please let a staff member know during the break if you have not received one, and we will ensure that you do.

Reading the *Annual Report 2009/10*, you will notice that we have changed its design and content from previous years. We have done this in a further effort to ensure that our structures, our approaches, and our work can be more easily understood by, and transparent to, as wide a cross section of South Africans as possible.

You, the shareholders, have been a particular focus of our rethink of the *Annual Report 2009/10*. We would be very grateful to have your views and feedback on the new approach, in particular ways in which we can constantly improve the information made available to you.

The focus on openness and transparency which becomes visible in the newly designed *Annual Report 2009/10* is something we are working on to entrench across the board in the Bank's dealings with shareholders, with stakeholders, and with everyone else who has a legitimate interest in what we do and how we do it.

While matters arising from the annual financial statements have been addressed earlier today, there are a number of specific issues that have been raised by shareholders that I shall deal with after the scrutineers report and the results of the election have been presented.

I would like to acknowledge a number of people, who have supported the Bank in the year under review.

I wish to thank President Zuma and the Presidency, the Government and Parliament for their continued support. The Bank has maintained a sound working relationship with the National Treasury and I wish to thank Finance Minister Pravin Gordhan, Deputy Minister Nhlanhla Nene, Lesetja Kganyago, the Director-General of the National Treasury, and all his staff for their ongoing support and co-operation.

Sincere thanks are also due to the members of the Board of the Bank for their tireless efforts in ensuring appropriate corporate governance. The successes achieved in dealing with the challenges of the past year are due to the continued dedication and commitment of the deputy governors, management and staff of the Bank. I wish to thank them all for their contributions and I am confident that these efforts will ensure that the challenges we face in the coming year will be met with the professionalism, skills and hard work required.

I also wish to thank Dr Renosi Mokate, who retired as Deputy Governor on 31 July 2010, for her service to the Bank."

In the consideration of 'any other business', the Chairperson turned to two other matters that had been raised by shareholders. In respect of the structuring and oversight role of shareholders, the Chairperson addressed the meeting as follows:

"Any change in the legal structure of the Bank requires amendments to the Act, which constitutes legislation of a national nature. National legislative authority vests in Parliament and only the Minister may introduce any potential amendments to the Act in Parliament. The Bank and its shareholders have therefore no authority in this regard. As evidenced by the events this year before the promulgation of the Amendment Act, proposed amendments to the Act are subject to publication in the *Government Gazette* and public debate in Parliament."

In considering the basis of the liability of the Bank for income tax and secondary tax on companies (STC), the Chairperson addressed the meeting as follows:

"From an income tax perspective the Bank is treated as a normal corporate entity. There is no exemption for the Bank in the income tax legislation. In the same vein the Bank is also liable for STC. This liability is calculated on the difference between local dividends received and paid by institutions. The cumulative STC position of the Bank was a net credit and therefore no provision was made for STC in the annual financial statements at 31 March 2010."

Mr M B Pretorius, a shareholder, thanked the Chairperson for the willingness to engage shareholders at the OGM and for the transparent way in which the meeting was conducted.

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

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

1. the total number of shares issued in the ordinary share capital of the Bank held by its shareholders was 2 000 000 (two million);
2. 49 shareholders were present in person;
3. 15 shareholders were represented by proxy;
4. 782 votes were exercisable by the shareholders present, holding duly certified ballot papers for this purpose;
5. 378 votes were exercisable by means of proxy;
6. there was one spoilt proxy. This proxy indicated a vote for more than one candidate per vacancy; and
7. 9 proxies were disallowed as they were either received late, not witnessed or received from within a group of associates with more than 10 000 shares.

The scrutineers confirmed that nothing had come to their attention indicating that any shareholder wishing to attend the meeting was refused the right to vote.

The Chairperson informed the meeting of the election results, which were as follows:

1. 58 shareholders present in person or represented by proxy (representing 85,14 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of the adoption of the *Annual Report 2009/10* for the year ended 31 March 2010 (of which 311 votes were cast by the Chairperson in terms of proxies). 5 shareholders present in person or represented by proxy (representing 14,86 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted against the adoption of the *Annual Report 2009/10* for the year ended 31 March 2010 (of which zero votes were cast by the Chairperson in terms of proxies).
2. 58 shareholders present in person or represented by proxy (representing 86,4 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of the approval of the remuneration of auditors for the year

ended 31 March 2010 (of which 311 votes were cast by the Chairperson in terms of proxies). 5 shareholders present in person or represented by proxy (representing 13,6 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted against the approval of the remuneration of auditors for the financial year ended 31 March 2009 (of which zero votes were cast by the Chairperson in terms of proxies).

3. 55 shareholders present in person or represented by proxy (representing 80,9 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of the endorsement of the appointment of PricewaterhouseCoopers Incorporated and SizweNtsaluba VSP as auditors of the accounts of the Bank for the financial year 2010/11 (of which 311 votes were cast by the Chairperson in terms of proxies). 8 shareholders present in person or represented by proxy (representing 19,1 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy) had not endorsed the appointment of PricewaterhouseCoopers Incorporated and SizweNtsaluba VSP (of which zero votes were cast by the Chairperson in terms of proxies).

4. 11 shareholders present in person or represented by proxy (representing 11,64 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Mr D C Powells (of which 52 votes were cast by the Chairperson in terms of proxies). 4 shareholders present in person or represented by proxy (representing 13,72 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Ms S Rapeti (of which zero votes were cast by the Chairperson in terms of proxies). 43 shareholders present in person or represented by proxy (representing 63,99 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Prof. B W Smit (of which 257 votes were cast by the Chairperson in terms of proxies). 4 shareholders present in person or represented by proxy (representing 10,65 per cent of the total votes) had abstained from voting. 1 proxy was spoilt.

   On the basis of the scrutineers' report, the Chairperson declared that Prof. B W Smit had been elected as a non-executive director with skills and knowledge in industry to the Board of Directors of the Bank.

   Prof. Smit was congratulated on his election. The election would, in terms of sections 4 and 5 of the South African Reserve Bank Act, read with regulation 37, be effective from 9 December 2010 until the day after the OGM in 2013.

5. 36 shareholders present in person or represented by proxy (representing 45,49 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Ms T N Mgoduso (of which 205 votes were cast by the Chairperson in terms of proxies). 9 shareholders present in person or represented by proxy (representing 26,17 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Mr S Gounden (of which zero votes were cast by the Chairperson in terms of proxies). 9 shareholders present in person or represented by proxy (representing 12,82 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Mr R S Reuben (of which 104 votes were cast by the Chairperson in terms of proxies). 8 shareholders present in person or represented by proxy (representing 15,52 per cent of the total votes) had abstained from voting.

   On the basis of the scrutineers' report, the Chairperson declared that Ms T N Mgoduso had been re-elected as a non-executive director with skills and knowledge in industry to the Board of Directors of the Bank.

   Ms Mgoduso was congratulated on her re-election. The election would, in terms of sections 4 and 5 of the South African Reserve Bank Act, read with regulation 37, be effective from 9 December 2010 until the day after the OGM in 2013.

6. 48 shareholders present in person or represented by proxy (representing 74,82 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Mr J F van der Merwe (of which 257 votes were cast by the Chairperson in terms of proxies). 9 shareholders present in person or represented by proxy (representing 14,53 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Mr M J de Klerk (of which 52 votes were cast by the Chairperson in terms of proxies). 1 shareholder present in person or represented by proxy (representing 0,18 per cent of the total number of votes exercisable by shareholders and voting either in person or by proxy at the meeting) had voted in favour of Ms Y Kwinana (of which zero votes were cast by the Chairperson in terms of proxies). 4 shareholders present in person or represented by proxy (representing 10,47 per cent of the total votes) had abstained from voting. 1 proxy was spoilt.

   On the basis of the scrutineers' report, the Chairperson declared that Mr J F van der Merwe had been re-elected as a non-executive director with skills and knowledge in agriculture to the Board of Directors of the Bank.

   Mr van der Merwe was congratulated on his re-election. The re-election would, in terms of sections 4 and 5 of the South African Reserve Bank Act, read with regulation 37, be effective from 9 December 2010 until the day after the OGM in 2013.

Mr S Koseff, the Chief Executive Officer of Investec Bank, proposed a vote of thanks on behalf of the shareholders and the banks.

The Chairperson thanked attendees for their presence and invited them to lunch. All serving and elected Board members were invited to a brief discussion after lunch.

The Chairperson then declared the proceedings closed.

Gill Marcus

Gill Marcus
Chairperson

# Abbreviations

| | |
|---|---|
| ADLA | Authorised Dealer [in foreign exchange] with Limited Authority |
| AFS | annual financial statements |
| BANKSETA | Banking Sector Education and Training Authority |
| BCM | business continuity management |
| BER | Bureau for Economic Research [at Stellenbosch University] |
| BESA | Bond Exchange of South Africa |
| BIS | Bank for International Settlements |
| BSTD | Business Systems and Technology Department [of the South African Reserve Bank] |
| BUSA | Business Unity South Africa |
| CCBG | Committee of Central Bank Governors |
| CEO | Chief Executive Officer |
| CIA | Chief Internal Auditor |
| CIPRO | Company Intellectual Property Registration Office |
| CiT | cash in transit |
| CLS | Continuous Linked Settlement |
| CMA | Common Monetary Area |
| COSO | Committee of Sponsoring Organizations of the Treadway Commission |
| CPD | Corporation for Public Deposits |
| CPI | consumer price index for all urban areas |
| CPSS | Committee on Payment and Settlement Systems |
| DoL | Department of Labour |
| EAP | Employee Assistance Programme |
| EECB | Employment Equity Consultative Body |
| ER | employee relations |
| ERM | Enterprise Risk Management |
| ERP | Enterprise Resource Planning |
| EWT | Endangered Wildlife Trust |
| FICA | Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001) |
| FSC | Financial Stability Committee |
| FSD | Financial Services Department [of the South African Reserve Bank] |
| G-20 | Group of Twenty |
| GCC | Governor's Co-ordinating Committee |
| GDP | gross domestic product |
| GEC | Governors' Executive Committee |
| GFECRA | Gold and Foreign Exchange Contingency Reserve Account |
| GHOS | Governors and Heads of Supervision |
| GIBS | Gordon Institute of Business Science [at Pretoria University] |
| GM | General Management |
| GW | General Worker |
| IAD | Internal Audit Department [of the South African Reserve Bank] |
| IAS | International Accounting Standard |
| ICT | information and communications technology |
| IFC | Internal Financial Control |
| IFRSs | International Financial Reporting Standards |
| IMF | International Monetary Fund |
| IoDSA | Institute of Directors in South Africa |
| ISA | International Standards on Auditing |
| IT | information technology |
| JPS | Junior Professional and Supervisory |
| Manco | Management Committee |
| MPC | Monetary Policy Committee |
| MPF | Monetary Policy Forum |
| MSC | Management Steering Committee |
| Nedcom | Non-executive Directors' Committee |
| Nedlac | National Economic Development and Labour Council |
| NMMU | Nelson Mandela Metropolitan University |
| NPS | National Payment System |
| OGM | Ordinary General Meeting |
| OHS | occupational health and safety |
| PIC | Public Investment Corporation |

| | |
|---|---|
| PVM | Professional and Vocational Management |
| Remco | Remuneration Committee |
| Resmanco | Reserves Management Committee |
| RMCD | Risk Management and Compliance Department [of the South African Reserve Bank] |
| SAA | strategic asset allocation |
| SABN | South African Bank Note Company (Pty) Limited |
| Sacob | South African Chamber of Business |
| SADC | Southern African Development Community |
| SAMOS | South African Multiple Option Settlement |
| SARB | South African Reserve Bank |
| SARBCIC | South African Reserve Bank Captive Insurance Company Limited |
| SARB Group | South African Reserve Bank Group |
| SDR | Special Drawing Right |
| SHE | safety, health and environment |
| SLP | securities lending programme |
| SPM | Senior Professional and Management |
| STC | secondary tax on companies |
| TPC | Trainee Professional and Clerical |
| UPS | uninterrupted power supply |
| US | United States |
| VDP | Voluntary Disclosure Programme |
| WSS | Wall Street Suite |

# Glossary

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|---|---|
| Basel II | International Convergence of Capital Measurement and Capital Standards: A Revised Framework |
| Basel III | A global regulatory framework for more resilient banks and banking systems, Basel Committee on Banking Supervision, December 2010 |
| Basel Committee | Basel Committee on Banking Supervision |
| Companies Act | Companies Act, 1973 (Act No. 61 of 1973) |
| Core Principles | Core Principles for Effective Banking Supervision |
| EE Plan | Employment Equity Plan |
| King III | Report on Corporate Governance for South Africa 2009 |
| repo | repurchase |
| SA Mint | South African Mint Company (Pty) Limited |
| South African Reserve Bank Act | South African Reserve Bank Act, 1989 (Act No. 90 of 1989), as amended |
| the Bank | South African Reserve Bank |
| the Board | Board of Directors |
| the Group | South African Reserve Bank and its subsidiaries |
| the Standards | International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors |
| Vision 2010 | South African Reserve Bank National Payment System Framework and Strategy Document |

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First Head Office building of the South African Reserve Bank in Pretoria, 1921 to 1931

Head Office building of the South African Reserve Bank in Pretoria, 1931 to 1987

Head Office building of the South African Reserve Bank in Pretoria since 1987