



**South African Reserve Bank**

**EXCELLENCE  
IN PRICE AND  
FINANCIAL  
STABILITY**

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**GROUP ANNUAL FINANCIAL  
STATEMENTS 2015/16**



## CONTENTS

- 1** Directors' report
- 4** Report of the Audit Committee
- 6** Financial reporting framework
- 7** Independent auditors' report to the shareholders of the South African Reserve Bank
- 8** Consolidated and separate statement of financial position
- 9** Consolidated and separate statement of profit or loss and other comprehensive income
- 10** Consolidated and separate statement of cash flows
- 11** Consolidated statement of changes in equity: Group
- 13** Separate statement of changes in equity: Bank
- 15** Notes to the financial statements
- 78** Abbreviations
- 79** Contact details

# Directors' report

for the year ended 31 March 2016

## Introduction

The directors are pleased to report on the activities and the financial results of the South African Reserve Bank (the Bank) and the Group for the year under review.

The Group Annual Report, which is being issued in terms of the South African Reserve Bank Act 90 of 1989, as amended (SARB Act) and its regulations, addresses the performance of the Group and relevant statutory information requirements.

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

The financial statements include appropriate and responsible disclosure, and are based on accounting policies that have been consistently applied and that are supported by reasonable and prudent judgements and estimates.

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

The directors are responsible for governance in the Bank, which is monitored on an ongoing basis. The Bank applies the King Report on Corporate Governance in South Africa 2009 (King III) principles and guidelines where appropriate, and where they do not contravene the SARB Act.

## Nature of business

The Bank is the central bank of South Africa and is regulated in terms of the SARB Act. Its primary objective is to protect the value of the currency in the interest of balanced and sustainable economic growth. In pursuance of this objective, as well as that of financial stability, the Bank assumes responsibility for the functions set out on page 3 of the annual report.

## Subsidiaries

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

- » The South African Mint Company (RF) Proprietary Limited (SA Mint) – including its own subsidiary, Prestige Bullion (RF) Proprietary Limited (Prestige Bullion) – produces circulation, bullion, and numismatics coins.

- » The South African Bank Note Company (RF) Proprietary Limited (SABN) produces banknotes.

- » South African Reserve Bank Captive Insurance Company (RF) Limited (SARBCIC) is currently in deregistration.

- » The Corporation for Public Deposits (CPD) receives and invests call deposits from government and public entities.

Information on the Bank's financial interest in its subsidiaries is reflected in notes 34 and 35.

The Board resolved to replace SARBCIC with an alternative, outsourced insurance arrangement with effect from 1 April 2014. This was done to avoid a conflict of interest when the Bank assumes responsibility for the prudential supervision of the insurance industry as part of the Twin Peaks Regulatory Model, which is expected to be implemented in the 2016/17 financial year (refer to note 35.3).

The Bank's subsidiaries passed no special resolutions which may be material to the Bank's affairs in the year under review.

## Associates

The new associate of the Bank, African Bank Holdings Limited (ABHL), is a newly formed public company being the ultimate holding company of African Insurance Group Limited (InsureCo) and African Bank Limited (ABL).

Information on the Bank's financial interest in its associate is reflected in notes 34 and 35.

## Achievement of objectives

The Group Annual Report includes the Bank's achievements against its objectives. Refer to page 10 of the annual report.

## Financial results

It has been eight years since the onset of the global financial crisis, the aftermath of which continues to impact the financial results of the Bank and therefore of the Group, characterised by a low interest rate environment. The interest income of the Bank increased by R1,3 billion (2015: increased by R3,5 billion) and is derived mainly from foreign investments and accommodation to banks. Cost monitoring measures led to a decrease in operating costs of R0,2 billion for the current year. As a result of these factors, the Bank has made a profit after taxation of R1,5 billion (2015: R0,3 billion) for the year ended 31 March 2016.

SA Mint (including its own subsidiary, Prestige Bullion) made a profit after taxation attributable to the parent of R0,2 billion (2015: R0,1 billion) and declared a dividend of R0,2 billion (2015: R0) to the Bank. Refer to note 34 for further detail.



## Directors' report *continued*

for the year ended 31 March 2016

SABN made an after-tax loss of R0,2 billion (2015: R0,1 billion profit) mainly due to an impairment charge on manufacturing and intangible assets determined in accordance with IAS 36 *Impairment of Assets*. Refer to note 34 for further detail.

SARBCIC made a profit after taxation of R0,6 million (2015: R5,3 million) and declared a dividend of R5,6 million (2015: R88,0 million) to the Bank due to the imminent dissolution of the company. Refer to notes 34 and 35.3 for further detail.

The CPD recorded a profit after taxation of R72,8 million (2015: R80,0 million), of which R72,6 million (2015: R79,8 million) was due to government in accordance with the Corporation of Public Deposits Act 46 of 1984 (CPD Act). Refer to note 34 for further detail.

ABHL contributed R2,3 million profit before tax to the Group. Refer to note 34 for further detail.

### Financial position

The Group's total assets increased by R150,4 billion (2015: R68,4 billion), driven largely by increases in gold and foreign-exchange of R123,4 billion (2015: R42,3 billion), accommodation to banks of R12,2 billion (2015: R15,1 billion), and loans and advances of R5,8 billion (2015: decrease of R0,4 billion).

The total liabilities of the Group increased by R148,7 billion (2015: R68,1 billion). The Gold and Foreign-Exchange Contingency Reserve Account (GFECRA) (used for the currency revaluation of foreign assets and liabilities which is for government's account) increased by R101,3 billion (2015: R25,5 billion). Deposit accounts increased by R35,7 billion (2015: R15,4 billion) during the year, mainly due to increases in the Bank's reserve accounts and call deposit held with the CPD. Notes and coin in circulation increased by R8,4 billion (2015: R14,8 billion) due to an increase in demand.

The increase of both assets and liabilities was mainly as a result of the movement in the rand and an increase in the price of gold.

The contingency reserve increased by R1,5 billion (2015: R0,3 billion) due to the profit after taxation achieved for the year.

Further details on the Group's financial information for the year, appear on page 8 of the financial statements.

### Dividends

An interim dividend of five cents per share for the financial year was paid to shareholders on 23 October 2015; the final dividend, also of five cents per share, was paid on 13 May 2016. The total dividend paid for the financial year was R0,2 million (2015: R0,2 million).

When approving both the interim and the final dividends for the financial year, the directors took into account that the SARB Act permits the Bank to declare dividends from its accumulated profits (i.e. reserves).

### Directors

The composition of the Board can be found in the Group Annual Report as at 31 March 2016.

The President of South Africa appointed K (Kuben) Naidoo as Deputy Governor for a period of five years with effect from 1 April 2015 to fill the vacancy that had arisen when E L (Lesetja) Kganyago was appointed as the Governor on 9 November 2014.

The terms of office of T N (Thandeka) Mgoduso (Industry), J F (Hans) van der Merwe (Agriculture) and B W (Ben) Smit (Industry), as shareholder-elected non-executive directors, will expire the day after the 2016 Annual General Meeting (AGM). Both T N Mgoduso and J F van der Merwe would have completed three terms of office and would therefore not be available for re-election. B W Smit, who has served two terms of office, has indicated that he would be available for re-election.

The term of office of F E (Francois) Groepe as Deputy Governor will expire on 31 December 2016.

All the Board positions are currently filled.

As at 31 March 2016 and to date, none of the directors in office held any direct or indirect shareholding in the Bank.

Directors' fees for their services during the financial year under review are reflected in note 34.6 of the financial statements.

## Directors' report *continued*

for the year ended 31 March 2016

### Events after reporting date

The Bank acquired 50 per cent of the issued share capital of ABHL as at 31 March 2016. Subsequently on 4 April 2016, the effective date of the restructuring of African Bank Investments Limited Group took place and the relevant assets and liabilities were transferred to African Bank Limited (ABL). Refer to notes 28.1 and 35.1 for more details.

On 1 April 2016, the Bank provided a loan of R3,3 billion to Residual Debt Services Limited. Details about the loan are disclosed in note 28.2.

### Secretary and Registered Office of the Bank

S L (Sheenagh) Reynolds

**Business address:** 370 Helen Joseph (formerly Church) Street  
Pretoria 0002

**Postal address:** P O Box 427 Pretoria 0001

The financial statements were approved by the Board on 9 June 2016 and signed on its behalf by:



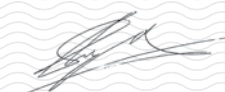
**E L (Lesetja) Kganyago**  
Governor



**R J G (Rob) Barrow**  
Non-executive Director  
and Chairperson of the Audit  
Committee



**N (Naidene) Ford-Hoon**  
Group Chief Financial Officer



**S L (Sheenagh) Reynolds**  
Secretary of the Bank

### Statement by the Secretary of the Bank

In my capacity as Secretary of the Bank, I certify that all the returns required to be submitted, in terms of the SARB Act, for the year ended 31 March 2016, have been completed and are up to date.



**S L (Sheenagh) Reynolds**  
Secretary of the Bank

9 June 2016



# Report of the Audit Committee

for the year ended 31 March 2016

The Audit Committee is a committee of the Board of Directors (Board). All its members are independent non-executive directors. The responsibilities of this committee are detailed in its terms of reference, which are reviewed annually and approved by the Board.

The Audit Committee confirms that, during the year it carried out its functions responsibly and in compliance with its terms of reference.

The Bank's executive management, internal auditors, external auditors and other assurance providers attend this committee's meetings in an ex officio capacity. Management and both internal and external auditors meet independently with the Audit Committee, as appropriate.

## Roles and responsibilities

The Audit Committee assists the Board in fulfilling its oversight responsibilities regarding the Bank's financial reporting processes, the system of internal financial controls and the Bank's process for monitoring compliance with laws and regulations as they relate to financial reporting.

## Internal control (including internal financial controls)

The Bank's internal control system is designed to ensure:

- » the integrity and reliability of financial information;
- » compliance with all applicable laws and regulations;
- » the accomplishment of objectives;
- » economy and efficiency of operations; and
- » the safeguarding of assets.

The Audit Committee is satisfied that the Bank's system of internal financial controls is adequately designed and operated effectively to form a sound basis for the preparation of reliable financial reports. This assessment is based on a report from the combined assurance forum, comprising management, internal audit, risk management and external audit.

The Audit Committee considered, and is satisfied with, the expertise and experience of the Group Chief Financial Officer (CFO). The finance function in the Bank has the expertise and adequate resources to support the Group CFO.

## Annual financial statements

The Audit Committee reviewed the Group annual financial statements of the Bank and the external auditors' report thereon, and recommended their approval to the Board.

## Internal audit

The Audit Committee reviews and approves the Internal Audit Charter which defines the purpose, authority and responsibility of the internal audit function. The committee also approved the annual internal audit plan.

The Audit Committee reviewed the Internal Audit Department's (IAD) reports on control weaknesses and management's corrective actions.

The IAD is independent and appropriately resourced to provide assurance on the adequacy and effectiveness of the internal control environment of the Bank. The Chief Internal Auditor (CIA) reports functionally to the Audit Committee and administratively to both the Chairperson of the Audit Committee and the Governor.

## External audit

The Audit Committee is satisfied with the independence of the external auditors of the Bank. This assessment was made after considering the independence letters from the external auditors, continuous monitoring and approval of non-audit services, and a formal partner rotation process.

In consultation with executive management, the Audit Committee reviewed the external auditors' proposed audit scope, approach, and audit fees for the year under review.

The Audit Committee is satisfied with the formal procedures that govern the provision of non-audit services by the external auditors. This is monitored through reporting such activities to the Audit Committee.

## Compliance

The Audit Committee is satisfied that the Bank has implemented appropriate processes and controls to ensure compliance with all applicable laws and regulations as they relate to financial reporting. This is based on the committee's review of reports received from both internal and external auditors, as well as from the executive management and relevant departments.

## Report of the Audit Committee *continued*

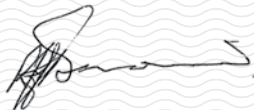
for the year ended 31 March 2016

### Information technology

The Audit Committee is satisfied that the Bank is able to manage its Information Technology (IT) capability and that its IT controls are appropriate to support the integrity of financial reporting. This is based on the committee's continuous review of reports from IT management as well as the internal and external auditors.

### Whistle-blowing

Based on combined submissions from the Risk Management and Compliance Department and the IAD, the Audit Committee is satisfied that procedures have been established to receive, retain and resolve complaints regarding accounting, internal controls or auditing matters, including procedures for confidential and anonymous submissions in this regard.



**R J G (Rob) Barrow**  
Chairperson of the Audit Committee



# Financial reporting framework

## Reporting framework

The Group annual financial statements have been prepared in accordance with the SARB Act and the accounting policies set out in note 1 to the financial statements.

The SARB 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 the International Financial Reporting Standards (IFRS). The Bank has chosen to use IFRS as a guide in deciding on the most appropriate accounting policies to adopt, and as a model for the presentation and disclosure framework followed in its financial statements.

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

## Recognition and measurement

1. According to the SARB Act,
  - a. 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
  - b. gold is valued in terms of section 25 of the SARB Act at the statutory gold price. Gold has been recognised as a financial asset of the Bank.
2. Deferred taxation assets

Deferred taxation assets are recognised for all deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits. Deferred taxation assets are not reduced to the extent that it is no longer probable in the foreseeable future that the related taxation benefits will be realised. This is a departure from IFRS, which requires that deferred taxation assets are reduced to the extent that it is no longer probable, in the foreseeable future, that the related taxation benefit will be realised. A taxable profit for 31 March 2016 decreased the deferred taxation asset in the current year.

The principles of IAS 12 *Income taxes* require an entity to demonstrate convincing evidence that future taxable profits will be available where the entity has unused tax losses. Management is unable to provide evidence, within the requirements of IAS 12 *Income taxes*, when and to what extent future taxable profits will be available against which the carried forward tax losses can be offset; however, it is also of the view that the continued recognition of deferred taxation assets with respect to deductible temporary differences, in particular carried forward tax losses, remains appropriate. Management has considered that United States (US) dollar and euro interest rates (a primary source of the Bank's income) are currently at historically low levels when measured in absolute terms, and market observable forward interest rates indicate that investment income will recover over the longer term as global interest rates rise. It also takes comfort that tax losses do not expire in terms of the Income Tax Act 58 of 1962 so long as the Bank continues to trade. Furthermore, deferred taxation assets are measured on an undiscounted basis. The Bank is mandated, as per the SARB Act, to operate as the sole central bank in South Africa and has been doing so for the past 95 years. The continuity of the Bank is therefore protected by statute and not dependent on market forces.

## Presentation

In the financial statements,

1. not all information as required by IFRS 7 *Financial Instruments Disclosures*, are disclosed. This relates specifically to:
  - » Market risk: The 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/other comprehensive income would have been affected by changes in the relevant risk variables that were reasonably possible at that date;
  - » Credit risk: The credit quality per counterparty, the historical information about the counterparty default rates, the contractual maturity analysis of financial assets and the exposure to credit risk by class of financial instrument; and
  - » Liquidity risk: the contractual maturity analysis of financial assets.
2. assets and liabilities relating to securities lending activities and financial derivative products used for portfolio management purposes have been disclosed, but offset in note 6 to the financial statements because it is considered inappropriate to gross up the foreign-exchange reserves of the Bank.



# Independent auditors' report to the shareholders of the South African Reserve Bank

We have audited the consolidated and separate financial statements of the South African Reserve Bank (the Bank), set out on pages 8 to 77, which comprise the statements of financial position as at 31 March 2016, and the statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management of the Bank in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the South African Reserve Bank Act 90 of 1989, as amended (South African Reserve Bank Act).

## Directors' Responsibility for the Financial Statements

The Bank's directors are responsible for the preparation and presentation of these consolidated and separate financial statements in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the South African Reserve Bank Act. The Bank's directors are further responsible for determining that the basis of presentation is acceptable in the circumstances, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

## Auditors' Responsibility

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

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

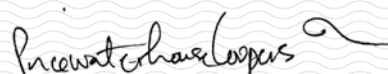
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated and separate financial statements of the Bank for the year ended 31 March 2016 are prepared, in all material respects, in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the South African Reserve Bank Act.

## Basis of Accounting

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared for the purpose as described therein. As a result, the financial statements may not be suitable for any other purpose.



**PricewaterhouseCoopers Inc.**

Director: Thomas Magill  
Registered Auditor

Johannesburg  
9 June 2016



**SizweNtsalubaGobodo Inc.**

Director: Agnes Dire  
Registered Auditor

Johannesburg  
9 June 2016

PricewaterhouseCoopers Inc., 2 Eglon Road, Sunninghill 2157, Private Bag X36, Sunninghill 2157, South Africa Tel: +27 (11) 797 4000, Fax: +27 (11) 797 5800, [www.pwc.co.za](http://www.pwc.co.za)

Chief Executive Officer: T D Shango. Management Committee: T P Blandin de Chalaïn, S N Madikane, P J Mothibe, C Richardson, F Tonelli, C Volschenk. The Company's principal place of business is at 2 Eglon Road, Sunninghill where a list of directors' names is available for inspection. Registration number: 1998/012055/21, VAT registration number: 4950174682

SizweNtsalubaGobodo Inc. Head office: 20 Morris Street East Woodmead 2191 P O Box 2939 Saxonwold 2132 Tel: (011) 231 0600 Fax: (011) 234 0933

Executive: Victor Sekese (Chief Executive)

A comprehensive list of all directors is available at the company offices or registered office. SizweNtsalubaGobodo Inc. Registration number: M2005/034639/21

# Consolidated and separate statement of financial position

at 31 March 2016

	Notes	Group		Bank	
		2016 R'000	2015 R'000	2016 R'000	2015 R'000
<b>Assets</b>					
Cash and cash equivalents	2	5 947 893	12 777 046	0	0
Amounts due by subsidiaries	34.3	0	0	0	33 323
Accommodation to banks	3	53 509 891	41 322 600	53 509 891	41 322 600
Investments	4	27 042 334	15 156 368	0	0
Other assets	5	643 471	347 753	391 700	173 103
Gold and foreign-exchange	6	688 403 063	564 988 869	688 403 063	564 988 869
Inventories	7	467 078	401 168	6 690	5 009
Forward exchange contract assets	8	498 006	1 023 075	498 006	1 023 075
Loans and advances	9	27 359 580	21 521 151	62 376	63 920
South African government bonds	10	7 931 718	8 443 629	7 534 511	8 029 907
Equity investment in Bank for International Settlements	11	542 380	438 971	542 380	438 971
Investment in subsidiaries	34.1	0	0	1 291 765	1 401 765
Investment in associate	34.2	5 002 264	0	5 000 000	0
Property, plant and equipment	12	2 643 380	3 154 702	1 223 053	1 346 037
Intangible assets	13	528 749	0	483 710	0
Deferred taxation assets	14	1 913 387	2 467 786	1 865 404	2 452 023
<b>Total assets</b>		<b>822 433 194</b>	<b>672 043 118</b>	<b>760 812 549</b>	<b>621 278 602</b>
<b>Liabilities</b>					
Notes and coin in circulation	15	130 561 627	122 170 165	130 561 627	122 170 165
Deposit accounts	16	269 690 288	234 004 391	200 248 122	181 952 249
Amounts due to subsidiaries	34.3	0	0	9 629 910	3 192 626
Foreign deposits	17	102 083 334	94 414 334	102 083 334	94 414 334
Other liabilities	18	861 612	801 756	617 993	547 785
South African Reserve Bank debentures	19	3 176 420	7 910 100	3 176 420	7 910 100
Forward exchange contract liabilities	8	1 003 739	146 245	1 003 739	146 245
Deferred taxation liabilities	14	32 779	56 690	0	0
Post-employment benefits	20	2 080 497	2 516 081	1 899 430	2 323 565
Gold and Foreign-Exchange Contingency Reserve Account	21	304 653 118	203 396 438	304 653 118	203 396 438
<b>Total liabilities</b>		<b>814 143 414</b>	<b>665 416 200</b>	<b>753 873 693</b>	<b>616 053 507</b>
<b>Capital and reserves<sup>(1)</sup></b>					
Share capital	22	2 000	2 000	2 000	2 000
Accumulated profit		1 179 294	1 296 431	0	0
Statutory reserve		395 164	395 164	395 164	395 164
Contingency reserve		6 551 274	5 035 643	6 459 968	4 946 601
Bond revaluation reserve		30 167	406 751	30 167	406 751
Property, plant and equipment revaluation reserve <sup>(2)</sup>		109 521	0	109 521	0
Post-employment benefits remeasurement reserve		(57 816)	(544 569)	(57 964)	(525 421)
Non-controlling interest	35.2	80 176	35 498	0	0
<b>Total capital and reserves</b>		<b>8 289 780</b>	<b>6 626 918</b>	<b>6 938 856</b>	<b>5 225 095</b>
<b>Total liabilities, capital and reserves</b>		<b>822 433 194</b>	<b>672 043 118</b>	<b>760 812 549</b>	<b>621 278 602</b>

(1) Further detail on capital and reserves is provided in the statements of changes in equity.

(2) During the year it was decided to change the accounting policy relating to valuable art. The class of valuable art will subsequently be carried at fair value and no longer at cost less accumulated depreciation and impairment. The change in accounting policy is immaterial and thus not adjusted retrospectively.



# Consolidated and separate statement of profit or loss and other comprehensive income

for the year ended 31 March 2016

	Notes	Group		Bank	
		2016 R'000	2015 R'000	2016 R'000	2015 R'000
Interest income	32	12 100 619	10 464 061	8 301 083	7 000 069
Interest expense	32	(6 413 553)	(5 884 453)	(2 755 423)	(2 564 461)
Net interest income		5 687 066	4 579 608	5 545 660	4 435 608
Dividend income		33 195	30 367	189 027	118 567
Operating income <sup>(1)</sup>		1 298 266	1 007 654	694 252	447 542
<b>Total income</b>	23.1	<b>7 018 527</b>	5 617 629	<b>6 428 939</b>	5 001 717
Operating costs	23.2	(4 861 338)	(4 772 189)	(4 389 234)	(4 565 066)
Share of net profit of associate accounted for using the equity method	34.2	2 264	0	0	0
<b>Profit before taxation</b>	23	<b>2 159 453</b>	845 440	<b>2 039 705</b>	436 651
Taxation	24	(577 731)	(218 603)	(526 138)	(101 334)
<b>Profit for the year</b>		<b>1 581 722</b>	626 837	<b>1 513 567</b>	335 317
<b>Attributable to:</b>					
The parent		1 471 244	564 024		
Non-controlling interest	35.2	110 478	62 813		
		<b>1 581 722</b>	626 837		
<b>Other comprehensive income (net of taxation)</b>					
<b>Items that will not be reclassified to profit or loss</b>					
Remeasurement of post-employment benefits	20	486 753	(356 115)	467 457	(355 769)
<b>Items that may subsequently be reclassified to profit or loss</b>					
Revaluation of property, plant and equipment <sup>(2)</sup>		109 521	0	109 521	0
Unrealised (loss)/gain on available-for-sale financial assets		(376 584)	138 178	(376 584)	138 178
Realised profit on sale of available-for-sale financial assets		0	(40 966)	0	(40 966)
<b>Total comprehensive income for the year (net of taxation)</b>		<b>1 801 412</b>	367 934	<b>1 713 961</b>	76 760
<b>Attributable to:</b>					
The parent		1 690 934	305 121		
Non-controlling interest	35.2	110 478	62 813		
<b>Total comprehensive income</b>		<b>1 801 412</b>	367 934		

(1) The increase in operating income was mainly due to increases in commission on banking services.

(2) During the year it was decided to change the accounting policy relating to valuable art. The class of valuable art will subsequently be carried at fair value and no longer at cost less accumulated depreciation and impairment. The change in accounting policy is immaterial and thus not adjusted retrospectively.

# Consolidated and separate statement of cash flows

for the year ended 31 March 2016

	Notes	Group		Bank	
		2016 R'000	2015 R'000	2016 R'000	2015 R'000
<b>Cash flows from operating activities</b>					
Cash generated from operating activities	26	10 886 313	11 460 075	5 345 258	416 129
Taxation paid		(115 998)	(62 595)	0	0
Dividends paid (Notes 25 and 35.2)		(66 000)	(48 200)	(200)	(200)
Transfer to government <sup>(1)</sup>		(79 800)	(44 956)	0	0
<b>Net cash flows generated from operating activities</b>		10 624 515	11 304 324	5 345 058	415 929
<b>Cash flows utilised by investing activities</b>		(17 453 668)	(1 973 150)	(5 345 058)	(415 929)
Purchase of property, plant and equipment	12	(501 765)	(553 092)	(400 386)	(416 751)
Purchase of intangible assets	13	(69 632)	0	(62 150)	0
Disposal of property, plant and equipment		7 631	1 257	7 478	822
Acquisition of investments		(11 889 902)	(1 421 315)	0	0
Acquisition of investment in associate	34.2	(5 000 000)	0	(5 000 000)	0
Disposal of investments in subsidiaries		0	0	110 000	0
<b>Net (decrease)/increase in cash and cash equivalents</b>		(6 829 153)	9 331 174	0	0
<b>Cash and cash equivalents at the beginning of the year</b>		12 777 046	3 445 872	0	0
<b>Cash and cash equivalents at the end of the year</b>	2	5 947 893	12 777 046	0	0

(1) Further detail on the transfer to government is provided in the statements of changes in equity.



# Consolidated statement of changes in equity: Group

for the year ended 31 March 2016

	Share capital R'000	Accumulated profit R'000	Statutory reserve R'000	Contingency reserve R'000	Bond revaluation reserve R'000	Property, plant and equipment revaluation reserve R'000	Post-employment benefit measurement reserve R'000	Non-controlling interest Total R'000	Total R'000
<b>Balance at 31 March 2014</b>	<b>2 000</b>	<b>1 147 524</b>	<b>395 164</b>	<b>4 700 526</b>	<b>309 539</b>	<b>0</b>	<b>(188 454)</b>	<b>20 685</b>	<b>6 386 984</b>
Total comprehensive profit for the year	0	564 024	0	0	97 212	0	(356 115)	62 813	367 934
Unrealised gain on available-for-sale financial assets	0	0	0	0	138 178	0	0	0	138 178
Remeasurement of post-employment benefits	0	0	0	0	0	0	(356 115)	0	(356 115)
Realised gain on available-for-sale financial assets	0	0	0	0	(40 966)	0	0	0	(40 966)
Profit for the year	0	564 024	0	0	0	0	0	62 813	626 837
Transfer to government	0	(79 800)	0	0	0	0	0	0	(79 800)
Transfer (from)/to reserves	0	(335 117)	0	335 117	0	0	0	0	0
Dividends paid (Notes 25 and 35.2)	0	(200)	0	0	0	0	0	(48 000)	(48 200)
<b>Balance at 31 March 2015</b>	<b>2 000</b>	<b>1 296 431</b>	<b>395 164</b>	<b>5 035 643</b>	<b>406 751</b>	<b>0</b>	<b>(544 569)</b>	<b>35 498</b>	<b>6 626 918</b>
Total comprehensive profit for the year	0	1 471 244	0	0	(376 584)	109 521	486 753	110 478	1 801 412
Unrealised loss on available-for-sale financial assets	0	0	0	0	(376 584)	0	0	0	(376 584)
Revaluation of property, plant and equipment <sup>(1)</sup>	0	0	0	0	0	109 521	0	0	109 521
Remeasurement of post-employment benefits	0	0	0	0	0	0	486 753	0	486 753
Profit for the year	0	1 471 244	0	0	0	0	0	110 478	1 581 722
Transfer to government	0	(72 550)	0	0	0	0	0	0	(72 550)
Transfer (from)/to reserves	0	(1 515 631)	0	1 515 631	0	0	0	0	0
Dividends paid (Notes 25 and 35.2)	0	(200)	0	0	0	0	0	(65 800)	(66 000)
<b>Balance at 31 March 2016</b>	<b>2 000</b>	<b>1 179 294</b>	<b>395 164</b>	<b>6 551 274</b>	<b>30 167</b>	<b>109 521</b>	<b>(57 816)</b>	<b>80 176</b>	<b>8 289 780</b>

(1) During the year it was decided to change the accounting policy relating to valuable art. The class of valuable art will subsequently be carried at fair value and no longer at cost less accumulated depreciation and impairment. The change in accounting policy is immaterial and thus not adjusted retrospectively.

## Consolidated statement of changes in equity: Group *continued*

### Explanatory notes

#### Statutory reserve

The statutory reserve is maintained in terms of section 24 of the SARB Act, which stipulates that one-tenth of the surplus of the Bank, after provisions normally provided for by bankers and payment of dividends, has to be credited to the statutory reserve.

#### Contingency reserve

In terms of section 24 of the SARB Act and section 15 of the CPD Act, contingency reserves are maintained to provide against risks to which the Bank and the CPD respectively 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.

#### Property, plant and equipment revaluation reserve

Gains and losses arising from a change in fair value of artwork are recognised in other comprehensive income. When these 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.

#### Post-employment benefit remeasurement reserve

Actuarial gains and losses relating to the remeasurement of the post-employment benefits, and arising from experience adjustments and changes in actuarial assumptions, are recognised in other comprehensive income in the period in which they arise. These gains and losses will not subsequently be reclassified to profit or loss.

#### Transfer to government

In terms of section 24 of the SARB Act, nine-tenths of the surplus of the Bank, after provisions normally provided for by bankers and payment of dividends, has to be paid to government. No amount was transferred to government by the Bank in the current year as the Bank is replenishing the contingency reserve. In terms of section 15 of the CPD Act, 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 2016 an amount of R72,6 million (2015: R79,8 million) was due to government by the CPD.



# Separate statement of changes in equity: Bank

for the year ended 31 March 2016

	Share capital R'000	Accumulated profit R'000	Statutory reserve R'000	Contingency reserve R'000	Bond revaluation reserve R'000	Property, plant and equipment revaluation reserve R'000	Post-employment benefit revaluation reserve R'000	Total R'000
<b>Balance at 31 March 2014</b>	<b>2 000</b>	<b>0</b>	<b>395 164</b>	<b>4 611 484</b>	<b>309 539</b>	<b>0</b>	<b>(169 652)</b>	<b>5 148 535</b>
Total comprehensive profit for the year	0	335 317	0	0	97 212	0	(355 769)	76 760
Unrealised gain on available-for-sale financial assets	0	0	0	0	138 178	0	0	138 178
Remeasurement of post-employment benefits	0	0	0	0	0	0	(355 769)	(355 769)
Realised gain on available-for-sale financial assets	0	0	0	0	(40 966)	0	0	(40 966)
Profit for the year	0	335 317	0	0	0	0	0	335 317
Transfer (from)/to reserves	0	(335 117)	0	335 117	0	0	0	0
Dividends paid (Note 25)	0	(200)	0	0	0	0	0	(200)
<b>Balance at 31 March 2015</b>	<b>2 000</b>	<b>0</b>	<b>395 164</b>	<b>4 946 601</b>	<b>406 751</b>	<b>0</b>	<b>(525 421)</b>	<b>5 225 095</b>
Total comprehensive profit for the year	0	1 513 567	0	0	(376 584)	109 521	467 457	1 713 961
Unrealised loss on available-for-sale financial assets	0	0	0	0	(376 584)	0	0	(376 584)
Revaluation of property, plant and equipment <sup>(1)</sup>	0	0	0	0	0	109 521	0	109 521
Remeasurement of post-employment benefits	0	0	0	0	0	0	467 457	467 457
Profit for the year	0	1 513 567	0	0	0	0	0	1 513 567
Transfer (from)/to reserves	0	(1 513 367)	0	1 513 367	0	0	0	0
Dividends paid (Note 25)	0	(200)	0	0	0	0	0	(200)
<b>Balance at 31 March 2016</b>	<b>2 000</b>	<b>0</b>	<b>395 164</b>	<b>6 459 968</b>	<b>30 167</b>	<b>109 521</b>	<b>(57 964)</b>	<b>6 938 856</b>

(1) During the year it was decided to change the accounting policy relating to valuable art. The class of valuable art will subsequently be carried at fair value and no longer at cost less accumulated depreciation and impairment. The change in accounting policy is immaterial and thus not adjusted retrospectively.

## Separate statement of changes in equity: Bank *continued*

### Explanatory notes

#### Statutory reserve

The statutory reserve is maintained in terms of the SARB Act, which stipulates that one-tenth of the surplus of the Bank, after provisions normally provided for by bankers and payment of dividends, has to be credited to the statutory reserve.

#### Contingency reserve

In terms of section 24 of the SARB Act, a contingency reserve is maintained to provide against risks to which the Bank is exposed.

#### Bond revaluation reserve

Gains and losses arising from a change in fair value of available-for-sale financial assets are recognised 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.

#### Property, plant and equipment revaluation reserve

Gains and losses arising from a change in fair value of artwork are recognised in other comprehensive income. When these 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.

#### Post-employment benefit remeasurement reserve

Actuarial gains and losses relating to the remeasurement of the post-employment benefits, and arising from experience adjustments and changes in actuarial assumptions, are recognised in other comprehensive income in the period in which they arise. These gains and losses will not subsequently be reclassified to profit or loss.

#### Transfer to government

In terms of section 24 of the SARB Act, nine-tenths of the surplus of the Bank, after provisions normally provided for by bankers and payment of dividends, has to be paid to government. No amount was transferred to government by the Bank as the Bank is replenishing the contingency reserve.



# Notes to the financial statements

## 1. Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These accounting policies should be read together with the financial reporting framework on page 6.

The accounting policies have been applied consistently to all years presented, unless otherwise stated.

### 1.1 Basis of presentation

These financial statements have been prepared in accordance with the SARB Act and the accounting policies set out in this note.

The preparation of financial statements requires the use of certain key accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies of the Group. The areas with a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 1.19 and the relevant notes.

### 1.2 Changes in accounting standards

#### 1.2.1 New and amended standards adopted by the Group

The IASB has amended IAS 24 *Related Party Disclosures* to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). The reporting entity is not required to disclose the compensation paid by the management entity to the management entity's employees or directors, but it is required to disclose the amounts charged to the reporting entity by the management entity for services provided. The amendments are effective for annual periods beginning on or after 1 July 2014.

There are no other new and amended standards applicable to the Group for the financial year ended 31 March 2016.

#### 1.2.2 New standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 April 2016, and have not been early adopted in preparing these financial statements. None of these are expected to have a significant impact on the financial statements, except for the following:

- » IFRS 9 *Financial Instruments*: A final version of IFRS 9 *Financial Instruments* has been issued which replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The completed standard comprises guidance on Classification

and Measurement, Impairment Hedge Accounting and Derecognition: IFRS 9 *Financial Instruments* introduces a new approach to the classification of financial assets, which is driven by the business model in which the asset is held and their cash flow characteristics. A new business model was introduced which does allow certain financial assets to be categorised as "fair value through other comprehensive income" in certain circumstances. The requirements for financial liabilities are mostly carried forward unchanged from IAS 39 *Financial Instruments: Recognition and Measurement*. However, some changes were made to the fair value option for financial liabilities to address the issue of own credit risk. The new model introduces a single impairment model being applied to all financial instruments, as well as an "expected credit loss" model for the measurement of financial assets. IFRS 9 *Financial Instruments* contains a new model for hedge accounting that aligns the accounting treatment with the risk management activities of an entity, in addition enhanced disclosures will provide better information about risk management and the effect of hedge accounting on the financial statements. IFRS 9 *Financial Instruments* carries forward the derecognition requirements of financial assets and liabilities from IAS 39 *Financial Instruments: Recognition and Measurement*. The effective date has not yet been established as the project is currently incomplete. The IASB has communicated that the effective date will not be before years beginning on or after 1 January 2018. IFRS 9 *Financial Instruments* may be early adopted. If IFRS 9 *Financial Instruments* is early adopted, the new hedging requirements may be excluded until the effective date. The Group expects to adopt the standard for the first time in the first annual financial period after the effective date. The impact of this standard is currently being assessed.

- » IFRS 12 *Disclosure of Interests in Other Entities*: Investment Entities: Applying the Consolidation Exception: Narrow-scope amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investments in Associates* introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the Standards. The effective date of the amendment is for years beginning on or after 1 January 2016. The Group expects to adopt the amendment for the first time in the 2017 financial statements. It is unlikely that the amendment will have a material impact on the Group's financial statements.



## Notes to the financial statements *continued*

### 1.2 Changes in accounting standards *continued*

#### 1.2.2 New standards, amendments and interpretations not yet adopted *continued*

» IFRS 15 *Revenue from Contracts from Customers*: New standard that requires entities to recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is achieved through a five step methodology that is required to be applied to all contracts with customers. The new standard will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively and improve guidance for multiple-element arrangements. The effective date of the amendment is for years beginning on or after 1 January 2018. The Group expects to adopt the standard for the first time in the first annual financial period after the effective date. The impact of this standard is currently being assessed. The new standard supersedes:

- IAS 11 Construction Contracts;
- IAS 18 Revenue;
- IFRIC 13 Customer Loyalty Programmes;
- IFRIC 15 Agreements for the Construction of Real Estate;
- IFRIC 18 Transfers of Assets from Customers; and
- SIC-31 Revenue-Barter Transactions Involving Advertising Services.

» IFRS 16 *Leases*: New standard that introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. A lessee measures right-of-use assets similarly to other non-financial assets (such as property, plant and equipment) and lease liabilities similarly to other financial liabilities. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows applying IAS 7 *Statement of Cash Flows*. IFRS 16 *Leases* contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of the lessee. IFRS 16 *Leases* substantially carries forward the lessor accounting requirements in IAS 17 *Leases*. Accordingly, a lessor continues to classify its leases

as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 *Leases* also requires enhanced disclosures to be provided by lessors that will improve information disclosed about a lessor's risk exposure, particularly to residual value risk. The effective date of the amendment is for years beginning on or after 01 January 2019. The Group expects to adopt the standard for the first time in the first annual financial period after the effective date. The impact of this standard is currently being assessed. IFRS 16 *Leases* supersedes the following Standards and Interpretations:

- IAS 17 *Leases*;
- IFRIC 4 Determining whether an Arrangement contains a Lease;
- SIC-15 Operating Leases—Incentives; and
- SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

» IAS 1 *Presentation of Financial Statements*: Disclosure Initiative: Amendments designed to encourage entities to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that entities should use professional judgement in determining where and in what order information is presented in the financial disclosures. The effective date of the amendment is for years beginning on or after 1 January 2016. The Group expects to adopt the amendment for the first time in the 2017 financial statements. The adoption of this amendment is not expected to impact on the results of the Group, but may result in more disclosure than is currently provided in the financial statements.

There are no other IFRS or International Financial Reporting Interpretations Committee (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

### 1.3 Principles of consolidation

#### 1.3.1 Subsidiaries

Subsidiaries are all entities over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for subsidiaries by the Group (refer to note 1.3.4).



## Notes to the financial statements *continued*

### 1.3 Principles of consolidation *continued*

#### 1.3.1 Subsidiaries *continued*

Intercompany transactions, balances and unrealised gains on transactions between the Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group, with the exception of the Bank's policy on foreign currency translation (refer to note 1.6). These foreign-exchange profits or losses are for the account of government and are thus transferred to the GFECRA in terms of sections 25 to 28 of the SARB Act.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated and separate statement of profit or loss and other comprehensive income, consolidated and separate statement of changes in equity and consolidated and separate statement of financial position respectively. Total comprehensive income of subsidiaries is attributed to the Bank and to the non-controlling interest, even if this results in the non-controlling interests having a deficit balance.

#### 1.3.2 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the group holds between 20 per cent and 50 per cent of the voting rights. Investments in associates are accounted for using the equity method of accounting (see 1.3.4 below), after initially being recognised at cost.

#### 1.3.3 Changes in ownership interest

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to the Bank.

When the Group ceases to consolidate because of a loss of control any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

### 1.3.4 Business combinations

#### Subsidiaries

Investments in subsidiaries are stated at cost less allowance for impairment losses where appropriate, and include loans to subsidiaries with no repayment terms where these are considered part of the investment in subsidiaries.

The acquisition method of accounting is used to account for all subsidiaries, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises:

- » the fair values of the assets transferred;
- » liabilities incurred to the former owners of the acquired business;
- » equity interests issued by the group;
- » fair value of any asset or liability resulting from a contingent consideration arrangement; and
- » fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition-date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

## Notes to the financial statements *continued*

### 1.3 Principles of consolidation *continued*

#### 1.3.4 Business combinations *continued*

##### *Subsidiaries continued*

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

##### *Associates*

Investments in associates are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy in note 1.9 Impairment of other non-financial assets.

### 1.4 Financial instruments

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, intangible assets and taxation payable or prepaid.

#### 1.4.1 Financial assets

##### *1.4.1.1 Classification*

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 investments 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.

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

This category comprises two subcategories: (i) financial assets held-for-trading, and (ii) those designated as 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 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 either it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset, or recognising the gains or losses on it on different bases; or it forms part of a portfolio of financial assets that 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; or it forms part of a contract containing one or more embedded derivatives and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. This category does not include those loans and receivables that the Group intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale.

##### *Held-to-maturity financial assets*

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

##### *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 (BIS).



## Notes to the financial statements *continued*

### 1.4 Financial instruments *continued*

#### 1.4.1 Financial assets *continued*

##### 1.4.1.2 Reclassification

The Group may choose to reclassify a non-derivative trading financial asset out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

##### 1.4.1.3 Recognition and derecognition

Purchases and sales of financial assets that require delivery are recognised on trade date, being the date on which the Group commits itself to purchasing or selling the asset. From this date, any gains or losses arising from changes in the fair value of the assets and liabilities are recognised. Financial assets are derecognised when the rights to receive cash flows from the assets have expired, or where the Group has transferred substantially all risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in other comprehensive income are reclassified to profit or loss as gains and losses from investment securities.

##### 1.4.1.4 Measurement

###### Initial measurement

Financial assets are initially recognised at fair value plus transaction costs, except those carried at fair value through profit or loss. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

The best evidence of fair value on initial recognition is the transaction price, unless 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 data from observable markets.

##### Subsequent measurement

Loans and receivables are subsequently carried at amortised cost using the effective interest method. The amortised cost of a financial asset is the amount at which the financial asset is measured on initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reductions for impairment of financial assets.

Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in fair value are recognised in other comprehensive income. When the financial assets are derecognised the cumulative gain or loss recognised in other comprehensive income is transferred to profit or loss. Interest income and dividend income received on available-for-sale financial assets are recognised in profit or loss.

Gains and losses arising from a change in the fair value (excluding changes in fair value due to foreign-exchange movements as explained in note 1.6) of financial assets and liabilities designated at fair value through profit or loss are recognised in profit or loss.

##### 1.4.1.5 Impairment of financial assets

The Group assesses whether financial assets need to be 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.

##### Financial assets carried at amortised cost

If there is objective evidence that an impairment loss has been incurred on loans and receivables 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.

Objective evidence that loans and receivables are impaired includes but are not limited to the observable data that comes to the attention of the Group about the following events:

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

## Notes to the financial statements *continued*

### 1.4 Financial instruments *continued*

#### 1.4.1 Financial assets *continued*

##### 1.4.1.5 Impairment of financial assets *continued*

The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or receivable 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 Group 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 was recognised, such as improved credit rating, the previously recognised impairment loss is reversed and is recognised in profit or loss.

##### **Financial assets classified as available-for-sale**

If there is objective evidence of impairment 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.

Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not subsequently reversed through 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 was recognised in profit or loss, the impairment loss is reversed through profit or loss.

Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

#### 1.4.2 Financial liabilities

##### 1.4.2.1 Classification

The Group classifies its financial liabilities into the following categories: financial liabilities at fair value through profit or loss; and financial liabilities at amortised cost.

The Group classifies a financial instrument that it issues as a financial liability in accordance with the substance of the contractual agreement. Management determines the classification of financial liabilities at initial recognition.

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

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

##### **Financial liabilities at amortised cost**

The following liabilities have been classified as financial liabilities at amortised cost: notes and coin issued; South African

Reserve Bank (SARB) debentures; deposit accounts; amounts due to subsidiaries; foreign deposits; the GFECRA; and other liabilities.

##### 1.4.2.2 Recognition and derecognition

The Group recognises financial liabilities when it becomes a party to the contractual provisions of the instrument.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled, expire or substantially modified. The difference between the carrying amount of the financial liability derecognised, and the consideration paid and payable is recognised in profit or loss.

##### 1.4.2.3 Measurement

###### **Initial measurement**

Financial liabilities are initially recognised at fair value, generally being their issue proceeds net of transaction costs incurred, except for financial liabilities 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.

###### **Subsequent measurement**

Subsequent to initial recognition, these liabilities 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 1.6, are recognised in profit or loss.

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

- » Non-interest-bearing deposit accounts and amounts due to subsidiaries are accounted for at cost, as these do not have fixed maturity dates and are repayable on demand.
- » Notes and coin issued and the GFECRA are measured at cost as these liabilities do not have fixed maturity dates. The banknotes and coin in circulation represent the nominal value of all banknotes held by the public and banks, including recalled and still exchangeable banknotes from the previous series.

Amortised cost is calculated using 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 arising from a change in the fair value of financial liabilities designated at fair value through profit or loss are recognised in profit or loss, except for gold and foreign-exchange activities, as explained in note 1.6.



## Notes to the financial statements *continued*

### 1.4 Financial instruments *continued*

#### 1.4.3 Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument or, where appropriate, a shorter period to the net carrying amount of the financial asset or liability.

#### 1.4.4 Hedge accounting

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

#### 1.4.5 Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position where there is a currently enforceable legal right to set off the recognised amounts 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 6.2 and 8 to the financial statements, financial assets and liabilities arising from derivatives and securities lending activities have been offset.

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.

### 1.5 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principle (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair values are determined according to the fair value hierarchy based on the requirements in IFRS 13 *Fair Value Measurement*. Refer to note 31, Fair value hierarchy disclosure, for further details.

#### 1.5.1 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.

#### 1.5.2 Foreign marketable money-market investments

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

#### 1.5.3 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.

#### 1.5.4 South African government bonds

Listed bonds are valued using quoted fair values at year-end as supplied by the JSE Limited.

#### 1.5.5 Valuable art

The fair value of valuable art is determined based on the price at which an orderly transaction to sell the assets would take place between market participants at the measurement date under current market conditions.

Revaluations of valuable art shall be made every three years by an independent, reliable valuator to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. In the absence of an official fair value assessment by an independent valuator, the insured value will be used as an indicator of fair value.

If an asset's carrying amount is increased as a result of a revaluation, the increase shall be recognised in other comprehensive income and accumulated in equity under the heading of Property, plant and equipment revaluation reserve (revaluation reserve). However, the increase shall be recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease shall be recognised in profit or loss. However, the decrease shall be recognised in other comprehensive income to the extent of any credit balance existing in the revaluation reserve in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation reserve.

The revaluation reserve included in equity in respect of an item of valuable art may be transferred directly to retained earnings when the asset is derecognised.

## Notes to the financial statements *continued*

### 1.6 Foreign currency activities

#### Foreign currency translation

##### 1.6.1 Functional and presentation currency

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

##### 1.6.2 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.

Foreign-exchange profits or losses of the Bank, insofar as they arise from changes in the value of the rand compared to other currencies, are for the account of government and consequently all these profits or losses are transferred to the GFECRA in terms of sections 25 to 28 of the SARB 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. Gains and losses of subsidiaries on conversion to the functional currency are recognised in profit and loss.

### 1.7 Property, plant and equipment

Property, plant and equipment is initially measured at cost. Freehold land and items under construction is subsequently carried at cost less accumulated impairment losses. Valuable art whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. Other items of property, plant and equipment are subsequently 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 of the assets (other than land, valuable art and items under construction) to their residual value over their estimated useful life, using the straight-line method. Land and valuable art have indefinite useful lives and are not depreciated. Items under construction are not used and thus not depreciated. The estimated average useful lives of the assets are as follows:

Item	Depreciation method	Average useful life
Buildings	Straight line	50
Furniture and equipment	Straight line	2 to 28
Land	Not depreciated	Indefinite
Valuable art	Not depreciated	Indefinite
Vehicles	Straight line	5 to 7
Work in progress	Not depreciated	

Work in progress consists of items under construction and is measured at cost. Work in progress is transferred to the related category of assets and depreciated accordingly when the asset is completed and available for use.

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

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment is included in the profit or loss.

The residual values and useful life of assets are reviewed at each reporting date and adjusted if appropriate.

### 1.8 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which the Group holds for its own use and which are expected to be used for more than one year.

An intangible asset is recognised when:

- » it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- » the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Research expenditure relating to gaining new technical knowledge and understanding is charged to profit and loss when incurred. An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- » it is technically feasible to complete the asset so that it will be available for use or sale;
- » there is an intention to complete and use or sell it;
- » there is an ability to use or sell it;
- » it will generate probable future economic benefits;
- » there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- » the expenditure attributable to the asset during its development can be measured reliably.

Purchased software and the direct costs associated with the customisation and installation thereof are capitalised. Expenditure on internally-developed software is capitalised if it meets the criteria for capitalising development expenditure. Other software development expenditure is charged to profit and loss when incurred.



## Notes to the financial statements *continued*

### 1.8 Intangible assets *continued*

Work in progress consists of items under construction and is measured at cost. Work in progress is transferred to the related category of assets and amortised accordingly when the asset is completed and available for use.

Intangible assets, other than goodwill are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful lives.

The amortisation period and the amortisation method for intangible assets are reviewed regularly.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its reassessed useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values. The estimated average useful lives of the assets are as follows:

Item	Amortisation method	Average useful life
Computer software	Straight line	2 to 20
Work in progress	Not amortised	

### 1.9 Impairment of other non-financial assets

The carrying amounts of the Group's non-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.

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value, less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffered an impairment loss are reviewed for possible reversal of the impairment at each reporting date.

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.

### 1.10 Gold

Gold is held by the Bank as part of its foreign reserves. In terms of section 25 of the SARB Act, gold is initially recorded at the prevailing rates at initial recognition, including transaction costs. Subsequent to initial measurement, it 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 SARB Act, all gains and losses on gold, held by the Bank, are for the account of the South African government and, consequently, all gains or losses are transferred to the GFECRA.

### 1.11 Taxation

The taxation expense for the period comprises current and deferred taxation. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

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 liability method, based on temporary differences. However, deferred taxation liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. 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 laws enacted or substantively 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 in other comprehensive income or in equity. In this case, the taxation is also recognised in other comprehensive income or 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 or other comprehensive income.

## Notes to the financial statements *continued*

### 1.11 Taxation *continued*

Deferred taxation assets are recognised for all deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits. In relation to the Bank only, deferred taxation assets are not reduced to the extent that it is no longer probable that the related taxation benefits will be realised. Refer to the financial reporting framework's note 2 under recognition and measurement.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred taxation assets and liabilities relate to income taxation levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 1.12 Employee benefits

#### 1.12.1 Pension and retirement funds

Group companies operate various pension schemes. The schemes are funded through employer and employee contributions to insurance companies or trustee-administered funds. All funds in which the Group participates are defined contribution funds, however, there is an element within the SARB retirement fund which is deemed to be defined benefit in nature. This element, as detailed in note 20.3, is treated according to the principles of a defined benefit plan.

##### 1.12.1.1 Defined benefit 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 expected costs of post-employment 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.

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, together with adjustments for unrecognised actuarial gains or losses and past-service costs. The present value of the defined benefit

obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Remeasurements are not classified to profit or loss in subsequent periods. Past-service costs are recognised in profit and loss at the earlier of the following dates: (i) when the plan amendment or curtailment occurs or, (ii) when the entity recognises related restructuring costs or termination benefits.

##### 1.12.1.2 Defined contribution plans

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity or fund. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees' 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.

##### 1.12.2 Post-employment benefits

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss, to the extent that they relate to retired employees or past service.

The liability is provided for in an actuarially determined provision.



## Notes to the financial statements *continued*

### 1.12 Employee benefits *continued*

#### 1.12.3 Leave pay accrual

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

The leave pay accrual at the reporting date represents the present obligation to employees as a result of employees' services provided up to the reporting date. The accrual 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.

#### 1.13 Sale and repurchase (repo) agreements

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

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

#### 1.14 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 inventories 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 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 SABN and SA Mint, and are released to profit or loss when the currency is sold to the Bank.

### 1.15 Cost of new currency

The Bank recognises the cost of new currency in profit or loss when the banknotes and coin are delivered, and the significant risks and rewards of ownership are transferred to the Bank.

### 1.16 Cash flow

For the purpose of the cash flow statement, cash and cash equivalents include all 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.

### 1.17 Provisions

Provisions are liabilities of uncertain timing or amount and 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. Provisions are measured at management's estimate of the expenditure required to settle that obligation at the end of each reporting period, and are discounted (at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability) to present value where the effect is material. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

### 1.18 Total income

Interest income and expense are recognised on a time-proportion basis, taking account of the principal outstanding and the effective interest 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 the 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 include the amortisation of any discount or premium, or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

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

Other income arising from the provision of services to clients is recognised on the accrual basis in accordance with the substance of the relevant transaction. This consists mainly of commission on banking services.

## Notes to the financial statements *continued*

### 1.19 Key accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 1.19.1 Key accounting estimates and assumptions

The estimates and assumptions that are significant to the carrying amounts of assets and liabilities are addressed below.

##### 1.19.1.1 Fair value of financial instruments

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 at the reporting date is a market-related rate for a financial asset with similar terms and conditions. Where option-pricing models are used, inputs based on observable market indicators at the reporting date are only recognised to the extent that they relate to changes in factors that market participants will consider in setting a price.

##### 1.19.1.2 Valuable art

The fair value of valuable art is determined based on the price at which an orderly transaction to sell the assets would take place between market participants at the measurement date under current market conditions. Revaluations shall be made every three years by independent, reputable valuers to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. In absence of an official fair value assessment by an independent valuator, the insured value will be used as an indicator of fair value.

##### 1.19.1.3 Post-employment benefits

Post-employment benefit obligations are calculated by independent actuaries. Note 20 provides detailed information about the key assumptions used in the determination of the post-employment benefit obligations, and the sensitivity analysis for these assumptions.

#### Discount rate

The rate used to discount post-employment benefit obligations should be determined by reference to market yields at the statement of financial position date on high-quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the statement of financial position date) on government bonds should be used. Per industry opinion, there is not a sufficiently deep market in corporate bonds in South Africa as yet, and as such the discount rate is set with reference to the Bond Exchange of South Africa Limited (BESA) zero-coupon yield curve.

#### Vesting period

IAS 19 *Employee Benefits* requires the past-service cost to be recognised as an expense over the vesting period, with the end of the vesting period being the date when future service will lead to no material amount of further benefits.

The Governors' Executive Committee (GEC) changed the 'Policy on termination of service' effective from 1 April 2013: the option for employees to retire early between ages 50 and 55, with the GEC approval, has been discontinued; eligible employees between the ages of 55 and 60 can apply to the GEC for early retirement and will be assessed on a case-by-case basis, taking into account the Bank's operational requirements.

Where eligible employees, between the ages of 55 and 60 years, apply to the GEC and are granted early retirement, there is the possibility of the end of the vesting period moving to 55 years. However, should early retirement only be granted in exceptional cases, the vesting period would continue to end at 60 years of age.

The impact of a revision of the vesting period from 60 years to 55 years, should the Bank consent to employees retiring before 60 years, would be an increase in the liability recognised immediately in the operating costs line on the statement of profit or loss, as a past service cost.

#### Medical inflation

Medical inflation is one of the key assumptions used in calculating the actuarial valuation of the post-employment medical benefit obligation. This is an assumption derived by the actuaries with reference to the amount by which medical inflation is expected to exceed consumer price inflation, and has no bearing on actual medical inflation rates.



## Notes to the financial statements *continued*

### **1.19 Key accounting estimates and judgements** *continued*

#### **1.19.1 Key accounting estimates and assumptions** *continued*

##### **1.19.1.3 Post-employment benefits** *continued*

##### **Salary inflation**

Salary inflation is one of the key assumptions used in calculating the actuarial valuation of the post-employment group life obligation. This is an assumption derived by the actuaries and has no bearing on actual salary increments.

##### **Pension increase rates**

The pension increase rates are key assumptions used in calculating the actuarial valuation of the retirement fund obligation. These increase assumptions are derived with reference to expected consumer price inflation, and the target increase relative to consumer price inflation for each pensioner category. These increases have no bearing on actual pension increments.

#### **1.19.2 Key judgements in applying the Group's accounting policies**

##### **1.19.2.1 Deferred taxation assets**

Deferred taxation assets have been recognised in the statement of financial position. Management has considered it appropriate to recognise the entire deferred taxation asset balance as they are of the opinion that future taxable profits will be available against which the unused tax losses and deductible temporary differences can be utilised.

##### **1.19.2.2 Consolidation of The Corporation for Public Deposits**

The Bank holds 100 per cent of the shareholding in the CPD, which continues to be consolidated as part of the Group. Management considers that the Bank has control over the CPD given that the Bank manages the daily operations of the CPD, including the investment decisions, and the chairperson of the CPD Board, who has the casting vote in Board meetings, is required to be a Bank representative. In addition, the Bank has sufficient exposure to variable returns from the CPD, the Bank operates the CPD as part of its Banker to Government function, and as such, the daily flow of CPD funds between the Bank and the market has become an effective tool in the Bank's daily liquidity management operations.

#### **19.2.3 Equity accounting of African Bank Holdings Limited**

The Bank acquired 50 per cent of the shareholding in ABHL. The Bank in line with its shareholding in ABHL is entitled to vote 50 per cent of all votes at a shareholders' meeting. The Bank does not have the right to appoint the majority of the directors of the Board of Directors, nor appoint the majority of the representatives to the respective committees that govern the relevant activities of ABHL. Consequently, the Bank does not currently have control over ABHL, but does however have significant influence.

##### **1.19.2.4 Investment in Prestige Bullion**

SA Mint has a 60 per cent shareholding in Prestige Bullion. SA Mint has exposure to variable returns of Prestige Bullion and has the ability to exercise its power by appointing 50 per cent of the subsidiary's directors as well as the chairperson, who has the casting vote in Board meetings. Management has thus determined that SA Mint controls Prestige Bullion.

### **1.20 Related parties**

As per IAS 24 *Related Party Disclosures*, the financial statements contain the disclosures necessary to draw attention to the possibility that the Groups' financial position and profit or loss may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

Related parties includes, but are not limited to subsidiaries, management who holds positions of responsibility within the group including those charged with governance in accordance with legislation, members of management that are responsible for the strategic direction and operational management of the group and are entrusted with significant authority. Their remuneration may be established by statute or by another body independent of the company. Their responsibilities however may enable them to influence the benefits of office that flow to them, or their related parties or parties that they represent on the governing body.

### **1.21 Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of taxation, from the proceeds.

## Notes to the financial statements *continued*

### 2. Cash and cash equivalents

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Bank and cash balances	4 205 480	8 466 655	0	0
Short-term South African money-market investments	1 742 413	4 310 391	0	0
	<b>5 947 893</b>	<b>12 777 046</b>	<b>0</b>	<b>0</b>

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

Cash and cash equivalents exclude local and foreign short-term investments held to implement monetary policy or as part of foreign reserves. These reserves are disclosed in detail in notes 3 and 6.

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

Fair value of repurchase agreements	0	660 830	0	0
Fair value of collateral received	0	655 878	0	0
Fair value of collateral permitted to sell or repledge at the reporting date	0	655 878	0	0
Collateral cover	0%	99.25%	0%	0%
Maturity date		07 April 2015		

At the reporting date, there were no collateralised advances. The counterparties are exposed to interest rate risk on the various securities pledged as collateral for the repurchase agreements. The Group has the ability to sell or repledge these securities in the event of default.



## Notes to the financial statements *continued*

### 3. Accommodation to banks

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Repurchase agreements	51 300 000	38 500 000	51 300 000	38 500 000
Standing facility	2 190 214	2 792 275	2 190 214	2 792 275
Accrued interest	19 677	30 325	19 677	30 325
	<b>53 509 891</b>	41 322 600	<b>53 509 891</b>	41 322 600

Accommodation to banks represents short-term lending to commercial banks.

The repurchase agreements yield interest at the repurchase rate of the Bank.	<b>7,00%</b>	5,75%	<b>7,00%</b>	5,75%
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The following table presents details of collateral received for repurchase agreements (including accrued interest):

Fair value of collateral received	<b>51 652 038</b>	38 671 399	<b>51 652 038</b>	38 671 399
Fair value of collateral permitted to sell or repledge at the reporting date	<b>51 652 038</b>	38 671 399	<b>51 652 038</b>	38 671 399
Collateral cover	<b>100,65%</b>	100,37%	<b>100,65%</b>	100,37%
Maturity date	<b>6 April 2016</b>	1 April 2015	<b>6 April 2016</b>	1 April 2015

At the reporting date, none of the collateralised advances were past due or impaired. During the year under review, no defaults were experienced (2015: no defaults).

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.

The following table presents details of collateral received for the standing facility:

Fair value of collateral received	<b>5 509 640</b>	9 627 235	<b>5 509 640</b>	9 627 235
Fair value of collateral permitted to sell or repledge at the reporting date	<b>5 509 640</b>	9 627 235	<b>5 509 640</b>	9 627 235
Collateral cover	<b>251,56%</b>	344,78%	<b>251,56%</b>	344,78%

The collateral received consists of South African Government bonds and Treasury Bills with the following maturities:

Instrument	Maturity date	Amount R'000
Treasury Bills	11 May 2016	94 477
South African Government Bond – R159	15 September 2016	177 003
South African Government Bond – R211	31 January 2017	3 059 818
South African Government Bond – R203	15 September 2017	105 399
South African Government Bond – R209	31 March 2036	2 072 943
		<b>5 509 640</b>

## Notes to the financial statements *continued*

### 4. Investments

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Short-term South African money-market investments	27 042 334	15 156 368	0	0
<b>Maturity structure of financial assets</b>				
Between 1 and 12 months	27 042 334	15 156 368	0	0
For investments that meet the definition of financial assets designated at fair value:				
Maximum exposure to credit risk	27 042 334	15 156 368	0	0

In terms of investment guidelines, approved by the Boards of Directors of the respective subsidiaries, all investments are placed with reputable financial institutions. The CPD utilises banking institutions with a minimum credit rating of BBB- by at least two of the agencies: Standard and Poor's, Fitch or Moody'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.

### 5. Other assets

Financial assets	601 363	256 900	353 399	98 447
Non-financial assets	42 108	90 853	38 301	74 656
	643 471	347 753	391 700	173 103
<b>Maturity structure of financial assets</b>				
Within 1 month	385 637	207 201	353 399	98 447
Between 1 and 12 months	215 726	49 699	0	0
	601 363	256 900	353 399	98 447

Financial assets consist mainly of trade receivables and non-financial assets consist mainly of prepaid expenses. Financial assets are neither past due or impaired.



## Notes to the financial statements *continued*

### 6. Gold and foreign-exchange

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Gold and foreign-exchange holdings				
Gold coin and bullion	<b>73 190 326</b>	58 187 016	<b>73 190 326</b>	58 187 016
Money- and capital-market instruments and deposits	<b>86 392 816</b>	82 694 039	<b>86 392 816</b>	82 694 039
Medium-term instruments	<b>434 956 189</b>	349 037 138	<b>434 956 189</b>	349 037 138
Portfolio investments	<b>93 859 986</b>	75 069 041	<b>93 859 986</b>	75 069 041
Accrued interest	<b>3 746</b>	1 635	<b>3 746</b>	1 635
	<b>688 403 063</b>	564 988 869	<b>688 403 063</b>	564 988 869

Gold coin and bullion consists of 4 026 294.4 fine ounces of gold at the statutory price of R18 178.09 per ounce (2015: 4 025 351 fine ounces at R14 455.14 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 items provided for additional information purposes:

#### 6.1 Derivatives held-for-trading

The Bank utilises financial derivative products for 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 GEC, 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 Risk Management Committee (RMC) and the Board Risk and Ethics Committee (BREC). The Bank does not enter into or trade financial instruments, including derivative instruments, for proprietary trading purposes.

	Net fair value R'000	Fair value of assets R'000	Fair value of liabilities R'000	Contract/Notional <sup>(1)</sup> R'000
<b>Group and Bank 2016</b>				
Forward exchange contracts	<b>(65 539)</b>	<b>139 668</b>	<b>(205 207)</b>	<b>13 393 271</b>
Futures contracts	<b>(72 677)</b>	<b>21 889</b>	<b>(94 566)</b>	<b>32 241 757</b>
Interest rate swaps	<b>(40 640)</b>	<b>0</b>	<b>(40 640)</b>	<b>1 427 861</b>
Total derivatives held-for-trading	<b>(178 856)</b>	<b>161 557</b>	<b>(340 413)</b>	<b>47 062 889</b>
<b>Group and Bank 2015</b>				
Forward exchange contracts	1 439	97 029	(95 590)	9 684 557
Futures contracts	8 451	138 060	(129 609)	63 940 202
Interest rate swaps	(47 422)	10 252	(57 674)	2 751 551
Total derivatives held-for-trading	(37 532)	245 341	(282 873)	76 376 310

(1) The notional amount of a financial instrument is the nominal or face value that is used to calculate payments made on that instrument. The amount generally does not change hands.

## Notes to the financial statements *continued*

### 6. Gold and foreign-exchange *continued*

#### 6.2 Offsetting financial assets and financial liabilities relating to gold and foreign-exchange

The Bank is subject to enforceable master netting arrangements with its derivative counterparties. Under these agreements, offsetting of derivatives is permitted only in the event of the bankruptcy or default of either party to the agreement. There is no intention to settle on a net basis or realise the asset and settle the liability simultaneously. The following table presents details of this:

	Gross amounts presented in the derivatives held-for-trading R'000	Offset R'000	Net amounts presented in the derivatives held-for-trading R'000	Related amounts not set off in derivatives held-for-trading		
				Instruments which offset on default R'000	Collateral amount received R'000	Net R'000
<b>As at 31 March 2016</b>						
Forward exchange contract assets	139 668	0	139 668	(88 096)	0	51 572
Forward exchange contract liabilities	(205 207)	0	(205 207)	88 096	0	(117 111)
<b>As at 31 March 2015</b>						
Forward exchange contract assets	97 029	0	97 029	(41 865)	0	55 165
Interest rate swap assets	10 252	0	10 252	(7 354)	0	2 897
Forward exchange contract liabilities	(95 590)	0	(95 590)	41 865	0	(53 725)
Interest rate swap liabilities	(57 674)	0	(57 674)	7 354	0	(50 320)

#### 6.3 Securities lending activities

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Liabilities in respect of collateral received	(61 578 774)	(51 071 693)	(61 578 774)	(51 071 693)
Fair value of underlying investments	61 499 648	51 004 069	61 499 648	51 004 069
Net fair value adjustment included in foreign-exchange holdings	(79 126)	(67 624)	(79 126)	(67 624)
<b>7. Inventories</b>				
Raw materials	192 686	156 312	0	0
Work in progress	106 045	81 272	0	0
Consumable stores	46 713	45 718	6 690	5 009
Maintenance spares	59 052	38 003	0	0
Finished goods	62 582	79 863	0	0
	467 078	401 168	6 690	5 009

Inventories are measured at the lower of cost and net realisable value and include a write-down of R2,7 million (2015: R2,4 million).



## Notes to the financial statements *continued*

### 8. Forward exchange contract assets and liabilities

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Unrealised gain on forward exchange contracts	498 006	1 023 075	498 006	1 023 075
Unrealised loss on forward exchange contracts	(1 003 739)	(146 245)	(1 003 739)	(146 245)
Net (loss)/gain	(505 733)	876 830	(505 733)	876 830
Net unrealised (loss)/gain credited to Gold and Foreign-Exchange Contingency Reserve Account (note 21) <sup>(1)</sup>	(505 733)	876 830	(505 733)	876 830

(1) 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 forward exchange contracts are utilised in the operations of the Bank, to manage monetary policy operations.

The notional amount of the forward exchange contracts amounts to R22,0 billion (2015: R32,3 billion).

The Bank is subject to enforceable master netting arrangements with its derivative counterparties. Under the terms of these agreements, offsetting of derivatives is permitted only in the event of bankruptcy or default of either party to the agreement. There is no intention to settle on a net basis or realise the asset and settle the liability simultaneously. The following table presents details of this:

	Related amounts not set off in the statement of financial position			Instruments which offset on default R'000	Collateral amount received R'000	Net amount R'000
	Gross amounts presented in the financial statements R'000	Offset R'000	Net amounts presented in the financial statements R'000			
As at 31 March 2016						
Forward exchange contract assets	498 140	(134)	498 006	0	0	498 006
Forward exchange contract liabilities	(1 003 873)	134	(1 003 739)	0	0	(1 003 739)
As at 31 March 2015						
Forward exchange contract assets	1 023 075	0	1 023 075	(121 133)	0	901 942
Forward exchange contract liabilities	(146 245)	0	(146 245)	121 133	0	(25 113)

## Notes to the financial statements *continued*

### 9. Loans and advances

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Secured foreign loan	62 376	63 920	62 376	63 920
Interest-bearing local loans	27 297 204	21 457 231	0	0
	<b>27 359 580</b>	21 521 151	<b>62 376</b>	63 920

#### 9.1 Secured foreign loan

The loan facility of R75 million expires on 31 December 2016 if not renegotiated and carries interest at an effective rate of 6,75 per cent. Land Bank promissory notes have been pledged as collateral against the foreign loan.

The following table presents details of collateral held:

Fair value of collateral received	81 940	82 024	81 940	82 024
Fair value of collateral permitted to sell or repledge at the reporting date	81 940	82 024	81 940	82 024
Collateral cover	131,37%	128,32%	131,37%	128,32%
Maturity date	5 April 2016	29 May 2015	05 April 2016	29 May 2015

At the reporting date, none of the collateralised advances were past due or impaired. During the year under review, no defaults were experienced (2015: no defaults).

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

#### 9.2 Interest-bearing local loans

The loans are advanced as part of the national government's Inter-Governmental Cash Coordination (IGCC) arrangement, in terms of which some state-owned entities and treasuries of provincial governments deposit excess funds with the CPD to form a pool of funds from the public sector. The national and the provincial treasuries are allowed to borrow money from the IGCC pool of funds. National Treasury guarantees that the deposits will be made available to depositors on demand.

The interest-bearing loans are unsecured, short term in nature and callable on demand. The loans earn interest at a rate equal to the 91-day Treasury bill yield – the rate at the reporting date was 7,24 per cent (2015: 5,86 per cent).

At the reporting date, none of the interest-bearing local loans were past due or impaired. During the year under review, no defaults were experienced (2015: no defaults).



## Notes to the financial statements *continued*

### 10. South African government bonds

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Listed bonds: Interest bearing	7 871 537	8 384 551	7 475 777	7 972 275
Accrued interest	60 181	59 078	58 734	57 632
Fair value	7 931 718	8 443 629	7 534 511	8 029 907
Effective interest rate	8,23%	7,92%	8,31%	8,12%
South African government bonds pledged as collateral for reverse repurchase agreements (note 16):				
Listed bonds pledged	2 554 745	3 035 114	2 554 745	3 035 114
Associated liability	2 501 145	3 037 735	2 501 145	3 037 735

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 reverse repurchase agreements. The counterparty has the ability to sell or repledge these bonds in the event of default.

### 11. Equity investment in Bank for International Settlements

Unlisted shares at cost	542 380	438 971	542 380	438 971
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The shares held in the Bank of International Settlements (BIS) are held as part of the Bank's 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 *Financial Instruments: Recognition and Measurement*, 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 was adjusted by 30 per cent. The adjusted net asset value of the shares is based on special drawing rights (SDR)<sup>(1)</sup> of SDR 32 929 (2015: SDR 32 740) amounting to R4,1 billion (2015: R3,3 billion). Refer to note 31 for further detail on the fair value hierarchy disclosures. Changes in value due to foreign-exchange movements are transferred to the GFECRA. For the year ended 31 March 2016, a movement of R103,4 million (2015: R11,7 million) was transferred to the GFECRA.

(1) The 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 presents 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 US dollar, euro, Japanese yen and pound sterling.

## Notes to the financial statements *continued*

### 12. Property, plant and equipment

#### 12.1 Group: 2016

##### Cost

Cost at 31 March 2015	39 000	745 215	3 996 677	0	338 756	5 119 648
Additions	0	16 908	35 024	2 171	447 662	501 765
Transfers in/(out)	0	56 872	(225 405)	14 611	(626 359)	(780 281)
Revaluation adjustments <sup>(1)</sup>	0	0	0	134 662	0	134 662
Disposals	0	0	(40 091)	(20)	0	(40 111)
Cost at 31 March 2016	39 000	818 995	3 766 205	151 424	160 059	4 935 683

##### Accumulated depreciation

Accumulated depreciation at 31 March 2015	0	285 228	1 679 718	0	0	1 964 946
Charge and impairment for the year	0	20 515	579 467	(4 686)	2 144	597 440
Transfers in/(out)	0	288	(242 977)	4 687	0	(238 002)
Disposals	0	0	(32 080)	(1)	0	(32 081)

Accumulated depreciation at 31 March 2016	0	306 031	1 984 128	0	2 144	2 292 303
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##### Net book value at 31 March 2016

39 000	512 964	1 782 077	151 424	157 915	2 643 380
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#### 12.2 Group: 2015

##### Cost

Cost at 31 March 2014	39 000	728 935	3 602 270	0	295 249	4 665 454
Additions	0	7 585	84 947	0	460 560	553 092
Transfers in/(out)	0	8 695	405 593	0	(417 053)	(2 765)
Disposals	0	0	(96 133)	0	0	(96 133)
Cost at 31 March 2015	39 000	745 215	3 996 677	0	338 756	5 119 648

##### Accumulated depreciation

Accumulated depreciation at 31 March 2014	0	265 419	1 477 800	0	0	1 743 219
Charge and impairment for the year	0	19 809	297 120	0	0	316 929
Disposals	0	0	(95 202)	0	0	(95 202)

Accumulated depreciation at 31 March 2015	0	285 228	1 679 718	0	0	1 964 946
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##### Net book value at 31 March 2015

39 000	459 987	2 316 959	0	338 756	3 154 702
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(1) During the year it was decided to change the accounting policy relating to valuable art. The class of valuable art will subsequently be carried at fair value and no longer at cost less accumulated depreciation and impairment. The change in accounting policy is immaterial and thus not adjusted retrospectively.



## Notes to the financial statements *continued*

### 12. Property, plant and equipment *continued*

#### 12.3 Bank: 2016

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Valuable art R'000	Work in progress R'000	Total R'000
<b>Cost</b>						
Cost at 31 March 2015	29 305	502 110	1 694 055	0	310 926	2 536 396
Additions	0	10 588	22 221	2 171	365 406	400 386
Transfers in/(out)	0	48 074	(252 209)	14 611	(527 325)	(716 849)
Revaluation adjustments <sup>(1)</sup>	0	0	0	134 662	0	134 662
Disposals	0	0	(28 399)	(20)	0	(28 419)
Cost at 31 March 2016	29 305	560 772	1 435 668	151 424	149 007	2 326 176
<b>Accumulated depreciation</b>						
Accumulated depreciation at 31 March 2015	0	207 264	983 095	0	0	1 190 359
Charge and impairment for the year	0	14 812	138 287	(4 686)	0	148 413
Transfers in/(out)	0	288	(219 368)	4 687	0	(214 393)
Disposals	0	0	(21 255)	(1)	0	(21 256)
Accumulated depreciation at 31 March 2016	0	222 364	880 759	0	0	1 103 123
<b>Net book value at 31 March 2016</b>	<b>29 305</b>	<b>338 408</b>	<b>554 909</b>	<b>151 424</b>	<b>149 007</b>	<b>1 223 053</b>

#### 12.4 Bank: 2015

<b>Cost</b>						
Cost at 31 March 2014	29 305	493 078	1 393 957	0	243 206	2 159 546
Additions	0	392	149	0	416 210	416 751
Transfers in/(out)	0	8 640	339 850	0	(348 490)	0
Disposals	0	0	(39 901)	0	0	(39 901)
Cost at 31 March 2015	29 305	502 110	1 694 055	0	310 926	2 536 396
<b>Accumulated depreciation</b>						
Accumulated depreciation at 31 March 2014	0	193 011	862 937	0	0	1 055 948
Charge and impairment for the year	0	14 253	159 374	0	0	173 627
Disposals	0	0	(39 216)	0	0	(39 216)
Accumulated depreciation at 31 March 2015	0	207 264	983 095	0	0	1 190 359
<b>Net book value at 31 March 2015</b>	<b>29 305</b>	<b>294 846</b>	<b>710 960</b>	<b>0</b>	<b>310 926</b>	<b>1 346 037</b>

(1) During the year it was decided to change the accounting policy relating to valuable art. The class of valuable art will subsequently be carried at fair value and no longer at cost less accumulated depreciation and impairment. The change in accounting policy is immaterial and thus not adjusted retrospectively.

## Notes to the financial statements *continued*

### 13. Intangible assets

#### 13.1 Group: 2016

##### Cost

Cost at 31 March 2015

Additions

Transfers in

Cost at 31 March 2016

##### Accumulated amortisation

Accumulated amortisation at 31 March 2015

Charge for the year

Transfers in

Accumulated amortisation at 31 March 2016

##### Net book value at 31 March 2016

#### 13.2 Bank: 2016

##### Cost

Cost at 31 March 2015

Additions

Transfers in

Cost at 31 March 2016

##### Accumulated amortisation

Accumulated amortisation at 31 March 2015

Charge for the year

Transfers in

Accumulated amortisation at 31 March 2016

##### Net book value at 31 March 2016

Computer software R'000	Work in progress R'000	Total R'000
0	0	0
3 582	66 050	69 632
726 433	72 019	798 452
730 015	138 069	868 084
0	0	0
95 317	0	95 317
244 018	0	244 018
339 335	0	339 335
390 680	138 069	528 749
0	0	0
0	62 150	62 150
652 175	64 675	716 850
652 175	126 825	779 000
0	0	0
80 897	0	80 897
214 393	0	214 393
295 290	0	295 290
356 885	126 825	483 710



## Notes to the financial statements *continued*

### 14. Deferred taxation assets and liabilities

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
<b>Balance at the beginning of the year</b>	<b>2 411 096</b>	2 465 888	<b>2 452 023</b>	2 452 806
Movements during the year				
Current year timing differences (Note 24)	<b>(465 454)</b>	(141 586)	<b>(526 138)</b>	(101 334)
Prior year adjustment (Note 24)	<b>2 951</b>	(13 890)	<b>0</b>	0
Other comprehensive income	<b>(67 985)</b>	100 684	<b>(60 481)</b>	100 551
<b>Balance at the end of the year</b>	<b>1 880 608</b>	2 411 096	<b>1 865 404</b>	2 452 023
<b>Comprising:</b>				
Deferred taxation assets	<b>1 913 387</b>	2 467 786	<b>1 865 404</b>	2 452 023
Deferred taxation liabilities	<b>(32 779)</b>	(56 690)	<b>0</b>	0
Net deferred taxation assets	<b>1 880 608</b>	2 411 096	<b>1 865 404</b>	2 452 023

Deferred taxation assets for the Bank are not reduced to the extent that it is no longer probable in the foreseeable future that the related taxation benefits will be realised.

Deferred taxation assets and liabilities are attributed as set out below:

#### 14.1 Group

	2016 R'000	Movement <sup>(2)</sup> R'000	2015 R'000
Deferred retirement fund contributions	<b>4 225</b>	115	4 110
Post-employment benefits	<b>582 866</b>	(120 337)	703 203
Prepaid expenditure and other items	<b>27 153</b>	17 854	9 299
Revaluation adjustments <sup>(1)</sup>	<b>(25 141)</b>	(25 141)	0
Property, plant and equipment	<b>(370 284)</b>	42 703	(412 987)
Intangible assets	<b>(8 746)</b>	(8 746)	0
Employee benefits accrual	<b>68 896</b>	(23 462)	92 358
Fair value adjustments on SA Government Bonds	<b>108 645</b>	146 450	(37 805)
Tax loss	<b>1 492 994</b>	(559 924)	2 052 918
<b>Total</b>	<b>1 880 608</b>	(530 488)	2 411 096

#### 14.2 Bank

	2016 R'000	Movement <sup>(2)</sup> R'000	2015 R'000
Deferred retirement fund contributions	<b>4 225</b>	114	4 111
Post-employment benefits	<b>532 167</b>	(118 431)	650 598
Prepaid expenditure and other items	<b>5 124</b>	36	5 088
Revaluation adjustments <sup>(1)</sup>	<b>(25 141)</b>	(25 141)	0
Property, plant and equipment	<b>(71 612)</b>	(1 768)	(69 844)
Intangible assets	<b>(3 731)</b>	(3 731)	0
Employee benefits accrual	<b>63 856</b>	(6 796)	70 652
Fair value adjustments on SA Government Bonds	<b>108 645</b>	146 450	(37 805)
Tax loss	<b>1 251 871</b>	(577 352)	1 829 223
<b>Total</b>	<b>1 865 404</b>	(586 619)	2 452 023

(1) During the year it was decided to change the accounting policy relating to valuable art. The class of valuable art will subsequently be carried at fair value and no longer at cost less accumulated depreciation and impairment. The change in accounting policy is immaterial and thus not adjusted retrospectively.

(2) Amounts charged to profit and loss and other comprehensive income.

## Notes to the financial statements *continued*

### 15. Notes and coin in circulation

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Notes	125 096 223	117 018 768	125 096 223	117 018 768
Coin	5 465 404	5 151 397	5 465 404	5 151 397
	<b>130 561 627</b>	122 170 165	<b>130 561 627</b>	122 170 165

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

### 16. Deposit accounts

Non-interest bearing	126 729 537	108 031 986	126 656 948	107 959 398
Banks' reserve accounts	84 990 637	75 535 866	84 990 637	75 535 866
Government accounts	39 859 942	31 782 082	39 787 353	31 709 494
Other current accounts	1 878 958	714 038	1 878 958	714 038
Interest bearing	142 960 751	125 972 405	73 591 174	73 992 851
Reverse repurchase agreements	2 501 145	3 037 735	2 501 145	3 037 735
Government special deposit	67 157 404	67 157 404	67 157 404	67 157 404
Banks' current accounts	3 900 973	3 760 957	3 900 973	3 760 957
Call deposits	69 369 577	51 979 554	0	0
Margin call	31 652	36 755	31 652	36 755
	<b>269 690 288</b>	234 004 391	<b>200 248 122</b>	181 952 249
<b>Maturity structure of financial liabilities</b>				
On demand	111 140 129	84 512 429	41 697 963	32 460 287
Subject to negotiation with National Treasury	67 157 404	67 157 404	67 157 404	67 157 404
Within 1 month	90 393 137	82 334 558	90 393 137	82 334 558
Between 1 and 3 months	999 618	0	999 618	0
	<b>269 690 288</b>	234 004 391	<b>200 248 122</b>	181 952 249

#### Banks' reserve accounts

Commercial banks are required to maintain a minimum cash reserves balance with the Bank into which they are able to deposit at least such amounts as may be necessary to comply with the SARB Act. In addition, the commercial banks can utilise the cash reserve accounts to either fund short positions or deposit surplus funds. As at year-end, the balance was below the required minimum reserve balance by an amount of R2,1 billion (2015: R4,9 billion).

#### Reverse repurchase agreements

The reverse repurchase agreements are secured by collateral as presented below:

Market value of South African government bonds	2 554 745	3 035 114	2 554 745	3 035 114
Collateral cover (per cent)	102,14%	99,91%	102,14%	99,91%

The reverse repurchase agreements bear interest at market-related rates at or below the repo rate of the Bank (note 10).

#### Government special deposit

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



## Notes to the financial statements *continued*

### 17. Foreign deposits

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Foreign deposits	102 083 334	94 414 334	102 083 334	94 414 334

Foreign deposits are placed by customers at market-related rates. Analyses of the currency composition and maturity structure of these foreign deposits are set out in note 29.

### 18. Other liabilities

Accruals	304 044	360 042	250 422	296 245
Accounts payable	215 811	175 353	120 668	85 004
Other financial liabilities	247 050	165 124	246 636	164 372
Non-financial liabilities	94 707	101 237	267	2 164
	861 612	801 756	617 993	547 785
<b>Maturity structure of financial liabilities</b>				
Within 1 month	747 415	675 262	617 726	545 621
Between 1 and 12 months	19 490	25 257	0	0
	766 905	700 519	617 726	545 621

Other financial liabilities consist mainly of sundry creditors. Non-financial liabilities consist mainly of amounts due to government.

### 19. South African Reserve Bank debentures

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Capital	3 172 000	7 891 000	3 172 000	7 891 000
Accrued interest	4 420	19 100	4 420	19 100
	3 176 420	7 910 100	3 176 420	7 910 100

The SARB debentures are issued to the market on tender, normally on a 7-, 14-, 28- or 56-day term. The debentures are unsecured. Details of the debentures in issue at 31 March 2016 are as follows:

Maturity date	Interest rate Per cent	Capital R'000
06 April 2016	6,98	1 437 000
06 April 2016	6,99	100 000
06 April 2016	6,74	315 000
06 April 2016	6,70	35 000
13 April 2016	6,73	315 000
13 April 2016	6,99	200 000
20 April 2016	6,90	400 000
26 April 2016	6,92	300 000
28 April 2016	6,70	40 000
25 May 2016	6,95	30 000
		<b>3 172 000</b>

## Notes to the financial statements *continued*

### 20. Post-employment benefits

The Bank and its subsidiary, SABN provide the following post-employment benefits to its employees:

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Amounts recognised in the statement of financial position:				
Post-employment medical benefits (refer to 20.1 below)	2 041 699	2 157 110	1 865 003	1 969 234
Post-employment group life benefits (refer to 20.2 below)	38 798	41 905	34 427	37 265
Retirement fund obligation (refer to 20.3 below)	0	317 066	0	317 066
	<b>2 080 497</b>	<b>2 516 081</b>	<b>1 899 430</b>	<b>2 323 565</b>

#### 20.1 Post-employment medical benefits

Post-employment medical benefits are provided to retired staff in the form of subsidised medical aid premiums. This benefit has been closed to all new employees at the Bank since 1 September 2011 and at the subsidiary since 2003. A provision for the liability has been raised; this covers the total liability, that is, the accumulated post-employment medical benefit liability at 31 March 2016.

<b>Balance at the beginning of the year</b>	<b>2 157 110</b>	1 798 326	<b>1 969 234</b>	1 623 869
<b>Movement during the year</b>				
Amount recognised in profit or loss (refer to note 23.2)	<b>189 393</b>	157 711	<b>174 510</b>	144 391
Interest cost	<b>188 849</b>	164 910	<b>172 397</b>	149 744
Service cost	<b>70 965</b>	56 801	<b>66 496</b>	52 947
Benefits paid	<b>(70 421)</b>	(64 000)	<b>(64 383)</b>	(58 300)
Actuarial (gain)/loss recognised in other comprehensive income	<b>(304 804)</b>	201 073	<b>(278 741)</b>	200 974
Financial assumption (gain)/loss	<b>(327 664)</b>	159 273	<b>(301 318)</b>	146 045
Demographic assumption loss	<b>0</b>	27 475	<b>0</b>	26 682
Experience loss on liabilities	<b>22 860</b>	14 325	<b>22 577</b>	28 247
<b>Balance at the end of the year</b>	<b>2 041 699</b>	<b>2 157 110</b>	<b>1 865 003</b>	<b>1 969 234</b>



## Notes to the financial statements *continued*

### 20. Post-employment benefits *continued*

#### 20.1 Post-employment medical benefits *continued*

	2016 Per cent	2015 Per cent
<b>Key assumptions<sup>(1)</sup></b>		
Discount rate	9,85	8,90
Medical inflation	7,50	7,50
Net discount rate	2,19	1,30
Early retirement rates <sup>(2)</sup>		
55	2,50	2,50
56	2,50	2,50
57	2,50	2,50
58	2,50	2,50
59	2,50	2,50
Normal retirement age <sup>(2)</sup>	60	60
Valuation date	31 March 2016	31 March 2015

(1) The key assumptions of the Group and the Bank are the same.

(2) These assumptions were also used in the actuarial valuation of the post-employment group life liability – refer to note 20.2.

#### Sensitivity analysis

	1% decrease R'000	Valuation basis R'000	1% increase R'000
The effect of a 1 per cent increase and decrease in the discount rate is as follows:			
<b>Group</b>			
Employers' accrued liability	2 395 193	2 041 699	1 763 682
Employers' service and interest cost <sup>(3)</sup>	284 236	257 528	235 947
<b>Bank</b>			
Employer's accrued liability	2 190 271	1 865 003	1 609 556
Employer's service and interest cost <sup>(3)</sup>	261 715	236 819	216 587
The effect of a 1 per cent increase and decrease in the medical inflation rate is as follows:			
<b>Group</b>			
Employers' accrued liability	1 760 641	2 041 699	2 393 832
Employers' service and interest cost <sup>(3)</sup>	217 812	257 528	308 100
<b>Bank</b>			
Employer's accrued liability	1 606 738	1 865 003	2 189 058
Employer's service and interest cost <sup>(3)</sup>	199 986	236 819	283 810
	1 year downward R'000	Valuation basis R'000	1 year upward R'000

The effect of a one-year increase and decrease in the post-retirement mortality rate is as follows:

<b>Group</b>			
Employers' accrued liability	1 981 616	2 041 699	2 101 880
Employers' service and interest cost <sup>(3)</sup>	250 030	257 528	265 031
<b>Bank</b>			
Employer's accrued liability	1 810 091	1 865 003	1 920 009
Employer's service and interest cost <sup>(3)</sup>	229 929	236 819	243 713

(3) Forecast service and interest costs for the year ending 31 March 2017.

## Notes to the financial statements *continued*

### 20. Post-employment benefits *continued*

#### 20.2 Post-employment group life benefits

Post-employment group life benefits are provided to retired staff in the form of subsidised group life premiums. This covers the total liability, that is, the accumulated post-employment group life benefit liability at 31 March 2016.

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
<b>Balance at the beginning of the year</b>	<b>41 905</b>	35 456	<b>37 265</b>	31 508
<b>Movement during the year</b>				
Amount recognised in profit or loss (Note 23.2)	<b>3 903</b>	3 072	<b>3 435</b>	2 762
Interest cost	<b>3 650</b>	3 250	<b>3 247</b>	2 890
Service cost	<b>2 048</b>	1 523	<b>1 762</b>	1 345
Benefits paid	<b>(1 795)</b>	(1 701)	<b>(1 574)</b>	(1 473)
Actuarial (gain)/loss recognised in other comprehensive income	<b>(7 010)</b>	3 377	<b>(6 273)</b>	2 995
Financial assumption (gain)/loss	<b>(5 151)</b>	4 655	<b>(4 590)</b>	4 190
Demographic assumption loss	<b>0</b>	546	<b>0</b>	476
Experience gain on liabilities	<b>(1 859)</b>	(1 824)	<b>(1 683)</b>	(1 671)
<b>Balance at the end of the year</b>	<b>38 798</b>	41 905	<b>34 427</b>	37 265

#### Key assumptions<sup>(4)</sup>

	2016 Per cent	2015 Per cent
Discount rate	<b>9,85</b>	8,90
Salary inflation	<b>7,00</b>	7,00
Net discount rate	<b>2,66</b>	1,78
Premium Rate <sup>(5)</sup>	<b>0,35</b>	0,37

#### Pensioner mortality assumptions

Active members

Pensioners

Valuation date

	2016 Per cent	2015 Per cent
<b>SA 85-90 Light PA (90) rated down by 2 years 31 March 2016</b>		SA 85-90 Light PA (90) rated down by 2 years 31 March 2015

(4) The key assumptions of the Group and the Bank are the same.

(5) The premium rate expected to be incurred for insuring this benefit.



## Notes to the financial statements *continued*

### 20. Post-employment benefits *continued*

#### 20.2 Post-employment group life benefits *continued*

##### *Sensitivity analysis*

	1% decrease R'000	Valuation basis R'000	1% increase R'000
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The effect of a 1 per cent increase and decrease in the discount rate is as follows:

##### **Group**

Employers' accrued liability	43 929	38 798	34 568
Employers' service and interest cost <sup>(6)</sup>	5 830	5 478	5 184

##### **Bank**

Employer's accrued liability	38 999	34 427	30 657
Employer's service and interest cost <sup>(6)</sup>	5 177	4 815	4 511

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

##### **Group**

Employers' accrued liability	36 912	38 798	40 917
Employers' service and interest cost <sup>(6)</sup>	5 111	5 478	5 897

##### **Bank**

Employer's accrued liability	32 734	34 427	36 327
Employer's service and interest cost <sup>(6)</sup>	4 493	4 815	5 182

	1 year downward R'000	Valuation basis R'000	1 year upward R'000
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The effect of a one-year increase and decrease in the post-retirement mortality rate is as follows:

##### **Group**

Employers' accrued liability	38 205	38 798	39 370
Employers' service and interest cost <sup>(6)</sup>	5 397	5 478	5 556

##### **Bank**

Employer's accrued liability	33 904	34 427	34 931
Employer's service and interest cost <sup>(6)</sup>	4 744	4 815	4 883

(6) Forecast service and interest costs for the year ending 31 March 2017.

## Notes to the financial statements *continued*

### 20. Post-employment benefits *continued*

#### 20.3 Retirement fund obligation

The Group has made provision for pension and provident plans substantially covering all employees. All employees are members of the retirement 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 24 of 1956.

The retirement fund is managed by a Board of Trustees, consisting of eight trustees. Four trustees are appointed by the Board of the Bank, namely one independent trustee who was a previous non-executive director of the Bank and three senior staff members. The other four trustees are elected by the members of the fund, three of whom are employees of the Bank and a pensioner of the Bank. The fund is assisted by a Principal Officer who is also a Board-appointed trustee. Statutory actuarial valuations are performed tri-annually with the most recent statutory valuation completed in respect of the period ended 31 March 2015.

Interim actuarial valuations are concluded annually (except in years where a statutory valuation is performed), with an interim valuation as at 31 March 2016 in the process of being completed. Where a surplus in the fund is calculated, it is for the benefit of the members, and accordingly no asset is recognised in the financial statements of the Bank. The retirement fund is regulated by the Financial Services Board (FSB) and is a single scheme which caters for active members, pensioners on a living annuity, pensioners on a life annuity, and pensioners from the former defined benefit fund.

Active members participate on a defined contribution basis. The market risk lies fully with the active members until retirement. On retirement, former employees can commute up to one-third of their share of fund. They may use the remaining funds to buy either a living annuity or a life annuity (or a combination of both) from the fund. They may also choose to transfer their share of funds to another registered retirement annuity. The value of assets under management for active members as at 31 March 2016 was R3,9 billion (2015: R3,8 billion).

Living annuity pensioners bear the entire market risk on their funds; however, they also fully benefit from positive market returns.

The life pension quoted by the retirement fund is based on the amount of capital available to the employee, as well as marital status, gender and age. There are currently 663 life pensioners. Once quoted a life pension, the rules of the fund stipulate that it will not be reduced, and thus, although the pensioner bears the market risk with regard to the annual increase granted, the employer will contribute if there is a shortage in the pension account which supports maintaining pensions at their existing level. This is in effect the only uncovered 'defined benefit' element in the fund. The risk for the retirement fund, and ultimately the Bank, in meeting this defined benefit, is market risk and life expectancy. An IAS 19 *Employee Benefits* valuation of this defined benefit at 31 March 2016 was performed by an independent actuary, the result of which can be summarised as follows:

	Present value of obligation R'000	Fair value of plan assets R'000	Unrecognised due to paragraph 65 limit <sup>(7)</sup> R'000	Total R'000
<b>As at 31 March 2015</b>	<b>1 473 021</b>	<b>(1 155 955)</b>	<b>0</b>	<b>317 066</b>
<b>Profit/loss</b>				
Current service cost (Note 23.2)	27 773	0	0	27 773
Interest income/(expense) (Note 23.2)	127 408	(99 015)	0	28 393
Expenses	(4 651)	4 651	0	0
<b>Cash movements</b>				
Benefits paid	41 245	(41 245)	0	0
Employer contributions (Note 23.2)	0	(9 000)	0	(9 000)
<b>Other comprehensive income</b>				
Actuarial gain	(422 052)	(24 971)	82 791	(364 232)
<b>As at 31 March 2016</b>	<b>1 242 744</b>	<b>(1 325 535)</b>	<b>82 791</b>	<b>0</b>

(7) In terms of paragraph 65 of IAS 19 *Employee Benefits*, the calculated surplus is for the benefit of the members of the retirement fund, and not the Bank.



## Notes to the financial statements *continued*

### 20. Post-employment benefits *continued*

#### 20.3 Retirement fund obligation *continued*

The primary reason for the decrease in the net liability to zero was deterioration in the long term bond rates which increased the discount rate assumption.

The assumptions utilised in the valuation of this liability are as follows:

	2016 Per cent	2015 Per cent
Discount rate	9,50	8,40
Inflation rate	6,00	6,00
Salary increase rate	7,00	7,00
Pension increase rate		
Category 1 and ex-pension	6,00	6,00
Category 2	4,50	4,50
Category 3	2,70	2,70

#### *Sensitivity analysis*

	1% decrease R'000	Valuation basis R'000	1% increase R'000
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The effect of a 1 per cent increase and decrease in the discount rate is as follows:

#### **Bank**

Employer's accrued liability <sup>(8)</sup>	355 851	0	0
Employer's service and interest cost <sup>(9)</sup>	42 944	9 136	9 136

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

#### **Bank**

Employer's accrued liability <sup>(8)</sup>	0	0	0
Employer's service and interest cost <sup>(9)</sup>	9 136	9 136	9 136

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

#### **Bank**

Employer's accrued liability <sup>(8)</sup>	0	0	198 209
Employer's service and interest cost <sup>(9)</sup>	9 136	9 136	27 955

(8) Where the employer's accrued net liability reflects as nil, this indicates that a net surplus has been calculated; however, this is not recognised as this surplus would accrue to the benefit of the members.

(9) Forecast service and interest costs for the year ending 31 March 2017.

## Notes to the financial statements *continued*

### 20. Post-employment benefits *continued*

#### 20.3 Retirement fund obligation *continued*

Management does not use the IAS 19 *Employee Benefits* valuation in order to assess the health of the fund, nor as a base to inform management decisions with regard to the fund. Management utilises the interim and statutory actuarial valuations for such purposes due to the fact that these actuarial valuations recognise that the pensioner bears the market risk of future pension increases, the asset and liability of the pensioner is fundamentally linked, and the discount rate applied reflects the risk profile of the assets in which the fund is invested.

The assets and liabilities of the defined benefit fund, which has been closed to new members since 1 July 1995, were transferred to the retirement fund on 31 March 2011. At present, 264 pensioners qualify for the defined benefits. The benefits provided are based on the individual's years of membership and salary levels. These benefits were provided from contributions made by employees and the employer, and 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, which has a credit rating of AA (Fitch), no further financial disclosures are deemed necessary in respect of the defined benefit, as required by IAS 19 *Employee Benefits*. The actuarial liability as at 31 March 2015 amounted to R187 million, while the plan assets towards this liability amounted to R195 million.

Since its inception in 1995, there has not been a shortage in the pension account for any given year. The most recent statutory valuation at 31 March 2015 found the fund fully funded, with the actuarial liability of pensions to be R880 million with plan assets of R1 047 million. The trustees of the retirement fund and the management of the Bank do not foresee a statutory liability for the Bank in terms of these pensioners.

The plan assets were invested in the following different asset classes as at 31 March 2015 per the statutory valuation:

Local equities	31,4%
Local property	6,9%
Local fixed interest	20,2%
Cash	14,0%
Foreign investments	18,9%
Other	8,6%
	<hr/>
	100,0%



## Notes to the financial statements *continued*

### 21. Gold and Foreign-Exchange Contingency Reserve Account

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Opening balance	203 396 438	177 913 407	203 396 438	177 913 407
Profit on gold price adjustment account	14 985 883	3 091 848	14 985 883	3 091 848
Loss on forward exchange contract adjustment account	(30 715 557)	(15 377 443)	(30 715 557)	(15 377 443)
Profit on foreign-exchange adjustment account	118 216 309	37 302 948	118 216 309	37 302 948
Movement in unrealised (losses)/gains on forward exchange contracts	(1 382 562)	399 032	(1 382 562)	399 032
	304 500 511	203 329 792	304 500 511	203 329 792
Net receipts	152 607	66 646	152 607	66 646
Amount due to government	304 653 118	203 396 438	304 653 118	203 396 438
<b>Balance composition</b>				
Balance currently due to government	305 158 851	202 519 608	305 158 851	202 519 608
Unrealised (losses)/gains on forward exchange contracts (Note 8)	(505 733)	876 830	(505 733)	876 830
	304 653 118	203 396 438	304 653 118	203 396 438

The GFECRA, which is operated in terms of section 28 of the SARB Act, represents net revaluation profits and losses incurred on gold and foreign-exchange related 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 and consists mainly of the exchange margin. During the reporting period under review, a net amount of R152,6 million was settled by government (2015: R66,6 million).

<b>22. Share capital</b>				
<b>Authorised and issued:</b>				
2 000 000 shares (2015: 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.				

<b>23. Profit before taxation</b>				
<b>23.1 Total income is stated after the following:</b>				
Income from investments	12 742	95 795	33 195	87 264
Dividends	33 195	30 367	33 195	30 367
Realised and unrealised (loss)/profit on investments	(20 453)	65 428	0	56 897
Income from subsidiaries			167 130	98 320
Dividends (note 34.4)			155 832	88 200
Interest (note 34.4)			5 218	3 951
Management fees (note 34.4)			6 080	6 169
Commission on banking services	621 006	406 394	621 006	406 394

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

## Notes to the financial statements *continued*

### 23. Profit before taxation *continued*

#### 23.2 Operating costs include

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Directors' remuneration (note 34.6)	25 842	22 346	25 413	21 952
For services as non-executive directors	4 454	4 276	4 025	3 882
For services as executive directors	21 388	18 070	21 388	18 070
Depreciation, amortisation and impairment (notes 12 and 13)	692 757	316 929	229 310	173 627
Buildings	20 515	19 809	14 812	14 253
Plant, vehicles, furniture and equipment	579 467	297 120	138 287	159 374
Artwork	(4 686)	0	(4 686)	0
Work in progress	2 144	0	0	0
Computer software	95 317	0	80 897	0
Net loss/(profit) on disposal of plant, vehicles, furniture and equipment	295	(340)	(315)	(137)
Write down of inventories (note 7)	2 695	2 402	0	0
Auditors' remuneration	38 990	29 190	33 816	24 647
Audit fees	16 029	14 037	10 893	9 686
Fees for other services	22 961	15 153	22 923	14 961
Consulting fees	138 106	184 767	108 781	158 146
Retirement benefit costs	523 280	445 169	460 420	385 503
Normal contributions to funds	183 610	172 556	158 231	147 746
Additional contributions to funds	13 241	5 818	13 241	5 818
Provision for post-employment medical benefits	189 393	157 711	174 510	144 391
Medical aid premiums paid	82 305	75 558	62 349	56 483
Post-employment group life benefits	3 903	3 072	3 435	2 762
Post retirement fund	47 166	26 911	47 166	26 911
Group life premiums paid	3 662	3 543	1 488	1 392
Remuneration and recurring staff costs	1 888 009	1 841 838	1 532 203	1 498 531
Cost of new currency	222 802	485 098	1 510 100	1 873 847
Other operating costs <sup>(1)</sup>	1 328 562	1 444 790	489 506	428 950

(1) Other operating costs comprises mainly business systems and technology costs, repairs and maintenance, building maintenance costs, travel and accommodation, and training expenses.



## Notes to the financial statements *continued*

### 24. Taxation

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
South African normal taxation				
Current taxation	<b>(115 228)</b>	(63 127)	<b>0</b>	0
Deferred taxation				
Current year timing differences (note 14)	<b>(465 454)</b>	(141 586)	<b>(526 138)</b>	(101 334)
Adjustment in respect of prior years (note 14)	<b>2 951</b>	(13 890)	<b>0</b>	0
	<b>(577 731)</b>	(218 603)	<b>(526 138)</b>	(101 334)
Reconciliation of taxation rate				
South African normal taxation rate	<b>28,00%</b>	28,00%	<b>28,00%</b>	28,00%
Adjusted for:				
Disallowable expenses	<b>0,01%</b>	0,72%	<b>0,16%</b>	1,26%
Exempt income and special deductions	<b>(1,24)%</b>	(2,86)%	<b>(2,36)%</b>	(6,05)%
Effective taxation rate	<b>(26,77%)</b>	25,86%	<b>25,80%</b>	23,21%

### 25. Dividend per share

Dividends were paid as follows:

Final dividend of 5 cents per share for the 2015 financial year	<b>100</b>	100	<b>100</b>	100
Interim dividend of 5 cents per share for the 2016 financial year	<b>100</b>	100	<b>100</b>	100
	<b>200</b>	200	<b>200</b>	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 SARB Act.

## Notes to the financial statements *continued*

### 26. Cash generated from operating activities

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
<b>Reconciliation of loss before taxation to cash generated from operating activities</b>				
Profit before taxation for the year <sup>(1)</sup>	2 159 453	845 440	2 039 705	436 651
Adjustments for:				
Depreciation, amortisation and impairment (notes 12 and 13)	692 757	316 929	229 310	173 627
Net loss/(profit) on disposal of property, plant and equipment (note 23.2)	295	(340)	(315)	(137)
Income from associate (note 34.2)	(2 264)	0	0	0
Unrealised foreign-exchange loss/(gain)	5 111	(2 744)	0	0
Fair value adjustments to financial instruments (note 23.1)	20 453	(8 530)	0	0
Post-employment benefits	240 462	187 694	225 111	174 064
Realised gain on financial instruments	0	(56 897)	0	(56 897)
Coupon interest accrued	(1 102)	(4 248)	(1 102)	(4 248)
Amortisation of coupon interest	(26 535)	48 514	(26 535)	48 514
<b>Net cash generated from operating activities</b>	<b>3 088 630</b>	<b>1 325 818</b>	<b>2 466 174</b>	<b>771 574</b>
<b>Changes in working capital</b>				
Amounts due by subsidiaries	0	0	33 323	291 040
Accommodation to banks	(12 187 291)	(17 908 496)	(12 187 291)	(17 908 496)
Other assets	(312 112)	8 268	(218 597)	29 949
Gold and foreign-exchange	(123 414 194)	(42 257 249)	(123 414 194)	(42 257 249)
Inventories	62 309	141 495	(1 681)	(139)
Loans and advances	(5 838 429)	421 976	1 544	1 354
Equity investment in Bank for International Settlements	(103 409)	(11 663)	(103 409)	(11 663)
Notes and coin in circulation	8 391 462	14 784 690	8 391 462	14 784 690
Deposit accounts	35 685 897	18 179 354	18 295 873	10 846 357
Amounts due to subsidiaries	0	0	6 437 284	(3 055 285)
Other liabilities	(61 112)	11 076	70 208	159 191
Foreign deposits	7 669 000	10 060 655	7 669 000	10 060 655
South African Reserve Bank debentures	(4 733 680)	1 620 150	(4 733 680)	1 620 150
Gold and Foreign-Exchange Contingency Reserve Account	102 639 242	25 084 001	102 639 242	25 084 001
<b>Cash generated/(utilised) from changes in working capital</b>	<b>7 797 683</b>	<b>10 134 257</b>	<b>2 879 084</b>	<b>(355 445)</b>
<b>Cash generated from operating activities</b>	<b>10 886 313</b>	<b>11 460 075</b>	<b>5 345 258</b>	<b>416 129</b>

(1) Included in this amount is dividends received. Refer to note 23.1.



## Notes to the financial statements *continued*

### 27. Capital commitments

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
Capital expenditure contracted for at the end of the reporting period but not yet incurred	<b>191 687</b>	137 155	<b>182 984</b>	104 369
Buildings	<b>5 390</b>	7 171	<b>2 626</b>	4 907
Plant, vehicles, furniture and equipment and intangible assets	<b>186 297</b>	129 984	<b>180 358</b>	99 462
Capital expenditure approved but not contracted for at the end of the reporting period	<b>303 321</b>	149 487	<b>6 097</b>	14 367
Buildings	<b>148 489</b>	11 701	<b>208</b>	5 188
Plant, vehicles, furniture and equipment and intangible assets	<b>154 832</b>	137 786	<b>5 889</b>	9 179
Total	<b>495 008</b>	286 642	<b>189 081</b>	118 736

These capital commitments will be funded from internal resources.

## Notes to the financial statements *continued*

### 28. Events after the reporting date

#### 28.1 Transfer of assets and liabilities to African Bank Holdings Limited

As at 31 March 2016 the SARB had acquired 250 million shares (50 per cent of the issued share capital) of African Bank Holdings Limited (ABHL). The shares have a par value of 1 cent and were bought at a premium of R19,99 per share.

At the date of acquisition, ABHL consisted only of issued share capital. Subsequently on 4 April 2016, the effective date of the restructuring of African Bank Investments Limited Group took place and the relevant assets and liabilities were transferred to ABL. All the entities in the ABHL Group are newly incorporated legal entities with no prior trading history. Base Case Forecasts were thus used to determine goodwill. The Base Case Forecasts do not include any potential upside that may arise from new strategies and product evolution that may be implemented after the effective transaction date. The Base Case Forecasts also do not include the impact of potential recapitalisation of ABL by ABHL from any dividends that may be received by African Insurance Group Limited (InsureCo) from its Cell Captive investment.

The Base Case Forecast assets and liabilities recognised as a result of the acquisition are as follows:

	2016 R'000
Short-term deposits and cash (including cash collateral)	24 418 000
Statutory assets	1 517 000
Derivatives and other assets	5 939 000
Net advances	20 176 000
Loans to affiliated companies	152 000
Property and equipment	505 000
Intangible assets	131 000
Collateral liabilities	(4 993 000)
Other liabilities	(965 000)
Fair value derivatives liabilities	(32 000)
Bonds and other long-term funding	(36 588 000)
Subordinated bonds, debentures and loans	(1 559 000)
Loans from affiliated companies	(537 000)
Deferred tax liability	(103 000)
Reserves and accumulated losses	215 000
Net identifiable assets acquired	8 276 000
Add: goodwill	1 724 000
Total net assets	10 000 000
Less: non-controlling interests	(5 000 000)
Net assets acquired	5 000 000



## Notes to the financial statements *continued*

### 28. Events after the reporting date *continued*

#### 28.1 Transfer of assets and liabilities to African Bank Holdings Limited *continued*

A provisional assessment of the forecast carrying value of goodwill, in terms of the forecast assumptions, indicates that goodwill may have to be impaired after the transaction date. This assessment will be reconsidered after the transaction date.

The fair value of ABL's assets and liabilities, including the New Debt Instruments, at the Transaction Effective Date, will be retrospectively assessed by ABL after the transaction date. Given the absence of the necessary market information at the time of the Offer Information Memorandum to determine the fair value of the New Debt Instruments at the transaction date (but taking management's best estimates into account), the Base Case Forecasts assume that the actual amount outstanding in respect of the New Debt Instruments (adjusted for CPI in the case of Index-linked instruments) is the fair value of the liabilities on the transaction date. It is however possible that the management of ABL will reach a different conclusion when they prepare the ABL accounts after the transaction date, when more information necessary for the fair value calculation is available.

#### 28.2 Loan to Residual Debt Services Limited

On 1 April 2016, the Bank provided a loan to Residual Debt Services Limited of R3,3 billion. The conditions and repayment terms of the loan are as follows:

- » Outstandings from time to time shall accrue interest at a rate of: 225 basis points above JIBAR; and
- » Repayable over three years.

The loan is collateralised by a debtors book. A total of R1,9 billion has been repaid on this loan by 1 June 2016.

No other material events occurred between 31 March 2016 and 9 June 2016 requiring disclosure in, or adjustment to, the financial statements for the year ended 31 March 2016.

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## Notes to the financial statements *continued*

### 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 on pages 58 to 60 of the Group Annual Report, which is available on the Bank's website. Certain aspects of risk management specific to financial instruments are described below.

#### **Interest rate risk**

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

The Bank is exposed to interest rate risk in respect of its foreign investments. The risk tolerance and return expectations in respect of these financial instruments are embodied in the strategic asset allocation; this, together with the risk budget, is approved by the GEC.

#### **Market risk**

Market risk is the risk of loss resulting from changes in market prices of securities. The Bank manages its market risks responsibly utilising modern technology and appropriate organisational structures and procedures. Exposures and limits are measured continually and are routinely reviewed by management.

Assets used as collateral (refer to note 3) are subject to a daily mark-to-market valuation. In order to protect the Bank against credit and market risks, participants in the repo 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 repo price. Treasury bills and SARB debentures are valued at the most recent auction's discount rates.

#### **Currency risk**

The Bank's exposure to currency risk from holding gold and foreign-exchange reserves is limited by the fact that movements in gold and foreign-exchange rates against the rand are for the account of the South African government in terms of the SARB Act. The Bank has currency risk limits and monitors them actively to ensure that they are contained within the overall risk budget of the Bank.

#### **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 repo transactions are fully collateralised. Furthermore, in terms of the SARB Act, no unsecured lending is allowed with the exception of loans made to government, subsidiaries of the Bank and certain staff loans. The list of eligible securities is specified in the Operational Notice published on the Bank's website. 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 rating equivalents, while the minimum rating for investments in corporate bonds is 'AA-'.

The rating of certain investment securities was below 'A' at year-end due to the 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.

#### **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 management unit within the Financial Markets Department.



## Notes to the financial statements *continued*

### 29. Risk management in respect of financial instruments *continued*

#### Concentration analysis

	Group		Bank	
	2016 R'000	2015 R'000	2016 R'000	2015 R'000
<b>Assets</b>				
South African rand	122 885 074	100 433 941	61 958 181	50 571 272
Gold	73 190 326	58 187 016	73 190 326	58 187 016
United States dollar	331 536 989	279 098 769	331 533 166	279 079 239
Euro	120 413 769	94 073 938	120 411 884	94 026 639
Pound sterling	41 882 904	35 343 024	41 882 904	35 343 024
Other	121 927 165	98 791 923	121 927 165	98 791 923
Total financial assets	811 836 227	665 928 611	750 903 626	615 999 113
<b>Liabilities</b>				
South African rand	708 170 794	566 948 740	648 244 156	517 959 801
United States dollar	76 359 639	73 847 769	76 340 472	73 845 372
Euro	16 750 400	13 113 009	16 734 769	13 089 931
Pound sterling	3 326 335	6 183 956	3 326 335	6 183 956
Other	7 328 264	2 648 718	7 328 264	2 648 718
Total financial liabilities	811 935 432	662 742 192	751 973 996	613 727 778

#### 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 by the Financial Markets Department. In addition, the Bank's foreign investment portfolio comprises mainly highly liquid investment instruments.

## Notes to the financial statements *continued*

### 29. Risk management in respect of financial instruments *continued*

#### Liquidity risk *continued*

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

	Redeemable on demand	Up to 1 month	1 – 3 months	4 – 6 months	7 – 12 months	More than 1 year	Total
<b>Liabilities (R'000)</b>							
<b>Group: 31 March 2016</b>							
Notes and coin in circulation	0	130 561 627	0	0	0	0	130 561 627
Deposit accounts	0	268 690 670	999 618	0	0	0	269 690 288
Foreign deposits <sup>(1)</sup>	0	102 083 334	0	0	0	0	102 083 334
Other financial liabilities	0	747 415	19 175	100	204	11	766 905
South African Reserve							
Bank debentures	0	3 146 420	30 000	0	0	0	3 176 420
Forward exchange contract liabilities	0	624 104	0	314 865	64 770	0	1 003 739
Gold and Foreign-Exchange Contingency Reserve Account	0	304 653 118	0	0	0	0	304 653 118
Total financial liabilities	0	810 506 688	1 048 793	314 965	64 974	11	811 935 432
<b>Unrecognised financial liabilities</b>							
<b>Group: 31 March 2016</b>							
Committed liquidity facility	86 050 000	0	0	0	0	0	86 050 000
Guarantees	3 000 000	0	0	0	0	0	3 000 000
Total unrecognised financial liabilities	89 050 000	0	0	0	0	0	89 050 000
<b>Group: 31 March 2015</b>							
Notes and coin in circulation	0	122 170 165	0	0	0	0	122 170 165
Deposit accounts	0	234 004 391	0	0	0	0	234 004 391
Foreign deposits <sup>(1)</sup>	0	94 414 334	0	0	0	0	94 414 334
Other financial liabilities	0	675 262	24 636	98	196	327	700 519
South African Reserve							
Bank debentures	0	7 910 100	0	0	0	0	7 910 100
Forward exchange contract liabilities	0	146 245	0	0	0	0	146 245
Gold and Foreign-Exchange Contingency Reserve Account	0	203 396 438	0	0	0	0	203 396 438
Total financial liabilities	0	662 716 935	24 636	98	196	327	662 742 192
<b>Unrecognised financial liabilities</b>							
<b>Group: 31 March 2015</b>							
Committed liquidity facility	70 000 000	0	0	0	0	0	70 000 000
Guarantees	10 600	0	0	0	0	0	10 600
Total unrecognised financial liabilities	70 010 600	0	0	0	0	0	70 010 600

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



## Notes to the financial statements *continued*

### 29. Risk management in respect of financial instruments *continued*

#### Liquidity risk *continued*

##### Liabilities (R'000)

##### Bank: 31 March 2016

	Redeemable on demand	Up to 1 month	1 – 3 months	4 – 6 months	7 – 12 months	More than 1 year	Total
Notes and coin in circulation	0	130 561 627	0	0	0	0	130 561 627
Deposit accounts	0	199 248 504	999 618	0	0	0	200 248 122
Amounts due to subsidiaries	9 629 910	0	0	0	0	0	9 629 910
Foreign deposits <sup>(1)</sup>	0	102 083 334	0	0	0	0	102 083 334
Other financial liabilities	0	617 726	0	0	0	0	617 726
South African Reserve Bank debentures	0	3 146 420	30 000	0	0	0	3 176 420
Forward exchange contract liabilities	0	624 104	0	314 865	64 770	0	1 003 739
Gold and Foreign-Exchange Contingency Reserve Account	0	304 653 118	0	0	0	0	304 653 118
Total financial liabilities	9 629 910	740 934 833	1 029 618	314 865	64 770	0	751 973 996

##### Unrecognised financial liabilities

##### Bank: 31 March 2016

Committed liquidity facility	86 050 000	0	0	0	0	0	86 050 000
Guarantees	3 000 000	0	0	0	0	0	3 000 000
Total unrecognised financial liabilities	89 050 000	0	0	0	0	0	89 050 000

##### Bank: 31 March 2015

Notes and coin in circulation	0	122 170 165	0	0	0	0	122 170 165
Deposit accounts	0	181 952 249	0	0	0	0	181 952 249
Amounts due to subsidiaries	3 192 626	0	0	0	0	0	3 192 626
Foreign deposits <sup>(1)</sup>	0	94 414 334	0	0	0	0	94 414 334
Other financial liabilities	0	545 621	0	0	0	0	545 621
South African Reserve Bank debentures	0	7 910 100	0	0	0	0	7 910 100
Forward exchange contract liabilities	0	146 245	0	0	0	0	146 245
Gold and Foreign-Exchange Contingency Reserve Account	0	203 396 438	0	0	0	0	203 396 438
Total financial liabilities	3 192 626	610 535 152	0	0	0	0	613 727 778

##### Unrecognised financial liabilities

##### Bank: 31 March 2015

Committed liquidity facility	70 000 000	0	0	0	0	0	70 000 000
Total unrecognised financial liabilities	70 000 000	0	0	0	0	0	70 000 000

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

## Notes to the financial statements *continued*

### 29. Risk management in respect of financial instruments *continued*

#### Liquidity risk *continued*

##### 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 SARB Act, all profits or losses on gold, 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, 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 Governor, CIA, Group CFO). 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 RMC and the BREC. 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 operations.

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## Notes to the financial statements *continued*

### 30. Classification of financial assets and liabilities

Group	Carrying amounts						Fair value <sup>(1)</sup> R'000
	Total R'000	Held-for- trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available- for-sale R'000	Other liabilities at amortised cost R'000	
<b>31 March 2016</b>							
<b>Financial assets</b>							
Cash and cash equivalents	5 947 893	0	0	5 947 893	0	0	5 947 893
Accommodation to banks	53 509 891	0	0	53 509 891	0	0	53 509 891
Investments	27 042 334	0	27 042 334	0	0	0	0
Other financial assets	601 363	0	0	601 363	0	0	601 363
Gold and foreign-exchange	688 403 063	(178 856)	688 581 919	0	0	0	0
Forward exchange contract assets	498 006	498 006	0	0	0	0	0
Loans and advances	27 359 580	0	0	27 359 580	0	0	27 359 580
South African government bonds	7 931 718	0	397 206	0	7 534 512	0	0
Equity investment in Bank for International Settlements	542 380	0	0	0	542 380	0	4 120 038
<b>Unrecognised financial assets</b>							
Guarantees	0	0	0	0	0	0	3 000 000
<b>Financial liabilities</b>							
Notes and coin in circulation	130 561 627	0	0	0	0	130 561 627	130 561 627
Deposit accounts <sup>(2)</sup>	269 690 288	0	0	0	0	269 690 288	269 690 288
Foreign deposits	102 083 334	0	0	0	0	102 083 334	102 083 334
Other financial liabilities	766 905	0	0	0	0	766 905	766 905
South African Reserve Bank debentures	3 176 420	0	0	0	0	3 176 420	3 176 420
Forward exchange contract liabilities	1 003 739	1 003 739	0	0	0	0	1 003 739
Gold and Foreign-Exchange Contingency Reserve Account	304 653 118	0	0	0	0	304 653 118	304 653 118
<b>Unrecognised financial liabilities</b>							
Committed liquidity facilities	0	0	0	0	0	0	86 050 000
Guarantees	0	0	0	0	0	0	3 000 000

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

Notes to the financial statements *continued*

Group	Carrying amounts					
	Total R'000	Held-for- trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available- for-sale R'000	Other liabilities at amortised cost R'000
<b>31 March 2015</b>						
<b>Financial assets</b>						
Cash and cash equivalents	12 777 046	0	0	12 777 046	0	0
Accommodation to banks	41 322 600	0	0	41 322 600	0	0
Investments	15 156 368	0	15 156 368	0	0	0
Other financial assets	256 900	0	0	256 900	0	0
Gold and foreign-exchange	564 988 869	(37 532)	565 026 401	0	0	0
Forward exchange contract assets	1 023 075	1 023 075	0	0	0	0
Loans and advances	21 521 151	0	0	21 521 151	0	0
South African government bonds	8 443 629	0	413 723	0	8 029 907	0
Equity investment in Bank for International Settlements	438 971	0	0	0	438 971	0
<b>Unrecognised financial assets</b>						
Guarantees	0	0	0	0	0	0
<b>Financial liabilities</b>						
Notes and coin in circulation	122 170 165	0	0	0	122 170 165	122 170 165
Deposit accounts <sup>(2)</sup>	234 004 391	0	0	0	234 004 391	234 004 391
Foreign deposits	94 414 334	0	0	0	94 414 334	94 414 334
Other financial liabilities	700 519	0	0	0	700 519	700 519
South African Reserve Bank debentures	7 910 100	0	0	0	7 910 100	7 910 100
Forward exchange contract liabilities	146 245	146 245	0	0	0	0
Gold and Foreign-Exchange Contingency Reserve Account	203 396 438	0	0	0	0	203 396 438
<b>Unrecognised financial liabilities</b>						
Committed liquidity facilities	0	0	0	0	0	0
Guarantees	0	0	0	0	0	0

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



# Notes to the financial statements *continued*

## 30. Classification of financial assets and liabilities *continued*

	Carrying amounts						Fair value <sup>(1)</sup> R'000
	Total R'000	Held-for- trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available- for-sale R'000	Other liabilities at amortised cost R'000	
<b>Bank</b>							
<b>31 March 2016</b>							
<b>Financial assets</b>							
Accommodation to banks	53 509 891	0	0	53 509 891	0	0	53 509 891
Other financial assets	353 399	0	0	353 399	0	0	353 399
Gold and foreign-exchange	688 403 063	(178 856)	688 581 919	0	0	0	0
Forward exchange contract assets	498 006	498 006	0	0	0	0	0
Loans and advances	62 376	0	0	62 376	0	0	62 376
South African government bonds	7 534 511	0	0	0	7 534 511	0	0
Equity investment in Bank for International Settlements	542 380	0	0	0	542 380	0	4 120 038
<b>Unrecognised financial assets</b>							
Guarantees	0	0	0	0	0	0	3 000 000
<b>Financial liabilities</b>							
Notes and coin in circulation	130 561 627	0	0	0	0	130 561 627	130 561 627
Deposit accounts <sup>(2)</sup>	200 248 122	0	0	0	0	200 248 122	200 248 122
Amounts due to subsidiaries	9 629 910	0	0	0	0	9 629 910	9 629 910
Foreign deposits	102 083 334	0	0	0	0	102 083 334	102 083 334
Other financial liabilities	617 726	0	0	0	0	617 726	617 726
South African Reserve Bank debentures	3 176 420	0	0	0	0	3 176 420	3 176 420
Forward exchange contract liabilities	1 003 739	1 003 739	0	0	0	0	1 003 739
Gold and Foreign-Exchange Contingency Reserve Account	304 653 118	0	0	0	0	304 653 118	304 653 118
<b>Unrecognised financial liabilities</b>							
Committed liquidity facilities	0	0	0	0	0	0	86 050 000
Guarantees	0	0	0	0	0	0	3 000 000

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

## 30. Classification of financial assets and liabilities continued

## Notes to the financial statements continued

Carrying amounts							
	Total R'000	Held-for- trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available- for-sale R'000	Other liabilities at amortised cost R'000	Fair value <sup>(1)</sup> R'000
<b>Bank</b>							
<b>31 March 2015</b>							
<b>Financial assets</b>							
Amounts due by subsidiaries	33 323	0	0	33 323	0	0	33 323
Accommodation to banks	41 322 600	0	0	41 322 600	0	0	41 322 600
Other financial assets	98 447	0	0	98 447	0	0	98 447
Gold and foreign-exchange	564 988 869	(37 532)	565 026 401	0	0	0	0
Forward exchange contract assets	1 023 075	1 023 075	0	0	0	0	0
Loans and advances	63 920	0	0	63 920	0	0	63 920
South African government bonds	8 029 907	0	0	0	8 029 907	0	0
Equity investment in Bank for International Settlements	438 971	0	0	0	438 971	0	3 315 395
<b>Unrecognised financial assets</b>							
Guarantees	0	0	0	0	0	0	7 000 000
<b>Financial liabilities</b>							
Notes and coin in circulation	122 170 165	0	0	0	0	122 170 165	122 170 165
Deposit accounts <sup>(2)</sup>	181 952 249	0	0	0	0	181 952 249	181 952 249
Amounts due to subsidiaries	3 192 626	0	0	0	0	3 192 626	3 192 626
Foreign deposits	94 414 334	0	0	0	0	94 414 334	94 414 334
Other financial liabilities	545 621	0	0	0	0	545 621	545 621
South African Reserve Bank debentures	7 910 100	0	0	0	0	7 910 100	7 910 100
Forward exchange contract liabilities	146 245	146 245	0	0	0	0	0
Gold and Foreign-Exchange Contingency							
Reserve Account	203 396 438	0	0	0	0	203 396 438	203 396 438
<b>Unrecognised financial liabilities</b>							
Committed liquidity facilities	0	0	0	0	0	0	70 000 000

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

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



## Notes to the financial statements *continued*

### 31. Fair value hierarchy disclosures

The tables on pages 66 to 69 analyse 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).

The Group's policy is to recognise transfers into and transfers out of the fair value hierarchy levels as at the date of the event or change in circumstances that caused the transfer. During the year under review, there have been no transfers between any of the levels (2015: none).

#### 31.1 Valuation techniques used to derive Level 1 fair values

The fair value of financial instruments traded in active markets are based on quoted market prices as obtained from the custodians at the statement of changes in financial position date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer broker or pricing services, and those prices represent actual and regularly occurring market transactions on an arm's-length basis. The quoted market price used for financial assets held by the bank is the current price as per the custodian's pricing hierarchy. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily fixed income investments classified as trading securities or available for sale.

#### 31.2 Valuation techniques used to derive Level 2 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

Specific valuation techniques used by the custodians to value financial instruments include the following:

- » Quoted market prices or dealer quotes for similar instruments are used for gold and foreign-exchange and investments;
- » The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves; and
- » The fair value of forward exchange contracts is determined using forward exchange rates at the statement of financial position date, with the resulting value discounted back to present value.

#### 31.3 Valuation techniques used to derive Level 3 fair values

The equity investment in the BIS is classified as Level 3. It is an 'available-for-sale' investment and is valued at cost, as fair value can not be reliably measured, as no active market exists for these shares. Changes in value are due to foreign-exchange movements. Refer to note 11 for more detail.

The revaluation of valuable art is classified as Level 3. Revaluations will be performed every three years by independent, reliable valuers. In the absence of an official fair value assessment by an independent valuator, the insured value will be used as an indicator of fair value.

## Notes to the financial statements *continued*

### 31. Fair value hierarchy disclosures *continued*

#### Group

31 March 2016

#### Items measured at fair value on a recurring basis:

##### Property, plant and equipment

Valuable art	0	0	151 424	151 424
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##### Financial assets

South African government bonds	7 931 718	0	0	7 931 718
Forward exchange contract assets	0	498 006	0	498 006
Investments	0	27 042 334	0	27 042 334
Gold and foreign-exchange	326 655 600	361 747 463	0	688 403 063
Gold coin and bullion	73 190 326	0	0	73 190 326
Money- and capital-market instruments and deposits	0	86 396 562	0	86 396 562
Medium-term instruments	235 985 313	198 970 876	0	434 956 189
Portfolio investments	17 479 961	76 380 025	0	93 859 986

##### Financial liabilities

Forward exchange contract liabilities	0	1 003 739	0	1 003 739
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#### Items measured at amortised cost:

##### Financial assets

Cash and cash equivalents	4 205 480	1 742 413	0	5 947 893
Accommodation to banks	0	53 509 891	0	53 509 891
Other financial assets	0	601 363	0	601 363
Loans and advances	0	27 359 580	0	27 359 580
Equity investment in Bank for International Settlements <sup>(1)</sup>	0	0	4 120 038	4 120 038

##### Financial liabilities

Notes and coin in circulation	0	130 561 627	0	130 561 627
Deposit accounts	0	269 690 288	0	269 690 288
Foreign deposits	0	102 083 334	0	102 083 334
Other financial liabilities	0	766 905	0	766 905
South African Reserve Bank debentures	0	3 176 420	0	3 176 420
Gold and Foreign-Exchange Contingency Reserve Account	0	304 653 118	0	304 653 118

#### Securities lending activities

The net effect of securities lending in which the Bank was engaged at the reporting date is included in the gold and 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
Liabilities in respect of collateral received	0	(61 578 774)	0	(61 578 774)
Fair value of underlying investments	2 573 866	58 925 783	0	61 499 649
Net fair value adjustment included above	2 573 866	(2 652 991)	0	(79 125)

Securities held as collateral amounted to R72,2 billion in 2016.

(1) Refer to note 11, Equity investment in Bank for International Settlements, for further details on this investment.



## Notes to the financial statements *continued*

### 31. Fair value hierarchy disclosures *continued*

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
<b>Group</b>				
<b>31 March 2015</b>				
<b>Items measured at fair value on a recurring basis:</b>				
<b>Financial assets</b>				
South African government bonds	8 443 629	0	0	8 443 629
Forward exchange contract assets	0	1 023 075	0	1 023 075
Investments	0	15 156 368	0	15 156 368
Gold and foreign-exchange	265 940 388	299 048 481	0	564 988 869
Gold coin and bullion	58 187 016	0	0	58 187 016
Money- and capital-market instruments and deposits	0	82 694 039	0	82 694 039
Medium-term instruments	191 134 028	157 904 745	0	349 038 773
Portfolio investments	16 619 344	58 449 697	0	75 069 041
<b>Financial liabilities</b>				
Forward exchange contract liabilities	0	146 245	0	146 245
<b>Items measured at amortised cost</b>				
<b>Financial assets</b>				
Cash and cash equivalents	8 466 655	4 310 391	0	12 777 046
Accommodation to banks	0	41 322 600	0	41 322 600
Other financial assets	0	256 900	0	256 900
Loans and advances	0	21 521 151	0	21 521 151
Equity investment in Bank for International Settlements <sup>(1)</sup>	0	0	3 315 395	3 315 395
<b>Financial liabilities</b>				
Notes and coin in circulation	0	122 170 165	0	122 170 165
Deposit accounts	0	234 004 391	0	234 004 391
Foreign deposits	0	94 414 334	0	94 414 334
Other financial liabilities	0	700 519	0	700 519
South African Reserve Bank debentures	0	7 910 100	0	7 910 100
Gold and Foreign-Exchange Contingency Reserve Account	0	203 396 438	0	203 396 438

#### **Securities lending activities**

The net effect of securities lending in which the Bank was engaged at the reporting date is included in the gold and 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
Liabilities in respect of collateral received	0	(51 071 693)	0	(51 071 693)
Fair value of underlying investments	3 983 048	47 021 021	0	51 004 069
Net fair value adjustment included above	3 983 048	(4 050 672)	0	(67 624)

Securities held as collateral amounted to R26,5 billion in 2015.

(1) Refer to note 11, Equity investment in Bank for International Settlements, for further details on this investment.

## Notes to the financial statements *continued*

### 31. Fair value hierarchy disclosures *continued*

#### Bank

31 March 2016

Items measured at fair value on a recurring basis:

#### Property, plant and equipment

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Valuable art	0	0	151 424	151 424

#### Financial assets

South African government bonds	7 534 511	0	0	7 534 511
Forward exchange contract assets	0	498 006	0	498 006
Investments	0	0	0	0
Gold and foreign-exchange	326 655 600	361 747 463	0	688 403 063
Gold coin and bullion	73 190 326	0	0	73 190 326
Money- and capital-market instruments and deposits	0	86 396 562	0	86 396 562
Medium-term instruments	235 985 313	198 970 876	0	434 956 189
Portfolio investments	17 479 961	76 380 025	0	93 859 986

#### Financial liabilities

Forward exchange contract liabilities	0	1 003 739	0	1 003 739
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Items measured at amortised cost

#### Financial assets

Accommodation to banks	0	53 509 891	0	53 509 891
Other financial assets	0	353 399	0	353 399
Loans and advances	0	62 376	0	62 376
Equity investment in Bank for International Settlements <sup>(1)</sup>	0	0	4 120 038	4 120 038

#### Financial liabilities

Notes and coin in circulation	0	130 561 627	0	130 561 627
Deposit accounts	0	200 248 122	0	200 248 122
Amounts due to subsidiaries	0	9 629 910	0	9 629 910
Foreign deposits	0	102 083 334	0	102 083 334
Other financial liabilities	0	617 726	0	617 726
South African Reserve Bank debentures	0	3 176 420	0	3 176 420
Gold and Foreign-Exchange Contingency Reserve Account	0	304 653 118	0	304 653 118

#### Securities lending activities

The net effect of securities lending in which the Bank was engaged at the reporting date is included in the gold and 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
Liabilities in respect of collateral received	0	(61 578 774)	0	(61 578 774)
Fair value of underlying investments	2 573 866	58 925 783	0	61 499 649
Net fair value adjustment included above	2 573 866	(2 652 991)	0	(79 125)

Securities held as collateral amounted to R72,2 billion in 2016.

(1) Refer to note 11, Equity investment in Bank for International Settlements, for further details on this investment.



## Notes to the financial statements *continued*

### 31. Fair value hierarchy disclosures *continued*

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
<b>Bank</b>				
<b>31 March 2015</b>				
<b>Items measured at fair value on a recurring basis:</b>				
<b>Financial assets</b>				
South African government bonds	8 029 907	0	0	8 029 907
Forward exchange contract assets	0	1 023 075	0	1 023 075
Gold and foreign-exchange	265 940 388	299 048 481	0	564 988 869
Gold coin and bullion	58 187 016	0	0	58 187 016
Money- and capital-market instruments and deposits	0	82 694 039	0	82 694 039
Medium-term instruments	191 134 028	157 904 745	0	349 038 773
Portfolio investments	16 619 344	58 449 697	0	75 069 041
<b>Financial liabilities</b>				
Forward exchange contract liabilities	0	146 245	0	146 245
<b>Items measured at amortised cost</b>				
<b>Financial assets</b>				
Amounts due by subsidiaries	0	33 323	0	33 323
Accommodation to banks	0	41 322 600	0	41 322 600
Other financial assets	0	98 447	0	98 447
Loans and advances	0	63 920	0	63 920
Equity investment in Bank for International Settlements <sup>(1)</sup>	0	0	3 315 395	3 315 395
<b>Financial liabilities</b>				
Notes and coin in circulation	0	122 170 165	0	122 170 165
Deposit accounts	0	181 952 249	0	181 952 249
Amounts due to subsidiaries	0	3 192 626	0	3 192 626
Foreign deposits	0	94 414 334	0	94 414 334
Other financial liabilities	0	545 621	0	545 621
South African Reserve Bank debentures	0	7 910 100	0	7 910 100
Gold and Foreign-Exchange Contingency Reserve Account	0	203 396 438	0	203 396 438

#### **Securities lending activities**

The net effect of securities lending in which the Bank was engaged at the reporting date is included in the gold and 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
Liabilities in respect of collateral received	0	(51 071 693)	0	(51 071 693)
Fair value of underlying investments	3 983 048	47 021 021	0	51 004 069
Net fair value adjustment included above	3 983 048	(4 050 672)	0	(67 624)

Securities held as collateral amounted to R26,5 billion in 2015.

(1) Refer to note 11, Equity investment in Bank for International Settlements, for further details on this investment.

## Notes to the financial statements *continued*

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

	Total R'000	Held-for- trading R'000	Designated at fair value R'000	Loans and receivables R'000	Available- for-sale R'000	Other liabilities at amortised cost R'000
<b>Group</b>						
<b>31 March 2016</b>						
Interest income	12 100 619	(479 424)	6 432 167	5 506 141	641 735	0
Interest expense	(6 413 553)	0	0	(120)	0	(6 413 433)
Dividend income	33 195	0	0	0	33 195	0
Bond revaluation reserve	(523 034)	0	0	0	(523 034)	0
<b>Group</b>						
<b>31 March 2015</b>						
Interest income	10 464 061	(1 059 888)	6 287 330	4 538 315	698 304	0
Interest expense	(5 884 453)	0	0	(99)	0	(5 884 354)
Dividend income	30 367	0	0	0	30 367	0
Bond revaluation reserve	135 017	0	0	0	135 017	0
<b>Bank</b>						
<b>31 March 2016</b>						
Interest income	8 301 083	(479 424)	5 313 884	2 824 888	641 735	0
Interest expense	(2 755 423)	0	0	0	0	(2 755 423)
Dividend income	189 027	0	0	0	189 027	0
Bond revaluation reserve	(523 034)	0	0	0	(523 034)	0
<b>Bank</b>						
<b>31 March 2015</b>						
Interest income	7 000 069	(1 059 888)	5 449 185	1 912 468	698 304	0
Interest expense	(2 564 461)	0	0	0	0	(2 564 461)
Dividend income	118 567	0	0	0	118 567	0
Bond revaluation reserve	135 017	0	0	0	135 017	0



## Notes to the financial statements *continued*

### 33. Commitments and guarantees

#### 33.1 Guarantees

R3 billion has been guaranteed by the SARB to African Bank Limited undertaking to settle unrecoverable loans that the Residual Debt Services Limited could not settle i.t.o the indemnity agreement. By 31 March 2016 this facility had not been utilised.

In turn, R3 billion has been guaranteed by the National Treasury to the SARB with the same terms to assist with the above mentioned guarantee issued to African Bank Limited. A guarantee fee of 30 basis points is payable upon the utilisation of the guarantee facility. By 31 March 2016 this facility had not been utilised.

#### 33.2 Committed liquidity facilities

The committed liquidity facilities (CLFs) are designed to allow local banks to meet Basel III rules that require financial institutions to hold high-quality liquid assets as a buffer during times of market stress. Subsequently, the Bank has approved the provision of a CLF available to banks to assist banks to meet the liquidity coverage ratio (LCR).

Although banks can contractually draw down on the CLF with immediate effect, such a draw down would signal a degree of liquidity pressure and banks are not expected to draw down except in circumstances of extraordinary liquidity needs. The Bank monitors the liquidity positions of all banks as part of its normal supervisory processes and should be aware of any deterioration in a bank's liquidity position that could possibly result in a draw down on the CLF.

On 31 March 2016 the total CLFs granted by the Bank for the period 1 January 2016 to 30 November 2016 amounted to R86,1 billion, which have not yet been utilised. Commitment fees of R273,8 million have been received for the period of 1 January 2016 to 30 November 2016 of which R74,7 million is accounted for as income for the year ended 31 March 2016. The balance is reflected in other liabilities.

An interest rate of repo plus 1 per cent is charged on draw down for the draw down period of 30 days.

The available facility is limited to the lower of the facilities entered into and the available collateral after the haircut is applied. To date, residential, commercial mortgages, auto loans and asset backed securities to the value of R84,2 billion (before the haircut is applied) have been ceded to the Bank as collateral as per the individual agreements. The balance of the collateral related to the R86,1 billion facilities granted have not been registered with the Bank as yet. A haircut is applied to the collateral registered with the Bank as per the contractual agreement, based on the risk associated with each class of asset registered as collateral.

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## Notes to the financial statements *continued*

### 34. Related party information

#### 34.1 Investment in subsidiaries

	Authorised and issued share capital		Bank	
	Number of shares R'000	Percentage held	2016 R'000	2015 R'000
Corporation for Public Deposits <sup>(1)</sup>	2 000	100	2 000	2 000
South African Mint Company (RF) Proprietary Limited	60 000	100	206 000	206 000
South African Bank Note Company (RF) Proprietary Limited	61 000	100	1 083 765	1 183 765
Share capital	61 000	100	61 000	61 000
Subordinated loan	0	0	1 022 765	1 122 765
South African Reserve Bank Captive Insurance Company (RF) Limited	0	0	0	10 000
Total			1 291 765	1 401 765

(1) The Bank provides key personnel services to the CPD.

The subordinated loan to the SABN of R1,0 billion bears no interest and has no fixed terms of repayment. An amount of R0,1 billion was repaid during the year. The Bank may demand repayment of the loan provided the subsidiary's assets exceed its liabilities. When recalled, the subsidiary has the option to convert the loan to share capital. The loan is included in the books of the subsidiary as a separate category of equity and is thus treated as an addition to the Bank's investment in subsidiary.

SARBCIC repaid all its share capital amounting to R10 million to the Bank during the year (Note 35.3).

The contribution to the Group profit and loss attributable to the parent (pre elimination of intercompany transactions) is as follows:

	2016 R'000	2015 R'000
Corporation for Public Deposits	72 750	80 000
South African Mint Company (RF) Proprietary Limited	191 263	138 473
South African Bank Note Company (RF) Proprietary Limited	(153 402)	93 141
South African Reserve Bank Captive Insurance Company (RF) Limited	633	5 294
Total	111 244	316 908



## Notes to the financial statements *continued*

### 34. Related party information *continued*

#### 34.2 Investment in associate

	Authorised and issued share capital		Bank	
	Number of shares R'000	Percentage held	2016 R'000	2015 R'000
African Bank Holdings Limited	500 000	50	5 000 000	0

The contribution to the Group's profit and loss attributable to the investment is as follows:

	2016 R'000	2015 R'000
African Bank Holdings Limited	2 264	0
Total investment in associates	5 002 264	0

#### 34.3 Amounts due by/to subsidiaries

##### Amounts due by subsidiaries

South African Bank Note Company (RF) Proprietary Limited: Loan

##### Amounts due to subsidiaries

Corporation for Public Deposits: Call deposit

Corporation for Public Deposits: Current account

0	33 323
0	33 323
9 629 910	3 192 626
9 622 263	3 189 916
7 647	2 710

## Notes to the financial statements *continued*

### 34. Related party information *continued*

#### 34.4 Transactions between the Bank and its related parties

	2016 R'000	2015 R'000
Dividends received	155 832	88 200
Corporation for Public Deposits	200	200
South African Mint Company (RF) Proprietary Limited	150 000	0
South African Reserve Bank Captive Insurance Company (RF) Limited	5 632	88 000
Interest received	2 401 548	1 827 188
South African Bank Note Company (RF) Proprietary Limited	1 312	1 939
Corporation for Public Deposits	3 906	2 011
SA Government	2 396 330	1 823 238
Interest paid	5 120 724	4 087 828
Corporation for Public Deposits	731 648	382 180
SA Government	4 389 076	3 705 648
Insurance premiums paid		
South African Reserve Bank Captive Insurance Company (RF) Limited (note 35.3)	0	600
Rent paid		
South African Bank Note Company (RF) Proprietary Limited	3 026	2 850
Coin management fees paid		
South African Mint Company (RF) Proprietary Limited	2 810	2 327
Management fees received	6 080	6 169
Corporation for Public Deposits	2 745	2 443
South African Reserve Bank Captive Insurance Company (RF) Limited (note 35.3)	0	495
South African Reserve Bank Retirement Fund	3 335	3 231
Cost of new currency	1 266 865	1 408 279
South African Bank Note Company (RF) Proprietary Limited	898 922	1 022 350
South African Mint Company (RF) Proprietary Limited	367 943	385 929
Proceeds from insurance claims		
South African Reserve Bank Captive Insurance Company (RF) Limited (note 35.3)	0	1 822
Pension fund contributions		
South African Reserve Bank Retirement Fund	171 472	153 564
Administrative services	7 750	7 926
South African Bank Note Company (RF) Proprietary Limited	6 374	6 968
South African Mint Company (RF) Proprietary Limited	1 376	958
Recovery of foreign-exchange losses		
South African Bank Note Company (RF) Proprietary Limited	20 435	19 530
Amounts owed by		
SA Government	27 297 204	0
Amounts owed to	481 104 410	354 380 762
SA Government – GEFCRA	304 653 118	203 396 438
SA Government – Deposits		
Corporation for Public Deposits	69 433 946	52 044 838
Non-interest bearing	39 859 942	31 782 082
Interest bearing	67 157 404	67 157 404

All other significant balances are shown in the statement of financial position under the appropriate headings.

#### 34.5 Inventory held on behalf of the Bank by the SA Mint

At year-end, coin inventory to the value of R226,7 million (2015: R313,3 million) was held on behalf of the Bank.



## Notes to the financial statements *continued*

### 34. Related party information *continued*

#### 34.6 Directors' remuneration

##### Executive directors: Remuneration

##### Governor E L Kganyago<sup>(1)</sup>

Remuneration and recurring fringe benefits

Other fringe benefits

##### Governor G Marcus (term ended 8 November 2014)

Remuneration and recurring fringe benefits

Other fringe benefits

Cooling-off period payment (up to 8 May 2015)

Deemed remuneration: Official residence<sup>(2)</sup>

##### A D Mminele

Remuneration and recurring fringe benefits

Other fringe benefits

##### F E Groepe

Remuneration and recurring fringe benefits

Other fringe benefits

##### K Naidoo (appointed 1 April 2015)

Remuneration and recurring fringe benefits

Other fringe benefits

##### Total remuneration of executive directors

##### Non-executive directors: Remuneration for services

T Nombembe (appointed 14 July 2014)

T N Mgoduso

J F van der Merwe

B W Smit

R le Roux

T Ajam

M Manyama

G M Ralfe

R J G Barrow

M S V Gantsho (term ended 10 June 2014)

A M Chait (term ended 31 July 2015)

F Cachalia

J V Klein (appointed 31 July 2015)

##### Paid by subsidiaries

##### Non-executive directors: Remuneration for services

R J G Barrow

##### Total remuneration of non-executive directors

##### Total remuneration of directors

2016 R'000	2015 R'000
<b>6 198</b>	4 673
<b>128</b>	106
<b>6 326</b>	4 779
<b>0</b>	2 666
<b>495</b>	118
<b>1 105</b>	2 054
<b>1 600</b>	4 838
<b>0</b>	320
<b>1 600</b>	5 158
<b>4 462</b>	4 003
<b>89</b>	58
<b>4 551</b>	4 061
<b>4 462</b>	4 003
<b>77</b>	69
<b>4 539</b>	4 072
<b>4 372</b>	0
<b>0</b>	0
<b>4 372</b>	0
<b>21 388</b>	18 070
<b>346</b>	217
<b>380</b>	371
<b>425</b>	411
<b>337</b>	322
<b>337</b>	325
<b>337</b>	322
<b>319</b>	309
<b>360</b>	333
<b>428</b>	419
<b>0</b>	93
<b>131</b>	368
<b>428</b>	392
<b>197</b>	0
<b>4 025</b>	3 882
<b>429</b>	394
<b>4 454</b>	4 276
<b>25 842</b>	22 346

(1) The total remuneration for Governor E L Kganyago for the prior year relates to his term as both Deputy Governor (from 1 April 2014 to 8 November 2014) and Governor (from 9 November 2014 to 31 March 2015).

(2) The Bank provides accommodation to the Office of the Governor at the official residence. The deemed tax value of the benefit was R0 for the current year (2015: R480 598), as the Governor did not occupy this residence.

## Notes to the financial statements *continued*

### 35. Business combinations

#### 35.1 Acquisition of an associate

##### **African Bank Holdings Limited**

As at 31 March 2016 the SARB acquired 250 million shares (50 per cent of the issued share capital) of African Bank Holdings Limited. The shares have a par value of 1 cent and were bought at a premium of R19.99 per share.

The acquisition is as a result of the announcement made by the SARB in consultation with the Minister of Finance on 10 August 2014 to implement a number of support measures for African Bank's parent company, African Bank Investment Limited (ABIL). African Bank Holdings Limited is a newly formed public company being the ultimate holding company of African Insurance Group Limited (InsureCo) and African Bank Limited (ABL).

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	2016 R'000
Purchase consideration	
Cash paid – 250 million @ par value of 1 cent	2 500
Cash paid – 250 million @ premium of R19.99	4 997 500
Total purchase consideration and cash outflow	5 000 000
At 31 March 2016 the company was a shell company without any assets or liabilities.	
Net identifiable assets acquired	10 000 000
Less: non-controlling interests	(5 000 000)
Net assets acquired	5 000 000

#### 35.2 Transactions with non-controlling interests

##### **Prestige Bullion**

The SA Mint holds a 60 per cent interest in Prestige Bullion. Prestige Bullion distributes, and sells bullion Krugerrand coins to local and international markets. The SA Mint is responsible for the manufacturing while the marketing and distribution of the coins is done by Rand Refinery

Rand Refinery has a 40 per cent interest, and therefore holds a non-controlling interest in Prestige Bullion.

	2016 R'000	2015 R'000
Profit attributable to non-controlling interest	110 478	62 813
Accumulated non-controlling interest at 31 March 2016	80 176	35 498
Dividends paid to non-controlling interest	65 800	48 000

No significant restrictions exist on the Bank's ability to access or use the assets and settle the liabilities of the Group.



### **35.3 Dissolution of the South African Reserve Bank Captive Insurance Company (RF) Limited**

The Twin Peaks Regulatory Model, once implemented, will result in the prudential supervision in respect of both long-term and short-term insurers moving from the FSB to the Bank. This presents a potential conflict of interest as the Bank would then be supervising its own insurer, SARBCIC. The Board has accordingly resolved to restructure the Group's short-term insurance portfolio by dissolving the SARBCIC and replacing it with an appropriate and cost-effective alternative structure. The restructuring of the SARB Group's short-term insurance portfolio has been completed, with the respective portfolios having been placed with external insurers with effect from 1 April 2014. As SARBCIC had, by 30 November 2015, made satisfactory arrangements to discharge all its insurance obligations towards its policyholders. The registration of SARBCIC, to conduct short-term insurance business, was cancelled by the Financial Services Board with effect from 15 December 2015. The Companies and Intellectual Property Commission has been requested to remove SARBCIC from the companies register and the Bank is awaiting confirmation of deregistration.

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# Abbreviations

<b>ABHL</b>	African Bank Holdings Limited
<b>AGM</b>	annual ordinary general meeting
<b>Board</b>	Board of Directors
<b>BREC</b>	Board Risk and Ethics Committee
<b>CFO</b>	Chief Financial Officer
<b>CIA</b>	Chief Internal Auditor
<b>CLF</b>	Committed liquidity facility
<b>Companies Act</b>	Companies Act 73 of 2008
<b>CPD</b>	Corporation for Public Deposits
<b>CPD Act</b>	Corporation for Public Deposits Act 46 of 1984
<b>FMD</b>	Financial Markets Department
<b>GEC</b>	Governors' Executive Committee
<b>GFECRA</b>	Gold and Foreign Exchange Contingency Reserve Account
<b>IAD</b>	Internal Audit Department
<b>IAS</b>	International Accounting Standard
<b>i.e.</b>	id est (that is to say) (Latin)
<b>IFRIC</b>	International Financial Reporting Interpretations Committee
<b>IFRSs</b>	International Financial Reporting Standards
<b>IMF</b>	International Monetary Fund
<b>Inc.</b>	Incorporated
<b>Income Tax Act</b>	Income Tax Act 58 of 1962
<b>IT</b>	information technology
<b>JSE</b>	JSE Limited
<b>King III</b>	King Report on Corporate Governance in South Africa 2009
<b>Ltd</b>	Limited
<b>Pension Funds Act</b>	Pension Funds Act 24 of 1956
<b>Prestige Bullion</b>	Prestige Bullion (RF) Proprietary Limited
<b>Pty</b>	Proprietary
<b>PwC</b>	PricewaterhouseCoopers Inc.
<b>RDSL</b>	Residual Debt Services Limited
<b>Rand Refinery</b>	Rand Refinery Proprietary Limited
<b>repo rate</b>	repurchase rate
<b>Resmanco</b>	Reserves Management Committee
<b>SA Mint</b>	South African Mint Company (RF) Proprietary Limited
<b>SABN</b>	South African Bank Note Company (RF) Proprietary Limited
<b>SARB</b>	South African Reserve Bank
<b>SARB Act</b>	South African Reserve Bank Act 90 of 1989, as amended
<b>SARBCIC</b>	South African Reserve Bank Captive Insurance Company (RF) Limited
<b>SARB debentures</b>	South African Reserve Bank debentures
<b>SNG</b>	SizweNtsalubaGobodo Inc.
<b>the Bank</b>	South African Reserve Bank
<b>the Group</b>	South African Reserve Bank Group
<b>US</b>	United States



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