Annual Report and Financial Statements

2005

South African Reserve Bank

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Contents

Mr T T Mboweni
Governor

Governor's foreword

The South African Reserve Bank has again successfully pursued its strategic objectives in the past financial year.

The main objective of the Bank remains the pursuit of low and stable inflation. Consumer price inflation for metropolitan and urban areas, excluding mortgage interest cost (CPIX), has been inside the 3-to-6-per-cent target range since September 2003. Owing to the success achieved in the containment of inflation and with benign forecasts of future inflation, it was possible to decrease the repurchase rate by 50 basis points in August 2004. In April 2005 the repurchase rate was decreased by a further 50 basis points to 7 per cent per annum.

The Bank continued to purchase moderate amounts of foreign exchange to increase the foreign reserves. Consequently gross foreign reserves increased from US$9 964 million at the end of March 2004 to US$15 858 million at the end of March 2005 and US$18 679 million at the end of June 2005. Over the same period the net reserves increased from US$6 375 million to US$12 381 million and eventually to US$15 176 million.

A significant milestone was reached when the Bank started to settle foreign exchange transactions through the Continuous Linked Settlement (CLS) system in December 2004. The rand is now positioned as one of 15 international currencies settling through the CLS.

The Bank remains committed to providing a regulatory environment that allows South African banks to adopt international best practice. A key focus area is the preparation for the implementation of an enhanced system of risk management and capital requirements, or Basel II. As an extension of the Bank's interest in financial stability, which encompasses more than bank supervision, the Bank launched the *Financial Stability Review*, a bi-annual publication communicating the Bank's overall assessment of the soundness of the financial system.

It remains a challenge for the Bank to ensure public confidence in the South African currency. A new bi-metal R5 coin was introduced in August 2004 in response to the counterfeiting threat of the silver-coloured R5 coin. The Bank also introduced a series of upgraded banknotes in February 2005.

During the 2004/05 financial year the balance sheet of the Bank increased by a significant margin, mainly as a result of the accumulation of foreign reserves. In April 2004 the National Treasury paid the third tranche of R7 billion in the form of zero-coupon bonds as compensation for losses accumulated previously on the Gold and Foreign Exchange Contingency Reserve Account (GFECRA). In February 2005 a further R2,5 billion payment was received as an advance on the R7 billion due in April 2005. The balance was duly received in April 2005.

Mostly owing to these payments, the debit balance on the GFECRA declined by about R10 billion. Since April 2005 this balance has swung into credit. Besides the payments received from the National Treasury, the significant change from debit to credit was caused by unrealised revaluation profits on the net foreign reserves.

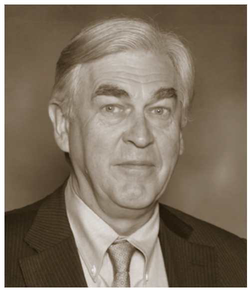
As disclosed in the financial statements, the Bank's profit after taxation improved during the year. This, however, was mostly owing to profits realised on the sale of Government bonds, as the increase in foreign reserves is impacting negatively on the Bank's profitability. With a higher level of foreign reserves and a lower interest rate environment than in the past, the Bank's profitability is likely to be under pressure. Hence increasing vigilance in the budgeting process will be required.

July 2005

Board of Directors

Dr X P Guma

Governor and Chairperson of the Board
Mr T T Mboweni



Mr I Plenderleith

Dr D Konar

Prof M Padayachee

Mr J W Raath

Ms F Jakoet

Ms A M Mokgabudi

Ms Z P Manase

Ms N D Orleyn

Mr S M Goodson

Prof R W K Parsons

Mr F E Groepe

Board members
as at 31 March 2005

Mr T T Mboweni
Governor and Chairperson of the Board

Dr X P Guma
Deputy Governor

Mr I Plenderleith
Deputy Governor

Dr D Konar
Representing Commerce or Finance

Prof M Padayachee
Representing Government

Mr J W Raath
Representing Agriculture

Ms F Jakoet
Representing Commerce or Finance

Ms A M Mokgabudi
Representing Industry

Ms Z P Manase
Representing Commerce or Finance

Ms N D Orleyn
Representing Industry

Mr S M Goodson
Representing Commerce or Finance

Prof R W K Parsons
Representing Government

Mr F E Groepe
Representing Government

As at 31 March 2005 a vacancy existed for a deputy governor

Corporate governance

The South African Reserve Bank is committed to the principles of, and complies to a significant degree with the requirements of the King Report on Corporate Governance. The compliance of the Bank with these requirements is reflected below.

Board of Directors

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

Executive directors

- the Governor and three deputy governors appointed by the President of the Republic. The Governor serves as Chairperson of the Board, as stipulated in the Reserve Bank Act, and as Chief Executive Officer of the Bank. As at 31 March 2005, there was a vacancy for a deputy governor.

Non-executive directors

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

The Reserve Bank Act requires that of the directors elected by the shareholders:

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

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

Governor's Committee

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

Audit Committee

The composition of the Audit Committee, which is a subcommittee of the Board, appears on page 23. The external and internal auditors have unrestricted access to the Chairperson of this committee. The committee meets regularly with management, the Internal Audit Department (IAD) and the external auditors. The committee reviews the financial statements and underlying accounting policies, the effectiveness of management information, other systems of internal control and the internal audit function. The Audit Committee also reviews the risk management processes applicable to the Bank's operations and examines and recommends areas that internal and external auditors must cover.

Remuneration Committee

The composition of the Remuneration Committee, a subcommittee of the Board, appears on page 23. The committee meets regularly to review human resources matters and remuneration practices and policies. This committee also determines the remuneration packages of the Governor and deputy governors.

Monetary Policy Committee

The Monetary Policy Committee is responsible for ensuring the formulation of monetary policy in line with current international best practice. As at 31 March 2005, the committee comprised the Governor and deputy governors, as well as five senior officials of the Bank. The committee meets at regular intervals and a statement on the monetary policy stance of the Bank is issued after each meeting. Decisions are taken by consensus.

Budget Committee

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

Internal audit

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

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

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

Internal control

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

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

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

Employment Equity Consultative Body and Management Steering Committee

In compliance with the Employment Equity Act, No 55 of 1998, the Bank submitted its five-year Employment Equity Plan (EE Plan) to the Department of Labour in 2000. In the compilation as well as the implementation of the EE Plan, employees have the opportunity to participate through the Employment Equity Consultative Body (EECB), which represents employees at all occupational levels. The EECB consults regularly with the Management Steering Committee (MSC), representing management, on employment equity related matters in the Bank. The annual employment equity progress reports are compiled in consultation between the EECB and the MSC. As the Bank's current EE Plan ends in 2005, the EECB and MSC will consult on a subsequent employment equity plan that must be lodged with the Department of Labour. The EECB and the MSC also play a significant role in the review of the staff policies of the Bank to ensure that these are supportive of employment equity. To improve further the relationship and co-operation between the EECB and the MSC, the two structures have signed a Memorandum of Understanding. Plans are underway to expand the scope of the EECB and the MSC to include consultations on skills development.

Code of Ethics and Conduct

While staff members of the Bank have always been expected to conduct themselves in a manner befitting central bank employees, a formal code of ethics and conduct for staff members has never been documented. A proposed Code of Ethics and Conduct has now been circulated to staff for comment. This will lead to a formal Code of Ethics and Conduct containing the set of principles that employees of the Bank subscribe to and the behaviour expected of them.

Safety, health and environmental issues

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

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

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

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

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

Risk management

Risk is an inherent feature of the activities of the Bank. The Bank is committed to managing risks by applying appropriate structures, systems and procedures. These structures, systems and procedures evolve continuously in response to changes in the financial and economic environment in which the Bank operates.

Management structures

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

Risk elements

The financial risk elements in the activities of the Bank are: Interest rate, market price, credit and liquidity. These risks are discussed in Note 30 to the financial statements. Operational, human resource, legal and reputational risks are discussed below.

Operational risk

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

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

Human resource risk

The particular nature of the activities of the Bank necessitates specialised knowledge in many areas.

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

Legal risk

Legal risks arise from any uncertainty or lack of enforceability, whether through legal or judicial processes, of the obligations of the Bank's clients and counterparties.

The Bank seeks to minimise such uncertainties through continuous consultation with internal and external legal advisers to better understand the nature of such risks and to improve the documentation and structure of transactions. In addition, the Bank has established legal procedures designed to ensure, as far as reasonably possible, compliance with all applicable internal, statutory and regulatory requirements.

Reputational risk

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

The Bank's function of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The responsibilities of the Bank regarding monetary policy, the national payment system and the issuing of notes and coin also expose the Bank to significant reputational risk. The Bank adheres to international best practice and, to this end, maintains close liaison with international peers. The Bank strives towards full compliance with the Basel Core Principles for effective banking supervision.

Mission statement

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

the achievement and maintenance of price stability.

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

Functions

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

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

Business philosophy

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

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

Personnel philosophy

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

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

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

Monetary policy decision-making

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

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

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

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

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

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

- International economic conditions: Prepared by the Research Department.
- Financial markets, including domestic and international monetary and bond markets, and currency markets: Prepared by the Financial Markets Department.
- Financial and fiscal developments: Prepared by the Research Department.
- National economic conditions: Prepared by the Research Department.

- Economic forecasts: The forecasts of the various Bank econometric models as developed by the Research Department and also surveys of inflation expectations.

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

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

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

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

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

Operational review

Primary function

The thrust of the the Bank's monetary policy remains the maintenance of price stability. International economic developments, real economic conditions in South Africa and the domestic monetary situation make it essential for South Africa to bring domestic inflation in line with that of its trading partners.

The primary focus in the process of executing monetary policy, therefore, is the achievement of inflation targets. This will not only contribute to the protection of the interests of the poor by protecting the purchasing power of the rand, but also to sustainable growth in the long run.

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

Operational functions

Inflation targeting

The monetary policy stance is decided at the bi-monthly meetings of the MPC. There exists, however, a continuous process of review that takes new information and developments into consideration.

Monetary policy is anchored to an inflation target set by the Government. Currently the target is set at 3 to 6 per cent – measured as the year-on-year increase in consumer price inflation excluding mortgage interest cost in metropolitan and other urban areas (CPIX). The target must be met continuously.

Six MPC meetings were held during the period under review. An important factor in determining the stance of monetary policy is the forecast generated by the Bank's macroeconomic models. But monetary policy is not decided mechanistically according to the forecast of economic developments. The judgement of the MPC plays an important part too. Forecasts, of course, differ from one MPC meeting to the other as assumptions about the driving forces behind economic decision-taking change and forecast errors are corrected.

At the time of the April 2005 meeting, uncertainty regarding the future course of the oil price had increased, with suggestions of high upside risk. However, the MPC had to consider a number of other factors. First, although there is no doubt that higher oil prices do impact negatively on measured inflation, it is generally accepted that monetary policy should not respond to these first-round effects.

Secondly, there is the impact of higher oil prices on the international economy. Although there has been a significant increase in prices, the impact has been far more muted than in previous rounds of price increases. Despite the higher prices, the IMF still forecasts inflation to be well contained. This continued subdued world inflation has been one of the considerations in the setting of domestic monetary policy. The higher oil prices have, however, resulted in a downward revision of world economic growth by ±0,5 per cent.

Developments in wage settlements and unit labour cost were also closely monitored. In February 2005, the committee commented on the favourable unit labour cost data, which showed that unit labour cost had increased by 4,9 per cent in the third quarter of 2004, compared to the third quarter of the previous year. At the time of the subsequent meeting, this figure had been revised up to 6,6 per cent, and the figure for the fourth quarter was 10,1 per cent. These figures appear to be a threat to the inflation outlook. However, the surveys on wage settlements continue to reflect a downward trend, with the latest figures for the first quarter of 2005 indicating settlements averaging 6 per cent.

Domestic expenditure trends continued to be carefully analysed. Domestic expenditure remained robust and was sustained by higher consumer confidence, the stronger rand, lower interest rates, higher real incomes and high asset prices. There was, however, evidence that the rate of increase in house prices was slowing. Nevertheless, the strong consumer demand continued over the period, but there was little evidence of inflationary pressure emanating from this.

The strong domestic demand pressure was also reflected in the money supply and credit extension figures. Although M3 money supply growth has remained fairly stable at around 12 per cent on a year-on-year basis, credit extension has been growing at a much faster rate. Much of this was related to mortgage loans, reflecting the buoyant conditions in the property market, and the purchases of new motor vehicles which have reached near record highs.

Although output was also relatively robust, it declined moderately in the fourth quarter of 2004 in line with the expectations of the MPC. In the April 2005 meeting, the committee was concerned about the slackening pace of growth in a number of sectors, in particular the manufacturing and gold-mining sectors. The outlook for growth in these sectors would be affected by world economic growth as well as the rand exchange rate.

The MPC also noted the fact that the current-account deficit has been increasing as a result of the higher levels of imported goods. In 2004 the current-account deficit as a percentage of gross domestic product averaged 3,2 per cent for the year, and around 4 per cent in the fourth quarter. The MPC was, however, confident that deficits around these levels would continue to be financed comfortably through capital inflows.

The rand exchange rate, which has had an important impact on the inflation outcome, has been a source of uncertainty. At the time of the December 2004 meeting, the rand had strengthened mainly as a result of dollar weakness, but subsequently the dollar recovered somewhat as US monetary policy was tightened. However, the continued imbalances in the US economy implied that the outlook for the US dollar, and therefore for the rand exchange rate, remained uncertain.

In the April 2005 meeting the MPC expressed concern about the fact that since the middle of 2004 the rand had been in a trading range significantly higher than the beginning of 2003. This was not only true against the US dollar. The average effective (trade-weighted) exchange rate index was approximately 10 per cent higher than its level between the beginning of 2003 and mid-2004. The MPC expressed concern about the impact of this development on certain sectors of the economy which were beginning to show signs of stress in the face of a stronger rand.

It should be emphasised that achieving the inflation target remains the primary and overriding objective of monetary policy. The objective is not to achieve low inflation for its own sake, but to provide a stable platform for sustained economic growth. Being concerned with the impact of developments in the rand exchange rate on the growth prospects of the economy is therefore entirely consistent with the inflation-targeting framework.

In the December 2004 meeting the committee noted that the increase in the price of consumer services had remained consistently above the upper level of the inflation target. By the April 2005 meeting, however, this measure had fallen below the 6-per-cent level for two consecutive months, measuring 5,6 per cent in February 2005. This was viewed as a positive development, as these prices are generally less affected by exchange rate developments than goods prices. In part this reflected progress made by the public authorities in containing administered price increases. Fiscal policy also continued, and is expected to continue to be supportive of monetary policy during this period, with the MPC highlighting the lower-than-expected budget deficit outturn for the 2004/05 fiscal year.

Other favourable developments over the period included the continued low levels of production price inflation, which indicate few pressures coming through on consumer prices in the short term and continued low levels of food price increases.

Finally, a further important positive development has been the evolution of inflationary expectations. All the recent surveys showed a progressive decline in inflation expectations. The results of the latest survey by the Bureau of Economic Research showed that all categories of respondents expected CPIX inflation to remain in the target range over the next three years. These improved expectations are seen as an illustration of the improved credibility of monetary policy and an important signal that low inflation is sustainable.

The MPC was cognisant of the risks to the inflation forecast. However, it was felt that, on balance, and given the favourable inflation outcome and expected outcomes, factors supporting a further rate reduction outweighed the risks. Accordingly, the MPC decided at its April 2005 meeting that a further 50-basis-point reduction in the repo rate was justified. This brought the repo rate down to 7 per cent.

Refinement of monetary policy operational procedures

The Bank moved to same-day square-off on 9 August 2004, as this was a prerequisite for the rand to be included as a (CLS) currency. Also, the Bank adapted its monetary policy operations in line with the same-day settlement cycle.

In December 2004 the Bank issued a consultative paper to market participants for comment. The paper proposed a number of modifications to streamline and simplify the Bank’s refinancing operations. The proposed changes were discussed extensively for implementation in May 2005.

Accumulation of reserves

The Bank continued to purchase moderate amounts of foreign exchange to increase its official reserves. Gross reserves increased from US$9 964 million at the end of March 2004 to US$15 858 million at the end of March 2005, while net reserves increased from US$6 375 million to US$12 381 million over the same period.

On 1 April 2004, the National Treasury paid the third tranche of R7 billion in the form of zero-coupon bonds as compensation for losses accumulated in the GFECRA. These bonds were switched into interest-bearing bonds and used in reverse repo transactions to drain liquidity from the money market.

The Bank also undertook various switches and, on occasion, sold bonds outright from its monetary policy bond portfolio. On 28 February 2005, the R151 government bond matured and the Bank received R9,5 billion for those bonds held.

Management of international reserves

The efficient and prudent management of reserves remained a strategic priority. At the end of March 2005, 88 per cent of gross reserves was managed internally and 12 per cent was managed by external fund managers. In 2005, the Governor's Committee approved a revised portfolio structure of the Bank's foreign exchange reserves as well as the continuation and expansion of the external fund management programme. Further progress was made with the roll-out of internally-managed portfolios.

Ensuring availability of credit lines

At the end of the financial year, the Bank's total foreign loan facilities amounted to US$4,4 billion, of which US$3,5 billion was utilised. The lower utilisation of facilities resulted mainly from a reduction in syndicated loans from US$3,25 billion to US$3 billion.

Administration of exchange controls

The Bank continued to administer exchange controls on behalf of government and successfully implemented the exchange control liberalisations that were announced during this financial year. In the 2004 Budget Speech, the Minister of Finance announced that foreign companies would be permitted to list on the Bond Exchange of South Africa and the JSE Securities Exchange South Africa. The Bank formally implemented this on 17 September 2004. This exchange control dispensation was further liberalised in October 2004 in the *Medium Term Budget Policy Statement* when the Minister announced the abolishment of investment restrictions on private individuals wishing to invest in inward listings.

Simultaneously, a further package of liberalisations was introduced when the Minister abolished the limits on new outward foreign direct investments by South African corporates. Corporates are now permitted to retain foreign dividends offshore, and foreign dividends repatriated to South Africa after 26 October 2004 could be transferred offshore again at any time, for any purpose.

Promoting a sound regulatory framework and stable financial system

The Bank is committed to providing a regulatory environment that allows South African banks to adopt international best practice. An important responsibility of the Bank is to ensure that the legal framework for the regulation and supervision of banks and banking groups remains relevant and current. A key focus area is the preparation for the implementation of an enhanced system of risk management and capital requirements, or Basel II. As from the Basel II implementation date of 1 January 2008, South African banks will no longer be able to use the current

Basel Capital Accord. It is envisaged, in principle, that all risk management approaches offered in terms of Basel II will be available to banks.

The Bank was integrally involved in the implementation of the Financial Intelligence Centre Act (FICA), No 38 of 2001, which is aimed at preventing banks from being used for purposes of money laundering. Frequent meetings took place between the Registrar of Banks and the banking industry to explore the impact of section 21(2) of the FICA, 2001. In terms of the Act, an accountable institution was not permitted to conduct a transaction in the course of an existing business relationship with a client after 30 June 2004 unless that institution had established and verified the identity of a client.

During the year under review, several pieces of draft legislation relating to consumer protection and the provision of broader access to finance were published for comment. The draft legislation is likely to affect not only the banking industry, but also the ongoing regulation and supervision of banks. The Bank is involved in ongoing negotiations with the National Treasury towards the development of a joint position paper on the proposed South African Deposit Insurance Scheme (SADIS). The SADIS will protect insured depositors, particularly small depositors, against the consequences associated with the failure of a bank.

The Bank monitored regulatory developments in the financial system and updated the scorecard based on the twelve key financial stability standards identified by the Financial Stability Forum. It also continued to develop and maintain key indicators of potential distress and instability in the financial system, and was engaged in an ongoing study of systemic risks for the financial sector. The Bank has advanced the development of a contingency planning and crisis management manual to be used in the event of a systemic crisis and to help market participants deal with financial sector contingencies, threat identification and systemic crisis resolution. The Bank also launched the *Financial Stability Review*, a bi-annual publication through which the Bank's overall assessment of the robustness of the financial system is communicated to policy-makers, market participants and the general public.

Developing and maintaining the national payment system

The Bank continued to improve the effectiveness and integrity of the national payment system (NPS) during the financial year by developing payment system oversight capacity and maintaining a high standard in the provision of settlement services.

A significant milestone was reached when the Bank started to settle all foreign exchange trades through the CLS system, and officially became part of CLS on 1 December 2004. As a currency in the CLS system, the rand is now positioned globally as one of the top 15 settlement currencies. This enhances foreign exchange settlement practices and reduces foreign exchange settlement risk. In order to allow for the inclusion of the rand in the CLS system, the NPS Amendment Bill was promulgated. Additional amendments to the NPS Act, No 78 of 1998 enhanced the Bank's payment system oversight function by providing for the issuance of directives.

Upgrade of banknote series

A major challenge for the Bank is to ensure public confidence in the currency and improve the efficiency as well as the effectiveness of the National Cash Management System through enhanced collaboration with all stakeholders.

The Bank, in order to enhance the integrity and security of its currency, introduced an upgraded banknote series on 1 February 2005. The Bank also launched a comprehensive communications campaign to educate the public about the new security features on the banknotes and to encourage people to check their banknotes. The campaign was aimed at key stakeholders in the financial sector and the public, and was intended to reach even the remotest parts of the country. Campaign materials were also sent to cash management staff of central banks in the Southern African Development Community (SADC).

The Bank also introduced a new bi-metal R5 coin on 2 August 2004 in response to the counterfeiting threat of the old silver-coloured R5 coin.

The number of counterfeit banknotes in circulation has decreased significantly. Attempts to counterfeit the upgraded series were thwarted by a number of arrests and by public vigilance arising from the communications campaign on the upgraded banknote series.

Maintaining international and regional relations

The Bank plays an important role in the SADC region, the African continent and the global arena and participates in a number of important regional and international initiatives. It contributes to and participates in the work of, *inter alia*, the Basel Committee via the Core Principles Liaison Group (CPLG), the CPLG Working Group on Capital, the Accord Implementation Group, the Financial Stability Institute and the biennial International Conference of Banking Supervisors.

The Bank strives to promote relations with its counterparts in Africa to gain a greater understanding of continental issues, foster policy co-ordination and provide technical assistance. During the period under review, the Bank provided expertise and infrastructure for the development and deployment of the Bank Supervision Application which was developed on behalf of SADC and some East African countries. This application was implemented in 11 participating countries and is used to supervise commercial banks and other financial institutions. The Bank has set up a support office to provide support and maintenance for this application. The Bank also concluded a Memorandum of Understanding with the Bank of Algeria, which provides for close co-operation.

The payment system was the subject of a number of conferences and workshops. Two SADC payment system conferences and an international conference were held during the financial year. In July 2004 a workshop on a cross-border settlement model was held. The annual SADC regional conference was held in September 2004 with the focus on payment system oversight. In February 2005 the Bank hosted the Bank for International Settlement's Committee on Payment and Settlement Systems conference.

During the year under review the South African Reserve Bank College (the College) placed great emphasis on co-operation with international training institutions, local universities, other central banks in the SADC region, financial institutions in South Africa as well as with departments in the Bank. In addition, the College offered a variety of training programmes to external clients, including the University of Johannesburg (formerly RAU), the University of Pretoria, the Bank of Namibia, Momentum School, Momentum Administration Services, Eskom, the Financial Services Board and the South African Revenue Services. The SARB College, in collaboration with the Bank of Tanzania Training Institute, also offered training to SADC central banks.

Human resources

The Bank embarked on a policy review process which included the review of 41 staff-related policies with the aim of addressing any form of discrimination and in an effort to comply with best practices. The Bank has made significant progress in finalising the review of the Staff Manual and the various staff policies. It is envisaged that the formal adoption and implementation of the revised policies will be completed by the last quarter of 2005.

In compliance with legislation on employment equity, the Bank facilitated interaction on employment equity issues with employees via the MSC and the EECB. In this regard, twelve consultative meetings were held. The fourth *Employment Equity Report* was compiled, consulted on with staff and lodged timeously with the Department of Labour.

Over-the-counter share market

The Bank continued to operate an over-the-counter market for transactions in its shares. With regard to the Over-the-Counter Share Transfer Facility, 20 transactions were successfully concluded representing 63 600 shares which were traded during the financial year.

Executive management, secretary and directors

Executive management as at 31 March 2005

Governor: Executive management and internal audit	T T Mboweni
Deputy Governor: Bank supervision, currency and protection services, financial stability and research	X P Guma
Deputy Governor: Exchange control, financial markets, financial services and national payment system	I Plenderleith
Chief Economist: Business systems and technology, corporate services, human resources, legal services and SARB College	E J van der Merwe
Acting Secretary of the Bank	H H van Gass

Directors

Tito Titus Mboweni *
Governor

Xolile Pallo Guma
Ian Plenderleith °
Deputy governors

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

Deenadayalen Konar †
(Term of office expires on 25 August 2005 and available for re-election)
Fatima Jakoet °
Zodwa Penelope Manase °
(Term of office expires on 25 August 2005 and available for re-election)
Stephen Mitford Goodson
Representing: Commerce or Finance

Jacob Wouter Raath *
Representing: Agriculture

Audrey Matshidiso Mokgabudi ˣ
Noluthando Dorian Orleyn *
(Term of office expires on 25 August 2005 and available for re-election)
Representing: Industry

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

Senior management at 31 March 2005

Adviser to the Governor	L van Zyl
Head: Currency and protection services	A Ismail
Head: Financial markets	A D Mminele
Head: Exchange control	A M Bruce-Brand
Head: Research	M Mnyande
Registrar and Head: Bank supervision	E M Kruger
Head: Financial stability	A Bezuidenhout
Head: National payment system	D C Mitchell
Head: Financial services	G J Terblanche
Head: Legal services	J J de Jager
Head: Internal audit	H P Badenhorst
Head: Human resources	S M Motsepe
Head: Corporate services	Z S Gumede
Head: Business systems and technology	M S Ismail
Principal: South African Reserve Bank College	G R Wesso

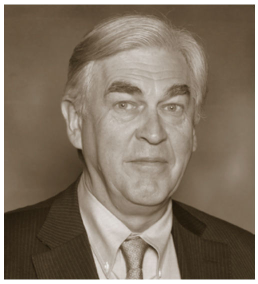
Branch managers as at 31 March 2005

Bloemfontein	I Oberholster *
Cape Town	A R Chamberlain
Durban	A C Botha
East London	E H Jacob
Johannesburg	H T Gape
Port Elizabeth	A G Dent *
Pretoria North	M Mogapi

* Employed on a contract basis.

Organisational structure

Deputy Governor
Dr X P Guma



Deputy Governor
I Plenderleith

Governor
T T Mboweni

Chief Economist
Dr E J van der Merwe

Adviser
L van Zyl

Head
Currency and protection services
A Ismail

Head
Research
Dr M Mnyande

Registrar and Head
Bank supervision
E M Kruger

Head
Financial stability
A Bezuidenhout

Head
Financial markets
A D Mminele

Head
Exchange control
A M Bruce-Brand

Head
National payment system
D C Mitchell

Head
Financial services
G J Terblanche

Head
Legal services
Dr J J de Jager

Head
Human resources
S M Motsepe

Head
Corporate services
Z S Gumede

Head
Business systems and technology
M S Ismail

Head
Internal audit
H P Badenhorst

Principal
SA Reserve Bank College
Dr G R Wesso

Personnel report

At the beginning of the 2004/05 financial year, the Bank had a total permanent staff complement of 2 073, which was reduced to a total of 1 988 by the end of the financial year. The reduction of 85 in staff numbers resulted from a combination of a moratorium on the appointment of new staff, a once-off voluntary enhanced early retirement programme for employees 50 years of age and older and normal attrition.

The overall staff turnover for the period was 5,6 per cent (excluding the effect of the enhanced early retirement programme) and 7,8 per cent (including the effect of the enhanced early retirement programme).

The Bank improved its equity representation, most notably at the management broad bands with the following percentage increases: General management (3 per cent), senior professional and management (5 per cent) and professional and vocational management (8 per cent). This is indicated in Table 1 below.

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

Broad band	Actual 31-03-04	Actual 31-03-05	2005 Bank target
General Management (GM)	45	48	50
Senior Professional and Management (SPM)	38	43	50
Professional and Vocational Management (PVM)	33	41	50
Junior Professional and Supervisory (JPS)	49	48	50
Trainee Professional and Clerical (TPC)	58	59	50
General Worker (GW)	89	89	50
Total	**54**	**55**	**50**

The higher percentage increase at the professional and vocational management broadband was a result of departments' restructuring and the subsequent appointments made especially in the Business Systems and Technology and Research Departments.

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

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

Broad band	Actual 31-03-04	Actual 31-03-05	2005 Bank target
General Management (GM)	20	21	33
Senior Professional and Management (SPM)	24	27	33
Professional and Vocational Management (PVM)	36	40	33
Junior Professional and Supervisory (JPS)	61	62	33
Trainee Professional and Clerical (TPC)	50	50	33
General Worker (GW)	31	33	33
Total	**45**	**46**	**33**

Table 3: Workforce profile by gender and representivity at 31 March 2005
Number

Broad band	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
General Management (excluding governors)	23	2	4	41	10	2	2	5	89
Senior Professional and Management	25	7	10	68	16	4	3	18	151
Professional and Vocational Management	61	12	10	132	43	9	11	78	356
Junior Professional and Supervisory	73	8	9	61	73	19	10	149	402
Trainee Professional and Clerical	196	47	18	132	124	60	23	188	788
General Worker	106	10	2	17	53	9	0	5	202
Total permanent	**484**	**86**	**53**	**451**	**319**	**103**	**49**	**443**	**1 988**
Non-permanent	2			28	2		3	12	47
Total	**486**	**86**	**53**	**479**	**321**	**103**	**52**	**455**	**2 035**

Table 4: Staff complement at 31 March 2005
Number

Department	Permanent staff	Contract workers	Total
Executive management (excluding governors)	29	2	31
Bank supervision	84	3	87
Business systems and technology	165	1	166
Corporate services	199	-	199
Currency and protection services (including branches)	837	3	840
Exchange control	158	24	182
Financial markets	95	1	96
Financial services	71	-	71
Financial stability	17	-	17
Human resources	54	-	54
Internal audit	47	-	47
Legal services	28	-	28
National payment system	22	-	22
Research	146	2	148
SARB College (including cadets)	9	11	20
Total staff complement	**1 961**	**47**	**2 008**
Staff members receiving disability benefits	27	-	27
Total	**1 988**	**47**	**2 035**

Corporate social responsibility report

The following contributions were made by the Bank during the 2004/05 financial year:

Donations during 2004/05

Rand

Fundraising	
Top Women in Business	16 872,00
Women in Action for Development	20 000,00
SA Tank Regiment – Golf Day	34 000,00
Payment Association – Golf Day	4 000,00
Economic Society of South Africa	40 000,00
Business Woman of the Year Award	10 000,00
Association of Black Securities and Investment Professionals	11 400,00
You and Your Money	5 000,00
Association for People with Disabilities	23 680,00
National Junior Business Executive Council	3 800,00
Economic History Society	10 000,00
Eastern Cape Awards	10 000,00
Hospice	15 000,00
Legal Resource Centre	10 000,00
International Accounting Standards Committee Foundation	61 400,00
SA Ballet Theatre	23 420,00
Total	298 572,00
Donation	
Eastern Cape Provincial Safety and Liaison	2 772,00
Total	2 772,00
Education	
JSE: Schools Challenge Project	40 000,00
Total	40 000,00
Universities*	
University of Cape Town	100 000,00
Rhodes University	100 000,00
University of Fort Hare	100 000,00
University of South Africa (UNISA)	250 000,00
University of the Free State	150 000,00
University of Stellenbosch	100 000,00
University of Johannesburg	250 000,00
University of Transkei	100 000,00
University of Kwa-Zulu Natal	200 000,00
University of Venda	100 000,00
University of Limpopo	200 000,00
University of the Western Cape	100 000,00
Nelson Mandela Metropolitan University	250 000,00
University of the Witwatersrand	100 000,00
North West University	250 000,00
University of Zululand	100 000,00
University of Pretoria	150 000,00
Total	2 600 000,00
Technikons	
Border Technikon	100 000,00
Eastern Cape Technikon	100 000,00
Cape Peninsula University of Technology	200 000,00
Mangosuthu Technikon	100 000,00
Central University of Technology, Free State	150 000,00
Tshwane University of Technology	300 000,00
Durban Institute of Technology	200 000,00
Vaal University of Technology	100 000,0
Total	1 250 000,00
Total spent	R4 191 344,00

* The amounts for the respective Universities and Technikons vary to make provision for the mergers that have taken place.

Financial framework for 2005/06

Introduction

The Bank strives to conduct its financial affairs in accordance with international best practice. It is governed by the Reserve Bank Act. The Bank also strives to comply with South African Statements of Generally Accepted Accounting Practice (SA GAAP), even though it is not required to do so by any of the Acts applicable to it. In the year under review SA GAAP was applied, except for the following:

- Realised and unrealised valuation gains and losses in gold and foreign-denominated assets and liabilities are for the account of the Government according to the Reserve Bank Act and have therefore not been accounted for in the income statement of the Bank.

- The concentration per foreign currency of all the significant foreign exchange traded positions are not disclosed.

- For each class of financial asset and financial liability, both recognised and unrecognised, information about the extent and nature of the financial instruments, including significant terms and conditions that may affect the amount, timing and certainty of future cash flows, and the interest rate re-pricing of those instruments are not disclosed due to the sensitivity of the information.

- For each class of financial asset, both recognised and unrecognised, information about the exposure to and concentration of credit risk is not disclosed, also due to the sensitivity of the information.

Budget for 2005/06

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

Expenditure is closely controlled through a formalised budget process.

Bank expenditure budget

Certain expenditure items, such as adjustments to the provision for post-retirement medical benefits and depreciation of fixed assets, are not included in the figures in the table below, because they are not managed as part of the operational budget process.

Expenditure budget

	Budget 2005/06	Actual 2004/05	Budget 2004/05
Personnel costs			
Normal recurring costs	631 463	594 786	623 654
Early retirement packages	0	14 353	2 000
Total personnel costs	**631 463**	**609 139**	**625 654**
Operating costs	**227 447**	**189 884**	**248 397**
Cost of new currency	**649 711**	**591 201**	**623 519**

The actual performance of the 2004/05 recurring personnel and operating costs was significantly below budget. This was mainly as a result of the following:

- The Currency and Protection Services Department was involved extensively in projects relating to the release of the new R5 and R2 coins and the communication campaign in respect of the new banknote series. This limited their normal activities to some extent in 2004/05.

- Several activities in the Exchange Control Department were also limited in 2004/05 due to its involvement in the exchange control amnesty programme.

- A change in the insurance structure, the softening in the world insurance market and the strengthening of the rand resulted in very favourable renewals, and hence substantial savings on the operational insurance budget were achieved.

- The 2005/06 budget for personnel and operational costs has increased somewhat over the 2004/05 actual outcome as provision has been made for the return to more normal activity levels in the Currency and Protection Services and Exchange Control Departments. In addition, the Bank Supervision Department will be embarking on implementing the Basel II principles and significant provision has been made in the 2005/06 budget for this initiative.

The cost of new currency for 2004/05 is below the budget as significant savings were achieved on the cost of materials due to the strengthening of the rand. In addition, there was a deliberate running down of stocks of the old banknote series due to the launch of the upgraded series. This has impacted on the growth of the 2005/06 budget, as buffer stocks for the upgraded series have to be built up.

Annual Financial Statements

Report of the independent auditors

To the members of the South African Reserve Bank

We have audited the financial statements of the South African Reserve Bank and the group set out on pages 35 to 70 for the year ended 31 March 2005. These financial statements are the responsibility of the directors of the South African Reserve Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The South African Reserve Bank's policy is to prepare the consolidated financial statements on the basis of accounting as set out in Note 1 to the financial statements.

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

Without qualifying our opinion, we emphasise that the basis of accounting and the presentation and disclosures contained in the consolidated financial statements are not intended to, and do not, comply with all the requirements of South African Statements of Generally Accepted Accounting Practice.

Deloitte & Touche

PricewaterhouseCoopers Inc

SizweNtsaluba VSP Inc

Registered Accountants and Auditors
Chartered Accountants (SA)

Pretoria
1 July 2005

Directors' report for the year ended 31 March 2005

Introduction

The directors present the Bank's eighty-fifth annual report for the year ended 31 March 2005.

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

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

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

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

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

The requirements of the King Report on Corporate Governance are dealt with in the corporate governance statement which appears on pages 4 to 7.

Nature of business

The South African Reserve Bank is the central bank of the Republic of South Africa and is regulated in terms of an Act of Parliament. The primary objective of the South African Reserve Bank is the achievement and maintenance of price stability. In pursuance of its primary objective, the Bank assumes responsibility for the functions as set out in its mission statement on pages 10 and 11.

The subsidiaries of the Bank are involved in the following activities:
- Corporation for Public Deposits receives call deposits from public entities;
- South African Bank Note Company (Proprietary) Limited produces banknotes;
- South African Mint Company (Proprietary) Limited produces coin; and

- South African Reserve Bank Captive Insurance Company Limited is a captive insurance company, which manages certain insurable risks of the Bank and its subsidiaries.

Achievement of objectives

The Bank's achievements in respect of its objectives, including the achievement of its main objective, namely the maintenance of price stability, will be addressed by the Governor at the ordinary general meeting of shareholders to be held on 24 August 2005. The *Govenor's Address* receives extensive media coverage and is made available to shareholders and other interested parties.

Financial results

The income statement appears on page 40.

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

	Group	**Bank**
	R'000	R'000
31 March 2005	10 967	5 558
31 March 2004	109 291	70 574

Dividends

The final dividend of 5 cents per share for the 2004 financial year was paid on 6 May 2004 and an interim dividend of 5 cents per share for the 2005 financial year was paid to shareholders on 29 October 2004.

Financial position

The balance sheet appears on page 39.

The total assets of the Bank increased by *R20,7 billion* during the year comprising an increase of *R36,6 billion* in gross gold and foreign assets, offset by a decline of *R15,9 billion* in domestic assets. The net increase was funded mainly by increases in notes and coin in circulation (R6 billion), deposit accounts (R5 billion) and Reserve Bank debentures (R7 billion).

Directors

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

The terms of office of Mr J W Raath, Ms F Jakoet and Ms A M Mokgabudi as shareholders' representatives expired on 25 August 2004. They were all re-elected.

The terms of office of Dr D Konar, Ms Z P Manase and Ms N D Orleyn as shareholders' representatives expire on 25 August 2005. All are eligible and offer themselves for re-election.

Direct and indirect shareholding of directors on 31 March 2005

During the period 1 April 2004 to 31 March 2005, members of the Board held the following shares in the Bank:

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

Subsidiaries

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

	Authorised and issued share capital					
	Number of shares	Percentage held		Shares at cost	Indebtedness to/(by) Reserve Bank	
	'000	Per cent	**2005 R'000**	2004 R'000	**2005 R'000**	2004 R'000
Corporation for Public Deposits	2 000	100	**2 000**	2 000	**(5 827 768)**	70 694
South African Mint Company (Proprietary) Limited	60 000	100	**206 000**	206 000	**0**	0
South African Bank Note Company (Proprietary) Limited	61 000	100	**61 000**	61 000	**13 675**	13 675
South African Reserve Bank Captive Insurance Company Limited	10 000	100	**10 000**	10 000	**(1)**	**(1)**
Total			**279 000**	279 000	**(5 814 094)**	**84 368**

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

	Bank	
	2005 R million	2004 R million
Aggregate profits	**107**	124
Aggregate losses	**0**	0

Contracts

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

Post balance sheet events

An amount of R4,6 billion was received on 1 April 2005 from the South African Government in the form of South African Government bonds as payment against the outstanding balance on the Gold and Foreign Exchange Contingency Reserve Account. This receipt improved the Bank's income-earning capacity significantly. Significant accumulation of foreign exchange reserves during May and June 2005 has been funded by a contra-deposit of funds by government, which earns interest at the same rate as that yielded by the reserves in question.

Secretary

Mr H H van Gass (Acting Secretary)
Mr H H van Gass is Acting Secretary of the Bank with effect from 1 January 2005, following the retirement as Bank Secretary of Mrs Z R Matsau.

Business address:
370 Church Street
Pretoria
0002

Postal address:
PO Box 427
Pretoria
0001

The financial statements were approved by the Board of Directors on 1 July 2005 and signed on its behalf by:

T T Mboweni
Governor

X P Guma
Deputy Governor

M Padayachee
Director

R W K Parsons
Director

G J Terblanche
Chief Financial Officer

In my capacity as Acting Secretary of the Bank, I certify that all the returns required to be submitted in terms of the South African Reserve Bank Act, No 90 of 1989, for the year ended 31 March 2005, have been correctly completed and are up to date.

H H van Gass
Acting Secretary

Pretoria
1 July 2005

Balance sheet at 31 March 2005

		Group		Bank	
		2005	2004	**2005**	2004
	Notes	**R'000**	R'000	**R'000**	R'000
Assets					
Non-current assets		**11 071 670**	22 544 514	**7 049 132**	17 073 140
Property, plant and equipment	2	**785 153**	707 768	**503 874**	522 099
Investment in subsidiaries	3	**0**	0	**279 000**	279 000
Amounts due by subsidiaries	3	**0**	0	**154 555**	84 369
Loans and advances	4	**60 435**	0	**60 435**	0
Investments	5	**4 174 814**	5 647 710	**0**	0
Amounts due by the South African Government	6	**5 845 224**	15 985 384	**5 845 224**	15 985 384
Deferred taxation asset	16	**206 044**	203 652	**206 044**	202 288
Current assets		**122 076 609**	91 257 257	**121 803 078**	91 107 215
Gold and foreign exchange	7	**98 832 447**	62 241 083	**98 832 447**	62 241 083
Accommodation to banks	8	**13 475 841**	12 752 795	**13 475 841**	12 752 795
South African Government bonds	9	**7 421 645**	8 805 558	**7 421 645**	8 805 558
Debtors and other accounts	10	**869 187**	1 051 268	**813 967**	1 035 067
Inventories	11	**196 393**	126 948	**0**	0
Cash and cash equivalents	12	**18 475**	5 991	**0**	0
Current taxation prepaid		**88 813**	193 426	**85 370**	192 524
Forward exchange contract assets	13	**1 173 808**	6 080 188	**1 173 808**	6 080 188
Total assets		**133 148 279**	113 801 771	**128 852 210**	108 180 355
Liabilities					
Non-current liabilities		**71 249 880**	66 921 648	**71 245 938**	66 888 521
Notes and coin issued	14	**49 439 694**	43 115 905	**49 439 694**	43 115 905
Foreign loans	15	**21 806 244**	23 772 616	**21 806 244**	23 772 616
Deferred taxation liability	16	**3 942**	33 127	**0**	0
Current liabilities		**56 112 330**	41 636 791	**52 481 799**	36 608 979
Reserve Bank debentures	17	**13 035 568**	6 312 454	**13 035 568**	6 312 454
Deposit accounts	18	**41 664 798**	31 691 494	**32 239 992**	26 806 923
Amounts due to subsidiaries	3	**0**	0	**5 968 649**	1
Current taxation liabilities		**8 327**	12	**0**	0
Creditors and other accounts	19	**170 346**	212 978	**56 957**	117 579
Employment benefit liabilities and other provisions	20	**604 928**	509 314	**552 270**	461 483
Forward exchange contract liabilities	13	**628 363**	2 910 539	**628 363**	2 910 539
Total liabilities		**127 362 210**	108 558 439	**123 727 737**	103 497 500
Shareholders' equity					
Share capital	21	**2 000**	2 000	**2 000**	2 000
Accumulated profit		**212 285**	161 729	**0**	0
Statutory reserve fund		**362 963**	362 346	**362 963**	362 346
Contingency reserve		**4 320 768**	3 746 246	**4 241 285**	3 666 285
Bond revaluation reserve		**518 225**	652 224	**518 225**	652 224
Plant replacement reserve		**369 828**	318 787	**0**	0
Total equity		**5 786 069**	5 243 332	**5 124 473**	4 682 855
Total liabilities and equity		**133 148 279**	113 801 771	**128 852 210**	108 180 355

Income statement for the year ended 31 March 2005

	Notes	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
Interest income		**3 966 470**	3 832 968	**3 617 049**	3 456 074
Interest expense		**2 671 551**	2 642 748	**2 378 577**	2 344 563
Net interest income		**1 294 919**	1 190 220	**1 238 472**	1 111 511
Other income	22.1	**1 263 529**	1 137 146	**1 176 825**	1 024 235
Total income		**2 558 448**	2 327 366	**2 415 297**	2 135 746
Operating costs	22.2	**1 556 549**	1 504 408	**1 561 992**	1 465 821
Remuneration and recurring staff costs		**693 106**	664 734	**573 414**	562 933
Post-retirement benefits		**136 351**	142 862	**126 230**	130 030
Cost of new currency		**89 241**	48 614	**591 201**	433 913
Other operating costs		**637 851**	648 198	**271 147**	338 945
Profit before taxation	22	**1 001 899**	822 958	**853 305**	669 925
Taxation	23	**313 996**	242 119	**271 930**	213 227
Profit after taxation		**687 903**	580 839	**581 375**	456 698
Dividend per share (cents)	24	**10**	10	**10**	10

Cash flow statement for the year ended 31 March 2005

		Group		Bank	
	Notes	2005 R'000	2004 R'000	2005 R'000	2004 R'000
Cash flows from operating activities					
Cash utilised by operating activities	25	**(9 319 770)**	(6 506 426)	**(13 977 777)**	(7 784 537)
Taxation paid		**(164 790)**	(253 801)	**(100 676)**	(223 836)
Dividends paid		**(200)**	(200)	**(200)**	(200)
Transfer to Government		**(109 291)**	(197 895)	**(70 574)**	(169 017)
Net cash utilised by operations		**(9 594 051)**	(6 958 322)	**(14 149 227)**	(8 177 590)
Cash flows from financing activities					
Notes and coin issued		**6 323 789**	6 229 620	**6 323 789**	6 229 620
Cash flow generated from investing activities		**3 282 746**	654 928	**7 825 438**	1 947 970
Purchase of property, plant and equipment		**(192 257)**	(160 925)	**(69 767)**	(104 120)
Disposal of property, plant and equipment		**2 129**	9 076	**1 976**	8 694
Disposal/(acquisition) of investments		**1 478 107**	(1 307 377)	**0**	0
Net disinvestment from Government bonds		**1 994 767**	2 114 154	**1 994 767**	2 114 154
Increase in amounts due by subsidiaries		**0**	0	**(70 186)**	(70 694)
Increase/(decrease) in amounts due to subsidiaries		**0**	0	**5 968 648**	(64)
Net increase/(decrease) in cash and cash equivalents		**12 484**	(73 774)	**0**	0
Cash and cash equivalents at beginning of the year		**5 991**	79 765	**0**	0
Cash and cash equivalents at end of the year	12	**18 475**	5 991	**0**	0

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

Statement of changes in equity: Group

For the year ended 31 March 2005

	Share capital R'000	Accumulated profit R'000	Statutory reserve R'000	Contingency reserve R'000	Bond revaluation reserve R'000	Plant replacement reserve R'000	Total R'000
Balance at 31 March 2003	2 000	41 454	354 504	3 441 208	748 814	280 594	4 868 574
Profit after taxation	0	580 839	0	0	0	0	580 839
Transfer to Government	0	(109 291)	0	0	0	0	(109 291)
Transfer to reserves	0	(351 073)	7 842	305 038	0	38 193	0
Realised gains on "available-for-sale" financial assets	0	0	0	0	(281 353)	0	(281 353)
Gross realised gains					(401 933)		(401 933)
Taxation on realised gains					120 580		120 580
Fair value adjustments on "available-for-sale" financial assets	0	0	0	0	184 763	0	184 763
Gross adjustments					263 947		263 947
Taxation on fair value adjustments					(79 184)		(79 184)
Dividends paid	0	(200)	0	0	0	0	(200)
Balance at 31 March 2004	2 000	161 729	362 346	3 746 246	652 224	318 787	5 243 332
Profit after taxation	0	687 903	0	0	0	0	687 903
Transfer to Government	0	(10 967)	0	0	0	0	(10 967)
Transfer to reserves	0	(626 180)	617	574 522	0	51 041	0
Realised gains on "available-for-sale" financial assets	0	0	0	0	(568 896)	0	(568 896)
Gross realised gains					(812 709)		(812 709)
Taxation on realised gains					243 813		243 813
Fair value adjustments on "available-for-sale" financial assets	0	0	0	0	427 598	0	427 598
Gross adjustments					610 854		610 854
Taxation on fair value adjustments					(183 256)		(183 256)
Effect of tax rate change	0	0	0	0	7 299	0	7 299
Dividends paid	0	(200)	0	0	0	0	(200)
Balance at 31 March 2005	**2 000**	**212 285**	**362 963**	**4 320 768**	**518 225**	**369 828**	**5 786 069**

Explanatory notes

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

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

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

Plant replacement reserve
A plant replacement reserve is maintained by the South African Bank Note Company (Proprietary) Limited to contribute towards the periodic replacement of plant.

Transfer to Government
In terms of section 24 of the South African Reserve Bank Act, No 90 of 1989, nine-tenths of the surplus of the Bank, remaining after provisions normally provided for by bankers and payment of dividends, is to be paid to Government. In terms of section 15 of the Corporation for Public Deposits Act, No 46 of 1984, the balance of net profits after transfers to reserves and payment of dividends is to be paid to Government.

Statement of changes in equity: Bank

For the year ended 31 March 2005

	Share capital R'000	Accumulated profit R'000	Statutory reserve R'000	Contingency reserve R'000	Bond revaluation reserve R'000	Total R'000
Balance at 31 March 2003	2 000	(73 082)	354 504	3 361 285	748 814	4 393 521
Profit after taxation	0	456 698	0	0	0	456 698
Transfer to Government	0	(70 574)	0	0	0	(70 574)
Transfer to reserves	0	(312 842)	7 842	305 000	0	0
Realised gains on "available-for-sale" financial assets	0	0	0	0	(281 353)	(281 353)
Gross realised gains					(401 933)	(401 933)
Taxation on realised gains					120 580	120 580
Fair value adjustments on "available-for-sale" financial assets	0	0	0	0	184 763	184 763
Gross adjustments					263 947	263 947
Taxation on fair value adjustments					(79 184)	(79 184)
Dividends paid	0	(200)	0	0	0	(200)
Balance at 31 March 2004	2 000	0	362 346	3 666 285	652 224	4 682 855
Profit after taxation	0	581 375	0	0	0	581 375
Transfer to Government	0	(5 558)	0	0	0	(5 558)
Transfer to reserves	0	(575 617)	617	575 000	0	0
Realised gains on "available-for-sale" financial assets	0	0	0	0	(568 896)	(568 896)
Gross realised gains					(812 709)	(812 709)
Taxation on realised gains					243 813	243 813
Fair value adjustments on "available-for-sale" financial assets		0			427 598	427 598
Gross adjustments					610 854	610 854
Taxation on fair value adjustments					(183 256)	(183 256)
Effect of tax rate change	0	0	0	0	7 299	7 299
Dividends paid		(200)	0	0	0	(200)
Balance at 31 March 2005	**2 000**	**0**	**362 963**	**4 241 285**	**518 225**	**5 124 473**

Explanatory notes

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

Contingency reserve
Contingency reserves are maintained to provide against risks to which the Bank is exposed.

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

Transfer to Government
In terms of section 24 of the South African Reserve Bank Act, No 90 of 1989, nine-tenths of the surplus of the Bank, remaining after provisions normally provided for by bankers and payment of dividends, is to be paid to Government.

Notes to the financial statements

1. Accounting policies

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

1.1 Basis of presentation

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

The consolidated financial statements are prepared in accordance with the going concern principle under the historical cost basis, except as discussed below.

1.2 Consolidation

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

Investments in subsidiaries

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

1.3 Financial instruments

Classification

Financial instruments as reflected on the balance sheet include all financial assets and financial liabilities, including derivative instruments, but exclude investments in subsidiaries, employee benefit plans, property, plant and equipment, deferred taxation and taxation payable or prepaid. Management determines the appropriate classification at initial recognition of the financial instrument. Financial instruments of the Bank are classified as follows:

Financial assets

Originated loans and receivables

The Bank has classified the following financial assets as loans and receivables originated by the entity:
- Loans and advances;

- call accounts and deposits;
- amounts due by the South African Government;
- foreign deposits;
- accommodation to banks;
- trade and other debtors; and
- cash and cash equivalents.

Held-for-trading financial assets

The Bank has classified derivatives with positive fair values as financial assets held for trading. The following items have been designated as held for trading by the Bank:
- Foreign money-market instruments;
- local and foreign portfolio investments; and
- other investments by subsidiaries (refer to Note 5).

Held-to-maturity financial assets

The Bank did not classify any financial assets as held to maturity.

Available-for-sale financial assets

The Bank classified South African Government bonds as available-for-sale financial assets.

Financial liabilities

Held-for-trading financial liabilities

The Bank has classified derivatives with negative fair values as liabilities held for trading.

Other financial liabilities

The Bank has classified the following financial liabilities as “other financial liabilities”:
- Notes and coin issued;
- foreign loans;
- Reserve Bank debentures;
- deposit accounts; and
- creditors.

Related matters

Embedded derivatives

Embedded derivatives included in hybrid instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value. Embedded derivatives are treated as held-for-trading financial instruments and the host contracts are accounted for by applying the rules of the relevant category of that financial instrument.

Recognition

The Bank recognises financial instruments held-for-trading and available-for-sale financial assets on the date it becomes party to the contractual provisions to purchase the assets and applies trade date accounting for "regular way" purchases and sales. From this date any gains or losses arising from changes in fair value of the assets are recognised. Held-to-maturity loans, originated loans, and receivables and other financial liabilities are recognised on the day they are transferred to the Bank or on the day the funds are advanced.

Measurement

Initial measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent measurement

- Held-for-trading and available-for-sale financial assets

  Held-for-trading and available-for-sale financial assets are carried at fair value. Fair values are established as follows:

(i) Derivatives

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

(ii) Foreign marketable money-market investments

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

(iii) Local and foreign portfolio investments

The fair values of portfolio investments are valued using the quoted fair values as obtained from portfolio managers. The portfolio managers utilise quoted market prices for quoted financial instruments and accepted valuation techniques for unquoted financial instruments.

(iv) South African Government bonds

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

(v) Financial assets held-to-maturity, originated loans and receivables and non-trading liabilities

- Financial assets held-to-maturity, originated loans and receivables, and non-trading liabilities are measured at amortised cost and are re-measured for impairment losses except as set out below:

(i) Non-interest bearing deposit accounts (Note 18) and the Gold and Foreign Exchange Contingency Reserve Account are accounted for at cost, as these accounts do not have fixed maturity dates.

(ii) Notes and coin issued are measured at cost as this liability does not have a fixed maturity date.

(iii) Creditors are stated at cost, which approximates fair value due to the short-term nature thereof.

Amortised cost is calculated on the effective interest rate method based on the relevant interest rate on initial recognition date. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument except as set out below.

Impairment of financial assets

A review for impairment is carried out at each financial year-end. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

Where a financial asset which is held “available-for-sale” is impaired, and an increase in the fair value of the financial asset was previously recognised in equity, the increase in the fair value of the financial asset recognised in equity is reversed to the income statement to the extent that the asset is impaired beyond its original cost.

Any additional impairment loss is recognised in the income statement. If in a subsequent period, the amount relating to an impairment loss decreases and the decrease can be linked objectively to an event after the write-down, the write-down is reversed through the income statement.

Gains and losses on subsequent measurement

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

Gains and losses arising from a change in the fair value of trading instruments are recognised in the income statement of the period in which they arise.

Gains and losses on amortisation of premiums or discounts of financial instruments carried at amortised cost are recognised in the income statement of the period in which they arise.

Gains and losses due to impairment are recognised as stated in the paragraph dealing with impairment.

Hedge accounting

The Bank did not apply hedge accounting on any transactions for the year under review.

Offsetting

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

1.4 Foreign currency activities

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

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

1.5 Property, plant and equipment, and depreciation

Freehold land is carried at cost less accumulated impairment losses. Other items of property (both owner-occupied and investment properties) and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is provided on the straight-line basis on all items of property and equipment, other than freehold land, over the estimated useful lives of these assets.

The relevant estimated useful lives of items of property and equipment are as follows:

- Land	not depreciated
- Freehold buildings	50 years
- Plant, vehicles, furniture and equipment	2 – 25 years

National key point expenditure is expensed as incurred. Subsequent expenditure relating to an item of property and equipment is capitalised when it is probable that future economic benefits from the use of the asset will be increased beyond its original assessed standard of performance. All expenditure in respect of maintenance is recognised as an expense in the period in which it is incurred. Surpluses or deficits on the disposal of property and equipment are recognised in the income statement. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

1.6 Impairment of other assets

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

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

1.7 Gold

Gold is held by the Bank as part of its foreign reserves. Gold is initially recorded at the prevailing rates at initial recognition date, including transaction costs. Subsequent to initial measurement it is measured as follows:

- Physical gold held by the Bank is valued at the statutory price. The statutory price is the quoted spot rate at year-end. Gold loans are measured at the quoted spot rate at year-end.

- Physical gold held by the subsidiaries is measured at a quoted spot price as at year-end.

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

1.8 Taxation

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

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

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

1.9 Pension and retirement funds

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

1.10 Post-retirement medical benefits

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

1.11 Sale and repurchase agreements

The Bank has entered into repurchase agreements as part of its monetary policy activities. Securities purchased under agreements to resell are recorded under the heading "Accommodation to banks" as originated loans and receivables. Securities sold under agreement to repurchase are disclosed as "Reverse repurchase agreements" under "Deposits received" under other liabilities.

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

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

1.12 Inventories

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

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

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

Consumable stores are valued at the weighted average purchase price.

Maintenance spares are valued at average cost.

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

1.13 Cash flow

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

1.14 Provisions

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

Provision for leave pay and bonus

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

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

Provision for post-retirement medical costs

Medical aid premiums are paid for retired staff under certain conditions. The amount provided is determined annually by actuarial calculations as set out in more detail in Note 27.

Provision for professional fees

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

1.15 Turnover

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

1.16 Revenue recognition

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

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

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

1.17 Operating leases

Operating leases are charged to income in a systematic manner related to the period of use of the assets concerned.

2. Property, plant and equipment

2.1 Group: 2005

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2004	86 544	443 622	1 175 520	31 441	1 737 127
Additions	0	914	152 439	38 904	192 257
Transfers in*/(out)	(44 775)	48 909	16 747	(20 881)	0
Disposals	0	(1 214)	(29 256)	(4 203)	(34 673)
Cost at 31 March 2005	41 769	492 231	1 315 450	45 261	1 894 711
Accumulated depreciation					
Accumulated depreciation at 31 March 2004	0	139 719	889 640	0	1 029 359
Charge for the year	0	10 196	96 940	0	107 136
Disposals	0	(1 214)	(25 723)	0	(26 937)
Accumulated depreciation at 31 March 2005	0	148 701	960 857	0	1 109 558
Net book value at 31 March 2005	**41 769**	**343 530**	**354 593**	**45 261**	**785 153**

* During the year buildings previously classified as land have been transferred to buildings.

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

Group: 2004

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2003	91 437	363 309	1 045 832	170 095	1 670 673
Additions	491	374	78 286	81 774	160 925
Transfers in/(out)	0	132 572	87 828	(220 400)	0
Disposals	(5 384)	(52 633)	(36 426)	(28)	(94 471)
Cost at 31 March 2004	86 544	443 622	1 175 520	31 441	1 737 127
Accumulated depreciation					
Accumulated depreciation at 31 March 2003	0	150 719	799 118	0	949 837
Charge for the year	0	9 726	108 576	0	118 302
Disposals	0	(20 726)	(18 054)	0	(38 780)
Accumulated depreciation at 31 March 2004	0	139 719	889 640	0	1 029 359
Net book value at 31 March 2004	**86 544**	**303 903**	**285 880**	**31 441**	**707 768**

Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times).	**7 182 550**

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

2.2 Bank: 2005

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2004	31 562	370 848	694 529	29 174	1 126 113
Additions	0	914	29 949	38 904	69 767
Transfers in/(out)	0	4 134	14 480	(18 614)	0
Disposals	0	(1 214)	(20 628)	(4 203)	(26 045)
Cost at 31 March 2005	31 562	374 682	718 330	45 261	1 169 835
Accumulated depreciation					
Accumulated depreciation at 31 March 2004	0	107 980	496 034	0	604 014
Charge for the year	0	7 776	74 128	0	81 904
Disposals	0	(1 214)	(18 743)	0	(19 957)
Accumulated depreciation at 31 March 2005	0	114 542	551 419	0	665 961
Net book value at 31 March 2005	**31 562**	**260 140**	**166 911**	**45 261**	**503 874**

Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times).	**3 475 267**

Bank: 2004

	Land R'000	Buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost					
Cost at 31 March 2003	36 476	290 627	616 317	169 051	1 112 471
Additions	470	282	23 861	79 507	104 120
Transfers in/(out)	0	132 572	86 784	(219 356)	0
Disposals	(5 384)	(52 633)	(32 433)	(28)	(90 478)
Cost at 31 March 2004	31 562	370 848	694 529	29 174	1 126 113
Accumulated depreciation					
Accumulated depreciation at 31 March 2003	0	121 398	416 530	0	537 928
Charge for the year	0	7 308	93 807	0	101 115
Disposals	0	(20 726)	(14 303)	0	(35 029)
Accumulated depreciation at 31 March 2004	0	107 980	496 034	0	604 014
Net book value at 31 March 2004	**31 562**	**262 868**	**198 495**	**29 174**	**522 099**

Insurance value of fixed assets (on a "future replacement basis" which takes into account the expected construction times).	**3 394 357**

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

3. Investment in subsidiaries

	Bank	
	2005 R'000	2004 R'000
Unlisted shares at cost	**279 000**	279 000
Corporation for Public Deposits	**2 000**	2 000
South African Mint Company (Proprietary) Limited	**206 000**	206 000
South African Bank Note Company (Proprietary) Limited	**61 000**	61 000
South African Reserve Bank Captive Insurance Company Limited	**10 000**	10 000
Amounts due by subsidiaries	**154 555**	84 369
Loan – South African Bank Note Company (Proprietary) Limited	**13 675**	13 675
Corporation for Public Deposits – current account	**140 880**	70 694
Amounts due to subsidiaries	**(5 968 649)**	(1)
South African Reserve Bank Captive Insurance Company Limited	**(1)**	(1)
Corporation for Public Deposits	**(5 968 648)**	0
Net investments in subsidiaries	**(5 535 094)**	363 368

The loan to the South African Bank Note Company (Proprietary) Limited is interest free and unsecured with no fixed repayment terms.

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

4. Loans and advances

	Group		Bank	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
Loans and receivables originated by the entity				
Secured foreign loans	**60 435**	0	**60 435**	0

The loan facility of R75 million expires on 31 December 2005 if not renegotiated. It is secured by a pledge of South African Land Bank bills to the value of R81,7 million and earns interest on the outstanding balance at the repurchase rate.

5. Investments

	Group		Bank	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
Held-for-trading				
Local registered bonds	**219 313**	239 850	**0**	0
Short-term South African money-market investments	**3 857 636**	5 232 217	**0**	0
Unit trusts	**0**	7 613	**0**	0
International assets	**0**	15 826	**0**	0
Fixed deposits	**87 500**	31 355	**0**	0
Insurance products	**10 082**	120 626	**0**	0
Preference shares	**283**	223	**0**	0
	4 174 814	5 647 710	**0**	0

6. Amounts due by the South African Government

	Group		Bank	
	2005 R'000	2004 R'000	**2005 R'000**	2004 R'000
Loans and receivables originated by the entity				
Gold and Foreign Exchange Contingency Reserve Account	**4 746 586**	14 866 127	**4 746 586**	14 866 127
IMF accounts administered on behalf of the South African Government	**797 112**	797 265	**797 112**	797 265
Government of Namibia debt taken over by the South African Government	**301 526**	321 992	**301 526**	321 992
Net amount due by the South African Government	**5 845 224**	15 985 384	**5 845 224**	15 985 384
Gold and Foreign Exchange Contingency Reserve Account				
Opening balance	**14 866 127**	24 057 120	**14 866 127**	24 057 120
(Profit)/loss on gold price adjustment account	**(1 044 263)**	408 487	**(1 044 263)**	408 487
Profit on foreign-exchange contract adjustment account	**(1 924 209)**	(20 730 952)	**(1 924 209)**	(20 730 952)
(Profit)/loss on foreign-exchange assets adjustment account	**(314 480)**	8 735 032	**(314 480)**	8 735 032
Movement in unrealised gains and losses on forward exchange contracts	**2 624 204**	9 396 440	**2 624 204**	9 396 440
	14 207 379	21 866 127	**14 207 379**	21 866 127
Repayment	**(9 460 793)**	(7 000 000)	**(9 460 793)**	(7 000 000)
Balance at end of the year	**4 746 586**	14 866 127	**4 746 586**	14 866 127
Balance composition				
Balance currently due by Government	**5 292 031**	18 035 776	**5 292 031**	18 035 776
Unrealised gains and losses on forward exchange contracts (Note 13)	**(545 445)**	(3 169 649)	**(545 445)**	(3 169 649)
	4 746 586	14 866 127	**4 746 586**	14 866 127

The Gold and Foreign Exchange Contingency Reserve Account, which is operated in terms of section 28 of the South African Reserve Bank Act, No 90 of 1989, represents the net amount due to the Bank by the South African Government in respect of realised profits and losses incurred on gold and foreign exchange transactions. The amounts due are interest free and repayment terms have been agreed on as follows:

- an amount not exceeding R4 563 million for the 2005/06 financial year (2004 – R14 024 million for the 2004/05 and 2005/06 financial years), subject to an agreement between the National Treasury and the Bank on the outstanding amount and the exact amount to be settled in each of those financial years.

7. Gold and foreign exchange

	Group		Bank	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
Held-for-trading				
Gold coin and bullion	**10 637 081**	9 575 868	**10 637 081**	9 575 868
Equity interest in Bank for International Settlements	**222 358**	223 322	**222 358**	223 322
Money-market instruments and deposits	**73 845 602**	43 918 043	**73 845 602**	43 918 043
Medium-term notes	**2 581 873**	1 696 649	**2 581 873**	1 696 649
Managed funds	**11 491 392**	6 818 729	**11 491 392**	6 818 729
Accruals	**157 812**	50 661	**157 812**	50 661
	98 936 118	62 283 272	**98 936 118**	62 283 272
Mid rate to bid rate adjustment	**(103 671)**	(42 189)	**(103 671)**	(42 189)
	98 832 447	62 241 083	**98 832 447**	62 241 083

Gold coin and bullion consists of 3 984 649 fine ounces of gold at the statutory price of R2 669,52 per ounce (2004 – 3 977 201 fine ounces at R2 407,69 per ounce). At 31 March 2004, the statutory price of gold was the average of the last ten London price fixings less 10 per cent. The definition of the statutory gold price has been changed during the current year to equal the market price on the valuation date, with effect from 31 March 2005. Had gold been valued on the same basis in the previous year, the value would have been higher by approximately R1,1 billion, which has no effect on the Bank's income statement because revaluation gains and losses are for the account of the Government.

8. Accommodation to banks

	Group		Bank	
	2005 R'000	2004 R'000	2005 R'000	2004 R'000
Loans and receivables originated by the entity				
Repurchase agreements	**13 305 000**	12 750 000	**13 305 000**	12 750 000
Application of cash reserve balances	**165 436**	0	**165 436**	0
Accrued interest	**5 405**	2 795	**5 405**	2 795
	13 475 841	12 752 795	**13 475 841**	12 752 795

The following table represents details of the collateral provided:

	2005	**2004**
Market value of collateral	13 336 324	13 072 403
Collateral cover	100,24%	102,53%
Maturity date	6 April 2005	7 April 2004

9. South African Government bonds

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
Available-for-sale financial assets				
Unlisted Government bonds:				
Zero coupon	**111**	111	**111**	111
Listed Government bonds:				
Interest bearing	**7 341 256**	8 670 801	**7 341 256**	8 670 801
Accrued interest	**80 278**	134 646	**80 278**	134 646
	7 421 645	8 805 558	**7 421 645**	8 805 558

The zero-coupon bonds have no set repayment date, but the Bank has the right to have them converted into interest-bearing bonds for monetary policy implementation. These bonds have been valued at their nominal value. The interest-bearing bonds are shown at fair market value. Bonds to the value of R7,2 billion (2004: R6,6 billion) have been encumbered to secure reverse repurchase agreements (refer to Note 18).

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
10. Debtors and other accounts				
Loans and receivables originated by the entity				
Financial assets	**791 275**	986 973	**736 055**	970 772
Non-financial assets	**77 912**	64 295	**77 912**	64 295
	869 187	1 051 268	**813 967**	1 035 067
11. Inventories				
Raw materials	**118 132**	44 792	**0**	0
Work in progress	**54 614**	44 373	**0**	0
Consumable stores	**7 833**	7 221	**0**	0
Maintenance spares	**4 987**	5 159	**0**	0
Finished goods	**10 827**	25 403	**0**	0
	196 393	126 948	**0**	0
12. Cash and cash equivalents				
Loans and receivables originated by the entity				
Bank and cash balances	**18 475**	5 991	**0**	0

13. Forward exchange contracts

	Group		Bank	
	2005 R'000	2004 R'000	**2005 R'000**	2004 R'000
Held-for-trading				
Gain on forward exchange contracts	**1 173 808**	6 080 188	**1 173 808**	6 080 188
Loss on forward exchange contracts	**(628 363)**	(2 910 539)	**(628 363)**	(2 910 539)
Net gain credited to the Gold and Foreign Exchange Contingency Reserve Account (refer to Note 6)	**545 445**	3 169 649	**545 445**	3 169 649

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

14. Notes and coin issued

	Group		Bank	
	2005 R'000	2004 R'000	**2005 R'000**	2004 R'000
Other financial liabilities				
Notes	**46 871 807**	40 824 215	**46 871 807**	40 824 215
Coin	**2 567 887**	2 291 690	**2 567 887**	2 291 690
	49 439 694	43 115 905	**49 439 694**	43 115 905

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

15. Foreign loans

	Group		Bank	
	2005 R'000	2004 R'000	**2005 R'000**	2004 R'000
Foreign loans	**21 806 244**	23 772 616	**21 806 244**	23 772 616

Other financial liabilities
Foreign loans represent unsecured credit lines utilised and bear interest at market-related rates.

16. Deferred taxation assets and liabilities

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
Balance at beginning of the year	**170 525**	153 669	**202 288**	181 122
Income statement credit	**31 577**	16 856	**3 756**	21 166
Balance at end of the year	**202 102**	170 525	**206 044**	202 288
Comprising:				
Deferred taxation asset	**206 044**	203 652	**206 044**	202 288
Deferred taxation liability	**(3 942)**	(33 127)	**0**	0
Net deferred taxation asset	**202 102**	170 525	**206 044**	202 288

Deferred taxation assets and liabilities are attributed as set out in 16.1 and 16.2.

16.1 Group

	31 March 2005	Credit/ (debit) to income statement	31 March 2004
Property, plant and equipment	(15 510)	(2 337)	(13 173)
Post-retirement medical costs	163 154	23 633	139 521
Provisions	11 690	(628)	12 318
Deferred retirement fund contributions	6 085	(1 279)	7 364
Deferred software development costs	1 399	(371)	1 770
Non-vested reinsurance benefit	0	29 082	(29 082)
Fair value adjustment to impaired assets	36 004	(15 358)	51 362
Prepaid expenditure and other items	(720)	(1 165)	445
Total	**202 102**	**31 577**	**170 525**

16.2 Bank

	31 March 2005	Credit/ (debit) to income statement	31 March 2004
Deferred retirement fund contributions	6 085	(1 279)	7 364
Fair value adjustments to impared assets	39 652	(14 747)	54 399
Post-retirement medical costs	150 517	21 961	128 556
Deferred software development costs	1 399	(371)	1 770
Provisions	9 641	(248)	9 889
Prepaid expenditure and other items	(1 250)	(1 560)	310
Total	**206 044**	**3 756**	**202 288**

17. Reserve Bank debentures

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
Capital	**13 000 000**	6 300 000	**13 000 000**	6 300 000
Accrued interest	**35 568**	12 454	**35 568**	12 454
	13 035 568	6 312 454	**13 035 568**	6 312 454

The Reserve Bank debentures are issued to the market on tender, normally for 28 or 56-day terms. The debentures are unsecured. Details of the debentures in issue at 31 March 2005 are as follows:

Maturity date	Interest rate (Per cent)	Capital (R million)
6 April 2005	7,37	3 500
13 April 2005	7,35	2 800
20 April 2005	7,32	1 916
28 April 2005	7,28	1 980
11 May 2005	7,35	1 200
18 May 2005	7,35	1 084
25 May 2005	7,32	520
		13 000

18. Deposit accounts

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
Other financial liabilities				
Non-interest bearing	**26 621 795**	21 405 134	**24 992 968**	20 083 315
Banks' reserve accounts	**22 770 714**	17 797 431	**22 770 714**	17 797 431
Government accounts	**3 752 500**	3 519 448	**2 123 673**	2 197 629
Other current accounts	**98 581**	88 255	**98 581**	88 255
Interest bearing	**15 043 003**	10 286 360	**7 247 024**	6 723 608
Reverse repurchase agreements	**7 219 476**	6 723 608	**7 219 476**	6 723 608
Margin calls – repurchase transactions	**27 548**	0	**27 548**	0
Call deposits	**7 795 979**	3 562 752	**0**	0
	41 664 798	31 691 494	**32 239 992**	26 806 923
The reverse repurchase agreements are secured by Government bonds as follows: (refer to Note 9):				
Market value	**7 178 997**	6 577 524	**7 178 997**	6 577 524
Collateral cover (per cent)	**99,44**	97,83	**99,44**	97,83

19. Creditors and other accounts

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
Financial liabilities	**170 346**	212 978	**56 957**	117 579

20. Employment benefit liabilities and other provisions

Group	Leave pay and bonuses R'000	Post-retirement medical costs R'000	Retrench-ment costs R'000	Profes-sional fees R'000	Total R'000
Balance at 1 April 2003	41 739	371 245	609	0	413 593
Income statement charge	20 284	105 643	590	93	126 610
Utilised during the year	(19 962)	(10 318)	(609)	0	(30 889)
Balance at 31 March 2004	42 061	466 570	590	93	509 314
Income statement charge	18 219	117 129			135 348
Utilised during the year	(18 518)	(20 599)	(590)	(27)	(39 734)
Balance at 31 March 2005	**41 762**	**563 100**	**0**	**66**	**604 928**
Bank					
Balance at 1 April 2003	35 476	342 242	0	0	377 718
Income statement charge	10 203	95 202	0	0	105 405
Utilised during the year	(12 715)	(8 925)	0	0	(21 640)
Balance at 31 March 2004	32 964	428 519	0	0	461 483
Income statement charge	7 459	109 611	0	0	117 070
Utilised during the year	(7 177)	(19 106)	0	0	(26 283)
Balance at 31 March 2005	**33 246**	**519 024**	**0**	**0**	**552 270**

21. Share capital

	Group		Bank	
	2005 R'000	2004 R'000	**2005 R'000**	2004 R'000
Authorised and issued 2 000 000 shares (2004 – 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.

22. Profit before taxation

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
22.1 Other income is stated after crediting				
Income from investments	**15 767**	21 850	**16 656**	18 190
Dividends	**16 673**	18 190	**16 656**	18 190
Realised and unrealised (loss)/profits	**(906)**	3 660	**0**	0
Income from subsidiaries			**11 507**	11 241
Dividends			**200**	200
Interest			**10 264**	10 068
Administration fees			**1 043**	973
Realised gains on South African Government bonds	**812 709**	401 933	**812 709**	401 933
Fair value adjustments to financial instruments	**(9 778)**	(13 733)	**0**	0
Commission on banking services	**338 193**	592 019	**338 193**	592 019
22.2 Operating costs include				
Directors' remuneration (Note 33)			**7 794**	8 118
From the Bank for services as directors			**898**	724
From the Bank for other services			**6 896**	7 394
Depreciation	**107 136**	118 302	**81 904**	101 115
Buildings	**10 196**	9 726	**7 776**	7 308
Plant, vehicles, furniture and equipment	**96 940**	108 576	**74 128**	93 807
Net loss on disposal of fixed assets	**5 607**	46 376	**4 112**	46 755
Buildings	**0**	31 204	**0**	31 204
Plant and equipment, furniture and vehicles	**5 607**	15 172	**4 112**	15 551
Auditors' remuneration	**5 849**	5 361	**4 434**	4 352
Audit fees	**5 208**	4 894	**4 395**	4 222
Underprovision for previous year	**361**	251	**0**	0
Fees for other services	**270**	159	**39**	79
Expenses	**10**	57	**0**	51
Consulting fees	**28 624**	26 881	**25 957**	24 951
Transfers to provisions	**114 132**	115 683	**97 964**	96 480
Provision for leave pay and bonus	**18 219**	20 284	**7 459**	10 203
Provision for post-retirement medical costs (Note 27)	**96 530**	95 325	**90 505**	86 277
Provision for retrenchment costs	**(590)**	(19)	**0**	0
Provision for consultancy fees	**(27)**	93	**0**	0
Retirement benefit costs	**93 282**	101 351	**85 659**	94 193
Normal contributions to funds	**58 339**	58 136	**50 758**	51 022
Additional contributions to funds in respect of early retirements	**14 353**	34 246	**14 353**	34 246
Medical aid premiums paid	**20 590**	8 969	**20 548**	8 925

23. Taxation

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
South African normal taxation				
Current taxation	**277 283**	215 592	**207 396**	191 032
Adjustment in respect of prior year	**434**	1 987	**434**	1 965
Taxation on realised gains transferred from Bond revaluation reserve*	**67 856**	41 396	**67 856**	41 396
Deferred taxation	**(31 577)**	(16 856)	**(3 756)**	(21 166)
Current year timing differences	**(36 010)**	(9 198)	**(9 248)**	(18 988)
Adjustment for rate change	**5 684**	0	**6 743**	0
Adjustment in respect of prior year	**(1 251)**	(7 658)	**(1 251)**	(2 178)
	313 996	242 119	**271 930**	213 227
Reconciliation of taxation rate				
South African normal taxation rate	**30,00%**	30,00%	**30,00%**	30,00%
Adjusted for:				
Disallowable expenses	**0,27%**	1,53%	**0,30%**	1,87%
Exempt income and special deductions	**-0,27%**	-1,42%	**-0,02%**	-0,01%
Over-provision in respect of prior years	**-0,08%**	-0,69%	**-0,10%**	-0,03%
Rate change	**1,42%**	0,00%	**1,69%**	0,00%
Effective taxation rate	**31,34%**	29,42%	**31,87%**	31,83%

* Taxation is payable on revaluation gains and losses and is accounted for in the bond revaluation reserve. Consequently, realised gains and losses are not subject to taxation.

24. Dividends

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
Dividends	**200**	200	**200**	200

Dividends were declared as follows:

A final dividend of 5 cents per share for the 2004 financial year was declared on 2 April 2004 and paid on 6 May 2004.

An interim dividend of 5 cents per share for the 2005 financial year was declared on 1 October 2004 and paid on 29 October 2004.

Earnings per share have not been calculated as the shares qualify for a maximum dividend of 10 cents per share per annum in terms of the South African Reserve Bank Act, No 90 of 1989.

25. Cash utilised by operating activities

Reconciliation of profit before taxation to cash utilised by operating activities:

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
Profit before taxation	**1 001 899**	822 958	**853 305**	669 925
Adjustments for:				
Depreciation	**107 136**	118 302	**81 904**	101 115
Net loss on disposal of fixed assets	**5 607**	46 376	**4 112**	46 755
Utilisation of insurance spares	**5**	239	**0**	0
Unrealised foreign exchange loss/(gain)	**61**	(143)	**0**	0
Notional interest on interest-free loan	**(44 599)**	(46 889)	**(44 599)**	(46 889)
Fair value adjustments to financial instruments	**(9 778)**	(13 733)	**0**	0
Movement in provisions	**95 614**	95 721	**90 787**	83 765
Gain on South African Government bonds	**(812 709)**	(401 933)	**(812 709)**	(401 933)
Net cash generated from operating activities	**343 236**	620 898	**172 800**	452 738
Changes in working capital:				
(Increase)/decrease in loans and advances	**(60 435)**	70 235	**(60 435)**	70 235
Decrease in amounts due by the South African Government	**11 428 888**	18 549 239	**11 428 888**	18 549 178
Increase in gold and foreign exchange	**(35 234 847)**	(1 111 103)	**(35 234 847)**	(1 111 042)
Increase in accommodation to banks	**(723 046)**	(271 882)	**(723 046)**	(271 882)
Decrease in debtors and other accounts	**184 868**	5 002 887	**221 100**	4 962 722
(Increase)/decrease in inventories	**(69 449)**	43 862	**0**	0
Increase/(decrease) in Reserve Bank debentures	**6 723 114**	(1 600 000)	**6 723 114**	(1 600 000)
Increase/(decrease) in deposit accounts	**9 973 304**	(31 739 732)	**5 433 069**	(32 783 595)
(Decrease)/increase in foreign loans	**(1 942 814)**	4 118 534	**(1 942 814)**	4 118 534
Increase/(decrease) in creditors and other accounts	**57 411**	(189 364)	**4 394**	(171 425)
Cash utilised by changes in working capital	**(9 663 006)**	(7 127 324)	**(14 150 577)**	(8 237 275)
Cash utilised by operating activities	**(9 319 770)**	(6 506 426)	**(13 977 777)**	(7 784 537)

26. Retirement benefit information

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

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

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

27. Post-retirement benefits

The Bank and a subsidiary provide post-retirement benefits to retired staff in the form of subsidised medical-aid premiums. A provision for the liability has been created. The provision covers the total liability, i.e. the accumulated post-retirement medical benefits liability at fair value as at 31 March 2005.

	Group		Bank	
	2005 R'000	2004 R'000	**2005 R'000**	2004 R'000
Financial year-end at 31 March 2004				
Net liability at 31 March 2004	**466 570**	371 245	**428 519**	342 242
Annual cost				
Interest cost	**44 579**	41 788	**41 016**	38 551
Service cost	**10 706**	15 474	**12 775**	13 106
Subsidy increases above expectations	**0**	27 753	**0**	27 753
Recognised actuarial losses	**58 858**	24 994	**55 820**	20 904
Net cost	**114 143**	110 009	**109 611**	100 314
Total benefit payments	**(17 613)**	(14 684)	**(19 106)**	(14 037)
	563 100	466 570	**519 024**	428 519
Financial year-end at 31 March 2005				
Accrued liability	**563 100**	466 570	**519 024**	428 519
Unrecognised gains and losses	**0**	0	**0**	0
Net liability on balance sheet (Note 20)	**563 100**	**466 570**	**519 024**	**428 519**

	2005	**2004**
Key assumptions:		
Discount rate	8,0%	9,5%
Medical inflation	6,0%	7,5%
Valuation date	31 March 2005	31 March 2004

28. Contingent liabilities, commitments and other contingencies

Contingent liabilities, commitments and other contingencies arise in the normal course of the Bank's business activities. Reserves are maintained to meet these exposures.

29. Capital commitments

	Group 2005 R'000	Group 2004 R'000	Bank 2005 R'000	Bank 2004 R'000
Contracted	**60 110**	29 500	**30 390**	24 954
Not contracted	**127 509**	77 300	**102 657**	69 107
Total	**187 619**	106 800	**133 047**	94 061

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

30. Risk management in respect of financial instruments

The Bank's policies and procedures regarding risk management are dealt with in the risk management statement which appears on pages 8 to 9. Certain aspects of risk management specific to financial instruments are described in more detail below.

Interest rate risk

With the exception of South African Government bonds and amounts due by the South African Government, the rand-denominated financial assets and liabilities of the Bank, respectively, earn and bear interest at rates linked to South African money-market rates. The level of these rates is managed by the Bank through its monetary policy operations. The repricing of these assets and liabilities therefore occurs at approximately the same time. Accordingly, the Bank is not subject to significant interest rate risk in respect of these instruments. The interest rate risk in respect of internal registered bonds manifests itself mainly as market price risk, which is discussed below. Amounts due by the South African Government are interest free, but arrangements for the repayment of the remaining balance are in place.

Market price risk

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

Credit risk

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

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

Liquidity risk

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

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

31. Related party information

During the year the Bank and its subsidiaries, in the ordinary course of business, entered into various transactions. These transactions were made on commercial terms and conditions at market rates. There were no significant related party transactions and balances other than those disclosed elsewhere in the annual financial statements.

32. Segment reporting

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

33. Directors' remuneration

The directors' remuneration for the year ended 31 March 2005, which has all been paid by the Bank, is as follows:

	Remuneration including fringe benefits R'000	Retirement and medical contributions R'000	**2005 Total R'000**	2004 Total R'000
Executive directors – remuneration for other services				
T T Mboweni	2 426	281	**2 707**	2 594
G Marcus	681	87	**768**	1 476
X P Guma	1 343	177	**1 520**	1 465
I Plenderleith	1 880	21	**1 901**	1 859
	6 330	566	**6 896**	7 394
Non-executive directors – for services as directors				
B P Gilbertson			**0**	41
D Konar			**135**	132
M Padayachee			**127**	117
N D Orleyn			**90**	86
J W Raath			**92**	56
F Jakoet			**88**	86
A M Mokgabudi			**104**	89
Z P Manase			**80**	82
S M Goodson			**64**	35
R W K Parsons			**59**	0
F E Groepe			**59**	0
			898	724

34. Comparative figures

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year.

Accrued interest is now included in the relevant account balances and resulted in the following reclassifications:

	2005 R'000	**Reclassification R'000**	**2004 R'000**
Accommodation to banks	12 752 795	2 795	12 750 000
South African government bonds	8 805 558	134 646	8 670 912
Debtors and other accounts	1 035 067	(137 441)	1 172 508
Reserve Bank debentures	6 312 454	12 454	6 300 000
Deposit accounts	26 806 923	15 481	26 791 442
Creditors and other accounts	117 579	(27 935)	145 514

Amounts due to/by subsidiaries are now separately disclosed and resulted in the following reclassifications:

Investment in subsidiaries	279 000	(84 368)	363 368
Amounts due by subsidiaries	84 369	84 369	0
Amounts due to subsidiaries	1	1	0

Notice of ordinary general meeting 2005

Notice is hereby given that the eighty-fifth ordinary general meeting of shareholders will be held at the Head Office of the South African Reserve Bank, 370 Church Street, Pretoria on Wednesday, 24 August 2005 at 10:30.

Agenda

1. **To approve minutes of the ordinary general meeting** of shareholders held on 24 August 2004 (distributed).
2. **To receive the annual financial statements** and reports of the Board of Directors and the auditors for the year ended 31 March 2005.
3. **To elect shareholders' representatives** to the Board of Directors. Details appear on pages 23 and 36.
4. **To determine the remuneration of the auditors** for the past audit and **to appoint auditors** for the 2005/06 financial year.
5. **To transact any other business** to be transacted at an ordinary general meeting.

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

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

By order of the Board

H H van Gass
Acting Secretary

Pretoria
1 July 2005

Shareholders' calendar

Dividends

	Declared	Paid
Interim	1 October 2004	29 October 2004
Final	1 April 2005	6 May 2005

Date and time of the ordinary general meeting in Pretoria: 24 August 2005 at 10:30.

This document is important and requires your immediate attention

South African Reserve Bank

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

Form of proxy

For use by the Bank's shareholders registered as such at 16:00 on Thursday, 24 February 2005 (the shareholders) at an ordinary general meeting (the meeting) convened in terms of Regulation 16 of the Regulations framed under section 36 of the South African Reserve Bank Act, 1989 (Act No 90 of 1989), to be held at 10:30 on Wednesday, 24 August 2005 at the Head Office of the Bank, 370 Church Street, Pretoria, 0002, South Africa.

I/We, the undersigned ______________________________ of ____

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

1 _____________________________________ of _____________________________ or failing him/her

2 _____________________________________ of _____________________________ or failing him/her

3 the chairperson of the meeting

as my/our proxy to attend, speak and vote on my/our behalf at the ordinary general meeting of the Bank's shareholders to be held on 24 August 2005 and at every adjournment thereof and to vote or abstain from voting in respect of the shares registered in my/our name/s, in accordance with the following instructions (see Note 2*):

Please insert an "x" in the appropriate spaces provided	In favour of	Against	Abstain
1 Approval of financial statements			
2 Election of directors			
2.1 D Konar Representing: Commerce or Finance (See enclosed Curriculum Vitae)			
2.2 Z P Manase Representing: Commerce or Finance (See enclosed Curriculum Vitae)			
2.3 N D Orleyn Representing: Industry (See enclosed Curriculum Vitae)			
3 Remuneration of auditors			
4 Appointment of auditors			

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

Signed at ______________________________________ on ____________________________ 2005

Signature ____

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

Assisted by me (where applicable)

Full name ________________________________

Capacity ________________________________

Signature ________________________________

Witness ____

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

Notes

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

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

3. Forms of proxy must be lodged with the Transfer Secretary, South African Reserve Bank, 370 Church Street, Pretoria, 0002 or posted to the Transfer Secretary at PO Box 427, Pretoria, 0001, to be received by not later than 10:30 on Tuesday, 23 August 2005.

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

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

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

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

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

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

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

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

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

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

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