Annual Report

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South African Reserve Bank

Contents

Message from the Governor

It gives me great pleasure to present the *Annual Report* of the South African Reserve Bank (the Bank) for the financial year ended 31 March 2013 to shareholders and other stakeholders. In addition to presenting the financial statements of the Bank, the *Annual Report* provides an overview of policy developments, including an analysis of monetary policy, and an outline of the operations and internal workings of the Bank. The report also highlights some of the Bank's broader social responsibility initiatives.

A comprehensive review of global and domestic economic developments is provided in the *Annual Economic Report*, which is published as a separate document.

This past financial year has been as challenging as any since the global financial crisis began, and the global recovery is still very hesitant and fragile, providing a difficult policy backdrop for the Bank. The United States (US) economy is showing signs of sustained recovery, but during the past year the outlook was initially overshadowed by the possibility of a severe fiscal contraction (the so-called fiscal cliff) which had the potential to derail the recovery. Fortunately, the worst case scenario was averted through temporary concessions, but the continuing political gridlock means that risks remain. The sovereign debt crisis in the eurozone came close to a break-up of the monetary union, but strong intervention by the European Central Bank (ECB) was successful in reducing these risks. Nevertheless, the region is languishing in recession, and the growth outlook remains weak amid continued household and banking-sector deleveraging, fiscal contraction and weak investor confidence.

The Japanese economy barely grew during the past year, and it is too early to tell if the massive stimulus packages and structural reforms introduced in the past months in Japan will take the economy out of its long-term deflationary experience. Emerging markets, the main engine of the global recovery in the early part of the review period, are showing signs of slowing down, particularly in some systemically important ones such as China, Brazil and India.

As a result of these developments, commodity prices have declined somewhat, particularly oil prices, which had threatened to reignite inflation fears earlier in the year. Global food prices spiked in the middle of 2012 following droughts in the US and parts of eastern Europe, but have since moderated. As a result, global inflation has generally been subdued, although some of the faster-growing emerging-market economies have tightened monetary policy in response to domestic inflation pressures.

The past year saw a high degree of volatility in global financial markets in response to changing risk perceptions, particularly related to the eurozone crisis. This impacted on the rand exchange rate in line with other emerging-market economies. Later on in the year, when some idiosyncratic factors, particularly relating to the widening deficit on the current account of the balance of payments and labour market instability, became more pronounced, the rand diverged from its emerging-market peers. More recently, global developments, particularly the market reaction to a possibility of an earlier-than-anticipated tapering off of United States Federal Reserve (the Fed) bond purchases, has put further pressure on the rand and other emerging-market currencies, as well as on domestic bond markets.

The crisis has taught us the need for macroprudential oversight, apart from the regulation and supervision of the banking sector.

The South African economy came under pressure in the face of these difficult global developments, exacerbated by domestic instabilities. Widespread labour disputes and strikes reduced output and exports, and undermined investor and business confidence. Consumer confidence also weakened markedly. The economy grew at a rate of 2,5 per cent in 2012 but the outlook is poor following the 0,9 per cent annualised growth rate in the first quarter of 2013. This was the lowest growth rate since the 2009 recession.

The Bank had to carry out its activities in this very difficult environment. The Bank's primary mandate remains price stability, and monetary policy faced the increasingly difficult task of contending with an inflation rate stubbornly on the upper end of the target range, while at the same time recognising the need for an accommodative policy stance in the face of the weakening domestic economy. Inflation remained within the target range during the period under review, averaging 5,6 per cent, but it was a difficult balancing act. Apart from a 50 basis point reduction in the repurchase (repo) rate in July 2012, the monetary stance remained unchanged. Upside risks to the inflation outlook initially came from food and oil price developments, but more recently the exchange rate and wage pressures have emerged as the main upside risks to inflation. A detailed report on the Bank's monetary policy assessment and actions is included on page 10 of this *Annual Report*.

This *Annual Report* also highlights developments with regard to financial stability. The crisis has taught us the need for macroprudential oversight, apart from the regulation and supervision of the banking sector. While these regulatory activities do not necessarily have to be located within central banks, this is increasingly becoming the global trend, and has the advantage of allowing for better co-ordination of monetary policy, macroprudential oversight, and bank regulation and supervision. In this *Annual Report* we outline the progress made towards implementing the twin peaks regulatory architecture. These developments will have implications for the Bank, both in terms of intellectual challenges, as macroprudential regulation is still very much work in progress, but also at a practical level in terms of personnel and other resources.

Undoubtedly, the highlight of the year was the successful launch of the new "Mandela" banknote series which contains upgraded security features. We are delighted with the seamless introduction of the new notes which have been well received. However, there is still a need to continue with our publicity campaign in order to reinforce the message that the old banknotes are still legal tender and will co-circulate with the new notes for some time.

The cost of the new currency impacted negatively on the Bank's profitability. The South African Reserve Bank and its subsidiaries (the Group) recorded an after-tax comprehensive loss of R1,3 billion compared with a loss of R0,4 billion in the previous financial year. A significant proportion of the increased loss is attributed to the cost associated with issuing the new banknote series. Furthermore, income earned on foreign-exchange reserves remains constrained by the abnormally low level of interest rates in the advanced economies.

Since mid-July 2012, the Bank has operated with a full complement of Board of Directors (Board) members, and this report includes information about the non-executive directors, the working

The Bank will play its part in trying to navigate the economy through these turbulent times.

of the various Board subcommittees, and includes governance reports on compliance with the *King Report on Corporate Governance for South Africa 2009* (*King III*), risk management and controls, as well as matters affecting human resources. The terms of office of three current Board members expire at the 2013 annual Ordinary General Meeting (AGM), and all three directors are available for re-election.

The economy is facing a difficult time as it is buffeted by both global and domestic challenges. The Bank will play its part in trying to navigate the economy through these turbulent times. We will maintain our focus on price stability within a flexible inflation-targeting framework, but the expanded mandate of the Bank means that more is expected of us, and we, like many other central banks across the globe, are in unchartered waters. The Bank is fortunate to have a professional and dedicated leadership, and staff who have continued to demonstrate their commitment to serving the interests of the country as a whole through their execution of the Bank's broad range of responsibilities. I wish to thank them for their unstinting dedication, and I have every confidence that they will rise to the challenge and continue to uphold the reputation of the Bank as a centre of excellence, protecting the value and integrity of the currency, and contributing to balanced, sustainable economic growth.

The Bank has the constitutional mandate to protect the value of the currency in the interest of balanced and sustainable economic growth in South Africa

The Bank's mandate, purpose and functions

The Bank has the constitutional mandate to protect the value of the currency in the interest of balanced and sustainable economic growth in South Africa. Price stability is a critical element of the foundation of an economy, contributing to economic growth, development and employment creation. The achievement of price stability is quantified by the setting of an inflation target by government that serves as a yardstick against which price stability is measured. The achievement of price stability is underpinned by the stability of the financial system and financial markets.

In pursuit of its mandate and purpose, the Bank performs the following functions:

- Formulating and implementing monetary policy
- Promoting financial stability
- Issuing banknotes and coin
- Regulating and supervising the banking system
- Ensuring the effective functioning of the national payment system (NPS)
- Managing the official gold and foreign-exchange reserves of the country
- Acting as banker to the government
- Administering the country's remaining exchange controls
- Acting as lender of last resort in exceptional circumstances.

The Bank's organisational values

The Bank has an organisational culture where the following characteristics are valued and encouraged:

- Accountability
- Integrity
- Respect and trust
- Open communication
- Professionalism.

The Bank's vision

The Bank is a respected, operationally independent knowledge institution and a centre of excellence that protects the value and integrity of the currency, contributing to balanced sustainable economic growth. This is done with an agile, responsive and flexible operating style.

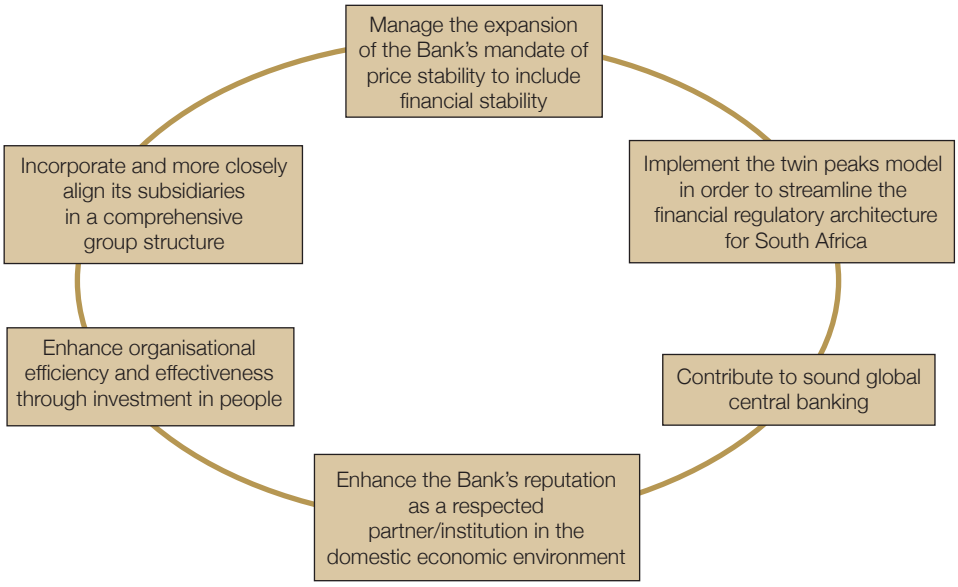
Given its vision and mandate, the Bank takes careful account of developments in the global economy, the domestic real economy and the financial sector.

The Bank's overall strategy

Given its vision and mandate, the Bank takes careful account of developments in the global economy, the domestic real economy and the financial sector. In addition, the Bank engages with a broad spectrum of stakeholders throughout society. Critical to the success of the Bank is its ability to anchor inflation expectations over the medium to long term. Similarly, a sound and effectively regulated financial system is essential to meeting its mandate.

Strategic focus areas

The Bank pursues the following strategic focus areas:



Monetary, financial and economic developments

Challenges for central banks going forward

The world economy is now in its sixth year of crisis. This crisis has mutated in shape, form and breadth, but has not been resolved. The euro area remains in recession, the more favourable outlook in the US is being threatened by fiscal contraction, and growth in some of the systemically important emerging-market economies such as China and India also shows signs of moderation. While price stability remains a core objective of central banks, the persistence of the global crisis has raised expectations about what central banks can and should do, and in particular how their expanding mandates regarding economic growth and financial stability should interact with their price stability objective.

Whereas prior to the crisis, central bank mandates had been progressively narrowed to a focus on price stability, the response to the global recession saw the breadth and scale of central bank operations increasing dramatically. Although the widely accepted flexible inflation-targeting frameworks that had been applied prior to the crisis did not ignore the implications of monetary policy for cyclical growth, the post-crisis environment resulted in greater weight on the stabilisation objective. In the absence of room for fiscal stimulus, the responsibility for output stabilisation or stimulus fell increasingly on central banks, and in the advanced economies in particular, as interest rates fell to the zero bound, central banks had to introduce a range of unconventional policies.

At the same time, there is widespread recognition of the central role that financial-sector imbalances played in the run-up to the crisis. In the pre-crisis period, financial stability was seen as an implicit mandate for central banks, with the prevailing orthodoxy being that price stability would ensure financial stability. However, the low-inflation environment prior to the crisis may have contributed to the complacency about the emerging financial-sector imbalances. As a consequence of the financial crisis, the previous trend of moving responsibility for microprudential regulation and supervision of banks outside the central banks was reversed.

It also became clear that financial stability oversight requires a broader focus than on individual banks or institutions. There is an emerging consensus regarding the need for macroprudential oversight, which will focus on the stability of the financial system as a whole. While there are still debates about the role of monetary policy in this respect and its interaction with macroprudential policy, it is now generally acknowledged that monetary policy cannot be the only line of defence against financial-sector imbalances.

Although many central banks have been given expanded financial stability mandates, there are many challenges going forward. Financial stability objectives are still not clearly defined; the nature of the instruments and their efficacy are not well developed, and the governance and accountability frameworks are still being tested as there is as yet no established best practice.

The expanding mandates imply that not only have central banks changed how they operate, they also have a wider sphere of influence in the economy. This changes how central banks are perceived in society and there are heightened, and often unreasonable, expectations of them. In

order to avoid disillusionment and the undermining of credibility, central banks have increasingly to communicate the limits of their powers, and make clear what they can and cannot achieve.

These developments have also raised questions about the understanding of central bank independence and accountability. By its nature, financial stability is a shared responsibility as crisis resolution often involves taxpayers' money. Furthermore, even when taxpayers' money is not involved, macroprudential instruments generally have overtly distributional consequences, which could lead to increased political pressures on central banks. Achieving financial stability explicitly involves a broader set of agencies and regulators than has traditionally been the case. The inclusion of financial stability in central bank mandates makes independence harder to define.

The financial stability mandate and the twin peaks model of financial regulation

Recent changes in the domestic regulatory environment have been influenced by global developments. The Bank has now been given an explicit financial stability mandate, which has been reaffirmed in proposals for changes in the regulatory model as set out in various policy documents. One document principally proposes a twin peaks framework[1] which distinguishes the regulation of market conduct by individual players in the financial sector from microprudential oversight, and regulation of individual institutions in the banking and insurance sectors.

1 The document is available on http://www.treasury.gov.za.

In terms of the proposed regulatory reforms, the Bank will play a leading role in promoting overall financial system stability by becoming the Systemic Regulator, with responsibility for macroprudential policy. It is envisaged that once legislation has been enacted, the current Financial Stability Committee (FSC) of the Bank will be replaced with the Financial Stability Oversight Committee (FSOC), which will have both co-ordination and policy formulation responsibility for financial stability, and the implementation of macroprudential instruments or tools. The FSOC will monitor and assess systemic risks to financial stability, and make recommendations or take actions to reduce or eliminate these risks. It will also play a central role in crisis management and resolution. The Governor will chair the FSOC, and in recognition of the fact that the maintenance of financial stability is a joint responsibility, the FSOC will include the Market Conduct Regulator as a member, and a representative of the National Treasury as an observer.

As part of its financial stability oversight responsibilities, the Bank will also be charged with overseeing systemic risks emanating from financial markets infrastructures such as the central securities depository, the central clearing counterparty, the trade repository, the NPS and the exchanges.

Moving towards a twin peaks model of financial regulation

Since 2008, the twin peaks model has gained wider acceptance globally. Whereas currently the microprudential role of the Bank is limited to banks, the twin peaks reform in South Africa will see the consolidation of prudential regulation and supervision of banks and insurers within the Prudential Regulator in the Bank. The regulation and supervision of market conduct of the financial sector will be consolidated within the Financial Services Board (FSB).

The Prudential Regulator's objective will be to maintain and enhance the safety and soundness of regulated financial institutions. This means being concerned with risks in each individual entity and ensuring the continued financial health of regulated institutions. The Market Conduct Regulator's objective will be to protect consumers of financial services and promote confidence in the South African financial system. This entails ensuring that consumers of financial services are treated fairly. Co-ordination between the two regulators will be crucial as market conduct issues can result in prudential problems and/or financial instability and vice versa.

The Bank has also been identified as the Resolution Authority in South Africa. The resolution authority is tasked with intervening when an individual institution (or groups of institutions) is in crisis. The resolution framework will be based on the International Financial Stability Board's[2] *Key attributes for effective resolution regimes*, and is aimed at ensuring financial stability rather than institutional soundness. It will not be limited to specific types of institutions, but will be applied to all elements of the financial system that are systemically significant and relevant.

2 The document is available on http://www.financialstabilityboard.org/publications.

During 2013/14, the Bank will participate in processes to develop legislation that will be tabled in Parliament to enable both the Bank and the FSB to execute their additional responsibilities.

The Bank is at an advanced stage in developing operational plans to give effect to the Bank's additional responsibilities, which include organisational restructuring, incorporating staff who are currently responsible for insurance prudential supervision from the FSB and recruiting additional capacity. The Bank and the Treasury are working on detailed proposals for the funding of these new regulatory arrangements, including the possible introduction of a deposit insurance scheme.

Working with stakeholders, the Bank is committed to the successful implementation of the twin peaks model of financial regulation and the execution of the financial stability mandate of the Bank. It is expected that the twin peaks model will be implemented in two phases, the first of which is expected to commence in 2014.

Report on monetary policy

Introduction

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

Monetary policy is conducted in a flexible inflation-targeting framework. The current target is for the Bank to keep the year-on-year rate of change in the headline consumer price index (CPI) for all urban areas within a range of between 3 and 6 per cent on a continuous basis.

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

Overview of monetary policy

During the past financial year, the stance of monetary policy remained unchanged, apart from a 50 basis point reduction in the repo rate in June 2012 to 5,0 per cent per annum. The period was characterised by a weak global economy with volatile financial markets, in line with changing investor sentiment; a deteriorating domestic growth outlook; and from the later part of the year, increased upside risks to inflation, mainly due to exchange rate and wage developments. These upside risks constrained the scope for monetary policy to provide further accommodation. At the same time, the fragile state of the domestic economy and the persistently negative output gap meant that the MPC was prepared to tolerate an inflation profile close to the upper end of the target range. Consequently, the overall stance of monetary policy remained accommodative, with a slightly negative real repo rate during most of the review period.

At the beginning of 2012, the sovereign debt crisis in the eurozone was still unresolved. This impacted negatively on the global outlook, which was weighed down by the slow economic recovery, high unemployment, fiscal tightening and deleveraging. The combination of swings in economic outcomes and sentiment resulted in unpredictable changes in risk aversion and, hence, volatility in international capital flows and exchange rates.

The generally low global inflation environment enabled major advanced and some emerging economies to retain accommodative monetary policies to support real economic activity. Monetary policy in South Africa was significantly influenced by these global developments as they shaped domestic growth and inflation outcomes alongside a range of domestic factors.

While the inflation target is set by government after consultation with the Bank, the Bank has full operational autonomy in the conduct of monetary policy.

The outlook for domestic economic growth and inflation appeared to have improved somewhat at the time of the March 2012 MPC meeting, as the risks to global stability from the eurozone subsided. Following a rebound in the manufacturing and mining sectors in the fourth quarter of 2011, the Bank's gross domestic product (GDP) growth forecast was revised marginally upwards to 3,0 per cent for 2012, compared with 2,8 per cent in the previous forecast. This still implied a persistent negative output gap, as growth was projected to remain below potential.

Global inflation appeared to be broadly contained but international oil price developments – driven mainly by geopolitical factors – posed a risk not only to inflation, but also to the growth outlook. The domestic inflation trajectory improved somewhat, mainly due to a less-depreciated exchange rate assumption and a marginal impact from the lower electricity price assumption following a revision of electricity tariffs by the National Energy Regulator of South Africa (NERSA). Inflation was expected to temporarily breach the upper end of the target range in the near term, and remain within the target range for the remainder of the forecast period. The risks to the inflation outlook were assessed to be evenly balanced. The main upside risks to inflation were seen to come from international oil and food price inflation, although the latter was expected to moderate in the medium term.

By the May 2012 meeting of the MPC, the crisis in Europe had deepened, with growing fears regarding a possible Greek exit from the euro area. Financial market turmoil increased, posing downside risk to the global and domestic economy.

The domestic economic growth outlook remained relatively subdued, with mining output contracting in the first quarter of 2012 due to strike action, safety-related stoppages and temporary closures for maintenance. The manufacturing sector's performance was more positive. Household consumption expenditure – the main driver of growth in 2011 – showed signs of moderation but was still expected to contribute positively to real gross domestic expenditure in the first quarter, albeit at a slower pace. The Bank's growth forecast remained more or less unchanged at 2,9 per cent for 2012 and 3,9 per cent for 2013, with a downside risk from a further slowdown in Europe.

Turbulence in global financial markets caused the rand to depreciate, but the associated risk to the inflation outlook was offset, to some extent, by the lower international oil prices. Domestic inflation increased from 6,0 per cent in March 2012 to 6,1 per cent in April, due mainly to the 71 cents per litre increase in the petrol price. The breach of the upper end of the target was expected to be temporary and there was also a downward adjustment to the forecast. Inflation was expected to peak in the first quarter of 2012 at 6,1 per cent compared with the previous forecast of 6,5 per cent in the second quarter. Inflation was expected to average 6,0 per cent in the second quarter of 2012 and then to follow a gradually declining trend within the target range, and was expected to average 6,0 per cent in 2012, 5,5 per cent in 2013 and 5,0 per cent in 2014.

While the inflation forecast appeared to be more favourable, there were renewed upside risks from a possible further weakening of the exchange rate. However, it was acknowledged that weaker demand and lower commodity prices, particularly that of oil, could act as countervailing pressures. On balance, the MPC judged these risks to the inflation outlook to be somewhat

on the upside. As at the previous meeting, the policy rate was left unchanged at 5,5 per cent per annum.

By mid-year it was clear that the deteriorating global environment and adverse domestic factors were weighing further on domestic growth. Growth in both gross fixed capital formation and household consumption expenditure moderated in the first quarter of 2012. Consumer and business confidence weakened, consistent with a decline in the Bank's composite leading business cycle indicator.

By the July 2012 meeting of the MPC, increased spillovers from the deteriorating sovereign debt crisis in the European periphery contributed to the downward revision of the Bank's growth forecast to 2,7 per cent for 2012 and to 3,8 per cent in 2013, with the projection for 2014 remaining unchanged at 4,1 per cent.

While global inflation remained benign, given the environment of weaker global growth prospects and lower commodity prices, some upside risks were becoming evident from rising grain prices – a consequence of the drought in the US and parts of eastern Europe. Nevertheless, domestic inflation continued to surprise on the downside, with CPI inflation decelerating to 5,5 per cent in June 2012. The Bank's inflation forecast saw headline inflation moderating to a low of 4,9 per cent in the second quarter of 2013 and remaining fairly stable around the 5 per cent level to the end of 2014. Inflation was expected to average 5,6 per cent in 2012, and 5,1 per cent in both 2013 and 2014. The risks to the inflation forecast were seen to be relatively evenly balanced. Lower global commodity prices were seen to partially offset other upside pressures, while demand pressures were expected to remain muted.

Given the more favourable inflation outlook, the weaker growth forecast and the lack of demand pressures as reflected in the benign core inflation trajectory, the MPC was of the view that further monetary accommodation was appropriate and would not undermine the inflation outlook. The MPC therefore decided to reduce the repo rate by 50 basis points to 5,0 per cent per annum from 20 July 2012. The MPC, however, emphasised that this would not overcome challenges facing the economy but was of the view that it could help alleviate pressures faced by some sectors. The MPC noted that a sustained increase in the potential output of the economy would require a concerted and co-ordinated effort from both government and the private sector.

By the September 2012 meeting, the domestic growth outlook had deteriorated further, with labour disputes and protracted work stoppages in the mining sector being of particular concern. The Bank's forecast for growth in 2012 was revised down to 2,6 per cent, while the forecast for growth in 2013 was revised down to 3,4 per cent, with further downside risks. Global growth had softened further and the outlook remained weak, with significant risks still remaining, notwithstanding significant policy initiatives.

Global inflation remained relatively benign, with supply shocks – particularly from food and oil – being the main upside risks. Domestic inflation was expected to remain contained within the target range over the forecast period, although the inflation outlook for 2013 was slightly worse than the previous forecast. However, the trajectory remained relatively flat over the entire forecast period and the Bank expected inflation to average 5,3 per cent in the final quarter of 2012, 5,2 per cent in 2013 and 5,0 per cent in 2014.

The MPC assessed the risks to the inflation forecast to be more or less balanced. Demand pressures were expected to remain benign, with cost–push pressures from food and petrol considered to be the main upside risks to the inflation outlook. These price pressures were expected to filter through to domestic consumer prices in the coming months. The exchange rate continued to pose a potential risk to the inflation outlook, particularly in the event of an unsustainable widening of the deficit on the current account of the balance of payments.

By November, growth had slowed in a number of regions, global industrial output had declined and Japan's outlook had worsened, along with continued uncertainty about US fiscal policy (the so-called fiscal cliff). Concerns relating to the resolution of the crisis in the eurozone, which by then was again in recession, had also resurfaced. However, ECB initiatives – particularly

the announcement of Outright Monetary Transactions (OMT) – reduced the risk of a potentially hazardous breakup of the eurozone.

The impact of the global slowdown on South Africa was aggravated by domestic events and contributed to the deterioration of the domestic growth outlook. Widespread labour market instability and work stoppages reduced output and export volumes, and increased the potential for employment losses. The Bank's forecast of GDP growth was revised downwards to 2,5 per cent in 2012. Growth in 2013 was expected to average 2,9 per cent, while the growth forecast for 2014 had been revised down to 3,6 per cent. The balance of risks to the growth outlook remained on the downside.

The Bank's inflation forecast reflected a deterioration in the inflation outlook for 2013 compared with the previous forecast, and the MPC assessed the balance of risks to the inflation outlook to be on the upside. Inflation was expected to average 5,6 per cent in the final quarter of 2012 and 5,6 per cent for the year. It was expected to average 5,5 per cent in 2013 and 5,0 per cent in 2014, with a peak of 5,7 per cent expected in the first quarter of 2013. This near-term deterioration was mainly due to higher expected food price inflation and the depreciation of the rand, which had depreciated by about 6,7 per cent against the US dollar since the previous meeting and which posed an increasingly upside risk to the inflation outlook. For some time, the exchange rate of the rand had been determined primarily by external developments – particularly changing global risk perceptions – but was increasingly determined by domestic factors. These factors included the increased risk posed by labour market developments in the mining and agricultural sectors in particular; the widening deficit on the current account of the balance of payments, which was likely to have been exacerbated by work stoppages; and the ratings downgrades by two rating agencies.

Risks to the inflation outlook were seen to be on the upside, mainly due to these exchange rate pressures. A possible higher trend in wage settlements contributed to this upside inflation risk, and the MPC was increasingly concerned about the possibility of a wage price spiral. In addition, the impact of the reweighting and rebasing of the CPI basket by Statistics South Africa (Stats SA) posed additional upside risks to the inflation outlook.

By January 2013, the domestic economic growth outlook remained fragile and below potential, and insufficient to make inroads into unemployment. This followed an annualised growth rate of 1,2 per cent in the third quarter of 2012 and an estimated growth rate of around 2,5 per cent for the year. However, the risks to this forecast were assessed to be on the downside, given uncertainties and instability in parts of the mining and agricultural sectors in particular. Constraints to growth were both external and internal.

The inflation forecast of the Bank reflected a further deterioration in the inflation outlook for 2013 compared with the previous forecast. At that stage the forecasts had not incorporated the new CPI weights and rebasing announced by Stats SA, but the impact thereof on the inflation trajectory was projected to be marginal.

Having averaged 5,6 per cent in 2012, inflation was expected to average 5,8 per cent in 2013, and 5,2 per cent in 2014. Inflation was expected to peak at 6,1 per cent in the third quarter of 2013 and then to moderate gradually to 5,1 per cent in the final two quarters of 2014. The deterioration was expected to be largely due to higher food price inflation, the lagged effects of the depreciation of the rand and higher unit labour costs. The MPC continued to assess the balance of risks to the inflation outlook to be on the upside due in large part to continued exchange rate and wage cost pressures.

With the real policy rate remaining slightly negative, the monetary policy stance remained accommodative, notwithstanding the projected temporary breach of the inflation target.

Growth in advanced economies disappointed in the fourth quarter of 2012 and in the first quarter of 2013 global risks and uncertainty again increased due to the continued fiscal gridlock in the US and the banking crisis in Cyprus. The weak growth outlook contributed to benign inflation

in advanced economies and continued monetary easing. Domestic growth prospects remained relatively subdued, notwithstanding better-than-expected fourth-quarter GDP growth, and positive developments in the mining and manufacturing sectors in January. The Bank forecasted growth of 2,7 per cent for 2013 and 3,7 per cent in 2014. Despite the slight upward revision, the risks to these forecasts were again assessed to be on the downside. Growth for 2013 was expected to remain below potential output growth of 3,5 per cent, and was expected to result in a slight widening of the Bank's revised estimate of the output gap which, at 2,0 per cent, reflected the continued subdued state of the economy.

Inflation increased to 5,9 per cent in February 2013 and the Bank's inflation forecast reflected a slight deterioration with the balance of risk to the upside due mainly to exchange rate and wage pressures. Inflation was expected to average 5,9 per cent in 2013 and 5,3 per cent in 2014. Inflation was expected to breach the upper end of the target range temporarily in the third quarter of 2013, at an average of 6,3 per cent, before moderating gradually to 5,2 per cent in the final quarter of 2014. The deterioration was largely due to the depreciation of the rand and higher petrol prices. The accommodative monetary policy stance was assessed to be appropriate, given the persistent negative output gap, but with further accommodation constrained by upside risks to the inflation outlook.

In summary, during the period under review the global growth environment oscillated between periods of improvement and setback as the sovereign debt crisis remained unresolved and confidence fragile. This contributed to slower global growth and generally benign inflation.

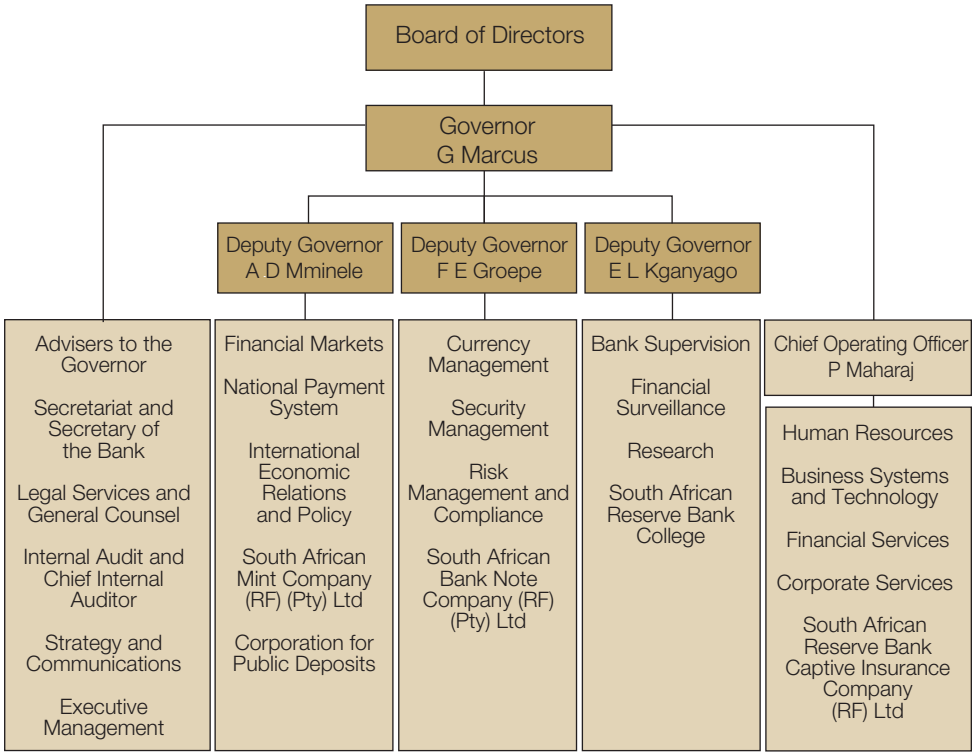
South Africa was affected by these developments, with the domestic economic recovery remaining subdued. At first, the growth outlook improved slightly but by mid-year global developments and domestic factors weighed heavily on growth prospects. The year 2012 started out with inflation just outside the target band, followed by a general improvement. Given the improved inflation outcomes in preceding months and weaker growth prospects, the MPC lowered the repo rate by 50 basis points in July. Since then, both the growth and inflation outlook have deteriorated as the domestic economic landscape changed with widespread labour market instability, a widening current-account deficit and ratings downgrades. This contributed to the depreciation of the rand and increased the upside risk for inflation. The negative output gap, however, persisted as growth remained below potential and well below that required to make significant inroads into unemployment. Core inflation and moderating household consumption expenditure generally reflected the lack of underlying demand pressures in the economy.

The 2012/13 outcome of inflation was 5,6 per cent, while the annual growth rate for the year under review was 2,4 per cent.

The monetary policy stance consequently remained accommodative, with the real policy rate slightly negative, notwithstanding the expected temporary breach of the inflation target. This stance was consistent with keeping inflation under control and inflation expectations well anchored within a flexible inflation-targeting framework. The MPC sought to provide stability through a period of extraordinary uncertainty, varying inflationary pressures and a hesitant global recovery.

Operations and activities

Group operational structure



Operational review

Introduction

In support of the Bank's overriding objective to achieve and maintain price stability, and its other functions and responsibilities as set out on page 5, the Bank has a number of internal operational and governance structures. The operations related to these objectives are outlined in this section of the *Annual Report*.

Market operations

Liquidity management

The Bank was able to conduct its domestic money-market liquidity management operations in an orderly manner during the past financial year. As at 31 March 2013, the outstanding main refinancing operation amounted to R24,1 billion, compared with R20,6 billion at 31 March 2012. The actual daily liquidity requirement was R23,2 billion on 31 March 2013, compared with R21,2 billion at the end of March 2012. During the past financial year, the average daily liquidity requirement was R21,6 billion.

During the course of the financial year declines in outstanding SARB debentures, CPD balances with the Bank and longer-term reverse repo transactions amounting to R11,1 billion, R3,1 billion and R75 million respectively added money-market liquidity to the system. Foreign-exchange swaps previously conducted to sterilise foreign-exchange purchases amounting to R16,2 billion (US$2,0 billion) matured and were settled through transfers of Tax-and-Loan funds from the market to the Bank. As at 31 March 2013 outstanding foreign-exchange swaps amounted to R43,7 billion, reflecting swaps conducted to sterilise foreign-exchange purchases and swaps conducted for liquidity management purposes.

Other factors that impacted on money-market liquidity included fluctuations in notes and coin in circulation, and an overall increase in the level of cash reserve balances of commercial banks with the Bank. As at 31 March 2013, notes and coin in circulation amounted to R103,1 billion, an increase from R90,2 billion on 31 March 2012. On 31 March 2013 commercial banks' cash reserve balances with the Bank stood at R66,1 billion compared to R63,5 billion on 31 March 2012.

The Bank successfully introduced some enhancements to its monetary policy operational procedures in March 2012, which were implemented during the reporting period. These changes included the allocation of the amounts tendered by commercial banks in the weekly main repo auctions on a pro rata basis, up to the announced average daily liquidity requirement for the week in instances where the auctions are over-subscribed. The objective of these changes was to contribute to the more effective management of money-market liquidity. The latest changes were effective in enhancing the participation in the SARB debenture and longer-term reverse repo auctions, and in the Bank's main refinancing operations.

Review of the Jibar rate-setting process

Following a review of the rate-setting process of the Johannesburg Interbank Average Rate (Jibar) during 2012, the Bank finalised a Code of Conduct, Governance Process and Operating Rules (Code of Conduct) for the Jibar. The Code of Conduct came into effect on 1 March 2013 and is binding on all contributors to the Jibar rate-setting process.

The Bank is responsible for the supervision of compliance with the terms and conditions of the Code of Conduct. This is done through the Reference Rate Oversight Committee (RROC), which is chaired by Deputy Governor Kganyago and consists of the chairperson of the Financial Markets Liaison Group, Deputy Governor Mminele, Bank officials and the FSB. The RROC will serve as an interim arrangement pending the finalisation of the twin peaks financial regulation legislation. The Bank will continue to monitor evolving international best practice and align the Code of Conduct where appropriate.

Level of the official gold and foreign-exchange reserves

The official gross gold and foreign-exchange reserves declined marginally from US$50,7 billion on 31 March 2012 to US$50,0 billion on 31 March 2013. This decline reflected sizeable valuation adjustments emanating from the appreciation of the US dollar against other major currencies, a decrease in the market price of gold and foreign payments on behalf of government departments. This impact was partly offset by the net effect of the settlement of maturing swaps conducted to fund foreign reserve purchases and swaps conducted to manage money-market liquidity. The decline in the gross reserves, foreign currency deposits received and the forward position accounted for the decrease in the international liquidity position from US$48,9 billion to US$46,1 billion over the same period.

Reserves management

The Bank is responsible for the management of the official gold and foreign-exchange reserves. While the bulk of the reserves is managed internally, a small percentage is allocated to private-sector external fund managers, the Bank for International Settlements (BIS) and the World Bank.

During the reporting period, the investment management environment was characterised by challenges related to maintaining high-quality liquid foreign reserves portfolios in a low-yield and risky environment. The Bank remained cautious and risk-averse in its investment strategies, and continued to implement prudent policies informed by its objectives of capital preservation, liquidity and earning a reasonable return within clearly defined risk parameters. The Bank's foreign reserves holdings continued to be dominated by government bonds, supranational agency debt, and high-quality and short-term money-market securities.

The return in US dollar terms on the foreign reserves holdings, excluding gold, amounted to -1,37 per cent, reflecting the challenging global environment. If gold is included, a negative return of 1,14 per cent was recorded.

Financial surveillance

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

- implementing exchange control policy and administering the Exchange Control Regulations;
- gathering, analysing and disseminating information on cross-border flows;
- appointing Authorised Dealers in foreign exchange with limited authority (ADLAs); and
- supervising and enforcing compliance by ADLAs with anti-money-laundering control measures in terms of the Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001) (the FIC Act) and the Exchange Control Regulations.

Furthermore, reform and relaxation of exchange controls were announced during 2012 through the issuance of Exchange Control Circulars to Authorised Dealers, as follows:

- Foreign capital allowance in respect of South African private individuals

  Private individuals over the age of 18 years who wish to invest amounts in excess of the current limit of R4 million per individual per calendar year may submit an application to the Financial Surveillance Department (FinSurv) of the Bank, for consideration. Such application must be accompanied by a Tax Clearance Certificate issued by the South African Revenue Service (SARS), in the prescribed format.

- Treasury Outsourcing Companies and Foreign Exchange Brokers

  FinSurv undertook a market study during 2012 into the foreign-exchange dealings by Treasury Outsourcing Companies (TOCs) and Foreign Exchange Brokers (FEBs) in the domestic foreign-exchange market. TOCs manage the entire foreign-exchange operations of an entity, whereas FEBs purely look at the best exchange rate. Following the above study, FinSurv issued a circular to the market in terms of which both TOCs and FEBs must obtain approval from FinSurv before commencing any foreign-exchange business, in order to ensure consistency and a level playing field for all participants.

- Advance payments on capital goods

  Foreign exchange may be provided for advance payments up to 100 per cent of the ex-factory cost of capital goods to be imported, not exceeding a total value of R10 million. Payment for the importation of capital goods in excess of R10 million may only be provided up to 50 per cent of the ex-factory cost of the goods to be imported.

- International Headquarter Companies

  The policy pertaining to International Headquarter Companies (IHQs) has been in existence since 2011. An Exchange Control Circular was issued to refine this policy, in terms of which the requirement to apply for approval to establish headquarter companies in South Africa was withdrawn, a reduction in shareholding to 10 per cent was announced and the reporting process streamlined.

  Furthermore, the requirement that the shares and/or debt of the IHQ may not be listed on the JSE Limited (JSE) or that the shares in the headquarter company may not be directly or indirectly held by a shareholder with shares or debt listed on the JSE was also withdrawn.

  Approval was granted to the JSE to provide Zambian-referenced grain derivative contracts in US dollar to non-residents and qualifying Common Monetary Area (CMA) entities.

Further announcements pertaining to exchange controls were made by the Minister in the 2013 Budget Speech:

Prudential limit for foreign diversification by Authorised Dealers: African allowance

Authorised Dealers are now allowed to invest an additional 5 per cent of their total liabilities, excluding total shareholder's equity, for expansion into Africa, in addition to the current macroprudential limit on foreign exchange of 25 per cent.

South African holding company for African and offshore operations

Listed entities on the JSE can now establish one subsidiary in South Africa to hold African and offshore operations, which will not be subject to foreign-exchange restrictions.

Bank supervision

Maintaining a stable banking system

Promoting the safety and soundness of the banking system remains a prime responsibility of the Bank. In pursuit thereof the Bank continued to supervise banks, and implement international regulatory and supervisory standards for banks during the period under review.

The Bank finalised amendments to the Regulations relating to Banks (the Regulations) to incorporate the phased-in implementation of *A Global Regulatory Framework for More Resilient Banks and Banking Systems* (Basel III). The amended Regulations were approved by the Minister on 21 November 2012, published in *Government Gazette* No. 35950 on 12 December 2012 and implemented with effect from 1 January 2013.

South Africa's banks remain well capitalised and exceed the minimum Basel III Tier 1 capital requirement of 4,5 per cent and the domestic requirement of 6 per cent. At the end of March 2013, South African banks' Tier 1 capital ratio stood at 14,99 per cent.

Illegal deposit-taking public awareness campaign

A public awareness campaign was conducted during 2012 to alert the general public to the unscrupulous methods employed by the operators of illegal investment schemes. The campaign was entitled "Beware of oMashaya", and comprised messages aired on radio and placed in the print media, including newspapers, pamphlets and posters. A web page was created on the Bank's website, which contained information on illegal deposit-taking schemes, and enabled the public to report suspected schemes and make general enquiries through a call centre.

Anti-money-laundering inspections

The Bank has established a team of experts to assess commercial banks' compliance with anti-money laundering (AML) and the combating of the financing of terrorism (CFT) legislation. The inspections conducted by the Bank comprised testing the soundness of banks' know-your-customer (KYC) practices and controls, and assessing banks' compliance with the requirements of the FIC Act.

Unsecured lending

Unsecured lending received considerable press coverage during the period under review. The Bank focused on commercial banks' strategies, risk management approaches and exposure to unsecured lending. Unsecured lending to retail markets includes credit cards, personal loans and overdrafts. Six banks are significant participants in the retail unsecured credit markets. These six banks' total unsecured gross credit exposure increased year on year from R341,36 billion in December 2011 to R441,27 billion in December 2012, which comprised 11,3 per cent of total gross credit exposure. Growth in unsecured loans appears to be moderating somewhat, and will continue to form part of the Bank Supervision Department's (BSD) supervision of banks for 2013/14.

National payment system

Developing and maintaining the payment system

From a regulatory perspective, financial market infrastructure (FMI) such as payment systems are recognised as contributors to the effective operation of financial markets. To this end, in April 2012 the Committee on Payment and Settlement Systems (CPSS) at the BIS and the International Organization of Securities Commissions (IOSCO) published strengthened international standards for payment systems that are systemically important, central securities depositories, security settlement systems, central counterparties and trade repositories. The main objectives of the strengthened principles are to ensure robust global FMI, which, if faced with the financial shocks of the magnitude experienced in 2007/08, will continue to operate effectively.

The National Payment System Department (NPSD) of the Bank has adopted these principles for the local payment system. South Africa's FMI is also engaged in self-assessment exercises to identify any gaps in compliance with these strengthened international standards.

The findings from the first phase of the interchange determination process were shared with NPS stakeholders during the first half of 2012. This project aims to develop a methodology to determine realistic interchange rates based on justifiable costs of providing service applicable to the various payment streams and to make the process of determining these interchange rates more transparent. The Bank also announced the launch of the second phase of the project which involves intensive discussions and interaction with stakeholders. This will culminate in the determination of benchmark rates, namely for automated teller machines (ATMs), and both credit and debit cards. When finalised, this will contribute to the improved efficiency of the NPS.

Maintaining the integrity and supply of currency

New South African banknote series

Twenty years after the introduction of the "Big Five" animal series of banknotes, the Mandela banknote series was successfully launched into circulation on 6 November 2012.

All five of the Mandela banknote denominations were launched simultaneously and have an artistic impression of former President Nelson Mandela on the front of the banknotes, while on the reverse side the "Big Five" theme has been retained. The new notes will co-circulate with the "Big Five" series, which remains legal tender.

The Bank co-operated closely with the cash industry in order to ensure sufficient banknotes were available countrywide in readiness for the launch.

The value of banknotes in circulation reached a peak of R109,6 billion on 28 December 2012, as compared to a maximum value of R99,2 billion on 28 December 2011. The value of coin in circulation increased from R4,5 billion at the end of March 2012 to an estimated R4,7 billion as at 31 January 2013. While there is an increase in electronic banking, particularly credit cards, the above data indicates that cash is still used extensively nationally and regionally, and continues to grow at approximately 10 per cent per annum.

New banknote series communication campaign

The launch of the new banknote series was preceded by an extensive communication campaign themed "One of a Kind" paying tribute to former President Nelson Mandela. Training was provided across the wide spectrum of users and also covered-neighbouring states where the South African rand is used extensively. Work was done in partnership with various stakeholders such as banks, retailers and civil society to drive a public outreach programme.

This extensive campaign to familiarise all South Africans with the new banknotes was well received, as were the notes themselves.

Security features of the new banknote: Look, Feel and Tilt

1 Raised printing
2 Feature for the visually impaired
3 Animal
4 Security thread
5 Micro-printing
6 Hidden image
7 Colour-changing ink

8 Unique numbering
9 Raised printing
10 Watermark
11 Animal

Developments in the research environment

The global financial crisis has impacted on the Bank's research agenda and there have been several major developments in the Research Department (RSH). These include the development and extension of macroeconomic models to quantify the impact of Basel III on the South African economy, more analysis on the financial sector and its role in monetary policy, and a deeper analysis of the real economy. In addition, the RSH provides timely analysis to the MPC on international economic developments and has focused specifically on what the global economic crisis means for the South African economy.

The RSH continues to produce a number of publications with the objective of providing an authoritative view of the state of the economy, and an outlook for monetary policy and financial stability. The *Quarterly Bulletin* provides a coherent picture of the South African economy amid growing complexity and measurement challenges. Turbulent domestic and global economic activity has made this a particular challenge in 2012.

The compilation of statistics remains an important activity in the RSH, which embarked on several joint workshops with the United Nations Statistical Commission and the International Monetary Fund (IMF) to gear up for global changes in measurement, including the national accounts, and the adoption of new measurement, standards and a Group of Twenty (G-20) initiative on gathering sectoral balance-sheet data. Necessitated by the financial crisis, countries have committed themselves to delivering on this undertaking in the next three years. The intention is to compile a full set of balance-sheet accounts, which will provide a powerful tool for the interaction between finance and monetary policy and financial stability.

International relations

Participation in the G-20 and other international bodies

Given the ever-growing demand for the Bank to participate in various international forums, the decision was taken to strengthen the Bank's internal capacity to address international issues. The International Economic Relations and Policy Department (IERPD) was established in the second half of 2012 and became fully operational in February 2013, with the appointment of Dr D Bradlow as its head. The department will provide the executive with policy, and strategic advice and support by co-ordinating the Bank's international relations and responsibilities in co-operation with the relevant specialist areas in the Bank. This will enhance the Bank's capacity to contribute to the formulation and articulation of South Africa's positions in forums such as the CMA; Southern African Development Community (SADC); G-20; IMF; World Bank; Brazil, Russia, India, China and South Africa (BRICS); BIS; and FSB.

Participation in regional bodies

The Committee of Central Bank Governors (CCBG) was established by SADC in 1995 to fulfil the mandate of reforming the regional financial sector. It has responsibility for fostering co-operation and harmonisation among SADC central banks to ensure that a conducive environment is created in which SADC Member States can attract investment and enhance the process of regional integration. The work is conducted via subcommittees and co-ordinated through the CCBG Secretariat, which is hosted and supported by the Bank and forms part of the IERPD. The CCBG governors meet twice a year, and progress is being made on macroeconomic convergence. A SADC Peer Review Mechanism has been initiated to review progress and enhance capacity to give greater impetus to convergence.

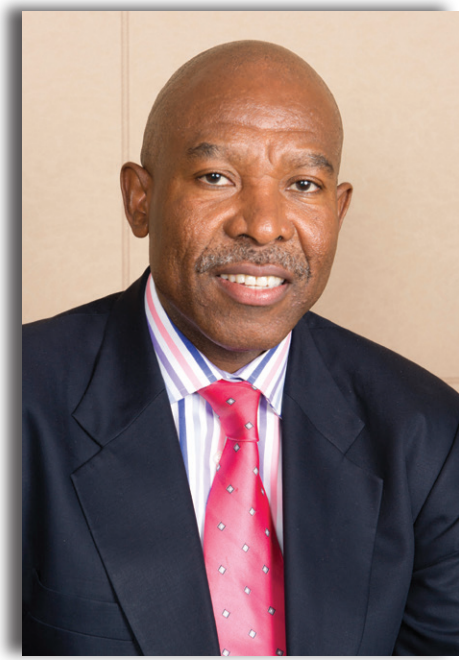
Furthermore, the CCBG has granted approval for the launch of the SADC Integrated Regional Electronic Settlement System (SIRESS), with a proof of concept approach involving the CMA. This will ensure settlement of cross-border transactions in a single currency with the aim of boosting trade across the region.

Abridged *curricula vitae* of governors and senior management

Governors/Executive directors

G (Gill) Marcus (63) was appointed Governor of the Bank with effect from 9 November 2009. She is the ninth Governor, and the first woman to serve as Governor of the Bank. She chairs the Board, the Governors' Executive Committee (GEC), the MPC, the FSC and the Risk Management Committee (RMC). She attends Audit Committee meetings by invitation, and is a member of the Board Risk and Ethics Committee (BREC) and the Remuneration Committee (Remco). In 1994 she was elected to Parliament and served as the first Chairperson of the Joint Standing Committee on Finance. In 1996 she was appointed as Deputy Minister of Finance and in 1999 as Deputy Governor of the Bank. She took up the position of Professor of Policy, Leadership and Gender Studies at the Gordon Institute of Business Science (GIBS) in 2004. In 2007 she became the non-executive Chairperson of the Absa Group, a position she resigned from when appointed as Governor of the Bank. She holds a BCom degree, is the Chairperson of the Rhodes Scholarship Fund and was awarded an honorary doctorate in commerce by Stellenbosch University in 2012.

A D (Daniel) Mminele (48) was appointed Deputy Governor of the Bank on 1 July 2009. He serves as a member of the Board, Remco, the GEC, the MPC, the FSC and the RMC, and chairs the Reserves Management Committee (Resmanco), and the boards of the CPD and the South African Mint Company (RF) Proprietary Limited (SA Mint). After joining the Bank in September 1999, he has been, among other positions, the Head of the then International Banking Department, Head of the Financial Markets Department (FMD) and an Executive General Manager for the financial markets cluster. He represents the Bank at G-20 and IMF meetings. He completed his professional training in Germany, qualifying with a Diploma in Banking (Bankkaufmann) and holds certificates from the Chartered Institute of Bankers in London.



E L (Lesetja) Kganyago (48) was appointed Deputy Governor on 16 May 2011. He serves as a member of the Board, the BREC, the GEC, the MPC, the FSC and the RMC. He is the Chairperson of the Standing Committee on the Revision of the Banks Act. He is also Vice-Chair of the FSB Standing Committee on Standards Implementation and co-chairs the FSB Regional Consultative Group for sub-Saharan Africa. Before his appointment at the Bank, he was Director-General of the National Treasury. He represented South Africa in international organisations such as the World Bank, the IMF, the G-20 and the African Development Bank. He holds an MSc in Economics from London University (School for Oriental and African Studies), and a BCom degree in Economics and Accounting from the University of South Africa (Unisa). He has also received training in Finance, Economics and Management.

F E (Francois) Groepe (43) was appointed Deputy Governor with effect from 1 January 2012. He serves as a member of the Board, the BREC, the GEC, the MPC, the FSC and the RMC. He attends Audit Committee meetings by invitation. He has been involved with the Bank for many years since being appointed by government in 2004 as a non-executive director of the Board. He has been the Group Managing Director and Chief Executive Officer (CEO) of Media24. Previously, he was the CEO: Newspaper Division and Financial Director of Media24. Before joining Media24, he was Senior Group Controller at Swiss Re, based at its Head Office in Zurich. He holds LLB, MBA and BCom (Hons) degrees, and a postgraduate Diploma in Tax Law. He is a chartered management accountant and an advocate of the High Court of South Africa.

Abridged *curricula vitae* of governors and senior management

Senior management

J (Johann) Bence (51) joined the Bank in 1982 and was appointed as Head: Currency Management Department (CMD) in July 2012. He was previously employed in the Executive Management Department (Office of the Governor), the NPSD, the Business Systems and Technology Department (BSTD) and the RSH. He served on the Management Board of Bankserv, and was an industry expert observer on the Board of Strate Limited and the Financial Markets Advisory Board (FMAB). He holds MCom (Economics), BCom (Honours) (Economics), and BCom degrees from the University of Pretoria, and completed an Executive Development Programme at GIBS.

A (André) Bezuidenhout (58) was appointed as Head of the Risk Management and Compliance Department (RMCD) on 1 December 2010. This department is responsible for co-ordinating integrated risk management throughout the Bank and its subsidiaries, and certain related functions. Since his appointment to the Bank in June 1991, he served as Chief Internal Auditor (CIA), Deputy Registrar of Banks and Head of the former Financial Stability Department. He holds BCompt (Hons) and BSc (Hons) degrees, and an advanced Diploma in Treasury Management, and is a chartered accountant.

D (Daniel) Bradlow (57) was appointed as Head of the new IERPD on 1 February 2013. Before joining the Bank he was the South African Research Chairs Initiative (SARChI) Professor of International Development Law and African Economic Relations at the University of Pretoria, Co-Coordinator of the Global Economic Governance Africa Project and a Professor of Law at the American University Washington College of Law. He has an LLD from the University of Pretoria, law degrees from Northeastern University and Georgetown University, and an undergraduate degree from the University of the Witwatersrand.

R (Rashad) Cassim (47) joined the Bank as Head of the RSH on 1 March 2011. He was previously Deputy Director-General: Economic Statistics at Stats SA. Before joining the statistical agency, he headed the School of Economics and Business Sciences at the University of the Witwatersrand. His expertise lies in both economic statistics and economic policy. He is a member of the board of governors of an international think-tank initiative that provides research funds for research institutes in developing countries under the auspices of the International Development Research Centre, based in Canada. He holds a PhD degree in Economics. He is a member of the MPC and FSC.

J J (Johann) de Jager (58) took up his position as General Counsel and Head of the Legal Services Department (LSD) in February 1998. He is responsible for providing in-house legal services to the Bank, its staff and subsidiaries. He attends meetings of the Board and the GEC in an advisory capacity. Following his appointment to the Bank on 1 April 1991, he served as Head: Legal Administration Division of the BSD. He holds the following qualifications: LLD, LLM, LLB, Bluris and Dip Iuris, and is an advocate of the High Court of South Africa. He has also passed the Attorney of the High Court Admission Examination and completed a Senior Executive Programme.

N (Naidene) Ford-Hoon (45) is the Group Chief Financial Officer (CFO). She joined the Bank on 19 July 2010 and assumed duty as Head: Financial Services Department (FSD) and CFO of the Bank on 1 August 2010. She is responsible for the centralised financial administration, which includes the Bank's budget; the Group insurance portfolio; and the Bank's procurement function, payroll, banking services and retirement fund administration. Given the move to a greater group approach, Naidene was appointed to the Boards and Audit Committees of both the South African Bank Note Company (RF) Proprietary Limited (SABN) and SA Mint in May 2012. She holds BCom and BCompt (Hons) degrees, and is a chartered accountant.

B L (Brian) Hoga (54) was appointed Chief of Staff in the Office of the Governor in May 2012. He is also the Administrative Head of the Executive Management Department. He joined the Bank in 2000 following a five-year career in the Presidency. He has been an analyst and senior analyst in the Bank Supervision and Financial Stability departments, and Assistant General Manager in the Strategy and Communications Department (SCD). He holds a Postgraduate Diploma in Economic Principles and an MSc in Financial Economics.

Abridged *curricula vitae* of governors and senior management

Senior management (continued)

M S (Saleem) Ismail (52) assumed duty as Head of the BSTD in April 2004, and is responsible for information and communications technology (ICT) solutions and services, and the maintenance and support of the ICT environments of the Bank. He joined the Bank in September 1997 as Head of Payment Systems Support. He has 31 years' experience in the ICT field, 18 of which have been in management. He holds a Diploma in Datametrics and has completed a senior executive programme at the Harvard Business School.

S B (Brian) Kahn (59) was appointed in December 2009 as Adviser to the Governor. Following his appointment to the Bank in September 1999, he first served as Head of the Monetary Policy Research Unit in the RSH and in April 2003 he was appointed as Senior Deputy Head of the department. Before joining the Bank, he was Director of the School of Economics at the University of Cape Town. He holds MA and BA (Hons) degrees in Economics.

H M (Ntebo) Kgoroba (47) joined the Bank as Adviser to Deputy Governor Mminele on 1 September 2011, and was appointed as Group Head: Human Resources Department (HRD) with effect from 1 April 2013. She has gained extensive experience in both the private and public sectors, after holding the positions of Head of Human Resources at the National Treasury, Human Resources (HR) Lead: Accenture South Africa, and as HR Director: ACNielsen Marketing and Media South Africa. She also held the positions of HR Executive at South African Breweries, Investec Bank and the Nedcor Group. She holds MBA and BCom degrees, and a Postgraduate Diploma in Management.

G M (Gerdus) Lewis (39) joined the Bank in April 2012 and became Head of the Internal Audit Department (IAD) and CIA on 1 April 2013. He has more than ten years' experience in external auditing in various industries, internal auditing in financial services companies and, specifically, life assurance and asset management. He holds a BCompt (Hons) degree from Unisa and is a chartered accountant.

P (Pradeep) Maharaj (51) was appointed as Chief Operating Officer (COO) on 1 November 2012. He is responsible for the Human Resources, Financial Services, Corporate Services, and Business Systems and Technology departments, SARB Renewal Journey and certain related functions. Before joining the Bank, he spent a year at Absa Capital where he was responsible for HR, marketing and communications. In addition, he has 17 years of experience in the public and parastatal sector, and 10 years of auditing experience. He holds a BCompt degree.

P M T (Tim) Masela (52) joined the Bank in July 1994 and was appointed as Head of the NPSD in August 2012. His areas of responsibility include payment system policy, payment settlement service provision and oversight of the payment system. He also chairs the SADC Payment System Subcommittee of the CCBG and leads projects in this structure. He represents the Bank on both the BIS Committee on Payment and Settlement Systems, and the Continuous Linked Settlement Oversight Committee chaired by the Federal Reserve Bank of New York. Since his appointment to the Bank, he has served in the BSTD before his transfer to the NPSD in 2001. He holds MCom and BCom degrees, a Graduate Diploma in Computer Audit and has completed a Senior Executive Programme.

H (Hlengani) Mathebula (46) was appointed as Group Head: Strategy and Communications in April 2010. He has extensive experience in financial services, banking and fast-moving consumer goods. He was the Managing Executive of Absa Private Bank and CEO of First National Bank Personal Banking, and previously worked for AM International, Nestlé and Nedbank. He is Chairman of the Black Business Executive Circle, non-executive director of Vuma Reputation Management, and Chairman of the Eskom Pension and Provident Fund. He holds BTh (Hons) and BA degrees, and has completed Senior Executive and Management Development programmes.

Abridged *curricula vitae* of governors and senior management

Senior management (continued)

S E (Elijah) Mazibuko (49) joined the Bank on 1 January 2000 and was appointed the Head of FinSurv, formerly Exchange Control Department, on 1 August 2009. Before joining the Bank he had 12 years' banking experience in retail, risk management, credit and corporate banking. He is responsible for compliance with exchange control regulations and the application of the exchange control system. He holds MBA and BCom (Accounting) degrees, a Postgraduate Diploma in Business Management, and an Advanced Diploma in Treasury and International Trade Finance. He is an associate member of the Institute of Bankers in South Africa.

L R (Leon) Myburgh (46) joined the Bank as Head of the FMD on 1 March 2013. While he started his career at the Bank, he left in the mid-1990s and worked at various domestic and international banks as trader, salesperson, and currency and interest rate strategist. Over the years, he received various financial market awards. He has served on numerous market committees, including the Bond Exchange Executive Committee, and acted as Chairman of the Bond Traders' Association and the Primary Dealer Association. He holds MBA and BCom (Hons) degrees in Economics.

K (Kuben) Naidoo (41) joined the Bank as an Adviser to the Governor on 1 April 2013. He previously headed the Secretariat at the National Planning Commission in the Presidency and before that he worked at the National Treasury where he headed up the Budget Office. His career has covered a range of public policy areas, including public finance, public economics, fiscal policy, infrastructure, education finance, climate finance, and public-sector and personnel policy. He holds an MBA from the University of Birmingham, United Kingdom (UK), and a Bachelor of Science and a Postgraduate Diploma in Public Management, both from the University of the Witwatersrand.

R Z (Zingisa) Nkwali[3] (58) joined the Bank in 1995 and became Head of the Corporate Services Department (CSD) in January 2006. He is responsible for the provision of support services, including management and maintenance of the Bank's buildings, physical assets, equipment, catering and central stores. He holds a BCompt degree and served articles of clerkship with Ernst & Young.

3 Mr Nkwali has opted to take early retirement and will leave the Bank's employ on 30 June 2013.

S L (Sheenagh) Reynolds (46) was appointed Secretary of the Bank in April 2011 and heads up the Secretarial Support Services Unit (SSSU). Prior to joining the Bank she was a Director: Corporate Governance and Company Secretarial Services at Routledge Modise Attorneys. She previously held the position of Group Company Secretary at both AFGRI Limited and Allied Technologies Limited. She holds LLB and BA degrees from the University of the Witwatersrand, has completed an Advanced Programme in Risk Management from Unisa, and is an admitted attorney of the High Court of South Africa.

B L D (Benno) Smith (57) joined the Bank in April 2001 and was appointed as the Head of the Security Management Department (SMD) in August 2012. His areas of responsibility include ensuring that the facilities, assets, people and information of the Bank are secure. He holds Senior and Joint Staff qualifications obtained during his service in the South African National Defence Force.

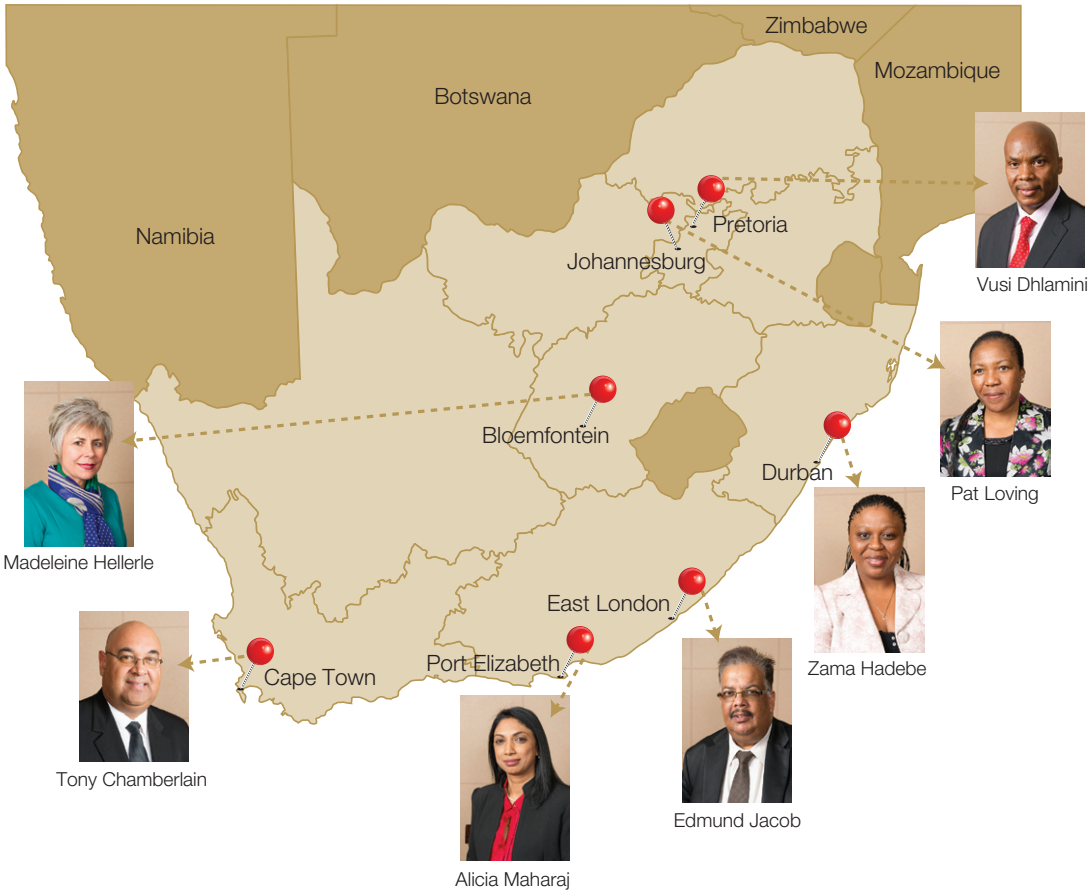
R (René) van Wyk (57) joined the Bank as the Registrar of Banks and the Head: BSD on 1 November 2011. Prior to joining the Bank he held the position of Executive Head of Risk at Nedbank Capital and prior to that, various senior positions in the Nedbank Group, including CEO of Imperial Bank, a subsidiary of Nedbank. He was a partner in KPMG before joining Nedbank in 1993. He is a chartered accountant, with a BCompt Honours degree from Unisa and a BCompt degree from the University of Johannesburg.

G R (Gilbert) Wesso (52) assumed duty as Principal of the South African Reserve Bank College (SARB College) in May 2003 and is responsible for managing the central banking learning and development programmes of the SARB College. He started his central banking career in the Bank's RSH on 1 April 1998. Before joining the Bank, he was Professor of Statistics, Time-series Econometrics and Financial Mathematics at various local and international universities. He studied at the University of the Western Cape and Yale University in the US. He holds a PhD (Econometrics), MCom (Business Statistics), BCom (Hons) and a Senior Teacher's Diploma.

Branches and branch management

The Bank has the responsibility to produce and distribute notes and coin; ensure that the notes in circulation are "fit for use" and are of an acceptable standard; and to destroy old, damaged and soiled notes that are returned via retail banks. To give effect to this responsibility, the Bank has six branches (Bloemfontein, Cape Town, Durban, East London, Johannesburg and Port Elizabeth) and one depot (Pretoria North).

The locations and managers of the branches and depot are as follows:



Abridged *curricula vitae* of depot and branch managers

A R (Tony) Chamberlain (54) joined the Bank on 1 April 2002 and was appointed as Branch Manager, Cape Town, on 1 November 2003. He is responsible for all the strategic and operational activities of the branch to ensure an adequate supply of acceptable quality banknotes and coin in circulation in the Western Cape region. He has completed Executive and Management Development programmes.

V B M (Vusi) Dhlamini (45) was appointed as Depot Manager, Pretoria North, on 13 November 2008. He was responsible for managing the operations of the depot, which is responsible for storing and distributing new banknotes and processing dye-stained banknotes. He has a Certificate in Organisation and Work Study, and a Certificate in Service Level Management. He has completed a Management Development Programme and is currently studying towards a BCom degree (Risk Management). On 2 April 2013 he was seconded to the position of Branch Manager at the Johannesburg Branch.

E H (Edmund) Jacob (53) joined the Bank on 13 August 2001 and was appointed as Branch Manager, East London, on 1 April 2005. He is responsible for currency management in the Border/Kei region. Before joining the Bank, he worked in the retail and wholesale cash operation divisions in the commercial banking sector for 18 years. He holds a BA degree and a University Higher Education Diploma.

C S P (Zama) Hadebe (38) joined the Bank on 1 August 2001 and was appointed as Branch Manager, Durban, on 1 March 2012. She is responsible for currency management in the KwaZulu-Natal region. She holds a BCom degree in Marketing, a Postgraduate Diploma in Business Management from the University of Natal, and an Associate Diploma from the Institute of Bankers in South Africa.

M (Madeleine) Hellerle (50) joined the Bank on 1 July 1980 and was appointed as Branch Manager, Bloemfontein, on 1 August 2008. She is responsible for all cash management activities in the Free State and Northern Cape regions. She also worked in the Durban and Port Elizabeth branches of the Bank where her responsibilities included various aspects of branch operations. She holds a Diploma in Banking from the Institute of Bankers in South Africa.

B P (Pat) Loving (50) was appointed as Branch Manager, Johannesburg, in March 2006 and remained in that position until 31 March 2013. She is currently the Head of the Branch Operations Division at the Bank's Head Office, with effect from 1 April 2013. She has an Advanced Diploma in Banking from the Institute of Bankers in South Africa, an Advanced Diploma in Project Management and a Diploma in Financial Management from Unisa. She is a member of the Institute of Bankers in South Africa, and has completed Executive and Management Development programmes.

A (Alicia) Maharaj (47) joined the Bank on 1 September 2001 and was appointed as Branch Manager, Port Elizabeth, on 1 January 2009. She is responsible for currency management in Port Elizabeth and surrounding regions of the Eastern Cape. She holds BA and BTech: Labour Relations Management degrees from Unisa and a Leadership Development Programme (LDP) qualification from the Manchester School of Business.

Overview of subsidiaries

Introduction

The Bank has four subsidiaries. A decision has been taken to align the subsidiaries and their procedures and policies more closely with those of the Bank. Consequently, various Bank departments are assuming responsibility for corresponding activities in the subsidiaries, such as risk management, internal audit, secretariat and security services.

The members of the Boards of Directors (the Boards) of the subsidiaries are appointed by the Bank's Board, with the exception of the CPD where the Minister of Finance appoints Board members. The audited financial results of the subsidiaries are consolidated with those of the Bank in the financial statements included in this *Annual Report*.

All subsidiaries' Memorandums and Articles of Association, with the exception of the CPD, which functions under its own legislation, were converted into Memorandums of Incorporation as required in terms of the Companies Act, 2008 (Act No. 73 of 2008) (Companies Act), and lodged with the Companies and Intellectual Property Commission (CIPC).

South African Bank Note Company (RF)[4] Proprietary Limited

4 In terms of the provisions of section 11(3)(b) of the Companies Act, the company's name now includes the expression "RF", being the abbreviation for "ring fenced".

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

The 2012/13 financial year was important for the SABN, with the following significant milestones being achieved:

- The successful launch of the new Mandela banknote series in November 2012, incorporating the latest security features.
- Completion of the equipment installation phase of the factory modernisation project.
- A net loss after tax of R0,07 million compared with a prior-year loss of R146 million. The fact that near breakeven was achieved is an indication that the SABN is moving towards a sustainable position.

The SABN supported the Bank in successfully launching the new Mandela banknote series, while also decommissioning outdated equipment and installing new equipment necessary for the printing of the new banknote series. Three new lines of state-of-the art printing and auxiliary equipment have been installed and commissioned. Specialised raw materials were procured and sufficient notes printed to ensure a successful launch of the new banknote series in November 2012. Finally, in meeting the production target for the year as agreed with the Bank, the Finishing Section of the SABN achieved a new record in March 2013 for the most notes processed in a 16-hour shift using 4 BPS (i.e., banknote processing system) machines.

J (Joyce) Kumbirai (51) was appointed in May 2011 as the Managing Director (MD) of the SABN. Before this appointment, she worked at the Bank in the IAD as an Assistant General Manager and had held the position of Senior Audit Manager at Eskom for a number of years. She holds an MBA degree from the University of Pretoria and a Bachelor of Accounting (Honours) degree, and is a certified internal auditor.

With the equipment installation phase nearing completion, the SABN has commenced with enhanced and specialised training and development of its employees in order to ensure that there are appropriate skills in-house to operate and maintain the technologically advanced machinery well into the future.

A new effluent plant, which recycles used effluent and water in the printing process, has been successfully commissioned. Electricity-monitoring equipment has been installed in order to measure and actively manage consumption and raw material packaging, and by-products are sorted by type and collected by recycling companies.

The SABN is committed to promoting a safe and healthy workplace for its employees. Various safety initiatives have been implemented, while ongoing risk assessments are conducted to mitigate any possible incidents occurring in the workplace. Employees have access to a clinic, which is equipped with a qualified nurse and doctor on site.

The SABN executive conducted an annual review of its strategy to ensure alignment to the vision and mission of the company. Several initiatives were identified to address waste reduction; supply chain capacity management; the enhancement of management information systems; quality management; safety, health and the environment (SHE); the enhancement of employee skills and competence; and optimal utilisation of the increased production capacity.

The executive structure of the SABN was revised during the year under review in order to ensure an integrated and focused approach towards delivering on the strategy. A (Ahmed) Haffejee was appointed as the CFO responsible for Finance, Risk, ICT and Procurement. D (Deon) van Zyl was appointed to the position of Supply Chain Director responsible for Production, Maintenance, Logistics and Projects. T (Tom) Coetzee is COO and is responsible for Human Resources, Facilities, Protection Services, Quality and SHE.

SABN Board of Directors

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

Deputy Governor Groepe was appointed by the Bank as a non-executive director to the Board and the respective subcommittees on 28 May 2012. N (Nkuli) Swana's term expired on 16 September 2012 and N (Nomkhita) Nqweni's term expired on 1 April 2013.

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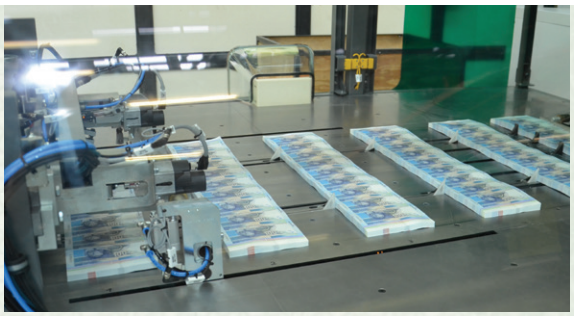

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Supercheck numerota (note numbering machine)

As at 31 March 2013 the Board comprised the following members:

K P (Koosum) Kalyan (Chairperson)	Independent, non-executive director
N (Nomkhita) Nqweni	Independent, non-executive director
R J G (Rob) Barrow	Independent, non-executive director
L (Bertus) van Zyl	Non-executive director
N (Naidene) Ford-Hoon	Non-executive director
F E (Francois) Groepe	Non-executive director
J (Joyce) Kumbirai	Managing Director.

In line with the Bank's drive to align the subsidiaries' policies and procedures more closely with those of the Bank, the Bank's SSSU assumed the function role and associated responsibilities of Company Secretary at the SABN on 30 August 2011. J N L (Johan) Fourie acts as the SABN Company Secretary and is a member of the SSSU.

The new "Mandela" banknotes series

M T (Tumi) Tsehlo (37) was appointed as MD of the SA Mint in December 2012 after being Acting MD since 2011. He was the General Manager: Circulation Coins from 2007 until his appointment as MD. He worked as a manufacturing development consultant for the central office of South African Breweries and did his engineering training with Rotek Engineering where he also held the position of work engineer. He holds an MSc (Industrial Engineering), an MBA and BSc (Electromechanical Engineering) degrees.

South African Mint Company (RF) Proprietary Limited

The SA Mint is a wholly owned subsidiary of the Bank, and its core function is to produce coins and coin-related products for South Africa and the international market.

The SA Mint has two operating divisions, namely

(i) the Circulation Coins Division, which manufactures coins used for circulation in the economy; and

(ii) the Numismatics Division, which produces premium products made mainly in gold and silver that cater for the collector, gift and investor markets.

Most of the products manufactured by the Numismatics Division are of proof quality and are sold at a premium over the prevailing metal price. Some of the more popular numismatics brands produced by the SA Mint include proof Krugerrands, and Natura and Protea coins. Both divisions market their products in South Africa and the export market. The SA Mint also mints the bullion version of the Krugerrand for marketing and distribution by Rand Refinery Limited.

The SA Mint concluded a joint venture agreement with Rand Refinery Limited in April 2013 and established a separate entity, Prestige Bullion (Pty) Limited. The SA Mint has elected not to consolidate the results of this new entity in the current financial year and from a Group perspective, the results are not material. In the medium term the bullion Krugerrand will continue to be manufactured by the SA Mint and marketed and distributed by Rand Refinery Limited on behalf of Prestige Bullion (Pty) Limited.

Current activities and results

At the beginning of the financial year, the stabilisation of the operations was identified as a key focus area. The focus was mainly on rebuilding the operational base. However, it was also recognised that the company had to maintain its visibility and relationships with new and established international customers.

The first half of the year saw a reasonable financial performance, driven by good gross margins, even though sales remained below target in both the Circulation Coins and Numismatics divisions. In the Circulation Coins Division higher gross profits were driven by a favourable product mix. In the Numismatics Division the good gross margins were driven by innovative product combinations. The combination of the award-winning Natura 2011 prestige set and the Nelson Mandela Birthday set became much sought after. Good progress was made with securing a number of export circulation coin orders.

2012 Natura Coin
(African painted wolf)

The second half of the year saw the Numismatics Division continue its robust performance, although sales remained below budget. The division was able to maintain its high margins, resulting in better profits, although still lower than budget. Circulation Coin's second half was more difficult as it experienced delays in some delivery schedules due to various factors, resulting in the division being unable to complete all its orders for the financial year.

The Bank's risk framework was implemented at company level and the Bank Control of Commercial Crimes Policy and the whistle-blowing procedure were successfully launched at the SA Mint during the year.

The security upgrade project was launched during the year and progress has been made towards phasing in the in-house security function.

SA Mint Board of Directors

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

As at 31 March 2013 the Board comprised the following members:

A D (Daniel) Mminele (Chairperson)	Non-executive director (Deputy Governor of the Bank)
S J (Joe) Tau	Independent non-executive director
N (Nkuli) Swana	Independent non-executive director
R J G (Rob) Barrow	Independent Non-executive director
N (Naidene) Ford-Hoon	Non-executive director
T M (Tumi) Tsehlo	Managing Director (appointed 1 December 2012).

- Mr A M Mvinjelwa ceased to be a Board member on 31 May 2012.
- On 21 May 2012 Prof R W K (Raymond) Parsons retired as a non-executive director.
- On 1 December 2012 Mr M T (Tumi) Tsehlo was appointed as MD.
- On 11 January 2013 Ms L (Leanne) Pillay resigned as a non-executive director.
- Mesdames K Kalyan and N Nqweni retired as non-executive directors on 18 and 31 March 2013 respectively.

As at 31 March 2013 the Acting Company Secretary was T P (Tiyani) Mongwe.

R2 gold coins (Khoisan design)

2012 Protea Coin (Walter and Albertina Sisulu)

Corporation for Public Deposits

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

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

The FSD of the Bank is responsible for the administration and accounting of the funds under the control of the CPD.

As at 31 March 2012 the Board comprised the following members:

A D (Daniel) Mminele (Chairperson)[5]	Director (Deputy Governor of the Bank)
M (Monale) Ratsoma	Director (National Treasury)
M (Mkhulu) Maseko	Director (National Treasury)
L R (Leon) Myburgh[6]	Director (Bank: FMD).

As at 31 March 2013 the Company Secretary was M (Mhitlhiemang) Masibi-Malotle, who is an employee in the Bank's SSSU.

5 A D Mminele was reappointed as the Chairperson of the CPD with effect from 24 March 2013.

6 L R Myburgh was appointed as the Director of the CPD representing the Bank with effect from 1 March 2013.

South African Reserve Bank Captive Insurance Company (RF) Limited

The South African Reserve Bank Captive Insurance Company (RF) Limited (SARBCIC) is a wholly owned subsidiary of the Bank, registered in terms of the Companies Act as a public company to comply with the provisions of section 9(3)(a)(i) of the Short-term Insurance Act, 1998 (Act No. 53 of 1998).

SARBCIC is a first-party captive insurer, authorised to carry out only short-term insurance business for, and on behalf of, the Group.

SARBCIC has contracted the provision of personnel and management services from the Bank in terms of a management agreement. It conducts its operations from the Bank's Head Office building, and uses the Bank's accounting systems and other infrastructure.

SARBCIC's Board is ultimately accountable and responsible for the performance and affairs of the company. The Board has established an Audit, Risk and Compliance Committee (ARCC) to assist it in the discharge of its responsibilities. As at 31 March 2013 the Board comprised the following members:

P (Pradeep) Maharaj	Non-executive Chairperson (COO of the Bank)
M (Mahomed) Akoob	Independent, non-executive director and Chairperson of the ARCC
M (Melanie) Bosman	Independent, non-executive director and member of the ARCC
P N (Precious) Sibiya	Independent, non-executive director and member of the ARCC
G H (Gert) Engelbrecht	Executive director and Public Officer
F G (Gerhard) Wiehman	Executive director and CEO.

P Maharaj, G H Engelbrecht and F G Wiehman are all employees of the Bank. As at 31 March 2013, the Company Secretary was S W (Sandile) Soga, who is an employee of the Bank's FSD.

There were no significant transactions and arrangements outside of the normal course of business during the year ended 31 March 2013, other than a material insurance claim submitted by the Bank, resulting in an operating loss. No material deficiency findings were noted by the independent assurance providers or regulatory authorities.

Decision-making entities and corporate governance

Board of Directors of the Bank

Front row (left to right): T N Mgoduso, J F van der Merwe, G Marcus (Governor), M S V Gantsho, R J G Barrow

Back row (left to right): F Cachalia, R le Roux, A M Chait, A D Mminele (Deputy Governor), B W Smit, E L Kganyago (Deputy Governor), F E Groepe (Deputy Governor), G M Ralfe, M Manyama-Matome, T Ajam

Abridged *curricula vitae* of directors

Executive directors/governors

Abridged *curricula vitae* of the executive directors/governors appear on pages 24 and 25 of this report.

Non-executive directors

T (Tania) Ajam (42) was appointed in October 2011 as a non-executive director representing government. She has knowledge and skills in public finance, and broad experience in the design, analysis and implementation of fiscal policy, sectorial public budget management, and government-wide monitoring and evaluation systems. She currently serves on the Financial and Fiscal Commission as a part-time Commissioner. Previously, she was the CEO of the Applied Fiscal Research Centre (AFReC), a research-based training and consulting company affiliated to the University of Cape Town. She holds MBusSc and BBusSc degrees from the University of Cape Town, and a BA (Hons) in Economics from Cambridge University. She is a member of the Bank's BREC and Non-executive Directors' Committee (Nedcom).

R J G (Rob) Barrow (66) was elected on 1 July 2011 as a non-executive director with knowledge and skills in commerce or finance. He was the CEO of the FSB until his retirement on 30 June 2008. Previously, he was the Deputy Executive Officer of the FSB responsible for the regulation of the Capital Markets and Collective Investment Schemes industries for 8 years. He was also the Director of Surveillance of the JSE for 3 years and a partner in Coopers & Lybrand (now PricewaterhouseCoopers) for 16 years. He currently acts as a non-executive director on a limited number of boards. He is a chartered accountant (SA) and has been actively involved in setting accounting standards in South Africa. He chairs the Bank's Audit Committee, and serves on its BREC and Nedcom, and on the Board and Audit Committees of both the SABN and the SA Mint.

F (Firoz) Cachalia (55) was appointed in July 2012 as a non-executive director representing government. He is an Adjunct Professor in the Law School at the University of the Witwatersrand. He teaches Administrative Law, Constitutional Law and Jurisprudence. He has been admitted as an attorney, and holds LLM, LLB, BA (Hons) and BA degrees, and a higher diploma in Company Law. He has held several key posts in government, including Head of the Planning Commission in the Gauteng Provincial Government; Speaker; Leader of Government Business; Member of the Executive Committee for Community Safety, and for Economic Development. He has also served on the Council of the University of the Witwatersrand and on the Judicial Services Commission. He serves on the Bank's BREC and Nedcom.

A M (Anthony) Chait (60) was elected in July 2012 as a non-executive director with knowledge and skills in commerce or finance. He is a chartered accountant (SA) and holds a Bachelor of Accounting degree, Higher Diploma in Tax Law and Higher Diploma in International Tax. He is currently a director of Zeridium (Pty) Limited. He serves on the Bank's Remco, Audit Committee and Nedcom.

M S V (Mandla) Gantsho (50) was appointed in June 2011 as a non-executive director representing government. He has knowledge and skills in strategic management, infrastructure development, accounting and finance. He has been an Executive Director of Africa Rising Capital (Pty) Limited since 2010, which he represents at various associations and forums, and is a non-executive director of Sasol Limited, Impala Holdings Limited and Chairperson of the Board of Ithala Development Finance Corporation Limited. He is a member of the South African Institute of Chartered Accountants. Previously, he was the MD and CEO of the Development Bank of Southern Africa, and the Vice President of the African Development Bank. He is a chartered accountant (SA) and holds PhD, MPhil, MSc and BCom degrees. He chairs the BREC and serves on the Audit Committee and Nedcom.

R (Rochelle) le Roux (47) was elected in July 2011 as a non-executive director with knowledge and skills in labour. She is a professor in the Faculty of Law at the University of Cape Town and, since the beginning of 2012, also Director of the Institute of Development and Labour Law, a research institute located in the same faculty. She is a member of the Board of the South African Institute for Drug-free Sport. She holds a number of law degrees and diplomas from local and international universities, including a PhD from the University of Cape Town. She serves on the Bank's Remco and Nedcom.

M (Maureen) Manyama-Matome (36) was appointed in October 2011 as a non-executive director representing government. She has knowledge and skills in strategy, strategy implementation, financial management, business management, financial and business reporting, and performance management. She is currently financial director at Airports Company South Africa (ACSA). She is a non-executive director of various organisations. She is a member of the South African Institute of Chartered Accountants and the Independent Regulatory Board of Auditors. She is a chartered accountant (SA) and holds MBA, BCompt (Hons), BCom (Hons) (Taxation) and BCom (Accounting) degrees. She serves on the Bank's Audit Committee and Nedcom.

T N (Thandeka) Mgoduso (56) was elected in 2006 as a non-executive director with knowledge and skills in industry. She has served in various executive positions at Transnet Limited, Imperial Logistics, Ayavuna Women's Investments and at the University of Johannesburg. She serves on a number of boards, including Tongaat Hulett, BIOSS SA and Jojose Investments. She holds an MA (Clinical Psychology) degree. She chairs the Bank's Remco and serves on Nedcom.

G M (Gary) Ralfe (68) was elected in July 2011 as a non-executive director with knowledge and skills in mining. He worked for 40 years at Anglo American Corporation and De Beers. He retired in 2006 as managing director of De Beers. He is either chairperson or director of six non-governmental organisations involved in education, health, rural community development, promotion of democracy and Business Against Crime. He holds a BA (Hons) in History from Cambridge University and a BProc from Unisa. He serves on the Audit Committee and on Nedcom.

B W (Ben) Smit (62) was elected as a non-executive director with knowledge and skills in industry in December 2010. He is a professor of Economics at Stellenbosch University and also serves as Director of the Bureau for Economic Research (BER) at the same university. He holds DCom and MCom degrees in Economics. He serves on the BREC and Nedcom.

J F (Hans) van der Merwe (62) was elected in 2007 as a non-executive director with knowledge and skills in agriculture. He has been the Executive Director of Agri SA since 2002, which he represents in various associations and forums including Business Unity South Africa (Busa) and the National Economic Development and Labour Council (Nedlac), and regional and international agricultural bodies. He had direct involvement in the evaluation and development of a wide range of policies relevant to the social and economic wellbeing of the agricultural sector, and related legislation and programmes. His earlier career experience includes conducting agricultural marketing research for the Department of Agriculture, lecturing in Business Economics at the University of Pretoria and serving in a management position at the Maize Board. He holds MBA and BCom degrees. He is the Chairperson of Nedcom and also serves on Remco and BREC.

Board of Directors

In accordance with the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), as amended (SARB Act), the Board comprises 15 members. The Board is a unitary Board that functions in terms of the SARB Act and a Board Charter that, as with all other Board committees' terms of reference, is reviewed annually by the Board.

The Board's executive members are the Governor and three deputy governors, all of whom are appointed by the President of the Republic of South Africa, after consultation with the Minister and the Board. Such appointments are for a period of five years for the first term of office and thereafter they may be reappointed for further terms not exceeding five years at a time. The Governor serves as Chairperson of the Board, with a casting and deliberative vote as stipulated in the SARB Act, and as CEO of the Bank. Accordingly, the Bank does not follow the recommendation contained in *King III* to have an independent non-executive Chairperson. The Chairperson of Nedcom fulfils the role of lead independent non-executive director and has unrestricted access to the Chairperson.

Four independent non-executive directors are appointed by the President of the Republic of South Africa, after consultation with the Minister, and seven non-executive directors are elected by the shareholders of the Bank for a three-year term. Directors are eligible for reappointment or re-election at the end of their terms, but may not serve more than three terms. This is in line with the nine-year principle contained in *King III* as an appropriate period of service by Board members.

S M (Stephen) Goodson resigned from the Board with effect from 3 May 2012 and his position was filled at the 2012 AGM with the election of A M Chait, in the category of commerce or finance. The President appointed Prof F Cachalia to the Board with effect from 16 July 2012. There are currently no vacancies on the Board. However, T N Mgoduso (Industry), J F van der Merwe (Agriculture) and B W Smit's (Industry) terms of office will expire at the 2013 AGM. All three directors are available for re-election as they have not yet served three terms.

The Board ordinarily meets five times a year. The SARB Act stipulates what matters must be considered by the Board, while the Board Charter sets out the rules and procedures for the Board to ensure the proper discharge of its governance functions. The Board, among other things, receives reports from the GEC, which is responsible for the day-to-day activities of the Bank, and the various Board committees chaired by non-executive directors. Non-executive directors do not have service contracts with the Bank. The amendments to the SARB Act in 2010 introduced the concept of "fit and proper", and the establishment of a Panel[7] to evaluate prospective non-executive directors to help ensure that the Board comprises people with integrity, and a diversity of skills and knowledge to enable effective governance.

7 Panel appointed in terms of section 4(1C) of the SARB Act.

Director self-assessments are performed annually to assess the functioning of the Board as a whole and its Board committees. The Chairperson meets with all directors individually. This process is used to inform recommendations for the nominations or otherwise of a Board member for re-election. Such recommendations are made after an assessment of the needs and skills

The Bank is governed within a framework of accountability to all its stakeholders in order to achieve its objectives with the maximum level of effectiveness and efficiency.

on the Board, and of each non-executive director's contribution to the work of the Board. After due consideration, the Board unanimously supported the nominations of T N Mgoduso, J F van der Merwe and B W Smit for a further term, and as candidates for consideration by the Panel.

The Bank's Board comprises 15 directors, both executive and non-executive, of whom 5 are women and 8 are black, with an average age of 54 years.

Functioning of the Board

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

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

The Bank has a formal governance framework that deals with four areas, namely (i) the composition and membership of the Board, (ii) the Board and organisational matters, (iii) Board committees and their terms of reference, and (iv) policies and procedures pertaining to corporate governance.

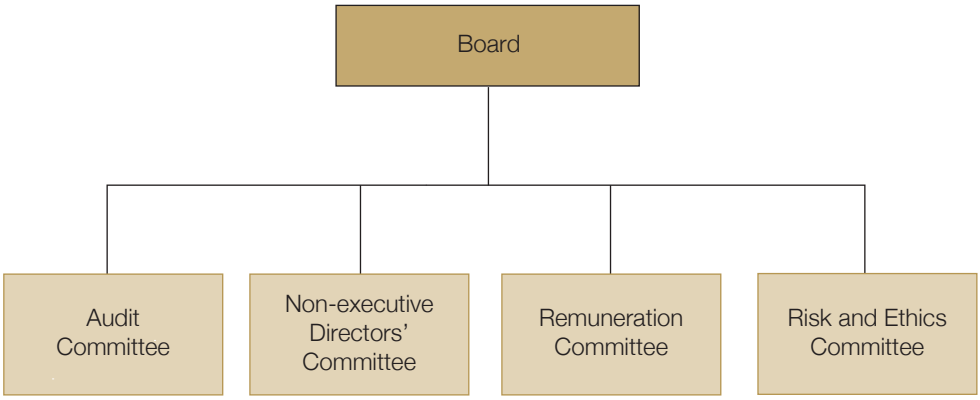
Three non-executive directors' terms of office expire at the 2013 AGM. Advertisements calling for nominations to fill the upcoming vacancies on the Board were placed in newspapers on 6 March 2013 and in the Sunday press on 10 March 2013. The Panel considered these nominations on 20 April 2013 and confirmed nine candidates (three candidates for each vacancy) for consideration for election by shareholders at the 2013 AGM.

Membership, frequency and attendance of Board meetings from 1 April 2012 to 31 March 2013

Member	Date of appointment	17/05/2012	14/06/2012	26/07/2012	27/07/2012	27/09/2012	30/11/2012	21/02/2013
G Marcus (Chairperson)	9/11/2009	√	√	√	√	√	√	√
A D Mminele	1/07/2009	√	√	√	√	√	√	x
E L Kganyago	16/05/2011	x	√	√	√	√	√	√
F E Groepe	1/01/2012	√	√	√	√	√	√	√
S M Goodson	27/08/2003	Resigned: 3/05/2012						
T N Mgoduso	19/07/2006	√	x	√	√	√	√	√
J F van der Merwe	21/09/2007	√	√	√	√	x	√	√
B W Smit	8/12/2010	√	√	√	√	√	√	√
G M Ralfe	1/07/2011	√	√	√	√	√	√	√
R J G Barrow	1/07/2011	√	√	√	√	√	√	√
M S V Gantsho	11/06/2011	√	x	√	√	√	x	√
R le Roux	1/07/2011	√	√	√	√	√	√	√
M Manyama-Matome	6/10/2011	√	√	√	√	√	x	x
T Ajam	6/10/2011	√	√	√	√	√	x	√
F Cachalia	16/07/2012	Appointed: 16/07/2012		√	√	√	√	√
A M Chait	28/07/2012	Elected: 28/07/2012			*	√	√	√

* Attended by invitation
x Apologised for absence (Deputy Governors Mminele and Kganyago were away on official business)
√ Attended

Board Committees



Audit Committee

During the 2012/13 financial year, the Board appointed A M Chait as a member of the Audit Committee after his election as a non-executive director at the 2012 AGM.

All five members are independent non-executive directors, four are chartered accountants and all have financial expertise. The Governor, Deputy Governor Groepe and P Maharaj are not members of the committee but attend meetings by invitation. P Maharaj has been attending Audit Committee meetings since his appointment as COO of the Bank on 1 November 2012, when he assumed responsibility for the FSD, among others.

The external and internal auditors have unrestricted access to the chairperson of this committee. The committee meets regularly with the heads of the BSTD, the FSD, the RMCD, the IAD and the external auditors.

The Audit Committee has an objective and independent role in keeping with its terms of reference, in accordance with which the committee assists the Board in fulfilling its oversight responsibilities for financial reporting, the system of internal control, the audit process and, as appropriate, the Bank's compliance with laws and regulations as they relate to financial reporting. The committee also reviews the deliberations and minutes of the Audit committees of the Bank's subsidiaries. The Audit Committee Chairperson has recently been appointed as a non-executive director and member of the Audit committees of the Bank's currency-producing subsidiaries.

The Audit Committee is an advisory committee and not an executive one. The Chairperson of the Audit Committee is a member of the BREC and vice versa.

The terms of reference of the Audit Committee provide, among other things, for the committee to

- review the annual financial statements included in the Bank's *Annual Report*, and consider whether they are complete, consistent with information known to committee members and reflect appropriate accounting principles;
- review significant accounting and reporting issues, including complex or unusual transactions, and recent professional and regulatory pronouncements, and assess their impact on the Bank's financial statements;
- review other sections of the Bank's *Annual Report* and related regulatory requirements before release, and consider the accuracy and completeness of the information;
- consider the effectiveness of the Bank's internal control systems;
- review and agree annually with management and the CIA on the Charter, plans, activities, staffing and organisational structure of the internal audit function;
- review annually the performance of the CIA, the CFO and the Bank's financial control systems;
- ensure that no restrictions or limitations are placed on the scope and work of the internal audit function;
- ensure reporting of audit and other findings;
- review and concur with the appointment, replacement or dismissal of the CIA;
- ensure proper co-ordination between the internal and external auditors;
- review the external auditors' proposed audit scope, approach and audit fees, including co-ordination of external and internal audit;
- review the performance of the external auditors and make recommendations to the Board, to be put to shareholders, on the appointment, renewal or discharge of the auditors;
- review and confirm the independence of the external auditors by obtaining confirmation from them on their relationships with the Bank, including the rendering of non-audit services;
- limit any services that the external auditors may not render to the Bank or any of the subsidiaries; and
- review arrangements by which staff of the Bank may confidentially raise concerns about possible improprieties, including matters of financial reporting, with a view to ensuring that processes are in place for the independent investigation of such matters and for appropriate follow-up action.

Membership, frequency and attendance of the Audit Committee meetings from 1 April 2012 to 31 March 2013

Member	Date of appointment	31/05/12	13/09/12	8/11/12	14/02/13
R J G Barrow (Chairperson)	14/07/2011	√	√	√	√
G M Ralfe	14/07/2011	√	√	√	√
M S V Gantsho	14/07/2011	√	√	√	√
M Manyama-Matome	30/11/2011	√	√	x	√
A M Chait^	28/07/2012		√	√	√

^ Appointed as a member with effect from 28/07/2012
x Apologised for absence
√ Attended

Non-executive Directors' Committee (Nedcom)

Nedcom comprises all the non-executive directors of the Bank. The committee's primary function is to assist the Board in fulfilling its legal and supervisory obligations and responsibilities; enhancing corporate governance practices; ongoing director training and development; and evaluating the performance of the Secretary of the Bank, S L Reynolds, on an annual basis.

The non-executive directors make a recommendation to the Board for the appointment of the Nedcom Chairperson. The committee is chaired by a non-executive director, J F van der Merwe, and meets at least three times a year.

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

- the effective functioning of the Governor as the Chairperson of the Board and as CEO of the Bank;
- discussions with the Governor on the effective functioning of the Bank and the performance of the deputy governors;
- the promotion of an effective working relationship among all Board members, and between the Board and executive of the Bank;
- the review of, and recommendations on, corporate governance issues that may arise from time to time;
- the approval of appropriate orientation, induction and education programmes for new and existing directors;
- assisting with the orientation and training of new directors;
- reviewing and assessing the channels through which the Board receives information, and the quality and timeliness of information received; and
- any other issues of concern to non-executive members that they wish to discuss in the absence of executive directors.

Membership, frequency and attendance of the Nedcom meetings from 1 April 2012 to 31 March 2013

Member	Date of appointment	17/05/12	7/09/12	19/11/12	8/02/13
J F van der Merwe (Chairperson)	22/11/2007	√	√	√	√
T N Mgoduso	17/05/2007	√	√	√	√
B W Smit	9/12/2010	√	√	√	√
M S V Gantsho	11/06/2011	√	x	√	x
G Ralfe	1/07/2011	√	x	√	√
R G J Barrow	1/07/2011	x	√	√	√
R le Roux	1/07/2011	√	√	√	√
M Manyama-Matome	6/10/2011	√	√	x	√
T Ajam	6/10/2011	√	√	x	√
A M Chait[Δ]	28/07/2012		√	√	√
F Cachalia[Δ]	16/07/2012		√	√	√

Δ A M Chait was appointed as a non-executive director on 28/07/2012 and F Cachalia on 16/07/2012
x Apologised for absence
√ Attended

Remuneration Committee (Remco)

Remco is chaired by a non-executive director appointed by the Board. It meets at least four times a year to review Bank-wide human resources matters, and remuneration practices and policies. In keeping with its terms of reference, Remco recommends for consideration by the Board the remuneration packages of the Governor and deputy governors, and the remuneration of, and incentives for, staff members. Executive members are recused during applicable discussions of executive remuneration or benefits. The executive, rather than Remco, recommends the remuneration of the non-executive directors for consideration by the Board, after having made relevant enquiries with other similar organisations and surveys to determine an appropriate increase.

During the year under review A M Chait was appointed as a member of Remco and S M Goodson's membership terminated when he resigned from the Board. P Maharaj attends meetings by invitation due to him being responsible for the HRD.

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

- the review of broad human resources strategies to ensure that the Bank has an appropriate reward structure for a knowledge-based institution;
- the review of broad HR strategies relating to employment equity, transformation and affirmative action;
- ensuring that provisions regarding disclosure of remuneration are met for annual reporting purposes;
- the composition of the staff complement (i.e., identifying skills, gender, age, seniority and race);
- staff training and development; and
- the human resources philosophy and framework.

Membership, frequency and attendance of Remco meetings from 1 April 2012 to 31 March 2013

Member	Date of appointment	17/05/12	7/09/12	19/11/12	8/02/13
T N Mgoduso (Chairperson)	19/07/2006	√	√	√	√
G Marcus	9/11/2009	√	√	√	√
A D Mminele	1/07/2009	√	√	√	√
S M Goodson	27/08/2003	Resigned: 3/05/2012			
J F van der Merwe	21/09/2007	√	√	√	√
R le Roux	1/07/2011	√	√	√	√
A M Chait	28/07/2012	Appointed: 28/07/2012	√	√	√

√ Attended

Board Risk and Ethics Committee (BREC)

The BREC comprises six non-executive directors, the Governor and two deputy governors, one of whom is responsible for the RMCD. It is chaired by an independent non-executive director appointed by the Board. The Chairperson of the BREC also serves on the Audit Committee. The mandate of the committee was expanded during the year under review to include a review of ethics principles and their implementation throughout the Group. The BREC oversees Group social and ethics functions and risk matters (except financial risk reporting, which remains the preserve of the Audit Committee). The committee has assumed the role and function of the Social and Ethics Committee on behalf of the currency-producing subsidiaries. The committee assists the Board with reviewing the status of risk management, the effectiveness of risk management activities and the mitigating measures that address key risks faced by the Group. It also monitors the appropriate and relevant disclosure of risk. The committee met three times during the year under review.

The terms of reference of the BREC provide for the committee to consider matters such as

- reports on risk management in the Group;
- evaluating and monitoring the implementation of the Group's Risk Management and Financial Management Policy;
- monitoring that risk assessments are performed and reviewed on an ongoing basis;
- the adequacy and effectiveness of the risk management processes and reporting systems;
- the risk profile of the Group and key risks it faces;
- consideration of appropriate risk-mitigating measures implemented by the executive;
- the implementation by the executive of processes to identify and, as appropriate, respond to exogenous risks;
- the effectiveness of the system for monitoring compliance with legislation and the policies of the Group;
- the status of the Group's disaster recovery and business continuity plans;
- reporting to the Board on the effectiveness of the system and process of risk management; and
- monitoring the Group's activities, having regard to relevant legislation, other legal requirements or prevailing codes of best practice relating to social and economic development, good corporate citizenship, environment, health and public safety, including the impact of the Group's activities, customer relationships, labour and employment.

Based on the reviews completed by the BREC, the Board is satisfied that the Bank has an effective risk management process in place.

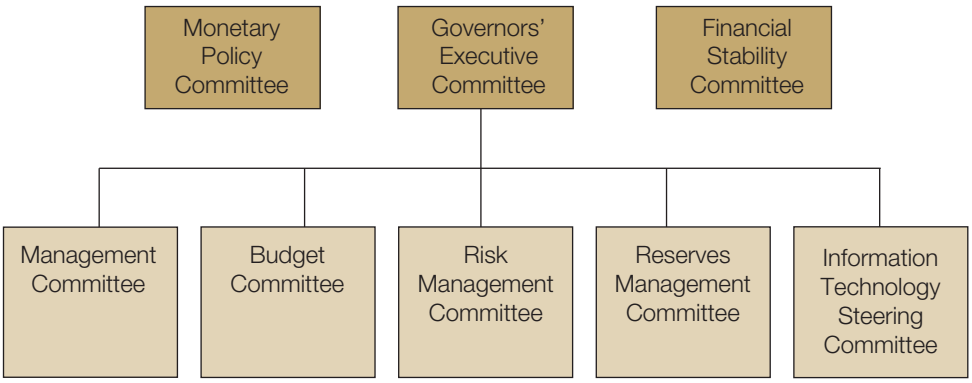
Membership, frequency and attendance of the BREC meetings from 1 April 2012 to 31 March 2013

Member	Date of appointment	31/05/12	8/11/12	14/02/13
M S V Gantsho (Chairperson)	23/02/2012	√	√	√
G Marcus	25/02/2010	√	√	x
F E Groepe	25/02/2010	√	√	√
E L Kganyago	5/10/2011	√	x	√
J F van der Merwe	25/02/2010	√	√	√
B W Smit	14/07/2011	√	√	√
R G J Barrow	14/07/2011	√	√	√
T Ajam	30/11/2011	x	x	√
F Cachalia[Δ]	16/07/2012		√	√

Δ Appointed on 16/07/2012
x Apologised for absence (Governor Marcus was away on official business)
√ Attended

Internal/Operating committees

Governors' Executive Committee (GEC) and its subcommittees



Governors' Executive Committee (GEC)

The Governor and deputy governors, in their capacities as executive directors of the Bank, are responsible for the day-to-day management and policy decisions of the Bank, except those responsibilities entrusted to the Board, the MPC and the FSC. The GEC generally meets fortnightly to consider policy issues and other executive management matters. The GEC comprises the Governor as Chairperson and the deputy governors. The General Counsel, the Group Head: Strategy and Communications, the COO and the Secretary of the Bank attend *ex officio*, and a record is kept of the meetings.

Front row (left to right):	E L Kganyago (Deputy Governor), F E Groepe (Deputy Governor) G Marcus (Governor), A D Mminele (Deputy Governor)
Middle row (left to right):	J J de Jager (General Counsel and Head: Legal Services), H Mathebula (Group Head: Strategy and Communications),
Back row:	P Maharaj (Chief Operating Officer), S L Reynolds (Secretary of the Bank)

Monetary Policy Committee (MPC)

The main objective of the MPC is the pursuit of the Bank's primary objective of price stability. The committee takes decisions on the appropriate monetary policy stance through changes in the repo rate. The decision-making process of the MPC considers a wide range of economic data and information on global and domestic developments, financial markets, and the banking sector. The decision on the monetary policy stance is announced at a media conference at the end of each bi-monthly meeting. A comprehensive statement outlining the assessment of prevailing conditions, forecasts for inflation and the real economic activity is released. The media conference is also an opportunity for the MPC to respond to questions from the public on the immediate decision on the monetary policy stance and clarity on the economic conditions in general.

The MPC comprises the Governor as Chairperson, the deputy governors and three other senior employees of the Bank, namely S B (Brian) Kahn and K (Kuben) Naidoo, both Advisers to the Governor, and R (Rashad) Cassim, who is the Head of RSH. M (Monde) Mnyande was a member of the MPC until his retirement in August 2012.

The report on monetary policy can be found on page 10 of this *Annual Report*.

Front row (left to right): E L Kganyago (Deputy Governor), F E Groepe (Deputy Governor), G Marcus (Governor), A D Mminele (Deputy Governor)

Back row (left to right): S B Kahn (Adviser to the Governor), K Naidoo (Adviser to the Governor), R Cassim (Head: Research Department)

Financial Stability Committee (FSC)

The FSC was established in 2000 to deal with systemic issues in the financial system. Following the formalisation of the Bank's financial stability mandate, the committee was restructured in 2010. The role of the FSC is to complement the price stability objective of the Bank through the formulation and implementation of appropriate macroprudential policy measures to limit the cost of systemic distress in the financial system. In the process the FSC considers qualitative and quantitative analyses of risks to, and imbalances in, the broad financial system in order to identify possible steps to mitigate such risks. The FSC comprises the Governor as Chairperson, the deputy governors, the remaining members of the MPC and a maximum of seven additional members from different disciplines across the Bank. The FSC meets every two months, on alternate months to the MPC.

Management Committee (Manco)

The Management Committee (Manco) is chaired by Deputy Governor Groepe, and all heads of department and the COO serve as members of the committee. Manco is responsible for the day-to-day management of the Bank, including

- approval of cross-cutting procedures and organisational objectives pertaining to the internal administration of the Bank;
- the development and amendment of administrative policies of the Bank; and
- assurance that the policies and administrative systems of the Bank are aligned with the best domestic and international practices.

Budget Committee (BC)

The Budget Committee (BC) was chaired by Deputy Governor Groepe until February 2013, when P Maharaj, the COO, assumed the chair in March 2013. The committee meets monthly and develops the Group's budget guidelines and procedures; monitors monthly budget variances; provides quarterly reviews to the GEC for submission to the Board; supervises, controls and monitors the process and compilation of annual departmental budgets and the Bank's consolidated budget; and facilitates the annual presentation by heads of department of their respective budget proposals to the BC and GEC. Once GEC approval is obtained, the budget – comprising an operational budget, a remuneration budget and a capital budget – is tabled at the February Board meeting for approval. The BC also considers and approves requests for additional budget allocations.

The Procurement Committee is a subcommittee of the BC and fulfils an important oversight role in the governance of the procurement process. It is also chaired by Pradeep Maharaj.

Budget of the Bank

Table A: Operational budget and capital expenditure

	Budget 2013/14 R'000	Actual 2012/13 R'000	Budget 2012/13 R'000
Personnel costs	1 710 807	1 777 152	1 580 869
Operational costs	515 165	461 032	452 713
Cost of new currency	2 010 053	1 556 876	1 684 218
Capital expenditure	312 741	218 816	457 556

Information Technology Steering Committee (ITSC)

The primary role of the Information Technology Steering Committee (ITSC) is to ensure that information technology (IT) supports the Bank's strategy, to approve the architectural fit of IT initiatives, oversee efficient IT service management processes and to ensure that optimal value is derived from IT investments. This committee, previously called the Information Technology Investment Committee (ITIC), reviewed its role in order to align it with best practices. The committee is chaired by Deputy Governor Lesetja Kganyago and comprises eight senior officials of the Bank. The main objectives of the committee are to be accountable for the following matters:

- IT innovation practices and technology adoption
- IT investments and projects, specifically evaluation and approval of business cases and conceptual proposals, review of the IT investment portfolio, and performing reviews for cost and benefit optimisation
- Alignment of all new IT initiatives to the Bank's strategy and architecture
- Achievements against objectives contained in the IT strategy
- Oversight of effective and efficient internal IT service management processes.

The committee meets four times a year.

Risk Management Committee (RMC)

The primary purpose of the RMC is to oversee risk management in the Bank, and to report thereon to the GEC and the BREC. The committee is chaired by the Governor, and comprises the deputy governors and certain senior employees of the Bank. The main objectives of the committee are to monitor the implementation of the risk management strategy, policy and structure, and to assess and review the adequacy and effectiveness of the risk management processes in the Group. The committee meets four times a year.

Reserves Management Committee (Resmanco)

The primary responsibility of the Resmanco, which is chaired by the deputy governor responsible for the FMD, A D Mminele, and comprises seven senior officials of the Bank, is to oversee the implementation of the Gold and Foreign Exchange Reserves Investment Policy, and to facilitate the prudent investment of the country's reserves. Resmanco, among other things, recommends for approval by the GEC the strategic asset allocation (SAA), and determines the tranche sizes and currency composition of tranches, the allocation of the risk budget, investment guidelines, asset classes for tranches and portfolios, and recommends the appointment of external fund managers and custodians of reserves for approval by the GEC. Resmanco meets at least every second month and reports quarterly to the GEC. Two representatives of the National Treasury attend Resmanco meetings as observers.

Governance reports

King III compliance

The Bank supports the principles and recommendations set out in *King III*, and applies such principles where appropriate and applicable, and when it is not in contravention of legislation governing the Bank. The Board annually assesses the Bank's governance framework against best practice and its application of the *King III* principles.

The Bank has made good progress in this regard and is implementing appropriate steps to achieve full compliance, with the exception of the following matters:

- The SARB Act stipulates that the Governor of the Bank shall be the Chairperson of the Board and is appointed by the President. Accordingly, the Board does not have an independent non-executive chairperson appointed by themselves, but the Chairperson of Nedcom is recognised as the lead independent non-executive director on the Board. Similarly, since the Governor is appointed by the President, no formal succession plans are in place for her successor. However, the Board has considered this matter, and will provide guidance and recommendations to the President when the Governor or deputy governors' terms are due to expire.
- The Bank does not give reasons in the integrated report for the refusal of requests for information in terms of the Promotion of Access to Information Act, 2000, for efficacious and confidentiality reasons. It is noted that all refusals to provide information are in compliance with the legislation.
- There is no Nomination Committee comprising Board members, however, section 4(1C) of the SARB Act makes provision for the establishment of an independent Panel, which selects appropriate, candidates from those nominated by the general public, for consideration by the shareholders at the AGM. In addition, four non-executive directors are appointed by the President in terms of the SARB Act, in consultation with the Minister.
- Not all the members of Remco are non-executive directors, as the Governor and Deputy Governor Mminele are members. However, the majority of the members are independent non-executive directors. The Board has considered this area of non-compliance, and is satisfied that it is appropriate and that sufficient controls and procedures are in place to ensure that decisions are transparent and fair and are approved by the Board.
- The Bank does not have a share incentive scheme and, accordingly, Remco is not required to review this matter or make an evaluation of the executive directors' contribution to shareholder value.
- The shareholders do not approve the non-executive directors' fees in advance by special resolution or pass a non-binding advisory vote on the Bank's remuneration policy, as the Bank is not a company governed by the Companies Act.
- The directors' terms of office are prescribed in the SARB Act. However, the Board has adopted the principle that non-executive directors may not serve more than three terms of office.

In common with most central banks, the Bank is a risk-averse, not-for-profit institution, which reflects the view that fulfilment of its role and responsibilities could be jeopardised if there were to be significant disruptions to its operations and/or damage to its reputation.

Risk management and control

Philosophy

In common with most central banks, the Bank is a risk-averse, not-for-profit institution, which reflects the view that fulfilment of its role and responsibilities could be jeopardised if there were to be significant disruptions to its operations and/or damage to its reputation. Owing to the unique role and functions of the Bank, risk management and control are not based simply on institutional risk and return considerations, but also take into account national interest, in line with its statutory and constitutional responsibilities. The Group views risk management and control as an integral part and an essential element of good corporate governance.

First line of defence: Departmental management

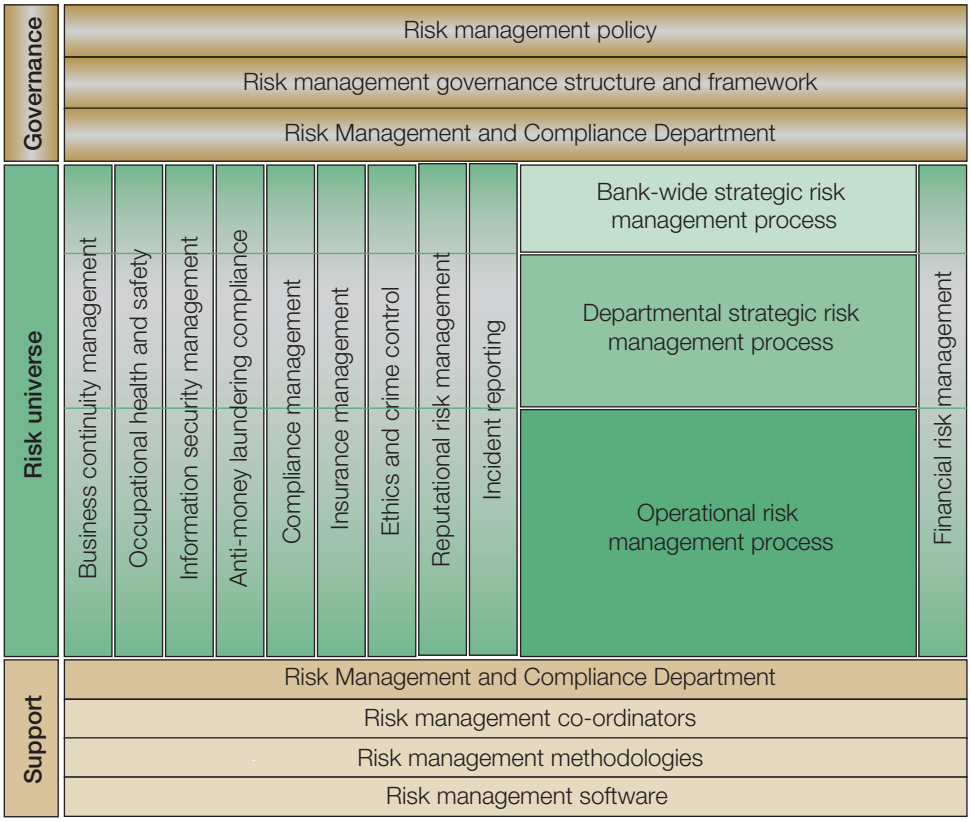
Risk management and internal control are an integral part of the Group's management and accountability function. Departmental management carries the primary responsibility for the ongoing identification, assessment and management of risks in their respective departments, including designing, implementing and maintaining an adequate and effective system of control.

The Group subscribes to the principles embodied in the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Integrated Control Framework. The system of control is designed to provide reasonable assurance about the integrity and reliability of financial and management information, and is based on the established written policies and procedures of the Group. The systems of control are also designed to ensure the safeguarding of, and control over, assets, the economical and efficient use of allocated resources, compliance with legal and regulatory requirements, and the effective performance of all functions.

Second line of defence: Integrated risk management function

The Group has established a risk management policy and framework, supported by a central risk management function, to ensure that risks are managed in a co-ordinated, comprehensive and systematic manner that is consistent with internationally accepted standards and guidelines. The principles contained in Chapter 4 of *King III* (Governance of Risk) were taken into account and, where appropriate, incorporated into the policy and framework. The Group Risk Management Framework is depicted on page 61.

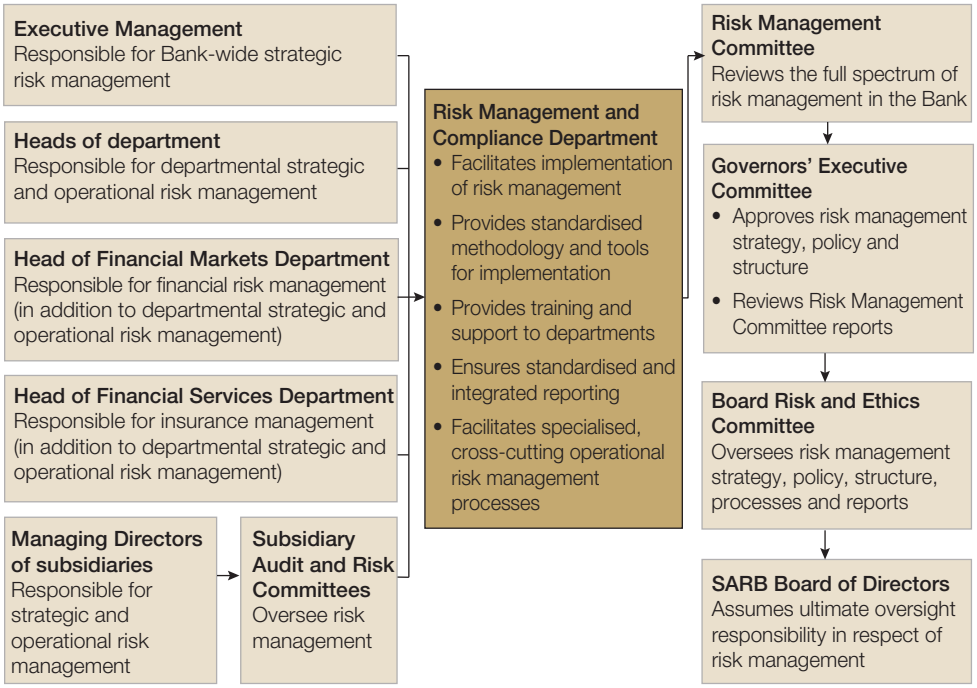
Group risk management framework



The Group's risk management approach is based on the principles contained in the COSO Enterprise Risk Management Framework, and is consistent with widely accepted standards, guidelines and best practice. Information regarding the Group's approach to financial risk management is contained in Note 28 to the financial statements.

A graphic depiction of the risk management governance structure, indicating risk management responsibilities and the flow of risk management information and reporting, is reflected on page 62.

Bank risk management governance structure



A centralised integrated risk management co-ordination function is performed by the RMCD, which was established in August 2010. The role of the RMCD is to develop, maintain and promote an appropriate risk management policy, framework, approach and culture, methodologies, processes and support systems (including risk management software); facilitate and co-ordinate risk management processes in the Group in accordance with the Risk Management Framework; and co-ordinate standardised and integrated reporting on risk management activities and exposure to the RMC and the BREC.

The RMCD is also responsible for co-ordinating and facilitating an integrated and uniform compliance management process in the Group; advancing and facilitating specialised operational risk management processes, including business continuity, occupational health and safety and information security; and developing and providing appropriate governance, risk management and control-related advisory services to the management of the Group.

Third line of defence: Internal audit

The IAD of the Bank provides independent objective assurance on the adequacy and effectiveness of the control, risk management and governance processes of the Group.

The CIA reports jointly to the Chairperson of the Audit Committee and to the Governor. All IAD activities are governed by an Internal Audit Charter that is reviewed on an annual basis for relevance and applicability.

The IAD follows a risk-based approach to auditing that is in line with the International Professional Practice Framework as prescribed by the Institute of Internal Auditors (IIA).

The IAD audit methodology is based on the guidelines contained in the COSO framework, and reporting to management, executive management and the Audit Committee is performed accordingly.

Ethics management

The Bank, as the central bank of South Africa, must be, and be seen to be, an institution of integrity which maintains the highest ethical standards. The executive management of the Bank is intensely aware of this core value and expectation, and commits itself to creating a working environment that encourages and facilitates honesty, integrity and ethical behaviour. Likewise, all employees are required to act honestly and with integrity at all times.

To discharge this responsibility in a proactive manner, the Group ensures that the necessary policies, frameworks and procedures to eradicate unlawful conduct or unethical behaviour are in place, and are integral to good corporate governance and the values it espouses. To this end, the Group has adopted Codes of Ethics and Business Conduct, and Commercial Crime Control and Whistle-blowing policies, and has secured an external hotline service that enables employees to report anonymously on dishonest or questionable practices and sensitive matters. The BREC oversees the ethics management programme of the Group.

The integrated risk management process includes risk assessments in respect of ethics management and commercial crime control.

In line with the International Standards for the Professional Practice of Internal Audit, the IAD plans and conducts its normal audit work in such a way that the audit procedures would also assist in identifying possible incidents of commercial crime and other irregularities.

Remuneration report

The Bank offers a range of compensation and benefits that supports efforts to attract, reward and retain appropriately skilled employees. It is based on the following principles, as contextualised in the Pay Policy:

- To provide a competitive total rewards package that will enable the Bank to attract and retain employees with the requisite expertise and skills
- To motivate employees to achieve higher levels of performance and achieve desired results
- To recognise and reward employees based on their individual or team results and/or the overall achievement of the Bank's objectives
- To link individual performance plans to the Bank's strategic objectives through an effective performance goal-setting and evaluation process
- To establish and maintain pay relationships among the various positions within the Bank that reflect their relative value.

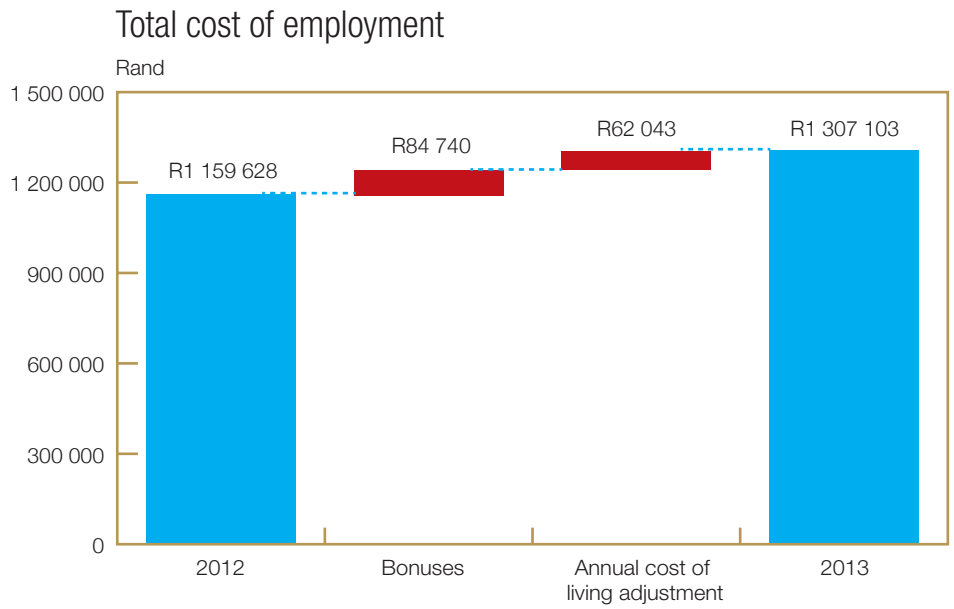
The Bank's Pay Policy defines, among other things, the market stance for total cash, which is currently at the market median. The comparator market is defined as the national market. When adding the Bank's non-cash contributions towards retirement, medical aid and group life assurance benefits, the resultant total cost of employment is at the upper quartile.

The Bank's approach to remuneration is a holistic one and, to this end, its remuneration philosophy is balanced, consisting of the following elements: a guaranteed package; variable pay in the form of a performance-linked annual adjustment; performance recognition in the form of an annual one-off performance bonus which is not guaranteed; non-financial rewards and recognition; employee development; and a positive work environment.

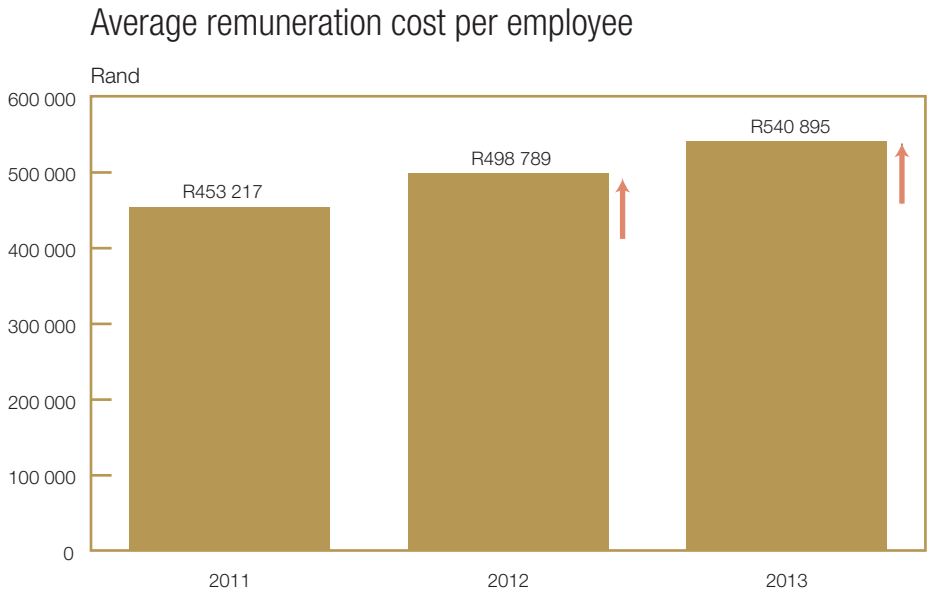
The annual increase comprises two elements, namely (i) a cost of living element, which is linked to inflation, and (ii) a variable element, which supports the overarching principle that there should be a close link between performance and remuneration, and thus considers the individual employee's performance for the preceding financial year.

The HRD monitors the Bank's remuneration practices on an ongoing basis for alignment with, and support of, the Bank's strategic objectives. Changes to the Pay Policy and related remuneration practices are routed to the Manco and GEC for consideration prior to being tabled at the Remuneration Committee.

The total cost of employment for the 2012/13 financial year compared to the 2011/12 financial year is tabled below (R'000):



The average remuneration cost per Bank employee represents an 8,44 per cent increase during the 2012/13 financial year.

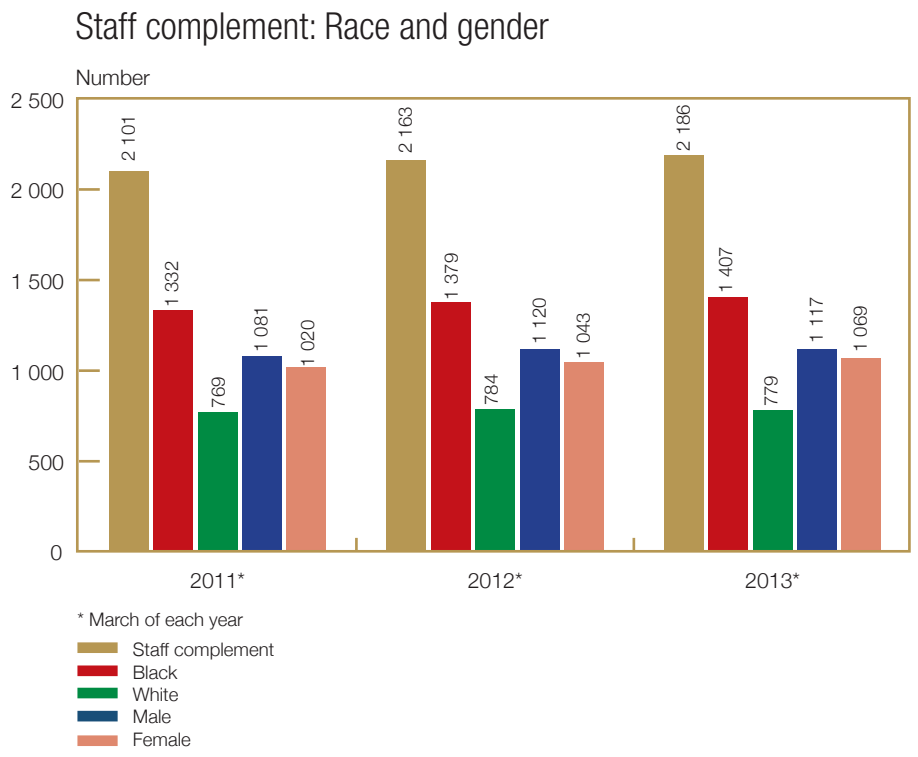


Human resources report and bursaries

The HRD plays a critical role as a support function in assisting the Bank in achieving its mandate and goals through human capital. The financial year under review attained a number of milestones a summary of which follows:

Headcount

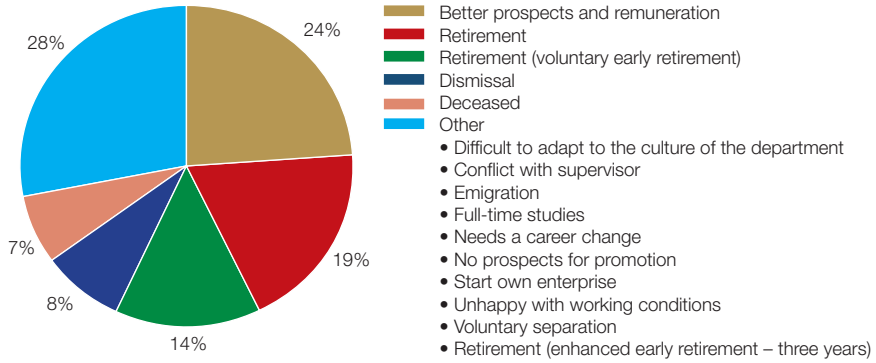
Total headcount in the Bank (excluding the subsidiaries) as at the end of March 2013 was 2 186. The following graph represents the staff complement over a three-year period (2011 to 2013 financial years), broken down according to race and gender per period:



Overall staff turnover

The overall staff turnover rate of 4,28 per cent for this period does not represent a significant increase in the previous financial year's figure of 4,08 per cent. The Bank's staff turnover rate remains relatively low in comparison with industry norms, which is currently 10,9 per cent. 93 employees left the organisation for reasons depicted in the following graph.

Reasons for termination of service from 31 March 2012 to 31 March 2013



Employment equity

The Bank remains committed to the country's transformation agenda, and has developed and is implementing its fifth Employment Equity (EE) Plan since the implementation of employment equity legislation. This plan has been lodged with, and approved, by the Department of Labour.

The Bank's overall management comprises the executive directors/governors, senior and branch management, and the managing directors of the currency-producing subsidiaries, being 35 people. Of these 35 people, 9 are women and 25 are black, with the team's average age being 50 years.

Employment equity status

At the end of the financial year under review the status of the Bank's progress towards its EE targets is depicted in the following table (representing the status for gender, race and people with disabilities):

SARB categories	Target for 31 March 2012 (per cent)	Actuals 31 March 2012 (per cent)	Target for 31 March 2013 (per cent)	Actuals 31 March 2013 (per cent)
Black	64,6	63,8	64,9	64,7
Female	47,9	48,2	48,0	49,0
Black female	29,0	28,8	29,2	29,9
People with disabilities	1,82	1,5	2,08	1,5

* Black includes African, Coloured and Indian

The targets in the table above are contained in the Bank's current EE Plan.

The Bank continuously takes account of EE without any compromising of merit, and has made further progress, specifically in terms of the category of Black Females, when comparing the two reporting periods. The Bank, however, continues to face the following challenges:

- Although the target for females is being met, they are not yet sufficiently represented at the top management level of the organisation.
- The challenge regarding the category of black staff continues with a slight undershooting of the targets the Bank had set for itself for both the 2012 and 2013 reporting periods.
- Sourcing suitable candidates, for all levels, who are living with disabilities remains a challenge.

Learning and development

The focus of the Bank's learning and development interventions are on the following:

- Central banking core competencies
- Functional skills
- Management and leadership development
- Interventions for individual employees based on personal development plans.

The Learning and Development Division conducted a number of training interventions which reached 78 per cent of the organisation.

A total number of 19 747 days were spent on training, being an average of 11,6 days per employee, at a cost of R30 469 339 (2,6 per cent of the payroll).

The Bank further invests in the development of staff and their dependents by providing educational support of R15 707 262 in this reporting period.

There are 91 learners on learnership programmes in the field of IT and Business Administration. The Bank, through its External Bursary Scheme, contributes towards the socio-economic development of the country.

During the year under review, a total of 392 Bank staff members and 185 external clients from various financial institutions, government departments and central banks of SADC countries attended training events organised by the SARB College.

Besides the core training programmes provided by the SARB College, a number of high-level specialised seminars and workshops were organised to enhance organisational effectiveness.

The SARB College facilitated the training of a further group of 12 high-calibre young graduates in the Cadet Graduate Programme, which provides for an annual intake of 12 to 15 graduates for an intense 12-month training opportunity. The cadets obtained the Programme in Advanced International and Central Banking qualification, awarded by Unisa, and a certificate of workplace competence at their graduation in November 2012. The majority of the cadets were offered permanent positions in the Bank.

Retirement Fund

The Bank provides for the retirement of its staff at the standard retirement age of 60 years, and has a defined contribution retirement fund to which both the employer and current staff members contribute.

The Retirement Fund is classified as a pension fund in terms of section 1 of the Income Tax, 1962 (Act No. 58 of 1962) and is a defined contribution fund.

The Board of Trustees of the Bank's Retirement Fund comprises four trustees appointed by the Board of the Bank (i.e., one independent trustee, previously a non-executive director, and three senior staff members) and four trustees elected by members of the Retirement Fund, three of whom are employees of the Bank and a pensioner of the Bank. The current Board of Trustees' term of office runs from 1 August 2011 to 31 July 2014. The fund is assisted by a Principal Officer, who is also a Board-appointed trustee. The Board of Trustees elects a Chairperson from the trustees and meets on a quarterly basis. The Retirement Fund is incorporated in terms of the Pension Funds Act, 1956 (Act No. 24 of 1956) (Pension Funds Act) and is a separate entity from the Bank. Statutory actuarial valuations are performed triennially and the next valuation will be done in respect of the period ended 31 March 2015. Interim actuarial evaluations are conducted annually. On 1 March 2013, 201 members from the SABN Pension and Provident Funds joined the Bank's Fund.

As at 31 March 2013 the Retirement Fund had 2 397 contributing members, 27 deferred pensioners, 542 life annuitants (Retirement Fund), 315 life annuities (formerly the Pension Fund), 17 living annuitants and 1 suspended member. The total liability towards all of the above categories of members amounted to R3 679 million as at 31 March 2013. The assets representing the different categories of members were invested in terms of the Investment Policy of the Retirement Fund.

Pension Fund

The Pension Fund was incorporated in terms of the Pension Funds Act and, as such, is a separate entity from the Bank. Owing to the diminishing number of members, the Pension Fund was incorporated as a ring-fenced entity into the Retirement Fund. The incorporation was completed on 31 March 2011 and the liquidation of the fund is currently in progress.

Corporate social investment and investment in art

The Bank's focus areas for social investment are education and skills development at secondary and tertiary levels.

The Bank's Corporate Social Investment (CSI) programme incorporates a number of projects that reflect these focus areas, the first of which is partnership arrangements with the following universities:

- University of Pretoria Chair of Monetary Policy Economics

In terms of this partnership, the Bank funds tuition offered by the university in the field of Monetary Economics for which the university prepares the curriculum and tuition material in the field of monetary policy and economic research at postgraduate level.

- Rhodes University Centre for Economic Journalism

The Bank provides funding to the centre operated under the auspices of a director within the Africa media matrix, and as a teaching facility for the School of Journalism and Media Studies at Rhodes University. The initiative aims to enhance the quality of economic journalism in the country.

- University of the Witwatersrand Financial Journalism Programme

The Bank has an agreement with the University of the Witwatersrand to fund tuition in the field of postgraduate training and qualifications in Financial Journalism, including a part-time postgraduate qualification in Economics Journalism. The aim is to enhance the quality of economic and financial journalism in South Africa.

SARB External Bursary Programme

In 2009 the Bank introduced a bursary scheme for students studying at higher educational institutions in South Africa. In 2012, forty-seven students were awarded bursaries, totalling R2 018 700. Of the forty-seven, twelve completed their studies in 2012 and ten will not be considered going forward, due to poor results or because they have found alternative funding from other institutions.

The 2013 bursary recipients were identified while they were in Grade 12 through a number of partner institutions and projects that the Bank has identified. Fifteen exceptional first-year students who have the potential to be employed by the Bank, comprising four black, three white and one Indian female, four black males and three white males, are being sponsored.

In addition, the Bank has awarded full scholarships to two students studying towards Actuarial Sciences at the University of Cape Town and the University of Witwatersrand respectively.

Information Technology Banking Learnership Programme

The purpose of the Information Technology Banking Learnership (ITBL) programme is to provide opportunities for young people who have not previously been employed to pursue careers in ICT in the banking sector. It serves as a feeder for entry-level information technologists in the technical, networking, software development and support areas across the financial industry.

During the year under review, the Bank, once again, participated in the ITBL programme and enrolled five candidates, who were offered one-year intense university training. They were placed in the Bank's BSTD at the beginning of 2013 to provide workplace exposure for a period of six months. The Bank may employ the candidates on a permanent basis or extend their contracts. At the end of the programme the candidates will be equipped with the necessary qualification and skills to seek employment outside the Bank without any obligation.

South African Institute of Chartered Accountants Thuthuka Programme Camps

The Bank has signed a partnership agreement with the South African Institute of Chartered Accountants (SAICA) to fund one of SAICA' s Thuthuka Programme camps, which runs for a week during the school holidays for black and coloured Grade 12 learners who have been identified by the Department of Education (DoE) as being academically exceptional. During the camps, learners are offered extra tuition in Maths, Science and Life skills, running to approximately ten hours for each subject.

In terms of the agreement, Bank employees from different departments attend the Thuthuka Programme camps to speak about the functions of the Bank and engage with the pupils regarding their career options in Economics. In addition, the Bank funds the studies of five learners on the Thuthuka Programme who intend to study towards a CA (SA) qualification and who, subject to eligibility, will then serve their articles at the Bank once they have completed their studies.

MPC School Challenge for Grade 12 Economics learners

The MPC School Challenge is a competition for Grade 12 learners that was started as a pilot project in 2012. It is modelled on a competition run by a number of other central banks, most notably the Reserve Bank of New Zealand, who offered generous support and advice to the Bank when setting up its pilot project. The learners are given Bank data and other key economic indicators to analyse and come to a conclusion as to what South Africa's repo rate should be. The competition starts with qualifying schools (i.e., schools that have achieved 90 per cent plus in their Matric Economics results in the preceding academic year) being invited to enter a team of four learners. A briefing session is then held to provide more data and information to educators on how learners should prepare the MPC statement, and the key indicators on which they should focus. The competition then concludes with the finalists (top six schools) making oral presentations to the Bank's MPC members. First, second and third place winners are selected and announced in a formal event at the Bank. The winning school in 2012 was Krugersdorp High School, with Hoërskool Stofberg coming second and Hoërskool Langenhoven coming third.

In 2012, 83 schools entered the challenge and 70 schools have enrolled to participate in the 2013 challenge, all from across Gauteng. It is the intention of the Bank to have the challenge rolled out to all provinces and, to this end, the Bank will continue to engage with education stakeholders across the country.

The year 2012 was the 100th anniversary of the establishment of Alexandra, north of Johannesburg.

Arts and culture

The Bank's Art Committee continues to build the Bank's art portfolio with diverse and representative artworks. The portfolio is being documented and recorded and, where necessary, the collection is being sent for restoration and reframing.

The Bank's Art Committee has established an art scholarship for a promising Fine Arts student entering his or her final year of study at a tertiary institution in Gauteng. The successful applicant is currently completing his final year of Fine Arts at the Tshwane University of Technology. In addition to his fees being paid and receiving a monthly stipend for art materials and books, the applicant will receive ongoing mentoring from the Bank's art consultant during 2013.

The year 2012 was the 100th anniversary of the establishment of Alexandra, north of Johannesburg. In celebration of this centenary, the Art Committee produced an exhibition of artworks from the Bank's corporate collection by artists who grew up in Alexandra and/or where the township is the subject of artworks.

During 2012, the Bank acquired a mother and baby elephant sculptures by artist Andries Botha, which are located in the Bank's foyer. Other artists whose work was purchased in this financial year included Walter Battiss, Conrad Botes, Mbongeni Buthelezi, Peter Clarke, Alice Goldin, Sandile Goje, Phillemon Hlungwani, Anton Kannemeyer, M J Lourens, Colbert Mashile, Leonard Matsoso, Joshua Miles, David Mogano, John Koenakeefe Mohl, John Moore, Sam Nhlengethwa, Serge Nitegeka, Hargreaves Ntukwana, George Pemba, John Phalane, Marianne Podlashuc, Jonah Sack, Gerard Sekoto, Senzo Shabangu, Motsamai Thabane, Jaco van Schalkwyk and Ina van Zyl.

In celebration of this centenary, the Art Committee produced an exhibition of artworks from the Bank's corporate collection by artists who grew up in Alexandra and/or where the township is the subject of artworks.

David Koloane (b. 1938)
Rear View I (2007)
Acrylic on canvas
130 x 120 cm

Foremost among South Africa's Alexandra artists is David Koloane, who was born there in 1938. Koloane is primarily a painter, but also produces drawings and prints. His paintings capture the hustle and bustle of urban life, which he renders in a furious accumulation of marks. Koloane is not only an important South African painter, but has also contributed more widely to understandings of South African art through arts education, curation and writing.

During 2012, the Bank acquired mother and baby elephant sculptures by artist Andries Botha, which are located in the Bank's foyer.

Andries Botha is one of South Africa's most celebrated sculptors. He works extensively in woven rubber and wattle, and in the past few years has been using a "patchwork" of wood over a metal structure to create a series of life-size elephants. Most famously, some of these elephants were displayed on the beach in Den Haag, Netherlands. A procession of elephants was lined up from the dunes down into the sea. One of Botha's wooden baby elephants was purchased by the South African Reserve Bank in early 2012, and the artist was subsequently commissioned to produce an accompanying mother elephant. The large mother was literally squeezed into the Bank in the latter half of 2012, just in time to celebrate World Elephant Day.

Review of financial statements: 31 March 2013

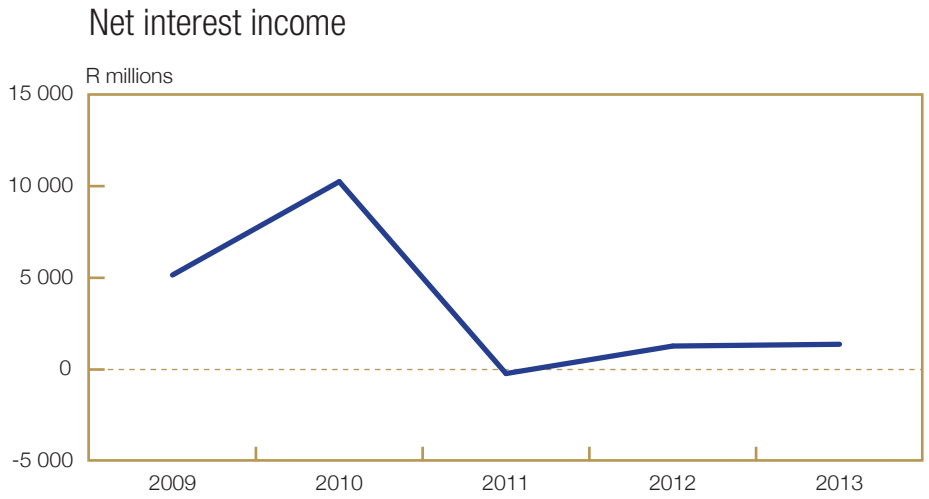
Group financial statements: Key highlights

	Group		Bank	
	2013 R'm	2012 R'm	2013 R'm	2012 R'm
Net interest income	1 629	1 351	1 512	1 280
Operating costs	4 130	3 215	3 904	2 785
Operating income	477	1 000	279	798
Loss after taxation	1 408	592	1 499	491
Total assets	513 005	437 376	498 227	422 963
Total equity	8 126	9 479	7 047	8 405

Bank focus

Net interest income

Net interest income is largely derived from investing the country's foreign reserves and the return recognised thereon, including the coupon received as well as the changes in fair value of the foreign financial instruments. The decline in interest rates following the global financial crisis impacted on the returns of the Bank considerably.



Operating costs

Operating costs increased by R1 119 million from R2 785 million in 2012 to R3 904 million in 2013.

- Higher staff costs are due to the following: an annual salary increment of 7 per cent, an increase in staff headcount necessary to support the latest regulatory requirements and a net increase in the post-employment benefit actuarial valuations largely due to a decline in the net discount rate used.
- In November 2012, the new Mandela banknote series was launched, resulting in a higher cost of new currency in comparison to the prior year.

Operating costs

	Bank	
	2 013	2 012
	R'm	R'm
Staff costs	1 777	1 564
Other operating costs	570	483
Cost of new currency	1 557	738
Total operating costs	3 904	2 785

Financial review

The structure of the Bank's balance sheet is intrinsically linked to the diverse responsibilities of a central bank. It is determined by the public's demand for notes and coin in circulation, the balance of gold and foreign-exchange reserves in line with the Bank's policy, monetary policy operations, and the deposits held with the Bank in terms of regulatory requirements.

The year-on-year rise in the foreign reserves and the Gold and Foreign Exchange Contingency Reserve Account (GFECRA) are the key contributors to the overall increase in total assets and liabilities respectively. The drivers are the depreciation of the rand against the US dollar together with an increased gold price.

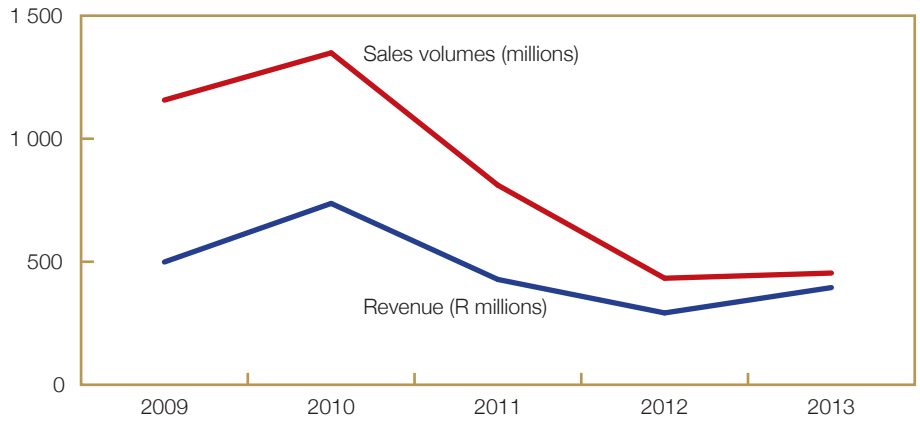
	Bank	
	2013 R'm	2012 R'm
Assets		
Foreign reserves	459 946	388 876
Domestic assets	33 849	30 444
Other assets	4 432	3 643
Total assets	498 227	422 963
Liabilities and equity		
Foreign currency loans	80 264	67 564
Domestic liabilities	175 024	179 332
Gold and Foreign Exchange Contingency Reserve Account	125 552	67 655
Notes and coin in circulation	103 136	90 165
Other liabilities	7 204	9 842
Capital and reserves	7 047	8 405
Total liabilities and equity	498 227	422 963
USD exchange rate	R9,20	R7,67
Statutory gold price (per ounce)	R14 742	R12 793

Manufacturing subsidiaries: Other operating income

SABN

The SABN reported a 35 per cent increase in revenue to R395 million in relation to the prior year of R292 million, attributable to an increase in sales volume to 454 million banknotes, compared to the prior year of 433 million and an increase in sales price in order to compensate for an increase in cost of manufacture of the new Mandela banknote series.

Revenue and sales volumes

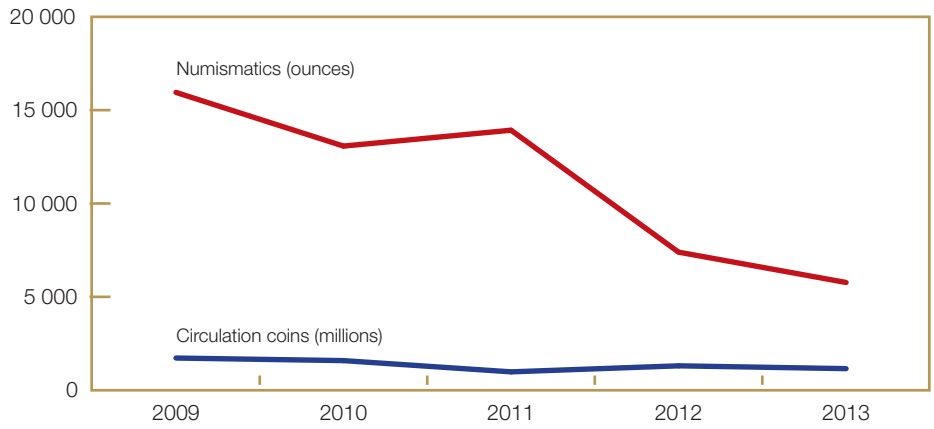


Revenue has been substantially lower than in prior years due to a slowdown in production in order to facilitate the factory modernisation project which has cost R1,1 billion to date. The installation phase of the modernisation project will be completed in April 2013, resulting in an increase in production capacity to 1,5 billion banknotes per annum. Revenue for 2013/14 is forecast at R937 million, with a sales volume of 1,16 billion banknotes. The SABN is expected to return to profitability during the next financial year.

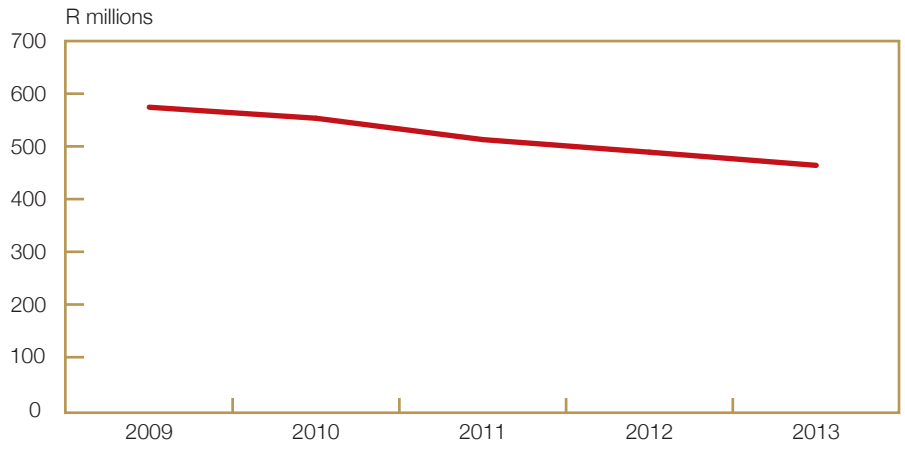
SA Mint

Revenue of R464,6 million for the period ending 31 March 2013 showed a decline compared to the prior-year revenue of R488,5 million. The decline in revenue was as a result of a decrease in volumes in both the Circulation Coins and Numismatics business units. Circulation Coins' local volumes and total exports came in lower than the previous year by 25 per cent and 58 per cent respectively.

Sales volumes



Revenue



Revenue from Numismatics increased from R139,7 million in the previous year to R140,3 million in the current year mainly as a result of an increase in the gold price offset by a decline in orders for the export market.

Revenue is forecast to increase for 2013/14 to R744 million. The projected increase is mainly driven by the inclusion of a joint venture with Rand Refinery. The joint venture, Prestige Bullion (Pty) Limited, will be responsible for the manufacturing and marketing of gold bullion.

Annual financial statements for the year ended 31 March 2013

Contents

Directors' report for the year ended 31 March 2013

Introduction

The directors are pleased to report on the activities of the Group, and its financial results for the year under review.

This report, issued in terms of the SARB Act and the Regulations framed in terms of the aforesaid Act, addresses the performance of the Group and relevant statutory information requirements.

It is the directors' responsibility to prepare annual financial statements and related financial information that present the state of affairs 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, its responsibilities in the area of price and financial stability, and in its relationship with government concerning foreign-exchange and gold transactions.

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

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

The directors have responsibility for governance in the Bank, which is monitored on an ongoing basis. The Bank applies the *King III* principles and guidelines where appropriate, and where they are not in contravention of the SARB Act.

Nature of business

The Bank is the central bank of the Republic of South Africa and is regulated in terms of the SARB Act. Its primary objective is to protect the value of the currency in the interest of balanced and sustainable economic growth. In pursuance of this objective, as well as that of financial stability, the Bank assumes responsibility for the functions as set out on page 5 of this report.

Subsidiaries

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

- CPD receives and invests call deposits from government and public entities
- SABN produces banknotes
- SA Mint produces coin
- SARBCIC manages certain short-term insurable risks of the Bank and its subsidiaries.

Information regarding the Bank's financial interest in its subsidiaries is reflected in Note 29 on page 129 of this report.

No special resolutions have been passed by the Bank's subsidiaries during the year under review, which may be significant in respect of the state of affairs of the Bank.

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 Bank's AGM.

Financial results

The world economy is in its sixth year of the global financial crisis and this continues to impact the financial results of the Bank and therefore the Group. The income of the Bank is mainly derived from foreign investments and, due to a low-yielding environment, was insufficient to cover the operational costs of the Bank. This resulted in a loss after taxation of R1,5 billion for the year ended 31 March 2013.

The SABN incurred a loss of R67 000 after taxation (2012: R146 million loss) and is expected to return to profitability during the next financial year.

The SA Mint incurred a loss for the year of R5 million after taxation (2012: R11 million loss) and the SARBCIC a loss of R2 million after taxation (2012: R5 million profit). The loss was due to insurance claims within the Group. For further detailed information regarding the Group, refer to the review of financial statements on page 75.

The CPD recorded a profit after taxation of R98 million (2012: R50 million), of which R87 million (2012: R50 million) was transferred to government in accordance with the Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984) (CPD Act).

The statement of comprehensive income appears on page 91 of the annual financial statements.

Financial position

The Group's total assets increased by R76 billion, during the year under review, largely driven by an increase of R71 billion in gross gold and foreign assets.

The increase was mainly as a result of the depreciation of the South African rand against the US dollar and an increase in the gold price.

The total liabilities of the Group increased by R76 billion, while the GFECRA (used for currency revaluation of gold and foreign assets which is for government's account) increased by R58 billion.

The statement of financial position appears on page 90 of the annual financial statements.

Dividends

The final dividend of 5 cents per share for the 2011/12 financial year was paid on 11 May 2012 and an interim dividend of 5 cents per share for the 2012/13 financial year was paid to shareholders on 26 October 2012. A final dividend of 5 cents per share – bringing total dividends paid to R200 000 for the 2012/13 financial year – was declared on 2 April 2013 and paid on 10 May 2013.

Directors

The composition of the Board appears on pages 42 to 45 of this report.

S M Goodson resigned from the Board on 3 May 2012. His term of office would have expired on the day after the 2012 AGM. A M Chait was elected at the 2012 AGM as a non-executive director representing commerce or finance in the vacancy left by S M Goodson. F Cachalia was appointed by government as a non-executive director on 16 July 2012.

Currently all the Board positions are filled.

None of the directors in office held any direct or indirect shareholding in the Bank, as at 31 March 2013 and to date hereof.

The total directors' fees paid for services rendered as directors during the past financial year are reflected in Note 29.4 on pages 131 and 132 of the annual financial statements. In support of South African President Jacob Zuma's call to CEO's and executive directors in the private and public sectors, the Board unanimously agreed to forgo salary and fee increases for both executive and non-executive directors in 2013.

The terms of office of T N Mgoduso, J F van der Merwe and B W Smit will expire at the 2013 AGM. All three directors are available for re-election, having not yet served three terms in office, and the Board unanimously recommended that they be nominated as candidates for consideration by the Panel.

Secretary of the Bank

S L Reynolds

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

Postal address:
P O Box 427
Pretoria
0001

The financial statements were approved by the Board on 13 June 2013 and signed on its behalf by:

.....
G Marcus
Governor

.....
R J G Barrow
Non-executive Director
and Chairperson: Audit Committee

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

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

Statement by the Secretary of the Bank

In my capacity as Secretary of the Bank, I certify that all the returns required to be submitted in terms of the SARB Act, for the year ended 31 March 2013, have been completed and are up to date.

.....

S L Reynolds
Secretary of the Bank

13 June 2013

Report of the Audit Committee

The Audit Committee is a subcommittee of the Board. All its members are independent non-executive directors. The responsibilities of this committee are detailed in its terms of reference, which are reviewed annually and approved by the Board. The Audit Committee confirms that it carried out its functions responsibly and in compliance with its terms of reference for the period under review.

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

Roles and responsibilities

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

Internal control (including internal financial controls)

The Bank's internal control system is designed to ensure the integrity and reliability of financial information, compliance with all applicable laws and regulations, the accomplishment of objectives, economy and efficiency of operations, and the safeguarding of assets. The Audit Committee is satisfied that the Bank's system of internal financial controls is adequately designed and operated effectively to form a sound basis for the preparation of reliable financial reports. This assessment is based on reports from external audit, internal audit and management.

Integrated reporting and combined assurance

The Audit Committee is satisfied with the progress made towards integrated reporting and combined assurance within the Bank. It is anticipated that it will take a number of years for a fully comprehensive integrated report to be presented.

The Audit Committee considered, and is satisfied with the expertise and experience of the Group CFO. The committee is also satisfied with the expertise and adequacy of resources within the FSD to support the Group CFO.

External audit

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

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

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

The Audit Committee recommends to the Board the reappointment of the external auditors.

Internal audit

The Audit Committee recommended the internal audit charter, which defines the purpose, authority and responsibility of the internal audit function, to the Board for approval. The committee also approved the annual internal audit plan.

The Audit Committee reviewed the reports from the IAD on control weaknesses and management corrective actions.

The Audit Committee is satisfied that the IAD is independent and appropriately resourced to provide assurance on the adequacy of the internal control environment of the Bank. The committee provided input on the appointment of the CIA.

Compliance

The Audit Committee is satisfied that the Bank implemented appropriate processes and controls for compliance with all applicable laws and regulations as it relates to financial reporting. This is based on the review by the committee of reports received from external audit, internal audit as well as executive management.

Information technology

The Audit Committee is satisfied that the Bank is able to manage its information and technology capability and that the IT controls are appropriate to support the integrity of financial reporting. This is based on the continuous review by the committee of reports from IT management, and external and internal audit.

Whistle-blowing

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

R J G Barrow
Chairperson of the Audit Committee

Financial framework

Reporting framework

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

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

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

Recognition and measurement

1. According to the SARB Act,
   a. realised and unrealised valuation gains and losses on gold, and realised and unrealised foreign-exchange gains and losses on foreign-denominated assets and liabilities are for the account of government, and have, therefore, not been accounted for in profit or loss, as required by International Accounting Standard (IAS) 21, *The Effects of Changes in Foreign Exchange Rates*; and
   b. gold is valued in terms of section 25 of the SARB Act at the statutory gold price. Gold has been recognised as a financial asset of the Bank.

2. Deferred taxation assets
   Previously, deferred taxation assets were recognised to the extent that it was probable that future taxable profit will be available, against which deductible temporary differences, the carry forward of unused taxation losses and the carry forward of unused tax credits can be utilised. The Bank has decided to change its accounting policy on deferred taxation assets and, as such, will not reduce its deferred taxation asset to the extent that it is no longer probable in the medium term that the related taxation benefit will be realised.

   Management previously followed the principles of IAS 12, which requires an entity to demonstrate convincing evidence that future taxable profits will be available where the entity has unused tax losses. Management is unable to evidence, within the requirements of IAS 12, when and to what extent future taxable profits will be available against which the carried forward tax losses can be offset. It is also of the view that the continued recognition of deferred taxation assets with respect to deductible temporary differences, in particular carried forward tax losses, remains appropriate. Management has considered that US dollar and euro interest rates (a primary source of the Bank's income) are currently at historically low levels when measured in absolute terms, and market observable forward interest rates indicate that investment income will recover over the longer term as global interest rates rise. It also takes comfort that tax losses do not expire in terms of the Income Tax Act, 1962 (Act No. 58 of 1962) so long as the Bank continues to trade. Furthermore, deferred taxation assets are measured on an undiscounted basis. The Bank is mandated, as per the SARB Act, to operate as the sole central bank in South Africa and has been doing so for the past 92 years. The continuity of the Bank is, therefore, protected by statute and not dependent on free market forces.

Presentation

In the financial statements

1. not all information as required by IFRS 7, *Financial Instruments Disclosures*, is disclosed. This relates specifically to a sensitivity analysis for each type of market risk to which the Bank is exposed at the reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variables that were reasonably possible at that date. In addition, the credit quality of financial assets is not disclosed; and
2. assets and liabilities relating to securities lending activities have been disclosed, but offset in Note 6 to the financial statements because it is considered inappropriate to gross up the foreign-exchange reserves of the Bank.

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

We have audited the group financial statements and financial statements of the South African Reserve Bank (the Bank), set out on pages 90 to 141, which comprise the statements of financial position as at 31 March 2013, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information (the financial statements). The financial statements have been prepared by management of the Bank in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), as amended (the South African Reserve Bank Act).

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

In our opinion, the group financial statements and the financial statements of the Bank for the year ended 31 March 2013 have been prepared, in all material respects, in accordance with the accounting policies described in Note 1 to the financial statements and the requirements of the South African Reserve Bank Act.

Basis of accounting

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

Other reports

As part of our audit of the financial statements for the year ended 31 March 2013, we have read the Report of the Audit Committee, the Directors' Report and the Statement by the Secretary of the Bank for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on our reading of these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

PricewaterhouseCoopers Inc.
Director: Thomas Magill
Registered Auditor

SizweNtsalubaGobodo Inc.
Director: Pravesh Hiralall
Registered Auditor

Johannesburg
13 June 2013

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Africa Senior Partner: S P Kana Management Committee: H Boegman, T P Blandin de Chalain, B M Deegan, J G Louw, P J Mothibe, N V Mtetwa, T D Shango, S Subramoney, A R Tilakdari, F Tonelli. The Company's principal place of business is at 2 Eglin Road, Sunninghill where a list of directors' names is available for inspection. PricewaterhouseCoopers Inc is an authorised financial services provider. Registration Number: 1998/012055/21, VAT reg.no. 4950174682

SizweNtsalubaGobodo Inc. Head office 20 Morris Street East Woodmead 2191 P.O. Box 2939 Saxonwold 2132 Tel: (011) 231 0600 Fax: (011) 234 0933
Executive: Nonkululeko Gobodo (Executive Chairman) Victor Sekese (Chief Executive). A comprehensive list of all Directors, is available at the company offices or registered office. SizweNtsalubaGobodo Inc. Registration Number. M2005/034639/21

Statement of financial position

at 31 March 2013

		Group		Bank	
		2013	2012	2013	2012
	Notes	R'000	R'000	R'000	R'000
Assets					
Cash and cash equivalents	2	31 554	76 217	0	0
Amounts due by subsidiaries	29.2	0	0	144 006	335 332
Accommodation to banks	3	24 120 446	20 583 405	24 120 446	20 583 405
Investments	4	14 020 855	13 645 662	0	0
Other assets	5	188 610	378 391	146 430	320 952
Gold and foreign exchange	6	459 586 661	388 565 754	459 586 661	388 565 754
Inventories	7	384 191	327 799	5 212	6 992
Forward exchange contract assets	8	1 043 930	1 406 009	1 043 930	1 406 009
Loans and advances	9	66 351	67 923	66 351	67 923
Current taxation prepaid		2 281	2 350	0	0
South African government bonds	10	8 618 328	8 386 405	8 618 328	8 386 405
Equity investment in Bank for International Settlements	11	359 627	310 628	359 627	310 628
Investment in subsidiaries	29.1	0	0	1 401 765	859 000
Property, plant and equipment	12	2 829 290	2 398 623	1 012 575	924 279
Deferred taxation assets	13	1 752 513	1 226 342	1 721 662	1 196 277
Total assets		513 004 637	437 375 508	498 226 993	422 962 956
Liabilities					
Notes and coin in circulation	14	103 136 301	90 164 553	103 136 301	90 164 553
Deposit accounts	15	183 490 792	178 607 620	165 015 315	157 554 895
Amounts due to subsidiaries	29.2	0	0	5 258 192	8 279 960
Foreign loans and deposits	16	80 264 328	67 563 850	80 264 328	67 563 850
Other liabilities	17	609 795	661 063	295 754	246 395
South African Reserve Bank debentures	18	9 903 232	21 027 791	9 903 232	21 027 791
Forward exchange contract liabilities	8	111 820	751 284	105 663	749 702
Deferred taxation liabilities	13	17 932	19 910	0	0
Post-employment benefits	19.2	1 792 552	1 445 515	1 649 179	1 316 555
Gold and Foreign Exchange Contingency Reserve Account	20	125 551 618	67 654 647	125 551 618	67 654 647
Total liabilities		504 878 370	427 896 233	491 179 582	414 558 348
Capital and reserves[1]					
Share capital	21	2 000	2 000	2 000	2 000
Accumulated profit		988 814	995 625	0	0
Statutory reserve		395 164	395 164	395 164	395 164
Contingency reserve		6 040 981	7 529 364	5 950 939	7 450 322
Bond revaluation reserve		699 308	557 122	699 308	557 122
Total capital and reserves		8 126 267	9 479 275	7 047 411	8 404 608
Total liabilities, capital and reserves		513 004 637	437 375 508	498 226 993	422 962 956

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

Statement of comprehensive income

for the year ended 31 March 2013

		Group		Bank	
		2013	2012	2013	2012
	Notes	R'000	R'000	R'000	R'000
Interest income		6 363 697	6 460 523	4 377 497	4 694 009
Interest expense		(4 734 972)	(5 109 408)	(2 865 157)	(3 413 790)
Net interest income		1 628 725	1 351 115	1 512 340	1 280 219
Dividend income		32 529	27 285	32 729	27 207
Operating income		477 073	999 572	278 758	798 137
Total income	22.1	2 138 327	2 377 972	1 823 827	2 105 563
Operating costs	22.2	(4 129 856)	(3 215 430)	(3 903 690)	(2 784 658)
Loss before taxation	22	(1 991 529)	(837 458)	(2 079 863)	(679 095)
Taxation	23	583 444	245 461	580 680	188 592
Loss for the year		(1 408 085)	(591 997)	(1 499 183)	(490 503)
Other comprehensive income (net of taxation)					
Unrealised gain on available-for-sale financial assets		240 230	182 189	240 230	182 189
Realised gain on sale of available-for-sale financial assets		(98 044)	0	(98 044)	0
Total comprehensive loss for the year (net of taxation)		(1 265 899)	(409 808)	(1 356 997)	(308 314)

Statement of cash flows

for the year ended 31 March 2013

		Group		Bank	
		2013	2012	2013	2012
	Notes	R'000	R'000	R'000	R'000
Cash flows from operating activities					
Cash generated from operating activities	25	1 009 148	6 434 536	739 908	772 203
Taxation received		69	3 781	0	0
Dividends paid		(200)	(200)	(200)	(200)
Transfer to government[1]		(50 120)	(52 870)	0	0
Net cash flows generated from operating activities		958 897	6 385 247	739 708	772 003
Cash flows utilised by investing activities		(1 003 560)	(6 404 312)	(739 708)	(772 003)
Purchase of property, plant and equipment		(644 139)	(900 562)	(208 087)	(201 475)
Disposal of property, plant and equipment		15 940	9 543	11 144	9 472
Acquisition of investments		(375 361)	(5 513 293)	(542 765)	(580 000)
Net decrease in cash and cash equivalents		(44 663)	(19 065)	0	0
Cash and cash equivalents at the beginning of the year		76 217	95 282	0	0
Cash and cash equivalents at the end of the year	2	31 554	76 217	0	0

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

Statement of changes in equity: Group

for the year ended 31 March 2013

	Share capital	Accumulated profit	Statutory reserve	Contingency reserve	Bond revaluation reserve	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Balance at 31 March 2011	2 000	1 146 800	395 164	8 020 506	374 933	9 939 403
Total comprehensive loss for the year	0	(591 997)	0	0	182 189	(409 808)
Unrealised gain on available-for-sale financial assets	0	0	0	0	182 189	182 189
Loss for the year	0	(591 997)	0	0	0	(591 997)
Transfer to government	0	(50 120)	0	0	0	(50 120)
Transfer from reserves	0	491 142	0	(491 142)	0	0
Dividends paid (Note 24)	0	(200)	0	0	0	(200)
Balance at 31 March 2012	2 000	995 625	395 164	7 529 364	557 122	9 479 275
Total comprehensive loss for the year	0	(1 408 085)	0	0	142 186	(1 265 899)
Unrealised gain on available-for-sale financial assets	0	0	0	0	240 230	240 230
Realised gain on available-for-sale financial assets	0	0	0	0	(98 044)	(98 044)
Loss for the year	0	(1 408 085)	0	0	0	(1 408 085)
Transfer to government	0	(86 909)	0	0	0	(86 909)
Transfer from reserves	0	1 488 383	0	(1 488 383)	0	0
Dividends paid (Note 24)	0	(200)	0	0	0	(200)
Balance at 31 March 2013	2 000	988 814	395 164	6 040 981	699 308	8 126 267

Explanatory notes

Statutory reserve

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

Contingency reserve

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

Bond revaluation reserve

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

Transfer to government

In terms of section 24 of the SARB Act, nine-tenths of the surplus of the Bank, after provisions normally provided for by bankers and payment of dividends, has to be paid to government. In terms of section 15 of the CPD Act, the balance of net profits after transfers to reserves and payment of dividends has to be paid to government. For the year ended 31 March 2013 an amount of R86,9 million (2012: R50,1 million) was transferred to government by the CPD.

Statement of changes in equity: Bank

for the year ended 31 March 2013

	Share capital	Accumulated profit	Statutory reserve	Contingency reserve	Bond revaluation reserve	Total
	R'000	R'000	R'000	R'000	R'000	R'000
Balance at 31 March 2011	2 000	0	395 164	7 941 025	374 933	8 713 122
Total comprehensive loss for the year	0	(490 503)	0	0	182 189	(308 314)
Unrealised gain on available-for-sale financial assets	0	0	0	0	182 189	182 189
Loss for the year	0	(490 503)	0	0	0	(490 503)
Transfer to government	0	0	0	0	0	0
Transfer from reserves	0	490 703	0	(490 703)	0	0
Dividends paid (Note 24)	0	(200)	0	0	0	(200)
Balance at 31 March 2012	2 000	0	395 164	7 450 322	557 122	8 404 608
Total comprehensive loss for the year	0	(1 499 183)	0	0	142 186	(1 356 997)
Unrealised gain on available-for-sale financial assets	0	0	0	0	240 230	240 230
Realised gain on available-for-sale financial assets	0	0	0	0	(98 044)	(98 044)
Loss for the year	0	(1 499 183)	0	0	0	(1 499 183)
Transfer to government	0	0	0	0	0	0
Transfer from reserves	0	1 499 383	0	(1 499 383)	0	0
Dividends paid (Note 24)	0	(200)	0	0	0	(200)
Balance at 31 March 2013	2 000	0	395 164	5 950 939	699 308	7 047 411

Explanatory notes

Statutory reserve

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

Contingency reserve

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

Bond revaluation reserve

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

Transfer to government

In terms of section 24 of the SARB Act, nine-tenths of the surplus of the Bank, after provisions normally provided for by bankers and payment of dividends, has to be paid to government. Since the Bank incurred a loss for the year (2012: loss), no amount was transferred to government.

Notes to the financial statements

1. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated annual financial statements are set out below. These accounting policies should be read together with the financial framework on page 86.

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

1.1 Basis of presentation

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

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies of the Bank. The areas with a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in 1.18 and the relevant notes.

1.1.1 Changes in accounting standards

New and amended standards adopted by the Group

There are no IFRSs or International Financial Reporting Interpretations Committee (IFRIC) interpretations that are effective for the first time for the financial year beginning on or after 1 April 2012 that have a material impact on the Group.

New standards, amendments and interpretations not yet adopted

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 April 2013, and have not been early adopted in preparing these consolidated annual financial statements. The Group will assess the full impact and intends to adopt these standards no later than the accounting period beginning on or after 1 January 2013, or when applicable. The majority of the new standards, amendments and interpretations are not expected to have a significant impact on the consolidated financial statements of the Group, except for the following:

- IFRS 9, *Financial Instruments*, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces those parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: (i) those measured at fair value; and (ii) those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash-flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, this was allowed.

  The Group intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015 and will also consider the impact of the remaining phases of IFRS 9 as and when completed by the International Accounting Standards Board (IASB). The standard is effective for annual periods beginning on or after 1 January 2015.

- IFRS 10, *Consolidated Financial Statements*, builds on existing principles by identifying the concept of control as the determining factor in deciding whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The standard is effective for annual periods beginning on or after 1 January 2013.

- IFRS 12, *Disclosures of Interests in Other Entities*, includes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates, special purpose vehicles and other off-balance-sheet vehicles. The Group will assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

- IFRS 13, *Fair Value Measurement*, aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and United States Generally Accepted Accounting Principles (US GAAP), do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The standard is effective for annual periods beginning on or after 1 January 2013.

- Amendments to IAS 1, *Financial Statement Presentation*, regarding Other Comprehensive Income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' on the basis of whether they are potentially re-classifiable to profit or loss (reclassification adjustments) or not. The amendments do not address which items are presented in Other Comprehensive Income. The standard is effective for annual periods beginning on or after 1 January 2013.

- The amendments to IAS 19, *Employee Benefits*, change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets, and requires all actuarial gains and losses to be recognised through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus.

  The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Group.

1.2 Consolidation

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

Subsidiaries are all entities (including special purpose entities) over which the Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses the existence of control where it does not have more than 50 per cent of the voting power, but is able to govern the financial and operating policies by virtue of de facto control. De facto control may arise in circumstances

where the size of the Group's voting rights, relative to the size and dispersion of holdings of other shareholders, give the Group the power to govern the financial and operating policies.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through profit or loss.

No goodwill has arisen on acquisition of subsidiaries.

On consolidation, the accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies of the Group, with the exception of the Bank's policy on foreign currency translation (refer to 1.5 on page 102). These foreign-exchange profits or losses are for the account of government and are thus transferred to the GFECRA in terms of sections 25 to 28 of the SARB Act.

1.3 Investment in subsidiaries

The Bank uses the purchase method of accounting for its investments in subsidiaries as the basis for recording an acquisition. Investments in subsidiaries are stated at cost less allowance for impairment losses where appropriate, and include loans to subsidiaries with no repayment terms where these are considered part of the investment in subsidiaries.

1.4 Financial instruments

Classification

Financial instruments include all financial assets and financial liabilities, including derivative instruments, but exclude investments in subsidiaries, employee benefit plans, provisions, property, plant and equipment, deferred taxation, inventories and taxation payable or prepaid. Financial instruments are recognised when the Group becomes a party to the contractual provisions of the instrument. Financial instruments are classified as follows:

Financial assets

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

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

All financial assets are initially recognised at fair value plus transaction costs, except those carried at fair value through profit or loss. The best evidence of fair value on initial recognition is the transaction price, unless fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash-flow

models and option-pricing valuation techniques whose variables include only data from observable markets.

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

Subsequent to initial recognition, the fair values of financial assets are based on quoted bid prices, excluding transaction costs.

(a) Financial assets at fair value through profit or loss

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

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

A financial asset is designated as 'fair value through profit or loss' when either it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset, or recognising the gains or losses on it on different bases; or it forms part of a portfolio of financial assets that is managed and its performance is evaluated on a fair-value basis, in accordance with a documented risk management or investment strategy and information about the portfolio is provided internally on that basis to key management personnel; or it forms part of a contract containing one or more embedded derivatives and IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

(b) Loans and receivables

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

Subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any provision for impairment. The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured on initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reductions for impairment of financial assets. The carrying amount represents its fair value.

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

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

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

(c) Held-to-maturity financial assets

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

(d) Available-for-sale financial assets

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

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

Impairment of financial assets

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

(a) Financial assets carried at amortised cost

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

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

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

(b) Financial assets carried at fair value

The Group assesses whether there is objective evidence that a financial asset carried at fair value is impaired at each reporting date. In the case of investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and current fair value, less any impairment loss on the financial asset previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss. Impairment losses recognised in profit or loss on equity instruments classified as available-for-sale are not subsequently reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Financial liabilities

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

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

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

(a) Financial liabilities at fair value through profit or loss

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

(b) Other financial liabilities at amortised cost

The following liabilities have been classified as other liabilities: notes and coin issued; SARB debentures; deposit accounts; amounts due to subsidiaries; foreign loans and deposits; the GFECRA; and other liabilities. Other liabilities are measured at amortised cost.

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

Measurement

(a) Initial measurement

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

(b) Subsequent measurement

Subsequent to initial recognition, these assets are measured at fair value. All related, realised and unrealised gains and losses arising from changes in fair value, excluding changes in fair value due to foreign-exchange movements as explained in Note 1.5, are recognised as interest income in profit or loss. The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that a legal right of set-off exists and there is an intention to settle on a net basis.

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

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Fair values are determined according to the fair value hierarchy based on the requirements in IFRS 7, *Financial Instruments: Disclosures*. Refer to Note 33, Fair value hierarchy disclosure for further details.

(i) Derivatives

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

(ii) Foreign marketable money-market investments

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

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

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

(iv) South African government bonds

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

Loans and receivables, and other liabilities

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

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

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

Effective interest method

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

Gains and losses on subsequent measurement

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

Gains and losses arising from a change in the fair value of financial assets and liabilities designated at fair value through profit or loss are recognised in profit or loss, except for gold and foreign-exchange activities, as explained in Note 1.5.

Hedge accounting

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

Set-off

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

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

Minimum reserve balances of banks

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

1.5 Foreign currency activities

Foreign currency translation

(a) Functional and presentation currency

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

(b) Foreign-exchange gains and losses arising in entity accounts

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

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

1.6 Property, plant and equipment

Freehold land is carried at cost less accumulated impairment losses. Other items of property, plant and equipment are carried at cost less accumulated depreciation and accumulated

impairment losses. Depreciation is determined separately for each significant part of an item of property, plant and equipment, and is charged so as to write off the cost of the assets (other than land and items under construction) to their residual value over their estimated useful life, using the straight-line method. The estimated useful life of assets has been disclosed in Note 12.

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

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

1.7 Impairment of other assets

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

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

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

1.8 Gold

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

In terms of section 25 of the SARB Act, all gains and losses on gold, held by the Bank, are for the account of the South African government and, consequently, all gains or losses are transferred to the GFECRA.

1.9 Taxation

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

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

Deferred taxation is provided using the liability method, based on temporary differences. However, deferred taxation liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of

the transaction affects neither accounting nor taxable profit or loss. Temporary differences are differences between the carrying amount of assets and liabilities for financial reporting purposes and their taxation base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using taxation laws enacted or substantively enacted at the reporting date. Deferred taxation is charged to profit or loss, except to the extent that it relates to a transaction that is recognised in other comprehensive income or in equity. In this case, the taxation is also recognised in other comprehensive income or in equity. The effect on deferred taxation of any changes in taxation rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to equity or other comprehensive income.

Deferred taxation assets are recognised for all deductible temporary differences, the carry forward of unused tax losses and the carry forward of unused tax credits. In relation to the Bank only, deferred taxation assets are not reduced to the extent that it is no longer probable that the related taxation benefits will be realised.

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

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

1.10 Employee benefits

(a) Pension and retirement funds

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

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

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

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

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

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

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

(b) Post-employment benefits

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

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

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

For active employees, actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised as profit or loss in the current year.

The liability is provided for in an actuarially determined provision.

1.11 Sale and repurchase agreements

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

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

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

1.12 Inventories

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

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

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

Maintenance spares are valued at average cost.

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

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

1.13 Cost of new currency

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

1.14 Cash flow

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

1.15 Provisions

Provisions are liabilities of uncertain timing or amount and are recognised when the Group has a present legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at management's estimate of the expenditure required to settle that obligation at the end of each reporting period, and are discounted (at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability) to present value where the effect is material. Provisions are not recognised for future operating losses.

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

1.16 Leave pay accrual

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

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

1.17 Revenue recognition

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

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

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

1.18 Critical accounting estimates and assumptions

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

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

(a) Fair value of financial instruments

If the market for a financial asset is not active or an instrument is an unlisted instrument, the fair value is estimated using valuation techniques. These include the use of recent arm's-length transactions, reference to other instruments that are substantially the same, discounted cash-flow analysis and option-pricing models.

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

(b) Post-employment benefits

The post-employment benefit obligation is calculated by independent actuaries using the projected unit credit method. See Note 1.10 on page 104 for further details. Note 19 provides detailed information about the key assumptions used in the determination of the post-employment benefit obligation, and of the detailed sensitivity analysis for these assumptions.

(c) Deferred taxation assets

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

1.19 Changes in accounting policies and accounting estimates

Changes in accounting policies

Deferred taxation assets are recognised for all deductible temporary differences, the carry forward of unused taxation losses and the carry forward of unused tax credits. Deferred taxation assets are not reduced to the extent that it is no longer probable that related taxation benefits will be realised.

This represents a change in respect of the Bank's accounting policy on deferred taxation assets. Previously, deferred taxation assets were recognised to the extent that it was probable that future taxable profit will be available, against which deductible temporary differences, the carry forward of unused taxation losses and the carry forward of unused tax credits can be used. Further detail in this regard is included in the financial framework on page 86. This change has had no impact on the prior year financial information.

The impact of the change in accounting policy on the annual financial statements is presented on page 108.

	Group	Bank
	2013	2013
	R'000	R'000
Impact of change in accounting policy		
As stated in the annual financial statements		
Deferred taxation assets	1 752 513	1 721 662
Deferred taxation liabilities	(17 932)	0
Taxation	583 444	580 680
Impact of no change in accounting policy		
Deferred taxation assets	30 851	0
Deferred taxation liabilities	(83 639)	(65 707)
Taxation	(1 203 924)	(1 206 689)

Refer to Note 13, Deferred taxation, on page 116, for further detail.

Changes in accounting estimates

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

1.20 Share capital

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

2. Cash and cash equivalents

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Bank and cash balances	31 554	76 217	0	0

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

3. Accommodation to banks

Repurchase agreements	24 100 000	20 200 000	24 100 000	20 200 000
Application of cash reserve balances	3 939	377 317	3 939	377 317
Accrued interest	16 507	6 088	16 507	6 088
	24 120 446	20 583 405	24 120 446	20 583 405

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

The repurchase agreements yield interest at the repurchase rate of the Bank	5,00%	5,50%	5,00%	5,50%

The following table presents details of collateral received:

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Fair value of collateral received (Note 28)	24 227 870	20 331 505	24 227 870	20 331 505
Fair value of collateral permitted to sell or repledge at the reporting date	24 227 870	20 331 505	24 227 870	20 331 505
Collateral cover	100,46%	100,62%	100,46%	100,62%
Maturity date	3 April 2013	4 April 2012	3 April 2013	4 April 2012

At the reporting date, none of the collateralised advances were past due or impaired. During the year under review, no defaults were experienced (2012: no defaults).

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

4. Investments

Short-term South African money-market investments	14 020 855	13 645 662	0	0
Maturity structure				
On demand	5 000	2 076 000	0	0
Within 30 days	2 977 674	6 568 951	0	0
Between 1 and 12 months	11 038 181	5 000 711	0	0
	14 020 855	13 645 662	0	0

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

Maximum exposure to credit risk	14 020 855	13 645 662	0	0

In terms of investment guidelines, approved by the Boards of Directors of the respective subsidiaries, all investments are placed with reputable financial institutions. The Fitch short-term national credit ratings for institutions primarily utilised by the CPD are all F1+, which is the highest rating in the short term. SARBCIC utilises banking institutions with a Fitch long-term credit rating of no less than AA-. The change in fair value due to changes in credit quality or spreads is not material and has, therefore, not been disclosed separately.

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

Included in short-term South African money-market investments are repurchase agreements. The table on page 110 presents details thereof.

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Fair value of repurchase agreements	0	5 276 349	0	0
Fair value of collateral received	0	5 302 009	0	0
Fair value of collateral permitted to sell or repledge at the reporting date	0	5 302 009	0	0
Collateral cover	0	100,49%	0	0
Maturity date	0	5 April 2012	0	0

At the reporting date, none of the collateralised advances were past due or impaired. During the year under review, no defaults were experienced (2012: no defaults).

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

5. Other assets

Financial assets	129 653	350 952	111 335	303 825
Non-financial assets	58 957	27 439	35 095	17 127
	188 610	378 391	146 430	320 952
Maturity structure of financial assets				
Within 30 days	129 653	350 952	111 335	303 825

6. Gold and foreign exchange

Gold and foreign-exchange holdings				
Gold coin and bullion	59 290 236	51 420 493	59 290 236	51 420 493
Money- and capital-market instruments and deposits	127 585 543	107 017 342	127 585 543	107 017 342
Medium-term instruments	204 591 644	172 978 467	204 591 644	172 978 467
Portfolio investments	68 113 770	57 145 434	68 113 770	57 145 434
Accrued interest	5 468	4 018	5 468	4 018
	459 586 661	388 565 754	459 586 661	388 565 754

Gold coin and bullion consists of 4 021 814 fine ounces of gold at the statutory price of R14 742,16 per ounce (2012: 4 019 568 fine ounces at R12 792,54 per ounce).

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

Included in the gold and foreign-exchange holdings are the following items provided for additional information purposes:

6.1 Derivatives held-for-trading

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

	Net fair value	Fair value of assets	Fair value of liabilities	Contract/ Notional[1] amount
	R'000	R'000	R'000	R'000
Group and Bank 2013				
Forward exchange contracts	77 658	129 493	(51 835)	18 717 114
Futures contracts	(96 631)	9 175	(105 806)	17 793 467
Interest rate swaps	(30 990)	20 160	(51 150)	1 843 122
Total derivatives held-for-trading	(49 963)	158 828	(208 791)	38 353 703
Group and Bank 2012				
Forward exchange contracts	(5 409)	4 388	(9 797)	2 564 686
Futures contracts	9 879	20 115	(10 236)	7 736 830
Interest rate swaps	(103 253)	23 918	(127 171)	9 120 926
Total derivatives held-for-trading	(98 783)	48 421	(147 204)	19 422 442

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

6.2 Securities lending activities

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Liabilities in respect of collateral received	(44 009 315)	(44 050 226)	(44 009 315)	(44 050 226)
Fair value of underlying investments	44 004 957	43 895 527	44 004 957	43 895 527
Net fair value adjustment included above	(4 358)	(154 699)	(4 358)	(154 699)

7. Inventories

Raw materials	232 358	128 799	0	0
Work in progress	89 337	126 696	0	0
Consumable stores	35 560	27 432	5 212	6 992
Maintenance spares	13 278	12 415	0	0
Finished goods	13 658	32 457	0	0
	384 191	327 799	5 212	6 992

8. Forward exchange contract assets and liabilities

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Unrealised gain on forward exchange contracts	1 043 930	1 406 009	1 043 930	1 406 009
Unrealised loss on forward exchange contracts	(111 820)	(751 284)	(105 663)	(749 702)
Forward exchange contract: South African Bank Note Company (RF) (Pty) Limited (Note 29.2)	0	0	0	52 059
Net gain	932 110	654 725	938 267	708 366
Net unrealised gain credited to Gold and Foreign Exchange Contingency Reserve Account (Note 20)*	938 267	708 366	938 267	708 366
Net unrealised loss debited to profit or loss (Note 22.2)	(6 157)	(53 641)	0	0

* These amounts represent unrealised gains and losses on forward exchange contracts, which will be for the account of government as and when they are realised. The forward exchange contracts are utilised in the operations of the Bank, to manage monetary policy operations.

The notional amount of the forward exchange contracts amounts to R43,7 billion (2012: R48,0 billion).

9. Loans and advances

Secured foreign loan	66 351	67 923	66 351	67 923

The loan facility of R75 million expires on 31 December 2013 if not renegotiated. Land Bank bills have been pledged as collateral against the foreign loan. The following table presents details of collateral held:

Fair value of collateral received	82 069	82 020	82 069	82 020
Fair value of collateral permitted to sell or repledge at the reporting date	82 069	82 020	82 069	82 020
Collateral cover	123,69%	120,75%	123,69%	120,75%
Maturity date	8 May 2013	9 May 2012	8 May 2013	9 May 2012

At the reporting date, none of the collateralised advances were past due or impaired. During the year under review, no defaults were experienced (2012: no defaults). As the bills mature, they are replaced with new bills.

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

10. South African government bonds

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Listed bonds: Interest bearing	8 501 422	8 290 064	8 501 422	8 290 064
Accrued interest	116 906	96 341	116 906	96 341
	8 618 328	8 386 405	8 618 328	8 386 405
Effective interest rate	8,54%	8,42%	8,54%	8,42%
South African government bonds that do not qualify for derecognition:				
Listed bonds pledged	6 004 716	5 982 547	6 004 716	5 982 547
Associated liability	6 069 263	6 156 780	6 069 263	6 156 780

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

11. Equity investment in Bank for International Settlements

Unlisted shares at cost	359 627	310 628	359 627	310 628

The shares held in the BIS are held as part of the Bank's function as a central bank and are thus long-standing in nature. Shares are only transferable with the prior consent of the BIS. The Bank has no intention of selling the shares.

The Bank's investment in the BIS consists of 8 612 shares. Under IAS 39 the Bank's shareholding in the BIS is classified as 'available-for-sale'. The shareholding is valued at cost as no active market exists for these shares. The adjusted net asset value of the shares is based on special drawing rights (SDRs)[1] of SDR34 014 (2012: SDR32 930) amounting to R2,8 billion (2012: R2,4 billion). Changes in value due to foreign-exchange movements are transferred to the GFECRA. For the year ended 31 March 2013, a movement of R48,9 million (2012: movement of R29,2 million) was transferred to the GFECRA.

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

12. Property, plant and equipment

12.1 Group: 2013

	Land	Buildings	Plant, vehicles, furniture and equipment	Work in progress	Total
	R'000	R'000	R'000	R'000	R'000
Cost					
Cost at 31 March 2012	44 437	537 914	2 333 643	934 130	3 850 124
Additions	0	2 006	138 128	504 005	644 139
Transfers in/(out)	0	173 284	906 703	(1 079 987)	0
Disposals	(5 437)	0	(149 394)	0	(154 831)
Cost at 31 March 2013	39 000	713 204	3 229 080	358 148	4 339 432
Accumulated depreciation					
Accumulated depreciation at 31 March 2012	0	228 168	1 223 333	0	1 451 501
Charge for the year	0	15 865	185 580	0	201 445
Disposals	0	0	(142 804)	0	(142 804)
Accumulated depreciation at 31 March 2013	0	244 033	1 266 109	0	1 510 142
Net book value at 31 March 2013	39 000	469 171	1 962 971	358 148	2 829 290
Estimated useful life (years)		50	2 to 28		

Group: 2012

	Land	Buildings	Plant, vehicles, furniture and equipment	Work in progress	Total
	R'000	R'000	R'000	R'000	R'000
Cost					
Cost at 31 March 2011	39 895	536 447	2 167 229	328 846	3 072 417
Additions	4 560	4 551	16 414	875 037	900 562
Transfers in/(out)	0	10	269 743	(269 753)	0
Disposals	(18)	(3 094)	(119 743)	0	(122 855)
Cost at 31 March 2012	44 437	537 914	2 333 643	934 130	3 850 124
Accumulated depreciation					
Accumulated depreciation at 31 March 2011	0	219 943	1 166 631	0	1 386 574
Charge for the year	0	11 297	171 066	0	182 363
Disposals	0	(3 072)	(114 364)	0	(117 436)
Accumulated depreciation at 31 March 2012	0	228 168	1 223 333	0	1 451 501
Net book value at 31 March 2012	44 437	309 746	1 110 310	934 130	2 398 623
Estimated useful life (years)		50	2 to 28		

12.2 Bank: 2013

	Land	Buildings	Plant, vehicles, furniture and equipment	Work in progress	Total
	R'000	R'000	R'000	R'000	R'000
Cost					
Cost at 31 March 2012	34 742	378 195	1 115 738	252 525	1 781 200
Additions	0	0	127 627	80 460	208 087
Transfers in/(out)	0	95 448	32 414	(127 862)	0
Disposals	(5 437)	0	(28 577)	0	(34 014)
Cost at 31 March 2013	29 305	473 643	1 247 202	205 123	1 955 273
Accumulated depreciation					
Accumulated depreciation at 31 March 2012	0	165 658	691 263	0	856 921
Charge for the year	0	11 089	101 929	0	113 018
Disposals	0	0	(27 241)	0	(27 241)
Accumulated depreciation at 31 March 2013	0	176 747	765 951	0	942 698
Net book value at 31 March 2013	29 305	296 896	481 251	205 123	1 012 575
Estimated useful life (years)		50	5 to 15		

Bank: 2012

	Land	Buildings	Plant, vehicles, furniture and equipment	Work in progress	Total
	R'000	R'000	R'000	R'000	R'000
Cost					
Cost at 31 March 2011	30 200	379 456	1 100 058	165 154	1 674 868
Additions	4 560	527	1 543	194 845	201 475
Transfers in/(out)	0	1 306	106 168	(107 474)	0
Disposals	(18)	(3 094)	(92 031)	0	(95 143)
Cost at 31 March 2012	34 742	378 195	1 115 738	252 525	1 781 200
Accumulated depreciation					
Accumulated depreciation at 31 March 2011	0	160 956	698 663	0	859 619
Charge for the year	0	7 774	81 902	0	89 676
Disposals	0	(3 072)	(89 302)	0	(92 374)
Accumulated depreciation at 31 March 2012	0	165 658	691 263	0	856 921
Net book value at 31 March 2012	34 742	212 537	424 475	252 525	924 279
Estimated useful life (years)		50	5 to 15		

13. Deferred taxation assets and liabilities

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Balance at the beginning of the year	1 206 432	1 029 964	1 196 277	1 078 536
Movements during the year (Note 23)	528 149	176 468	525 385	117 741
Balance at the end of the year	1 734 581	1 206 432	1 721 662	1 196 277
Comprising:				
Deferred taxation assets	1 752 513	1 226 342	1 721 662	1 196 277
Deferred taxation liabilities	(17 932)	(19 910)	0	0
Net deferred taxation assets	1 734 581	1 206 432	1 721 662	1 196 277

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

Deferred taxation assets and liabilities are attributed as set out in Notes 13.1 and 13.2.

13.1 Group

	2013	Amounts charged to statement of comprehensive income	2012
	R'000	R'000	R'000
Deferred retirement fund contributions	5 494	1 280	4 214
Post-employment benefits	500 798	96 981	403 817
Prepaid expenditure and other items	15 741	(12 003)	27 744
Property, plant and equipment	(287 522)	(103 483)	(184 039)
Leave pay accrual	45 285	2 812	42 473
Tax loss	1 454 785	542 562	912 223
Total	1 734 581	528 149	1 206 432

13.2 Bank

	2013	Amounts charged to statement of comprehensive income	2012
	R'000	R'000	R'000
Deferred retirement fund contributions	2 688	1 332	1 356
Post-employment benefits	461 770	93 135	368 635
Prepaid expenditure and other items	12 424	11 598	826
Property, plant and equipment	(65 707)	(3 550)	(62 157)
Leave pay accrual	40 288	1 964	38 324
Tax loss	1 270 199	420 906	849 293
Total	1 721 662	525 385	1 196 277

14. Notes and coin in circulation

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Notes	98 488 364	85 701 605	98 488 364	85 701 605
Coin	4 647 937	4 462 948	4 647 937	4 462 948
	103 136 301	90 164 553	103 136 301	90 164 553

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. Deposit accounts

Non-interest bearing	91 836 008	84 288 071	91 788 648	84 240 711
Banks' reserve accounts	67 062 044	62 884 772	67 062 044	62 884 772
Government accounts	24 687 757	21 335 860	24 640 397	21 288 500
Other current accounts	86 207	67 439	86 207	67 439
Interest bearing	91 654 784	94 319 549	73 226 667	73 314 184
Reverse repurchase agreements	6 069 263	6 156 780	6 069 263	6 156 780
Government special deposit	67 157 404	67 157 404	67 157 404	67 157 404
Call deposits	18 428 117	21 005 365	0	0
	183 490 792	178 607 620	165 015 315	157 554 895
Maturity structure of deposit accounts				
On demand	43 202 081	42 408 664	24 726 604	21 355 939
Subject to negotiation with National Treasury	67 157 404	67 157 404	67 157 404	67 157 404
Within 30 days	73 131 307	69 041 552	73 131 307	69 041 552
	183 490 792	178 607 620	165 015 315	157 554 895

The reverse repo agreements are secured by South African government bonds as follows:

Market value	6 004 716	5 982 547	6 004 716	5 982 547
Collateral cover (per cent)	98,94%	97,17%	98,94%	97,17%

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

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

16. Foreign loans and deposits

	80 264 328	67 563 850	80 264 328	67 563 850

Currently the Bank has no foreign loans (2012: None).

Foreign deposits are placed by customers at market related rates.

Analyses of the currency composition and maturity structure of these foreign loans and deposits are set out in Note 28.

17. Other liabilities

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Accruals	219 958	167 119	194 881	158 645
Accounts payable	224 641	392 271	47 888	39 294
Other financial liabilities	39 049	30 177	39 049	30 177
Non-financial liabilities	126 147	71 496	13 936	18 279
	609 795	661 063	295 754	246 395
Maturity structure of financial liabilities				
Within 30 days	483 648	589 567	281 818	228 116

18. South African Reserve Bank debentures

Capital	9 886 000	20 981 000	9 886 000	20 981 000
Accrued interest	17 232	46 791	17 232	46 791
	9 903 232	21 027 791	9 903 232	21 027 791

The SARB debentures are issued to the market on tender normally on a 7-, 14-, 28- or 56-day term. The debentures are unsecured. Details of the debentures in issue at 31 March 2013 are as follows:

Maturity date	Interest rate	Capital
	Per cent	R'000
3 April 2013	4,95	20 000
3 April 2013	5,00	179 000
3 April 2013	5,00	1 444 000
10 April 2013	5,00	371 000
10 April 2013	4,98	165 000
10 April 2013	5,00	2 110 000
10 April 2013	4,95	30 000
17 April 2013	5,00	523 000
24 April 2013	5,00	300 000
24 April 2013	5,00	420 000
5 May 2013	5,00	530 000
8 May 2013	5,00	1 030 000
15 May 2013	5,00	1 418 000
22 May 2013	5,00	1 346 000
		9 886 000

19. Retirement benefit information

19.1 Retirement funds

The Group has made provision for pension and provident plans substantially covering all employees. All employees are members of the defined contribution plans administered by the Group or are members of funds within the various industries in which they are employed. The assets of these plans are held in administered trust funds separate from the Group's assets and the funds are governed by the Pension Funds Act.

The assets and liabilities of the defined benefit fund, which has been closed to new members since 1 July 1995, were transferred to the defined contribution fund on 31 March 2011. At present 315 pensioners qualify for the defined benefits. The benefits provided are based on the years of membership and salary levels. These benefits were provided from contributions made by employees and the employer, and income derived from the assets of the plan. The actuarial risk in respect of current pension commitments has mainly been transferred to Sanlam through an insurance policy. In view of the transfer of the pension liability to Sanlam, no further financial disclosures are deemed necessary in respect of the defined benefit, as required by IAS 19.

19.2 Post-employment benefits

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

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Amounts recognised in the statement of financial position:				
Post-employment medical benefits (refer to (a) below)	1 756 166	1 401 406	1 616 779	1 275 758
Post-employment group life benefits (refer to (b) below)	36 386	44 109	32 400	40 797
	1 792 552	1 445 515	1 649 179	1 316 555

(a) Post-employment medical benefits

Post-employment medical benefits are provided to retired staff in the form of subsidised medical aid premiums. This benefit has been closed to all new employees at the Bank since 1 September 2011 and at the subsidiary since 2003. A provision for the liability has been raised, this covers the total liability, that is, the accumulated post-employment medical benefit liability at 31 March 2013.

Balance at the beginning of the year	1 401 406	1 153 987	1 275 758	1 038 932
Movement during the year				
Interest cost	120 492	99 424	109 726	89 145
Service cost	49 817	38 988	46 710	35 794
Actuarial losses[1]	231 992	152 161	228 085	152 140
Benefits paid	(47 541)	(43 154)	(43 500)	(40 253)
Amount recognised in the statement of comprehensive income (refer to Note 22.2)	354 760	247 419	341 021	236 826
Balance at the end of the year	1 756 166	1 401 406	1 616 779	1 275 758

[1] The increase in actuarial losses from the prior year can be attributed to the following: (i) the net discount rate used in the prior-year valuation (1,40 per cent) decreased to 0,93 per cent at 31 March 2013, resulting in an increase in the liability of R125 million; (ii) the actual medical inflation average of 9,0 per cent during the period under review was higher than the assumed medical inflation of 7,25 per cent in the prior year, which resulted in an increase in the liability of R23 million; and (iii) membership changes of qualifying employees in the inter-valuation period of R80 million, which resulted in an increased liability.

Key assumptions	2013 Per cent	2012 Per cent
Discount rate[2]	8,00	8,75
Medical inflation	7,00	7,25
Net discount rate	0,93	1,40
Valuation date	31 March 2013	31 March 2012

[2] The discount rate is based on the composite government All-Bond Index of bond durations 12 years and longer. The CPI assumption is derived from the differential in the R213 nominal government bonds and the R202 government index-linked bonds. Medical inflation is assumed to exceed the long-term CPI assumption by 1,25 per cent per annum. The assumption is unchanged from the previous valuation. It is the relative levels of the discount rate and medical inflation to one another that are important, rather than the nominal values of the bond yields.

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

	1% decrease R'000	Valuation basis R'000	1% increase R'000
Group			
Employers' accrued liability	1 503 122	1 756 166	2 080 391
Employers' service and interest cost[3]	168 000	201 885	243 998
Bank			
Employer's accrued liability	1 380 729	1 616 779	1 914 266
Employer's service and interest cost[3]	155 423	187 297	226 563

[3] Forecast service and interest costs for the year ending 31 March 2014.

Historical information

	2013 R'000	2012 R'000	2011 R'000	2010 R'000	2009 R'000
Bank					
Present value of obligation	1 616 779	1 275 758	1 038 932	963 665	833 400
Experience adjustments on plan liability	228 085	152 140	19 014	68 642	42 568

	2013 Per cent	2012 Per cent	2011 Per cent	2010 Per cent	2009 Per cent
Bank					
Medical inflation	7,00	7,25	6,50	7,00	6,75
Net discount rate	0,93	1,40	2,11	2,10	1,63

(b) Post-employment group life benefits

Post-employment group life benefits are provided to retired staff in the form of subsidised group life premiums. This covers the total liability, that is, the accumulated post-employment group life benefit liability at 31 March 2013.

	Group		Bank	
	2013	2012[4]	2013	2012[4]
	R'000	R'000	R'000	R'000
Balance at the beginning of the year	44 109	34 101	40 797	34 101
Movement during the year				
Interest cost	3 693	6 296	3 570	2 984
Service cost	2 510	1 929	2 226	1 929
Actuarial (gains)/losses[5]	(12 624)	2 803	(13 068)	2 803
Benefits paid	(1 302)	(1 020)	(1 125)	(1 020)
Amount recognised in the statement of comprehensive income (refer to Note 22.2)	(7 723)	10 008	(8 397)	6 696
Balance at the end of the year	36 386	44 109	32 400	40 797

[4] In the prior year, the provision for the post-employment group life benefit liability was raised for the first time. The closing balances at 31 March 2012 of R44,1 million and R40,8 million for the Group and Bank respectively were recognised in the statement of comprehensive income (refer to Note 22.2). The prior year movement is presented above in a tabular format for illustrative purposes.

[5] The actuarial gains include a prior year adjustment to the net liability of R14 million, together with other actuarial gains and losses in the current year. The R14 million adjustment to the liability relates to a change in the actuarial assumptions. Previously, the active members' liability was based on a post-employment benefit of five times, instead of three times annual salary. In addition, all active members were valued assuming 100 per cent of the post-employment Group Life premiums are subsidised, yet this is not the case for those that joined after 30 June 1995.

Key assumptions	2013 Per cent	2012 Per cent
Discount rate	8,00	8,75
Salary inflation	5,00	4,50
Net discount rate	3,00	4,25
Valuation date	31 March 2013	31 March 2012

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

	1% decrease	Valuation basis	1% increase
	R'000	R'000	R'000
Group			
Employers' accrued liability	34 463	36 386	38 542
Employers' service and interest cost[6]	4 180	4 506	4 868
Bank			
Employer's accrued liability	30 653	32 400	34 358
Employer's service and interest cost[6]	3 723	4 008	4 332

[6] Forecast service and interest costs for the year ending 31 March 2014.

20. Gold and Foreign Exchange Contingency Reserve Account

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Opening balance	67 654 647	28 282 942	67 654 647	28 282 942
Profit on gold price adjustment account	7 844 033	12 339 898	7 844 033	12 339 898
Loss on forward exchange contract adjustment account	(18 411 410)	(7 535 188)	(18 411 410)	(7 535 188)
Profit on foreign-exchange adjustment account	68 083 986	33 672 944	68 083 986	33 672 944
Movement in unrealised gains-on forward exchange contracts	229 901	1 544 494	229 901	1 544 494
	125 401 157	68 305 090	125 401 157	68 305 090
Net settlement/(payments)	150 461	(650 443)	150 461	(650 443)
Amount due to government	125 551 618	67 654 647	125 551 618	67 654 647
Balance composition				
Balance currently due to government	124 613 351	66 946 281	124 613 351	66 946 281
Unrealised gains on forward exchange contracts (Note 8)	938 267	708 366	938 267	708 366
	125 551 618	67 654 647	125 551 618	67 654 647

The GFECRA, which is operated in terms of section 28 of the SARB Act, represents net revaluation profits and losses incurred on gold and foreign-exchange transactions, which are for the account of the South African government. Settlement of this account is subject to agreement, from time to time, between the Bank and government. During the reporting period under review, a net amount of R150,5 million was settled by government (2012: R650,4 million paid to government).

21. Share capital

Authorised and issued

2 000 000 shares (2012: 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. Loss before taxation

22.1 Total income is stated after crediting

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Income from investments	33 101	26 168	32 529	27 007
Dividends	32 529	27 285	32 529	27 007
Realised and unrealised profit/(loss) on investments	572	(1 117)	0	0
Income from subsidiaries			10 340	10 786
Dividends			200	200
Interest			9 125	9 600
Management fees			1 015	986
Commission on banking services	253 337	731 977	253 337	731 977

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

22.2 Operating costs include

Directors' remuneration (Note 29.4)	20 267	19 345	19 935	19 162
For services as non-executive directors	4 103	3 279	3 771	3 096
For services as executive directors	16 164	16 066	16 164	16 066
Depreciation	201 445	182 363	113 018	89 676
Buildings	15 865	11 297	11 089	7 774
Plant, vehicles, furniture and equipment	185 580	171 066	101 929	81 902
Net profit on disposal of:				
Plant, vehicles, furniture and equipment	(3 913)	(4 124)	(4 371)	(6 703)
Auditors' remuneration	13 621	13 074	9 864	7 883
Audit fees	11 157	10 828	7 551	6 963
Fees for other services	2 464	2 246	2 313	920
Consulting fees	124 711	86 369	109 811	74 141
Retirement benefit costs	552 654	482 749	500 216	432 422
Normal contributions to funds	137 214	124 882	118 976	107 444
Additional contributions to funds	885	3 974	885	3 974
Provision for post-employment medical benefits	354 760	247 419	341 021	236 826
Medical aid premiums paid	64 530	59 573	46 600	42 367
Post-employment group life benefits	(7 723)	44 109	(8 397)	40 797
Group life premiums paid	2 988	2 792	1 131	1 014
Remuneration and recurring staff costs	1 503 175	1 338 507	1 260 772	1 115 204
Cost of new currency	912 109	172 026	1 556 876	737 534
Unrealised loss on forward exchange contracts[1]	6 157	53 641	0	0
Other operating costs[2]	799 630	871 480	337 569	315 339

[1] The forward exchange contracts include a contract entered into on behalf of the SABN (see Notes 29.2 and 8). This represents the outside exposure for the Group. This contract was settled by the reporting date (2012: R52,0 million).

[2] Other operating costs comprises mainly business systems and technology costs, repairs and maintenance, building maintenance costs, travel and accommodation, and training expenses.

23. Taxation

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
South African normal taxation				
Current taxation	55 295	68 993	55 295	70 851
Deferred taxation				
Current year timing differences	528 149	176 468	525 385	117 741
	583 444	245 461	580 680	188 592
Reconciliation of taxation rate				
South African normal taxation rate	28,00%	28,00%	28,00%	28,00%
Adjusted for:				
Disallowable expenses	(0,22%)	(0,39%)	(0,08%)	(0,24%)
Exempt income and special deductions	1,51%	1,71%	0,00%	0,01%
Effective taxation rate	29,29%	29,32%	27,92%	27,77%

The current taxation for the Bank represents the tax charge on the revaluation of available-for-sale financial assets.

24. Dividend per share (cents)

	10	10	10	10
Dividends were paid as follows:				
Final dividend of 5 cents per share for the 2012 financial year	100	100	100	100
Interim dividend of 5 cents per share for the 2013 financial year	100	100	100	100
	200	200	200	200

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

25. Cash generated from operating activities

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Reconciliation of loss before taxation to cash generated from operating activities:				
Loss before taxation for the year	(1 991 529)	(837 458)	(2 079 863)	(679 095)
Adjustments for:				
Depreciation	201 445	182 363	113 018	89 676
Net profit on disposal of fixed assets	(3 913)	(4 124)	(4 371)	(6 703)
Unrealised foreign-exchange loss	6 362	429	0	0
Fair value adjustments to financial instruments	(325)	5 555	0	0
Post-employment benefits	347 037	291 528	332 624	277 623
Realised gain on available-for sale-financial assets	(136 172)	0	(136 172)	0
Coupon interest accrued	(20 565)	0	(20 565)	0
Amortisation of coupon interest	122 295	120 002	122 295	120 002
Net cash utilised by operating activities	(1 475 365)	(241 705)	(1 673 034)	(198 497)
Changes in working capital				
Amounts due by subsidiaries	0	0	191 326	(140 765)
Accommodation to banks	(3 537 041)	(4 167 200)	(3 537 041)	(4 167 200)
Other assets	188 487	21 619	174 522	50 245
Gold and foreign exchange	(71 020 907)	(54 228 094)	(71 020 907)	(54 228 094)
Inventories	(56 392)	25 437	1 780	1 346
Loans and advances	1 572	1 457	1 572	1 457
Amount due by the South African government	0	794 162	0	794 162
Equity investment in Bank for International Settlements	(48 999)	(29 196)	(48 999)	(29 196)
Notes and coin in circulation	12 971 748	11 911 972	12 971 748	11 911 972
Deposit accounts	4 883 172	18 962 879	7 460 420	8 325 386
Amounts due to subsidiaries	0	0	(3 021 768)	5 278 952
Other liabilities	(88 057)	230 935	49 359	20 165
Foreign loans and deposits	12 700 478	8 953 520	12 700 478	8 953 520
South African Reserve Bank debentures	(11 124 559)	(13 680 520)	(11 124 559)	(13 680 520)
Gold and Foreign Exchange Contingency Reserve Account	57 615 011	37 879 270	57 615 011	37 879 270
Cash generated from changes in working capital	2 484 513	6 676 241	2 412 942	970 700
Cash generated from operating activities	1 009 148	6 434 536	739 908	772 203

26. Capital commitments

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Capital expenditure contracted for at the end of the reporting period but not yet incurred	151 454	654 821	47 541	44 054
Buildings	4 260	1 098	4 260	243
Plant, vehicles, furniture and equipment	147 194	653 723	43 281	43 811
Capital expenditure not contracted for at the end of the reporting period	135 260	460 940	54 514	350 236
Buildings	4 632	48 896	3 812	48 486
Plant, vehicles, furniture and equipment	130 628	412 044	50 702	301 750
Total	286 714	1 115 761	102 055	394 290

These capital commitments will be funded from internal resources.

27. Events after the reporting date

No material events occurred between 31 March 2013 and 13 June 2013 requiring disclosure in, or adjustment to, the annual financial statements for the year ended 31 March 2013.

28. Risk management in respect of financial instruments

Certain aspects of risk management specific to financial instruments are described below.

Interest rate risk

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

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

Market risk

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

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

Currency risk

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

Credit risk

Credit risk is the risk of loss due to the inability or unwillingness of a counterparty to meet its contractual obligations. Credit risk arises from activities of the Bank such as investment in financial instruments, deposits placed with counterparties and the settlement of financial market transactions.

Credit risk with respect to monetary policy operations is sufficiently mitigated, since all repo transactions are fully collateralised. Furthermore, in terms of the SARB Act, no unsecured lending is allowed. The list of eligible securities consist of rand-denominated South African government bonds, Treasury bills, SARB debentures and Land Bank bills. Furthermore, operations in the foreign-exchange market can only be conducted with Authorised Dealers.

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

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

Concentration analysis

	Group		Bank	
	2013	2012	2013	2012
	R'000	R'000	R'000	R'000
Assets				
South African rand	48 012 295	44 472 841	34 105 545	31 082 898
Gold	59 290 236	51 420 493	59 290 236	51 420 493
United States dollar	262 528 624	219 635 976	262 509 236	219 594 044
Euro	71 409 503	60 244 740	71 408 920	60 242 941
Pound sterling	41 083 325	35 961 914	41 083 325	35 961 914
Other	25 653 422	21 656 991	25 653 422	21 656 991
Total financial assets	507 977 405	433 392 955	494 050 684	419 959 281
Liabilities				
South African rand	422 556 538	358 626 874	409 252 139	345 659 664
United States dollar	80 275 253	67 565 019	80 264 328	67 563 850
Euro	98	590	0	0
Other	109 850	166 829	0	0
Total financial liabilities	502 941 739	426 359 312	489 516 467	413 223 514

Concentration risk

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

Liquidity risk

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

The table on page 128 analyses the financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to contractual maturity date.

Liabilities (R'000)	Up to 1 month	1 to 3 months	4 to 6 months	7 to 12 months	More than 1 year	Total
Group: 31 March 2013						
Notes and coin in circulation	103 136 301	0	0	0	0	103 136 301
Deposit accounts	177 486 076	6 004 716	0	0	0	183 490 792
Foreign loans and deposits[1]	80 264 328	0	0	0	0	80 264 328
Other financial liabilities	483 648	0	0	0	0	483 648
South African Reserve Bank debentures	5 571 695	4 331 537	0	0	0	9 903 232
Forward exchange contract liabilities	82 075	14 217	15 248	280	0	111 820
Gold and Foreign Exchange Contingency Reserve Account	125 551 618	0	0	0	0	125 551 618
Total financial liabilities	492 575 741	10 350 470	15 248	280	0	502 941 739
Group: 31 March 2012						
Notes and coin in circulation	90 164 553	0	0	0	0	90 164 553
Deposit accounts	178 607 620	0	0	0	0	178 607 620
Foreign loans and deposits[1]	67 563 850	0	0	0	0	67 563 850
Other financial liabilities	589 567	0	0	0	0	589 567
South African Reserve Bank debentures	20 968 791	59 000	0	0	0	21 027 791
Forward exchange contract liabilities	120 006	547 150	84 074	54	0	751 284
Gold and Foreign Exchange Contingency Reserve Account	67 654 647	0	0	0	0	67 654 647
Total financial liabilities	425 669 034	606 150	84 074	54	0	426 359 312
Bank: 31 March 2013						
Notes and coin in circulation	103 136 301	0	0	0	0	103 136 301
Deposit accounts	159 010 599	6 004 716	0	0	0	165 015 315
Amounts due to subsidiaries	5 258 192	0	0	0	0	5 258 192
Foreign loans and deposits[1]	80 264 328	0	0	0	0	80 264 328
Other financial liabilities	281 818	0	0	0	0	281 818
South African Reserve Bank debentures	5 571 695	4 331 537	0	0	0	9 903 232
Forward exchange contract liabilities	75 918	14 217	15 248	280	0	105 663
Gold and Foreign Exchange Contingency Reserve Account	125 551 618	0	0	0	0	125 551 618
Total financial liabilities	479 150 469	10 350 470	15 248	280	0	489 516 467
Bank: 31 March 2012						
Notes and coin in circulation	90 164 553	0	0	0	0	90 164 553
Deposit accounts	157 554 895	0	0	0	0	157 554 895
Amounts due to subsidiaries	8 279 960	0	0	0	0	8 279 960
Foreign loans and deposits[1]	67 563 850	0	0	0	0	67 563 850
Other financial liabilities	228 116	0	0	0	0	228 116
South African Reserve Bank debentures	20 968 791	59 000	0	0	0	21 027 791
Forward exchange contract liabilities	118 956	546 983	83 763	0	0	749 702
Gold and Foreign Exchange Contingency Reserve Account	67 654 647	0	0	0	0	67 654 647
Total financial liabilities	412 533 768	605 983	83 763	0	0	413 223 514

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

Foreign-exchange operations

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

Settlement risk

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

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

Financial risk reporting in the Bank

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

29. Related party information

29.1 Investment in subsidiaries

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

	Authorised and issued share capital		Bank	
	Number of shares	Percentage held	2013	2012
	R'000	Per cent	R'000	R'000
Corporation for Public Deposits	2 000	100	2 000	2 000
South African Mint Company (RF) (Pty) Limited	60 000	100	206 000	206 000
South African Bank Note Company (RF) (Pty) Limited	61 000	100	1 183 765	641 000
Share capital	61 000	100	61 000	61 000
Subordinated loan	0	0	1 122 765	580 000
South African Reserve Bank Captive Insurance Company (RF) Limited	10 000	100	10 000	10 000
Total			1 401 765	859 000

The subordinated loan to the SABN of R1,1 billion (2012: R580,0 million) bears no interest and has no fixed terms of repayment. During the current financial year, the facility was fully utilised by the subsidiary. The purpose of the loan was to assist the SABN with financing its factory modernisation programme.

The Bank may demand repayment of the loan provided the subsidiary's assets exceed its liabilities. When recalled, the subsidiary has the option to convert the loan to share capital.

The loan is included in the books of the subsidiary as a separate category of equity and is thus treated as an addition to the Bank's investment in subsidiary.

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

	2013 R'000	2012 R'000
Corporation for Public Deposits	98 109	50 320
South African Mint Company (RF) (Pty) Limited	(5 029)	(10 581)
South African Bank Note Company (RF) (Pty) Limited	(67)	(145 661)
South African Reserve Bank Captive Insurance Company (RF) Limited	(1 715)	4 628
Total	91 298	(101 294)

29.2 Amounts due by/to subsidiaries

Amounts due by subsidiaries	144 006	335 332
South African Bank Note Company (RF) (Pty) Limited: Loan	33 257	33 257
South African Bank Note Company (RF) (Pty) Limited: Forward exchange contract	0	52 059
Corporation for Public Deposits: Current account	110 749	250 016
Amounts due to subsidiaries	5 258 192	8 279 960
Corporation for Public Deposits: Call deposit	5 209 369	8 279 960
South African Bank Note Company (RF) (Pty) Limited: Foreign currency deposit	48 823	0

The loan to the SABN bears interest at the repo rate and is unsecured with no fixed repayment terms.

The forward exchange contract with the SABN was required in the prior year to cover the foreign-exchange exposure on the new plant purchased as part of the subsidiary's factory modernisation programme. The external forward exchange contract for the Group is included in Note 8.

The call deposit placed with the Bank by the CPD earns interest at South African money-market rates.

Amounts due by or to subsidiaries are repayable on demand. The subsidiaries are all wholly owned and incorporated in the Republic of South Africa.

29.3 Transactions between the Bank and its subsidiaries

The following transactions took place between the Bank and its related parties:

	2013	2012
	R'000	R'000
Interest received	9 125	9 600
South African Bank Note Company (RF) (Pty) Limited	1 754	1 862
Corporation for Public Deposits	7 371	7 738
Interest paid		
Corporation for Public Deposits	805 860	423 621
Insurance premiums paid		
South African Reserve Bank Captive Insurance Company (RF) Limited	16 800	11 278
Rent paid		
South African Bank Note Company (RF) (Pty) Limited	2 544	2 400
Coin management fees paid		
South African Mint Company (RF) (Pty) Limited	2 101	1 981
Management fees received	1 015	986
Corporation for Public Deposits	582	582
South African Reserve Bank Captive Insurance Company (RF) Limited	433	404
Cost of currency	644 767	565 508
South African Bank Note Company (RF) (Pty) Limited	391 543	285 004
South African Mint Company (RF) (Pty) Limited	253 224	280 504
Proceeds from insurance claims		
South African Reserve Bank Captive Insurance Company (RF) Limited	5 821	1 669
Forward exchange contract (recognised in GFECRA)		
South African Bank Note Company (RF) (Pty) Limited (Note 29.2 and Note 8)	0	52 059
Pension fund contributions		
South African Reserve Bank Retirement Fund	119 861	111 418

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

29.4 Directors' remuneration

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

Executive directors: Remuneration		
G Marcus		
Remuneration and recurring fringe benefits	4 989	4 776
Other fringe benefits[1]	0	0
	4 989	4 776
X P Guma (term ended 31 July 2011)[2]		
Remuneration and recurring fringe benefits	0	1 268
Other fringe benefits	0	1 306
Payments during cooling-off period up to 31 October 2011	0	952
	0	3 526

	2013	2012
	R'000	R'000
A D Mminele		
Remuneration and recurring fringe benefits	3 714	3 518
Other fringe benefits	91	54
	3 805	3 572
E L Kganyago (appointed 16 May 2011)[3]		
Remuneration and recurring fringe benefits	3 721	3 101
Other fringe benefits	87	37
	3 808	3 138
F E Groepe (appointed 1 January 2012)[4]		
Remuneration and recurring fringe benefits	3 536	1 052
Other fringe benefits	26	2
	3 562	1 054
Total remuneration of executive directors	16 164	16 066
Non-executive directors: Remuneration for services		
D Konar (term ended 30 June 2011)	0	142
N D Orleyn (term ended 30 June 2011)	0	96
Z P Manase (term ended 30 June 2011)	0	94
S M Goodson (resigned 3 May 2012)	125	345
F E Groepe (15 June 2011 – 31 December 2011)[4]	0	166
T N Mgoduso	369	337
J F van der Merwe	405	390
B W Smit	330	300
R le Roux (elected 1 July 2011)	335	221
T Ajam (appointed 6 October 2011)	303	146
M Manyama-Matome (appointed 6 October 2011)	308	138
G M Ralfe (elected 1 July 2011)	330	212
R J G Barrow (elected 1 July 2011)	411	266
M S V Gantsho (appointed 11 June 2011)	386	243
A M Chait (appointed 28 July 2012)	242	0
F Cachalia (appointed 16 July 2012)	227	0
	3 771	3 096
Paid by subsidiaries		
Non-executive directors: Remuneration for services		
R J G Barrow (appointed 15 March 2012)	332	0
R W K Parsons (retired 21 May 2012)	0	183
	332	183

(1) The Bank provides accommodation to the Office of the Governor at the official residence. The deemed tax value of the benefit was R790 000 for the current year (2012: R775 000).
(2) The comparative amounts are for a period of 4 months (current year: 0 months).
(3) The comparative amounts are for a period of 10,5 months (current year: 12 months).
(4) The comparative amounts are for a period of 3 months (current year: 12 months). In the prior year, Mr Groepe became an executive director on 1 January 2012; he was previously a non-executive director.

30. Segment reporting

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

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

	Total	Held-for-trading	Designated at fair value	Loans and receivables	Available-for-sale	Other liabilities
	R'000	R'000	R'000	R'000	R'000	R'000
Group 31 March 2013						
Interest income	6 363 697	(11 462)	4 459 967	1 108 275	806 917	
Interest expense	(4 734 972)					(4 734 972)
Dividend income	32 529				32 529	
Bond revaluation reserve	197 481				197 481	
Group 31 March 2012						
Interest income	6 460 523	(8 319)	4 899 791	876 529	692 521	
Interest expense	(5 109 408)					(5 109 408)
Dividend income	27 285		278		27 007	
Bond revaluation reserve	253 040				253 040	
Bank 31 March 2013						
Interest income	4 377 497	(11 462)	2 464 034	1 118 008	806 917	
Interest expense	(2 865 157)					(2 865 157)
Dividend income	32 529				32 529	
Bond revaluation reserve	197 481				197 481	
Bank 31 March 2012						
Interest income	4 694 009	(8 319)	3 120 872	888 935	692 521	
Interest expense	(3 413 790)					(3 413 790)
Dividend income	27 007				27 007	
Bond revaluation reserve	253 040				253 040	

32. Classification of financial assets and liabilities

	Total	Held-for-trading	Designated at fair value	Loans and receivables	Available-for-sale	Other liabilities	Fair value[1]
		R'000	R'000	R'000	R'000	R'000	R'000
Group 31 March 2013							
Financial assets							
Cash and cash equivalents	31 554			31 554			31 554
Accommodation to banks	24 120 446			24 120 446			24 120 446
Investments	14 020 855		14 020 855				
Other financial assets	129 653			129 653			129 653
Gold and foreign exchange	459 586 661	(49 963)	459 636 624				
Forward exchange contract assets	1 043 930	1 043 930					
Loans and advances	66 351			66 351			66 351
South African government bonds	8 618 328				8 618 328		
Equity investment in Bank for International Settlements	359 627				359 627		
Financial liabilities							
Notes and coin in circulation	103 136 301					103 136 301	103 136 301
Deposit accounts[2]	183 490 792					183 490 792	183 490 792
Foreign loans and deposits	80 264 328					80 264 328	80 264 328
Other financial liabilities	483 648					483 648	483 648
South African Reserve Bank debentures	9 903 232					9 903 232	9 903 232
Forward exchange contract liabilities	111 820	111 820					
Gold and Foreign Exchange Contingency Reserve Account	125 551 618					125 551 618	125 551 618

[1] Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
[2] Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

32. Classification of financial assets and liabilities (continued)

	Total	Held-for-trading	Designated at fair value	Loans and receivables	Available-for-sale	Other liabilities	Fair value[1]
		R'000	R'000	R'000	R'000	R'000	R'000
Group **31 March 2012**							
Cash and cash equivalents	76 217			76 217			76 217
Accommodation to banks	20 583 405			20 583 405			20 583 405
Investments	13 645 662		13 645 662				
Other financial assets	350 952			350 952			350 952
Gold and foreign exchange	388 565 754	(98 783)	388 664 537				
Forward exchange contract assets	1 406 009	1 406 009					
Loans and advances	67 923			67 923			67 923
South African government bonds	8 386 405				8 386 405		
Equity investment in Bank for International Settlements	310 628				310 628		
Financial liabilities							
Notes and coin in circulation	90 164 553					90 164 553	90 164 553
Deposit accounts[2]	178 607 620					178 607 620	178 607 620
Foreign loans and deposits	67 563 850					67 563 850	67 563 850
Other financial liabilities	589 567					589 567	589 567
South African Reserve Bank debentures	21 027 791					21 027 791	21 027 791
Forward exchange contract liabilities	751 284	751 284					
Gold and Foreign Exchange Contingency Reserve Account	67 654 647					67 654 647	67 654 647

(1) Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
(2) Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

32. Classification of financial assets and liabilities (continued)

	Total	Held-for-trading	Designated at fair value	Loans and receivables	Available-for-sale	Other liabilities	Fair value[1]
		R'000	R'000	R'000	R'000	R'000	R'000
Bank 31 March 2013							
Financial assets							
Amounts due by subsidiaries	144 006			144 006			144 006
Accommodation to banks	24 120 446			24 120 446			24 120 446
Other financial assets	111 335			111 335			111 335
Gold and foreign exchange	459 586 661	(49 963)	459 636 624				
Forward exchange contract assets	1 043 930	1 043 930					
Loans and advances	66 351			66 351			66 351
South African government bonds	8 618 328				8 618 328		
Equity investment in Bank for International Settlements	359 627				359 627		
Financial liabilities							
Notes and coin in circulation	103 136 301					103 136 301	103 136 301
Deposit accounts[2]	165 015 315					165 015 315	165 015 315
Amounts due to subsidiaries	5 258 192					5 258 192	5 258 192
Foreign loans and deposits	80 264 328					80 264 328	80 264 328
Other financial liabilities	281 818					281 818	281 818
South African Reserve Bank debentures	9 903 232					9 903 232	9 903 232
Forward exchange contract liabilities	105 663	105 663					
Gold and Foreign Exchange Contingency Reserve Account	125 551 618					125 551 618	125 551 618

[1] Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
[2] Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

32. Classification of financial assets and liabilities (continued)

Bank 31 March 2012	Total	Held-for-trading	Designated at fair value	Loans and receivables	Available-for-sale	Other liabilities	Fair value[1]
		R'000	R'000	R'000	R'000	R'000	R'000
Financial assets							
Amounts due by subsidiaries	335 332			335 332			335 332
Accommodation to banks	20 583 405			20 583 405			20 583 405
Other financial assets	303 825			303 825			303 825
Gold and foreign exchange	388 565 754	(98 783)	388 664 537				
Forward exchange contract assets	1 406 009	1 406 009					
Loans and advances	67 923			67 923			67 923
South African government bonds	8 386 405				8 386 405		
Equity investment in Bank for International Settlements	310 628				310 628		
Financial liabilities							
Notes and coin in circulation	90 164 553					90 164 553	90 164 553
Deposit accounts[2]	157 554 895					157 554 895	157 554 895
Amounts due to subsidiaries	8 279 960					8 279 960	8 279 960
Foreign loans and deposits	67 563 850					67 563 850	67 563 850
Other financial liabilities	228 116					228 116	228 116
South African Reserve Bank debentures	21 027 791					21 027 791	21 027 791
Forward exchange contract liabilities	749 702	749 702					
Gold and Foreign Exchange Contingency Reserve Account	67 654 647					67 654 647	67 654 647

(1) Fair values have been disclosed only for instruments carried at amortised cost. Carrying value has been used where it closely approximates fair value.
(2) Included in deposit accounts are amounts that do not bear interest. These deposit accounts do not have fixed maturity dates.

33. Fair value hierarchy disclosures

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

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

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

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

	Level 1 R'000	Level 2 R'000	Level 3 R'000	Total R'000
Group 31 March 2013				
Financial instruments				
South African government bonds	8 618 328	0	0	8 618 328
Foreign-exchange contract assets	0	1 043 930	0	1 043 930
Investments[1]	0	13 945 855	0	13 945 855
Gold and foreign exchange	225 749 188	103 372 166	0	329 121 354
Gold coin and bullion	59 290 236	0	0	59 290 236
Money- and capital-market instruments and deposits[1]	0	0	0	0
Medium-term instruments	147 324 847	57 266 797	0	204 591 644
Portfolio investments[1]	19 134 105	46 105 369	0	65 239 474
Forward exchange contract liabilities	0	(111 820)	0	(111 820)
Total financial instruments	234 367 516	118 250 131	0	352 617 647

[1] Deposits have not been included in the fair value hierarchy as the carrying value of the instruments approximates fair value. The following table presents the impact of this and a reconciliation to the statement of financial position:

	Group 2013 Total R'000
Investments	75 000
Gold and foreign exchange	130 465 307
Money- and capital-market instruments and deposits	127 591 011
Portfolio investments	2 874 296
Total	130 540 307
Balance per the statement of financial position:	
Investments	14 020 855
Gold and foreign exchange	459 586 661

Securities lending activities

The net effect of securities lending in which the Group was engaged at the reporting date is included in the gold and foreign-exchange balances on page 138. The gross position is as follows:

	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Liabilities in respect of collateral received	0	(44 009 315)	0	(44 009 315)
Fair value of underlying investments	14 813 225	29 191 732	0	44 004 957
Net fair value	14 813 225	(14 817 583)	0	(4 358)

Group 31 March 2012				
Financial instruments				
South African government bonds	8 386 405	0	0	8 386 405
Foreign-exchange contract assets	0	1 406 009	0	1 406 009
Investments[2]	0	11 480 662	0	11 480 662
Gold and foreign exchange	169 277 581	110 205 956	0	279 483 537
Gold coin and bullion	51 420 493	0	0	51 420 493
Money- and capital-market instruments and deposits[2]	0	0	0	0
Medium-term instruments	96 969 452	76 009 015	0	172 978 467
Portfolio investments[2]	20 887 636	34 196 941	0	55 084 577
Forward exchange contract liabilities	0	(751 284)	0	(751 284)
Total financial instruments	177 663 986	122 341 343	0	300 005 329

[2] Deposits have not been included in the fair value hierarchy as the carrying value of the instruments approximates fair value. The following table presents the impact of this and a reconciliation to the statement of financial position:

	Group
	2012
	Total
	R'000
Investments	2 165 000
Gold and foreign exchange	109 082 217
Money- and capital-market instruments and deposits	107 021 360
Portfolio investments	2 060 857
Total	111 247 217
Balance per the statement of financial position:	
Investments	13 645 662
Gold and foreign exchange	388 565 754

Securities lending activities

The net effect of securities lending in which the Group was engaged at 31 March 2012 is included in the gold and foreign-exchange balances above. The gross position is as follows:

	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Liabilities in respect of collateral received	0	(44 050 226)	0	(44 050 226)
Fair value of underlying investments	9 609 844	34 285 683	0	43 895 527
Net fair value	9 609 844	(9 764 543)	0	(154 699)

	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Bank **31 March 2013**				
Financial instruments				
South African government bonds	8 618 328	0	0	8 618 328
Forward exchange contract assets	0	1 043 930	0	1 043 930
Gold and foreign exchange	225 749 188	103 372 166	0	329 121 354
Gold coin and bullion	59 290 236	0	0	59 290 236
Money- and capital-market instruments and deposits[3]	0	0	0	0
Medium-term instruments	147 324 847	57 266 797	0	204 591 644
Portfolio investments[3]	19 134 105	46 105 369	0	65 239 474
Forward exchange contract liabilities	0	(105 663)	0	(105 663)
Total financial instruments	234 367 516	104 310 433	0	338 677 949

Securities lending activities

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

Liabilities in respect of collateral received	0	(44 009 315)	0	(44 009 315)
Fair value of underlying investments	14 813 225	29 191 732	0	44 004 957
Net fair value	14 813 225	(14 817 583)	0	(4 358)

Bank **31 March 2012**				
Financial instruments				
South African government bonds	8 386 405	0	0	8 386 405
Forward exchange contract assets	0	1 406 009	0	1 406 009
Gold and foreign exchange	169 277 581	110 205 956	0	279 483 537
Gold coin and bullion	51 420 493	0	0	51 420 493
Money- and capital-market instruments and deposits[3]	0	0	0	0
Medium-term instruments	96 969 452	76 009 015	0	172 978 467
Portfolio investments [3]	20 887 636	34 196 941	0	55 084 577
Forward exchange contract liabilities	0	(749 702)	0	(749 702)
Total financial instruments	177 633 986	110 862 263	0	288 526 249

[3] Deposits have not been included in the fair value hierarchy as the carrying value of the instruments approximates fair value. The following table presents the impact of this and a reconciliation to the statement of financial position:

	Bank	
	Total	
	2013	2012
	R'000	R'000
Gold and foreign exchange	130 465 307	109 082 217
Money- and capital-market instruments and deposits	127 591 011	107 021 360
Portfolio investments	2 874 296	2 060 857
Balance per the statement of financial position:		
Gold and foreign exchange	459 586 661	388 565 754

Securities lending activities

The net effect of securities lending in which the Bank was engaged at 31 March 2012 is included in the gold and foreign-exchange balances on page 140. The gross position is as follows:

	Level 1	Level 2	Level 3	Total
	R'000	R'000	R'000	R'000
Liabilities in respect of collateral received	0	(44 050 226)	0	(44 050 226)
Fair value of underlying investments	9 609 844	34 285 683	0	43 895 527
Net fair value	9 609 844	(9 764 543)	0	(154 699)

Shareholder matters

Shareholding and dividends

The Bank continues to provide an over-the-counter market for the trading of its shares. During the financial year under review, 15 transactions (2011/12: 25 transactions) were concluded in respect of 38 950 shares (2011/12: 21 275 shares).

As at the financial year-end, the Bank had 668 shareholders, of which 69 are not ordinarily resident in the Republic of South Africa, compared to 668 shareholders on 31 March 2012 of which 67 were not ordinarily resident in the Republic at that time.

Besides the shareholder road shows held in Pretoria, Durban and Cape Town on 11, 12 and 13 July 2012 respectively, the Governor also communicated with shareholders during the year by means of letters dated 17 September 2012 and 22 February 2013 in a drive to increase communication with shareholders and improve transparency.

Direct and indirect shareholding of directors on 31 March 2013

None of the directors in office held any direct or indirect shareholding in the Bank as at 31 March 2013.

Dividends	Declared	Paid
Interim	1 October 2012	26 October 2012
Final	2 April 2013	10 May 2013

Minutes of the Ninety-Second annual Ordinary General Meeting of shareholders of the South African Reserve Bank

The Ninety-Second annual Ordinary General Meeting (AGM) of shareholders was held at the Head Office of the South African Reserve Bank (the Bank) in Pretoria on Friday, 27 July 2012, at 10:00.

The Chairperson, Ms Gill Marcus, welcomed attendees and introduced Deputy Governors Daniel Mminele, Lesetja Kganyago and Francois Groepe; Chairperson of the Audit Committee, Mr Rob Barrow; Chairperson of the Remuneration Committee, Ms Thandeka Mgoduso; Chairperson of the Risk Committee, Dr Mandla Gantsho; Chairperson of the Non-executive Directors' Committee, Mr Hans van der Merwe; General Counsel, Dr Johann de Jager; and Secretary of the Bank, Ms Sheenagh Reynolds, who shared the podium with her.

The Chairperson took the opportunity to welcome Professor Firoz Cachalia to the AGM and to the SARB Board. Professor Cachalia had been appointed by the President of the Republic of South Africa in the position of non-executive director representing government with effect from 16 July 2012. The Governor further extended a warm welcome to the former Governor of the Bank, Dr Chris Stals, who was attending the AGM as a shareholder.

The Chairperson declared the meeting duly constituted in terms of the Regulations framed under the South African Reserve Bank Act, 1989 (Act No. 90 of 1989), as amended (SARB Act). Attendees were requested to ensure that they had all signed the attendance register. All shareholders present holding 200 or more shares in the Bank, and who were entitled to vote in accordance with the provisions of the SARB Act and the Regulations, were requested to be in possession of an electronic voting device.

The Chairperson then addressed the meeting, and her full address is attached as Annexure A for record purposes.

Having given a brief outline of the global and economic outlook, the Chairperson took the opportunity to address some of the matters that had been raised at the AGM in 2011 and at the shareholder road shows held during July 2012, as well as other matters of interest to the Bank's stakeholders.

In response to a suggestion that the Bank re-list its shares on the JSE Limited (JSE), having de-listed its shares in 2002, the Chairperson explained that the decision to de-list had been taken as a result of the Bank not meeting all of the then new listings requirements for a main board listing. The Board had revisited the suggestion to re-list the Bank's shares, but having considered the requirements for listing on the JSE, it was clear that the Bank did not comply in a number of areas, for instance, with regard to the number of shares in issue, the profit history and others. Taking such factors into account, as well as the low trading volumes and the cost of listing the Bank's shares (estimated to be in the region of R2,1 million), the Board resolved not to apply for a relisting of its shares. The Board would reassess this matter should circumstances warrant it.

Regarding the process for the receipt and acknowledgement of the Proxy Forms, the Chairperson confirmed that the process had been reviewed and additional confirmatory actions

had been included in the procedures, which shareholders would have seen in the Proxy Forms distributed to them for use at this AGM. The Bank was confident that this had addressed earlier concerns raised.

The Chairperson noted that earlier in the year, the Bank had announced the upcoming release of a new banknote series to replace the current series, which had been designed in 1992 and last upgraded in 2005. The new banknote series would have an image of former President Nelson Mandela on the front and the Big Five theme would be retained on the back of the notes. The new banknote series would have new and improved security features, and would circulate together with the current banknote series for a period. A full and detailed communication campaign would be launched later in the year to advise the public on how to identify the security features on the new notes.

The Chairperson informed the shareholders that when a new non-executive director was elected later in the meeting, a full Board composition of 15 Board members would be in place. It was highlighted that, at the 2013 AGM, there would be three shareholder-elected non-executive director vacancies arising, as current Board members Mr Hans van der Merwe, a non-executive director with knowledge and skills in agriculture, and Ms Thandeka Mgoduso, a non-executive director with knowledge and skills in industry, would have then completed two terms, while Prof. Ben Smit, a non-executive director with knowledge and skills in industry, would have completed one term of office. All three would be eligible for re-election.

It was noted that the Bank had established a formal Corporate Social Investment Policy focusing on education and skills development at both the secondary and tertiary levels, and details were included in the 2011/12 *Annual Report*.

The Chairperson gave further feedback on questions raised by shareholders during the road shows held in Pretoria, Durban and Cape Town during July 2012 in the run-up to the AGM, which largely related to matters arising from the 2011/12 *Annual Report*.

On the issue of the Bank's continued losses and when it was expected to return to profitability, the Chairperson mentioned that, in the first instance, it was important to note that the Bank was not a profit-driven entity. Further, the Bank had been accumulating foreign exchange to strengthen the country's reserves, and had to sterilise the impact on money-market liquidity through the issuing of debentures and the conduct of reverse repurchase transactions in the local market. The interest rates paid on such transactions were higher than the interest received on the Bank's foreign reserve holdings, due to the low interest rate environment globally. This situation was outside the Bank's control and was dependent on market conditions. In 2012 net interest income had not been sufficient to neutralise the decline in operating income and the rise in operating costs, which was mainly driven by an actuarial provision for post-employment medical benefits.

The Chairperson reported that further to the various press releases and articles around the difficulties experienced at both the Bank's currency-producing subsidiaries, namely the South African Bank Note Company Proprietary Limited (SABN) and the South African Mint Company Proprietary Limited (SA Mint), the Bank's executive had taken steps to align and integrate various functions, policies and procedures with those of the Bank, such as legal services, risk management, communications, internal audit, company secretariat and finance. This would ensure a more effective and closer interaction within the group companies. It was confirmed that the SABN was in the process of upgrading and modernising its production equipment and capacity, including the up-skilling of staff to achieve greater efficiencies and improved quality standards.

The Chairperson noted that it had recently been established that some of the proof Krugerrand gold coins had been minted outside of their specifications at the SA Mint. This was restricted to

a small number of coins and the coin industry had been advised without delay. A full investigation had been conducted and corrective measures were taken, and improved controls had also been put in place.

The Bank's executive continued to monitor the situation closely, and was satisfied that all reasonable corrective measures had been taken at both the SABN and the SA Mint.

In response to a question on whether the Bank should be more active in protecting the public from "phishing" and pyramid schemes, the Chairperson mentioned that it should be recognised that the Bank functioned in terms of the Banks Act and, as such, was only authorised to act against entities whose activities evidently fell within the business of illegal deposit-taking as envisaged in that Act. The Bank had investigated a number of what may be regarded as pyramid schemes during 2011/12 and would take action where appropriate. The Bank had also embarked on an awareness campaign in order to alert members of the general public against unscrupulous investment schemes and other financially deceptive activities.

The Bank was aware of the "phishing" emails that circulate on a regular basis and purport to be sent from one or other of the larger commercial banks. It should be borne in mind that these emails emanate from third parties who are not related to the commercial banks and, accordingly, the Bank was constrained in what it could do in this regard. The public should be vigilant when drawing cash, and take note of the security alerts and instructions distributed by their financial services provider from time to time.

The Chairperson acknowledged that the revelations around serious governance failures and outright criminal conduct in connection with the determination of the London Interbank Offered Rate (Libor) in the London interbank market were indeed a matter of concern. Libor was an important interest rate benchmark for transactions globally and the implications this could have were considerable. Domestically, there had been no evidence over the past decade to suggest that there could have been manipulative practices in the determination of the local equivalent of Libor, the Johannesburg Interbank Average Rate (Jibar) rate. One important difference between Libor and Jibar was that Jibar, unlike Libor which represents an estimate by banks in the London market of the rates at which they believe they could borrow funds between each other, the Jibar rate is based on interest rates at which South African banks buy and sell their own negotiable certificates of deposit (NCDs), and therefore represented actual rates that could be traded in the money market. In 2011 the Financial Markets Liaison Group, chaired by the Bank, proactively initiated a review of the processes and procedures around the determination of domestic money-market reference rates. Once the review process was completed, the findings would be made public and were expected to culminate in a Code of Conduct for banks, contributing to the calculation of Jibar and other money-market interest rates.

Elaborating on the enquiries made regarding the Bank's dividend policy, the Chairperson stated that the Bank's dividend was regulated by section 24(e) of the SARB Act. It prescribes that dividends must be paid out of profits of the Bank, but does not specify to which particular year these profits must relate. As was evident from the financial statements of the Bank, the Bank had built up reserves through the years from accumulated profits. Accordingly, the dividend payment to shareholders from the accumulated profit reserves constituted the payment of a dividend out of net profits. Ultimately, the decision to pay dividends to shareholders during the 2011/12 financial year was taken by the Board after it had considered the issue in full and taken legal advice.

It was recorded that a resolution had been adopted by the shareholders at the 2003 AGM supporting a motion that section 24(e) of the SARB Act be amended to provide that shareholders should receive one tenth of the net profits of the Bank, but this had not been effected. The

Chairperson advised the meeting that the Bank, supported by a Board resolution, was not in favour of the amendment and had given written notice to shareholders of its opposition to a resolution of this nature, together with reasons, before the 2003 AGM where the resolution had nevertheless been adopted. At the AGM, the then Governor had again informed shareholders of the Bank's opposition to the proposed resolution and had informed the meeting that should it adopt a resolution in support of the motion, the Bank had no power to implement such a resolution as the dividend was prescribed in the SARB Act. At best, the Bank could inform the Minister of Finance of the matter. After the resolution had been adopted by a majority at the AGM, the Minister was informed in writing and a press statement was released by the Bank giving full details and feedback on the issue. Subsequently, the Minister had indicated that he was also not in favour of an amendment to the SARB Act as envisaged in the resolution and the matter was regarded as finalised.

The Chairperson then turned to the formal business of the day and confirmed the agenda of the meeting as follows:

- To receive, discuss and note the minutes of the AGM held on 30 June 2011.
- To receive and discuss the financial statements for the financial year ended 31 March 2012, including the Directors' Report and Independent External Auditors' Report.
- To approve the remuneration of the Bank's independent external auditors, PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Inc. (in terms of regulations 22.1(b), read with regulation 7.3(c) of the Regulations), for completing the audit for the 2011/12 financial year.
- To appoint PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Inc. as the Bank's independent external auditors for the 2012/13 financial year.
- To elect one non-executive director to serve on the Bank's Board of Directors.
- To consider any further business duly placed on the agenda and to be transacted at an AGM.

The Chairperson invited Mr Nazeer Essop from the appointed scrutineers, Deloitte & Touche, to confirm the shareholder representation at this meeting.

Mr Essop, on behalf of the scrutineers, confirmed that

1. the total number of shares in the issued share capital of the Bank held by its shareholders was 2 000 000 (two million);
2. 32 shareholders were present in person;
3. 25 shareholders were represented by proxy; and
4. 1 043 votes were exercisable by shareholders present, or holding duly certified proxy forms for this purpose.

The Chairperson confirmed that the Bank had successfully instituted the use of electronic voting at its AGM in 2011, and would again make use of this mechanism at this meeting. The electronic voting procedure was facilitated by independent external parties, in this instance IML Interactive (Pty) Limited, and was a more efficient and transparent voting process, with votes computed instantaneously.

There were no objections to the use of the electronic voting facility and the Chairperson called for a poll on each of the items to be voted on at the AGM.

The Chairperson proposed that the minutes of the Ninety-First AGM held on 30 June 2011, which had been distributed as part of the *Annual Report* 2011/12, be taken as read and accepted.

There were no objections or questions, and the minutes were confirmed and accepted as presented.

Adoption of the financial statements for the financial year ended 31 March 2012, including the Directors' Report and independent external auditors' report

The Chairperson then formally moved that the annual financial statements for the year ended 31 March 2012, including the Directors' Report and independent external auditors' report, be accepted. The motion was seconded by Dr A Colburn.

On the basis of the results of the poll, the Chairperson declared that the audited financial statements for the year ended 31 March 2012 had been accepted with the requisite majority.

Auditors' remuneration

The Chairperson moved that the Board's recommendation that the remuneration for the Bank's independent external auditors in the amount of R6,924 million, in respect of the general audit of the Bank for the financial year ended 31 March 2012, be confirmed and approved.

The motion was seconded by Mr H Anderson.

On the basis of the results of the poll, the Chairperson declared that the remuneration of the Bank's independent external auditors amounting to R6,924 million for the financial year ended 31 March 2012 had been approved with the requisite majority.

Appointment of external auditors

The Chairperson turned to the appointment of the Bank's independent external auditors for the 2012/13 financial year. In terms of section 30 of the South African Reserve Bank Act, the Bank's independent auditors should be appointed by shareholders at this meeting.

The Board of Directors had recommended that PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Inc. be reappointed as the Bank's external auditors for the 2012/13 financial year. The Chairperson informed the shareholders that in keeping with best practice, the lead audit partners on the Bank's account would rotate every five years.

The Chairperson moved that PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Inc. be appointed as the Bank's external auditors for the 2012/13 financial year. The motion was seconded by Dr J J Rossouw.

On the basis of the results of the poll, the Chairperson declared that PricewaterhouseCoopers Inc. and SizweNtsalubaGobodo Inc. had been appointed as the Bank's external auditors for the 2012/13 financial year with the requisite majority. The auditors were congratulated on their reappointment.

Non-executive director elections

The Chairperson turned to the election of a non-executive director to the Board of Directors with knowledge and skills in commerce or finance, to fill a vacancy that had arisen on 3 May 2012. The position had become vacant on 3 May 2012, following the resignation of Mr S M Goodson. Mr S M Goodson's term of office as a non-executive director would, in the normal course of events, have expired on 28 July 2012 and, due to the short period between the date of Mr Goodson's resignation and the 2012 AGM, the Board had not believed it necessary to fill the vacancy in the interim.

The candidates to be considered for this position had been confirmed by the Panel appointed in terms of section 4(1C) of the SARB Act. This Panel comprises retired former Constitutional Court Judge Ms Yvonne Mokgoro, Mr Abel Sithole (both nominated by the Minister of Finance) and Dr Laurain Lotter, Ms Lulama Nare and Mr Bheki Ntshalintshali (all nominated by Nedlac). The Panel had been appointed until 2013.

Mr Anthony Mark Chait, Prof. Viola Makin and Ms Octavia Matshidiso Matloa had been nominated, among others, for this position in terms of section 4(1C) of the SARB Act. The Panel had confirmed these three candidates in terms of section 4(1G) of the said Act and was satisfied that all three candidates were eligible, and fit and proper to stand for election as a director of the SARB. Shareholders had been forwarded copies of their *curricula vitae*, together with the Notice of Meeting, for consideration.

On the basis of the voting results, the Chairperson declared that Mr Anthony Mark Chait had been elected as a non-executive director with knowledge and skills in commerce or finance with a majority of the votes. Mr Chait's appointment would be effective from 28 July 2012 until the day after the AGM in 2015.

The Chairperson thanked all three candidates for being present at the meeting for being willing to stand for election to the Board, and hoped that whether successful or not, they would continue to take a keen interest in the work of the Bank.

The Chairperson recorded that the Office of the Secretary had received no timeous requests for special business to be placed on the agenda of this meeting.

In conclusion, the Chairperson stated that, to the best of her knowledge, all business included in the agenda had been transacted.

The Chairperson thanked South African President Jacob Zuma and the Presidency, the Government and Parliament for their continued support. The sound working relationship between the Bank and the National Treasury had continued, and she thanked Finance Minister Pravin Gordhan, Deputy Minister Nhlanhla Nene, Director-General, Mr Lungisa Fuzile and the staff of the National Treasury for their ongoing support.

Sincere thanks were also due to the members of the Board for their ongoing contributions and support, and for ensuring appropriate corporate governance in the Bank.

Sincere appreciation was also due to Deputy Governors Mminele, Kganyago and Groepe, as well as the entire management and staff of the Bank for their dedication and commitment in dealing with the issues the Bank had had to face in these very challenging times.

Mr Sizwe Nxasana, the Chief Executive Officer of FirstRand Bank, proposed a vote of thanks on behalf of the shareholders and the commercial banks. Mr Nxasana highlighted the fact that in these turbulent times, the Bank had once again continued to be a pillar of strength, and remained committed to its role in price and financial stability. Mr Nxasana went on to congratulate the Chairperson and her team for the interaction with various stakeholders in South Africa, the leadership role she plays in Africa and on international platforms. The Bank continued to distinguish itself through excellent bank supervision, which had stood South Africa in good stead through the current financial crisis. Mr Nxasana took the opportunity to thank the Chairperson for the comprehensive address earlier in the meeting and for the ongoing work that she and her colleagues so diligently carried out throughout the year. Mr Nxasana paid a special tribute to the Bank staff for the work that went into the *Quarterly Bulletin*, *Monetary Policy Review* and *Financial Stability Review*, which were world class publications. Mr Nxasana wished the Chairperson and her colleagues well for what would remain a challenging period ahead.

The Chairperson thanked the shareholders for their attendance and participation, and noted that she hoped that the Bank could continue to count on the shareholders' support in future.

The Chairperson then declared the proceedings closed.

G Marcus
Chairperson

Annexure A: Governor's Address

Dear Shareholders,

Members of the Board,

Deputy Governors,

Ladies and Gentlemen

It has become almost customary to begin the Governor's Address with the words "this past year has been extremely challenging". This year is no different: it has indeed been a challenging year in a highly turbulent global environment. In my address to the Annual General Meeting last year, I reported on the precarious state of the global economy. There was cautious optimism that the global slowdown being experienced was a "soft patch" and that the positive growth trend that had been observed earlier in the year would resume soon. The domestic economy was also showing tentative signs of a sustained recovery. Unfortunately, things have not progressed as hoped, and the global economy is possibly in a worse position now than was the case this time last year. The global financial crisis is now in its fifth year and there seems to be no end in sight. Indeed, Mervyn King, Governor of the Bank of England, recently expressed the view that we are only halfway through the global crisis. If he is correct, it means we have a protracted period of turbulence ahead of us, and the challenges will intensify. Moreover, the further away the recovery is, the steeper the climb out of the crisis is likely to be.

During the past year there have been significant swings in sentiment in financial markets, particularly related to the outlook for the euro area. The sovereign debt and banking crisis in the region continues, despite a number of official interventions. Two rounds of significant liquidity injections from the European Central Bank helped to avoid a liquidity crisis in the banking sector, and more recently a bail-out of the Spanish banking sector was required. Other initiatives, including a Greek debt restructuring, have also bought some time regarding a possible exit by Greece from the eurozone, an event which could unleash further destabilising contagion effects on some of the larger eurozone economies. Borrowing costs for both Spain and Italy have risen to unsustainable levels and it is clear that the crisis has moved beyond the periphery of Europe.

The financial markets remain unconvinced about the adequacy of the firewalls erected to prevent the crisis from spreading as well as the political will of governments to resolve the crisis. The changing sentiment in this regard has resulted in a high degree of volatility in global financial markets, and this has spilled over to emerging markets, including South Africa, impacting on capital flows, exchange rates and commodity prices.

The global growth environment also deteriorated over this past financial year. Initially it appeared that the recovery in the advanced economies was gaining momentum, but during the second half of 2011 growth slowed down in the euro area with almost half the members experiencing negative growth by the first quarter of 2012. The growth slowdown has been reinforced by continued fiscal austerity and bank deleveraging, while unemployment – which varies considerably between different member countries – continues to reach new eurozone-era highs. As this negative spiral intensifies, it is likely to become less economically and politically sustainable.

More recently weak growth has spread beyond the eurozone. The United Kingdom remains in recession and the outlook for the United States has also deteriorated as growth slowed in the second quarter of this year. The so-called fiscal cliff is already beginning to impact negatively on consumption and investment decisions in that country. It is estimated that failure to resolve this issue could lead to a fiscal contraction of around 4 percentage points of GDP, with negative consequences for growth.

Some of the large systemically important emerging markets, including China, India and Brazil, have also slowed markedly this year. Commodity prices have declined as a result, reversing the

strong upward trend seen in the second half of last year. International oil and food prices have moderated in the first half of this year, contributing to a more benign global inflation environment. However, there are risks to the global inflation outlook posed by the recent drought-induced increases in grain prices in the United States.

Policy responses to these developments have been constrained in many countries by unsustainable sovereign debt positions. The lack of fiscal space to respond to the current phase of the crisis has resulted in increased, and in some instances unrealistic, expectations being placed on central banks. Unfortunately, central banks are limited in what they can do, and it is important that central banks, the Bank included, focuses on what it can do and not what some would like us to do.

In many cases implicit mandates, particularly with respect to financial stability, have now been made more explicit. The extension of the Bank's mandate to include responsibility for financial stability should be seen in this context. During the past year the Bank has remained focused on carrying out its various mandates: to achieve its primary mandate of price stability in support of sustainable growth; to contribute to a stable financial system at a macroprudential level; and to ensure the stability of the banking system.

The domestic growth outlook has also deteriorated largely due to the global uncertainties. These linkages are mainly through the trade channel and lower commodity prices. The Bank's growth forecasts have been revised down, with growth still below potential, and downside risks to the outlook. At the time of the previous AGM, the Bank was forecasting a growth rate of 3,9 per cent for 2012 and 4,4 per cent for 2013. The most recent forecasts now show forecasts of 2,7 per cent and 3,8 per cent for these two years, and the MPC viewed the risks to these forecasts to be on the downside. The deteriorating outlook has been reflected in declining business and consumer confidence and most of the forward looking indicators are negative. Household consumption expenditure, which had been the main driver of growth in 2011, has moderated. But of greater concern is the anaemic growth of 1,8 per cent in private sector gross fixed capital formation in the first quarter of 2012. The manufacturing sector is also slowing, with the mining and construction sectors remaining under severe stress.

Monetary policy was faced with the challenge of dealing with increased inflation pressures in this subdued domestic economic growth environment. Headline inflation moved above the 6 per cent upper end of the target range in November 2011, driven by exogenous factors, mainly food, electricity and petrol. International oil prices were impacted by stronger global growth and geopolitical factors, although this trend was reversed in April and food price inflation also moderated. Initially it was anticipated that the rate of inflation would remain outside the target range during the whole of 2012, but it now appears that inflation may have peaked at 6,3 per cent in January 2012. Year-on-year inflation measured 5,5 per cent in June and is expected to remain within the target range on a sustained basis over the forecast period, averaging around 5 per cent in both 2013 and 2014.

Given the subdued domestic economy, the risks to the inflation outlook are mainly of a cost-push nature. At its most recent meeting in July, the MPC, indentified food prices as being an upside risk to inflation, a result of US grain price developments, which have already impacted on domestic maize and wheat prices. The exchange rate, while volatile, has been relatively resilient, particularly in the face of strong inflows to the domestic government bond market, which year-to-date have totalled around R62,5 billion. However, we are seeing significant daily swings in both directions. Overall, the MPC assessed the risks to the inflation outlook to be fairly evenly balanced.

Given the lack of domestic demand pressures on inflation as reflected in well-contained core inflation measures, and the persistently negative output gap, the monetary policy stance has remained accommodative. The repurchase (repo) rate had been unchanged at 5,5 per cent per annum since November 2010. However, at the July meeting, the MPC felt that in the light of

the relatively benign inflation environment, and the downside risks to the growth outlook, further accommodation would be appropriate and would not undermine the Bank's primary objective of price stability. Accordingly, the repo rate was reduced to 5,0 per cent per annum.

There has been much speculation as to whether this was a beginning of a renewed interest rate easing cycle. This interest rate reduction should, however, be seen as part of the continued monetary policy response to the crisis that began in 2008. Previously, we had thought that we were at the bottom of the interest rate cycle, although we had indicated that the monetary policy stance was likely to be unchanged for some time. However, as the global and domestic environment failed to recover in line with expectations, and as the outlook has deteriorated, a further response was seen to be appropriate to ease the strains in some sectors of the economy. Further monetary easing is not automatic, and will be highly dependent on global and domestic developments.

The Bank's financial stability mandate has been a strategic focus during the past year. Progress has been made in moving towards a twin peaks model of financial regulation, which will see the consolidation and strengthening of all prudential regulation of financial institutions within the Bank, while market conduct regulation of the financial sector will be consolidated and strengthened within the Financial Services Board. A steering committee comprising senior officials from the Bank, the National Treasury and Financial Services Board has been working to give effect to implementing the new regulatory architecture. This broadened mandate has already resulted in a reconstitution of the Bank's Financial Stability Committee as a policy-making body, but will also ultimately have significant personnel and cost implications.

On the microprudential front, the banking system has remained stable, with minimal exposure to the peripheral eurozone economies. The Bank has continued its active participation in the deliberations on banking regulatory reform in the Basel Committee on Banking Supervision (Basel Committee). Amended Regulations relating to Banks were implemented in January and progress has been made with respect to the planned phasing in of the Basel III regulatory framework at the beginning of 2013.

The South African banks remain well capitalised, and their required capital ratios are in excess of those required by the revised regulations. The challenges relating to the liquidity requirements have been alleviated somewhat by the Bank clearly stating its intention to make available a committed liquidity facility to assist banks in meeting the liquidity coverage ratio (LCR). This facility covers up to 40 per cent of the LCR which should enable the banks to meet their liquidity requirements while at the same time reduce their vulnerability to possible shocks. The introduction of the net stable funding ratio (NSFR) in 2019 is expected to be more of a challenge, but the details of these requirements are currently subject to negotiation and are still to be finalised.

The Bank continued with its policy of building its stock of foreign-exchange reserves. In the 2011/12 financial year the Bank, in conjunction with the National Treasury, purchased approximately US$4 billion of foreign exchange for this purpose. The process of sterilising the impact of these purchases on domestic liquidity contributed to the Bank reporting an after-tax loss of R490,5 million, compared with a loss of R1,2 billion in the previous financial year. The losses arise due to the extremely low rates of return available on foreign-exchange deposits, while the liquidity is withdrawn by issuing SARB debentures and conducting reverse repo agreements at or around the prevailing repo rate. Some of the costs of sterilisation were delayed by swapping a portion of the purchases into the forward market. However, what also contributed to the losses incurred this financial year was the significant actuarial loss incurred in meeting the post-employment medical benefit liability as at 31 March 2012.

Going forward, the deteriorating global situation and heightened expectations of central banks will pose continued challenges for us. The International Monetary Fund (IMF) recently revised down its forecasts for global growth in 2012 and 2013. While these downward revisions were relatively small, the downside risks were seen to "loom large", and predicated in part on

appropriate policy responses in the eurozone to resolve the crisis. The situation looks increasingly precarious. A quick resolution to the eurozone crisis is unlikely, and this poses continuing risks to our own growth prospects. At the same time, the Bank needs to remain vigilant to inflation and financial stability risks, and to respond appropriately in line with our mandate. We will continue to implement policy in a responsible manner and will strive to remain a beacon of stability in a turbulent environment.

Gill Marcus
Chairperson

Abbreviations

ACSA	Airports Company South Africa
ADLA	Authorised Dealer [in foreign exchange] with Limited Authority
AFReC	Applied Fiscal Research Centre
AGM	annual Ordinary General Meeting
AML	anti-money laundering
ARCC	Audit, Risk and Compliance Committee
ATMs	automated teller machines
BC	Budget Committee
BER	Bureau for Economic Research [at Stellenbosch University]
BIS	Bank for International Settlements
BREC	Board Risk and Ethics Committee
BRICS	Brazil, Russia, India, China and South Africa
BSD	Bank Supervision Department [of the South African Reserve Bank]
BSTD	Business Systems and Technology Department [of the South African Reserve Bank]
Busa	Business Unity South Africa
CA (SA)	Chartered Accountant of South Africa
CCBG	Committee of Central Bank Governors
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFT	combating of the financing of terrorism
CIA	Chief Internal Auditor
CIPC	Companies and Intellectual Property Commission
CLS	Continuous Linked Settlement
CMA	Common Monetary Area
CMD	Currency Management Department [of the South African Reserve Bank]
COO	Chief Operating Officer
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPD	Corporation for Public Deposits
CPI	consumer price index
CPSS	Committee on Payment and Settlement Systems
CSD	Corporate Services Department [of the South African Reserve Bank]
CSI	Corporate Social Investment
DoE	Department of Education
ECB	European Central Bank
EE	employment equity
FEBs	Foreign Exchange Brokers
FMAB	Financial Markets Advisory Board
FMD	Financial Markets Department [of the South African Reserve Bank]
FMI	financial market infrastructure
FSB	Financial Services Board
FSC	Financial Stability Committee
FSD	Financial Services Department [of the South African Reserve Bank]
FSOC	Financial Stability Oversight Committee
G-20	Group of Twenty
GDP	gross domestic product
GEC	Governors' Executive Committee
GFECRA	Gold and Foreign Exchange Contingency Reserve Account
GIBS	Gordon Institute of Business Science [at University of Pretoria]
HR	human resources
HRD	Human Resources Department [of the South African Reserve Bank]
IAD	Internal Audit Department [of the South African Reserve Bank]
IAS	International Accounting Standard
IASB	International Accounting Standards Board
ICT	information and communications technology

IERPD	International Economic Relations and Policy Department [of the South African Reserve Bank]
IFRIC	International Financial Reporting Interpretations Committee
IFRSs	International Financial Reporting Standards
IHQs	International Headquarter Companies
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
IOSCO	International Organization of Securities Commissions
IT	information technology
ITBL	Information Technology Banking Learnership
ITIC	Information Technology Investment Committee
ITSC	Information Technology Steering Committee
Jibar	Johannesburg Interbank Average Rate
JSE	JSE Limited
KYC	[commercial banks'] know your customer
LDP	Leadership Development Programme
Libor	London Interbank Offered Rate
LSD	Legal Services Department [of the South African Reserve Bank]
Manco	Management Committee
MD	Managing Director
MPC	Monetary Policy Committee
NCD	negotiable certificate of deposit
Nedcom	Non-executive Directors' Committee
Nedlac	National Economic Development and Labour Council
NERSA	National Energy Regulator of South Africa
NPS	national payment system
NPSD	National Payment System Department [of the South African Reserve Bank]
OMT	Outright Monetary Transactions
Remco	Remuneration Committee
Resmanco	Reserves Management Committee
RF	ring fenced
RMC	Risk Management Committee
RMCD	Risk Management and Compliance Department [of the South African Reserve Bank]
RROC	Reference Rate Oversight Committee
RSH	Research Department [of the South African Reserve Bank]
SAA	strategic asset allocation
SABN	South African Bank Note Company (RF) Proprietary Limited
SAChI	South African Research Chairs Initiative
SADC	Southern African Development Community
SAICA	South African Institute of Chartered Accountants
SARB	South African Reserve Bank
SARBCIC	South Africa Reserve Bank Captive Insurance Company (RF) Limited
SARS	South African Revenue Service
SCD	Strategy and Communications Department [of the South African Reserve Bank]
SDRs	special drawing rights
SHE	safety, health and the environment
SIRESS	SADC Integrated Regional Electronic Settlement System
SMD	Security Management Department [of the South African Reserve Bank]
SSSU	Secretarial Support Services Unit [of the South African Reserve Bank]
TOCs	Treasury Outsourcing Companies
Unisa	University of South Africa
UK	United Kingdom
US	United States
US GAAP	United States Generally Accepted Accounting Principles

Glossary

Basel III	*A Global Regulatory Framework for More Resilient Banks and Banking Systems*
Basel Committee	Basel Committee on Banking Supervision
Board	Board of Directors [of the South African Reserve Bank]
Code of Conduct	Code of Conduct, Governance Process and Operating Rules
Companies Act	Companies Act, 2008 (Act No. 73 of 2008)
CPD Act	Corporation for Public Deposits Act, 1984 (Act No. 46 of 1984)
FIC Act	Financial Intelligence Centre Act, 2001 (Act No. 38 of 2001)
FinSurv	Financial Surveillance Department [of the South African Reserve Bank]
King III	*King Report on Corporate Governance for South Africa 2009*
Pension Funds Act	Pension Funds Act, 1956 (Act No. 24 of 1956)
repo	repurchase
SA Mint	South African Mint Company (RF) Proprietary Limited
SARB Act	South African Reserve Bank Act, 1989 (Act No. 90 of 1989), as amended
SARB College	South Africa Reserve Bank College
SARB debentures	South Africa Reserve Bank debentures
Stats SA	Statistics South Africa
the Bank	South African Reserve Bank
the Fed	United States Federal Reserve
the Group	South African Reserve Bank and its subsidiaries
the Minister	Minister of Finance
the Regulations	Regulations relating to Banks

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