SOUTH AFRICAN RESERVE BANK

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

31 March 2003

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To be presented to shareholders at the ordinary general meeting to be held on 26 August 2003

This report forms part of the Reserve Bank's reporting to Parliament in terms of sections 31 and 32 of the South African Reserve Bank Act, No 90 of 1989

Contents

Mr T T Mboweni
Governor

Governor's foreword

Considerable progress was made during the past year in the achievement and maintenance of price and financial stability. The surge in inflation following the sharp depreciation in the external value of the rand in the second half of 2001, was dealt with successfully by a resilient monetary policy stance. The monetary policy measures pursued ensured that the spike in inflation was short-lived and that this result was achieved at a minimum cost to the economy. A trying period of consolidation and liquidity problems in the banking sector was also handled in an effective manner to secure the maintenance of financial stability.

Work done by the Monetary Policy Committee that was established in 1999 contributed to the success achieved with the determination of monetary policy. A detailed and thorough review of underlying conditions is made by this committee to arrive at optimum decisions. The public is now aware of this new style in policy making and of the organised annual cycle of meetings of the committee which have removed fears of sudden and unexpected interest rate adjustments.

Another major accomplishment in the past year has been the reversal in the net open foreign reserve position (NOFP) of the Reserve Bank from an oversold to an overbought balance. The large net oversold NOFP, which amounted to US$23,2 billion at the end of September 1998, was regarded by most foreign investors as a major risk for investments in the South African economy. The removal of the oversold position in an orderly manner mainly by means of proceeds from privatisation and government bond issues abroad has now paved the way for a more stable exchange rate of the rand. In this process the large oversold balance on the forward book of the Bank was also reduced substantially. The future challenge is to eliminate the balance completely and to increase the level of foreign reserves.

I wish to thank the Board, management and staff of the Reserve Bank and other stakeholders for their continued loyal support.

T T Mboweni
Governor

Pretoria
July 2003

Mission statement

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

the achievement and maintenance of financial stability.

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

Functions

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

- formulating and implementing monetary policy in such a way that the primary goal of the Reserve Bank will be achieved in the interest of the whole community that it serves;

- ensuring that the South African money, banking and financial system as a whole is sound, meets the requirements of the community and keeps abreast of international developments;

- assisting the South African government, as well as other members of the economic community of southern Africa, in the formulation and implementation of macroeconomic policy; and

- informing the South African community and all interested stakeholders abroad about monetary policy specifically, and the South African economic situation in general.

Business philosophy

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

The Reserve Bank ensures, through the application of modern management practices and technology, that all its activities are conducted so as to maximise efficiency at the lowest possible cost.

Personnel philosophy

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

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

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

Executive management, secretary and directors

Executive management as at 31 March 2003

Governor: Research, legal services and executive management	T T Mboweni
Deputy Governor: Bank supervision, exchange control, financial services, financial stability and national payment system	G Marcus
Deputy Governor: Business systems and technology, corporate services, human resources, the SA Reserve Bank College, internal audit, and currency management and protection services	X P Guma
Deputy Governor: International banking, and money and capital markets	I Plenderleith~

Secretary Z R Matsau

~ With effect from 1 January 2003

Directors

Tito Titus Mboweni *
Governor

Gill Marcus
Ian Plenderleith •
Xolile Pallo Guma o
Deputy Governors

Mahavishnu Padayachee* o
(Term of office expired on 28 August 2002 and is available for re-appointment)
Representing: Government

Deenadayalen Konar†
Brian Patrick Gilbertson x
(Term of office expires on 27 August 2003 and is available for re-election)
Fatima Jakoet o
Zodwa Penelope Manase o
Representing: Commerce or finance

Jacob Wouter Raath
Representing: Agriculture

Audrey Matshidiso Mokgabudi *
Noluthando Dorian Orleyn *
Representing: Industry

† Chairperson of the Audit Committee
x Chairperson of the Remuneration Committee
o Member of the Audit Committee
* Member of the Remuneration Committee
• With effect from 1 January 2003

Senior management as at 31 March 2003

Chief Economist and Head: Research	E J van der Merwe
Adviser to the Governor	L van Zyl
Principal: SA Reserve Bank College	R M Gidlow
Registrar and Head: Bank supervision	C F Wiese
Head: Human resources	T T Ngcobo
Head: Currency and protection services	A Ismail
Head: International banking	A D Mminele
Head: Exchange control	A M Bruce-Brand
Head: Financial stability	A Bezuidenhout
Head: Business systems and technology	J van Heerden
Head: National payment system	D C Mitchell
Head: Financial services	G J Terblanche
Head: Legal services	J J de Jager
Head: Money and capital market	R M du Plooy
Head: Internal audit and Chief Internal Auditor	H P Badenhorst
Head: Corporate services	Z S Gumede

Senior branch managers as at 31 March 2003

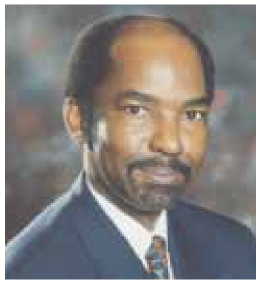
Bloemfontein	I Oberholster
Cape Town	Z Patel
Durban	A C Botha
East London	A G Dent
Johannesburg	T Mdhluli
Port Elizabeth	J A Swart
Pretoria North	M Mogapi

Organisational structure

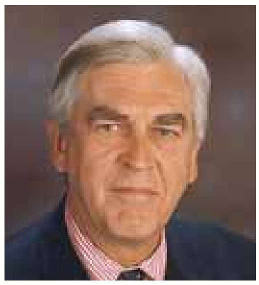
FUNCTIONS
Formulate and implement monetary policy
Analyse economy Formulate monetary policy Implement monetary policy
Manage the money and banking system
Act as banker of banks Supervise banks Supply notes and coin
Provide services to Government
Banker to Government Provide support when asked Implement exchange control policy
Provide economic and statistical services
Compile relevant statistics Economic research Provide economic information services

Governor
T T Mboweni

Deputy Governor
G Marcus



Deputy Governor
Dr X P Guma



Deputy Governor
I Plenderleith

Head of Research and
Chief Economist
Dr E J van der Merwe

Registrar and Head
Bank supervision
C F Wiese

Head
Exchange control
A M Bruce-Brand

Head
Financial stability
A Bezuidenhout

Head
National payment system
D C Mitchell

Principal
SA Reserve Bank College
Dr R M Gidlow

General Manager
Human resources
T T Ngcobo

Head
Currency and protection services
A Ismail

Head
Financial services
G J Terblanche

Head
Business systems and technology
J van Heerden

Head
Internal audit
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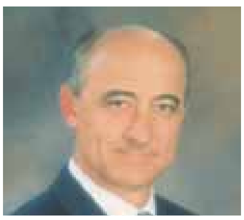
Head
Corporate services
Z S Gumede

Head
International banking
A D Mminele

Head
Money and capital market
Dr R M du Plooy



Adviser
L van Zyl

Head
Legal services
Dr J J de Jager

Corporate governance statement

The South African Reserve Bank is committed to the principles of, and complies to a significant degree with, the requirements of the King Report on Corporate Governance, particularly those contained in the "King Report on Corporate Governance for South Africa 2002". The Bank's compliance with these requirements is reflected below.

Board of Directors

The Board of fourteen directors must comprise:

Executive directors

- the Governor and three deputy governors appointed by the President of the Republic. In accordance with the South African Reserve Bank Act, No 90 of 1989 (Reserve Bank Act). The Governor serves as Chairperson of the Board and as Chief Executive Officer of the Bank.

Non-executive directors

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

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

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

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

There are currently vacancies for three government-appointed directors.

Governors' Committee

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

Audit Committee

The composition of the Audit Committee, which is a subcommittee of the Board, appears on page 5. The external and internal auditors have unrestricted access to the Chairperson of this committee. The committee meets regularly with management, the Internal Audit Department and the external auditors. They review the financial statements and underlying accounting policies, the effectiveness of management information and other systems of internal control, and the effectiveness of the internal audit function. The Audit Committee also reviews the risk management processes applicable to the Bank's operations and examines and recommends areas that internal and external auditors must cover.

Remuneration Committee

The composition of the Remuneration Committee, a subcommittee of the Board, appears on page 5. The committee meets regularly to review human resource matters and remuneration practices and policies. This committee also determines the remuneration packages of the Governor, deputy governors, management and staff.

Monetary Policy Committee

The Monetary Policy Committee is responsible for ensuring the formulation of monetary policy in line with current international best practice. The committee comprises the Governor and deputy governors as voting members, as well as 4 (four) senior staff members of the Bank as non-voting members. The committee meets at regular intervals and a statement on the monetary policy stance of the Bank is issued after each meeting. Decisions are taken by consensus.

Internal audit, risk and compliance

The internal audit function is an independent appraisal function that examines and evaluates the Bank's activities, resultant business risks and compliance issues. Its objective is to assist members of executive management in the effective discharge of their responsibilities. The scope of the internal audit function includes a review of the reliability and integrity of financial and operating information, the system of internal controls and the means of safeguarding assets. It also evaluates the efficiency with which resources are managed, and the effectiveness with which operations are conducted. The Chief Internal Auditor has the responsibility of reporting to the Audit Committee and has unrestricted access to its Chairperson, as well as to the Governor.

Internal control

To fulfil its responsibilities, management maintains adequate accounting records and has developed and continues to maintain an effective system of internal control. This system of internal control, which is designed to prevent material misstatement of financial statement information or loss of assets, is based on organisational structures and written policies and procedures. This includes budgeting and forecasting disciplines and the comparison of actual results against budgets and forecasts.

The auditors, both internal and external, have satisfied themselves, by performing their normal tests in respect of internal controls, that these systems and procedures are implemented and monitored by suitably trained staff, with an appropriate segregation of their authority and duties, as well as through the comprehensive use of advanced computer hardware and software technologies. Employees are required to maintain the highest ethical standards to ensure that business practices are conducted in a manner that, in all reasonable circumstances, is above reproach.

Budget Committee

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

Employment Equity Consultative Body and Management Steering Committee

The Bank recognises that employees play a vital role in the fulfilment of its functions and, therefore, ensures that employees participate in the running of the Bank. The Bank has established an Employment Equity Consultative Body (the EECB) to represent employees in consultations with the Management Steering Committee (MSC) which represents management regarding employment equity issues. The consultations are aimed at giving effect to legislative requirements in terms of the Employment Equity Act, No 55 of 1998 (the EE Act). The end result of the said consultations has been the formulation of an Employment Equity Plan 2005 (the EE Plan) for the Bank, which has been submitted to the Department of Labour as required by the EE Act. Consultations between the EECB and MSC are ongoing and the EE Plan is constantly reviewed.

Code of ethics and conduct

The Bank's staff members are required to adhere to and comply with defined best practice in their business dealings and actions as contained in the Personnel Regulations and Procedures.

Safety, health and environmental issues

The Bank and its subsidiaries recognise that safety, health and environmental issues are of fundamental importance to successful business strategies. The Bank, in compliance with legislation has, in addition to previously established measures, established a Health and Safety Coordinating Committee of representatives of the Head Office and Branches' Health and Safety Committees under the leadership of a deputy governor. This committee is responsible for ensuring compliance with the Occupational Health and Safety Act, No 85 of 1983, and policies of the Bank and attends to any issues raised by the respective Health and Safety Committees at Head Office and the branches. The Bank has also instituted a programme to upgrade its ageing technology platforms that support the Health and Safety Systems. The Bank has adopted a strategy to make employees aware of HIV/Aids. The strategy supports those infected and affected by the virus with a view to eliminating discrimination and ensuring, as far as possible, a productive, better quality-of-life working environment. The Bank and its subsidiaries strive to apply the best available environment-friendly practices and risk management principles to minimise any potential negative impact on the environment.

Risk management statement

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

Management structures

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

Risk elements

The financial risk elements in the Bank's activities: interest rate, market price, credit, liquidity and market liquidity. These risks are discussed in Note 29 of the financial statements. operational, human resource, legal and reputational risks are discussed below.

Operational risk

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

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

Human resource risk

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

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

Legal risk

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

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

Reputational risk

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

The Bank's function of overseeing and ensuring the integrity of the country's banking system exposes it to severe criticism whenever there is an incident of bank failure or systemic difficulty. The Bank adheres to international best practice and, to this end, maintains close liaison with international peers. The Bank strives for full compliance with the Basel Core Principles for effective banking supervision.

Operational review

Departmental operational reviews

Bank Supervision Department

The department contributes to the safety and soundness of the South African banking system, primarily by fulfilling the statutory obligations set out in the Banks Act, 1990 (Banks Act). To this end, the department's activities are performed by seven divisions.

The two analysis divisions supervise, on a consolidated basis, locally controlled and foreign-controlled banks, branches of foreign banks and registered mutual banks. The divisions analyse the risk-based supervisory information submitted by banks, identify issues of concern and discuss them with banks, monitor compliance with prudential requirements, hold discussions on strategic issues with various levels of banks' management, assess risk-management systems and controls, promote sound risk-management practices, hold annual trilateral discussions and give presentations to boards of directors of banks.

The On-site Supervision Division validates on site the key assertions made by the Analysis Division staff. The division undertakes on-site reviews to assess the adequacy of the risk-management policies and systems employed by banks and the quality of bank assets. The on-site division's work is aimed at forming an opinion about the adequacy of each bank's risk-management policies and procedures, the effective and consistent operation of the risk-management systems and controls, the quality of bank assets (mainly loans and advances) and the adequacy of the management information system for facilitating effective risk management.

The Bank's Legal and Regulatory Administration Division drafts proposed amendments to the Act, reviews regulations and drafts proposed amendments to regulations, drafts proposed circulars to banks, deals with litigation concerning banks placed under curatorship or liquidation, processes new applications for registration as banks and branches of foreign banks, investigates contraventions of the Banks Act and processes applications for mergers and acquisitions of banks.

The Policy and Research Division researches the latest developments in the field of bank supervision and develops policy responses to emerging issues. It also analyses the aggregated information submitted by all the institutions comprising the banking sector, compiles macro-reports on the banking sector, updates and administers training material and the training database, and presents lectures for training purposes.

The Information Systems Division collects statutory returns, captures information on an electronic database, prepares data for analytical review, processes data for and produces risk-based reports and conducts research to ensure that the technology used in the department remains at the forefront of development.

The Administration Division processes and controls correspondence with banks, handles matters of an administrative nature in terms of the Banks Act, prepares and monitors the departmental budget, and administers staff and other resources and facilities.

In the next financial year, the department will continue to extend its relations with other supervisors at local, regional and international levels. The department also faces the challenges of re-organising to implement the Basel II Accord, as well as the combating of money laundering activities. The department will continue to participate as a member of the Basel Core principle Liaison group where minumum standards for banking supervision are formulated and discussed. Participation in the capital group for non-G10 countries will continue and input in the accord implementation will be given as in the past.

Business Systems and Technology Department

The major aim of the Business Systems and Technology Department (BSTD) is to enable business processes through information and communication technology (ICT). In performing its duties the department

- provides and maintains ICT architectures, infrastructures and solutions;
- operates and manages the Bank's ICT facilities and resources;
- facilitates the enhancement of ICT capabilities in the Southern African Development Community (SADC) central banks; and
- exploits the opportunities and benefits offered by new and emerging technologies.

The department initiated a number of new projects during the 2002/03 financial year. The renewal of the mainframe environment will result in a significant cost saving over time and will also address future capacity requirements. The management of the network infrastructure was improved through the adoption of best practice measures and the implementation of network security tools. This will lower the support costs, while at the same time improving the availability and reliability of the network infrastructure. The department, together with the Directorate of Special Operations, conducted a number of investigations on fraudulent web sites, which resulted in several arrests.

A new Corporate Disciplines Division was established to consolidate all the processes required for an effective ICT function and to improve these processes over time. The department adopted the Control Objectives for Information and related Technology (COBIT) best practice model for IT Governance.

The need for a plan to reduce costs in maintaining the national real-time interbank payment system (SAMOS) resulted in the SAMOS Vision and Strategy document, which details a strategy for improving security, proposes alternatives to reduce costs, and identifies business initiatives that need to be considered when enhancing the application.

BSTD continued with its extensive role in the SADC IT Forum. The Bank Supervision Application was developed as a joint project by all the Eastern and Southern Africa Banking Supervisors Group (ESAF) and SADC central banks to provide the region with similar bank supervision systems and to enable future harmonisation of bank supervision processes and procedures. A Cross-border Foreign Exchange Transaction Recording System was implemented in Namibia, Swaziland and Zimbabwe. This system enables the countries to accurately record all cross-border flow of funds and to monitor the balance of payments.

The Bank became a member of the Bank for International Settlements (BIS) data bank. This will provide the Research Department with access to 425 000 time series.

The paper-based system of reporting transfers in Treasury bills and Reserve Bank debentures was replaced by an electronic system that eliminates the problem of unmatched deals. The department also assisted the International Banking Department with an ICT solution to improve the management of the Bank's foreign reserves.

The National Cash System was replaced by the South African Notes and Coins Administration System (SANCAS), which provides a stable system through which the distribution of notes and coin can be managed on a national basis. The technology used in the construction of the system allows for proper and secure integration with the Bank's internal systems as well as external clients' systems.

Corporate Services Department

The department is responsible for providing corporate services to the Bank.

During the financial year under review the department started a process to dispose of a number of properties no longer required by the Bank.

The Head Office extensions project is progressing according to plan and is within budget. The project is scheduled for completion by no later than 18 August 2003. The new Head Office parking garage is already fully operational. The Office Roll-Back Plan to the Head Office building will be implemented in the 2003/04 financial year.

During the financial year under review the department lost some staff members through resignations, early retirement and separation packages. Because of the staff reduction the department had to do minor structural changes to maintain efficiency and productivity.

Currency and Protection Services Department

The core objective of the Currency and Protection Services Department (CPSD) is to ensure an adequate supply of high quality banknotes and coin in circulation. Other functions include the provision of protection services and to manage security risks in the strategic and operational environments.

The average overnight banknotes and coin in circulation for 2002/03 amounted to R33 646 million. This figure is approximately 12 per cent higher in value than that of the corresponding period the previous year, which amounted to R30 016 million. The increase can be ascribed to growth in the economy and inflation.

The current note series has been in existence since 1992 and the Bank will be upgrading the security features of its banknotes to deter counterfeiting, in line with international best practice.

New criteria for currency protection devices, used as a deterrent for theft of large amounts of banknotes during cash-in-transit operations to or from banks, have been introduced.

A new vault management system (SANCAS) has been developed and implemented to replace the old system. The new system provides for integration with other internal systems and internal controls.

Short and long-term strategies to combat the counterfeiting of banknotes and coin are being developed. The department, together with the South African Police

Service (SAPS) and other role players in the cash industry are co-ordinating the implementation of the various initiatives. Investigations by the SAPS into the counterfeit R5 coin resulted in the arrest of a number of suspects in two syndicates which had set up manufacturing plants to produce these coins.

The branches have been able to meet all the distribution and circulation requirements of the commercial banks and the cash industry. Overall the productivity of the branches has been in line with the established standards.

The Security Risk Division has strived to continuously identify, evaluate and manage the security risks in the strategic and operational environments that may impact on the security of the Bank. To this end, policies and procedures in the personnel, information, physical, operational and project security areas have been developed for implementation.

The Protection Services Division (PSD) is progressing with the integration of all aspects of protection into a holistic, integrated security system. This encompasses the integration of elements of the security function conducted within all departments and the support functions provided by the PSD. The integration of security systems within the CPSD is showing positive returns. Staff competency enhancement and training programmes are currently being implemented. Excellent co-operation and liaison exist with the security departments of government.

The revision of the Business Continuity Management (BCM) plan development process into an integrated Bank-wide plan has progressed significantly. Departments have completed the development of the Business Continuity Plans. The next phases will include the establishment and comprehensive testing of a BCM hot-site.

Significant progress has been made in the implementation of anti-money laundering countermeasures within the Bank. An Anti-Money Laundering Work Group (AMLWG), comprising of a number of key departments has been established. The AMLWG was established to ensure that the Bank complies with relevant legislation and fulfils its obligations in this regard.

Exchange Control Department

The department administers exchange controls on behalf of the Minister of Finance in terms of delegated powers. The department's main functions are to implement, administer and monitor the provisions of the Exchange Control Regulations, as well as to collect, analyse and disseminate information to policy makers. The 36 Authorised Dealers in foreign exchange, who have been appointed by the Treasury, assist in carrying out the day-to-day administration of exchange controls.

Significant resources of the department were allocated to prepare submissions and testimony before the Commission of Enquiry into the Rapid Depreciation of the Exchange Rate of the Rand and Related Matters (Rand Commission). The findings of the commission contained in two separate reports were forwarded to the Department of Justice for the attention of the President.

Further exchange control relaxations were announced by the Minister of Finance in his Budget Speech on 26 February 2003. These included a new dispensation for offshore portfolio investments and a mechanism for unwinding the pool of emigrants' blocked funds. An exchange control amnesty was also announced. These new measures place additional responsibilities on the Exchange Control Department, particularly in the processing of applications.

Executive Management Department

The Executive Management Department consists of the Office of the Governor, Offices of the Deputy Governors, Adviser to the Governor, Communications Unit, Secretarial Support Services Unit, Special Projects Unit and the Vulindlela Unit.

The vacancy left by the retirement of Mr J H Cross was filled with the appointment of Mr I Plenderleith with effect from 1 January 2003.

The Adviser to the Governor was involved in co-ordinating the Bank's input to the Rand Commission, that concluded its work in mid-2002. The Adviser was also appointed as the convenor of a task team to assist the Governor in pursuing cost containment and employment equity in the Bank. The work of the task team culminated in various documents being considered and numerous decisions being taken by the Governors' Committee. The Adviser is also a member of the Monetary Policy Committee.

The Secretarial Support Services Unit provided secretarial support to board meetings, board committees, the Governors' Committee, the Bank's other internal committees and the annual general meeting.

The Special Projects Unit was actively involved in the co-ordination of the Bank's input to the Rand Commission, the formulation of protocol guidelines for the Bank, co-ordinating the Management Steering Committee (MSC) and providing administrative support to the SA Mint Company.

Internal communication initiatives focused on the optimisation of both electronic and printed forms of communication channels. The staff magazine was published on a monthly basis during the year while regional newsletters were also introduced at branch level.

External communication focused mainly on improving media relations, significantly increasing the attendance at regional Monetary Policy Forums, co-ordinating parliamentary briefings and co-ordinating predetermined stakeholder events. The Protocol and Conferences Section contributed to the successful co-ordination of the Bank's relationship programme with external stakeholders.

A fully fledged Media Office was established to conduct media monitoring and research. Specialisation took place with regard to daily news reviews and clippings on economic, political and social themes, content analysis and the co-ordination of regional news services.

The support services component of the Communications Unit added value to both the internal and external communication initiatives. An increase in the demand for information services was experienced during the year under review. Information was provided to the public and special interest groups on the role and functions of the Bank in an attempt to promote a better understanding of the Bank's functions. The Bank also participated in external exhibitions.

The Vulindlela Unit comprises two components namely Strategic Management and Change Management. The Strategic Management Unit, in line with the broad map of the strategic management process in the Bank, arranged and facilitated a number of strategic planning sessions in the Bank.

The Change Management Unit (CMU) facilitated interactive meetings with the Executive Committee of the Employment Equity Consultative Body (EECB) and the

MSC and managed consultation on affirmative action measures as well as issues perceived as barriers to equity implementation. It completed and duly submitted the Second Annual Employment Equity Progress Report to the Department of Labour's Employment Equity Registry on 1 October 2002 and made regular submissions to the Management and Board committees.

The administrative staff in the Office of the Governor and the Deputy Governors continued to provide support and administrative functions to the governors in their daily tasks and duties.

Financial Services Department

The department provides a professional financial service to the Bank and its customers and adds value to the operations of the Bank, not only strictly in the financial environment, but also in related areas.

Its responsibilities include financial and management accounting for the Bank; budgetary control; administration of the payroll, accounts payable, fixed assets registers, domestic payments and receipts of the Bank; managing the SWIFT system; and the administration of the Corporation for Public Deposits and the Pension and Retirement Funds of the Bank.

In addition, it is also responsible for the financial administration of SARBCIC (South African Reserve Bank Captive Insurance Company Limited) which is a captive insurance company established to provide insurance cover for the Bank and its subsidiaries. The insurance and re-insurance aspects of this subsidiary is the responsibility of the Insurance Section in Legal Services Department.

Financial Stability Department

The department supports the Financial Stability Committee (FSC) in maintaining the stability of the country's financial system as a whole. Its main objectives are to identify, analyse and research potential threats to and weaknesses in the financial system, to make policy proposals, and encourage regulatory and structural changes to promote the safety and effectiveness of the financial system.

During the period under review, the department progressed well with its intended strategies to nurture key relationships, develop capacity, develop analysis tools and processes, research and respond to new developments, and monitor and facilitate projects to strengthen the regulatory architecture.

Key activities within each of its four main functions include the following:

- The Regulatory Environment Division has been involved in developing a reliable scorecard to evaluate the qualitative aspects of the robustness and soundness of the financial system.

- The Macro-prudential Analysis Division has been involved mainly in identifying a set of macroprudential indicators and developing and populating a comprehensive database of suitable indicators of financial system soundness.

- The Safety Net Division has been involved in the preparation and maintenance of suitable contingency plans to be used in the event of a systemic crisis, and in co-ordination of sector-wide financial arrangements for contingency management.

- The Research and Information Division has been involved in research work on international, regional and domestic issues impacting on financial stability related issues, as well as a Ten Year Review for the National Treasury titled *Financial Sector Reform and Financial Stability*.

The department will continue to inform internal and external policy makers on relevant issues impacting the stability of the financial system.

Human Resources Department

In line with its operational plan for 2002/03, the Human Resources (HR) Department met almost all its objectives.

The roll-out plan flowing from the HR Capacity Review, which was conducted until the end of 2001/02, was implemented during 2002/03.

Most existing HR policies were reviewed and a number of new policies were drafted.

A Human Resource Advisory Service in line with the HR 2005 Plan, budget and staff movements were provided on an ongoing basis. Decentralised human resources consultants were assigned to all the branches.

On the labour relations front no incidents of labour disputes were reported during the year and the Bank continued to enjoy constructive relationships with stakeholders.

A moratorium on external appointments came into effect at the end of July 2002 in an effort to reduce staff numbers. As a result of the moratorium the staffing function was discontinued.

In terms of wellness, there was a continuous demand for services from employees who appear to be strained by work-related and personal circumstances. Further, various awareness campaigns on health issues, including HIV/Aids, continued to receive attention with a view to promoting a healthy workforce.

In pursuit of the objective to have relevant human resources information available in an electronic format, a human resources information system was provided in web format to all staff members with computers. The process of publishing all HR policies on the Intranet was also initiated during the year.

The highlights in terms of human resources development centred on meeting the requirements of the South African Qualifications Authority (SAQA), and playing a leading role in the Bank Seta.

Internal Audit Department

In supporting all levels of management, the primary purpose of the Internal Audit Department is to independently evaluate the Bank’s and its subsidiaries’ corporate business risks and to provide objective assurance and consulting services regarding the adequacy and effectiveness of the systems of control, risk management and governance processes. Through the Audit Committee, the department also provides information about these functions to the Bank’s Board of Directors.

The department’s audit approach is risk-based and a model is applied to assess the relative risks associated with the activities of the various departments and the subsidiaries of the Bank. The model divides overall risk into inherent risk and the risk of inadequate control. Inherent risk is the level of risk relating to an activity, irrespective of the quality of the associated internal control system or the effectiveness of management.

In total, 411 projects were completed in the 2002/03 financial year. Included in these are systems audits, verification audits, follow-up audits, preliminary surveys, analytical reviews, investigations, ad hoc client requests, compliance audits performed at monthly and quarterly intervals, continuous projects as well as business monitoring notes issued to convey concerns or obtain clarity about aspects identified by the department in the course of its continuous business-monitoring process.

Generally, the purpose and scope of every audit entailed the evaluation of the adequacy and effectiveness of all controls designed to address the risks identified. In most instances an audit opinion was formulated, supported by the relevant findings and discussed with the responsible level of management.

International Banking Department

As part of discharging its responsibilities in pursuance of the Bank's mission, the department was involved in the following operational activities during the past financial year:

In line with its key strategic focus for the year, the net open foreign currency position (NOFP) was reduced by US$1 655,1 million to a level of US$1 220,3 million at 31 March 2003.

This improvement in the NOFP resulted mainly from the purchase of foreign exchange emanating from flows related to proceeds from Government borrowing in the international financial markets and from corporate transactions. With the recovery of the rand, the department has also, on occasion, in the final stages of the financial year, taken the opportunity to purchase dollars on a moderate scale for the Bank's own reserves.

The above-mentioned transactions also contributed to a reduction of the oversold forward book, which decreased by US$1 521,6 million from US$8 077,1 million to US$6 555,5 million. The Bank continued to roll over the existing short-term forward book in the market at its own initiative.

Risk management continues to form an essential part of departmental operations. In this regard, the department continued to pay close attention to risk management and the adequacy of existing controls. Particular attention was paid to reviewing and updating the departmental business continuity and disaster recovery plans.

As part of the continuing effort to achieve an appropriate return within acceptable risk parameters, the governors approved a revised reserve management policy which included the appointment of an additional five external fund managers to each manage a US$100 million tranche of the Bank's foreign exchange reserves. The management of liquidity still remains of cardinal importance.

In fulfilling the need to improve the understanding of financial market developments, to provide executive management with relevant and up-to-date information as well as to provide policy input, the department continued to improve on its efforts to collect, analyse and interpret information from authorised foreign exchange dealers and the financial markets in general.

Legal Services Department

The department renders a comprehensive and centralised legal and insurance service to the South African Reserve Bank and its subsidiaries and proactively keeps abreast of progressive developments in a changing environment. To provide and initiate a professional legal service, the functions performed by the department encompass furnishing legal opinions requested by the governors and various departments, drafting, vetting and negotiating contracts, managing litigation and alternative dispute resolution proceedings as well as amending, drafting legislation, conducting legal research, performing legal administrative services, managing commercial contracts, managing the Bank's register of shareholders and the Over-the-Counter Share Transfer Facility (OTCSTF), managing the insurance portfolio and providing selective legal advice to staff and pensioners, as well as the subsidiaries of the Bank.

The department chaired the SADC Steering Committee that prepared the Memorandum of Understanding on the Legal and Operational Frameworks of SADC central banks.

The department also successfully negotiated and drafted commercial contracts relating to the Bank's various building and renovation projects. Legal advice was provided on a wide range of matters including the National Payment System Act, the preparation of a manual in terms of the Promotion of Access to Information Act, procurement matters and various Bank policies.

The SARBCIC, a wholly owned subsidiary of the Bank and a registered general insurer in terms of the Short-term Insurance Act, No 53 of 1998, is managed by the Insurance Division of the department. In extremely hard insurance market conditions, SARBCIC has managed to limit the increases in the cost of insurance to reasonable levels.

Following the delisting of the Bank on 2 May 2003, the department established an over-the-counter trading desk to facilitate trading in the Bank's shares.

Money and Capital Market Department

The department's main responsibility is to implement the Bank's monetary policy decisions. This entails refinancing banks' liquidity requirements through repurchase transactions and other facilities such as the averaging of cash reserves and the marginal lending facility. The department also manages the liquidity in the money market through open-market operations in the domestic financial markets, which comprise issuing Reserve Bank debentures and conducting longer-term reverse repurchase transactions.

The other functions of the department include participating in the formulation of government debt-management strategies, administering the auctions of government bonds and Treasury bills, assisting the National Treasury with the surveillance of primary dealers in government bonds and providing a settlement service to the market for certain securities. As part of its ongoing activities, the department also conducts research and analyses trends in the domestic financial markets to provide management information. As a participant in the domestic financial markets, in particular the money market, the department contributes to the development and efficient functioning of these markets.

During the 2002/03 financial year, the effects of the implementation of the modifications to the Bank's refinancing system were closely monitored. The South African Overnight

Interbank Average (SAONIA) rate calculated and published by the department gained prominence in the market and is increasingly used as a market reference rate.

In September 2002 the Bank received R7 billion worth of zero coupon bonds from the National Treasury as partial compensation for the accumulated losses on maturing forward foreign exchange contracts. Bonds to the value of R3 billion were converted into R150 bonds and R194 bonds, which could be applied in additional reverse repurchase transactions to drain excess liquidity from the money market.

Some other initiatives and changes that occurred during the year included adapting the bond auction procedures from multiple-yield American style auctions to uniform-yield Dutch style auctions, conducting carry transactions to improve the returns on the investments of the Corporation for Public Deposits (CPD), and implementing an internet-based reporting system that is used to auction Treasury bills and Reserve Bank debentures.

National Payment System Department

The National Payment System Department (NPSD) supports the mission of the the Bank by ensuring the overall effectiveness and integrity of the National Payment System (NPS).

During 2002 significant progress has been made to strengthen the Bank's ability to oversee the safety and soundness of the payment system, and more specifically to contain payment system risks. The payment system oversight function was formally introduced to align South African payment system practices with international developments, and to enhance the overseeing of liquidity, legal, operational and credit risks in the payment system. The oversight role also includes on-site visits to banks. Progress has also been made with the strengthening of the regulatory framework by drafting amendments to the NPS Act to cater for, amongst others, specific payment netting issues, the provision of more payment information, and to specifically address activities of payment service providers and payment system operators.

As liquidity concerns increased in the banking system during 2002, the importance of the intraday liquidity monitoring of banks' settlement positions via the settlement system were highlighted. The intraday monitoring capabilities of the settlement system via the monitoring of the liquid asset requirement and reserve account holdings of banks will be implemented in the third quarter of 2003.

To further align South African payment system practices and arrangements with international developments, planning and intensive discussions have taken place between the Bank, the banking industry and Continuous Linked Settlement (CLS) Bank. The main aim is to reduce foreign exchange (FX) settlement risk via the synchronisation of the settlement of the two legs of FX transactions in a single time-zone (within CLS Bank).

The department launched a project to revise the SAMOS Cost Recovery Model. The revised model will be implemented in the first quarter of the 2003 financial year and will result in full cost recovery of all SAMOS operational costs.

The department facilitated discussions and co-operation between various government departments and the banking industry in respect of government smart card payment initiatives. Interoperability and the utilisation of emerging technologies to extend banking and electronic payment services to the rural and unbanked communities are paramount. Cognisance is also taken of anti-money laundering requirements.

A Common Monetary Area (CMA) Cross-border Payment Oversight Committee (CPOC) has been established to oversee the implementation of a programme of risk management in respect of cross-border payments and settlements in the CMA countries. All four involved countries are working towards aligning their cross-border payments and settlements in an effort to bring them in line with international best practice.

Three SADC countries, namely, Malawi, Namibia and Zimbabwe, implemented real-time gross settlement (RTGS) systems in their respective countries.

Education, training and mentoring programmes were implemented to ensure an effective and efficient staff complement. This provides the staff with the necessary exposure, and is conducive to their professional development in the payment arena.

Research Department

The department supports economic policy formulation by providing accurate and relevant economic information, research and advice. It collects statistical information and conducts economic research on developments in the South African economy and, to a lesser extent, the world economy.

From its extensive and well-documented database, the department provides a wide range of economic statistics and other information to all interested parties. It maintains effective information dissemination mechanisms, using modern technology but also catering for users without access to electronic means of information exchange.

South Africa meets the stringent requirements of the Special Data Dissemination Standard (SDDS) of the International Monetary Fund (IMF) regarding the coverage, periodicity and timeliness of macroeconomic data and the dissemination of advance release calendars. The quality and transparency of macroeconomic data have led to enhanced confidence in and understanding of the South African economy, contributing to the further raising of South Africa's credit rating by credit rating agencies during or shortly after the year under review.

During the operational year, the IMF heightened the awareness of the compilation of fiscal data in accordance with the new *Government Finance Statistics Manual 2001*. Due to the Research Department's expertise in this field, South Africa was selected as one of a small number of pilot countries, illustrating the conversion of cash fiscal data into the new government finance statistics framework. In December 2002 the IMF added a supplement to the *Government Finance Statistics Yearbook*, incorporating the South African data.

The department also made a major contribution with the completion of the first phase of the *Standard Chart of Accounts* for national government departments. The document, released to government departments in February 2003, sets out in detail how financial accounts should be structured, successfully combining the reporting needs for accounting purposes and the reporting needs for meaningful economic analysis prescribed by the IMF in the *Government Finance Statistics Manual 2001*. Progress was also made with the second phase of this project, in which the Standard Chart of Accounts will be expanded to include the reporting needs of provincial government departments in the new framework.

In the balance of payments area, further progress was made with the Sixth Census of Foreign Transactions, Liabilities and Assets, and a report presenting its findings will be released during the 2003/04 operational year. The Commonwealth Secretariat's Debt Recording and Management System was also implemented.

Other enhancements included the redevelopment and improvement of the indices of South African share prices, as the old JSE Securities Exchange South Africa (JSE) series were replaced by the new FTSE/JSE Africa Index series. Time series for capturing a set of integrated economic accounts were also developed, based on the framework of the System of National Accounts.

An important focus area of the department was the improvement and validating of the current suite of inflation forecasting models. A new disaggregated model for inflation was also introduced. Research projects aimed at supporting the conduct of monetary policy received high priority. Assistance and training in the area of estimation and modeling techniques were extended to a number of SADC countries, including Botswana, Rwanda, Tanzania and Zimbabwe.

More generally, international relations were fostered through numerous professional visits and meetings with representatives of other countries and international organisations, and through services rendered by the SADC Secretariat facilitating projects of the SADC Committee of Central Bank Governors.

Despite a decline in the number of employees in the department during the year under review, research activity continued and resulted in a number of papers being produced. One *Occasional Paper*, five articles and notes in the *Quarterly Bulletin* and eight *Working Papers* were published.

Regular economic reviews were published in the *Quarterly Bulletin* and the *Annual Economic Report*. Reviews and presentations were also prepared for meetings of the Board of Directors of the Bank, the Governors' Committee, Monetary Policy Committee, Monetary Policy Implementation Committee, Parliamentary Portfolio Committee on Finance and Monetary Policy Forums, to name but a few. The six-monthly *Monetary Policy Review* provided in-depth discussions of monetary policy developments and prospects, while the six-monthly publication *Labour Markets and Social Frontiers* provided insight into important structural and distributional issues which impact on economic outcomes and social cohesion in South Africa. The latter publication on occasion incorporates the results of research conducted on a contract basis by outside parties.

Departmental staff on numerous occasions exchanged views with domestic and foreign-based academic institutions and other research organisations: This included participation in the Balance of Payments Expert Group of the IMF with a view to resolving methodological problems and issues encountered in the compilation of countries' external accounts.

South African Reserve Bank College

The college was established to upgrade the central banking skills of individuals to the highest level, in order to support the mission of the Bank and those of other central banks in the SADC region by offering a variety of learning opportunities, sometimes in conjunction with other training institutions.

During the year under review the college placed great emphasis on co-operation with international training institutions, local universities, other central banks in the

SADC region and departments in the Bank. In addition, the college contributed to research in the areas of central banking, finance and banking. The most significant research output constituted articles such as “The Suitability of a Currency Board for an Emerging Market Economy” for the *South African Journal of Economics*, “The History of Exchange Control in South Africa” for the *South African Journal of Economics History* and a book co-authored by one of the lecturers, *Understanding South African Financial Markets*, published in December 2002. These initiatives helped to ensure that the latest trends and developments in central banking, finance and banking could be incorporated in the college’s training programmes.

In addition to the total of 396 staff members of the Bank that were trained during the scheduled training programmes, the college also offered a variety of training programmes to external clients, ranging from the JSE, Anglo Rand Securities, Momentum Administration, the University of South Africa, the University of Pretoria, the South African National Defence Force College, the Central Bank of Swaziland, Bank of Namibia, Momentum School and the Financial Services Board.

Two very successful workshops, namely Central Banking, and Growth Prospects for South Africa, were presented. A total of 100 people attended these two workshops (internal and external clients).

The college also manages the cadet programme of the Bank and it is particularly pleased by the high success rate that was achieved through the academic development of these young people. The previous group consisting of twenty cadets all received the Diploma in Central Banking as well as the Certificated Associate of the Institute of Bankers (CAIB), which is jointly offered by the college and the Institute of Bankers of South Africa.

Lastly, the college hosted 5 courses on behalf of the SADC Training and Development Forum. These courses were Central Bank Surveillance of the Structure and Functioning of Financial Markets (Bank for International Settlements), Financial Markets (International Monetary Fund), Monetary Policy (Federal Reserve Bank of New York), Corporate Governance (Bank of England) and Strategic Human Resources Management (Bank of England).

Dr R M Gidlow retired at the end of March 2003 after serving for eight years as Principal of the college.

Staff complement as at 31 March 2003

	Permanent staff	Contract workers	Total
Executive management (excluding governors)	49		49
Bank supervision	98	6	104
Business systems and technology	168		168
Corporate services	253	3	256
Currency and protection services (including branches)	1 011		1 011
Exchange control	175		175
Financial services	71		71
Financial stability	17	1	18
Human resources	58		58
Internal audit	43		43
International banking	63		63
Legal services	34		34
Money and capital market	39		39
National payment system	24	1	25
Research	145		145
SARB College (including cadets)	11	10	21
Secondment to subsidiaries	3		3
Total staff complement	**2 262**	**21**	**2 283**
Staff members receiving disability benefits	26		26
Total	**2 288**	**21**	**2 309**

Workforce profile by gender and race at 31 March 2003

Occupational categories	Male				Female				
	African	Coloured	Indian	White	African	Coloured	Indian	White	Total
General Management (GM)	19	2	3	55	10	1	1	4	95
Senior Professional and Management (SPM)	21	5	5	77	17	4	2	18	149
Professional and Vocational Management (PVM)	47	9	11	157	28	4	8	76	340
Junior Professional and Supervisory (JPS)	88	14	17	81	70	20	14	157	461
Trainee Professional and Clerical (TPC)	225	52	20	178	139	67	30	264	975
General Worker (GW)	149	12	2	25	58	11	0	11	268
Total permanent	549	94	58	573	322	107	55	530	2 288
Non-permanent employees	3	0	1	9	6	1	0	1	21
Total	552	94	59	582	328	108	55	531	2 309

Annual Financial Statements

Directors' report for the year ended 31 March 2003

Introduction

The directors present the Bank's eighty-third annual report for the year ended 31 March 2003.

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

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

The annual financial statements set out in this report have been prepared by management in accordance with South African Statements of Generally Accepted Accounting Practice in all material respects. They include full and responsible disclosure and are based on appropriate accounting policies which have been applied consistently, except where specifically indicated differently, and which are supported by reasonable and prudent judgements and estimates.

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

Nature of business

The South African Reserve Bank is the central bank of the Republic of South Africa and is regulated in terms of an Act of Parliament. The primary objective of the South African Reserve Bank is the achievement and maintenance of financial stability. In pursuance of its primary objective, the Bank assumes responsibility for the functions as set out in its mission statement on pages 2 and 3.

The subsidiaries of the Bank are involved in the following activities:
- Corporation for Public Deposits receives call deposits from public entities;
- South African Bank Note Company (Proprietary) Limited produces banknotes;
- South African Mint Company (Proprietary) Limited produces coin; and
- South African Reserve Bank Captive Insurance Company Limited is a captive insurance company which manages certain insurable risks of the Bank and its subsidiaries.

Achievement of objectives

The Bank's achievements in respect of its objectives, including the achievement of its main objective, namely the maintenance of financial stability, will be addressed by the Governor at the ordinary general meeting of shareholders to be held on 26 August 2003. This address receives extensive media coverage and is made available to shareholders and other interested parties.

The average annual rate of CPIX inflation, the inflation-targeting measure, was 9,3 per cent in 2002 – its highest rate for the past 8 years and exceeding by a fair margin the official inflation-target range of between 3 and 6 per cent set for the year. In consultation with the Governor of the Bank, the Minister of Finance decided to modify the inflation targets for 2004 and 2005. In October 2001 the targets for these years were set at 3 – 5 per cent. However, the sharp increase in the inflation rate in 2002 meant that achieving this lower target range within the original time frame would put excessive pressure on the economy. In October 2002 the Minister announced that the inflation target would remain at 3 to 6 per cent for 2004. Subsequently it was announced in the February 2003 Budget that the target would also remain at that level for 2005. The outlook for inflation has improved considerably over the past few months, and there are indications that the downward trend in inflation may be sustained. Confirmation of this trend has been provided by lower-than-expected PPI and CPIX figures as well as subdued money supply data. In addition, the rand has maintained its stronger levels. With international oil prices expected to remain volatile, threats to inflation from this source have receded somewhat. Critical to the inflation outlook will be the extent to which inflation expectations adjust to the lower trend in inflation as well as the future course of wage settlements in the economy. The Bank noted the recent downward revision by Statistics South Africa of the CPIX rate.

The Bank remains committed to eliminating its net open foreign currency position as soon as is practically possible. Good progress has been made in this regard. The net open foreign currency position as at 31 March 2003 was US$1,2 billion (2002: US$2,9 billion).

Strategic planning is undertaken annually with a medium-term time horizon. The strategic planning culminates in operational plans, objectives and budgets which are monitored regularly by the Budget and Governors' Committees. The Bank's achievements are measured against its vision for the year 2010, which guides strategic planning.

Financial results

The income statements appear on page 37.

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

	Group	**Bank**
	R'000	R'000
31 March 2003	197 895	169 017
31 March 2002	20 850	4 756

As in the previous year, the Bank's financial results have been adversely affected by the delayed repayment of the amount due by the Government of R36,6 billion

(2002: R28,0 billion) (Note 7 to the financial statements). This represents a significant non-income earning asset on the balance sheet.

Dividends

An interim dividend of 5 cents per share was paid to shareholders on 25 October 2002, and a final dividend of 5 cents per share was paid on 9 May 2003.

Property, plant and equipment

The Bank has embarked on a major building expansion project at its head office building to cater for expanded needs. The project is expected to be completed by the end of the calendar year 2003 at a cost of R250 million.

Directors

The composition of the Board of Directors is set out on page 5.

Mr I Plenderleith was appointed as a deputy governor with effect from 1 January 2003 in the place of Mr J H Cross who retired on 31 December 2001.

Dr D Konar whose term of office as a shareholders' representative expired on 28 August 2002, was re-elected. The term of office of Dr M T de Waal as shareholders' representative also expired on 28 August 2002. Dr de Waal was not available for re-election and retired as director.

The term of office of Mr B P Gilbertson as shareholders' representative expires on 27 August 2003. He is eligible and offers himself for re-election.

Prof M Padayachee, whose term of office as a government representative expired on 28 August 2002, is eligible for re-appointment by the Government.

There are currently three vacancies for representatives of Government.

Direct and indirect shareholding of directors on 31 March 2003

	Number of shares
Direct shareholding	500
Indirect shareholding	0
	500

Subsidiaries

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

	Authorised and issued share capital					
	Number of shares	Percentage held	Shares at cost		Indebtedness to/(by) Reserve Bank	
	'000	Per cent	**2003 R'000**	2002 R'000	**2003 R'000**	2002 R'000
Corporation for Public Deposits	2 000	100	**2 000**	2 000	**(63)**	110 059
South African Mint Company (Proprietary) Limited	60 000	100	**206 000**	206 000	**0**	0
South African Bank Note Company (Proprietary) Limited	61 000	100	**61 000**	61 000	**13 674**	12 247
South African Reserve Bank Captive Insurance Company Limited	10 000	100	**10 000**	10 000	**(1)**	(1)
Total			**279 000**	**279 000**	**13 610**	**122 305**

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

	Bank	
	2003 R million	2002 R million
Aggregate profits	**48**	88
Aggregate losses	**3**	0

Contracts

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

Post balance sheet events

The Bank has advised all staff older than 50 years of an enhanced early retirement package available to them, which will remain available until 30 September 2003. The Bank has reserved the right to accept or reject any application received and is therefore in a position to retain essential skills.

The former Money and Capital Market Department and International Banking Department were merged into one new department, the Financial Markets Department. This merger reflected the increased integration of South Africa into global financial markets since 1994, which essentially made a distinction between domestic and international financial markets outdated and superficial. The new department resulted in a restructuring of the management of the two former departments.

The negative net open foreign currency position was eliminated in May 2003 following receipt of the proceeds of an external bond issue by the Government.

Secretary

Ms Z R Matsau

Business address:
370 Church Street
Pretoria
0002

Postal address:
PO Box 427
Pretoria
0001

The financial statements were approved by the Board of Directors on 17 July 2003 and signed on its behalf by:

T T Mboweni
Governor

X P Guma
Deputy Governor

B P Gilbertson
Director

Z P Manase
Director

G J Terblanche
Chief Financial Officer

In my capacity as Secretary of the Bank, I certify that all the returns required to be submitted in terms of the South African Reserve Bank Act, No 90 of 1989, for the year ended 31 March 2003, have been correctly completed and are up to date.

Z R Matsau
Secretary

Pretoria
17 July 2003

Balance sheets at 31 March 2003

		Group		Bank	
		2003	2002	2003	2002
	Notes	R'000	R'000	R'000	R'000
Assets					
Property, plant and equipment	3	720 836	606 223	574 543	453 090
Investment in subsidiaries	4	0	0	292 610	401 305
Loans and advances	5	70 235	74 058	70 235	74 058
Investments	6	4 196 036	4 204 375	0	0
Amounts due by the South African Government	7	37 885 542	29 384 518	37 885 542	29 384 518
Gold and foreign exchange	8	61 130 041	85 737 416	61 130 041	85 737 416
Accommodation to banks	9	12 478 118	12 085 326	12 478 118	12 085 326
Internal registered bonds	10	10 521 119	6 516 322	10 521 119	6 516 322
Debtors and other accounts		6 168 994	11 108 414	6 135 230	11 076 233
Inventories	11	170 811	161 451	0	0
Cash and cash equivalents	12	79 765	91 700	0	0
Current taxation prepaid		168 042	374 886	167 735	374 638
Deferred taxation asset	17	118 727	93 250	112 656	91 493
Total assets		133 708 266	150 437 939	129 367 829	146 194 399
Liabilities and shareholders' equity					
Liabilities					
Notes and coin issued	13	36 886 285	34 720 793	36 886 285	34 720 793
Reserve Bank debentures	14	7 900 000	4 000 000	7 900 000	4 000 000
Deposit accounts	15	63 415 745	71 582 774	59 575 037	67 821 884
Foreign loans	16	19 654 082	28 297 412	19 654 082	28 297 412
Deferred taxation liability	17	4 791	1 633	0	0
Current taxation liabilities		10 874	4 667	6 050	0
Creditors and other accounts	18	880 285	8 012 917	793 100	7 923 173
Total liabilities		128 752 062	146 620 196	124 814 554	142 763 262
Shareholders' equity					
Share capital	19	2 000	2 000	2 000	2 000
Statutory reserve fund		354 504	335 724	354 504	335 724
Other reserves	20	4 543 016	3 426 329	4 196 771	3 093 413
Accumulated profits		56 684	53 690	0	0
Total equity		4 956 204	3 817 743	4 553 275	3 431 137
Total liabilities and shareholders' equity		133 708 266	150 437 939	129 367 829	146 194 399

Income statements for the year ended 31 March 2003

	Notes	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Interest income		5 381 112	3 962 536	4 941 495	3 636 686
Interest expense		3 968 425	3 268 367	3 588 869	2 992 781
Net interest income		1 412 687	694 169	1 352 626	643 905
Other income	21.1	1 818 806	1 112 604	1 754 563	940 269
Total income		3 231 493	1 806 773	3 107 189	1 584 174
Operating costs		1 315 320	1 696 395	1 259 863	1 568 764
Personnel costs	21.2	711 580	608 395	608 600	501 274
Other operating costs	21.2	603 740	1 088 000	651 263	1 067 490
Profit before taxation	21	1 916 173	110 378	1 847 326	15 410
Taxation	22	579 617	22 800	555 971	(1 398)
Profit after taxation		1 336 556	87 578	1 291 355	16 808
Dividend per share (cents)	23	10	5	10	5

Cash flow statements for the year ended 31 March 2003

		Group		Bank	
	Notes	2003 R'000	2002 R'000	2003 R'000	2002 R'000
Cash flows from operating activities					
Cash generated from/(utilised by) operating activities	24	1 431 311	(5 067 431)	1 290 226	(4 501 699)
Taxation paid		(388 886)	(192 609)	(364 181)	(177 996)
Dividends paid		(200)	(200)	(200)	(200)
Transfer to Government		(20 850)	(317 870)	(4 756)	(291 575)
Net cash from/(utilised by) operations		1 021 375	(5 578 110)	921 089	(4 971 470)
Cash flows from financing activities					
Notes and coin issued		2 165 492	5 086 936	2 165 492	5 086 936
Cash flow from/(utilised by) investing activities		(3 198 802)	505 407	(3 086 581)	(115 466)
Purchase of property, plant and equipment		(213 530)	(129 342)	(201 172)	(114 488)
Disposal of property, plant and equipment		6 389	4 468	5 896	3 574
Disposal of investments		8 339	634 790	0	0
Internal registered stock purchased		(3 000 000)	(4 509)	(3 000 000)	(4 509)
Investment in subsidiaries		0	0	108 695	(43)
Net (decrease)/increase in cash and cash equivalents		(11 935)	14 233	0	0
Cash and cash equivalents at beginning of the year		91 700	77 467	0	0
Cash and cash equivalents at end of the year	12	79 765	91 700	0	0

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

Statement of changes in equity: Group

For the year ended 31 March 2003

	Accumulated profit R'000	Share capital R'000	Statutory reserves R'000	Other reserves (Note 20) R'000	Total R'000
Balances at 31 March 2001	16 168	2 000	335 196	3 709 083	4 062 447
Adjustments due to changes in accounting policies (Note 2)					
Accumulated depreciation on buildings	0	0	0	(118 643)	(118 643)
Provision for leave pay	(18 945)	0	0	0	(18 945)
Provision for post-retirement benefits to employees	(63 744)	0	0	(110 000)	(173 744)
Adjusted balances at 31 March 2001	(66 521)	2 000	335 196	3 480 440	3 751 115
Profit after taxation	87 578	0	0	0	87 578
Transfer to Government	(20 850)	0	0	0	(20 850)
Transfer from reserves	53 583	0	528	(54 111)	0
Dividends paid	(100)	0	0	0	(100)
Balances at 31 March 2002	53 690	2 000	335 724	3 426 329	3 817 743
Profit after taxation	1 336 556	0	0	0	1 336 556
Transfer to Government	(197 895)	0	0	0	(197 895)
Transfer to reserves	(1 135 467)	0	18 780	1 116 687	0
Dividends paid	(200)	0	0	0	(200)
Balance at 31 March 2003	56 684	2 000	354 504	4 543 016	4 956 204

Explanatory notes

Other reserves
The transfer to other reserves includes unrealised profits after taxation on revaluation of internal registered bonds amounting to R703 million and R400 million to contingency reserve.

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

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

Statement of changes in equity: Bank

For the year ended 31 March 2003

	Accumulated profit R'000	Share capital R'000	Statutory reserves R'000	Other reserves (Note 20) R'000	Total R'000
Balances at 31 March 2001	0	2 000	335 196	3 393 321	3 730 517
Adjustments due to changes in accounting policies (Note 2)					
Accumulated depreciation on buildings	0	0	0	(118 643)	(118 643)
Provision for leave pay	(18 945)	0	0	0	(18 945)
Provision for post-retirement benefits to employees	(63 744)	0	0	(110 000)	(173 744)
Adjusted balances at 31 March 2001	(82 689)	2 000	335 196	3 164 678	3 419 185
Profit after taxation	16 808	0	0	0	16 808
Transfer to Government	(4 756)	0	0	0	(4 756)
Transfer from reserves	70 737	0	528	(71 265)	0
Dividends paid	(100)	0	0	0	(100)
Balances at 31 March 2002	0	2 000	335 724	3 093 413	3 431 137
Profit after taxation	1 291 355	0	0	0	1 291 355
Transfer to Government	(169 017)	0	0	0	(169 017)
Transfer to reserves	(1 122 138)	0	18 780	1 103 358	0
Dividends paid	(200)	0	0	0	(200)
Balance at 31 March 2003	0	2 000	354 504	4 196 771	4 553 275

Explanatory notes

Other reserves
The transfer to other reserves includes unrealised profits after taxation on revaluation of internal registered bonds amounting to R703 million and R400 million to contingency reserve.

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

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

Notes to the financial statements

1. Accounting policies

The principal accounting policies adopted in the preparation of these consolidated financial statements, which are consistent in all material respects with those applied in the previous year, are set out below.

1.1 Basis of presentation

These consolidated financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice. They have been prepared under the historic cost basis except for certain financial instruments which are stated at fair value.

1.2 Consolidation

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

Where necessary, comparative figures have been reclassified and restated to afford proper comparison.

1.3 Financial instruments

Measurement

Financial instruments are initially measured at cost which includes transaction costs. Subsequent to initial recognition, all instruments are measured at fair value except for the instruments set out below. Where appropriate, the particular recognition methods adopted are disclosed in the individual policy statements and notes associated with each instrument.

Gold coin and bullion

Gold coin and bullion are valued at 90 per cent of the average of the last 10 gold price fixings determined on the London gold market before the year-end.

Reserve Bank debentures

The liability in respect of Reserve Bank debentures outstanding is stated as the amount of the consideration received at date of issue. Due to the short-term nature of these instruments, the fair value approximates the issue value thereof, regardless of interest rate fluctuations. Interest is accrued on a day-to-day basis.

1.4 Property, plant and equipment and depreciation

Property, plant and equipment are initially recorded at cost. Depreciation is calculated on the straight line method to write off the cost of each asset to its residual value over its expected useful life as follows:

- Land is not depreciated.
- Buildings are depreciated over 50 years.
- Plant, vehicles, furniture and equipment are depreciated over 2 to 25 years.
- Information technology expenditure is expensed as incurred.

1.5 Foreign currency activities

Assets and liabilities in foreign currencies are converted to South African rands at the rates ruling at the close of the financial year. Exchange profits and losses of the Bank are for the account of the Government and are transferred to the gold and foreign exchange contingency reserve account. Exchange profits and losses of the subsidiary companies are charged to the income statement.

1.6 Taxation

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

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

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

1.7 Pension and retirement funds

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

1.8 Post-retirement medical benefits

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

1.9 Sale and repurchase agreements

Securities purchased under agreements to resell are recorded as funds receivable under the heading "Accommodation to banks". Likewise, securities sold under agreement to repurchase are disclosed as deposits received. The differences between the purchase and sale prices are treated as interest and accrued evenly over the life of repurchase and reverse repurchase agreements.

1.10 Inventories

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

Inventories are stated at the lower of cost and net realisable value, which is based on the assumption that raw materials and work in progress will become finished goods for sale.

Redundant and slow-moving stocks are identified and written down to their estimated economic or realisable values. Raw materials are valued according to the first-in, first-out basis.

Consumable stores are valued at the weighted average purchase price.

Maintenance spares are valued at average cost.

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

1.11 Cash flow

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

1.12 Provisions

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

1.13 Turnover

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

1.14 Revenue recognition

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

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

Interest is recognised on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity.

1.15 Impairment of assets

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

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

1.16 Provision for leave pay

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liabilities as a result of services rendered by employees up to the balance sheet date.

2. Changes in accounting policies

	Group		Bank	
	2003 R'000	2002 R'000	2003 R'000	2002 R'000
Prior year adjustments				
Creation of a provision for post-retirement medical aid benefits	0	63 744	0	63 744
Creation of provision for leave pay	0	18 945	0	18 945
Raising of accumulated depreciation on buildings	0	118 643	0	118 643
Effect on profit for the year				
Decrease in net profit				
Gross	0	(39 091)	0	(39 091)
Deferred taxation	0	11 727	0	11 727
	0	(27 364)	0	(27 364)

3. Property, plant and equipment

3.1 Group

	Land and buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost				
Cost at 31 March 2002	441 193	955 372	93 490	1 490 055
Additions	2 438	64 153	146 939	213 530
Transfers	19 781	50 553	(70 334)	0
Disposals	(8 666)	(24 246)	0	(32 912)
Cost at 31 March 2003	454 746	1 045 832	170 095	1 670 673
Accumulated depreciation				
Accumulated depreciation at 31 March 2002	151 381	732 451	0	883 832
Charge for the year	7 778	86 778	0	94 556
Written back on disposals during the year	(8 440)	(20 111)	0	(28 551)
Accumulated depreciation at 31 March 2003	150 719	799 118	0	949 837
Net book value at 31 March 2003	**304 027**	**246 714**	**170 095**	**720 836**
Net book value at 31 March 2002	289 812	222 921	93 490	606 223

3.2 Bank

	Land and buildings R'000	Plant, vehicles, furniture and equipment R'000	Work in progress R'000	Total R'000
Cost				
Cost at 31 March 2002	315 427	535 034	91 005	941 466
Additions	561	53 672	146 939	201 172
Transfers	19 781	49 112	(68 893)	0
Disposals	(8 666)	(21 501)	0	(30 167)
Cost at 31 March 2003	327 103	616 317	169 051	1 112 471
Accumulated depreciation				
Accumulated depreciation at 31 March 2002	124 035	364 341	0	488 376
Charge for the year	5 803	70 281	0	76 084
Written back on disposals during the year	(8 440)	(18 092)	0	(26 532)
Accumulated depreciation at 31 March 2003	121 398	416 530	0	537 928
Net book value at 31 March 2003	**205 705**	**199 787**	**169 051**	**574 543**
Net book value at 31 March 2002	**191 392**	**170 693**	**91 005**	**453 090**

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

4. Investment in subsidiaries

	Bank 2003 R'000	Bank 2002 R'000
Shares at cost	279 000	279 000
Corporation for Public Deposits	2 000	2 000
South African Mint Company (Proprietary) Limited	206 000	206 000
South African Bank Note Company (Proprietary) Limited	61 000	61 000
South African Reserve Bank Captive Insurance Company Limited	10 000	10 000
Loan – South African Bank Note Company (Proprietary) Limited	13 675	12 247
Current accounts	(65)	58
Corporation for Public Deposits	(63)	59
South African Bank Note Company (Proprietary) Limited	(1)	0
South African Reserve Bank Captive Insurance Company Limited	(1)	(1)
Deposit account		
Corporation for Public Deposits	0	110 000
	292 610	401 305

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

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
5. Loans and advances				
Secured foreign loans				
Repayable by 31 December 2003 if not renegotiated. The loan is secured by a pledge of South African Land Bank bills and earns interest at the repurchase rate.	70 235	73 808	70 235	73 808
Repaid on 31 December 2002. The loan was secured by a government guarantee and earned interest at 3 per cent per annum.	0	250	0	250
	70 235	74 058	70 235	74 058
6. Investments				
Short-term South African money-market investments	3 974 913	4 003 730	0	0
Portfolio investments (Market value: R233 507; 2002: R200 965)	221 123	200 645	0	0
	4 196 036	4 204 375	0	0

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000

7. Amounts due by the South African Government

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Gold and foreign exchange contingency reserve account	36 576 520	28 023 684	36 576 520	28 023 684
IMF accounts administered on behalf of the South African Government	797 074	799 048	797 074	799 048
Government of Namibia debt taken over by the South African Government	511 948	561 786	511 948	561 786
	37 885 542	29 384 518	37 885 542	29 384 518

The gold and foreign exchange contingency reserve account, which is operated in terms of section 28 of the South African Reserve Bank Act, No 90 of 1989, represents the net amount due to the Bank by the South African Government in respect of realised profits and losses incurred on gold and foreign exchange transactions. Risks and rewards flowing from forward exchange transactions are not accounted for in these financial statements prior to maturity. The amounts due are interest free.

The repayment terms are as follows:

- an amount not exceeding R21 024 million over the 2003/04, 2004/05 and 2005/06 financial years; and
- the settlement terms of the balance to be agreed upon between the Bank and the National Treasury

8. Gold and foreign exchange

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Gold coin and bullion	12 816 322	17 477 013	12 816 322	17 477 013
Foreign exchange	48 313 719	68 260 403	48 313 719	68 260 403
	61 130 041	85 737 416	61 130 041	85 737 416

The foreign exchange is invested primarily in short-term US dollar money-market instruments.

	Group		Bank	
	2003 R'000	2002 R'000	**2003 R'000**	2002 R'000

9. Accommodation to banks

Repurchase agreements	**12 035 000**	11 710 000	**12 035 000**	11 710 000
Application of cash reserve balances	**443 118**	375 326	**443 118**	375 326
	12 478 118	12 085 326	**12 478 118**	12 085 326

Repurchase agreements are treated as advances and are secured by financial instruments valued at a premium at the time of the transaction. The Bank has the right to call for additional collateral should the value of the securities decline during the tenure of the contract. All repurchase agreements expire within seven days of the transaction date.

10. Internal registered bonds

Government bonds: zero coupon	**111**	111	**111**	111
Government bonds: interest bearing	**10 521 008**	6 516 211	**10 521 008**	6 516 211
	10 521 119	6 516 322	**10 521 119**	6 516 322

The zero-coupon bonds have no set repayment date, but the Bank has the right to have them converted into interest-bearing bonds should it be required for monetary policy implementation. These bonds have therefore been valued at their nominal value. The interest-bearing bonds represent previously converted zero-coupon bonds and have been employed to secure reverse repurchase agreements entered into with banks. These bonds are shown at fair market values (refer to Note 15).

	Group		Bank	
	2003 R'000	2002 R'000	**2003 R'000**	2002 R'000

11. Inventories

Raw materials	70 190	69 622	0	0
Work in progress	51 895	59 799	0	0
Consumable stores	7 221	8 066	0	0
Maintenance spares	5 069	5 045	0	0
Finished goods	36 668	19 151	0	0
Less: Provision for obsolescence	(232)	(232)	0	0
	170 811	161 451	0	0

12. Cash and cash equivalents

Bank and cash balances	79 765	91 700	0	0

13. Notes and coin issued

Notes	34 751 401	32 726 454	34 751 401	32 726 454
Coin	2 134 884	1 994 339	2 134 884	1 994 339
	36 886 285	34 720 793	36 886 285	34 720 793

Notes and coin held by the Bank as cash on hand at the end of the financial year have been netted off against the liability for notes and coin in circulation because they do not represent currency in circulation.

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
14. Reserve Bank debentures	**7 900 000**	4 000 000	**7 900 000**	4 000 000

14. Reserve Bank debentures

The Reserve Bank debentures are issued to the market on tender, normally for 28 or 91-day terms. Details of the debentures in issue at 31 March 2003 are as follows:

Maturity date	Interest rate (Per cent)	Capital (R million)
2 April 2003	12,75	875
9 April 2003	12,93	1 007
16 April 2003	13,08	1 956
23 April 2003	13,14	1 450
30 April 2003	12,70	65
7 May 2003	13,35	233
14 May 2003	13,15	870
21 May 2003	13,15	260
11 June 2003	13,35	605
18 June 2003	13,24	255
25 June 2003	13,27	324
		7 900

15. Deposit accounts

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Non-interest bearing	20 166 545	19 073 064	19 038 645	18 036 264
Banks' reserve accounts	16 147 475	14 166 155	16 147 475	14 166 155
Government accounts	3 761 603	4 719 005	2 633 703	3 682 205
Other current accounts	257 467	187 904	257 467	187 904
Interest bearing	43 249 200	52 509 710	40 536 392	49 785 620
Reverse repurchase agreements	10 270 000	5 950 000	10 270 000	5 950 000
Margin calls – repurchase transactions	1 002	0	1 002	0
Foreign-currency denominated deposits of banks	30 265 390	43 835 620	30 265 390	43 835 620
Call deposits	2 712 808	2 724 090	0	0
	63 415 745	71 582 774	59 575 037	67 821 884

The reverse repurchase agreements are secured by government bonds valued at R10 521 million (2002: R6 516 million).

16. Foreign loans

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Foreign loans	19 654 082	28 297 412	19 654 082	28 297 412

Foreign loans represent credit lines utilised and bear interest at market-related rates.

17. Deferred taxation assets and liabilities

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Balance at beginning of the year	91 617	(1 896)	91 493	(1 854)
Adjustment due to change in accounting policy	0	82 581	0	82 581
Income statement credit	22 319	10 932	21 163	10 766
Balance at end of the year	113 936	91 617	112 656	91 493
Comprising:				
Deferred taxation asset	118 727	93 250	112 656	91 493
Deferred taxation liability	(4 791)	(1 633)	0	0
Net deferred taxation asset	113 936	91 617	112 656	91 493

Deferred taxation assets and liabilities and debit/(credit) to the income statement are attributed as set out in 17.1 and 17.2.

17.1 Group

	31 March 2003	Debit/ (credit) to income statement	31 March 2002
Property, plant and equipment	(8 831)	639	(9 470)
Post-retirement medical costs	111 216	21 960	89 256
Disability benefit provision	158	0	158
Provisions	12 330	1 322	11 008
Deferred retirement fund contributions	576	(576)	1 152
Deferred software development costs	1 696	78	1 618
Prepaid expenditure and other items	(3 209)	(1 104)	(2 105)
Total	113 936	22 319	91 617

17.2 Bank

	31 March 2003	Debit/ (credit) to income statement	31 March 2002
Deferred retirement fund contributions	576	(576)	1 152
Post-retirement medical costs	102 673	19 218	83 455
Deferred software development costs	1 696	78	1 618
Provisions	10 643	1 407	9 236
Employee housing allowance	0	7	(7)
Prepaid expenditure and other items	(2 932)	1 029	(3 961)
Total	112 656	21 163	91 493

18. Creditors and other accounts

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Creditors and other accounts include the following provisions and accruals:				
Leave pay and bonus accruals	41 739	37 288	35 476	30 787
Provision for retrenchment costs	609	0	0	0
Provision for export quality assurance	0	595	0	0
Provision for post-retirement medical costs (Note 26)	371 245	298 041	342 242	278 182
	413 593	335 924	377 718	308 969
Balance at beginning of the year	335 924	21 576	308 969	0
Adjustment due to change in accounting policy	0	275 270	0	275 270
Net changes to provisions charged to income statement	77 669	39 078	68 749	33 699
Balance at end of the year	413 593	335 924	377 718	308 969

19. Share capital

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Authorised and issued				
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.

20. Other reserves

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Contingency reserve	3 441 208	3 041 516	3 361 285	2 961 285
Unrealised profits on revaluation of internal registered bonds	835 486	132 128	835 486	132 128
Plant replacement reserve	266 322	252 685	0	0
	4 543 016	3 426 329	4 196 771	3 093 413

21. Profit before taxation

21.1 Other income is stated after crediting

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Income from investments				
Dividends	24 270	39 066	24 250	39 266
Income from subsidiaries			5 044	11 077
Dividends			200	200
Interest			3 853	9 988
Administration fees			991	889
Revaluation of internal registered bonds	1 004 797	0	1 004 797	0
Net profit on disposal of fixed assets	2 363	0	2 261	0
Commission on banking services	688 595	715 656	688 595	715 656

21.2 Personnel and other operating costs include

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Directors' remuneration (Note 32)			6 073	5 894
From the Bank for services as directors			691	730
From the Bank for other services			5 382	5 164
Depreciation	94 556	94 476	76 084	71 229
Loss on disposal of fixed assets	0	1 316	0	932
Revaluation of internal registered bonds	0	266 575	0	266 575
Auditors' remuneration	4 167	3 767	3 491	2 558
Audit fee	3 820	3 254	3 158	2 534
Underprovision for previous year	75	94	95	0
Fees for other services	255	360	225	0
Expenses	17	59	13	24
Transfers to provisions	77 669	39 078	68 749	33 699
Pension and retirement fund contributions	138 919	98 401	129 231	87 930
Normal	48 849	49 291	48 849	41 710
Additional	5 148	5 760	5 148	5 760
Other post-retirement benefits (refer to Note 26)	84 922	43 350	75 234	40 460

	Group		Bank	
	2003 R'000	2002 R'000	**2003 R'000**	2002 R'000

22. Taxation

South African normal taxation				
Current taxation	593 778	34 624	576 975	10 260
Under/(over) provision in respect of prior years	8 158	(892)	159	(892)
Deferred taxation	(22 319)	(10 932)	(21 163)	(10 766)
	579 617	22 800	555 971	(1 398)
Reconciliation of taxation rate				
South African normal taxation rate	30,00%	30,00%	30,00%	30,00%
Adjusted for:				
Disallowable expenses	0,28%	3,22%	0,10%	18,47%
Exempt income and special deductions	-0,46%	-11,76%	-0,01%	-51,75%
Under/(over) provision iro prior years	0,43%	-0,80%	0,01%	-5,79%
Effective taxation rate	30,25%	20,66%	30,10%	-9,07%

23. Dividends

Dividends	200	100	200	100

Dividends were declared as follows:

An interim dividend of 5 cents per share was declared on 1 October 2002 and paid on 25 October 2002.

A final dividend of 5 cents per share was declared on 4 April 2003 and paid on 9 May 2003.

Earnings per share have not been calculated as the shares qualify for a maximum dividend of 10 cents per share per annum in terms of the Reserve Bank Act.

24. Cash generated from/(utilised by) operations

	Group		Bank	
	2003 **R'000**	2002 R'000	**2003** **R'000**	2002 R'000
Reconciliation of profit before taxation to cash generated from/(utilised by) operations:				
Profit before taxation	1 916 173	110 378	1 847 326	15 410
Adjustments for:				
Depreciation	94 556	94 476	76 084	71 229
Net (profit)/loss on disposal of fixed assets	(2 363)	1 316	(2 261)	932
Utilisation of insurance spares	335	0	0	0
Unrealised foreign exchange loss/(profit)	1 608	(1 124)	0	0
Movement in provisions	77 669	39 078	68 749	33 699
Revaluation of internal registered bonds	(1 004 797)	266 575	(1 004 797)	266 575
Net cash generated from operating activities	1 083 181	510 699	985 101	387 845
Changes in working capital:				
Decrease/(increase) in loans and advances	3 823	(1 304)	3 823	(1 304)
Increase in amounts due by Government	(8 501 024)	(9 829 725)	(8 501 024)	(9 829 725)
Decrease/(increase) in gold and foreign exchange	24 607 375	(25 392 018)	24 607 375	(25 392 018)
Increase in accommodation to banks	(392 792)	(1 477 628)	(392 792)	(1 477 628)
Decrease/(increase) in debtors and other accounts	4 939 420	(10 623 793)	4 941 003	(10 631 865)
Increase in inventories	(9 360)	(18 703)	0	0
Increase in Reserve Bank debentures	3 900 000	275 000	3 900 000	275 000
(Decrease)/increase in deposit accounts	(8 167 029)	26 473 063	(8 246 847)	27 120 699
(Decrease)/increase in foreign loans	(8 643 330)	7 531 432	(8 643 330)	7 531 432
(Decrease)/increase in creditors and other accounts	(7 388 953)	7 485 546	(7 363 083)	7 515 865
Cash generated from/(utilised by) changes in working capital	348 130	(5 578 130)	305 125	(4 889 544)
Cash generated from/(utilised by) operating activities	1 431 311	(5 067 431)	1 290 226	(4 501 699)

25. Retirement benefit information

The group has made provision for pension and provident plans covering substantially all employees. All employees are members of either defined benefit or 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, No 24 of 1956.

Contributions to the defined benefit fund are charged against income based upon actuarial advice. Any deficits are funded to ensure the ongoing financial soundness of the fund. The benefits provided are based on the years of membership and salary levels. These benefits are provided from contributions by employees, the employer as well as income from the assets of the plan. Current contribution levels are considered to be adequate to meet future obligations.

Principal actuarial assumptions are as follows:

- The discount rate used in determining the actuarial present value of promised benefits in respect of services rendered to the valuation date reflects the long-term rates at which such obligations are to be settled. The current rate used is 14 per cent.

- Plan assets are valued at actuarial fair value. When fair values are estimated by discounting future cash flows, the long-term rate of return reflects the average rate of total income expected to be earned on the plan assets during the time period until benefits are paid.

- When retirement benefits are based on future salaries, as in the case of final salary and career average plans, salary increases to date of termination reflect factors such as inflation and promotion.

- Automatic retirement benefit increases, such as cost-of-living adjustments, are taken into account. When, in the absence of formal requirements to increase benefits, it is the practice of the enterprise or the plan to grant such increases on a regular basis, it is assumed that the increases will continue.

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

26. Post-retirement benefits

The Bank and a subsidiary provide post-retirement benefits to retired staff in the form of subsidised medical aid premiums. A provision for the liability has been created. The provision covers the total liability, i.e. the accumulated post-retirement medical benefits liability at fair value as at 31 March 2003.

	Group		Bank	
	2003 R'000	2002 R'000	**2003 R'000**	2002 R'000
Financial year-end at 31 March 2002				
Accrued liability	298 041	16 969	278 182	0
Prior year adjustment	0	248 206	0	248 206
Net liability at 31 March 2002	298 041	265 175	278 182	248 206
Annual cost				
Interest cost	33 175	29 812	30 578	27 941
Service cost	15 345	30 761	10 453	30 172
Recognised actuarial losses/(gains)	36 402	(17 223)	34 203	(17 653)
Net cost	84 922	43 350	75 234	40 460
Total benefit payments	(11 718)	(10 484)	(11 174)	(10 484)
	371 245	298 041	342 242	278 182
Financial year-end at 31 March 2003				
Accrued liability	371 245	297 611	342 242	295 835
Unrecognised gains and losses	0	430	0	(17 653)
Net liability on balance sheet (Note 18)	371 245	298 041	342 242	278 182

Key assumptions:

Rate of return	11,5%
Medical inflation	9,5%
Average membership	2 634 members
Valuation date	31 March 2003

27. Contingent liabilities, commitments and other contingencies

Contingent liabilities, commitments and other contingencies arise in the normal course of the Bank's business activities. Reserves are maintained to meet these exposures. There are also future commitments in respect of forward transactions and derivative financial instruments.

28. Capital commitments

	Group 2003 R'000	Group 2002 R'000	Bank 2003 R'000	Bank 2002 R'000
Contracted	95 373	309 705	95 369	309 536
Not contracted	108 010	200 683	55 174	198 999
Total	203 383	510 388	150 543	508 535

These capital commitments will be funded from internal resources.

29. Risk management in respect of financial instruments

Interest rate risk

The Bank is generally not subject to significant interest rate risk emanating from the short-term repricing structure of the instruments.

Market price risk

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

Credit risk

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

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

Liquidity risk

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

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

Market liquidity risk

Market liquidity risk is the risk of loss due to the inability of the Bank to transact in large volumes at current market prices. Market liquidity risks arise in situations where it is necessary to acquire or dispose of large positions in the market within a short period, but where the execution of such large transactions is prohibited by prevailing turnover levels in the market. In order to absorb significant losses which may arise from positions taken in the execution of monetary policy, the Bank has, over time, set aside reserves to be employed in such circumstances.

30. Related party information

During the year the Bank and its subsidiaries, in the ordinary course of business, entered into various transactions. These transactions were made on commercial terms and conditions at market rates.

31. Segment reporting

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

32. Directors' remuneration

The directors' remuneration for the year ended 31 March 2003 is as follows:

	Remuneration including fringe benefits R'000	Retirement and medical contributions R'000	2003 Total R'000	2002 Total R'000
Executive directors				
T T Mboweni*	2 110	274	2 384	2 130
J H Cross	0	0	0	1 058
G Marcus	1 163	168	1 331	1 191
X P Guma	1 144	176	1 320	785
I Plenderleith (2 months)	337	10	347	0
	4 754	628	5 382	5 164
Non-executive directors – for attending Board and commitee meetings				
B P Gilbertson			88	81
M T de Waal			36	95
D Konar			122	183
M Padayachee			106	99
I J Moolman			0	49
N D Orleyn			60	0
J W Raath			49	55
F Jakoet			76	87
A M Mokgabudi			78	81
Z P Manase			76	0
			691	730

* Includes taxable amount for the official Governor's residence

Report of the independent auditors

To the members of the South African Reserve Bank

We have audited the group annual financial statements and the annual financial statements of the South African Reserve Bank set out on pages 31 to 60 for the year ended 31 March 2003. These financial statements are the responsibility of the directors of the Bank. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures included in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

In our opinion the financial statements and group financial statements fairly present, in all material respects, the financial position of the group and the Bank at 31 March 2003, and of the results of their operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice and the manner required by the South African Reserve Bank Act, No 90 of 1989, and regulations thereunder.

Deloitte & Touche

PricewaterhouseCoopers Inc

SizweNtsaluba VSP Inc

Joint auditors

Registered Accountants and Auditors
Chartered Accountants (SA)

Pretoria
17 July 2003

Notice of ordinary general meeting 2003

Notice is hereby given that the eighty-third ordinary general meeting of shareholders will be held at the head office of the South African Reserve Bank, 370 Church Street, Pretoria on Tuesday, 26 August 2003 at 09:00.

Agenda

1. To approve minutes of the ordinary general meeting of shareholders held on 27 August 2002 (distributed).
2. To receive the annual financial statements and reports of the Board of Directors and the auditors for the year ended 31 March 2003.
3. To elect a shareholders' representative to the Board of Directors. Details appear on pages 5 and 33.
4. To determine the remuneration of the auditors for the past audit and to appoint auditors for the 2003/04 financial year.
5. To consider a special business proposal, put forward by a shareholder, Mr S M Goodson.

   Mr Goodson, by means of a special resolution, proposes an amendment to section 24(e) of the South African Reserve Bank Act, No. 90 of 1989 – the "SARB Act". The suggested amendment entails substitution for the words "the payment to the shareholders, out of net profits, of a dividend at the rate of ten per cent per annum on the paid-up share capital of the Bank, one tenth shall be allocated to the reserve fund of the Bank" by the words "one tenth shall be paid to the shareholders and nine tenths shall be paid to the Government."

   The reason for the proposed amendment is to provide for one tenth of the possible profits of the Bank to be utilised annually for purposes of paying dividends to its shareholders. If the SARB Act is amended accordingly, shareholders will no longer be paid a dividend out of net profits calculated at ten per cent per annum on the paid-up share capital of the Bank, but will be entitled to share in one tenth of the net profits of the Bank. At the same time, the Bank will be deprived of a major source of reserves.

   Shareholders of the Bank are unable to amend the provisions of the SARB Act by means of a special resolution. The legislative authority in respect of legislation in the national sphere of Government (such as the SARB Act) is vested in Parliament and the Minister of Finance is ultimately responsible for the process of ensuring any amendments to it. Should the special resolution of the nature in question be adopted, it would have no effect on the existing provisions, or the implementation of the SARB Act, but could at best be brought to the attention of the Minister for possible consideration.

   (More details on the proposal, including Mr Goodson's motivation, have been forwarded to shareholders separately.)

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

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

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

By order of the Board

Z R Matsau
Secretary

Pretoria
17 July 2003

Shareholders' calendar

Dividends

	Declared	Paid
Interim	1 October 2002	25 October 2002
Final	4 April 2003	9 May 2003

Date and time of the ordinary general meeting in Pretoria: 26 August 2003 at 09:00.

South African Reserve Bank

PROXY

I, the undersigned ______________________________

of ______________________________

being a shareholder of the Bank, and entitled to ______________________ votes,

hereby appoint ______________________________

of ______________________________ or failing this person

______________ of ______________________ or failing this person

______________ of ______________________ as my proxy

to vote for me at the ordinary general meeting of the Bank's shareholders to be held on the twenty-sixth day of August 2003 and at any adjournment thereof, as follows:

	In favour of	Against	Abstain
1. Approval of financial statements			
2. Election of director (select one only)			
2.1 B P Gilbertson			
2.1 S M Goodson			
3. Remuneration of auditors			
4. Appointment of auditors			
5. Resolution proposed by Mr S M Goodson			

Please insert an “x” in the appropriate spaces provided above. Unless otherwise instructed, my proxy may vote as he/she deems fit.

Signed at ______________________ on the ______________________ day

of ______________________ 2003.

Signature ______________________________

Witness ______________________________