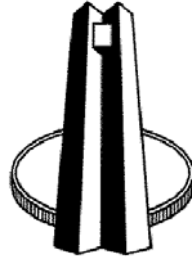


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The logo of the South African Reserve Bank



The head office building of the Reserve Bank in Pretoria forms the nucleus of the logo of the Bank. The logo portrays the four basic functions and the mission of the Bank. Its colour is gold. Gold has, because of its monetary role in the history of the world in general and South Africa in particular over more than three thousand years, become synonymous with money, and money is the business of the Bank.

The foreground consists of the head office building with its four distinct façades, depicting symbolically the four main functions of the Bank, namely:

- to formulate and implement monetary policy;
- to manage the money and the banking system of the country;
- to provide economic and financial services to government; and
- to provide economic and statistical services to the general public.

The cross-section near the top of the building represents the viewing platform on the upper floors and depicts the corporate services (technology, etc.) that provide the supporting infrastructure to the line functions and also bond the various activities of the Bank into a unitary and smoothly functioning total organisation. Behind the head office building lies a coin which represents the South African currency.

The mission of the Bank, namely the achievement and maintenance of financial stability, is symbolically embodied in the logo, with the building representing the Bank and its functions, guarding over the coin and, in the process, achieving and maintaining financial stability.

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* is convinced that it is essential 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 developments in international finance;
- 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 essential in its judgement and in its actions.

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

Risk management statement

Risk is an inherent feature of the Bank's activities as the central bank of the Republic of South Africa. The Bank is committed to managing these 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 for monitoring exposures and reporting independently to management.

Risk elements

The main risk elements in the Bank's activities are market, credit, market liquidity, operational, human resource, legal and reputational risks. These are discussed below.

Market risk

Market 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 credit, interest rate and other 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.

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.

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 an appropriate culture and value system, 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 where actual 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 certain 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 standards and procedures on a basis designed to ensure compliance with all applicable internal, statutory and regulatory requirements.

Reputational risk

The executive management of the Bank necessarily has a measure of freedom and discretion in the exercise of central banking functions. However, this freedom is circumscribed by the fiduciary duties of good governance and by ensuring a proper balance with accountability and the best interests of the Bank and its various stakeholders. Consequently the Bank's management follows the principles and guidelines contained in the Code of Conduct of the King Committee on Corporate Governance in fulfilling their fiduciary duties, including their duties of care and skill, with a view to achieving maximum efficiency and ensuring the reputability of the Bank as central bank of South Africa.

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 strictly to the latest international standards and, to this end, it maintains close liaison with international peers. For example, the Bank strives for full compliance with the Basel Core Principles for effective banking supervision.

Directors, executive management and secretary

Directors

Tito Titus Mboweni *
(appointed with effect from 8 August 1999)

Christian Lodewyk Stals *
(term of office expired on 7 August 1999)
Governor

James Havelock Cross †
(appointed Senior Deputy Governor with effect from 21 September 1999)

Timothy Thahane Thahane
Gill Marcus
(appointed with effect from 1 July 1999)

Christiaan Jacobus de Swardt †
(retired on 30 June 1999)
Deputy Governors

Bax Dale Nomvete *
Mahavishnu Padayachee †
Representing: Government

Izak Johannes Moolman †
Deenadayalen Konar †
Brian Patrick Gilbertson *
(term of office expires on 29 August 2000 and available for re-election)
Mamphele Aletta Ramphele
(resigned with effect from 1 March 2000)
Representing: Commerce or finance

Jacob Wouter Raath
Representing: Agriculture

William Francois de la Harpe Beck *
(term of office expires on 29 August 2000 and not available for re-election)
Marius Theodorus de Waal †
Representing: Industry

- † Chairperson of the audit committee
- x Chairperson of the remuneration committee
- ‡ Members of the audit committee
- * Members of the remuneration committee

Executive management as at 26 May 2000

Governor: Research, national payment system,
human resources and training

T T Mboweni

Senior Deputy Governor: International banking,
money and capital market operations
and currency

J H Cross

Deputy Governor: Information technology,
corporate services and international relations

T T Thahane

Deputy Governor: Bank supervision,
exchange control and financial services

G Marcus

Secretary

Secretary until 15 March 2000

J J Rossouw

Secretary (acting) from 16 March 2000 to 26 May 2000

Z R Matsau

Registered office

370 Church Street, Pretoria

Senior management (as at 26 May 2000)

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

Branch managers as at 31 March 2000

Johannesburg	M W K Smith
Pretoria North	A H Prinsloo
Cape Town	M L Ochse
Durban	A C Botha
East London	A G Dent
Bloemfontein	I Oberholster
Port Elizabeth	J A Swart

Corporate governance statement

The Bank is committed to the principles of, and complies with, all significant requirements contained in the King Report on Corporate Governance. The Bank's compliance with these requirements is as follows:

Board of directors

The Board of fourteen directors comprises:

- a governor and three deputy governors appointed by the Government;
- three directors appointed by the Government; and
- seven directors elected by the shareholders.

The South African 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 and monitors executive management through a structured approach to delegation, reporting and accountability. This structured approach includes reliance on various Board subcommittees.

Governors' Committee

The Governor and three deputy governors, in their capacity as executive directors of the Bank responsible for the day-to-day management and policy decisions of the Bank, except those reserved for the Board, regularly meet as the Governors' Committee of the Bank to consider policy issues and other executive management matters. These meetings are also attended by the adviser to the governors, the chief economist and general counsel.

Audit Committee

The audit committee (see page 6) is chaired by a non-executive director. The external and internal auditors have unrestricted access to this committee. The committee meets regularly with management, internal audit and the external auditors to 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. In accordance with the Reporting by Public Entities Act, the joint external auditors are appointed annually by the Minister of Finance in consultation with the Auditor-General.

Remuneration Committee

The composition of the remuneration committee is shown on page 6 and the committee is chaired by a non-executive director. The committee meets regularly with management to review human resource matters and remuneration practices and policies. This committee determines the remuneration packages of the Governor and deputy governors.

Monetary Policy Committee

The Monetary Policy Committee was created during the financial year under consideration to improve the transparency of monetary policy implementation in line with current international best practice. The committee comprises the Governor, deputy governors and other senior staff of the Bank. The committee meets at approximately six-week intervals and a statement on monetary policy is issued after each meeting.

Internal controls

The internal audit function, which is administratively accountable to a deputy governor, is an independent appraisal function examining and evaluating the Bank's activities and resultant business risks. 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 systems of internal controls, the means of safeguarding assets, as well as an evaluation of the efficiency with which resources are managed, and of 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.

To fulfil its responsibilities, management maintains adequate accounting records and has developed and continues to maintain an effective system of internal controls. The directors report that the Bank's internal controls and systems are designed to provide reasonable assurance as to the integrity and reliability of the financial statements, to adequately safeguard, verify and maintain accountability of its assets, and to prevent and detect material errors and fraud. Nothing has come to the attention of the directors to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review. The external auditors concur with the opinion of the directors.

The systems of internal financial control, designed to prevent material misstatement of financial statement information or loss of assets, are based on organisational structures and written policies and procedures, including budgeting and forecasting disciplines and the comparison of actual results against these budgets and forecasts. The auditors 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 personnel, with an appropriate segregation of their authority and duties and by comprehensive use of advanced computer hardware and software technologies. Employees are required to maintain the highest ethical standards in ensuring that business practices are conducted in a manner which in all reasonable circumstances is above reproach.

Financial discipline

The Bank ensures financial discipline through a budget committee comprising the three deputy governors, the heads of the Financial Services, Human Resources, Corporate Services and Research Departments, as well as the head of Strategic Planning. This committee meets regularly to oversee the preparation of the operational and capital budgets and the monitoring and management of actual financial performance.

Employee participation

The Bank shares relevant information with its employees by means of report-back meetings. It also achieves this objective through induction courses for new employees which enable them to acquire a better understanding of the role and functions of the Bank.

The staff are kept informed about a wide range of issues through regular briefings, seminars and publications such as the staff magazine. Electronic mail and the Intranet are used to bring management and press announcements to the immediate attention of staff.

Code of conduct

Acceptable staff conduct is clearly prescribed in the Bank's Personnel Regulations and Procedures which are made available to all new appointees.

Environmental impact control

The Bank and its subsidiaries recognise that environmental issues are of fundamental importance to successful business strategies. The Bank is conscious of its obligations to the environment and applies best available environment-friendly practices to minimise the impact of its operations wherever possible.

Departmental operational reviews

Bank Supervision Department

The Bank Supervision Department contributes to the stability and efficiency of the banking system, and to depositor protection, primarily by fulfilling the statutory provisions in the Banks Act, 1990. This is in line with international best practice: to achieve its objectives, the department's activities have been divided into seven divisions.

The two Analysis Divisions supervise, on a consolidated basis, 34 locally controlled and 10 foreign-controlled banks, and three registered mutual banks. Their functions include analysing the risk-based supervisory information submitted by banks, identifying issues of concern and discussing them with banks, monitoring compliance with prudential requirements, discussing strategic issues with various levels of banks' management, assessing their risk-management systems and controls, promoting sound risk-management practices, holding annual trilateral discussions and making presentations to boards of directors of banks.

The On-site Supervision Division validates on site the key assertions made by the Analysis Divisions, with credit risk as the initial focus area. The division undertakes on-site reviews in order to assess the adequacy of the risk-management policies and systems employed by banks and the quality of bank assets. The average duration of an on-site review is two weeks. The division's work is aimed at forming an opinion on 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 the purposes of facilitating effective risk management.

The Legal and Regulatory Administration Division drafts any proposed amendments to the Act, reviews regulations and risk-based returns and the drafts of 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 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, develops policy responses to emerging issues, conducts research on and develops an approach to new issues such as consolidated supervision and the capital adequacy requirements for banks' securities trading activities, analytically reviews the aggregated information submitted by all the institutions making up the banking sector, compiles a regular macro report 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, prepares graphs to reflect trends, maintains information on the database and does research to ensure that the technology used in the department is at the cutting edge of development.

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

In the new financial year, the Bank Supervision Department will continue to extend its relations with other supervisors at local, regional and international levels.

Business Systems and Technology Department

The major aim of the Business Systems and Technology Department is to support the mission of the Bank by enabling effective business processes. In performing its duties the department provides innovative, integrated and cost-effective information technology solutions to the Bank, plays a leading role in enhancing the safety and soundness of the South African financial system infrastructure and enhances information technology and payment systems capacity in the Southern African Development Community (SADC) region.

The department initiated a number of major new projects during the 1999/2000 financial year. Significant among these were the development of a new human resource system, Pinnacle, and the re-skilling of staff members to develop systems with the visual studio set of tools.

The Year 2000 (Y2K) project, which commenced in July 1996 and culminated in the transition to the year 2000, was completed successfully. Neither the Reserve Bank nor any bank in the banking sector experienced operational difficulties or disruptions over the year-end period.

SAMOS version 3 was implemented on 25 July 1999 and introduced the continuous processing line settlement option for the easier liquidity management of settlement accounts. Both SAMOS versions 2 and 3, as well as the related infrastructure, were certified as Y2K compliant.

The department continued its involvement and leadership role in the SADC Information Technology Forum. To assist with capacity building in the SADC central banks, several skills development courses were presented and assistance was provided with the evaluation of technical presentations and the writing of requests for proposals.

Corporate Services Department

The management of the Bank's infrastructure and logistical support is the prime responsibility of the Corporate Services Department. The two divisions that oversee the department's operations are the Facilities Management and Support Services Divisions.

The Facilities Management Division is divided into two sections, namely the Property and Engineering Services Sections. The Property Services Section manages property, plans office space and selects office furniture. This section has been involved in procuring of land for the development of new branch offices and preparing for the refurbishment of branch buildings for taking over the wholesale cash distribution function previously performed by SBV Services (Pty) Limited. Some major projects are the refurbishment of the Bank's Church Square and Durban properties, and space creation in the head office building.

The Engineering Services Section oversees the proper maintenance of the Bank's buildings. Maintenance work was carried out as part of an annual building maintenance programme. Upgrading and replacement of old and obsolete equipment were the focus of the section's activities in the 1999/2000 financial year, among other things to ensure Y2K compliance.

The Support Services Division, consisting of the Printing, Document Handling, Transport, Chauffeuring, Procurement, Catering and Administration Sections, has continued to render logistical support to the rest of the Bank. Of significance in the year under review was the establishment of the Procurement Committee which would be responsible for developing procurement policies that will govern and standardise the Bank's procurement function. These policies will also ensure that the procurement function is fair, equitable and transparent.

Currency and Protective Services Department

During the year under review, one of the most important changes in the structure of the department was the merging of the Currency Management Department with the Protective Services Division (which had previously fallen under the Corporate Services Department) into the Currency and Protective Services Department. The newly formed department is headed by a General Manager who took office on 1 February 2000.

In pursuing the objective of making currency available in the country in terms of the South African Reserve Bank Act, the Currency and Protective Services Department is mandated to manage the processes for the distribution of currency within the country; co-ordinate and ensure the overall protection and safety of the South African Reserve Bank staff, systems and assets; identify, evaluate and manage the security risks associated with the Bank's activities; and evaluate and maintain, on a continuous basis, the South African Reserve Bank's disaster recovery programme.

In view of the abovementioned mandate, the department has reorganised its structure to accommodate three divisions to perform specific functions, namely the Currency Management, Protective Services, and Risk Analysis and Management Divisions.

The Currency Management Division is solely responsible for the ordering, distribution, issuing, withdrawal and destruction of South African banknotes and coin and also ensures that the quality of banknotes in circulation meets the country's requirements. This function is mainly conducted by the seven branches located in Bloemfontein, Cape Town, Durban, East London, Johannesburg, Port Elizabeth and Pretoria North, the latter branch also serving as a depot for the despatching of new banknote consignments to the various regions. The branches furthermore operate autonomously in the regions and their respective managers report to the Deputy General Manager: Currency Management Division at head office.

In the pursuance of the division's objectives, new banknotes issued during the year ended 31 March 2000 amounted to R33 627,4 million. The total banknotes received by the branches by means of deposits made, totalled R74 684 million and soiled banknotes amounting to R27 272 million were withdrawn from circulation and destroyed. Notes in circulation as at 31 March 2000 amounted to R25 835 million.

With regard to coin, R128,8 million was issued during the financial year and the value of coin in circulation as at 31 March 2000 totalled R1 823,3 million. The division also withdrew from circulation old series and mutilated coin to the value of R3,8 million.

One of the major functions performed by the division is the distribution of banknotes via the branches to commercial banks in the various regions. A new cash management strategy was adopted by the Bank, and will be implemented by the Currency Management Division.

Emanating from the above strategy, the branches have been reorganised and additional electronic note-sorting equipment procured and installed to enable the Bank to meet its obligation of supplying a bulk cash function in the regions. Negotiations with the banks are currently being conducted to implement the cash management system. The division is also investigating the feasibility of establishing new branches in regions where the Bank is not currently represented, such as Nelspruit, Pietersburg and Kimberley.

The division is also in the preliminary stages of investigating a new banknote series and possible changes to the current coin series.

The role of the Protective Services Division is to ensure the overall protection of the Bank's staff, systems and assets. In the current environment and the growing threat to the Bank and the banking industry as a whole, the overall protection services and systems provided are being reviewed, and improved systems and better quality protection devices will be installed. The South African Reserve Bank and its branches have also been declared National Key Point areas.

In line with the Bank's approach of approved interaction within the SADC region, the division initiated a workshop for heads of protective services from SADC central banks to discuss issues of common interest. A number of staff exchange visits have subsequently taken place between the Bank and these central banks.

The Risk Analysis and Management Division is responsible for the prediction, evaluation, management and control of the risks associated with the threats posed to the Bank's activities. The division will advise on the establishment of mechanisms to overcome the risks associated with the processes for the distribution of currency within the country, and liaise with national and other banking protection and safety organs such as the intelligence agencies, the SA Police Service, commercial banks and SBV Services (Pty) Limited nationally, in the SADC region and internationally, on issues related to banking security. Furthermore, the division will be required to participate in the establishment of counter measures to obviate illegal activities within the banking world, such as fraud, theft, counterfeit, cash heists and money laundering.

The department is also responsible for the co-ordination and integration of the Bank's disaster recovery programme and has set itself the objective of ensuring that the organisation is fully functional within 24 hours of any major disaster.

Exchange Control Department

The Exchange Control Department of the Bank 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

regulations, as well as to collect, analyse and disseminate information to policy makers about cross-border foreign exchange flows. The day-to-day administration of exchange controls is carried out by the 36 authorised dealers in foreign exchange, who have been appointed by the Treasury.

Further exchange control relaxations, mainly of a quantitative nature, were agreed to by the Minister of Finance during the period under review and have been implemented by the department.

A paradigm shift in exchange control is under investigation. It can be briefly summarised as a change in philosophy, where all transactions are permitted except certain specified exclusions, with the emphasis on the accurate reporting of transactions. Research was intensified on a balance of payments style for a reporting procedure and a basic framework for both concepts has been developed. Specific resources have been devoted to the project and further extensive studies were undertaken to compare the proposal with international best practice. The first stage of implementation of the information flow component of the project is envisaged for the second quarter of 2001 and will provide balance of payments data. To this end, full briefing sessions were held with all stakeholders, particularly the authorised dealers in foreign exchange and the Common Monetary Area partners.

Financial Services Department

The Financial Services Department administers the finances of the Bank, and also provides banking services to customers. Its responsibilities include financial and management accounting for the whole Bank, such as budgetary control, administering the payroll, accounts payable, fixed assets registers, the domestic payments and receipts of the Bank, managing the SWIFT system, as well as accounting for and administering the Corporation for Public Deposits and the Pension and Retirement Funds of the Bank. In addition, the department provides banking services utilised by the Bank itself, the central government and other clients.

A focus area during the past year was the establishment of a Budget Committee which is responsible for preparing and managing the Bank's operational and capital budgets. The Financial Services Department acts as the operational arm of this committee. A significant improvement is already evident in the management of the budget and related financial discipline, which is expected to evolve further in the 2000/01 financial year. Total operational spending of the Bank for the 1999/2000 financial year amounted to R839 million, which was well within the budgeted amount of R851 million. Much of the underspending can be attributed to slower growth in staff numbers due to expanding activities, and to slower implementation than originally anticipated of new initiatives. The increase in the approved operational budget to R939 million for the 2000/01 financial year mainly reflects the planned expansion in the fields of banking supervision, currency management, research and transformation.

In the 2000/01 financial year the department will continue to focus on meeting the expanding needs of the Bank and on the recruitment, training and retention of suitably qualified staff to provide financial support services and control systems.

Internal Audit Department

In supporting all levels of management, the primary purpose of the Internal Audit Department is to appraise independently the corporate business risks, the adequacy and effectiveness of the system of internal controls and the quality of performance of the Reserve Bank and its subsidiaries. Through the Audit Committee, the department also provides information about these functions to the Bank's Board of Directors.

The Bank's audit approach is risk-based and a model is applied to assess the relative risks associated with the activities of various departments. 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.

A risk model was used as a guide in defining and planning audit projects for the 1999/2000 financial year. In total, 210 projects were planned for the financial year under review. These included Control and Risk Self-Assessment projects, the issuing of annual letters of representation by heads of departments and compliance audits performed at monthly and quarterly intervals.

In total, 245 projects were completed for the year and included normal planned audits, preliminary surveys, investigations, *ad hoc* client requests, monthly compliance tests and continuous projects.

Generally, the purpose and scope of every audit entailed the evaluation of the adequacy and effectiveness of all controls designed to address the high and medium risks identified. In all instances an opinion was formulated, supported by the relevant evidence and discussed with the responsible level of management. Details of shortcomings and/or opportunities for enhancement were also discussed and these, along with management's envisaged remedial actions, were included in a written report distributed to all parties involved.

The findings contained in each audit report were also summarised by means of a classification scheme and reported to the relevant Audit Committee.

International Banking Department

The International Banking Department's mission is to perform international banking and international treasury services in pursuance of the Bank's mission. The department's core responsibilities are described briefly below.

The department implements exchange rate policy. In addition to executing transactions in the spot and forward foreign exchange market, the department also gathers information, in particular from the foreign exchange market, analyses these data and makes input into the policy-making process. The market information section has thus become a strategic focus area in an effort to improve the understanding of flows in the domestic foreign exchange market and also to reconcile and analyse the data obtained from this market. The department also submits, from time to time, proposals on exchange rate policy for consideration by the governors.

The department manages the Bank's gold and foreign exchange reserves. This function has expanded following approval to have small tranches of the reserves managed by external fund managers. A benchmark return on these funds has been set, and the investment guidelines, within which the fund managers may operate, have been clearly and conservatively spelt out. One of the advantages of using external fund managers is that there are significant benefits to departmental staff in the form of training and technology transfers. This will naturally also assist in managing prudently the bulk of the Bank's foreign currency reserves. Although increased attention is being given to achieving satisfactory returns within acceptable risk parameters on the investment of foreign reserves, the management of liquidity remains of cardinal importance.

The responsibility for managing the Bank's correspondent banking relationships rests with the department. It is involved in the negotiation, renewal and administration of credit facilities with its counterparts.

Following the announcement by the Minister of Finance in December 1997, the gold mining companies have been selling an increasing percentage of their gold production directly to their overseas counterparts. The department, nonetheless, still purchases gold production from time to time.

The department identifies and measures all risks inherent in gold and foreign exchange activities and ensures that these risks are within set limits. The department has developed a comprehensive risk-management system. The department implemented a new treasury system on 1 April 1999.

Furthermore the department performs an accounting function for all gold and foreign exchange transactions in accordance with the South African Reserve Bank Act.

Legal Services Department

The Legal Services Department provides a comprehensive legal service to the Bank. This function encompasses the drafting and piloting through Parliament of new or amending legislation for which the Bank is responsible; furnishing legal opinions to the Bank's management; managing litigation in which the Bank is involved; managing the legal aspects, including the drafting of agreements, concerning the Bank's movable and immovable property holdings; and developing and implementing the Bank's policies in respect of integrated risk management. This will include the creation of a new comprehensive insurance structure.

The department achieved, as part of its strategic focus areas, the standardisation of building contracts as well as certain legal documentation and agreements for the International Banking Department.

Money and Capital Market Department

The Money and Capital Market Department is mainly responsible for implementing the Reserve Bank's monetary policy decisions. The department also functions as a funding agent for government and consequently plays a major role in government

debt management and financing. In addition, the department contributes to the efficient functioning of the domestic money and capital markets. To realise these goals the department, *inter alia*, performs the following functions:

- Refinancing the banks' liquidity requirements through repurchase (repo) transactions, as well as other standing facilities such as averaging of cash reserve requirements and the marginal lending facility;
- managing liquidity in the money market through open market operations;
- participating in formulating government debt-management strategies;
- administering government bond and Treasury bill auctions on behalf of the Department of Finance;
- assisting the Treasury with the surveillance of primary dealers and the bond market in general; and
- continuously developing and promoting the efficient functioning of financial markets by acting as custodian for all securities deposited at the Reserve Bank; acting as banker to the banks and providing delivery-versus-payment for securities settlements; and administering the cash settlement function for the Bond Exchange of South Africa.

The department's strategic objectives for the previous financial year included continued refinements to the current refinancing system to facilitate the more effective implementation of monetary policy decisions; active participation in the Bank's transformation programme; the immobilisation of Treasury bills, Reserve Bank debentures and Land Bank bills; and, given the Y2K phenomenon, ensuring a smooth changeover to the new millennium.

Adjustments and improvements to existing structures and procedures are a continuous process and remain an important strategic objective of the department. The introduction of final clearing repo/reverse repo auctions in April 1999 was an important refinement to the accommodation system. The immobilisation of Treasury bills, however, proved more complex than initially expected and will only be completed in the current financial year.

National Payment System Department

The National Payment System Department became an independent department of the Bank on 1 June 1999. The department is responsible for the overall management and oversight function of the national payment system (NPS). It supports the mission of the Bank by ensuring the overall effectiveness and integrity of the national payment system.

The department initiated a number of new projects in the 1999/2000 financial year. Significant among these was the restructuring of the former division of the Business Systems and Technology Department into a fully operational department. Cross-border payment flows in the Common Monetary Area (CMA) countries were investigated to align those practices and arrangements with the South African NPS principles. Due to the sensitivity of this issue in some of the countries concerned, it was important to involve the various stakeholders to secure a politically friendly solution. It was soon realised that the solution would be of a longer-term nature and the department will continue to align and monitor the developments.

The department continued to develop the NPS capacity of SADC countries, supporting these countries in the development of their payment and settlement systems. The SADC payment system project is proceeding according to plan and is shifting to the phase of conceptual design.

In line with central banks around the world, the Reserve Bank is keeping abreast of developments in electronic money (e-money). Investigations were conducted in terms of the possible requirements for regulatory adjustments, opportunities for cash displacement and reaching the unbanked community, which may arise from the introduction of e-money. Submission guidelines were developed to evaluate e-money products and schemes in respect of, *inter alia*, systemic risk implications.

Major milestones were achieved during the 1999/2000 financial year. One of the remaining visions of the NPS that had to be addressed was the move to same-day settlement. In moving towards same-day settlement, enhancements to settlement practices and arrangements were implemented.

Owing to the operational risk of the Y2K problem, it was paramount for the department to conduct compliance testing and contingency planning in terms of the Bank for International Settlements (BIS) guidelines. Y2K roll-over planning, detailing specific settlement practices and arrangements, was conducted and successfully implemented over the critical period. The whole NPS was monitored over the roll-over period and a smooth and successful transition was ensured.

The stability of the financial system is one of the primary responsibilities of central banks. The national payment system is an integral part of the financial system and it is therefore important for the department to participate on forums where the SA Reserve Bank is a stakeholder, especially due to the systemic-risk implications. The department participated in the Johannesburg Stock Exchange's STRATE forum and in the project to immobilise money-market instruments.

Organisation Development and Transformation Department

The Organisation Development and Transformation Department, now renamed the Human Resources Department, drives transformation through human resources processes. In the 1999/2000 financial year the main focus was on diversity in terms of race, gender and culture.

During this period the Human Resources 2005 Plan was tabled and approved. The monitoring and implementation of the Human Resources 2005 Plan will be pivotal to achieving the targets set for 2005, namely 50:50 black:white and 33 per cent female staff, particularly at senior levels. Recruitment and selection as well as human resources development will be used to achieve these targets.

Research Department

The mission of the Research Department is to support economic policy formulation by providing accurate macroeconomic information and advice. The department collects statistical information and conducts economic research into the latest developments in the South African economy.

The department provides extensive economic statistics and other information to all interested parties. To this end, an extensive and well-documented information database, as well as an effective dissemination mechanism, has been established and is being maintained.

During the 1999/2000 financial year the department focused mainly on preparing for the implementation of inflation targeting. All divisions contributed to the establishment of a detailed reporting system for the Monetary Policy Committee. The department's Macro Models and Special Studies Unit also developed a core macroeconomic model supplemented by various other models for the Bank, in preparation for the implementation of inflation targeting.

Regular economic reviews were published in the *Quarterly Bulletin* and *Annual Economic Report*. Reviews were presented to the Board meetings of the Bank, the Governors' Committee, the Monetary Policy Implementation Committee and, from October 1999, the Monetary Policy Committee. In addition, presentations on domestic and international economic developments and issues were made to various interest groups.

The department published seven articles and notes in the *Quarterly Bulletin*, one *Occasional Paper*, five *Departmental Memoranda* and seven reports. Research papers were presented by staff of the department at various conferences, seminars and the Research Forum of the Bank.

Comprehensive recalculations of national accounts and balance of payments estimates were completed. A supplement to the *Quarterly Bulletin* was published, explaining the methodology and presenting rebased and revised national accounts data from 1946 to 1998. Balance of payments methodology was revised and the presentation substantially altered, showing quarterly direct investment and portfolio investment flows.

Through its International Relations Divisions, the department continued to serve as the Secretariat of the Committee of Central Bank Governors in SADC and participated in a range of projects initiated by that committee.

Secretariat Department

The Secretariat Department in its previous form was abolished during the year, and its functions were dispersed to various areas in the Bank. Its functions included the provision of specialised services in the interest of decision making, transparency and the image of the Bank. In achieving this objective, the department's responsibilities encompassed four major areas.

Firstly, in providing secretarial infrastructure, the department managed the Bank's shareholders' register and provided secretarial support to Board meetings, Board committees and the Bank's internal decision-making committees.

The second major responsibility comprised corporate communication, media liaison and public affairs, aimed at improving the dissemination of information internally and externally, *inter alia*, to broaden the level of understanding of the Bank's activities and policy decisions among media representatives and the general public. This included a publications and linguistic service for the Bank's statutory publications, such as the *Annual Financial Statements*, the *Governor's Address* and the *Annual Economic Report*.

Thirdly, the department co-ordinated events, functions and the programmes of visitors to the Bank. A travel support service was also provided to staff of the Bank.

The department was responsible for the Bank's Strategic Management Division that supports the management of the Bank in the identification, development and realisation of strategic goals.

South African Reserve Bank College

The mission of the SA Reserve Bank College, previously known as the Training Institute, is to upgrade the central banking skills of individuals to the highest level, in order to support the mission of the Bank and that of other central banks in the SADC region by offering a variety of learning opportunities itself or in conjunction with other training institutions.

The college played an active role in the activities of the SADC Training and Development Forum which was formally established in February 1999. For example the college organised international training programmes under the auspices of the SADC Training and Development Forum.

In addition, the college presented numerous courses to staff of the Bank, and to staff of private-sector and tertiary education institutions in South Africa and to individuals nominated by central banks in the SADC region.

The college and the International Monetary Fund's (IMF) Statistics Department co-hosted two courses on National Accounts and Price Statistics, attended by course participants from various African countries. The college also provided administrative support to the IMF for the Statistical Analyses Workshop and the General Data Dissemination Seminar presented late in 1999.

During the period under review, the college actively participated with banks in South Africa in developing the National Banking Qualifications that include central banking as one of the domains. The college also participated in the development of unit standards, linked to the National Qualifications Framework of South Africa, for the different domains in banking. Two of the college's staff members were nominated in 1999 to serve on the Institute of Bankers' Education, Training and Quality Assurance Body and the Standards Generating Body for Financial Services, respectively.

The college manages the Bank's Cadet Training Programme and in 1999 all ten of the selected cadets successfully completed the programme. Eight received the Diploma in Central Banking jointly offered by the Institute of Bankers of South Africa and the college. The programme will be expanded significantly and some cadets will be sponsored to attend specific training programmes in the United States during 2000.

Staff complement as at 31 March 2000

	Number
Executive management	33
Bank supervision	76
Business systems and technology	148
Corporate services	246
Currency and protective services (including branches)	911
Exchange control	150
Financial services	67
Human resources (Previously Organisation development and transformation)	53
Internal audit	35
International banking	60
Legal services	25
Money and capital market	36
National payment system	22
Research	135
SARB College, including cadets (Previously Training Institute)	20
Total staff complement	2 017

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 29 to 45 for the year ended 31 March 2000. 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. The audit was also planned and performed to obtain reasonable assurance that, in all material respects, the relevant requirements of the Reporting by Public Entities Act, No 93 of 1992, as amended, have been complied with. 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.

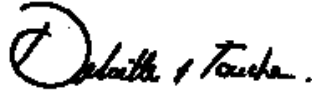
Audit opinion

In our opinion:

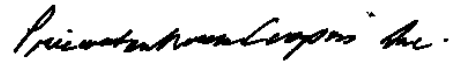
- these financial statements fairly present, in all material respects, the financial position of the group and the Bank at 31 March 2000, and of the results of their operations and cash flows for the year ended in accordance with generally accepted accounting practice and in the manner required by the South African Reserve Bank Act, No 90 of 1989, and regulations thereunder and other reporting requirements as set out in the Reporting by Public Entities Act, 1992, as amended;
- the information furnished in terms of Sections 6 and 7 of the Reporting by Public Entities Act, 1992, is fair in all material respects.

Departure from South African Statements of Generally Accepted Accounting Practice

Without qualifying our opinion above, we draw your attention to the fact that the financial statements have not been drawn up in accordance with a South African Statement of Generally Accepted Accounting Practice in respect of accounting for property, plant and equipment. Note 1.3 to the financial statements and the directors' report deals with the reasons for the departure from this accounting statement.



Deloitte & Touche



PricewaterhouseCoopers Inc

Joint auditors

Registered Accountants and Auditors
Chartered Accountants (SA)
Pretoria
26 May 2000

Directors' report

Introduction

The directors present the Bank's eightieth annual report for the year ended 31 March 2000.

This report, in terms of the South African Reserve Bank Act, Act No 90 of 1989, and the Reporting by Public Entities Act, Act No 93 of 1992, addresses the performance of the South African Reserve Bank, its subsidiaries and relevant statutory information requirements.

In the opinion of the directors, the financial statements fairly present the financial position of the South African Reserve Bank at 31 March 2000 and the results of its operations and cash flow information for the year then ended.

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 Bank and its subsidiaries. The external auditors are responsible for independently auditing and reporting on the financial statements in conformity with generally accepted auditing practice.

The annual financial statements set out in this report have been prepared by management in accordance with generally accepted accounting practices in all material respects as far as they are applicable to a central bank. They include full and responsible disclosure and are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable and prudent judgements and estimates. In exceptional circumstances, as part of its central banking functions, the Bank may act as "lender of the last resort" to banks experiencing difficulty, in order to prevent loss of confidence spreading through the financial system as a whole. Confidence in the banking system can best be sustained if the Bank's support is only disclosed when conditions giving rise to potential systemic disturbances have improved. Accordingly, the Bank's financial statements might not explicitly identify such support.

The compliance by the Bank with the requirements of the King Report on Corporate Governance is dealt with in the Corporate governance statement which appears on pages 12 to 14.

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 object of the South African Reserve Bank is to protect the value of the currency in the interest of balanced and sustainable economic growth in the Republic. 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 (Pty) Limited produces banknotes;
- South African Mint Company (Pty) Limited produces coin; and
- South African Reserve Bank Insurance Company Limited. This company is a captive insurance company which manages certain insurable risks of the Bank and its subsidiaries. The company is registered in Guernsey.

Achievement of objectives

The Bank's achievements in respect of its objectives, including the achievement of its main objective, namely the protection of the value of the rand, will be extensively addressed by the Governor in the address to the ordinary general meeting of shareholders to be held on 29 August 2000. This address receives media coverage and is made available to shareholders and other interested parties.

In 1989 the Bank adopted as its prime policy objective the reduction of inflation. At the beginning of 1998 this objective was narrowed down to achieving a rise in the core inflation rate of between one and five per cent per year. The average core inflation for the year ended 31 March 2000 amounted to 8,0 per cent compared with 7,6 per cent for the previous year. This disappointing performance can to a large extent be attributed to the sharp rise in oil prices. During February 2000, the Minister of Finance announced a new framework for the conduct of monetary policy. In future the Bank's actions will directly target inflation as measured by the CPIX, i.e. headline inflation in metropolitan and other urban areas excluding mortgage bond rates. The target agreed on between the Minister of Finance and the Governor is to achieve a CPIX rate of between 3 and 6 per cent on average for the year 2002.

The date changeover to the new millennium occurred without technical problems within the Bank or anywhere else in the South African banking sector. It is gratifying to be able to report that the considerable amount of resources spent on the Y2K project successfully averted any potential crises in this regard.

Strategic planning is done annually with a medium-term horizon. The strategic planning culminates in operational plans, objectives and budgets which are monitored regularly by the Budget and Governors' Committees. The Bank has recently embarked on a process to develop a vision for the year 2010 which will guide future strategic planning and against which the Bank will be measured.

Financial results

The income statement appears on page 35.

All remaining profits of the Bank, after transfers to reserves and dividends paid, are paid to the Government in terms of the South African Reserve Bank Act. Amounts paid and due in terms of the Act over the past two years were as follows:

	R'000
31 March 2000	311 314
31 March 1999	281 626

Dividends

The directors approved a final dividend of five cents per share in terms of the South African Reserve Bank Act which, together with the interim dividend paid of five cents, amounted to ten cents per share for the year.

Fixed assets

The Bank has traditionally adopted a policy of providing for capital expenditure by making transfers to a property and equipment reserve and charging capital expenditure incurred during the year to this reserve. This prudent policy has been applied as the Bank remits ninety per cent of its after tax profits to Government annually. Applying Generally Accepted Accounting Practice by the Bank to fixed assets may result in sub-optimal transfers being made to and from Government on an annual basis.

Though this policy does not accord with Generally Accepted Accounting Practice, appropriate disclosure is provided in the alternative in note 2 to the *Annual Financial Statements*.

Directors

The composition of the Board of directors is set out on page 6.

Dr C J de Swardt retired as director and deputy governor on 30 June 1999 and Ms G Marcus was appointed in his stead in these capacities with effect from 1 July 1999.

The term of office of Dr C L Stals as director and Governor expired on 7 August 1999. Mr T T Mboweni was appointed in these capacities with effect from 8 August 1999.

Drs M T de Waal and D Konar, whose terms of office as shareholders' representatives expired on 25 August 1999, were re-elected.

Dr M A Ramphele resigned as a shareholders' representative for commerce or finance with effect from 1 March 2000.

The terms of office of Messrs W F de la H Beck and B P Gilbertson as shareholders' representatives expire on 30 August 2000. Mr Gilbertson is eligible and offers himself for re-election. Mr Beck is not available for re-election and will step down as director with effect from 30 August 2000.

There are currently two vacancies on the Board: one for a government representative and the other for a shareholders' representative for commerce or finance.

Direct and indirect shareholding of directors on 31 March 2000

	Number of shares
Direct shareholding	1 510
Indirect shareholding	0
	1 510

Subsidiaries

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

	Authorised and issued share capital		Shares at cost		Indebtedness to/(by) Reserve Bank	
	Number of shares	Percent-age held	2000	1999	2000	1999
	'000	Per cent	R'000	R'000	R'000	R'000
Corporation for Public Deposits	2 000	100	2 000	2 000	110 384	154 180
South African Mint Company (Pty) Limited	60 000	100	206 000	206 000	0	18 004
South African Bank Note Company (Pty) Limited	61 000	100	61 000	61 000	12 219	12 217
South African Reserve Bank Insurance Company Limited	28 944	100	3 601	0	0	0

The Bank's interest in the attributable income of subsidiaries not consolidated, amounted to R54 million (1999 – R51 million).

Post balance sheet events

There was no event subsequent to the balance sheet date that has a significant effect on the financial statements of the Bank.

Secretary

Mr J J Rossouw was Secretary of the Bank until 16 March 2000.

Ms Z R Matsau was appointed Acting Secretary of the Bank from that date and her appointment was confirmed by the Board of the Bank on 26 May 2000.

Business address
370 Church Street
Pretoria
0002

Postal address
PO Box 427
Pretoria
0001

The financial statements were approved by the Board of directors and are signed on its behalf by:



T T Mboweni
Governor



J H Cross
Senior Deputy Governor



D Konar
Director



J W Raath
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 2000, have been correctly completed and are up to date.



Z R Matsau
Secretary
26 May 2000

Balance sheet as at 31 March 2000

	Notes	2000 R'000	1999 R'000
Assets			
Fixed assets	2	0	0
Investment in subsidiaries	3	345 450	394 901
Loans and advances	4	686 730	753 420
Gold and foreign exchange contingency reserve account	5	9 200 355	14 430 667
Gold and foreign exchange	6	48 451 015	32 885 609
Accommodation to banks	7	7 961 396	5 311 669
Internal registered stock	8	6 259 498	6 173 224
Debtors and other accounts		1 488 347	1 111 547
		74 392 791	61 061 037
Liabilities			
Notes and coin issued	9	27 642 626	25 741 572
S A Reserve Bank bills	10	3 000 000	3 900 000
Deposit accounts	11	24 340 877	10 764 745
Foreign loans	12	16 453 990	17 937 126
Creditors and other accounts		456 473	416 981
Total liabilities		71 893 966	58 760 424
Shareholders' equity			
Share capital	13	2 000	2 000
Statutory reserve fund		302 799	268 209
Contingency reserves		1 383 025	1 123 404
Other reserves		811 001	907 000
Total shareholders' equity		2 498 825	2 300 613
		74 392 791	61 061 037

Income statement for the year ended 31 March 2000

	Notes	2000 R'000	1999 R'000
Interest income		2 720 130	2 668 922
Interest expense		1 913 107	1 001 886
Net interest income		807 023	1 667 036
Other income	14.1	909 869	355 809
Total income		1 716 892	2 022 845
Operating costs		856 332	882 228
Personnel costs		336 554	271 000
Other operating costs	14.2	519 778	611 228
Profit before tax		860 560	1 140 617
Tax	15	224 874	377 507
Profit after tax		635 686	763 110
Dividends per share (cents)	16	10,0	10,0

Cash flow statement for the year ended 31 March 2000

	2000 R'000	1999 R'000
Cash generated by/(expended on) operating activities	(6 588 555)	12 812 342
Tax paid	(264 824)	(720 273)
Cash available from/(expended on) operating activities	(6 853 379)	12 092 069
Dividends paid	(200)	(200)
Transfer to Government	(281 626)	(380 302)
Net cash from/(expended on) operations	(7 135 205)	11 711 567
Cash flow from/(utilised by) investing activities	5 234 151	(14 472 137)
Notes and coin issued	(1 901 054)	(2 760 570)

Due to its role in the creation and withdrawal of money, the Bank has no cash balances on its balance sheet. However, it has the ability to create cash when needed.

Statement of changes in equity

Statement for the year ended 31 March 2000

(R thousands)

	Accumu- lated profit	Share capital	Statutory reserves	Contin- gency reserves	Other reserves	Total
Balance at beginning of the year	0	2 000	268 209	1 123 404	907 000	2 300 613
Profit after tax	635 686					635 686
Transfer to Government (note 17)	(311 314)					(311 314)
Transfer to reserves	(324 172)		34 590	259 621	29 961	0
Dividend paid	(200)					(200)
Cost of fixed assets charged to reserves					(125 960)	(125 960)
Balance at end of the year	0	2 000	302 799	1 383 025	811 001	2 498 825

The statutory reserve fund is maintained in terms of section 24 of the South African Reserve Bank Act, which stipulates that one-tenth of the profit after transfers to reserves and payment of dividends, has to be credited to the statutory reserve fund.

Statement for the year ended 31 March 1999

(R thousands)

	Accumu- lated profit	Share capital	Statutory reserves	Contin- gency reserves	Other reserves	Total
Balance at beginning of the year	0	2 000	236 917	887 404	785 001	1 911 322
Profit after tax	763 110					763 110
Transfer to Government	(281 626)					(281 626)
Transfer to reserves	(481 284)		31 292	236 000	213 992	0
Dividend paid	(200)					(200)
Net income credited to reserves					7 376	7 376
Cost of fixed assets charged to reserves					(99 369)	(99 369)
Balance at end of the year	0	2 000	268 209	1 123 404	907 000	2 300 613

Notes to the financial statements

1. Accounting policies

The South African Reserve Bank Act, No 90 of 1989, does not prescribe the format of the Bank's annual financial statements. However, these financial statements have been prepared so as to present fairly the state of affairs of the Bank and its profits, cash flows and total recognised gains and losses and in accordance with Generally Accepted Accounting Practices as far as applicable to a central bank. The historical cost basis has been applied except for certain investments that are carried at fair values, in accordance with sound banking practice. The accounting policies adopted and applied are set out below and are consistent with those of the previous year.

1.1 Consolidation

Investments in subsidiary companies are not consolidated or equity accounted as their businesses are different from that of the Bank and, consequently, certain of their accounting policies, particularly those in respect of fixed assets, differ from those of the Bank.

Information relating to unconsolidated subsidiary companies is disclosed separately on page 45.

1.2 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.

Investments in subsidiaries

Investments in subsidiaries are valued at cost less provision for loss where appropriate.

Gold coin and bullion

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

Reserve Bank bills

The liability in respect of SA Reserve Bank bills 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.

1.3 Fixed assets and depreciation

The cost of the renewal and maintenance of fixed assets is debited to reserves as incurred. New fixed assets acquired by the Bank are dealt with on an appropriation basis and are written off against the fixed property and equipment reserve in the year of acquisition. Allocations to cover planned new capital expenditure are periodically transferred to the reserve from the income statement.

The rationale for the Bank's policy is set out in the directors' report.

1.4 Foreign currency activities

Assets and liabilities in foreign currencies are converted to 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.

1.5 Taxation

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is accounted for by using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. In principle, deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be off-set.

1.6 Pension and retirement funds

The expected costs of post-retirement benefits under defined benefit and defined contribution schemes are charged to income over the service lives of the employees entitled to these benefits. 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.

1.7 Post-retirement medical benefits

The Bank provides for post-retirement medical benefits in the form of a medical aid scheme for eligible employees and pensioners. The liability for the Bank's contributions to the scheme is, in respect of current pensioners, provided for by means of an on-balance-sheet provision. The liability in respect of future pensioners is provided for by means of an insurance policy. The magnitude of both liabilities is based on actuarial valuations.

1.8 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 repo and reverse repo agreements.

2. Fixed assets

(R thousands)

	Land and buildings* At cost	Vehicles, furniture and equipment At cost	Work in progress At cost	Total
Cost				
Cost at 31 March 1999	286 477	380 666	25 206	692 349
Additions/Reclassifications	17 836	113 052	(4 928)	125 960
Disposals	(27)	(7 083)	0	(7 110)
Cost at 31 March 2000	304 286	486 635	20 278	811 199
Written off against reserves				
Balance at 31 March 1999	286 477	380 666	25 206	692 349
Written off during the year	17 836	113 052	(4 928)	125 960
Written back on disposals during the year	(27)	(7 083)	0	(7 110)
Balance at 31 March 2000	304 286	486 635	20 278	811 199
Net book value at 31 March 2000	0	0	0	0
Estimated replacement value for insurance purposes				
	1 639 204	765 000	20 000	2 424 204

*Registers containing details of land and buildings are available for inspection by members at the registered office of the Bank.

3. Investment in subsidiaries

	2000 R'000	1999 R'000
Shares	222 848	210 500
Corporation for Public Deposits – at cost	2 000	2 000
South African Mint Company (Pty) Limited – at cost less provision for loss	156 247	143 899
South African Bank Note Company (Pty) Limited – at cost	61 000	61 000
South African Reserve Bank Insurance Company Limited – at cost	3 601	3 601
Loans	12 218	30 218
South African Mint Company (Pty) Limited	0	18 000
South African Bank Note Company (Pty) Limited	12 218	12 218
Current accounts	1	26 805
Corporation for Public Deposits	1	26 802
South African Bank Note Company (Pty) Limited	0	(1)
South African Mint Company (Pty) Limited	0	4
Deposit account		
Corporation for Public Deposits	110 383	127 378
	345 450	394 901

Loans to subsidiaries are unsecured with no fixed repayment terms. Currently these loans bear no interest.

	2000 R'000	1999 R'000
4. Loans and advances		
South African Government	590 887	669 392
This loan represents an amount previously advanced to the Bank of Namibia. Repayment commitments in respect of this amount had been taken over by the South African Government.		
Secured advances	95 843	82 400
Advances to banking utility companies	0	1 628
	686 730	753 420
5. Gold and foreign exchange contingency reserve account	9 200 355	14 430 667
The gold and foreign exchange contingency reserve account represents amounts due to the Bank by the Government in respect of realised profits made and losses incurred on gold and foreign exchange transactions. No fixed repayment terms have been agreed on. The account is operated in terms of section 28 of the South African Reserve Bank Act		
6. Gold and foreign exchange		
Gold coin and bullion	6 609 965	6 261 162
Foreign exchange	41 841 050	26 624 447
	48 451 015	32 885 609
7. Accommodation to banks		
Repurchase agreements	7 140 000	4 600 000
Application of cash reserve balances	821 396	711 669
	7 961 396	5 311 669
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.		
8. Internal registered stock		
Government stock – zero coupon stock	3 299 722	6 173 224
Government stock – interest-bearing	2 959 776	0
	6 259 498	6 173 224
The zero coupon stock has no set repayment date but the Bank has the right to have it converted to RSA stock valued at the face value of the zero coupon stock should it be required for monetary policy implementation. It has therefore been valued at its nominal value. The interest-bearing stock represents previous zero coupon stock so converted and has been applied to secure reverse repurchase agreements entered into with banks. (Refer to note 11)		

	2000 R'000	1999 R'000
9. Notes and coin issued		
Notes	25 826 927	24 053 209
Coin	1 815 699	1 688 363
	27 642 626	25 741 572
Notes and coin held by the Bank as cash in hand at the end of the financial year have been netted off against the liability for notes and coin in circulation because they no longer represent currency in circulation.		
10. SA Reserve Bank Bills	3 000 000	3 900 000
The SA Reserve Bank Bills are issued to the market on tender, normally for 28 day terms. The bills in issue at 31 March 2000 expire in tranches of R750 million on 5, 12, 19 and 26 April 2000 at rates ranging from 9,98 per cent to 10,12 per cent.		
11. Deposit accounts		
Banks' reserve accounts	8 568 990	7 992 835
Banks' current accounts	10 005 587	77 072
Reverse repurchase agreements	3 013 015	0
Government accounts	2 459 709	2 402 426
Other deposit accounts	293 576	292 412
	24 340 877	10 764 745
The reverse repurchase agreements are secured by government stock valued at R2 960 million.		
12. Foreign loans	16 453 990	17 937 126
Foreign loans represent credit lines utilised which bear interest at market-related rates.		
13. Share capital	2 000	2 000
<i>Authorised and issued</i> 2 000 000 shares of R1 each		
14. Operating profit		
14.1 Other income is stated after crediting		
Reduction in provision for loss in subsidiary	12 348	14 510
Income from investments		
Dividends	98 050	9 736
Unrealised profit on revaluation of financial instruments	75 176	0
Income from subsidiaries	644	644
Dividends	200	200
Administration fees	444	444
Surplus on disposal of fixed assets	1 310	1 495

	2000 R'000	1999 R'000
14.2 Other operational costs are stated after charging		
Cost of banknotes	222 429	225 396
Cost of coin	96 290	138 963
Directors' remuneration	6 541	5 053
From the Bank for services as directors	597	615
From the Bank for other services	5 944	4 438
Auditors' remuneration	1 673	1 586
Audit fee	1 673	1 515
Underprovision for previous year	0	71
Pension and retirement fund contributions	42 139	39 997
Normal	34 889	29 997
Additional	7 250	10 000
15. Tax		
South African normal tax		
Current tax	244 032	387 653
Under/(Over) provision in respect of prior years	(19 158)	(10 146)
	224 874	377 507
Reconciliation of rate of tax		
South African normal tax rate	30,00%	35,00%
Adjusted for:		
Disallowable expenses	0,02%	0,10%
Exempt income and special deductions	-0,77%	-0,70%
Effect of current year temporary differences not adjusted to deferred taxation*	-0,89%	-0,40%
Effective tax rate	28,36%	34,00%
Deferred tax asset not raised	38 209	41 776
* The deferred tax asset resulted from the Bank's accounting policy to write off fixed assets in the year of purchase.		
16. Dividends		
Dividends are calculated at 10 cents per share	200	200
Earnings per share have not been calculated as the shares qualify for a maximum dividend of 10 cents per share in terms of the South African Reserve Bank Act.		
17. Transfer to the Government	311 314	281 626
In terms of section 24 of the South African Reserve Bank Act, nine-tenths of the surplus remaining after transfers to reserves and payment of dividends is paid to the Government.		

18. Retirement benefit information

The Bank has a number of funds providing either defined benefits or accumulated benefits (defined contribution) for employees and their dependants on retirement or death. All eligible employees and former employees are members of trustee-administered or underwritten pension schemes within the Bank, financed by the Bank and employee contributions. All plans are governed by the Pension Funds' Act, 1956. Contributions to the defined benefit fund, which are charged against operating income, are based upon actuarial advice following periodic valuations of the fund at intervals of not more than three years, using a projected benefit method. Any deficits are funded to ensure the ongoing financial soundness of the fund. The benefits provided for by the defined benefit scheme are based on the years of membership and salary levels. These benefits are provided from contributions by employees and the Bank, and income from the assets of the scheme. Current contribution levels are considered to be adequate for the funds to meet future obligations. The funds were found to be financially sound at the dates of the last actuarial valuations performed. These dates were 31 March 1997 for the Bank's defined contribution fund and 31 March 1998 for its defined benefit fund.

19. Post-retirement benefits

The Bank created a reserve to fund its liability to pay for the medical aid subscriptions of its pensioners. During the previous year the Bank insured its future commitment through a cell captive insurance scheme. The subscriptions over the next three years will not exceed R5,4 million per annum, after which sufficient reserves will be available in the scheme to fund the full commitment. The balance remaining in the reserve was the actuarially determined shortfall in the reserves of the cell captive scheme to meet the full liability at the previous year-end. An actuarial valuation of the liability as at 31 March 2000 is outstanding but the current balance is considered to be adequate.

	2000 R'000	1999 R'000
<i>Pensioners Medical Aid Reserve</i>		
Balance at the beginning of the year	110 000	120 000
Net income credited to the reserve	0	7 378
Transfer from/(to) income statement	0	(17 378)
Balance at the end of the year	110 000	110 000

20. Contingent liabilities

Contingent liabilities and commitments arise in the normal course of the Bank's business activities. There are also future commitments in respect of forward transactions and derivative financial instruments.

21. Capital commitments

	2000 R'000	1999 R'000
Contracted	1 240	63 975
Not contracted	104 024	632 579
Total	105 264	696 554

These capital commitments will be funded from internal resources.

22. Risk management in respect of financial instruments

The Bank's policies and procedures regarding risk management are dealt with in the Risk management statement which appears on pages 4 and 5. Certain aspects of risk management specific to financial instruments not fully dealt with in that statement or elsewhere in the financial statements, are dealt with below:

- The Bank is not exposed to liquidity risk in respect of the domestic currency in view of the Bank's unique role as central bank.
- The Bank is generally not subject to significant interest rate risk due to the short-term repricing structure of the instruments.
- It is not considered appropriate to disclose liquidity information in respect of foreign assets and liabilities.

23. Related party transactions

The following significant related party transactions took place during the year:

	2000 R'000	1999 R'000
Type of related party:		
Subsidiaries not consolidated:		
Purchases from subsidiaries	318 719	364 359
Banknotes	222 429	225 396
Coin	96 290	138 963
Administration fee charged to subsidiary	444	444
Insurance premiums paid to subsidiary	21 269	7 702
Interest received on deposits during the year	16 505	12 502
Current account balances	(1)	27
Deposits		
Deposits at the beginning of the year	127 378	62 294
Deposits made during the year	0	65 084
Deposits withdrawn during the year	(16 995)	0
Deposits at the end of the year	110 383	127 378
Loans		
Loans outstanding at the beginning of the year	30 218	53 218
Loan repayments during the year	(18 000)	(23 000)
Loans outstanding at the end of the year	12 218	30 218

Statement in respect of subsidiaries

	31 March 2000 R'000	31 March 1999 R'000
Capital employed		
Shares in unlisted subsidiaries	222 848	210 500
Non-distributable reserves since acquisition of subsidiaries	201 498	183 486
Distributable reserves since acquisition of subsidiaries	95 895	134 946
Bank's interest at the end of the financial year	520 241	528 932
Long-term liabilities	13 379	12 059
Loans to subsidiaries	12 218	30 218
Deposit accounts	5 173 271	5 043 301
Total capital employed	5 719 109	5 614 510
Employment of capital		
Fixed assets	166 844	165 514
Deferred taxation	0	1 831
Investments	5 439 707	5 277 551
Net current assets	112 558	169 614
Total employment of capital	5 719 109	5 614 510

Notice of ordinary general meeting 2000

Notice is hereby given that the eightieth ordinary general meeting of the shareholders will be held at the head office of the South African Reserve Bank, 370 Church Street, Pretoria on Tuesday, 29 August 2000, at 09:00.

Agenda

1. To receive the annual financial statements and reports of the Board of directors and the auditors for the year ended 31 March 2000.
2. To elect shareholders' representatives to the Board of directors.
3. To determine the remuneration of the auditors for the past audit and to appoint auditors for the 2000/2001 financial year.
4. To transact any other business to be transacted at an annual general meeting.

In terms of section 23(1) of the South African 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 enclosed 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
28 July 2000

Shareholders' calendar

Dividends

	Declared	Paid
Interim	1 October 1999	29 October 1999
Final	7 April 2000	12 May 2000

Date and time of ordinary general meeting in Pretoria: 29 August 2000 at 09:00.