Annual Financial Results Summary 2009/10

DBSA

Development Bank
of Southern Africa

Development Fund

Financier

To contribute to the delivery of basic services and promote economic growth through infrastructure and development funding

Advisor

To build institutional, financial and knowledge capacity for development

Partner

To leverage private, public and community stakeholders in the development process

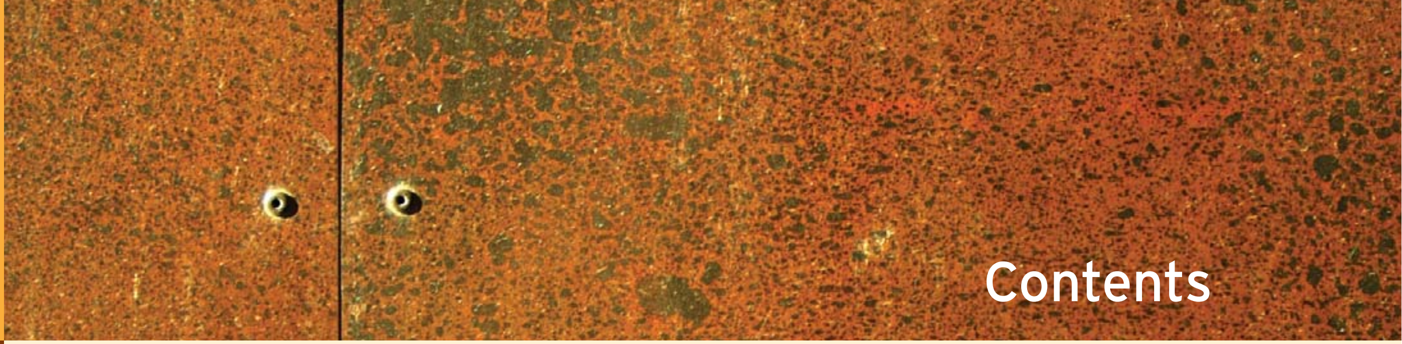
Implementer

To originate and facilitate key interventions for building capacity and providing development solutions

Integrator

To mobilise and link stakeholders, resources and initiatives for sustainable development outcomes

ISSN 1728-3213



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Financial performance overview

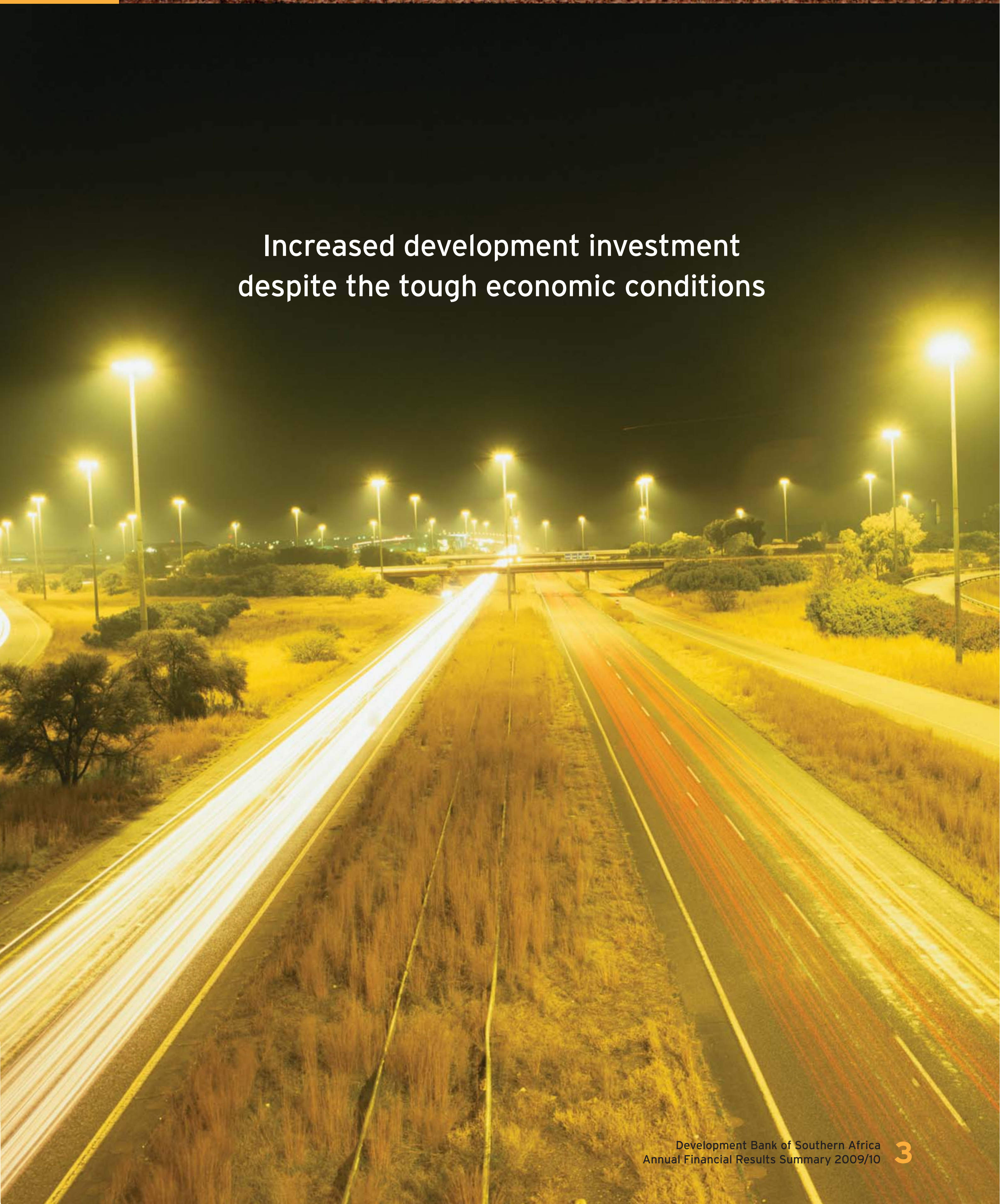
as at 31 March 2010

	5-year average	2009/10	2008/09	2007/08	2006/07	2005/06
Financial position (R million)						
Cash and cash equivalents	1 968	**2 707**	2 475	2 314	890	1 454
Financial market assets	5 539	**5 521**	5 321	5 078	5 217	6 556
Investment in development activities[1]	26 555	**36 221**	31 997	25 330	21 223	18 003
Other assets	553	**695**	589	525	548	406
Total assets	34 614	**45 144**	40 382	33 246	27 878	26 419
Financial market liabilities[2]	18 129	**26 327**	22 405	16 781	12 667	12 467
Other liabilities	752	**927**	741	686	673	733
Total liabilities	18 881	**27 254**	23 146	17 466	13 340	13 200
Total equity	15 733	**17 890**	17 236	15 780	14 538	13 219
Financial performance (R million)						
Interest on development loans	2 384	**3 077**	2 784	2 312	1 982	1 763
Interest on investments	557	**525**	677*	542	564	477
Interest expense	1 462	**1 971**	1 705	1 338	1 243	1 054
Net interest income	1 478	**1 631**	1 756*	1 516	1 303	1 186
Operating income[3]	1 612	**1 767**	1 857*	1 643	1 492	1 301
Operating expense[4]	581	**716**	669	556	504	458
Profit for the year (before transfer to Development Fund)	1 206	**963**	1 565	1 293	1 283	928
Financial ratios (%)						
Total capital and reserves to loan ratio	65,8	**54,3**	58,5	67,8	72,0	76,4
Long-term debt to equity ratio	114,2	**148,5**	131,3	107,6	88,3	95,3
Cash and cash equivalents to total assets	5,6	**6,0**	6,1	7,0	3,2	5,5
Total capital and reserves to assets	46,4	**39,6**	42,7	47,5	52,1	50,0
Financial market liabilities to investment in development activities[2]	67,6	**72,7**	70,0	66,2	59,7	69,2
Non-performing book debt as a % of total book debt	5,2	**4,9**	5,4	5,2	4,9	5,4
Non-performing arrears as a % of total book debt	2,3	**2,3**	2,2	2,1	2,3	2,5
Average return on equity	8,0	**5,5**	9,6	8,5	9,2	7,4
Average return on assets	3,8	**2,3**	4,3	4,2	4,7	3,6
Operating costs to income	35,9	**40,5**	36,0*	33,8	33,8	35,2
Interest cover (times)	2,0	**1,8**	2,0	2,1	2,0	2,1

For a discussion of the financial results, see the financial overview on pages 16 to 23.

** Prior year restated for change in interest rate swap disclosure*

1. *Development activities include development loans and equity investments.*
2. *Financial market liabilities comprise medium-to-long-term funding debt securities, medium-to-long-term funding lines of credit, funding under repurchase agreements and derivative assets held for risk management.*
3. *Operating income excludes net foreign exchange gain/(loss), net gain from financial assets and liabilities and impairments.*
4. *Operating expense comprises personnel expenses, general and administration expenses and depreciation.*



Increased development investment despite the tough economic conditions

Governor's foreword

Pravin Gordhan
Governor of DBSA and Minister of Finance

It is just over a year since the new administration came into office. Amongst the government's key objectives, as reflected in the ruling party's manifesto, are to accelerate infrastructure delivery, job creation and economic growth. While significant progress has been made in this regard over the past 15 years, levels of poverty remain unacceptably high for a significant number of South Africans. Structural weaknesses in key areas of the economy persist.

If its growth strategy is to create jobs, government needs to make the right choices about the nature of its investments. Crucial to any economy is the design of its infrastructure, and in South Africa this requires a conscious effort to create an equitable balance between social and economic priorities. The current demand for services suggests not only that government and the private sector need to scale up delivery, but that the success of their efforts will depend on how both parties change the way in which they use the country's limited productive capital. It clearly cannot be a case of business as usual. In this context, competent institutions such as the DBSA must redefine their roles as government delivery agents. It is laudable that in spite of the severe global financial crisis, the South African financial system remained stable, and the DBSA was a part of this. The Bank has the requisite skills, and its resources have been bolstered by the increase in its callable capital recently approved by government. The institution's credible history places it at the centre of many of government's infrastructure challenges.

The increase of DBSA's callable capital is not only evident of Government's confidence in the Bank, but constitute a demonstrable intent to underpin the bank's role in the development of scalable infrastructure program, in line with Government priorities.

Amongst these priorities is the delivery of health care to all South Africans. As agreed with the Board and management, the Bank will facilitate the delivery of health infrastructure, under the guidance of the National Treasury and in partnership with the Department of Health and Provincial Governments. The Bank will play a leading role in developing the requisite public-private partnerships to ensure broad private sector participation. This initiative is well under way and specific targets will be incorporated into the Bank's annual targets.

Water and sanitation has increasingly become a source of concern for the government. The Ministry of Environmental and Water Affairs has engaged the DBSA to assist with improving and accelerating the delivery of services in this critical sector.

"I have challenged the Bank to develop scalable green energy programs to assist Government in meeting its targets on carbon reduction."

Moses Kotane Community Water Supply Project has made huge strides in providing access to clean water

Governor's foreword continued

Globalisation has led to greater energy consumption. Among government's conscious choices is the pursuit of globally acceptable targets on the reduction of carbon emissions. I have challenged the Bank to develop scalable green energy programmes to help government meet these targets.

The performance of South Africa's education system still lags behind international norms, and the situation is exacerbated by poor, fragmented education infrastructure. The provision of enabling social infrastructure is a key area in which the DBSA's assistance is needed. Investment in people is important and should rank on the same level as investment in infrastructure.

One of the DBSA's mandated roles is to address institutional failure. Over the past three years, the Bank has developed a number of capacity building interventions, extending services to nearly 80% of municipalities and, to a limited extent, to provincial governments and national departments. The experts deployed by the Bank through the Development Fund have helped to ensure continuity of services in areas of need, specifically in poor municipalities, and their special interventions in crisis areas are greatly appreciated by local government stakeholders. Critical skills shortages persist within government and the Development Fund will also be required to focus its scarce resources on government priorities. These priorities include improving governance and financial management (through the clean audit program) and increasing the delivery of social infrastructure through Municipal Infrastructure Grants (MIGs). The Fund will work more closely with National Treasury, the Department of Cooperative Governance and Traditional Affairs (COGTA) and other key departments and ministries.

Over the past five years, South Africa has played a prominent role in the region and Government recognises that South Africa's economic growth strategy rests on regional cooperation. The DBSA has a proven track record and an established reputation among regional development finance institutions. The recent financial crisis demonstrates the need for stronger regional development finance Institutions. The growth of the Bank's portfolio outside South Africa, now worth approximately R9 billion and comprising one third of the total portfolio, provides a mature platform for the establishment of a regionally competent development finance institution to complement the broader role of the African Development Bank (AfDB) in the region. This is a natural path for the Bank and aligned to Government's regional agenda. Discussions with partners and stakeholders are underway and it is anticipated that this will be formally launched during the ensuing year.

The role of the DBSA as a centre of excellence for infrastructure development calls for greater commitment and innovation by both the Board and Management. I remain confident of the Bank's future role and will work closely with the Board to ensure that the organisation is properly resourced and governed to deliver on its broadened mandate.

Chairman's report

Jayaseelan Naidoo
DBSA Chairman

The year under review has been remarkable in a number of respects, with the DBSA Group recording historic achievements in several key performance areas. The levels of disbursements made by the Bank in 2009/10 were exceptional, both in terms of direct balance sheet financing and indirect financing effected by unlocking government's Municipal Infrastructure Grants (MIGs). This reflects the Bank's unprecedented role in technical capacity building in the public sector, which has been expanded rapidly through direct, hands-on support of infrastructure delivery at local level, particularly in poor localities with weak human and institutional capacity. The progress in this high-priority area will be presented in detail in the executive and operational reports to follow, and in particular in the Development Fund's annual report.

This year was unusual in that a new government administration took office, presenting a fresh opportunity to reflect on the future direction of the country. It was inspiring to witness the workings of our robust democracy, to engage in the renewal of the national development agenda and support the strengthening of public institutions, as part of building a stronger developmental state.

Our reflections in this regard were also sobering. Although important policy shifts have been introduced and new strategic directions embraced, we were humbled by the stark realities of the challenges remaining in service delivery, job creation and housing provision, challenges rendered even more difficult by the financial and economic crises of the past months. Even as we grapple with growing protests in poor communities, we are troubled by how daunting the development and transformation agenda remains, both in South Africa and the wider region. It is clear that a great deal still needs to be done to improve service delivery, reduce unemployment and unravel the legacies of the past that continue to characterise our distorted human settlements.

In reviewing the DBSA's response, we have sought to put into clearer perspective the challenges and opportunities faced by the Bank and its stakeholders. This has raised some key questions. As a key investor in local infrastructure projects, how can we direct our interventions so that we make a more immediate difference? How can we intervene more aggressively to address the persistent geography of poverty and underdevelopment? Can we design our interventions so that they contribute to building local consensus on the priorities and trade-offs, while minimising unconstructive, violent protests?

"The Bank aims to be pioneering, responsive, effective, capable, committed and ethical in its dealings with clients, partners and stakeholders."

DBSA has embarked on an ambitious national mural project to provide an artistic face-lift to public spaces entitled "DBSA Prosperity murals"

At the very least, the challenges call for greater development activism, more innovation, stronger capacity and stricter discipline in execution, not only on the part of the DBSA but of the whole range of actors who play important roles in the economy and society at large. At the same time, we cannot lose sight of the fact that the sustainable achievement of South Africa's transformation agenda and Millennium Development Goals remains dependent on the country and region growing out of pervasive poverty.

The solution lies not only in increasing our financial and capacity building investments, but also in improving their underlying quality. Without quality investment, the additional jobs, tax revenues, basic services and productivity needed to uplift the poor sustainably will not materialise. Neither will we be able to bring more land under cultivation and provide the infrastructure and input support required to increase food supplies and bring down escalating prices.

Our renewed understanding of the development challenges and opportunities has enabled us to identify the organisation's absolute and comparative advantages more clearly, in the context of a stronger developmental state and integrating region. In the light of this, we have refocused our efforts on the ultimate beneficiaries of development, as opposed to the financial and institutional intermediaries, who are the means to an end rather than the end itself, a fact that is sometimes overlooked.

The DBSA's future direction continues to be set by its shared developmental vision of a *prosperous and integrated region progressively free of poverty and dependency.* And we remain committed to deepening our *development impact in the region through expanded access to development finance, and the effective integration and implementation of sustainable development solutions.* As the Governor has indicated, the DBSA's emerging position reflects the demands of a more determined and ambitious government; the bolder, hands-on approach of the Bank itself to its engagement in accelerated development, especially at local level; and a new set of strategic qualities that characterise our ethos and governance as a leading development finance institution.

The Bank aims to be pioneering, responsive, effective, capable, committed and ethical in its dealings with clients, partners and stakeholders. We have been a relevant and successful institution for many years, because we have always striven to do more and to do better, through innovation and growth. We need to carry this good momentum forward and strengthen our unconventional paradigm for development finance in this region and on the continent. We will have to sustain our high levels of performance, respond more urgently to the needs of our clients and be ready to give our best at all times.

My congratulations to management and staff on the very good results achieved this year. I thank the Board for their invaluable advice and determined effort to make the DBSA a successful institution. I wish Jabu Moleketi, my successor as chairman, every success. I leave the position with fond memories of the incredible journey this institution has travelled. It is one we can all be proud of.

Chief Executive Officer's report

Paul Baloyi
DBSA Chief Executive Officer and Managing Director

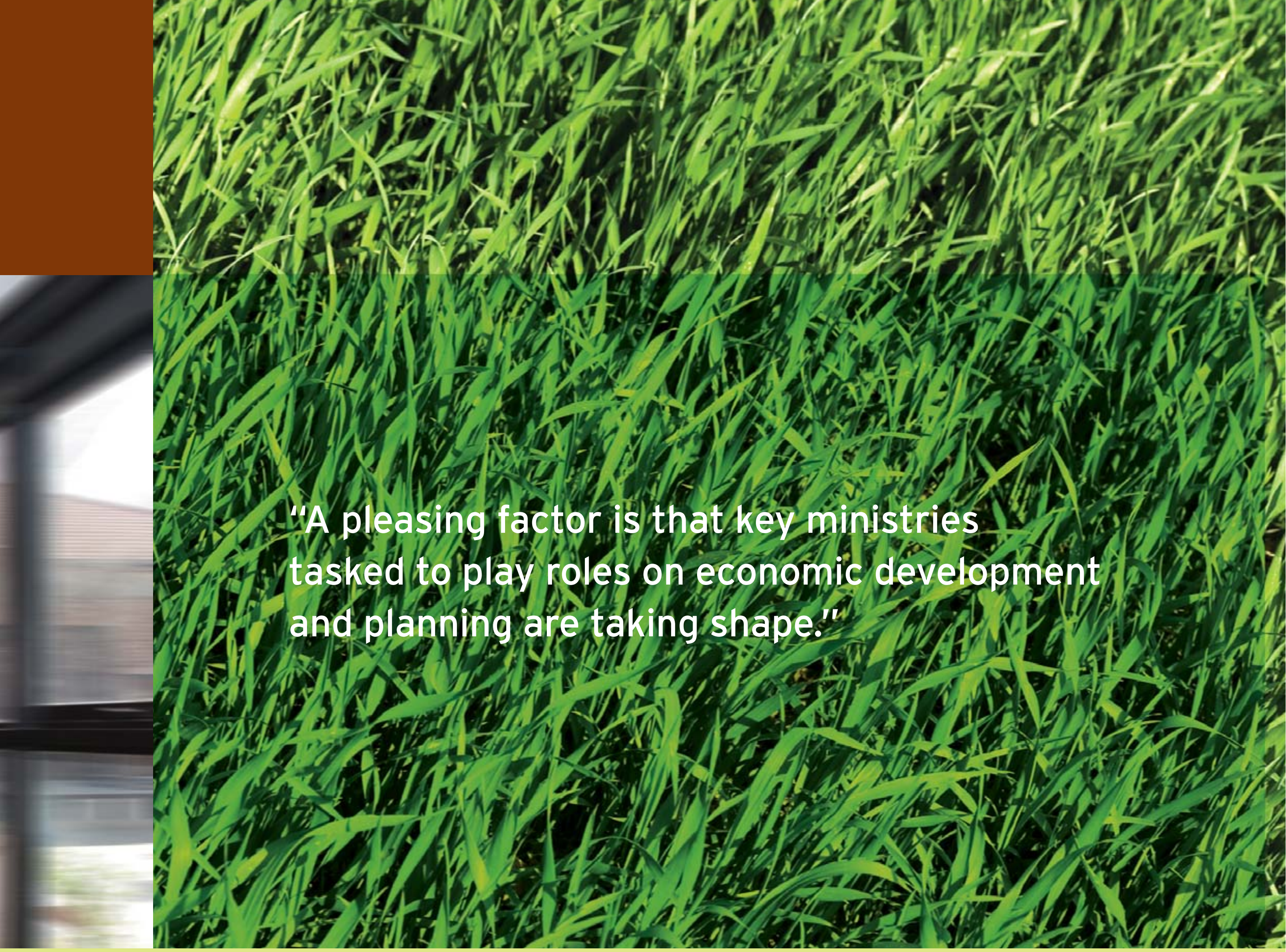
The results achieved by the DBSA Group in 2008/09, the year in which we celebrated our silver jubilee, were a watershed in the organisation's history. These results laid a solid foundation for our expanded growth during 2009/10, despite the challenges emanating from the global financial crisis. Deep and substantive consultation with the new executives in various ministries over the past 18 months has given us a clearer, more consolidated perspective on the key drivers that put the DBSA at the centre of infrastructure development and overall economic beneficiation for growth. We have agreed on major programmes and started to operationalise them in collaboration with various ministries, local governments and key departments that have specific mandates to develop infrastructure, both social and economic.

We reached consensus on crucial questions such as policy for major sectors (health, education, water and sanitation), coordination and, most importantly, the prioritisation of key programmes in the context of scarce resources. As regards coordination, the discipline of performance management implemented by the Presidency will be pivotal in improving the performance of the state as a whole. A pleasing factor is that key ministries tasked with playing roles in economic development and planning are taking shape. It is worth mentioning that the Bank was involved in these initiatives to varying degrees as an important partner, a fact acknowledged by our stakeholders and partners. As part of its ongoing role in this regard, the Bank is engaged in operationalising a number of significant government programmes in partnership with government departments. Some of the highlights are recorded in the divisional reports of our Annual Report.

The year under review

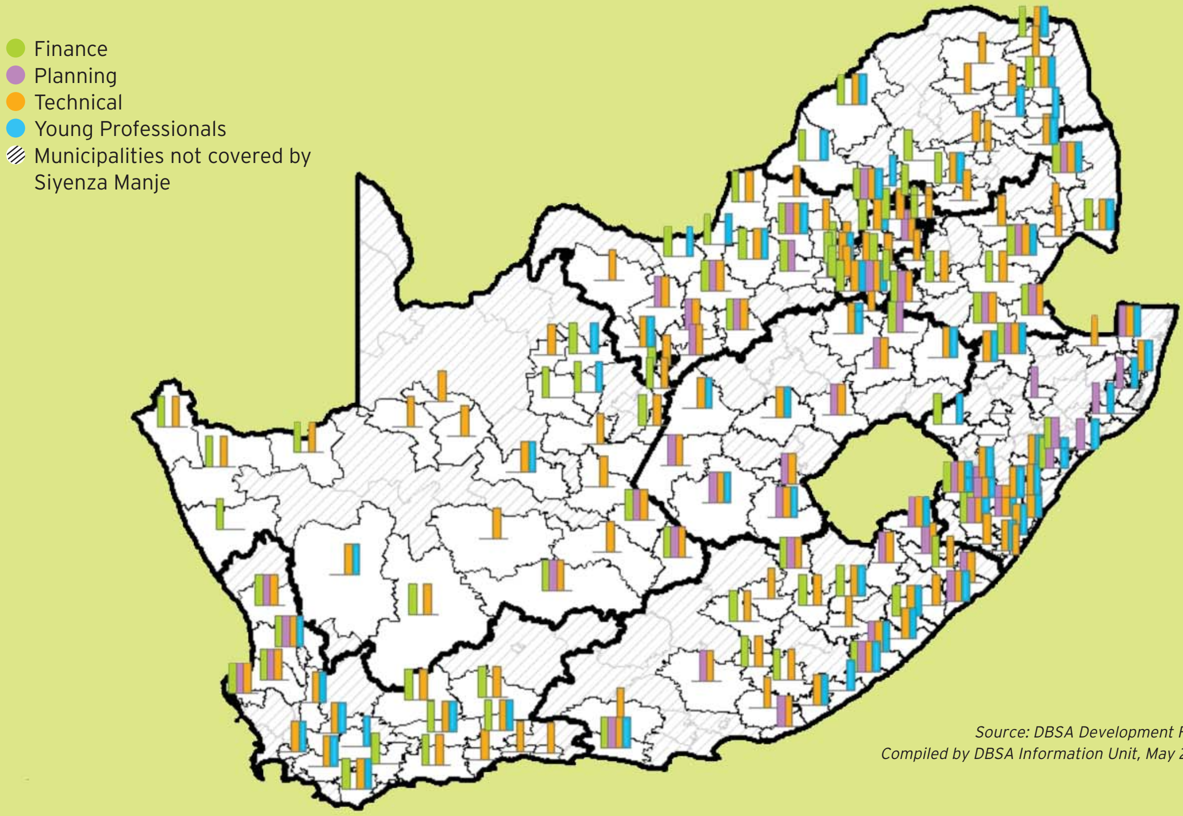
The Bank has again exceeded most of its developmental targets for the year under review. The bulk of our efforts went to our core area of mandated focus, and one of our key aims was to ensure stability within local government in areas where the Bank has invested. This is in line with our risk management agenda of preserving value in the Bank's lending portfolio, which to date remains largely in the public sector (approximately 70%, including state-owned entities). Success is evident in the fact that impairments were restricted to levels lower than the historical highs.

Siyenza Manje remains the DBSA's most effective programme on the ground. It is the intervention of greatest value to the government, and the one most deeply appreciated by them. The outcomes achieved are remarkable. Projects under management increased



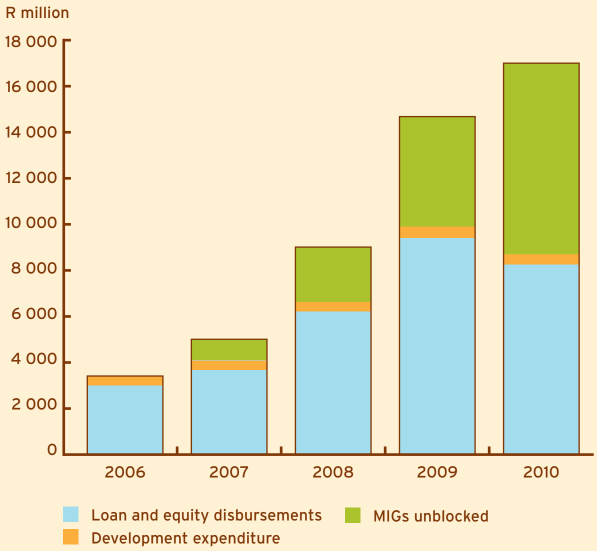
"A pleasing factor is that key ministries tasked to play roles on economic development and planning are taking shape."

Siyenza Manje experts deployed in local municipalities, 31 March 2010



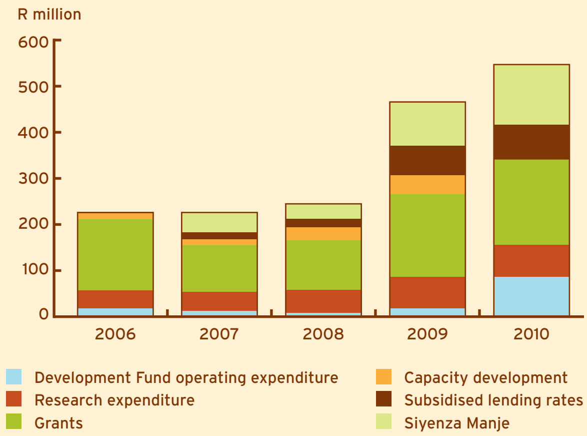
Source: DBSA Development Fund
Compiled by DBSA Information Unit, May 2010

significantly, while projects completed rose from 769 in the previous year to 1 237 in the year under review.



Total financial value of DBSA's interventions (including MIGs), 2005/06 to 2009/10

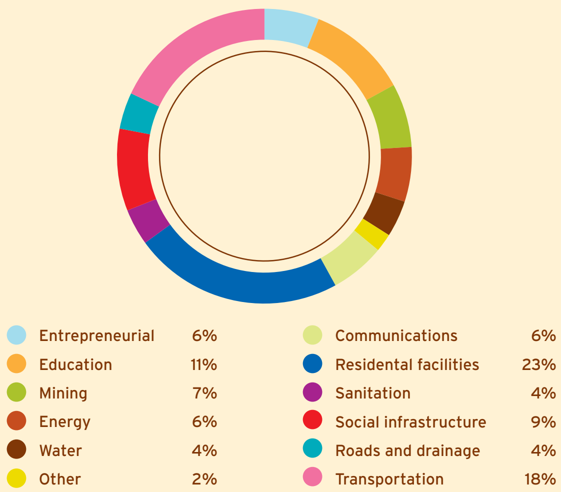
Overall funding beneficiation, including Municipal Infrastructure Grants (MIGs) released, rose by 21% from R14,6 billion in the previous year to R17,7 billion in the year under review. A key feature of the MIG funding released through the Bank's work at local government level is that the bulk of it goes towards social infrastructure. Direct disbursements by the Bank were not materially lower than in 2008/09, despite severe constraints on cost-effective liquidity during the year. The level change in government inevitably led to greater bureaucratic lethargy in many planned public sector programmes. In hindsight, we underestimated the length of time the new government would need to return to operational stability after Polokwane. Certain of the Bank's interventions intended to shield the organisation from the high cost of liquidity required government approval and could not be effected timeously. As a result, the margin contracted by approximately R300 million. The Bank nevertheless increased its commitment to non-revenue-generating expenditure in support of various programmes at both local and provincial government level. This expenditure, together with the Bank's contribution to the Siyenza Manje programme, amounted to R550 million, compared to R464 million in 2008/09.



Development expenditure by type of initiative, 2005/06 to 2009/10

Significant resources were committed towards increasing approvals and commitments, in line with the Bank's goal of doubling its level of disbursements over the next five years. The Bank has also received a number of large mandates, which will translate into significant increases in approvals and disbursements in the next two years.

The sector distribution of approvals was well within the Bank's focused priority sectors.



South Africa approvals, 2009/10

Year ahead

In a major strategic shift, the Bank will focus on assisting government with the scalability of initiatives to stimulate growth in prioritised social and economic sectors, especially in water and sanitation, education, health and energy. Government's collective spend on these sectors alone is estimated at R300–R500 billion, of which 40–50% is intended to be sourced from the market. During the year under review, the Bank made good progress in soliciting market interest and we are optimistic that there is sufficient capacity, buoyed by the return to market by major institutions, both local and international, in the latter part of 2009. While this is encouraging, liquidity costs still demonstrated downward rigidity and may continue to pose a challenge for the Bank.

In the year ahead, the Bank will proactively increase and deepen its partnerships in order to play a more vigorous role in catalysing infrastructure and socio-economic development projects. Our approach to infrastructure funding will aim to go further than simply addressing funding gaps and responding to market conditions. We will embrace a more proactive, innovative and research-led approach to identifying and developing projects, in the context of a more integrated, multi-sectoral approach to development planning and programming. Targeted programmes of action will enable the Bank to accelerate the mainstreaming of environmentally sustainable design into its development interventions across the region.

A number of long-serving Board members retired over the past year. The Bank is deeply indebted to them for their strategic guidance. Among those who retired was Mr Jay Naidoo, who has led the DBSA admirably and helped it to reach many milestones. Under his astute leadership, the Bank evolved from what was largely a conduit for municipal finance into a leading, internationally recognised development finance institution in the region. On behalf of the Board, executives, management and staff, I would like to express our sincere gratitude for his leadership and wish him well for the future.

The government has been through massive change over the past year, and change of this magnitude is rarely without challenges. I am pleased that the DBSA experienced a smooth transition in this regard. With Jay's retirement, we are fortunate to have acquired a new Chairman of the calibre of Mr Jabu Moleketi, former Deputy Minister of Finance. On behalf of the Board, management and staff, it is my pleasure to welcome Jabu into the DBSA family.

Finally, we are grateful to Minister Gordhan for his stewardship during the year as the new Governor of the Bank. I have no doubt that we will reach exciting new milestones during his tenure and we look forward to his continued support of the Bank.

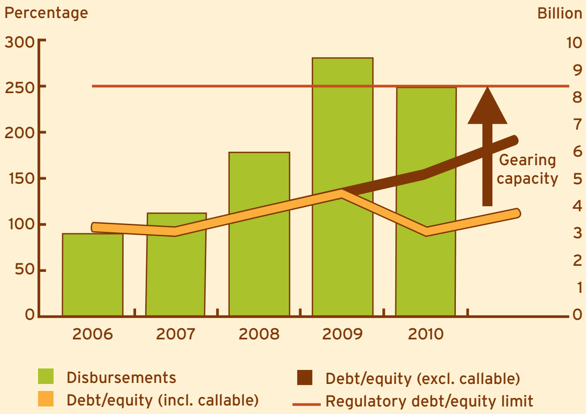
Financial and development investment overview

Group Chief Financial Officer: Pieter de la Rey

Investment in development activities is not limited to loan and equity disbursements only. The Development Bank of Southern Africa, over and above its normal income-generating investment operations, contributes financially to various developmental initiatives.

The year under review was challenging, as the impact of the global economic crisis continued to be felt. Interest rates declined sharply and the cost of especially short-term borrowing increased significantly. Furthermore, the currency strengthened rapidly against major trading currencies.

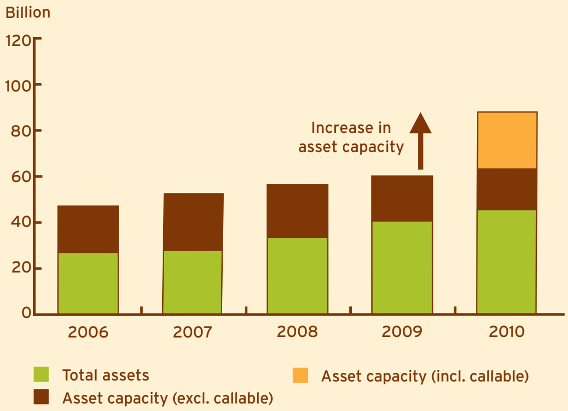
Despite the tough conditions, the DBSA achieved significant development impact. The financial results for the year ended 31 March 2010 show that the DBSA did not compromise on its commitment to support a range of development initiatives, despite market conditions that put pressure on sustainable earnings and the surplus available for future growth. Early in the year, the Bank implemented various financial initiatives to mitigate the anticipated economic fallout. This allowed the Bank to enhance its support for infrastructure investment, especially in public entities, in a challenging environment.



Effect of capitalisation plan on gearing capacity, 2005/06 to 2009/10

In support of such enhanced delivery, the Minister of Finance approved the capitalisation plan that the Bank presented to the National Treasury. In terms of this plan, the callable capital of the Bank was increased from R4,8 billion to R20 billion. The regulated leverage ratio was also amended to include the callable capital as equity, as illustrated in the figure above. In the interim, the Minister of Finance has agreed to a government guarantee of R15,2 billion in support of all creditors, whilst the increase in callable capital is being amended by Parliament.

The recapitalisation increases the Bank's asset capacity (i.e., the value of assets that can be supported by its capital structure) by R25 billion for 2009/10 and R37,5 billion for 2010/11, as illustrated below.



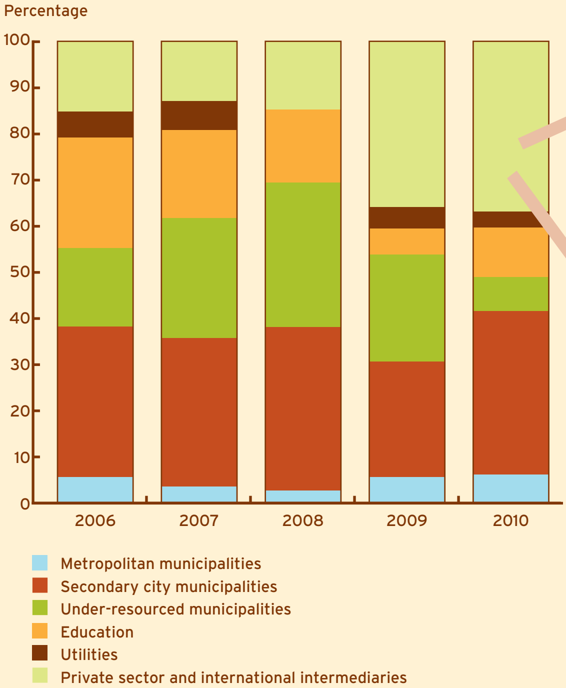
Effect of capitalisation plan on asset capacity, 2005/06 to 2009/10

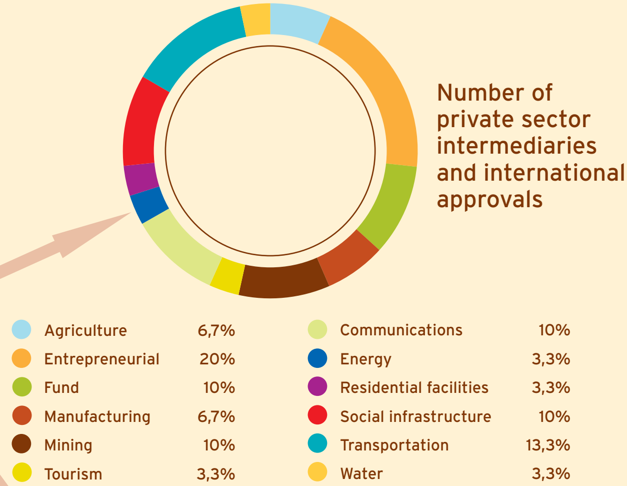
Development investment

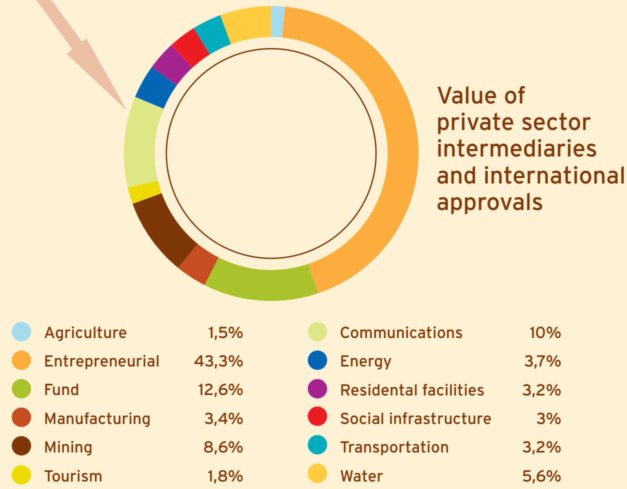
During the year, the DBSA approved development investments to the value of R18,8 billion (2008/09: R20,5 billion). These loan and equity approvals are reflected, per sector, in the graph on page 17.

Although the tough economic conditions constrained the ability of the market to take up funding, the Bank nevertheless succeeded in disbursed loan and equity funding of R8,3 billion. An additional R550,2 million (2008/09: R464,1 million) of the Bank's operating expenditure and grants was spent on developmental initiatives. The Bank's total contribution to development in 2009/10 therefore amounted to R8,8 billion.

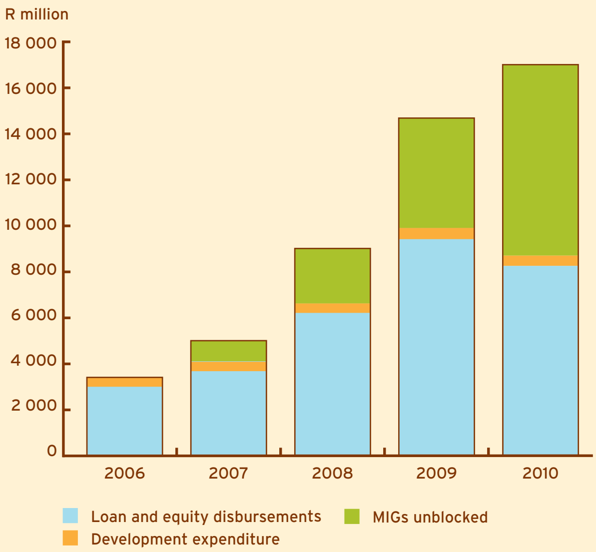
In addition to its own contributions to development, the DBSA also assists in unblocking other sources of funding for municipal clients, such as the government's Municipal Infrastructure Grant (MIG). The graph on page 17 shows the total financial value of the DBSA's interventions, including disbursements on development investments, development expenditure, and the value of MIG funding unblocked through the Siyenza Manje programme.







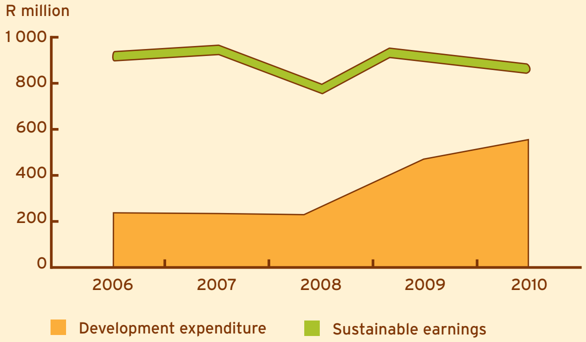
Loan and equity approvals, 2005/06 to 2009/10



Total financial value of DBSA's interventions (including MIGs), 2005/06 to 2009/10

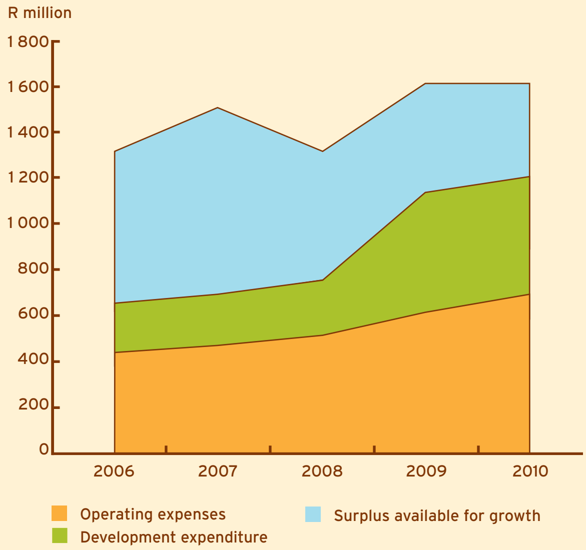
Development expenditure

As shown in the previous page, the DBSA spent R550,2 million on developmental initiatives, representing 66,9% of its sustainable earnings for the year. This was significantly higher than the 2008/09 figure of 48,9% and the target of 45%, owing to a combination of lower than expected levels of income (see the section on Financial performance below) and significant pressure to increase the assistance provided by the organisation.



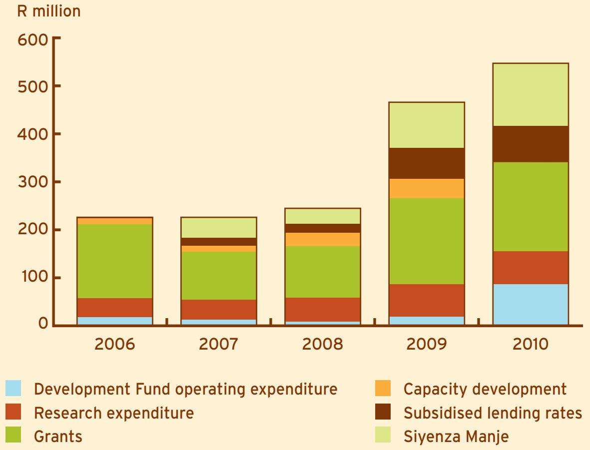
Distribution of sustainable earnings on development initiatives, 2005/06 to 2009/10

The DBSA aims to keep its expenditure on development initiatives to around 45% of sustainable earnings in future. Rather than cutting its developmental initiatives, the Bank will instead pursue options such as raising more external funding through the DBSA Development Fund; managing normal operating expenses more tightly (as per the graph below); and lowering the cost of funding.



Operating and development expenses, 2005/06 to 2009/10

Over the past few years, the Bank has greatly increased its development expenditure, in terms of both the value and the number of initiatives, as shown below.

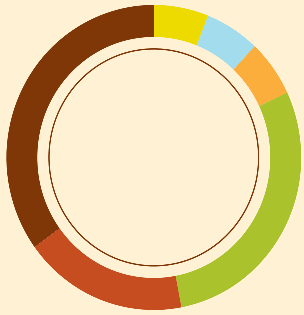


Development expenditure by type of initiative, 2005/06 to 2009/10

The R550,2 million spent on developmental initiatives in 2009/10 includes the following, among other initiatives (see graph and table opposite for details):

- *Subsidising lending rates to under-resourced municipalities (R72,9 million):* The DBSA's Targeted Infrastructure Programme (TIP) provides concessional lending rates to poorly resourced municipalities that would otherwise not have been able to afford funding. During the year, R670,0 million was disbursed under the programme, bringing the total TIP book to R1,5 billion. The interest concession for the year amounted to R72,9 million (2009: R65,3 million), representing a 46,5% concession on the full rates.
- *Expenditure on research and advisory services (R69,1 million):* In addition to its supportive role in investment decisions, DBSA's Development Planning Division provides advisory services on issues such as government planning or public policy development at various levels, and turnaround strategies for local government.
- *Technical assistance (R67,4 million):* The Bank provides funding, advice and information to strengthen the capacity of client institutions to plan, implement and manage development projects and deliver services. It also supports processes to remove obstacles and create an enabling environment for development. By definition, technical assistance does not create assets; rather, it enables the development impact of investments to be optimised.

- *Expenditure through the DBSA Development Fund (DBSA contribution: R340,8 million):* The Fund promotes capacity building for development by providing grants, technical experts for under-resourced municipalities under the Siyenza Manje programme, training to enhance the skills of officials, and financial and administrative services to various development agencies.



Distribution of current year surplus on development, 2009/10

Expenditure on development initiatives, 2005/06 to 2009/10

in thousands of rand	5-year average	2009/10	2008/09	2007/08	2006/07	2005/06
Profit from operations	1 245 247	**963 195**	1 586 121	1 293 764	1 282 772	1 100 382
Add back: Foreign exchange and financial (gains)/losses	(417 827)	**(207 890)**	(718 752)	(583 512)	(344 991)	(233 990)
Technical assistance grants	49 257	**67 452**	82 468	46 295	32 102	32 980
Sustainable earnings	876 677	**822 758**	949 837	756 547	969 883	899 372
Development expenditure included in sustainable earnings	92 378	**141 949**	127 401	68 202	70 494	53 842
Surplus available for allocation to development	969 055	**964 707**	1 077 238	824 749	1 040 377	953 214
Development expenditure	(342 560)	**(550 173)**	(464 151)	(248 169)	(224 519)	(225 791)
Direct development expenditure	(158 173)	**(209 402)**	(249 674)	(142 372)	(102 596)	(86 822)
Subsidised lending rates	(35 191)	**(72 872)**	(65 273)	(19 832)	(15 218)	(2 758)
Research expenditure	(51 080)	**(69 077)**	(62 128)	(48 370)	(39 240)	(36 586)
Capacity deployment and development	(19 643)	**–**	(39 805)	(27 876)	(16 036)	(14 499)
Grants	(52 259)	**(67 452)**	(82 468)	(46 295)	(32 102)	(32 980)
Development Fund expenditure	(184 387)	**(340 771)**	(214 477)	(105 796)	(121 923)	(138 969)
Capacity building grants	(93 748)	**(120 122)**	(101 049)	(59 846)	(67 349)	(120 375)
Siyenza Manje costs	(61 903)	**(136 980)**	(93 983)	(36 397)	(42 156)	–
Other capacity deployment and development expenditure	(28 736)	**(83 668)**	(19 445)	(9 554)	(12 418)	(18 594)
Surplus available for growth	626 494	**414 535**	610 087	576 580	815 858	727 423
Development expenditure as % of distributable surplus	35,3	**57,0**	43,1	30,1	21,6	23,7
Development expenditure as % of sustainable earnings	39,1	**66,9**	48,9	32,8	23,1	25,1

Financial and development investment overview
continued

Financial results

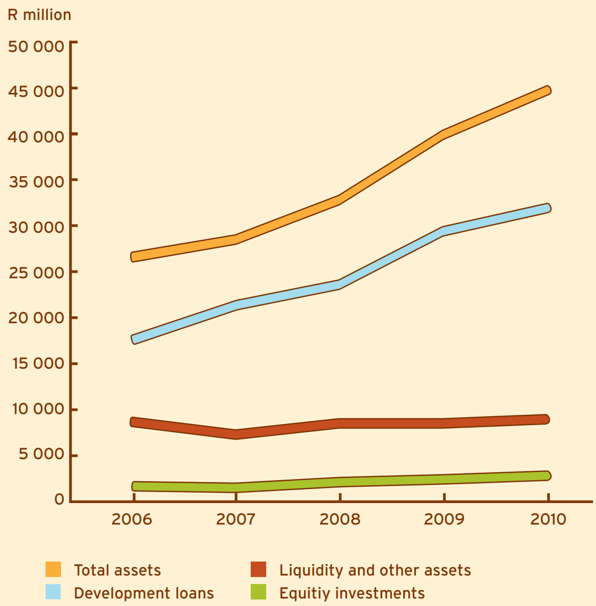
Key financial indicators are reflected in the table below.

Key financial indicators	2009/10 R million	Variance %	2008/091 R million
Loans and equity disbursements	**8 257**	-11,3	9 306
Total assets	**45 144**	11,8	40 382
Development loans	**32 969**	12,0	29 449
Equity investments	**3 253**	27,7	2 548
Net interest income	**1 631**	-7,1	1 756
Net foreign exchange (loss)/gain	**-261**		224
Net gain from financial assets and liabilities	**469**	-5,3	495
Operating expenses	**716**	-6,9	669
Impairment charge	**228**	4,0	238
Sustainable earnings	**823**	-13,4	950
Profit from operations (before transfer to Development Fund)	**963**	-39,3	1 586
Debt-to-equity ratio (excluding callable capital) (%)	148,5		131,3
Debt-to-equity ratio (including callable capital) (%)	95,2		102,7
Interest margin (%)	45,3		50,7
Cost to income (%)	40,5		36,0
Average return on assets (%)	2,3		4,3
Average return on equity (%)	5,5		9,6

Financial position

Despite the prevailing market conditions, the financial position of the organisation and the quality of the loan book remains healthy. Income-earning assets (loans and equity investments) grew by 13% to R36,2 billion. This was the main contributor to the growth in total assets to R45,1 billion (up 12% from the previous year) as reflected in the graph opposite.

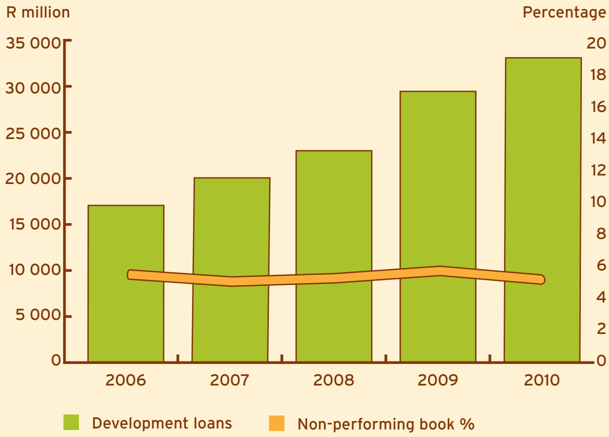
The average financial return on assets and return on equity achieved was 2,3% and 5,5% respectively.



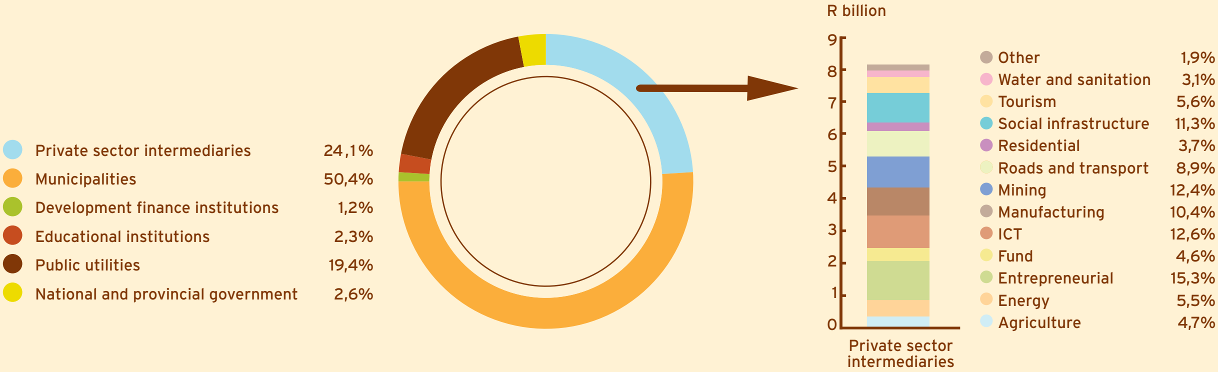
Growth of the balance sheet, 2005/06 to 2009/10

The Bank's non-performing book debt remains managed at 4,9% (2008/09: 5,4%) of the total book as reflected in the graph opposite.

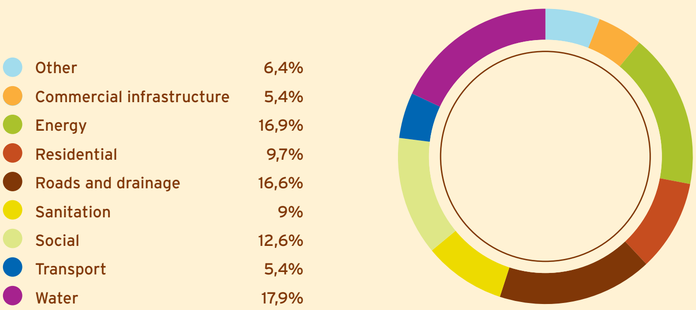
The Bank invests in a diversity of sectors and types of investment, as depicted in the portfolio graphs below. The first portfolio graph shows significant support to municipalities, at 50,4% of the loan book. The second graph, on the public sector book, shows the predominance of funding for social, enabling and economic infrastructure. The third graph shows the equity portfolio.



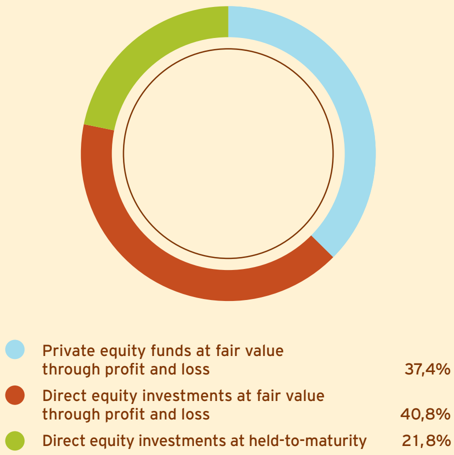
Quality of loan book, 2005/06 to 2009/10



Diversity of total loan book, as at 31 March 2010

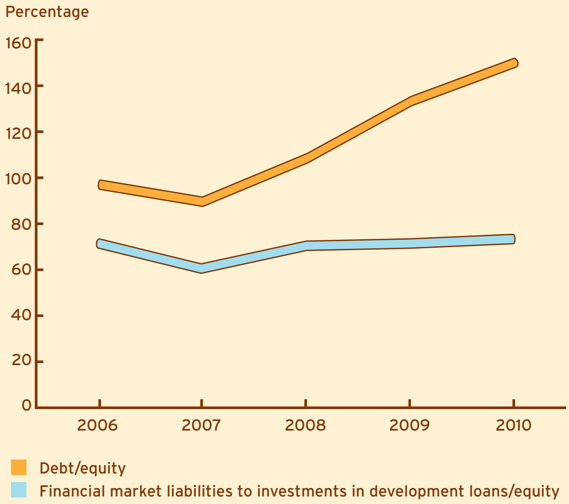


Diversity of public sector loan book, as at 31 March 2010

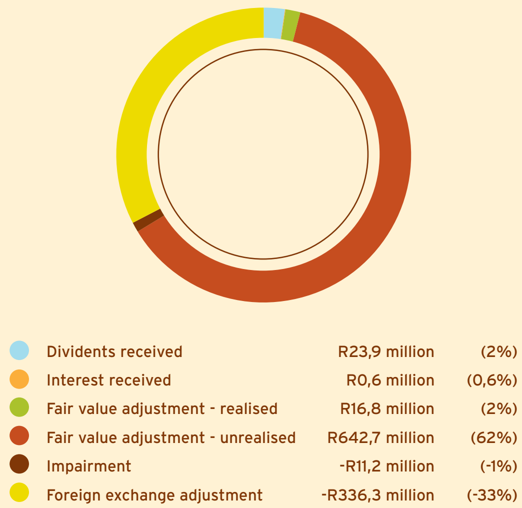


Equity portfolio based on net investment cost, 2009/10

The growth in loan and equity disbursements during the year was funded mainly by borrowings, which accounts for the increase in the debt-to-equity ratio from 131% in 2008/09 to 149%, as shown in the figure below. This also affected the Bank's interest expenses, and therefore the net interest margin.



Leverage ratios, 2005/06 to 2009/10



Equity portfolio impact on the income statement, 2009/10

Financial performance

The DBSA achieved a net interest margin of 45,3% in 2009/10, down from 50,7% in the previous year. This was due largely to the volatility of interest rates, in particular the significant reduction in short-term interest rates, together with the increased cost of borrowing following the general decline in liquidity.

The strengthening of the rand resulted in a net foreign exchange loss of R261 million (2008/09: R224 million gain), largely on euro- and dollar-denominated equity investments. Still, the strong performance of these equities resulted in a net financial gain of R643 million (2008/09: R59 million).

The Bank incurred a net revaluation loss of R113,8 million on hedged fair-valued assets and liabilities, inclusive of the hedge instruments (2008/09: R443 million net gain resulting from the widening of the spread of DV bonds relative to swaps). The net loss resulted largely from movements in the spread of DV bonds relative to swaps. In the case of the Bank's DV13, DV22, and DV23 issues, the relative bond yields had moved by -45, +40 and +24 basis points respectively year-on-year, resulting in a negative revaluation impact of R130 million. While the liabilities would ordinarily have been offset by the designated assets and hedge instruments, the relative volatility in spreads resulted in substantial net movements over the last two financial years.

A net revaluation loss of R66,0 million resulted from the partial early redemption of the DV07 bond maturing in September 2010. The revaluation loss represents the difference between the market value of the redeemed bond and the accounting book value, since the bond was accounted for at cost. The decision to redeem the bond was taken with full cognisance of the revaluation impact, with a view to reducing the refinancing risk that the Bank would face at the maturity of the bond.

A net gain of R5,5 million was achieved in the fair value of the post-retirement medical aid investment portfolio.

The net impairment charge of R228 million (2008/09: R238 million) to the income statement is managed in line with the overall increase in the loan book. The non-performing book debt ratios remain within acceptable norms.

The Bank has a prudential cost-to-income ratio limit of 45%. While the target was below 40%, the actual ratio of 40,5% (2008/09: 36,0%) was largely the result of the lower than expected income, as stated above. Due to various management initiatives put in place during the year, this ratio was within the prudential limit.

Cost to income ratio,
2005/06 to 2009/10

Given the conditions set out above, profit from operations (before the transfer to the Development Fund and capacity development and deployment expenses) was a solid R963 million.

For further financial results and analyses, the five-year financial review of the Bank is on page 2, and the abridged annual financial statements are on pages 24 to 29. The development expenditure table, which categorises direct and indirect development expenditure, is on page 19.

Financial sustainability and strategy

Key drivers and associated risks with regard to achievement of the future objectives include the balance sheet capacity and the ability to raise cost effective funding. Building on the approved capitalisation, which created the capacity, the current and future funding initiatives also include the issuing of preference shares and targeted pension fund strategies.

The objective of the Finance Division is to maintain effective financial management, forecasting, financial analysis and decision-making capabilities to ensure the long-term financial sustainability of the Bank and its business divisions. The current focus of the Division is on the capital optimisation of the Bank.

The year ahead

The Bank will continue to implement its strategy to increase investment in its mandated interventions and maximise its development impact despite the current economic conditions. It will also continue to implement plans for the revised capital structure, through increasing the callable capital of the Bank. Further to increasing the callable capital of the Bank which was approved by the Minister of Finance, it will also continue to implement plans for the revised capital structure. Furthermore, various initiatives are being pursued to lower the Bank's cost of funding to allow the projected disbursement growth. These initiatives stand in support of the Bank's objective of significantly increasing its investment in the region over the short to medium term, while maintaining its strong financial sustainability.

Annual financial statements (abridged)

Basis of preparation

The abridged annual financial statements for the year ended 31 March 2010 are a summary of the Development Bank's unqualified audited financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Public Finance Management Act and by the Companies Act, in terms of section 284 to 303 and schedule 4.

For a better understanding of the Bank's financial position and results of operations, these abridged financial statements are to be read in conjuction with the Bank's audited annual financial statements for the year ended 31 March 2010, which include all disclosures required in terms of IFRS.

Audit report

The annual financial statements for the year have been audited by KPMG Inc. and Gobodo Inc., and their unqualified audit report is available for inspection at the Bank's registered office.

Statement of financial position

as at 31 March 2010

in thousands of rand	2010	2009
Assets		
Cash and cash equivalents	**2 706 788**	2 475 095
Other receivables	**139 043**	120 498
Investment securities	**3 090 286**	2 555 283
Investments under resale agreements	**1 167 750**	1 361 561
Derivative assets held for risk management	**1 263 236**	1 403 762
Post-retirement medical benefits investment	**68 724**	63 246
Home ownership scheme loans	**15 517**	16 697
Equity investments	**3 252 813**	2 547 778
Development loans	**32 968 542**	29 448 757
Property and equipment	**412 139**	370 769
Intangible assets	**59 083**	18 192
Total assets	**45 143 921**	40 381 638
Liabilities		
Other payables	**689 051**	510 481
Liability for funeral benefits	**4 036**	3 630
Liability for post-retirement medical benefits	**233 913**	226 648
Medium- to long-term funding debt securities	**21 334 430**	14 886 856
Medium- to long-term funding lines of credit	**4 539 441**	5 938 264
Funding under repurchase agreements	**370 674**	1 160 144
Derivative liabilities held for risk management	**82 093**	420 112
Total liabilities	**27 253 638**	23 146 135
Equity		
Share capital	**200 000**	200 000
Retained earnings	**12 652 543**	12 117 311
Permanent government funding	**3 792 344**	3 792 344
Revaluation reserve on land and buildings	**206 145**	198 401
Hedging reserve	**32 249**	17 529
Reserve for general loan risks	**1 022 146**	935 083
Fair value reserve	**(15 144)**	(25 165)
Total equity	**17 890 283**	17 235 503
Total liabilities and equity	**45 143 921**	40 381 638

Income statement

for the year ended 31 March 2010

in thousands of rand	2010	2009
Interest income	**3 602 473**	3 461 399
Interest expense	**(1 971 314)**	(1 705 378)
Net interest income	**1 631 159**	1 756 021
Net fee income	**88 644**	84 144
Net foreign exchange (loss)/gain	**(260 649)**	223 914
Net gain from financial assets and liabilities	**468 539**	494 839
Other operating income	**46 919**	17 329
	343 453	820 226
Operating income	**1 974 612**	2 576 247
Grants	**(67 452)**	(82 468)
Net impairment loss on financial assets	**(228 436)**	(238 249)
Personnel expenses	**(493 037)**	(424 545)
Other expenses	**(205 502)**	(237 943)
Depreciation and amortisation	**(16 990)**	(6 921)
Profit from operations	**963 195**	1 586 121
Grant to Development Fund	**(340 900)**	(120 000)
Capacity development and deployment	**–**	(39 805)
Profit for the year	**622 295**	1 426 316

Statement of comprehensive income

for the year ended 31 March 2010

in thousands of rand	2010	2009
Profit for the year	**622 295**	1 426 316
Fair value movement of cash flow hedges	**14 720**	7 615
Fair value adjustment of available-for-sale financial market instruments	**10 021**	19 856
Transfer to revaluation reserve on land and buildings	**7 744**	1 843
Other comprehensive income	**32 485**	29 314
Total comprehensive income for the year	**654 780**	1 455 630

Statement of changes in equity

for the year ended 31 March 2010

in thousands of rand	Share capital	Permanent government funding	Revaluation reserve on land and buildings	Hedging reserve	Reserve for general loan risks	Fair value reserve	Retained earnings	Total capital and reserves at the end of the year
Balance at 01 April 2008	**200 000**	**3 792 344**	**196 558**	**9 914**	**721 102**	**(45 021)**	**10 904 976**	**15 779 873**
Profit for the year	–	–	–	–	–	–	1 426 316	1 426 316
Other comprehensive income								
Fair value movements of cash flow hedges	–	–	–	7 615	–	–	–	7 615
Fair value adjustment of available-for-sale financial market instruments	–	–	–	–	–	19 856	–	19 856
Transfer to revaluation reserve on land and buildings	–	–	1 843	–	–	–	–	1 843
Transfer to reserve for general loan risks	–	–	–	–	213 981	–	(213 981)	–
Total changes	–	–	1 843	7 615	213 981	19 856	1 212 335	1 455 630
Balance at 01 April 2009	**200 000**	**3 792 344**	**198 401**	**17 529**	**935 083**	**25 165**	**12 117 311**	**17 235 503**
Profit for the year	–	–	–	–	–	–	622 295	622 295
Other comprehensive income								
Fair value movements of cash flow hedges	–	–	–	14 720	–	–	–	14 720
Fair value adjustment of available-for-sale financial market instruments	–	–	–	–	–	10 021	–	10 021
Transfer to revaluation reserve on land and buildings	–	–	7 744	–	–	–	–	7 744
Transfer to reserve for general loan risks	–	–	–	–	87 063	–	(87 063)	–
Total changes	–	–	7 744	14 720	87 063	10 021	535 232	654 780
Balance at 31 March 2010	**200 000**	**3 792 344**	**206 145**	**32 249**	**1 022 146**	**(15 144)**	**12 652 543**	**17 890 283**

Statement of cash flows

for the year ended 31 March 2010

in thousands of rand	2010	2009
Cash flows from operating activities		
Profit for the year	**622 295**	1 426 316
Adjustments for:		
Depreciation and amortisation	**16 990**	6 921
Grants paid	**67 452**	82 468
Dividends received	**(23 911)**	(9 887)
Realised capital gain on equity investment	**(16 802)**	–
Profit on sale of property and equipment	**(117)**	–
Net foreign exchange loss/(gain)	**260 649**	(223 914)
Net gain from financial assets and liabilities	**(468 539)**	(573 452)
Impairment on financial assets	**228 436**	238 249
Net interest income	**(1 631 159)**	(1 677 408)
	(944 706)	(730 707)
(Increase)/decrease in other receivables	**(20 678)**	12 676
Decrease in home ownership scheme loans	**1 180**	2 511
Increase/(decrease) in other payables	**17 801**	(60 789)
Change in liability for funeral benefits and post retirement medical benefits	**7 671**	31 000
	(938 782)	(745 309)
Interest and dividends received	**3 344 700**	3 140 295
Interest paid	**(1 954 829)**	(1 611 614)
Net cash from operating activities	**451 139**	783 372
Cash flows used in development activities		
Development loan disbursements	**(7 838 807)**	(8 792 436)
Development loan principal repayments	**3 152 166**	3 068 376
Increase in equity investments	**(394 395)**	(308 931)
Grants paid	**(44 243)**	(82 468)
Net cash used in development activities	**(5 125 279)**	(6 115 459)
Cash flows from investing activities		
Purchase of property and equipment	**(42 616)**	(57 160)
Proceeds from the sale of property and equipment	**187**	–
Purchase of intangible assets	**(48 951)**	(18 409)
Movement in financial market assets	**116 469**	498 773
Net cash generated from investing activities	**25 089**	423 204
Cash flows from financing activities		
Financial market liabilities repaid	**(1 461 000)**	(1 991 880)
Financial market liabilities raised	**6 411 337**	6 898 418
Net cash generated from financing activities	**4 950 337**	4 906 538
Net increase/(decrease) in cash and cash equivalents	**301 286**	(2 345)
Effect of exchange rate movement on cash balances	**(69 593)**	163 637
Movement in cash and cash equivalents	**231 693**	161 292
Cash and cash equivalents at the beginning of the year	**2 475 095**	2 313 803
Cash and cash equivalents at the end of the year	**2 706 788**	2 475 095

Development Fund

Vision

The DBSA Development Fund's vision is to be a leading catalyst in capacity building in order to maximise the impact of development finance in South Africa.

Mission

The mission of the DBSA Development Fund is to promote and facilitate capacity building within municipalities, communities and local economies for effective and sustainable service delivery and economic development in order to improve the quality of life.

Products and services

The Fund will achieve its mission by delivering the following products and services:

- **Grant funding:** The Fund provides grants to projects that build sustainable capacity in people, processes and systems at municipal or community level, and through these initiatives seeks to unlock or crowd in other sources of funding.
- **Expertise:** The Fund's core programme, Siyenza Manje, mobilises and deploys engineering, planning and financial experts to implement technical and non-technical infrastructure projects. Expertise is also deployed through the Sustainable Communities programme, the Rural Development Initiative and the Agencies Unit in order to develop and implement replicable development projects.
- **Development facilitation:** The Fund promotes technical support and sharing of knowledge through leveraging and deploying both internal and external resources in development facilitation activities and sustainable community development.
- **Rural Development:** The Fund prepares and implements catalytic rural social and economic infrastructure in addition to institutional and economic turnaround strategies.

Guiding principles

The Fund pursues the following guiding principles during implementation:

- **Additionality:** To add value to the funding, experience and expertise provided by other development agencies.
- **Forming strategic alliances:** To provide support in partnership with other stakeholders who have a common interest with the Fund.
- **Focusing on development impact:** To ensure, by measuring and quantifying impact, that programmes or projects improve the quality of life of communities.
- **Sustainability:** To ensure that programmes or projects have a lasting effect on institutions, the environment and the economy, and that they benefit future generations.
- **Empowerment:** To ensure that programmes or projects bring communities into the mainstream economy, and that skills are transferred to recipients and beneficiaries.

Business and financial overview

as at 31 March 2010

Financial results (R million)	2009/10	2008/09	2007/08	2006/07
Income				
Grants received from the DBSA	**340,9**	120,0	–	–
Grants received from the National Treasury	**319,6**	219,3	85,0	–
Expenditure				
Siyenza Manje costs	**456,6**	313,3	121,3	42,2
Grants	**120,1**	101,0	59,8	67,3
Other operating expenditure	**86,9**	19,5	9,6	12,4
Funding reserve	**10,2**	10,1	104,2	209,9
Approvals for the year	**109,3**	61,8	49,3	20,4
Grant commitments at year-end	**111,5**	97,6	102,3	139,3

The DBSA Development Fund exceeded its operational targets for 2009/10 and maintained its costs within the approved allocation.

Siyenza Manje costs

At year-end, the Siyenza Manje programme of the DBSA Development Fund employed 189 engineers and technicians, 80 finance experts, 26 planners, 156 young professionals and 164 artisans. Among them were 121 deployees seconded from professional service providers.

Through these deployments, the programme assisted 199 municipalities and 18 government departments, and facilitated 3 825 municipal infrastructure grants (MIGs) and capital expenditure projects to the value of R8,9 billion. The projects created 64 869 jobs, and provided 107 195 households with access to sanitation services and 406 719 households with access to bulk sanitation. In addition, 203 125 households were connected to water reticulation networks and 410 093 households to bulk water. The deployees facilitated the development of 544 systems, 489 policies and 173 plans. They offered on-the-job training to 388 municipal officials in the field of planning, 1 025 in technical services and 1 008 in financial management

The increase in the costs of the Siyenza Manje programme can be ascribed to three main factors:

- In 2008/09, the employment of deployees increased gradually during the year, which kept the related expenditure on remuneration, subsistence and travel costs lower. In 2009/10, by contrast, the deployees served for the full year, with concomitant increases in the related expenditure.
- The same holds for service providers: while some were employed during the course of the previous year, 2009/10 was their first full year on the programme. The Fund also employed additional professional service providers in 2009/10.
- Training costs rose after a programme was formalised to increase the training of young professionals and artisans.

Grants

The Fund disbursed grants of R120 million (2008/09: R101 million) to support training, capacity building and sustainable development projects.

The 18,9% increase in grant disbursements in 2009/10 is due to the training grants offered by the Vulindlela Academy. The Academy was transferred from the Bank to the Fund during the year (see the section on Other operating expenditure on page 32) and these grants were previously reflected in the financial statements of the Bank. The Academy disbursed training grants of R19 million in 2009/10, which funded the training of 6 746 delegates. The delegates attended a total of 11 366 training interventions.

Capacity building grants were disbursed to fund projects that developed 27 systems, 11 planning initiatives, three policies and two feasibility studies. Twelve other initiatives were also supported, including drought relief in the Kou-Kamma Municipality (Eastern Cape) and disaster management in the iLembe Municipality (KwaZulu-Natal).

The Sustainable Communities programme disbursed grants of R24 million, of which R4.2 million was used to refurbish soccer pitches and facilities in Driekoppies (Mpumalanga), Tshisaulu (Limpopo) and Elliotdale (Eastern Cape). The programme also leveraged funding amounting to R100 million, developed bankable projects in three areas and established partnerships with both the public and the private sector to support the development of sustainable communities.

Other operating expenditure

During the year, the income and expenditure of five business units were transferred from the Bank to the DBSA Development Fund: Agencies, Project Management, Rural Development, Sustainable Communities and the Vulindlela Academy. These units were previously accounted for in the Bank's financial statements and their transfer caused a sharp increase in the other operating expenditure of the Fund.

The Agencies Unit attracted eight new agencies this year, increasing the number of agencies supported to 35 in the year under review. It also signed agreements to manage funds to the value of R442 million on behalf of a range of partners. This brought the overall portfolio to R757 million.

The Rural Development Division (the former Local Economic Development Initiative or LEDi) brought three pilot sites into implementation during the year: Theewaterskloof Local Municipality, Cacadu District Municipality and Ugu District Municipality. The Fund provided technical assistance to develop economic and institutional turnaround strategies, and identified 24 catalytic development projects. The beneficiary municipalities have since taken over the responsibility for these projects.

The Division also developed an innovative product to facilitate project finance in poor areas: the Regional Economic Model forecasts the impact that an investment in a specific sector will have on economic growth. The model is being tested in Theewaterskloof Local Municipality and the eThekwini Metro.

Funding from the National Treasury

The National Treasury contributed R323,7 million to the DBSA Development Fund in 2009/10. Of this amount, R319,6 million is recognised in the statement of comprehensive income as a grant received. The remaining R4,1 million, together with the interest received on the National Treasury's contribution, is included as deferred income in the statement of financial position. This is done in terms of the accounting statement on government grants, which requires that such grants be recognised as income over a period that matches the costs they are intended to compensate.

Funding from the DBSA

The DBSA contributed R340,9 million to the Development Fund, in line with its commitment to the Fund's strategic objectives. The value of the funding was increased significantly this year to cover the additional costs related to the transfer of five capacity building units to the Fund.

DBSA Board of Directors

Mr Jayaseelan Naidoo
Chairman of the Board
Mr Paul Cambo Baloyi
Chief Executive Officer and Managing Director
Mr Frans Baleni
Mr Andrew Boraine
Mr Kenneth Brown
Mrs Thembisa Dingaan
Prof. Brian de Lacy Figaji
(Resigned 31 July 2009)
Mr Trevor Fowler
(Resigned 31 December 2009)
Ms Nomboniso Gasa
(Resigned 31 July 2009)
Dr Lulu Gwagwa
Dr Deenadayalen Konar
(Resigned 31 July 2009)
Prof. Omar Aboobaker Latiff
Mrs Wendy Lucas-Bull
Dr Claudia Manning
Mr Jabulani Moleketi
Mr Ivan Mzimela
Mrs Malijeng Theresa Ngqaleni
Ms Tryphosa Ramano
(Resigned 19 April 2010)
Prof. Edward Charles Webster

Development Fund Board of Directors

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Mr Seeraj Mohamed
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Mr Ivan Mzimela
Dr Baldwin Ben Sipho Ngubane

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Group Chief Risk Officer
Mr Pieter de la Rey
Group Chief Financial Officer
Mr Ernest Dietrich
Group Executive: Treasury
Dr Snowy Joyce Khoza
Group Executive: Business Technologies and Facilities
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Managing Director: Development Fund
Mr Magare Luther Mashaba
Group Executive: South Africa Operations
Mr Ravindra Naidoo
Group Executive: Development Planning
Mr TP Nchocho
Group Executive: Investment Banking
Mrs Loyiso Ndlovu
Group Executive: Human Capital
Mr Admassu Yilma Tadesse
Group Executive: International and Strategy and Communications Divisions
Mrs Leonie van Lelyveld
Group Chief Operating Officer
Mr Heinz Maria Weilert
Group Executive: Special Projects

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