DBSA

Development Bank
of Southern Africa

Bending the arc of history
towards shared prosperity

2018

ANNUAL FINANCIAL STATEMENTS

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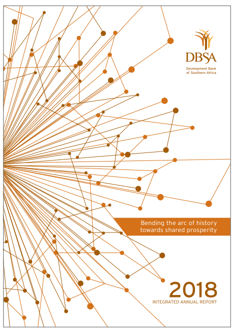
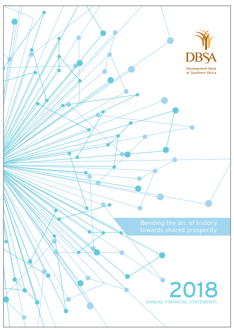
REPORT NAVIGATION

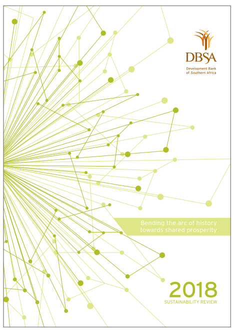
Our reporting suite for 2018 consists of three reports:



The **2018 Integrated Annual Report**, which is our primary communication with our stakeholders.



The **2018 Annual Financial Statements**, which includes the directors' report and the independent auditor's report.



The **2018 Sustainability Review**, which provides further information on our sustainability performance.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

FOR THE YEAR ENDED 31 MARCH 2018

The directors are responsible for the preparation, integrity and objectivity of Annual Financial Statements that fairly present the state of affairs of the Bank.

In preparing the Annual Financial Statements:

- The Development Bank of Southern Africa Act, No 13 of 1997 (Amended Act No 41 of 2014) (DBSA Act) has been adhered to;
- The Public Finance Management Act, No 1 of 1999 (PFMA) has been adhered to;
- International Financial Reporting Standards have been adhered to; and
- Sections 27 to 31 of the Companies Act of South Africa, No 71 of 2008 being the relevant and corresponding sections of those specified in the DBSA Act, have been adhered to.

To enable the directors to meet their financial reporting responsibilities:

- Management designed and implemented standards and systems of internal control to provide reasonable assurance as to the integrity and reliability of the Annual Financial Statements and to safeguard, verify and maintain the accountability of the Bank's assets;
- Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going-concern basis; and
- The Audit and Risk Committee as well as the internal auditors review the financial and internal control systems, accounting policies, reporting and disclosure.

Based on the information received from management and internal and external auditors, nothing has come to the attention of the directors to indicate a material breakdown in the systems of internal control during the year under review.

The directors have a reasonable expectation that the Bank has adequate resources to operate in the foreseeable future and have adopted the going-concern basis in preparing the Annual Financial Statements.

The Annual Financial Statements that appear on pages 9 to 86 were approved by the Board of Directors on 3 August 2018 and signed on its behalf by:

Phillip Jabulani Moleketi
Chairman of the Board

Patrick Khulekani Dlamini
Chief Executive Officer

Gugu Mtetwa
Chairperson of the Audit and Risk Committee

Report on the audit of the Annual Financial Statements

Opinion

1. I have audited the Annual Financial Statements of the Development Bank of Southern Africa (DBSA) set out on pages 14 to 86, which comprise the statement of financial position as at 31 March 2018, the statement of comprehensive income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the Annual Financial Statements present fairly, in all material respects, the financial position of the DBSA as at 31 March 2018, and its financial performance and cash flows for the year are in accordance with International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act of South Africa, No 1 of 1999 (PFMA), the Companies of Act of South Africa, No 71 of 2008 (The Companies Act) and the Development Bank of Southern Africa Act, No 13 of 1997 (Amended Act No 41 of 2014) (DBSA Act).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of Annual Financial Statements section of this auditor's report.
4. I am independent of the entity in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the Annual Financial Statements of the current period. These matters were addressed in the context of my audit of the Annual Financial Statements as a whole and in forming my opinion, and I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
Allowance for credit losses on the Development loans The calculation of the allowance for credit losses in the Annual Financial Statements is subject to significant management judgement and estimates. Due to the high degree of estimation and magnitude of the development loans (84% of total assets) the allowance for credit losses is considered a matter of most significance for my audit. In determining the allowance for credit losses management determines the recoverable amount of loans and applies estimates based on appropriate assumptions. The recoverable amount is the present value of projected cash flows covering the remaining useful life of the loan. Management further applies judgement on the collateral values based on market data.	My audit procedures included assessing the appropriateness of the allowance for credit losses in terms of the requirements of International Accounting Standard 39: Financial Instruments (IAS 39). I evaluated the design and implementation, and where possible the operating effectiveness, of the following controls: 1. The identification of impairment losses; 2. The governance processes in place for credit models, inputs and overlays (additional or reduction in impairments that are over and above the numbers generated by the impairment models) 3. The post investment monitoring forums where key judgements are considered; and 4. How the accounting authority ensured they have appropriate oversight over loan provisions. I obtained an understanding and tested the relevant internal controls over the allowance for credit losses calculations. I assessed whether the controls relating to annual credit reviews were performed by management in accordance with the Business Support and Recovery Unit (BSRU) Policy by comparing the policy requirements against what was applied during the year, and assessed whether the conclusions reached were appropriate.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE DEVELOPMENT BANK OF SOUTHERN AFRICA (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

Key audit matter	How the matter was addressed in the audit
Allowance for credit losses on the Development loans (continued)	
For municipalities, the recovery rate is based on the Bank's Municipal Loss Given Default model. For the other loans each non-performing borrower is individually assessed to determine its recovery rate. An impairment for incurred but not reported losses is calculated based on historic loss patterns, estimated emergence periods and the Bank's internal credit risk rating system for the performing loan book. The disclosure associated to the allowance for credit losses on development loans is set out in the following notes: Note 13 - Development loans Note 35 - Net impairment loss on financial assets - Note 43 - Risk management	I engaged an auditor's expert to assess the appropriateness and reasonableness of the credit risk impairment models and assumptions used by management in determining the allowance for credit losses. The expert's assessment included the assessment of assumptions used to determine the probability of default and loss given defaults. Furthermore, before I placed reliance on the work of an auditors' expert, I assessed independency, objectivity and competency in line with the requirements of ISA 620. I also reviewed the work performed by the expert for reasonability. In addition, I assessed the expert's work by evaluating significant assumptions and methods as well as the relevance and reasonableness of those assumptions and methods in the circumstances. I found management's model and assumptions to be reasonable and consistent with my expectations. I recalculated the allowance for credit losses for a sample of development loans utilising the same assumptions used by management and determined that managements estimate to be within a reasonable range to my expectations. Where specific impairments have been raised, I considered the impairment indicators, uncertainties and assumptions applied by management for both performing and non-performing loans, and their assessment of the recoverability and supporting collateral. I found management estimate to be within a reasonable range to my expectations. I am satisfied that the allowance for credit losses is reasonable and within the reasonable range to my expectations.
Valuation of financial instruments at amortised cost	
The valuation of financial instruments measured at amortised cost, such as development loans, development bonds, debt securities and lines of credit, is considered a matter of significance in my audit due to the magnitude and complexity of valuation. The financial assets carried at amortised cost amount to R76 billion and the financial liabilities amount to R47 billion. The valuation of instruments measured at amortised cost involves the use of estimates and judgements as detailed in note 1.1.2 of the annual financial statements. The disclosure associated to the instruments is set out in the following notes: Note 12 - Development bonds Note 13 - Development loans Note 19 - Debt securities Note 20 - Lines of credit	My audit procedures included assessing the appropriateness of the valuation techniques in terms of the requirements of International Accounting Standard 39: Financial Instruments (IAS 39). I obtained an understanding of and tested the internal controls relevant to the valuation of financial instruments. The review of controls included application controls on the Quantum and SAP system related to interest calculations. I assessed contracts entered into for the financial instruments to confirm the appropriate accounting thereof. Interest was recalculated on a sample basis using the effective interest rate in line with IAS 39. A sample of disbursements and repayments were confirmed to supporting documents and considered for appropriate accounting. Majority of the financial instruments were confirmed with third parties at year end. I am satisfied that the valuation of financial instruments measured at amortised cost is reasonable within a reasonable range to my expectations.

Key audit matter	How the matter was addressed in the audit
Valuation of complex financial instruments at fair value	
Valuation of financial instruments measured at fair value such as investment securities, equity investments (both listed equities and unlisted private equity funds), debt securities and derivatives, requires greater judgement and estimation to determine the appropriate valuation techniques and to source relevant and reliable inputs. The valuation of instruments measured at fair value involves the use of estimates and judgements as detailed in note 1.1.2 of the annual financial statements. The fair value determination for derivative assets includes an estimated credit value adjustment (CVA) in line with IFRS 13 fair value requirements. The Bank estimates credit spread attribution to its own credit risk. The fair value of equity investments is determined from observable market data in respect to similar financial instruments. Where market data is not observable, the fair value is estimated based on appropriate assumptions. Further the fair value is adjusted with a risk premium within the equity exposures to ensure that all risks within the portfolio are considered in the determination of the fair values. Due to the significant management judgements applied, the valuation of complex instruments at fair value is considered a matter of significance in my audit. The disclosure associated to the complex instruments is set out in the following notes: Note 7 - Investment securities Note 8 - Derivative instruments held for risk management Note 10 - Equity Investments Note 11 - Fair value hierarchy disclosures Note 19 - Debt securities	My audit procedures included considering the appropriateness of the valuation techniques utilised in terms of the requirements of International Accounting Standard 39: Financial Instruments (IAS 39) and International Financial Reporting Standards 13:Fair Value measurement (IFRS13). I assessed contracts entered into for the financial instruments to confirm the appropriate accounting thereof. I assessed the appropriateness of the valuation model with reference to approaches commonly used. I also assessed the judgements and estimates applied by management against my understanding of current market practice and with reference to the requirements of IFRS 13. I also obtained independently sourced inputs where they were available. Where valuation inputs are unobservable, I used my valuation expertise to assess the reasonability of the valuation inputs based on supportable and comparable information and conducted a comparison of these to management's valuation inputs. I accepted management's valuation inputs to be within a reasonable range to my expectations. The valuation of financial instruments measured at fair value is reasonable.

Other matter

7. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Previous period audited by a predecessor auditor

8. The Annual Financial Statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act on 22 June 2017. The opinion was unmodified.

Responsibilities of the Accounting Authority for the Annual Financial Statements

9. The board of directors, which constitutes the accounting authority is responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with the International Financial Reporting Standards and the requirements of the and the requirements of the and the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and for such internal control as the accounting authority determines is necessary to enable the preparation of Annual Financial Statements that are free from material misstatement, whether due to fraud or error.
10. In preparing the financial statements, the accounting authority is responsible for assessing the Development Bank of Southern Africa's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE DEVELOPMENT BANK OF SOUTHERN AFRICA (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

Auditor-general's responsibilities for the audit of the Annual Financial Statements

11. My objectives are to obtain reasonable assurance about whether the Annual Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
12. A further description of my responsibilities for the audit of the Annual Financial Statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
14. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
15. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following objectives presented in the annual performance report of the entity for the year ended 31 March 2018:

Objectives	Pages in the annual performance report
Objective 1 – Maintain financial sustainability	10
Objective 2 – Sustained growth in development impact	10
Objective 3 – Integrated infrastructure solutions provider	10

16. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

17. I did not raise any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Maintain financial sustainability
- Sustained growth in development impact
- Integrated infrastructure solutions provider

Other matters

18. I draw attention to the matters below.

Achievement of planned targets

19. Refer to the annual performance report on page 10 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

20. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of Maintain financial sustainability and Sustained growth in development impact. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

21. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
22. I did not raise material findings on compliance with the specific matters in key legislation set out in the general notice issued in terms of the PAA.

Other information

23. The accounting authority is responsible for the other information. The other information comprises the information included in the integrated report, which includes the directors' report and the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in this auditor's report.
24. My opinion on the Annual Financial Statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
25. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Annual Financial Statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
26. If, based on the work I have performed, I conclude that there is a material misstatement in this other information, I am required to report that fact.
27. No other material inconsistencies were identified in the other information. I have nothing to report in this regard.

Internal control deficiencies

28. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. I did not identify any significant deficiencies in internal control.

Auditor - General

6 August 2018

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

ANNEXURE - AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate Annual Financial Statements, and the procedures performed on reported performance information for selected objectives and on the Bank's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the consolidated and separate Annual Financial Statements as described in this auditor's report, I also:
   - identify and assess the risks of material misstatement of the consolidated and separate Annual Financial Statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
   - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control
   - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority
   - conclude on the appropriateness of the use of the going concern basis of accounting by the board of directors, which constitutes the accounting authority, in the preparation of the Annual Financial Statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Annual Financial Statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the Annual Financial Statements. My conclusions are based on the information available to me at the date of this auditor's report. However, future events or conditions may cause an entity to cease continuing as a going concern
   - evaluate the overall presentation, structure and content of the Annual Financial Statements, including the disclosures, and whether the Annual Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation
   - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated Annual Financial Statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion

Communication with those charged with governance

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.
5. From the matters communicated to those charged with governance, I determine those matters that were of the most significance in the audit of the consolidated and separate Annual Financial Statements of the current period and are therefore key audit matters. I describe these matters in this auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in this auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest of such communication.

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 MARCH 2018

The directors have pleasure in presenting this report as part of the Annual Financial Statements of the Development Bank of Southern Africa (DBSA) for the year ended 31 March 2018.

1. Nature of business

The DBSA was reconstituted in terms of the Development Bank of Southern Africa Act No 13 of 1997 (Amended Act No 41 of 2014), as a development finance institution wholly owned by the South African government. The geographic mandate of the DBSA has been extended beyond the Southern African Development Community (SADC) to any country on the African continent and its oceanic islands. The DBSA aims to deepen its development impact in South Africa and the rest of the African continent by expanding access to development finance while effectively integrating and implementing sustainable development solutions. Since its founding in 1983, the DBSA has expanded its role to serve as financier, adviser, partner, implementer and integrator to the benefit of its clients. There have been no materal changes to the nature of the business from the prior years.

2. Corporate governance

The directors embrace the principles of King IV and the Companies Act and endeavour to comply with these recommendations as far as they are not in conflict with the DBSA Act.

3. Financial results and activities

The financial results of the DBSA are fully disclosed on pages 14 to 86. The key financial indicators for the year under review are:

- Profitability of R2.28 billion (March 2017: R2.82 billion).
- Sustainable earnings of R2.76 billion (March 2017: R3.56 billion).
- Net interest income increased by 5% to R3.84 billion (March 2017: R3.67 billion).
- Impairment charge for the year amounting to R623 million (March 2017: R339 million).
- Operating income decreased by 5% to R3.84 billion (March 2017: R4.06 billion).
- Cost to income ratio increased to 22% (March 2017: 18%).
- Cash flow generated from operations increased to R4 billion (March 2017: R3.8 billion).
- Total assets increased by 6.6% to R89.2 billion (March 2017 to R83.7 billion).
- Development loans and equity disbursements was R12.2 billion (March 2017: R12.4 billion).
- Return on equity 8.3% (March 2017: 9.2%).
- Debt-to-equity ratio excluding callable capital of 156.2% (March 2017 158.1%)
- Debt-to-equity ratio including R20 billion callable capital 98.7% (March 2017 97.4%). Callable capital is shares authorised but not yet issued. Debt to equity ratio is within the Bank's regulatory limit of 250%.

Summarised information on the financial performance of the DBSA is included in the unaudited financial overview section on pages 88 to 95 of the Integrated Annual Report.

4. Annual performance report

High-level performance overview

The DBSA's strategy highlights the importance of achieving development impact while maintaining financial sustainability. The Balanced Scorecard (BSC) methodology is utilised to implement and monitor strategy. To this end, corporate strategic objectives and targets are developed and approved by the Board of Directors. The table overleaf compares the planned and related actual performance on the high-level corporate strategic objectives for 2018.

The DBSA continued to achieve good results during 2018, meeting some of its strategic objectives whilst the targets for the following key performance indicators were not met:

- Disbursements to metros, secondary municipalities and under resourced municipalities: The underperformance was largely attributed to delays in municipal processes resulting in metros and secondary and under-resourced municipalities not coming to the market to seek funding;
- Disbursement to fund social and economic infrastructure: The underperformance was largely attributed to the non-materialisation of various planned infrastructure projects and a strong competition in the market. Further delays in signing the Power Purchase Agreement of round 3.5 and 4 Independent Power Producers by the Department of Energy also resulted in economic infrastructure target not met;
- Disbursement to the SADC region (excluding South Africa) and Rest of Africa (excluding RSA): Infrastructure development and financing in the region is complex and time-consuming and can take a number of years to reach financial close, thus impacting the ability to disburse. The conversion of approval to disbursements took longer than anticipated. The challenging macro-economic conditions impact the ability to provide cost-effective funding.

DIRECTOR'S REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

- Value of projects prepared and committed by DBSA: The underperformance was mainly as the result of the delay in concluding the Power Purchase Agreements for the IPP programme and delays in regional projects due to complexity and time-consuming in reaching the financial closure.
- Value of third party funds catalysed in SADC. Infrastructure development and financing in the region is complex and time-consuming and can take a number of years to reach financial close, thus impacting the ability to disburse. The conversion of approval to disbursements took longer than anticipated. The challenging macro-economic conditions impact the ability to provide cost-effective funding.
- Retention of critical staff skills: The main reason for the underperformance was some of the staff (identified as key) left the Bank during the financial year because of new prospects and career advancement.

Performance information

Strategic objective	Key performance indicator	Target	Results
Maintain financial sustainability	ROE on sustainable earnings	4.7%	8.3%
	Non-interest revenue[1]	R250 million	R421 million
	Cost-to-income ratio: financing business	30%	19%
	Net operating cash generated from operations	R3 900 million	R4 039 million
	Total infrastructure financing	**R20 000 million**	**R12 208 million**
	South Africa	**R13 000 million**	**R8 975 million**
	Municipalities	**R5 600 million**	**R3 280 million**
	• Metropolitan cities	R4 300 million	R3 000 million
	• Secondary municipalities	R1 100 million	R238 million
	• Under-resourced municipalities	R200 million	R42 million
	Social infrastructure	**R1 800 million**	**R222 million**
	Economic infrastructure	**R5 600 million**	**R5 473 million**
	Outside South Africa	**R5 000 million**	**R3 233 million**
	of which SADC (excluding RSA) and the rest of the continent	R3 500 million	R1 321 million
	Structured Finance	**R2 000 million**	**Rnil**
Sustained growth in development impact	Project preparation • Value of projects prepared and committed by DBSA • Value of projects prepared and funded by third party funders	 R10 000 million R10 000 million	 R954 million R15 251 million
	Third party funds catalysed • Value of third party funds catalysed for DBSA in SA • Value of third party funds catalysed in SADC	 R2 600 million R5 000 million	 R3 626 million R1 100 million
	Structured Finance • Value of funds catalysed for innovation projects (third party funders)	R5 000 million	Rnil
	Implementation and delivery support programmes		
	• Value of funds under management	R3 900 million	R4 280 million
	• Value of funds catalysed for IDD	R3 000 million	R3 964 million
Integrated infrastructure solutions provider	Client satisfaction survey	Conduct survey (rating of 4 out of 5)	Rating of 4 out of 5
Continuous improvement of internal systems and processes	Balance sheet capacity: Capital management	100% completion of the signed off capital management project plan	100% completion of the signed off capital management project plan
	Implementation of the operating model	Implementation of the operating model	100% implementation of the new operating model and all members of staff placed.
	Transaction pipeline execution efficiencies	<20% of credit appraisals deferred by DBSA Investment Committee	5% of credit appraisals deferred by DBSA Investment Committee
Create and maintain a high performance culture	Retention of critical staff members	Lose less than 5% of critical skills	Lost 7% of critical skills
	Reduction in the DBSA's entropy score	2% improvement from 2016/17 results	3% improvement from 2016/17 results
	Adherence to critical training plan	80% of milestones completed [per project plan]	100%

[1] *Non-interest revenue calculation for performance purposes is based on cash received – upfront fees generated during the financial year.*

5. Dividend

No dividend has been declared for the current and previous financial year. The DBSA does not have a dividend policy as part of its contract with the shareholder. The benefits of reinvesting in the mandate of the DBSA far outweigh the benefit of a dividend to the shareholder.

6. Share capital

Authorised capital amounts to R20.2 billion, which is divided into two million and twenty thousand ordinary shares of R10 000 each. The authority of the Board to increase the share capital (after consultation with the shareholder) is limited to the issued share capital and only the Minister of Finance has authority to adjust the authorised share capital, after consultation with the Board.

7. Authorised capital

2 020 000 ordinary shares (March 2017: 2 020 000) at a par value of R10 000 each.

8. Callable capital (authorised but unissued share capital)

2 000 000 ordinary shares (March 2017: 2 000 000) at a par value of R10 000 each.

9. Issued capital

20 000 ordinary shares (March 2017: 20 000) at a par value of R10 000 each.

10. Going concern

The Annual Financial Statements have been prepared using appropriate accounting policies, supported by reasonable judgments and estimates. The directors have reasonable belief that the DBSA has adequate resources to continue as a going concern for the foreseeable future, based on forecasts and available cash resources.

11. Borrowing powers

As per Regulation 44 of the Regulations made under section 17 of the DBSA Act, the directors may in their discretion borrow or raise funding for the purposes of the DBSA, subject to the leverage ratio not exceeding 2.5 times the permanent capital and accumulated reserves. An annual borrowing programme, based on projections of business activity for the following financial year, is submitted to National Treasury for approval. The current year debt raised was within the approved programme, and the overall borrowings remained within the leverage ratio limit.

12. Directorate and secretariat

Details pertaining to the names of Board members and the Secretariat appear on pages 46 and 50 of the Integrated Annual Report.

Non-executive Directors are subject to retirement by rotation. They hold office for a period of three years and are eligible for re-appointment. The Chief Executive Officer may be appointed for a period not exceeding five years and is eligible for re-appointment.

DIRECTOR'S REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

Details of the Directors' current service contracts are as follows:

Name	Position	Number of terms served (including current term)	Current service contract	
			From	To
Current				
Mr PJ Moleketi	Independent Non-executive Chairperson	3	1 January 2016	31 December 2018
Mr FM Baleni	Independent Non-executive Deputy Chairperson	3	1 January 2016	31 December 2018
Mr PK Dlamini	Chief Executive Officer and Managing Director	2	1 September 2017	31 August 2022
Ms M Janse van Rensburg	Independent Non-executive Director	1	1 January 2016	31 December 2018
Ms Z Monnakgotla	Independent Non-executive Director	2	1 August 2017	31 July 2020
Mr L Motsherane	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms G Mtetwa	Independent Non-executive Director	2	1 August 2017	31 July 2020
Mr B Mudavanhu	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms B Ndamase	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms L Noge-Tungamirai	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms M Nqaleni	Non-executive Director (shareholder representative)	1	1 January 2016	31 December 2018
Ms P Nqeto	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms A Sing	Independent Non-executive Director	2	1 August 2017	31 July 2020
Prof M Swilling	Independent Non-executive Director	2	1 August 2017	31 July 2020
During the year				
Ms K Naidoo [1]	Chief Financial Officer	Not applicable	1 January 2013	31 August 2017
Dr L Bhengu-Baloyi [2]	Independent Non-executive Director	2	1 August 2014	31 July 2017
Ms B Mabuza [2]	Independent Non-executive Director	2	1 August 2014	31 July 2017
Ms D Marole [2]	Independent Non-executive Director	2	1 August 2014	31 July 2017
Mr A Moloto [2]	Independent Non-executive Director	1	1 August 2014	31 July 2017

[1] *Resigned on 31 August 2017*
[2] *Term of contract ended 31 July 2017*
[3] *B Mosako was appointed Chief Financial Officer on the 1 April 2018 and Executive Director on 1 June 2018 until such time she ceases to hold the office as CFO.*

The details of the Directors' interests in related party transactions and Directors' emoluments are set out in notes 42 and 45 respectively to of the Annual Financial Statements. The governance structure is detailed on page 45 of the Integrated Annual Report.

13. Remuneration policy

The Human Resources, Remuneration, Nomination, Social and Ethics Committee ensures that employees are fairly rewarded for their contributions to the performance of the DBSA. The provision of performance bonuses is at the sole discretion of the Board.

14. Business and registered address

The DBSA's business and registered address details appear on page 88.

15. Taxation status

The DBSA is exempt from normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act, No 58 of 1962, as amended. The DBSA is subject to and complies with all South African taxes, including employees' tax and value added tax. It paid net VAT amounting to R36 million during the 2018 financial year.

16. Changes in accounting policies

The accounting policies applied during the year ended 31 March 2018 are in all material respects consistent with those applied in the Annual Financial Statements for the year ended 31 March 2017, as no changes in accounting policies were effected in the 2018 financial year.

17. Events after the reporting period

The directors are not aware of any matters or circumstances arising since the end of the financial year which will have a significant effect on the operations of the DBSA, the results of its operations, or its financial position, other than that in note 53 of the Annual Financial Statements on page 86.

18. Litigation

The directors are not aware of any litigation against the DBSA other than that disclosed under contingent liabilities in note 46 of the Annual Financial Statements on page 83.

19. Related party transactions

Details of the DBSA's related party transactions are set out in note 45 of the Annual Financial Statements on page 82.

20. Information presented in terms of section 55(2)(b) of the PFMA

I. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: there were no instances where the DBSA sustained material losses. Refer to note 49 of the Annual Financial Statements on page 84;
II. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the DBSA sustained material losses;
III. Particulars of any losses recovered or written off: no material losses were recovered or written off other than in the ordinary course of business; and
IV. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the DBSA: no such financial assistance was received.

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2018

in thousands of rands	Notes	March 2018	March 2017
Assets			
Cash and cash equivalents	5	3 741 853	2 299 247
Trade receivables and other assets	6	399 621	121 982
Investment securities	7	1 420 920	1 069 085
Derivative assets held for risk management	8.1	1 240 445	846 141
Post-retirement medical benefit investment	9	45 446	45 251
Equity investments	10	5 535 351	5 972 509
Development bonds	12	1 290 361	1 290 319
Development loans	13	75 047 479	71 505 178
Property and equipment	14	398 760	415 409
Intangible assets	15	91 710	87 958
Total Assets		**89 211 946**	**83 653 079**
Equity and Liabilities			
Liabilities			
Trade payables and deferred income	16	1 204 264	838 591
Provisions	17	66 640	126 630
Liability for funeral benefits	18.1	2 152	3 226
Post-retirement medical benefit liability	18.2	44 604	40 712
Debt securities held at fair value through profit or loss	19	6 473 055	6 336 487
Debt securities held at amortised cost	19	33 363 703	30 117 774
Funding: lines of credit	20	13 677 213	14 015 426
Derivative liabilities held for risk management	8.2	59 240	142 857
Total Liabilities		**54 890 871**	**51 621 703**
Equity			
Share capital	21	200 000	200 000
Retained income		19 472 969	17 514 577
Permanent government funding	22	11 692 344	11 692 344
Revaluation reserve on land and buildings	23	183 809	198 322
Cash flow hedge reserve	24	151 883	141 680
Reserve for general loan risks	25	2 611 976	2 287 491
Available-for-sale reserve	26	8 094	(3 038)
Total Equity		**34 321 075**	**32 031 376**
Total Equity and Liabilities		**89 211 946**	**83 653 079**

STATEMENT OF **COMPREHENSIVE INCOME**

FOR THE YEAR ENDED 31 MARCH 2018

in thousands of rands	Notes	March 2018	March 2017
Interest income	27	7 750 606	7 373 094
Interest expense	28	(3 905 259)	(3 703 760)
Net interest income	28	**3 845 347**	**3 669 334**
Net fee income	29	190 196	318 266
Net foreign exchange loss	30	(302 057)	(618 649)
Net loss from financial assets and financial liabilities	31	(131 605)	(43 354)
Other income	32	242 540	734 090
Other operating (loss)/income		**(926)**	**390 353**
Operating income		**3 844 421**	**4 059 687**
Project preparation expenditure	33	(7 094)	(24 453)
Development expenditure	34	(15 154)	(27 181)
Net impairment on financial assets	35	(623 178)	(339 449)
Personnel expenses	36	(702 880)	(603 608)
General and administration expenses	37	(177 601)	(202 180)
Depreciation and amortisation	38	(25 871)	(31 249)
Profit from operations		**2 292 643**	**2 831 567**
Grants	39	(9 766)	(10 718)
Profit for the year		**2 282 877**	**2 820 849**

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2018

in thousands of rands	Notes	March 2018	March 2017
Profit for the year		**2 282 877**	**2 820 849**
Items that will not be reclassified to profit or loss			
Loss on revaluation of buildings	23	**(14 513)**	**(70 934)**
Items that may be reclassified subsequently to profit or loss			
Unrealised gain on cash flow hedges	24	121 616	12 846
(Gain)/loss on cash flow hedges reclassified to profit or loss	24	(111 413)	5 784
Unrealised gain/(loss) on available-for-sale financial assets	26	11 132	(2 228)
		21 335	**16 402**
Other comprehensive gain/(loss)		**6 822**	**(54 532)**
Total comprehensive income for the year		**2 289 699**	**2 766 317**

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2018

in thousands of Rands	Share capital	Cash flow hedge reserve	Revaluation reserve on land and buildings	Available for-sale reserve	Permanent government funding	Reserve for general loan risks	Retained income	Total equity
Balance at 1 April 2016	**200 000**	**123 050**	**269 256**	**(810)**	**11 692 344**	**2 436 358**	**14 544 861**	**29 265 059**
Profit for the year	-	-	-	-	-	-	2 820 849	2 820 849
Other comprehensive income/ (loss)								
Loss on revaluation of buildings	-	-	(70 934)	-	-	-	-	(70 934)
Unrealised gain on cash flow hedges	-	12 846	-	-	-	-	-	12 846
Loss on cash flow hedges reclassified to profit or loss	-	5 784	-	-	-	-	-	5 784
Unrealised loss on available-for-sale-financial assets	-	-	-	(2 228)	-	-	-	(2 228)
Transfer from reserve for general loan risks	-	-	-	-	-	(148 867)	148 867	-
Total changes	-	18 630	(70 934)	(2 228)	-	(148 867)	2 969 716	2 766 317
Balance at 31 March 2017	**200 000**	**141 680**	**198 322**	**(3 038)**	**11 692 344**	**2 287 491**	**17 514 577**	**32 031 376**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**2 282 877**	**2 282 877**
Other comprehensive income/ (loss)								
Loss on revaluation of buildings	**-**	**-**	**(14 513)**	**-**	**-**	**-**	**-**	**(14 513)**
Unrealised gain on cash flow hedges	**-**	**121 616**	**-**	**-**	**-**	**-**	**-**	**121 616**
Gain on cash flow hedges reclassified to profit or loss	**-**	**(111 413)**	**-**	**-**	**-**	**-**	**-**	**(111 413)**
Unrealised gain on available-for-sale financial assets	**-**	**-**	**-**	**11 132**	**-**	**-**	**-**	**11 132**
Transfer to reserve for general loan risks	**-**	**-**	**-**	**-**	**-**	**324 485**	**(324 485)**	**-**
Total changes	**-**	**10 203**	**(14 513)**	**11 132**	**-**	**324 485**	**1 958 392**	**2 289 699**
Balance at 31 March 2018	**200 000**	**151 883**	**183 809**	**8 094**	**11 692 344**	**2 611 976**	**19 472 969**	**34 321 075**
Notes	21	24	23	26	22	25		

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2018

in thousands of rands	Notes	March 2018	March 2017
Cash flows from operating activities			
Net profit adjusted for non-cash items/separately disclosed items	40	134 195	459 125
Interest income received		7 498 264	6 864 688
Interest expense paid		(3 545 470)	(3 446 294)
Decrease in working capital	41	(47 523)	(110 897)
Net cash generated from operating activities		**4 039 466**	**3 766 622**
Cash flows used in development activities			
Development loan disbursements	13	(11 922 527)	(12 103 967)
Development loan principal repayments		5 981 190	8 572 092
Net cash flows from equity investments		398 151	732 770
Grants, development and project preparation expenditure		(16 860)	(35 171)
Net(advances to)/repayments from national mandates		(46 016)	2 821
Net cash utilised in development activities		**(5 606 062)**	**(2 831 455)**
Cash flows from investing activities			
Net cash flows on property plant and equipment	14	(11 669)	(3 134)
Purchase of intangible assets	15	(15 818)	(21 493)
Purchase of financial market assets		(416 692)	(832 878)
Net cash utilised by investing activities		**(444 179)**	**(857 505)**
Cash flows from financing activities			
Financial market liabilities repaid		(15 504 634)	(27 050 711)
Financial market liabilities raised		19 048 287	27 206 684
Net cash generated from financing activities		**3 543 653**	**155 973**
Net increase in cash and cash equivalents		**1 532 878**	**233 635**
Effect of foreign exchange rate movements on cash balances	30	(90 272)	(18 953)
Movement in cash and cash equivalents		**1 442 606**	**214 682**
Cash and cash equivalents at the beginning of the year	5	2 299 247	2 084 565
Cash and cash equivalents at the end of the year	5	**3 741 853**	**2 299 247**

ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2018

1 Statement of compliance

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), the requirements of the PFMA and sections 27 to 31 of the Companies Act, being the relevant and corresponding sections of those specified in the DBSA Act and Treasury Regulations. These Annual Financial Statements covers the individual entity (DBSA). The Bank is not subject to the Banks Act.

The Bank is a PFMA schedule 2 entity. The Bank applies IFRS financial framework in line with a National Treasury directive.

1.1 Basis of preparation

1.1.1 Basis of measurement

The Annual Financial Statements have been prepared on the historical cost basis, except for the following which are measured at fair value:

- Land and buildings.
- Post-retirement medical benefit.
- Financial instruments at fair value through profit or loss.
- Available-for-sale financial assets.
- Derivative financial instruments.

The methods used to measure fair values are detailed in note 1.10.

1.1.2 Use of estimates and judgements

The preparation of Annual Financial Statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognised in the
is given in the following notes:

- **Note 1.2.5 – Derivative and hedge accounting:**
  In preparing the Annual Financial Statements for the year ended 31 March 2018, judgements were made in the determination of fair values for financial instruments which included derivative assets and liabilities held for risk management, debt securities funding and debt securities lines of credit. The fair value determination for derivative assets includes an estimated credit value adjustment (CVA) in line with IFRS 13 fair value requirements. The Bank estimates credit spread attribution to own credit risk.

- **Note 1.4.3 and 1.5.3 – Depreciation and amortisation and the useful lives of property and equipment and intangible assets:**
  Depreciation and amortisation is recognised in the statement of comprehensive income on a straight line basis over the estimated useful life of the asset. Fixed and intangible assets are assessed annually for impairment and assumptions are made about the condition and useful lives of the assets to determine if the assets are impaired. Land is not depreciated.

- **Note 6 - Trade receivables and other assets**
  Other receivables are measured at amortised cost; however on an annual basis management determines the recoverability of the receivables and applies an estimate based on appropriate assumptions

- **Notes 10, 12, 13, 14 and 18 - Valuation of financial instruments**

- **Note 10 – Valuation of equity investments**
  Equity investments are measured at fair value through profit or loss and determined from observable market data in respect to similar financial instruments. Where market data is not observable, they are estimated based on appropriate assumptions. In addition, adjustments were made relating to risk premium within the equity exposures to ensure that all risks within the portfolio are considered in the determination of fair values. In the determination of fair value adjustment, the Bank complied with the approved valuation policy in terms of the applicable discount rates. Refer to note 10 and 11.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1.1 Basis of preparation (continued)

- **Note 12 and 13 – Measurement of the recoverable amounts and impairment of development loans and bonds:**
  Development loans are measured at amortised cost. However on an annual basis management determines the recoverable amount of loans and applies an estimate based on appropriate assumptions. The recoverable amount is the higher of the loans fair value less cost to sell and value in use. Value in use is the present value of projected cash flows covering the remaining useful life of the asset. Management further applies judgement on the collateral values based on market data. In addition, management judgement was applied in the determination of fair values for development loans for disclosure purposes.

  Non-performing loans are impaired for losses identified during periodic evaluations. The classification of a loan as non-performing is the loss event that triggers impairment testing on an individual loan basis. The impairment to non-performing loans takes account of past loss experience, adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic loss. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between the loss estimates and actual loss experience. Development loans are considered non-performing on the earlier occurrence of either being 90 (ninety) days in arrears or when two consecutive repayments have not been honoured by the borrower or when there are other indicators that the loan may be impaired.

  The non-performing book is split into two classes, namely municipalities and other. This is done because the characteristics of the classes differ. For municipalities, the recovery rate is based on the Bank's Municipal Loss Given Default model. For the other loans each non-performing borrower is individually assessed to determine its recovery rate.

  The performing book is impaired in order to provide for latent losses in the portfolio that have not yet been individually identified as impaired. An impairment for incurred but not reported losses is calculated based on historic loss patterns, estimated emergence periods and the Bank's internal credit risk rating system.

  In addition, as the various scenarios strive to be consistent with requirements of IAS 39 that requires the existing methodology to reflect the time value of money, include incurred credit loss events, exclude future losses and most importantly adjusting historical loss experience on the basis of current observable data not included in the historical loss experience and excluding effects of historical periods that do not exist currently.

  Models have been designed for credit risk rating. Assumptions are used in these models to produce the most accurate possible quantitative assessment of the credit risk to which the Bank is exposed. The models are subject to performance monitoring and validation every three years. Refer to note 43.

- **Note 14 – Revaluation of land and buildings:**
  Land and buildings is measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model. Refer to note 1.4.3.

- **Note 18 – Measurement of funeral benefit obligations and post-retirement medical benefit:**
  The valuation of funeral benefit and the post-retirement medical aid benefit an independent valuation is performed by Alexander Forbes on an annual basis. The assumptions and estimates made impacted on the expense recognised in the profit or loss for the year. These disclosures supplement the commentary on financial risk management (refer note 43).

1.1.3 Provisions

Provisions are determined based on best estimates available to management. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

1.1.4 Loan commitments

The Bank enters into commitments to lend to its customers subject to certain conditions. Such loan commitments are made either for a fixed period, or are cancellable by the Bank subject to notice conditions. Provision is made for undrawn loan commitments to be provided at below-market interest rates and for similar facilities if it is probable that the facilities will be drawn and will result in recognition of assets at an amount less than the amount advanced.

1.2 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments consist of cash and cash equivalents, investment securities, derivatives assets and liabilities, equity investments, development loans and bonds, trade and other receivables, trade and other payables, Debt securities, funding lines of credit and repurchase agreements.

1.2 Financial instruments (continued)

The Bank initially recognises loans and advances, deposits; debt securities issued and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is initially measured at fair value plus/minus transaction costs that are directly attributable to its acquisition or issue.

1.2.1 Financial assets

The Bank classifies its financial assets into the following categories:

- Financial assets at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity financial assets and;
- Available-for-sale financial assets.

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

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

Subsequent to initial recognition, financial assets are measured as below, excluding transaction costs (refer note 1.10.3) regarding the determination of fair values of financial instruments for disclosures.

Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short-term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking or if so designated by management. Derivatives are also classified as held-for-trading, unless they are designated as hedges at inception. The Bank does not speculate in financial instruments and therefore no financial assets are classified as held-for-trading.

A financial asset is designated as at fair value through profit or loss if:

- It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset or recognising the gains or losses on a different basis; or
- A portfolio of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the Bank is provided internally on that basis to key management personnel. Under these criteria, the main classes of financial assets designated as fair value through profit or loss by the Bank are equity investments and investment securities.

Subsequent to initial recognition, these financial assets are measured at fair value. All related realised and unrealised gains and losses arising from changes in fair value are recognised in net gains from financial assets in profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include purchased loans. This category does not include those loans and receivables that the Bank intends to sell in the short-term or that it has designated as at fair value through profit or loss or available-for- sale. This category comprises development loans, cash and cash equivalents, other receivables and collateralised advances.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for credit losses as per note 1.2.8.

Short-term trade receivables and other receivables are measured at original invoice amount, less an estimate made for impairment based on a review of all outstanding amounts at year-end.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1.2 Financial instruments (continued)

Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity, other than those that meet the definition of loans and receivables. Where the Bank sells more than an insignificant amount of held-to-maturity financial assets in a period, the entire category would be tainted and reclassified as available-for-sale and the difference between amortised cost and fair value would be accounted for in equity.

Financial assets classified as held-to-maturity include investments in municipal and government bonds.

Subsequent to initial recognition, held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any allowance for credit losses.

Available-for-sale financial assets

Financial assets that are either designated in this category or not classified in any of the other categories are classified as available-for-sale financial assets. The main classes of financial assets classified as available-for-sale are money market placements, government and corporate bonds.

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

If the asset is subsequently impaired, the amount recorded in equity is reclassified to profit or loss.

1.2.2 Financial liabilities

The Bank initially recognises financial liabilities on the date at which they are originated. The origination date for regular way purchases are recognised on the trade date at which the Bank commits to the purchase. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date on which the Bank becomes a party to the contractual provisions of the instrument. A financial liability is measured initially at fair value less transaction costs that are directly attributable to its issue.

The Bank accounts for its financial liabilities either as financial liabilities held at fair value through profit or loss or financial liabilities held at amortised cost. Management determines the classification of the financial liabilities on initial recognition and re-evaluates this classification at the reporting date. The basis for designation are discussed under each category below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes debt securities and derivatives held for risk management. The Bank has designated financial liabilities at fair value through profit or loss in the following circumstances:

- The liabilities are managed, evaluated and reported internally on a fair value basis; and
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Subsequent to initial recognition the financial liability held at fair value through profit or loss is measured at fair value, with the changes in fair value recognised in the statement of comprehensive income. Changes in fair value of the derivatives used to hedge the interest rate risk are reported in net interest income in the profit and loss.

Changes in fair value of liabilities due to changes in the Bank's own credit risk is recoginised in equity.

Financial liabilities at amortised cost

Financial liabilities at amortised cost includes loans and borrowings, trade and other payables. All other financial liabilities not designated at fair value through profit or loss are designated as financial liabilities held at amortised cost. These financial liabilities are initially recognised at fair value and subsequently at amortised cost.

The amortised cost of a financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation, using the effective interest method, of any difference between the initial amount recognised and the maturity amount.

1.2 Financial instruments (continued)

1.2.3 Derivative financial instruments

The Bank uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policies, the Bank does not hold or issue derivative financial instruments for trading purposes. All derivatives are recognised initially at fair value. Subsequent to initial recognition, they are remeasured at fair value which include an estimated component relating to credit risk adjustment. The treatment of changes in their fair value depends on their classification into the following categories:

Qualifying derivatives

Derivatives qualifying for hedge accounting are accounted for in terms of hedge accounting (refer note 1.2.5).

Non-qualifying derivatives

Derivatives that do not qualify for hedge accounting are accounted for as a component of financial instruments held at fair value through profit or loss with all changes in fair values recognised in profit or loss.

1.2.4 Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.
The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continued involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Restructured loans

A loan that is restructured is derecognised if the existing agreement is cancelled and a new agreement made on substantially different terms, or if the terms of an existing agreement are modified such that the restructured loan is substantially a different financial asset.

Trade date and settlement date accounting

The trade date is the date that an entity commits itself to purchase or sell an asset and trade date accounting refers to

(a) the recognition of an asset to be received and the liability to pay for it on the trade date, and
(b) de-recognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date.

The settlement date is the date that an asset is delivered to or by an entity and settlement date accounting refers to

(a) the recognition of an asset on the day it is received by the entity, and
(b) the de-recognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

Interest does not start to accrue on the asset and corresponding liability from trade date and only starts from settlement date when title passes. The Bank applies settlement date accounting and accounts for any change in the fair value of assets to be received during the period between the trade date and the settlement date in the same way as it accounts for the acquired asset. The change in value between trade date and settlement date is not recognised for assets carried at cost or amortised cost. The change in value is however recognised in profit or loss for assets classified as financial assets at fair value through profit or loss and for available-for-sale assets, the change in fair value is recognised in equity.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1.2 Financial instruments (continued)

1.2.5 Hedge accounting

On the date that a derivative contract is designated as a hedging instrument, the Bank designates the derivative as either:

- A hedge of the fair value of a recognised asset or liability (fair value hedge); or
- A hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge).

A hedging relationship exists where:

- At the inception of the hedge there is formal documentation of the hedge;
- The hedge is expected to be highly effective;
- The effectiveness of the hedge can be measured reliably;
- The hedge is highly effective throughout the reporting period; and
- For hedges of a forecasted transaction, the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect net profit or loss.

Hedge accounting requires that the hedging instrument be measured at fair value.

The fair value of derivative hedging instruments is calculated in the same way as the fair value of instruments held at fair value through profit or loss (refer note 1.10).

The treatment of any resultant gains and losses is set out below.

The Bank utilises various derivative instruments like cross-currency swaps, interest rate swaps, cross-currency interest rate swaps and credit default swaps as part of its asset and liability management activities to manage exposures to interest rate, foreign currency and credit risks, as well as exposures to variability in cash flows attributable to a particular risk associated with a recognised asset or liability.

The Bank applies either fair value or cash flow hedge accounting to transactions that comply with the hedge accounting criteria and are classified as hedging instruments. The hedging instruments are carried at fair value on the statement of financial position.

Fair value hedge

When a derivative financial instrument hedges the changes in fair value of a recognised asset or liability or an unrecognised firm commitment, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses relating to the hedged risk on remeasurement of both the hedging instrument and the hedged item are recognised in profit or loss.

If the hedging derivative expires or is sold, terminated, or exercised, or the hedge no longer meets the criteria for fair value hedge accounting, or the hedge designation is revoked, hedge accounting is discontinued prospectively. Any adjustment up to that point to a hedged item for which the effective interest method is used is amortised to profit or loss as part of the recalculated effective interest rate of the item over its remaining life.

Cash flow hedge

When a derivative financial instrument is designated as a hedge to variability in the cash flows of recognised assets or liabilities, or a highly probable forecast transaction, the effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in other comprehensive income and presented in the hedging reserve in equity. The ineffective part of any gain or loss is recognised in profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains and losses that were recognised directly in equity are reclassified into profit or loss in the same period or periods during which the asset acquired or liability assumed affects profit or loss (i.e. when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policies, the associated cumulative gain or loss is reclassified from equity and recognised in the statement of comprehensive income in the same period or periods during which the hedged forecast transaction affects profit or loss. The ineffective part of any gain or loss is recognised immediately in the statement of profit or loss.

1.2 Financial instruments (continued)

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised immediately in profit or loss.

Hedge of monetary assets and liabilities

Where a derivative financial instrument is used economically to hedge the foreign exchange exposure of a recognised monetary asset or liability, no hedge accounting is applied and any gain or loss on the hedging instrument is recognised in profit or loss.

1.2.6 Repurchase and resale agreements

Where the Bank sells investments from its portfolio and agrees to repurchase these at future dates with the risk of ownership remaining with the Bank, the consideration received is treated as a loan, secured by the underlying instrument and included in funding under repurchase agreements.

Conversely, excluded from investments are market instruments purchased under an agreement to resell at future dates with the risk of ownership remaining with the counterparty. The consideration paid is treated as an advance, secured by the underlying instrument and included in investments under resale agreements.

1.2.7 Offsetting of financial instruments

Financial assets and financial liabilities are off set and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and there is an intention to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

1.2.8 Impairment of financial instruments

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. If any such indication exists, the asset's recoverable amount is estimated.

Objective evidence that financial assets are impaired includes default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter business rescue or liquidation, the disappearance of an active market for a security or other observable data relating to a group of assets, such as adverse changes in the payment status of borrowers or issuers in the group or economic conditions that correlate with defaults in the group.

Available-for-sale financial assets

Where an available-for-sale financial asset is measured at fair value through equity is impaired and an impairment loss of the asset was previously recognised directly in other comprehensive income, the impairment is transferred to profit or loss and recognised as part of the impairment loss. Where an asset measured to fair value through other comprehensive income is impaired and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in other comprehensive income is reversed to the extent that the asset is impaired. Any additional impairment loss is recognised in profit or loss.

Loans and advances, receivables and held-to-maturity investments

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1.2 Financial instruments (continued)

Calculation of recoverable amount

The recoverable amount of the held-to-maturity investments and loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value. Receivables with a short duration are not discounted, as the effect of discounting is not significant.

Reversals of impairment

An impairment loss in respect of a held-to-maturity financial asset or loans and receivables measured at amortised cost is reversed through profit or loss if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

If the fair value of an investment security classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed, with the amount of the reversal recognised in profit or loss to the extent that the impairment was previously recognised in profit or loss.

A reversal of impairment loss on equity investments is recognised in profit or loss.

Impairment of development loans

Identified impairment

Non-performing loans are impaired for losses identified during periodic evaluations. The classification of a loan as non-performing is the loss event that triggers impairment testing on an individual loan basis. The impairment to non- performing loans takes account of past loss experience, adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic loss. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between the loss estimates and actual loss experience. Development loans are considered non-performing on the earlier occurrence of either being 90 (ninety) days in arrears or when two consecutive repayments have not been honoured by the borrower or when there are other indicators that the loan may be impaired.

The non-performing book is split into two classes, namely municipalities and other. This is done because the characteristics of the classes differ. For municipalities, the recovery rate is based on the Municipal Loss Given Default model developed. For the other loans each non-performing borrower is individually assessed to determine its recovery rate.

Unidentified impairment

The performing book is assessed for impairment in order to provide for latent credit losses in the portfolio that have not yet been individually identified. An impairment for incurred but not reported losses is calculated based on historic loss patterns, estimated emergence periods and the Bank's internal credit risk rating system.

1.2.9 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, call deposits and fixed deposits, callable on demand and highly liquid financial assets with original maturities of less than three months which are subject to insignificant risk of changes in their fair value and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

1.2.10 Loans to employees

These financial assets are initially recognised at cost plus direct transaction costs. Subsequently, these loans are measured at amortised cost using the effective interest method, less any impairment loss recognised to reflect irrecoverable amounts.

1.3 Impairment of non-financial assets

The Bank assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset.

1.3 Impairment of non-financial assets (continued)

An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and value-in-use. Value- in-use is the present value of projected cash flows covering the remaining useful life of the asset.

Intangible assets that have an indefinite useful life and are not subject to amortisation, as well as intangible assets that are not yet available for use, are tested annually for impairment at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

A reversal of an impairment loss of assets, measured at cost less accumulated depreciation or amortisation and impairment losses, is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase to the extent that it exceeds the amount of impairment previously recognised in profit or loss.

The increased carrying amount of an asset, other than goodwill attributable to a reversal of an impairment loss, does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

1.4 Property and equipment

1.4.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, except for land and buildings, which are measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model. Land and buildings are revalued every year either by an independent valuator or by management.

After recognition as an asset, an item of property and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate components of property and equipment and depreciated accordingly.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised in profit or loss. When revalued land and buildings are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

Freehold land and buildings are subsequently carried at fair value, based on periodic valuations performed either by an independent valuator or management. Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss.

Leasehold improvements on buildings leased are capitalised and amortised over the lease term, unless the useful life of the leasehold improvements is shorter than lease term.

1.4.2 Subsequent costs

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

1.4.3 Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment. Land is not depreciated.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1.4 Property and equipment (continued)

The estimated useful lives for the current and comparative periods are as follows:

Item	Estimated useful life
Buildings	40 years
Leasehold improvements	3 years
Furniture and fittings	10 years
Office equipment	5 - 10 years
Motor vehicles	4 - 5 years
Computer equipment	3 years

The useful lives, depreciation methods and the residual values of assets are reviewed and adjusted annually, if appropriate. Changes resulting from this review are accounted for prospectively as changes in estimates.

1.5 Intangible assets

1.5.1 Recognition and measurement

Intangible assets that are acquired by the Bank and which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Internally generated intangible assets, are recognised in profit or loss as incurred. If internally generated intangible assets meet the definition of an assets in terms of IAS38 and will be capitalised and expense over the period of years.

1.5.2 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates, otherwise it is recognised in profit or loss as incurred.

1.5.3 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

Item	Estimated useful life
Software	3 - 15 years

1.6 Share capital and reserves

1.6.1 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Bank’s equity instruments primarily include a permanent government funding and shares issued. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

1.6.2 Permanent government funding

This represents capital provided by the South African government and remains part of the permanent capital of the Bank.

1.6.3 Cash flow hedge reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments where the hedged transaction has not occurred or not yet affected profit or loss.

1.6 Share capital and reserves (continued)

1.6.4 Reserve for general loan risks

The general loan risk reserve is maintained based on the latest internal risk rating of borrowers. The reserve is reviewed quarterly. The reserve for each risk category is estimated by calculating each risk category as follows:

- Low risk 3%
- Medium risk 5%
- High risk 7%

Any adjustment to the reserve is recognised as a movement directly between retained earnings and the reserve for general loan risks in the statement of changes in equity. The reserve is held for capital adequacy, refer to note 43 (capital management section).

1.6.5 Revaluation reserve on land and buildings

This reserve represents the fair value adjustment recognised on the revaluation of land and buildings. Land and buildings are subsequently carried at fair value, based on periodic valuations performed either by an independent valuator or management. These revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss.

1.7 Revenue

Revenue is derived from the business of development activities and substantially comprises interest income. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

1.7.1 Interest

Interest income and expense are recognised in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset or liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes costs, discounts and premiums paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and financial liabilities, measured at amortised cost calculated on an effective interest basis;
- Interest on available-for-sale investment securities calculated on an effective interest basis;
- Interest on financial assets and financial liabilities held at fair value through profit or loss, calculated on an effective interest basis; and
- The interest portion of the derivatives designated as fair value hedges.

Where non-performing financial assets have been impaired, interest income continues to be recognised to the extent that the asset is not impaired on the original effective interest rate.

1.7.2 Fees and commission

Other fee income, including account servicing fees, agency management fees, investment management fees, placement fees and syndication fees, is recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Upfront fees are deferred and recognised over the term of the loan.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1.8 Foreign currency translations

Functional and presentation currency

A foreign currency transaction is recorded, on initial recognition in Rand amount, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At each statement of financial position date:

- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Items included in the Annual Financial Statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Bank's Annual Financial Statements are presented in South African Rand, which is the Bank's functional currency.

1.9 Net income from other financial instruments at fair value

Net (loss) / gain from financial assets and liabilities relates to changes in fair values of derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss.

1.10 Determination of fair values

A number of the Bank's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the note specific to that asset or liability.

1.10.1 Property and equipment

The fair value of land and buildings is based on an annual valuation performed either by an independent valuator or management.

1.10.2 Post-retirement medical benefits investment

The fair value of the post-retirement medical benefits investment is based on the listed market price.

1.10.3 Financial instruments

Some of the Bank's financial instruments are measured at fair value, such as those that are designated by management as at fair value through profit or loss, available-for-sale and derivative financial instruments.

The fair value of a financial instrument is the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurable date.

The method of determining the fair value of financial instruments can be split into the following categories:

(a) Level 1 - Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

(b) Level 2 -Valuation techniques using market observable inputs. Such techniques may include: using recent arm's-length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis, pricing models or other techniques commonly used by market participants.

(c) Level 3 - Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as day one profit or loss, is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The valuation techniques in (b) and (c) use as inputs interest rate yield curves, equity prices, commodity and currency prices/ yields, volatilities of underlyings and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and observable transaction prices where available.

1.10 Determination of fair values (continued)

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted bid price at the reporting date.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments, as reflected in notes 3 and 4.

Equity investments

After initial recognition, the Bank measures equity investments at fair value through profit or loss as follows:

Unquoted equity instruments whose fair values cannot be reliably measured are held at cost. If the market for an equity financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length transaction motivated by normal business considerations.

The Bank uses valuation techniques in measuring equity instruments, including:

- Price of recent investment, if available;
- Discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates;
- Price earnings growth (PEG); and
- Option pricing models.

The Bank ensures that these valuation techniques:

- Make maximum use of market inputs and where applicable rely on entity-specific inputs;
- Incorporate all factors that market participants would consider in setting a price; and
- Are consistent with accepted economic methodologies for pricing financial instruments.

1.10.4 Investment securities

In the case of instruments for which actively quoted market prices are available, the fair value of financial instruments is based on the quoted market price at reporting date, without any deduction for transaction costs. These market prices are based on capital and interest. Where actively quoted market prices are not available, the fair value is determined through discounted cash flow techniques, using market interest rates taking into account the credit quality and duration of the instrument.

1.10.5 Derivatives

The fair value of forward exchange contracts is determined by discounting the contractual future cash flows at the relevant market curves and netting off at the rand spot exchange rate as at the reporting date.

The fair value of interest rate and cross-currency swaps is the estimated amount that the Bank would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and foreign exchange rates and the creditworthiness of the respective swap counterparties. The fair value of derivatives that are not exchange-traded is estimated using discounted cash flow valuation methods with inputs limited, to the extent possible, to market observable data.

The fair value of options is calculated using a BlackScholes derived model that values both time value of money and Intrinsic value of options to determine a theoretical market value. The Bank applies a version of the BlackScholes option-pricing model that is modified to incorporate a 'dividend yield' from the underlying asset. In the case of currency options, the dividend yield is the interest rate on the foreign currency. The intrinsic value is computed as the maximum of zero and the value of the option if it were exercised immediately. Intrinsic value is either zero or the payoff that would accrue from exercising the option immediately, whichever is the larger.

Where discounted cash flow techniques are used, future cash flows are based on contractual cash flows and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1.10 Determination of fair values (continued)

Interest-bearing loans and borrowings

The Bank uses present value technique which is an application of the income approach to calculate the fair value of the development loans for disclosure purposes. Valuations under the income approach, such as present value techniques converts expected future amounts to a single present amount. The Bank uses discount rate adjustment present value technique which attempts to capture all the risk associated with the item being measured in the discount rate and is most commonly used to value assets and liabilities with contractual payments such as debt instruments.

The following assumptions are applied in the calculation of fair value for disclosure purposes:

- The forecasted interest and capital cash flows are contractual.
- The valuation excludes non-performing loans due to cash flow being uncertain and this has been consistent with prior years.
- A flat probability of default curve for each loan is assumed across all loan maturities. A flat probability of default curve means a flat credit margin (being a product of loss given default and probability of default) for each loan.
- The credit margin is added to an interpolated swap rate to determine the discount rate used in discounting the cash flows.

Interest rates used for determining fair value

The Bank uses market-derived discount curves as at the reporting date. Future cash flows are based on contractual cash flows and, where market observable inputs are not available, management makes use of best estimates to determine the appropriate credit spread to apply.

1.11 Provisions

Provisions are recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic resources will be required to settle the obligation. When the effect of discounting is material, provisions are discounted using an appropriate discount rate that reflects the current market assessment of the time value of money and, where appropriate, the risks specific to the liability.

Provisions are recognised for onerous contracts when the expected benefits to be derived by the Bank from a contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.

Restructuring provisions are recognised when the Bank has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and is recorded in other operating expenses in profit or loss.

Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

1.12 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee liabilities are initially recognised at their fair value and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently measured at the higher of the amortised amount and the best estimate in accordance with IAS 37- Provisions, Contingent Liabilities and Contingent Assets.

1.13 Employee benefits

1.13.1 Defined contribution plan

Obligations for contributions to defined contribution provident fund plans are recognised as an expense in profit or loss when they are due.

1.13 Employee benefits (continued)

1.13.2 Defined benefit plan

The Bank contributes to a defined benefit plan for post-retirement medical benefits for eligible employees and pensioners. The Bank currently holds an investment that is used to partly fund the liability for the post-retirement medical benefit. This investment does not meet the definition of a “plan asset” and is not offset against the post- retirement obligation.

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Bank’s net obligation in respect of a defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on AA credit-rated bonds that have maturity dates approximating the terms of the Bank’s obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary, using the projected unit credit method.

When the calculation results in a benefit to the Bank, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

The Bank recognises all actuarial gains and losses arising from defined benefit plans directly in profit or loss.

1.13.3 Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably.

1.13.4 Short-term employee benefits

Short-term employee benefit obligations including annual leave are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.14 Contingent liabilities and commitments

Transactions are classified as contingencies when the Bank’s obligations depend on uncertain future events not within the Bank’s control. Items are classified as commitments when the Bank commits itself to future transactions with external parties.

1.15 Other operating income

Other fee income is recognised as the related services are performed.

Dividends are recognised when the Bank’s right to receive payment is established, which is typically when the dividend is declared. Dividends are incorporated in other income, which is separately disclosed in the notes to the statement of comprehensive income.

1.16 Events after the reporting period

An event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the Annual Financial Statements are authorised for issue. Two types of events can be identified as adjusting and non- adjusting.

Adjusting event: An event after the reporting period that provides further evidence of conditions that existed at the end of the reporting period, including an event that indicates that the going concern assumption in relation to the whole or part of the enterprise is not appropriate.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1.16 Events after the reporting period (continued)

Non-adjusting event: An event after the reporting period that is indicative of a condition that arose after the end of the reporting period.

1.17 Related parties

The Bank operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the constitutional independence of all three spheres of government (national, provincial and local) in South Africa, only parties within the national sphere of government will be considered to be related parties.

Key management is defined as being individuals with the authority and responsibility for planning, directing and controlling activities of the Bank. All individuals from Executive Management up to the Board of Directors are key management individuals in their dealings with the Bank.

Close family members of key management personnel are considered to be those family members who may be expected to influence or be influenced by key management individuals in their dealings with the Bank.

Other related party transactions are also disclosed in terms of the requirements of IAS 24. The objective of the standard and the Annual Financial Statements is to provide relevant and reliable information and therefore materiality is considered in the disclosure of these transactions.

1.18 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Assets held by the Bank under leases which transfer to the Bank substantially all of the risks and rewards of ownership are classified as finance leases. On initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Assets held under other leases are classified as operating leases and are not recognised in the Bank's statement of financial position.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

1.19 Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered through a sales transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets held-for-sale (or disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held-for-sale or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale are recognised in profit or loss.

1.20 Segmental reporting

An operating segment is a distinguishable component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Executive Committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

1. New Standards and Interpretations

The following new standards and annual improvements have been issued by the IASB and are not yet effective.

IFRS 9: Financial Instruments (Applicable for annual periods beginning on or after 1 January 2018).

The key changes of this standard from IAS 39:

- Revised requirements for the classification and measurement of financial assets and financial liabilities, mainly relating to the recognition of the changes in fair value due to changes in own credit risk on fair value designated liabilities in other comprehensive income as opposed to statement of comprehensive income.
- Changed from incurred loss model to the expected credit loss (ECL) model for the calculation of impairments
- Revised requirements and simplification of hedge accounting.

Comparative financial results and election

IFRS 9 allows two retrospective choices, the restatement of comparative information or the adjustment of changes relating to IFRS 9 to the opening retained earnings.

The Bank has elected to adjust it's opening retained earnings as at 01 April 2018 for changes relating to IFRS 9.

Project governance

The IFRS 9 project team together with the Steering Committee was responsible for the implementation of IFRS 9. The decisions were approved by the Investment Committee and Audit and Risk Committee.

IFRS 9 requirements

A summary of key IFRS 9 requirements and estimated impact on the Bank is explained below.

Classification of financial assets and liabilities

IFRS 9 requires all financial assets to be classified and measured in terms of the entity's business model for managing the financial assets and its contractual cash flow characteristics. Based on the analysis performed, investment securities currently classified as available for sale will be reclassified to fair value through profit or loss.

Expected credit loss (ECL) impairment model

The IASB developed the IFRS 9 ECL impairment model with the objective of transitioning from an incurred loss approach to an expected loss model which will require entities to recognise impairment losses in advance of an exposure having objective evidence of impairment. The ECL model will apply to financial assets measured at either amortised costs or at fair value through OCI, as well as loan commitments where there is a present commitment to extend credit (unless these are measured at fair value through profit or loss)

With the exception of purchased or originated credit impaired financial assets, expected credit losses are required to be measured through a loss allowance at an amount equal to either 12 month expected credit losses or full lifetime expected credit losses. A loss allowance for full lifetime expected credit losses is recognised for a financial asset where the credit risk of that financial asset has increased significantly since initial recognition. For all other financial instruments, expected credit losses are measured at an amount equal to the expected loss associated with the probability of default over the next 12 months

Significant increase in credit risk

The assessment of a significant increase in credit risk since origination date for the Bank's exposures will be based on changes in internal credit ratings, together with the expected outlook for the specific sector and industry and other relevant available information. The determination will be set to identify significant deterioration in credit risk before the exposure reaches a past due status of 30 days.

Forward-looking information

In determining whether there has been significant increase in credit risk since origination date and in calculating the expected credit loss, IFRS9 requires the consideration of forward-looking information. The determination of a significant increase in credit risk is required to include consideration of all reasonable and supportable information that is available without undue cost or effort. This information will typically include forward-looking information based on expected macro-economic conditions and specific factors that are expected to impact individual loans.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

1. New Standards and Interpretations (continued)

The incorporation of forward-looking information represents a significant change from existing accounting requirements which are based on observable events. The forward looking information will be based on the Bank's economic expectations, industry and sub-sector-specific expectations as well as expert management judgemental. The use of such information will incorporate management judgment and is hence, expected to increase the volatility of impairment provisions as a result of continuous changes in future expectations

Default

While default is not specifically defined in IFRS 9, the Bank has aligned the determination of default with its existing internal credit risk management definition and approaches with no material changes between existing and IFRS 9. Default is determined as occurring at the earlier of:

- When two consecutive repayments have not been honoured by the borrower, or
- When the counterparty is past due for more than 90 days The following table outline key drivers of the estimated impact, or
- When there are other indicators that the loan may be impaired.

IFRS 9 drivers include the following:	Reason
Lifetime credit losses for exposures that exhibit a significant increase in credit risk since origination	IFRS 9 requires a lifetime expected credit loss to be recognised for exposures for which there has been a significant increase in credit risk.
Forward-looking economic expectations for ECL. The forward looking will be based on Bank economic expectations, industry and sub-sector expectations in the countries that the Bank operates and expert management judgments. As the result of continuous changes in expectations it is expected that there will be an increase in the volatility of the impairment provision.	The inclusion of forward-looking economic information is expected to increase the level of provisions as a result of the nature and timing of both current and forecasted economic assumptions as at 01 April 2018.

Simplified approach methodology

A simplified approach for trade receivables and other assets will be applied. Under the 'simplified' approach, the Bank will recognise 'lifetime expected credit losses' from the first reporting period. These are the credit losses expected over the term of the receivables. The provision matrix will be used to calculate the impairment for credit losses. The use of the simplified approach is justified as trade and other receivables result from transactions that are within the scope of IFRS 15, and they do not contain a significant financing component in accordance with IFRS 15. The Bank will use the historically observed default rates (actual write off) over the expected life of the trade receivables and other assets adjusted as necessary to reflect current conditions to calculate the default rate in the provision matrix.

Impact of IFRS 9 on the 2018/19 Annual Financial Statements is tabled below.

Description	Preliminary Impact on Annual Financial Statements
Expected credit losses on performing development loans, bonds, loan commitments and financial guarantees	Expected credit losses is expected to increase by approximately 9% to 12%. Retained earnings will decrease and provision for expected credit losses will increase in an anticipated preliminary range of 9% to 12%
Expected credit losses on trade receivables and other assets	Decrease in provision for expected credit losses and increase in retained earnings of R1.4 million
Reclassification of available-for-sale investment securities to fair value through profit or loss investments securities	Increase in investment securities at fair value through profit or loss and retained earnings of R8 million and decrease in available-for-sale investment securities and available-for-sale reserve of R8 million

IFRS 15 Revenue from contracts with customers: effective 01 January 2018

This standard replaces IAS 18, Revenue and sets out the requirements for recognising revenue that applies to all contracts with customers (except contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The standard provides a single principles-based five step model to be applied to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

1. New Standards and Interpretations (continued)

The five steps in the model are as follows:
- Identify the contract(s) with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price and
- Recognise revenue when a performance obligation is satisfied

Impact Assessment
Majority of the Bank's revenue is interest income which will be accounted for under IFRS 9. Upfront fees received will be added to the effective interest rate and will be disclosed as interest income.

Any other fees and other income which is not part of effective interest rate will be accounted according to the new standard.

The Bank will apply a prospective approach with regards to this standard.

IFRS 16 Leases
This standard will replace IAS 17, Leases and sets out the principles for the recognition, measurement, presentation and disclosure of leases for the lessee and the lessor.

The standard is effective on the 01 January 2019, with an allowance of early adoption provided the entity applies IFRS 15 - (Revenue from contracts with customers) at the same time.

According to this standard, a lessee is required to recognise the right-of-use of the lease asset and lease liability at present value of lease payments (unless the lease term is 12 months or less)
Depreciation of lease assets should be accounted for in terms of the provisions of IAS 16 separately from interest on lease liabilities in the statement of comprehensive income.

Impact assessment
The current operating lease will expire during the 2019 financial year and therefore there will be no impact on Bank's financial statements for the year ending 31 March 2019.

IFRIC 22 Foreign Currency Transactions and Advance considerations

Clarify the exchange rates to be used in transactions depending on whether they are considered monetary or non-monetary in nature. There is choice as to whether an entity applies the interpretation retrospectively or prospectively; it is applicable on the reporting periods beginning on or after 01 January 2018. The Bank is in the process of assessing the impact.

2. Segmental information

The Bank has four reportable segments, as listed below, which are the Bank's strategic business units. These business units are managed separately, based on the Bank's management and internal reporting structure for each of the strategic business units. The Bank's Executive Committee reviews internal management reports on monthly basis.

The following are the Bank's reportable segments:
- South Africa Financing;
- International Financing (the rest of the African continent excluding South Africa)
- Infrastructure Delivery Division and
- Treasury and Capital Management

The Bank implemented a new operating model at the beginning of October 2017, as at 31 March 2018 the full impact of the new operating model to the segment reporting had not yet materialised.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

2 Segmental information (continued)

in thousands of rands	South Africa Financing		International Financing (SADC and the rest of the African Continent)	
	March 2018	March 2017	March 2018	March 2017
Interest income on development loans	**5 959 600**	5 631 636	**1 232 248**	1 279 756
Interest income on development bonds	**122 054**	122 001	**-**	-
Interest income on investments	**10 470**	10 268	**458**	15 704
Total interest income	**6 092 124**	5 763 905	**1 232 706**	1 295 460
Interest expense	**(3 336 875)**	(3 182 602)	**(338 615)**	(325 719)
Net interest income	**2 755 249**	2 581 303	**894 091**	969 741
Non-interest income	**201 250**	149 406	**87 973**	737 062
Net fee income	**40 822**	94 117	**43 088**	90 299
Dividends[1]	**1 892**	5 855	**14 064**	9 975
Other operating income[1]	**158 536**	49 434	**30 821**	636 788
Operating income	**2 956 499**	2 730 709	**982 064**	1 706 803
Expenses	**(69 302)**	117 813	**(766 327)**	(649 914)
Operating expenses[2]	**(157 346)**	(128 260)	**(55 888)**	(62 982)
Depreciation and amortisation	**-**	-	**-**	-
Net impairment on financial assets	**88 044**	246 073	**(710 439)**	(586 932)
Development expenditure[3]	**(15 154)**	(27 181)	**-**	-
Project preparation expenditure	**-**	-	**-**	-
Revaluation of equity investments[4]	**(118 825)**	13 981	**169 660**	67 482
Grants	**-**	-	**-**	-
Sustainable earnings	**2 753 218**	2 835 322	**385 397**	1 124 371
Net foreign exchange loss[5]	**-**	-	**-**	-
Net (loss) /gain from financial assets and liabilities[4]	**-**	-	**-**	-
Retained profit/ (loss)	**2 753 218**	2 835 322	**385 397**	1 124 371
Capital expenditure	**-**	-	**-**	-
Development loans	**61 407 026**	56 459 067	**13 640 453**	15 046 111
Development bonds	**1 290 361**	1 290 319	**-**	-
Equity investments	**2 780 933**	2 967 188	**2 754 418**	3 005 321
Other assets	**437**	361	**941**	717
Total assets	**65 478 757**	60 716 935	**16 395 812**	18 052 149
Total liabilities	**40 237 734**	38 229 131	**7 723 101**	9 514 833
Key ratios by segment				
Cost to income (%)	**6**	6	**6**	4
Debt to assets ratio (%)	**61**	63	**47**	53
Net interest income (%)	**4.4**	4.5	**6.6**	6.4
Return on assets (%)	**4.2**	4.7	**2.4**	6.2

** All other segments include Corporate Services, Risk, CEO, Finance Operations, Project Preparation and Finance divisions*

[1] *Dividends (R15 956) and other operating income (R226 584) make up other income (R242 540) in the statement of comprehensive income.*

[2] *Operating expenses (-R880 481) comprises of personnel expenses (-R702 880) and general and administration expenses (-R177 601)*

[3] *Development expenditure relates to loan commitments in support of under-resource municipalities.*

[4] *Revaluation of equity investments (R50,835) and net (loss) / gain from financial assets and liabilities (-R182 440) make up net loss from financial assets and financial liabilities (-R131,605) in the statement of comprehensive income.*

[5] *Treasury is responsible for foreign exchange management across the bank and as such all foreign exchange gains and losses have been reallocated to Treasury.*

[6] *Sustainable Earnings as outlined in the DBSA corporate plan means Earnings (Profit) before foreign currency exchange loss and financial instruments adjustments, but including revaluation on equity investments.*

Infrastructure Delivery		Treasury and Capital Management		*All other		Total	
March 2018	March 2017	March 2018	March 2017	March 2018	March 2017	March 2018	March 2017
-	-	-	-	-	-	7 191 848	6 911 392
-	-	-	-	-	-	122 054	122 001
-	-	425 776	313 729	-	-	436 704	339 701
-	-	425 776	313 729	-	-	7 750 606	7 373 094
(3)	(88)	(229 766)	(195 351)	-	-	(3 905 259)	(3 703 760)
(3)	(88)	196 010	118 378	-	-	3 845 347	3 669 334
168 857	139 839	(65 759)	(11 211)	40 415	37 260	432 736	1 052 356
148 340	112 535	(65 759)	(11 211)	23 705	32 526	190 196	318 266
-	-	-	-	-	-	15 956	15 830
20 517	27 304	-	-	16 710	4 734	226 584	718 260
168 854	139 751	130 251	107 167	40 415	37 260	4 278 083	4 721 690
(164 180)	(179 294)	(10 630)	(13 255)	(519 091)	(451 836)	(1 529 530)	(1 176 486)
(161 573)	(177 470)	(10 630)	(13 255)	(495 044)	(423 821)	(880 481)	(805 788)
(1 752)	(1 824)	-	-	(24 119)	(29 425)	(25 871)	(31 249)
(855)	-	-	-	72	1 410	(623 178)	(339 449)
-	-	-	-	-	-	(15 154)	(27 181)
-	-	-	-	(7 094)	(24 453)	(7 094)	(24 453)
-	-	-	-	-	-	50 835	81 463
-	-	-	-	(9 766)	(10 718)	(9 766)	(10 718)
4 674	(39 543)	119 621	93 912	(495 536)	(449 747)	2 767 374	3 564 315
-	-	(302 057)	(618 649)	-	-	(302 057)	(618 649)
-	-	(182 635)	(120 090)	195	(4 727)	(182 440)	(124 817)
4 674	(39 543)	(365 071)	(644 827)	(495 341)	(454 474)	2 282 877	2 820 849
-	-	-	-	27 577	26 372	27 577	26 372
-	-	-	-	-	-	75 047 479	71 505 178
-	-	-	-	-	-	1 290 361	1 290 319
-	-	-	-	-	-	5 535 351	5 972 509
136 594	107 200	6 609 207	4 210 258	591 576	566 537	7 338 755	4 885 073
136 594	107 200	6 609 207	4 210 258	591 576	566 537	89 211 946	83 653 079
116 457	91 735	3 204 291	711 607	3 609 288	3 074 397	54 890 871	51 621 703
97	128	8	12	-	-	21.7	19
85	86	48	17	-	-	62	62
-	-	3.7	2.8	-	-	4.9	4.9
3.4	(36.9)	(5.5)	(15.3)	-	-	2.6	3.4

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

3. Financial assets by category

The table below sets out the Bank's classification of financial assets and their fair values.

in thousands of rands	Notes	Loans and receivables	Fair value through profit or loss	Held to maturity	Available-for-sale	Total carrying amount	Fair Value
March 2018							
Cash and cash equivalents	5	3 741 853	-	-	-	3 741 853	3 741 853
Trade and other receivables	6	399 621	-	-	-	399 621	399 621
Investment securities	7	-	1 195 665	-	225 255	1 420 920	1 420 920
Derivative assets held for risk management	8.1	-	1 240 445	-	-	1 240 445	1 240 445
Equity investments	10	-	5 535 351	-	-	5 535 351	5 535 351
Development loans	13	75 047 479	-	-	-	75 047 479	86 770 598
Development bonds	12	-	-	1 290 361	-	1 290 361	1 253 048
		79 188 953	**7 971 461**	**1 290 361**	**225 255**	**88 676 030**	**100 361 836**

Financial assets held at fair value	Level 1 Category	Level 2 Category	Level 3 Category	Total
Investment securities	1 420 920	-	-	1 420 920
Derivative assets held for risk management	-	1 240 445	-	1 240 445
Equity investments	-	3 192 132	2 343 219	5 535 351
	1 420 920	**4 432 577**	**2 343 219**	**8 196 716**
Financial assets held at amortised cost for which fair values are disclosed				
Cash and cash equivalents	-	3 741 853	-	3 741 853
Trade and other receivables	-	-	399 621	399 621
Development loans	-	-	86 770 598	86 770 598
Development bonds	1 253 048	-	-	1 253 048
	1 253 048	**3 741 853**	**87 170 219**	**92 165 120**
Total fair value of financial assets	**2 673 968**	**8 174 430**	**89 513 438**	**100 361 836**

3. Financial assets by category (continued)

The table below sets out the Bank's classification of financial assets and their fair values.

in thousands of rands	Notes	Loans and receivables	Fair value through profit or loss	Held to maturity	Available-for-sale	Total carrying amount	Fair Value
March 2017							
Cash and cash equivalents	5	2 299 247	-	-	-	2 299 247	2 299 247
Trade and other receivables	6	121 982	-	-	-	121 982	121 982
Investment securities	7	-	853 322	-	215 763	1 069 085	1 069 085
Derivative assets held for risk management	8.1	-	846 141	-	-	846 141	846 141
Equity investments	10	-	5 972 509	-	-	5 972 509	5 972 509
Development loans	13	71 505 178	-	-	-	71 505 178	73 892 596
Development bonds	12	-	-	1 290 319	-	1 290 319	1 190 131
		73 926 407	**7 671 972**	**1 290 319**	**215 763**	**83 104 461**	**85 391 691**

Financial assets held at fair value	Level 1 Category	Level 2 Category	Level 3 Category	Total
Investment securities	1 069 085	-	-	1 069 085
Derivative assets held for risk management	-	846 141	-	846 141
Equity investments	-	5 438 239	534 270	5 972 509
	1 069 085	**6 284 380**	**534 270**	**7 887 735**
Financial assets held at amortised cost for which fair values are disclosed				
Cash and cash equivalents	-	2 299 247	-	2 299 247
Trade and other receivables	-	-	121 982	121 982
Development bonds	1 190 131	-	-	1 190 131
Development loans	-	-	73 892 596	73 892 596
	1 190 131	**2 299 247**	**74 014 578**	**77 503 956**
Total fair value of financial assets	**2 259 216**	**8 583 627**	**74 548 848**	**85 391 691**

** The Bank does not speculate in financial assets, hence the held-for-trading classification is not used. All derivative instruments concluded by the Bank are for risk management purposes and therefore disclosed as designated at fair value through profit or loss.*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

4. Financial liabilities by category

The table below sets out the Bank's classification of financial liabilities and their fair values.

in thousands of rands	Notes	At amortised cost	Designated at fair value through profit or loss	Total carrying amount	Fair Value
March 2018					
Trade and other payables	16	1 204 264	-	1 204 264	1 204 264
Funding: debt securities	19	33 363 703	6 473 055	39 836 758	42 598 237
Funding: lines of credit	20	13 677 213	-	13 677 213	15 742 988
Derivative liabilities held for risk management	8.2	-	59 240	59 240	59 240
		48 245 180	**6 532 295**	**54 777 475**	**59 604 729**

Financial liabilities designated at fair value	Level 1 Category	Level 2 Category	Level 3 Category	Total
Funding: debt securities	6 473 055	-	-	6 473 055
Derivative liabilities held for risk management	-	59 240	-	59 240
	6 473 055	**59 240**	**-**	**6 532 295**
Financial liabilities held at amortised cost for which fair values are disclosed				
Trade and other payables	-	-	1 204 264	1 204 264
Funding: debt securities	30 828 652	5 296 530	-	36 125 182
Funding: lines of credit	-	15 742 988	-	15 742 988
	30 828 652	**21 039 518**	**1 204 264**	**53 072 434**
Total fair value of financial liabilities	**37 301 707**	**21 098 758**	**1 204 264**	**59 604 729**

4. Financial liabilities by category (continued)

The table below sets out the Bank's classification of financial liabilities and their fair values.

in thousands of rands	Notes	At amortised cost	Designated at fair value through profit or loss	Total carrying amount	Fair Value
March 2017					
Trade and other payables	16	838 591	-	838 591	838 591
Funding: debt securities	19	30 117 774	6 336 487	36 454 261	37 732 166
Funding: lines of credit	20	14 015 426	-	14 015 426	13 708 296
Derivative liabilities held for risk management	8.2	-	142 857	142 857	142 857
		44 971 791	**6 479 344**	**51 451 135**	**52 421 910**

Financial liabilities designated at fair value	Level 1 Category	Level 2 Category	Level 3 Category	Total
Funding: debt securities	6 336 487	-	-	6 336 487
Derivative liabilities held for risk management	-	142 857	-	142 857
	6 336 487	**142 857**	**-**	**6 479 344**
Financial liabilities held at amortised cost for which fair values are disclosed				
Trade and other payables	-	-	838 591	838 591
Funding: debt securities	28 487 282	2 908 397	-	31 395 679
Funding: lines of credit	-	13 708 296	-	13 708 296
	28 487 282	**16 616 693**	**838 591**	**45 942 566**
Total fair value of financial liabilities	**34 823 769**	**16 759 550**	**838 591**	**52 421 910**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

in thousands of rands	March 2018	March 2017
5. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Call deposits	2 585 867	2 087 993
Cash at bank	1 155 986	211 254
	3 741 853	**2 299 247**

The average interest rate earned on fixed and call deposits detailed above was 7.70% (March 2017: 7.29%) The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities is disclosed in note 43.

in thousands of rands	March 2018	March 2017
6. Trade receivables and other assets		
Trade receivables	100 479	63 359
Less: allowance for credit losses on trade receivables and other assets	(3 112)	(2 265)
	97 367	**61 094**
VAT	607	743
Prepayments	240 761	10 627
Deposits	88	88
Staff loans*	37	37
Subsistence and travel	321	331
Payroll expenses receivable	45	840
Accrued interest (financial assets)	60 395	48 222
Balance at the end of the year	**399 621**	**121 982**
Allowance for credit losses on trade receivables and other assets reconciliation		
Balance at beginning of the year	(2 265)	(3 113)
(Increase)/decrease in provision for allowance for credit losses on trade receivables and other assets (refer to note 35)	(847)	848
Balance at end of the year	**(3 112)**	**(2 265)**

**Staff loans are for employees and are interest free. The interest that should have been payable on this account is R3 379 (March 2017: R3 438) at a rate of 9.25%.*

6. Trade receivables and other assets (continued)

in thousands of rands	March 2018	March 2017
Included in trade receivables and other assets are:		
African Capacity Building Foundation (ACBF)	317	103
Anglo American Capacity Building Programme	-	2 786
Department of Basic Education for Accelerated Infrastructure Schools Programme	9 467	8 769
Department of Energy - IPP Office	8 128	5 393
Department of Trade and Industry	1 057	2 121
Eastern Cape Department of Education	31 746	1 596
Ekurhuleni Metropolitan Municipality	14 329	10 221
Elliotdale Rural Human Settlement	1 530	2 199
Former employees	1 793	1 991
Green Fund	62	70
Infrastructure Delivery Improvement Programme (IDIP)	-	57
Infrastructure Investment Programme for South Africa (IIPSA)	7	1
Jobs Fund	401	381
KFW HIV Voluntary, Counselling and Testing 2 Programme	1 131	576
KFW SADC Water Fund	681	1 167
Kwazulu-Natal Department of Education	10 541	4 626
Land and Agricultural Development Bank	-	228
Limpopo Department of Economic Development	1 243	-
Limpopo Department of Education	1 349	5 480
Limpopo Department of Health	355	453
Limpopo Department of Public Works	494	844
National Department of Health	5 784	11 143
National Department of Public Works	3 170	733
National Treasury Cities Support Programme (NTCSP)	580	605
Other trade receivables	1 469	1 815
Pan African Capacitation Building Platform (PACBP)	270	1
SADC Project Preparation Development Fund	4 382	-
Sefako Makgatho Health Science University	193	-
Balance at end of the year	**100 479**	**63 359**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

in thousands of rands	March 2018	March 2017
7. Investment securities		
Investment securities consist of the following:		
Investment securities designated at fair value through profit or loss		
Government bonds - listed	369 168	47 115
Municipal bonds - listed	664 647	643 821
State owned entities bonds - listed	161 850	162 386
	1 195 665	**853 322**

Investment securities are designated at fair value through profit or loss upon initial recognition, when they form part of a group of financial assets managed and evaluated on a fair value basis in accordance with a documented investment strategy. These investments are held as part of a strategic liquidity portfolio and can thus be redeemed at any time depending on the Bank's liquidity requirements.

	March 2018	March 2017
Available-for-sale investment securities		
Government bonds	225 255	215 763
	225 255	215 763
Total investment securities	**1 420 920**	**1 069 085**

8. Derivative assets and liabilities held for risk management

8.1. Derivative assets held for risk management

	March 2018	March 2017
Instrument type:		
Interest rate derivatives	162 232	175 919
Foreign exchange derivatives	1 078 213	670 222
	1 240 445	**846 141**

Included in derivative assets is a credit valuation adjustment (CVA) of -R14 million (March 2017: - R11 million)

8.2. Derivative liabilities held for risk management

	March 2018	March 2017
Instrument type:		
Interest rate derivatives	(24 893)	(26 330)
Foreign exchange derivatives	(34 347)	(116 527)
	(59 240)	**(142 857)**

Included in derivative liabilities is a debit valuation adjustment (DVA) of R0.933 million (March 2017: R2.6 million)

8.3. Net derivatives held for risk management

	March 2018	March 2017
Fair value hedges	137 338	149 589
Cash flow hedges	427 135	116 175
Economic hedges	616 732	437 520
	1 181 205	**703 284**

Fair value hedges

This category consists of interest rate and cross-currency swaps used to hedge the exposure to fair value changes of financial instruments, which are due to changes in market interest and foreign currency exchange rates. This category consists of derivative instruments designated as fair value hedges for hedge accounting purposes.

Cash flow hedges

This category consist of cross-currency options and interest rate swaps used to hedge both the foreign currency and interest rate risks arising from the EUR and US dollar financial instruments. All cash flow hedges were effective for the year under review. This category consists of derivative instruments designated as cash flow hedges for hedge accounting purposes.

8. Derivative assets and liabilities held for risk management (continued)

Economic hedges (derivatives)

This category consists of interest rate swaps, foreign exchange contracts, forward rate agreement and cross-currency swaps that are not designated for hedge accounting purposes. These derivative instruments are accounted for as held at fair value through profit or loss. Such derivatives are used for managing the exposures to foreign currency and interest rate risks. This category consists of both qualifying and non-qualifying hedges.

in thousands of rands	March 2018	March 2017

9. Post-retirement medical benefits investment

Fair value of plan assets	**45 446**	**45 251**

This asset represents the fair value of the Medipref investment that is used to fund the post-retirement medical benefit liability for eligible employees and pensioners as specified in note 18.2.

Balance at beginning of the year	45 251	49 978
Income	2 243	2 277
Expenses	(326)	(398)
Contributions paid	(3 534)	(6 736)
Increase in market value	1 812	130
Balance at end of the year	**45 446**	**45 251**

10. Equity investments

Equity investments consist of the following:		
Equity investments designated at fair value through profit or loss	**5 535 351**	**5 972 509**

10.1 Equity investments designated at fair value through profit or loss

Cost		
Balance at beginning of the year	4 582 256	5 319 262
Acquisitions	286 288	298 964
Capital return	(708 123)	(1 035 970)
Balance at end of the year	**4 160 421**	**4 582 256**
Fair value adjustment		
Balance at beginning of the year	362 275	(383 682)
Current year fair value adjustment (refer to note 31)	50 835	81 462
Realised capital gain (refer to note 32)	175 315	664 495
Balance at the end of the year	**588 425**	**362 275**
Foreign exchange adjustments		
Balance at beginning of the year	1 027 978	1 342 995
Unrealised loss (refer to note 30)	(265 157)	(317 849)
Realised gain (refer to note 30)	23 684	2 832
Balance at the end of the year	**786 505**	**1 027 978**
Fair value at the end of the year	**5 535 351**	**5 972 509**

Equity investments designated at fair value through profit or loss consist of direct equity in ordinary shares and third party managed private equity funds.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

10. Equity investments (continued)

Direct equity in ordinary shares:
If the market for a financial instrument is not quoted, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length exchange motivated by normal business considerations.

The Bank uses valuation techniques that include price of recent investments, if available, discounted cash flow analysis based on free cash flows, earnings or dividends using a market-related adjusted discount rate, long-term valuation (rule of thumb price earnings growth (PEG)), and option pricing models.

The Bank ensures that these valuation techniques optimise the use of market inputs and rely as little as possible on entity-specific inputs, incorporate all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

In accordance with the best investment and valuation practice, a marketability and other discount is applied to direct equity investments. The guidelines provides that marketability and other discount in the range 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability and other discount and it is possible for the marketability and other discount for a particular instrument to be outside the guideline range.

Third party managed private equity:
Private equity funds are valued by fund managers periodically in accordance with international private equity and venture capital valuation guidelines. These guidelines have taken consideration of IFRS and set out recommendations that represent current best practice on the valuation of a private equity and venture capital investments. The guidelines also set out the valuation methodologies that may be considered for use in estimating the fair value of underlying businesses and unquoted instruments in a private equity fund, namely price of recent investment, earnings multiple, discounted cash flows or earnings (of underlying businesses), discounted cash flows (from the investment) and industry valuation benchmarks. The guidelines also provide that in the case of unquoted equity investments, marketability and other discounts in the range 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability discounts and it is possible for the marketability discount for a particular instrument to be outside the guideline range.

	in thousands of rands	March 2018	March 2017
10.2	**Period since initial investment**		
	2 (two) years but within 3 (three) years	45 433	21 937
	3 (three) years but within 4 (four) years	74 181	82 385
	4 (four) years but within 9 (nine) years	3 600 958	5 868 187
	10 (ten) years and older	1 814 779	-
		5 535 351	**5 972 509**
10.3	**Sectoral analysis of equity investments**		
	Commercial infrastructure	2 817 927	2 883 291
	Institutional infrastructure	734 127	1 031 368
	Residential facilities	1 983 297	2 057 850
		5 535 351	**5 972 509**

10. Equity investments (continued)

in thousands of rands	March 2018	March 2017
10.4 Geographical analysis of equity investments		
South Africa	2 170 626	2 234 710
International (the rest of the continent excluding South Africa)	3 364 725	3 737 799
	5 535 351	**5 972 509**

US dollar and EUR amounts included in the above International equity investments		
US Dollar amount included	**165 082**	**174 505**
EUR amount included	**32 255**	**31 690**

11. Fair value hierarchy disclosures

The table below shows the Bank's financial assets and financial liabilities that are recognised and subsequently measured at fair value analysed by valuation technique. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is detailed in the table below.

in thousands of rands	Notes	Valuations with reference to observable prices Level 1	Valuations based on observable input Level 2	Valuations based on unobservable input Level 3*	Total
March 2018					
Available-for-sale financial assets					
Investment securities	7	225 255	-	-	225 255
Financial assets designated at fair value					
Investment securities	7	1 195 665	-	-	1 195 665
Derivatives assets held for risk management	8.1	-	1 240 445	-	1 240 445
Equity investments	10	-	3 192 132	2 343 219	5 535 351
Financial assets held at amortised cost for which fair values are disclosed					
Development loans	3	-	-	86 770 598	86 770 598
Development bonds	3	1 253 048	-	-	1 253 048
Cash and cash equivalents	5	-	3 741 853	-	3 741 853
Trade receivables and other assets	6	-	-	399 621	399 621
Total financial assets		**2 673 968**	**8 174 430**	**89 513 438**	**100 361 836**
Financial liabilities designated at fair value					
Funding: debt securities	19	6 473 055	-	-	6 473 055
Derivatives liabilities held for risk management	8.2	-	59 240	-	59 240
Financial liabilities held at amortised cost for which fair values are disclosed					
Funding: debt securities	4	30 828 652	5 296 530	-	36 125 182
Funding: lines of credit	4	-	15 742 988	-	15 742 988
Trade and other payables	16	-	-	1 204 264	1 204 264
Total financial liabilities		**37 301 707**	**21 098 758**	**1 204 264**	**59 604 729**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

11. Fair value hierarchy disclosures (continued)

in thousands of rands	Notes	Valuations with reference to observable prices Level 1	Valuations based on observable input Level 2	Valuations based on unobservable input Level 3*	Total
March 2017					
Available-for-sale financial assets					
Investment securities	7	215 763	-	-	215 763
Financial assets designated at fair value					
Investment securities	7	853 322	-	-	853 322
Derivative assets held for risk management	8.1	-	846 141	-	846 141
Equity investments	10	-	5 438 239	534 270	5 972 509
Financial assets held at amortised cost for which fair values are disclosed					
Development loans	3	-	-	73 892 596	73 892 596
Development bonds	3	1 190 131	-	-	1 190 131
Cash and cash equivalents	5	-	2 299 247	-	2 299 247
Trade receivables and other assets	6	-	-	121 982	121 982
Total financial assets		**2 259 216**	**8 583 627**	**74 548 848**	**85 391 691**
Financial liabilities designated at fair value					
Funding: debt securities	19	6 336 487	-	-	6 336 487
Derivative liabilities held for risk management	8.2	-	142 857	-	142 857
Financial liabilities at amortised cost for which fair values are disclosed					
Funding: debt securities	4	28 487 282	2 908 397	-	31 395 679
Funding: lines of credit	4	-	13 708 296	-	13 708 296
Trade and other payables	16	-	-	838 951	838 951
Total financial liabilities		**34 823 769**	**16 759 550**	**838 951**	**52 422 270**

**Level 3 movements are all due to fair value adjustments to profit or loss.*

Level 1
Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. This category includes capital market assets, listed equity investments and debt securities.

Level 2
Financial instruments valued using inputs other than quoted prices as described above for level 1 but that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted price for similar assets or liabilities in inactive markets
- Quoted price for identical or similar assets or liabilities in inactive markets
- Valuation model using observable inputs
- Valuation model using inputs derived from or corroborated by observable market data

This category includes deposits, derivatives, unlisted equity investments and debt securities.

Level 3
Valuations are based on unobservable inputs.

Financial instruments valued using discounted cash flow analysis. This category includes only unlisted equity investments.

11. Fair value hierarchy disclosures (continued)

11.1 Equity investments

Valuation methods within level 3 fair value hierarchy are applied appropriately and may produce a fair value measurement that may not be indicative of ultimate realisable value. Movements are all due to valuation methodology used. Furthermore, while management believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the Annual Financial Statements.

in thousands of rands	March 2018	March 2017
Reconciliation of level 3 assets		
Balance at the beginning of year	534 270	920 470
Transfers in/(out) of level 3 (refer to note 31)	1 808 949	(386 200)
Balance at the end of the year	**2 343 219**	**534 270**

12. Development bonds

Development bonds consist of the following:		
Held-to-maturity development bonds		
Municipal bonds	**1 290 361**	**1 290 319**

12.1 Analysis of development bonds

Balance at the beginning of the year	1 290 607	1 290 466
Movement during the year	-	141
Gross development bonds	1 290 607	1 290 607
Allowance for credit losses on development bonds (refer to note 12.3)	(246)	(288)
Balance at end of the year	**1 290 361**	**1 290 319**

12.2 Movements during the year

Interest accrued (refer to note 27)	122 054	122 001
Gross interest repayments	(122 054)	(121 860)
	-	**141**

12.3 Allowance for credit losses on development bonds reconciliation

Balance at the beginning of the year	288	170
(Decrease)/increase in allowance for credit losses on development bonds (refer to note 35)	(42)	118
Balance at the end of the year	**246**	**288**

Development bonds are held-to-maturity investments that are measured at amortised cost using the effective interest rate method.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

in thousands of rands	March 2018	March 2017
13. Development loans		
13.1. Analysis of development loans		
Balance at the beginning of the year	75 667 226	73 300 535
Movements during the year (refer to note 13.1.1)	4 203 420	2 366 691
Gross development loans	79 870 646	75 667 226
Allowance for credit losses on development loans (refer to note 13.9)	(4 823 167)	(4 162 048)
Net development loans at the end of the year	**75 047 479**	**71 505 178**
13.1.1 Analysis of movements during the year		
Loans disbursed - current year	11 922 527	12 103 967
Interest accrued - statement of comprehensive income (refer to note 27)	7 191 847	6 911 392
Impairment of current year interest (refer to note 13.9)	118 319	46 090
Development loans written off (refer to note 13.9)	(79 548)	(28 987)
Loans waiver (refer to note13.9)	(25)	(815)
Foreign exchange adjustment	(1 968 313)	(1 725 536)
Gross repayments	(13 352 612)	(15 159 743)
Fees raised - current year	371 225	220 323
	4 203 420	**2 366 691**
13.2. Maturity analysis of development loans		
Due within 1 (one) year	14 484 287	9 462 225
Due after 1 (one) year but within 2 (two) years	5 321 140	5 059 156
Due after 2 (two) years but within 3 (three) years	4 572 475	5 402 608
Due after 3 (three) years but within 4 (four) years	7 319 048	4 489 097
Due after 4 (four) years but within 9 (nine) years	17 214 567	19 670 764
Due after 9 (nine) years but within 14 (fourteen) years	23 469 653	24 026 534
Due after 14 (fourteen years)	7 489 476	7 556 842
	79 870 646	**75 667 226**
13.3. Sectoral analysis		
Commercial - fund	414 167	952 236
Commercial - manufacturing	377 077	442 969
Commercial - mining	294 490	281 776
Commercial - tourism	237 742	259 060
Commercial - other	247 661	278 849
Communication and transport infrastructure	5 470 965	3 706 776
Energy - electricity	46 733 021	43 983 222
Energy - non-grid standalone	171 195	374 409
Human resources development	1 065 856	1 059 283
Institutional infrastructure	-	12 165
Residential facilities	4 216 186	1 377 981
Roads and drainage	11 986 198	13 664 490
Sanitation	1 398 689	1 413 349
Social infrastructure	4 658 372	4 982 853
Water	2 599 027	2 877 808
	79 870 646	**75 667 226**

13. Development loans (continued)

in thousands of rands	March 2018	March 2017
13.4. Geographical analysis		
Eastern Cape	1 924 163	1 992 212
Free State	2 057 689	1 583 484
Gauteng	37 632 913	34 033 622
KwaZulu-Natal	6 482 652	7 131 214
Limpopo	1 059 667	1 022 667
Mpumalanga	1 010 698	1 071 990
North West	727 250	913 046
Northern Cape	8 852 883	7 121 586
Western Cape	3 113 693	3 187 617
Rest of Africa	17 009 038	17 609 788
	79 870 646	**75 667 226**
Rest of Africa		
Angola	2 462 581	2 072 938
Congo	1 032 777	1 369 557
Ethiopia	729 914	-
Ghana	1 999 422	1 582 410
Kenya	367 756	304 643
Lesotho	534 240	610 611
Madagascar	164 162	-
Mauritius	439 115	467 714
Mozambique	394 247	510 578
Namibia	83 919	83 917
Swaziland	235 599	217 825
Tanzania	91 234	113 283
Zambia	5 919 225	7 124 096
Zimbabwe	2 160 706	2 561 248
Multi-regional	394 141	590 968
	17 009 038	**17 609 788**
Euro amount included in the Rest of Africa loans	**11 383**	-
US dollar amounts included in the above Rest of Africa loans	**1 343 124**	1 235 465
13.5. Client classification		
Development finance institutions	402 680	603 934
Educational institutions	1 007 552	974 220
Local government	27 192 519	27 006 956
National and provincial government	2 514 490	2 083 032
Private sector intermediaries	21 025 834	19 517 229
Public utilities	27 727 571	25 481 855
	79 870 646	**75 667 226**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

13. Development loans (continued)

in thousands of rands	March 2018	March 2017
13.6. Fixed and variable interest rate loans		
Fixed interest rate loans	39 445 658	41 236 119
Variable interest rate loans	40 424 988	34 431 107
	79 870 646	**75 667 226**
13.7. Non-performing loans (included in total development loans)		
13.7.1. Sectoral analysis		
Commercial - manufacturing	366 292	374 644
Commercial - mining	294 490	281 776
Commercial - tourism	237 742	259 060
Commercial - other	169 355	195 269
Communication and transport infrastructure	436 489	463 449
Energy	172 328	171 196
Human resources development	2 851	28 688
Institution building	3 000	3 000
Residential facilities	255 538	228 581
Roads and drainage	606 757	62 299
Sanitation	170 359	29 214
Social infrastructure	682 797	206 210
Water	197 113	183 570
	3 595 111	**2 486 956**
13.7.2. Geographical analysis		
Eastern Cape	214 728	231 272
Free State	45 881	83 884
Gauteng	248 654	344 391
KwaZulu-Natal	6 207	33 699
Limpopo	318 363	273 696
Mpumalanga	444 487	156 444
North West	154 012	238 739
Northern Cape	39 729	40 539
Western Cape	64 900	70 255
Rest of Africa	2 058 150	1 014 037
	3 595 111	**2 486 956**
Rest of Africa		
Lesotho	497 822	-
Mauritius	182 617	193 749
Mozambique	248 362	183 017
Swaziland	179 183	157 354
Tanzania	91 234	113 283
Zambia	203 096	237 074
Zimbabwe	655 836	129 560
	2 058 150	**1 014 037**

13. Development loans (continued)

in thousands of rands	March 2018	March 2017
13.7.3. Client classification on non-performing loans		
Educational institutions	2 851	2 798
Local government	490 950	341 566
National and provincial government	-	193 749
Private sector intermediaries	2 284 600	1 733 156
Public utilities	816 710	215 687
	3 595 111	**2 486 956**
13.8. Client concentration of total development loans		
One client as percentage of total loan portfolio (%)	**22.9**	20.2
Seven clients as percentage of total loan portfolio (%)	**56.2**	54.6
13.9. Allowance for credit losses on development loans reconciliation		
Balance at the beginning of the year	4 162 048	3 805 581
Impairment of current year interest (refer to note 13.1.1)	118 319	46 090
Loans written off during the year (refer to note 13.1.1)	(79 548)	(28 987)
Loans waiver (refer to note 13.1.1)	(25)	(815)
Impairment charge (refer to note 35)	**622 373**	**340 179**
Non-performing book	555 549	(171 456)
Performing book	66 824	511 635
Balance at the end of year	**4 823 167**	**4 162 048**
Analysis of impairment charge		
Identifiable impairments		
Non - performing book	555 549	(171 456)
Performing book	(150 329)	359 794
Unidentifiable impairments		
Model driven - performing book	217 153	151 841
Impairment charge for the year	**622 373**	**340 179**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

14. Property and equipment

	March 2018			March 2017		
in thousands of rands	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Revalued land	94 000	-	94 000	94 000	-	94 000
Revalued buildings	322 889	(33 865)	289 024	334 068	(29 568)	304 500
Furniture and fittings	19 907	(18 361)	1 546	19 851	(17 135)	2 716
Motor vehicles	3 130	(990)	2 140	1 448	(748)	700
Office equipment	15 393	(10 284)	5 109	14 257	(9 654)	4 603
Computer equipment	74 507	(67 801)	6 706	68 286	(59 888)	8 398
Leasehold improvements	770	(535)	235	770	(278)	492
Total	**530 596**	**(131 836)**	**398 760**	**532 680**	**(117 271)**	**415 409**

Reconciliation of property and equipment - March 2018

in thousands of rands	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Revalued land	94 000	-	-	-	-	94 000
Revalued buildings	304 500	3 334	-	(14 513)	(4 297)	289 024
Furniture and fittings	2 716	41	-	-	(1 211)	1 546
Motor vehicles	700	1 682	-	-	(242)	2 140
Office equipment	4 603	1 153	-	-	(647)	5 109
Computer equipment	8 398	5 549	(90)	-	(7 151)	6 706
Leasehold improvements	492	-	-	-	(257)	235
	415 409	**11 759**	**(90)**	**(14 513)**	**(13 805)**	**398 760**

Reconciliation of property and equipment - March 2017

in thousands of rands	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Revalued land	84 600	-	-	9 400	-	94 000
Revalued buildings	387 056	1 962	-	(80 334)	(4 184)	304 500
Furniture and fittings	4 044	-	-	-	(1 328)	2 716
Motor vehicles	823	-	-	-	(123)	700
Office equipment	4 890	493	(87)	-	(693)	4 603
Computer equipment	19 040	1 532	(187)	-	(11 987)	8 398
Leasehold improvements	749	-	-		(257)	492
	501 202	**3 987**	**(274)**	**(70 934)**	**(18 572)**	**415 409**

Valuations

Land

Land constitutes Portion 465 (of Portion 442) of the Farm Randjesfontein 405 measuring 25 066 hectares donated by the South African Government in 1985. The land was valued by management at R94 million (March 2017: R94 million by an independent valuator).

Buildings

The existing buildings were erected in 1987 at a cost of R35.2 million. There were improvements amounting to R3.3 million (March 2017 R1.9 million). The buildings were fair valued by management at R289 million (March 2017: R304.5 million by an independent valuator).

The historical carrying value of the existing buildings is R223 million (March 2017: R219.8 million).

15. Intangible assets

in thousands of rands	March 2018			March 2017		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Computer software	**192 715**	**(101 005)**	**91 710**	176 897	(88 939)	87 958

Reconciliation of intangible assets - March 2018

in thousands of rands	Opening balance	Additions	Amortisation	Closing balance
Computer software	**87 958**	**15 818**	**(12 066)**	**91 710**

Reconciliation of intangible assets - March 2017

in thousands of rands	Opening balance	Additions	Amortisation	Closing balance
Computer software	79 142	21 493	(12 677)	87 958

in thousands of rands	March 2018	March 2017

16. Trade payables and deferred income

Trade payables	245 583	230 251
Deferred income	428 655	147 875
Accrued interest (financial market liabilities)	530 026	460 465
Total payables and deferred income	**1 204 264**	**838 591**
Included in trade payables		
African World Heritage Fund (AWHF)	13	11
Department of Basic Education for Accelerated Infrastructure Schools Programme	-	2 636
Ekurhuleni Metropolitan Municipality	-	270
Former employees creditors	2	-
Gauteng Schools Programme	-	31
Hospital Revitalisation Programme	-	237
Municipal Financial Improvement Programme (NT MFIP)	506	506
Municipal Infrastructure Support Agency (MISA)	201	848
National Rural Youth Service Corporation (NARYSEC)	115	116
Social Accounting Matrix funding	-	1 870
Balance at the end of the year	**837**	**6 525**

Included in trade and other payables is bonus provision as reconciled below.

Reconciliation of bonus provision:

in thousands of rands	Opening balance	Utilised during the year	Reversal of prior year provision	Current year provision	Closing balance
Bonus provision	157 562	(138 195)	(6 563)	166 100	178 904

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

16. Trade payables and deferred income (continued)

Reconciliation of deferred income:

in thousands of rands	Opening balance	Transferred to income statement	Current year capitalisation of deferred income	Closing balance
Deferred income	147 875	(29 340)	310 120	428 655

Deferred income mainly comprises of upfront fees.

17. Provisions

Reconciliation of provisions - March 2018

in thousands of rands	Opening Balance	Current year provision	Utilised during the year	Current year reversals	Closing balance
Developmental expenditure	73 292	5 648	(12 300)	-	66 640
Strategic initiatives	53 338	-	(4 560)	(48 778)	-
	126 630	**5 648**	**(16 860)**	**(48 778)**	**66 640**

Reconciliation of provisions - March 2017

in thousands of rands	Opening Balance	Current year provision	Utilised during the year	Current year reversals	Closing balance
Development expenditure	64 591	27 181	(18 480)	-	73 292
Restructuring	38 794	-	-	(38 794)	-
Strategic initiatives	49 148	38 794	(34 604)	-	53 338
	152 533	**65 975**	**(53 084)**	**(38 794)**	**126 630**

Provision for developmental expenditure

In response to meeting mandate requirements, the Bank approved the granting of assistance to municipalities in the Market 2 (secondary cities)/Market 3 (under-resourced municipalities) space by way of providing loans at rates lower than the required economic return on equity by the bank. The provision for developmental expenditure represents the quantum of the financial assistance provided on deals contracted.

18 Employee benefits

18.1 Liability for funeral benefits

This benefit covers all current and retired employees of the Bank. In respect of these employees, a gross amount of R20 000 is paid to the family upon the death of an employee or retired employee. The obligation was valued by Alexander Forbes on 31 March 2018.

in thousands of rands	March 2018	March 2017
Movement in liability for funeral benefits recognised in the statement of financial position		
Balance at beginning of the year	3 226	3 100
(Decrease)/increase in liability	(1 074)	126
Balance at the end of the year	**2 152**	**3 226**

18 Employee benefits (continued)

18.2 Post-retirement medical benefits

The Bank operates an unfunded defined benefit plan for qualifying employees. In terms of the plan, the Bank pays 100% of the medical aid contributions of qualifying pensioners.

Pensioners include retired employees and their widow(er)s. The liability is in respect of pensioners who continue to belong to the medical aid after retirement.

The investment in Medipref, as specified in note 9, has been set aside to fund this obligation.

in thousands of rands	March 2018	March 2017
The amount recognised in the statement of financial position in respect of the Bank's post-retirement medical benefit is detailed below:		
Present value of unfunded obligation		
Balance at the beginning of the year	40 712	239 289
Interest cost	3 974	17 474
Current service cost (includes interest to year-end)	50	45
Benefits paid	(3 303)	(11 535)
Actuarial gain /(reversal of actuarial gain) for the year	3 171	(44 636)
Payment to pensioners	-	(159 925)
Balance at the end of the year	**44 604**	**40 712**
The projected unit credit method has been used to determine the actuarial valuation.		
The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows		
Interest cost	3 974	17 474
Current service cost	50	45
Actuarial gain /(reversal of actuarial gain) for the year	3 171	(44 636)
Total charge for the year (included in personnel expenses - refer note 36)	**7 195**	**(27 117)**
Market value of post-retirement medical benefit investment		
Balance at the beginning of the year	45 251	49 978
Income	2 243	2 277
Expenses	(326)	(398)
Contributions	(3 534)	(6 736)
Increase in market value	1 812	130
Balance at the end of the year	**45 446**	**45 251**
The principal assumptions in determining the post-retirement medical benefits obligation are as follows:		
Discount rate (before taxation(%))	**9.70**	10.20
Medical aid inflation rate (%)	**8.10**	9.20

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

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18 Employee benefits (continued)

Sensitivity analysis

The valuation results set out above are based on a number of assumptions. The value of the liability could be overstated or understated depending on the extent to which actual experience differs from the assumptions adopted.

	Central assumption	% point decrease	% point increase
Medical aid inflation rate (%)	8.10	(1.00)	1.00
Accrued liability 31 March 2018 (R'000)	44 604	40 572	49 450
% change		(9.00)	10.90
Current service cost + interest cost 2018/19 (R'000)	4 189	3 790	4 669
% change		(9.50)	11.50
Sensitivity results from previous valuation: Medical aid inflation rate 2017/18 (%)	9.20	(1.00)	1.00
Current service cost + interest cost 2017/18 (R'000	4 024	3 668	4 440
% change		(8.80)	10.30

The obligation for the four years prior to March 2017 is as follows:	**R'000**
March 2016	239 289
March 2015	160 412
March 2014	165 051
March 2013	148 421

in thousands of rands	March 2018	March 2017
18.3 Defined contribution plan		
The total amount expensed during the period (including group life assurance and income continuity benefits)	**50 815**	**53 010**

The Development Bank of Southern Africa Provident Fund (The Fund) was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members. The Fund, which is governed by the Pension Funds Act, 1956 (Act No. 24 of 1956), is a defined contribution plan for permanent employees of the Bank. The number of employees covered by the plan for March 2018 is 583 (March 2017:611).

19. Debt securities

	March 2018	March 2017
Classification of debt securities		
Held at fair value through profit or loss	6 473 055	6 336 487
Held at amortised cost	33 363 703	30 117 774
	39 836 758	**36 454 261**
Medium to long term debt securities reconciliation		
Balance at beginning of the year	36 454 261	35 271 135
Bonds issued	3 109 000	4 533 000
Bonds repaid	(230 000)	(3 757 000)
Fair value adjustment	106 938	149 411
Premiums discounts and other transactions costs	396 559	257 715
Balance at the end of the year	**39 836 758**	**36 454 261**

A R80 billion Domestic Medium Term Note Programme is currently registered and listed on the JSE Securities Exchange as at 31 March 2018.

19. Debt securities (continued)

Debt securities designated at fair value through profit or loss consists of listed DV bond. The valuation of debt securities held at fair value through profit or loss incorporates own credit risk adjustment of R77 million (March 2017: R89 million)

Debt securities carried at amortised cost consists of Eurorand bond issues, money market issuance (bridging bonds and short term commercial paper), medium and long term fixed and floating rate bonds.

in thousands of rands	March 2018	March 2017
Floating rate notes and commercial paper - nominal values		
Commercial paper - Short term notes	1 559 000	2 118 000
Floating rate notes - Medium term notes	7 945 000	5 828 000
	9 504 000	**7 946 000**

The Bank issued several floating commercial paper notes during the financial year under instruments codes DVC. These are commercial paper instruments with a maturity of less than one year held at amortised cost.

The Bank also issued several floating medium term notes under instrument codes DVF. These are floating rate notes instruments have a maturity of three to five years held at amortised cost.

20. Funding: lines of credit

Held at amortised cost	**13 677 213**	**14 015 426**
Lines of credit reconciliation		
Balance at beginning of the year	14 015 426	16 371 534
Borrowings from lines of credit	6 867 229	13 174 898
Repayments on lines of credit	(5 768 094)	(13 804 546)
Forex adjustments on lines of credit	(1 437 348)	(1 726 460)
Balance at the end of the year	**13 677 213**	**14 015 426**

21. Share capital

Authorised		
2 020 000 ordinary shares (March 2017: 2 020 000) at a par value of R10 000 each	**20 200 000**	**20 200 000**
Callable capital (authorised but not yet issued)		
2 000 000 ordinary shares (March 2017: 2 000 000) at a par value of R10 000 each	**20 000 000**	**20 000 000**

In terms of regulation 18 of the DBSA Act, the directors may issue shares and call upon the shareholders in respect of monies payable under such issue.

The Board may, with the approval of the shareholder previously given at a shareholder's meeting, increase the issued share capital of the Bank by the creation and issue of ordinary and preference shares.

The DBSA Act was amended in 2014 to increase the authorised share capital to R20.2 billion, divided into 2 020 000 ordinary shares. In terms of section 13 (2A) of the amended act, the Minister may, after consultation with the board and notice in the Gazette, adjust the amount of the authorised share capital of the Bank and number of ordinary shares.

Issued capital		
20 000 ordinary shares (March 2017: 20 000) at a par value of R10 000 each	**200 000**	**200 000**

All issued capital is fully paid for.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

in thousands of rands	March 2018	March 2017
22. Permanent government funding		
Balance at the beginning of the year	**11 692 344**	**11 692 344**

This represents capital provided by the South African government and remains part of the permanent capital of the Bank. The last tranch of the capital injection was received in the 2016 year from National Treasury.

There are no repayment terms and this funding is interest-free. To date no cash repayments have been made and the full amount initially received is equal to the residual amount and is thus allocated to equity.

in thousands of rands	March 2018	March 2017
23. Revaluation reserve on land and buildings		
Balance at the beginning of the year	198 322	269 256
Loss on revaluation of buildings (refer to note 14)	(14 513)	(70 934)
Balance at the end of the year	**183 809**	**198 322**

This reserve represents the fair value adjustment recognised on the revaluation of buildings.

in thousands of rands	March 2018	March 2017
24. Cash flow hedge reserve		
Balance at the beginning of the year	141 680	123 050
Unrealised gain on cash flow hedges	121 616	12 846
(Gain)/loss on cash flow hedges reclassified to the statement of comprehensive income	(111 413)	5 784
Balance at the end of the year	**151 883**	**141 680**
25. Reserve for general loan risks		
Balance at the beginning of the year	2 287 491	2 436 358
Transfer to/(from) general loan reserve	324 485	(148 867)
Balance at the end of the year	**2 611 976**	**2 287 491**

The reserve is maintained based on the risk grading of the borrowers and movements are recognised directly between the reserve for general loan risk and retained earnings. The general loan reserve is a non distributable reserve representing a transfer from retained earnings.

in thousands of rands	March 2018	March 2017
26. Available-for-sale reserve		
Balance at beginning of the year	(3 038)	(810)
Change in value of available-for-sale financial assets	11 132	(2 228)
Balance at end of the year	**8 094**	**(3 038)**

The available for sale reserve comprises all fair value adjustments of financial market instruments.

in thousands of rands		March 2018	March 2017
27.	**Interest income**		
	Interest income received on:		
	Cash and cash equivalents	265 911	197 981
	Investment securities	129 489	116 558
	Held at fair value through profit or loss	110 650	105 791
	Held-to-maturity	-	1 803
	Available-for-sale	18 839	8 964
	Equity investments	10 930	25 953
	Development loans (refer to note 13.1)	7 191 847	6 911 392
	Development bonds (refer to note 12.2)	122 054	122 001
	Derivative assets held for risk management	30 375	(791)
	Total interest income	**7 750 606**	**7 373 094**
27.1.	**Interest income on development loans**		
	Performing loans	7 043 755	6 806 013
	On non-performing loans	148 092	105 379
		7 191 847	**6 911 392**
27.2.	**Interest income on development loans -client classification**		
	Development finance institutions	28 104	37 051
	Educational institutions	94 787	87 482
	Local government	2 677 622	2 499 311
	National and provincial government	136 358	155 028
	Private sector intermediaries	1 932 399	1 840 489
	Public utilities	2 322 577	2 292 031
		7 191 847	**6 911 392**
28.	**Interest expense**		
	Interest expense incurred on:		
	Bank and other payables	8 097	9 567
	Funding: debt securities	3 593 206	3 355 999
	Funding: lines of credit	365 140	395 380
	Repurchase and resale agreements	191	-
	Derivative liabilities held for risk management	(61 375)	(57 186)
	Total interest expense	**3 905 259**	**3 703 760**
	Net interest income	**3 845 347**	**3 669 334**

Included in interest expense on funding: debt securities for the year ended 31 March 2018 is R631 million (March 2017: R627 million) relating to debt securities designated held at fair value through profit or loss.

Included in interest expense on Funding: debt securities for the year ended 31 March 2018 is R2.96 billion (March 2017: R2.7 billion) relating to debt securities held at amortised cost.

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FOR THE YEAR ENDED 31 MARCH 2018

in thousands of rands	March 2018	March 2017
29. Net fee income		
Lending fees	82 817	182 991
Non-lending fees	4 369	10 216
Management fees	168 769	136 270
Total fee income	**255 955**	**329 477**
Commitment fees on funding	23 995	7 707
Guarantee fees	41 764	3 504
Total fee expense	**65 759**	**11 211**
Net fee income	**190 196**	**318 266**
Management fees comprises:		
Agence Francaise Developement PPS Fund	28	542
African World Heritage Fund (AWHF)	1 170	1 170
Anglo American South Africa	-	1 259
African Capacity Building Programme	(9)	-
Cities Project Preparation Facility (CPPF)	125	1 125
Department of Basic Education for Accelerated Infrastructure Schools Programme	38 558	23 878
Department of Energy - Independent Power Producer Office	5 263	4 716
Department of Trade and Industry	8 456	7 811
Eastern Cape Department of Education	18 788	4 494
Ekurhuleni Metropolitan Municipality	27 539	28 595
Ellliotdale Rural Human Settlement	-	1 929
European Investment Bank	139	14 968
Gauteng Department of Agriculture	-	586
Gauteng Schools Programme	27	-
Global Environment Facility	10 916	4 588
Green Fund	108	57
Infrastructure Delivery Improvement Programme (IDIP)	-	148
Infrastructure Investment Programme for South Africa (IIPSA)	877	877
KFW HIV/Voluntary Counselling and Testing Programme	1 013	2 295
KFW SADC Water Fund	-	427
Kwazulu Natal Department of Education	8 073	10 876
Limpopo Department of Economic	2 980	-
Limpopo Department of Education	13 391	4 807
Limpopo Department of Health	1 326	1 289
Limpopo Department of Public Works	5 072	5 653
Municipal Infrastructure Support Agency (MISA)	35	8
National Department of Health	9 090	5 728
National Department of Public Works	7 026	883
National Treasury Cities Support Programme (NTCSP)	584	1 307
Other entities	846	300
SADC Project Preparation Development Fund	4 382	4 685
Sefako Makgatho University	2 802	1 035
Tripartite Trust Account DFID	164	234
	168 769	**136 270**

in thousands of rands	March 2018	March 2017
30. Net foreign exchange (loss)/gain		
Unrealised		
Cash and cash equivalents: loss	(90 272)	(18 953)
Hedging derivatives - funding: gain/(loss)	432 271	(351 273)
Equity investments loss (refer to note 10.1)	(265 157)	(317 849)
Development loans loss	(2 356 076)	(2 732 915)
Hedging derivatives - development loans gain	94 390	14 601
Funding (lines of credit) gain	1 437 348	1 730 728
	(747 496)	**(1 675 661)**
Realised		
Development loans: gain	366 632	1 002 287
Equity investments: gain (refer to note 10.1)	23 684	2 832
Funding and hedging: gain	55 123	51 893
	445 439	**1 057 012**
Net foreign exchange loss	**(302 057)**	**(618 649)**
31. Net (loss)/gain from financial assets and financial liabilities		
Net gain/(loss) on derivatives held for risk management at fair value through profit or loss		
Interest rate derivatives		
Unrealised	(27 990)	135 569
Realised	(516)	20 243
	(28 506)	**155 812**
Foreign exchange derivatives		
Unrealised	(43 116)	(61 623)
Realised	(32 668)	(7 347)
	(75 784)	**(68 970)**
Investment securities designated at fair value through profit or loss		
Government bonds - unrealised	6 364	2 289
Corporate bonds - unrealised	988	2 355
Municipal bonds - unrealised	20 826	7 931
	28 178	**12 575**
Securities		
Corporate government and municipal bonds - realised	**(11 748)**	**6 292**
Debt securities		
Designated at fair value through profit or loss - unrealised	**(94 775)**	**(225 799)**
Equity investments		
Designated at fair value through profit or loss - unrealised (refer to note 10.1)	**50 835**	**81 462**
Other		
Post-retirement medical benefits investment designated at fair value through profit or loss - unrealised	**195**	**(4 726)**
Total net loss from financial assets and liabilities	**(131 605)**	**(43 354)**
Transfers in / (out)of level 3 positions at year end are set below. Equity investments (refer to note 11.1)	**1 808 949**	**(386 200)**

Included in the net gain/loss on derivatives held for risk management at fair value through profit or loss is a CVA adjustment of R2.2 million (March 2017: -R81 million) and a DVA adjustment of R1.7 million (March 2017: - R13.7 million)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

	in thousands of rands	March 2018	March 2017
32.	**Other income**		
	Non-interest income		
	Dividend income	15 956	15 830
	(Loss)/gain on sale of property and equipment	(16)	578
	Sundry income	51 285	53 187
	Realised gain on equity investments	175 315	664 495
		242 540	**734 090**
33.	**Project preparation expenditure**		
	Expenditure incurred on the planning, project definition, pre-feasibility, feasibility and structuring phase of projects	**7 094**	**24 453**
34.	**Development expenditure**		
	In support of secondary and under-resourced municipalities	**15 154**	**27 181**
35.	**Net impairment loss on financial assets**		
	Impairment of other trade and receivables (refer to note 6)	847	(848)
	Impairment on development loans (refer to note 13.9)	622 373	340 179
	Impairment on development bonds (refer to note 12.3)	(42)	118
		623 178	**339 449**
36.	**Personnel expenses**		
	Post-retirement medical benefits liability movement (refer note 18.2)	7 195	(27 117)
	Personnel expenses	695 685	630 725
		702 880	**603 608**
	Included in other personnel expenses are the following:		
	Non-executive directors' remuneration (refer to note 42)	8 677	6 835
	Chief Executive Officer and Chief Financial Officer remuneration (refer to note 42)	14 476	13 718
	Executive members' remuneration (refer to note 42)	34 316	28 744
		57 469	**49 297**
37.	**General and administration expenses**		
	Auditor's remuneration	7 028	6 567
	Consulting fees	18 607	24 389
	Communication costs	6 768	6 914
	Information technology costs	43 056	43 131
	Legal expenses	16 905	19 308
	Public relations activities	15 965	10 094
	Subsistence and travel	42 487	36 369
	Low value assets	1 778	1 040
	Other expenses	25 007	54 368
		177 601	**202 180**

in thousands of rands		March 2018	March 2017
38.	**Depreciation and amortisation (refer note 14 and 15)**		
	Revalued buildings	4 297	4 184
	Furniture and fittings	1 211	1 328
	Motor vehicles	242	123
	Office equipment	647	693
	Computer equipment	7 151	11 987
	Leasehold improvements	257	257
	Intangible assets	12 066	12 677
		25 871	**31 249**
39.	**Grants**		
	African Union Foundation	97	948
	Association of African Development Finance Institutions	-	694
	Business Engage Association NPC	73	-
	Citizen Entrepreneurial Development Agency	-	162
	Compensation- Eastern Cape site	259	
	Enterprise development programme for refreshment services	182	-
	Pan African Capacity Building Platform (PACBF)	6 667	6 667
	SADC - Development Finance Resource Centre	1 276	1 342
	Scout South Africa	-	60
	South African National Defence Force Education Trust	1 000	-
	Sponsorship for the former employee's school fees	96	-
	Sponsorship for vulnerable children - Lefika Centre	42	-
	World Resource Institute	74	845
		9 766	**10 718**
	These grants are discretionary grants.		
40.	**Net profit adjusted for non-cash items/ separately disclosed items**		
	Net profit for the year	2 282 877	2 820 849
	Depreciation and amortisation (refer to note 38)	25 871	31 249
	(Loss)/gain on sale of assets (refer to note 32)	16	(578)
	Grants, development expenditure and project preparation expenditure paid	32 014	62 352
	Unrealised loss from financial assets and liabilities	86 674	63 496
	Upfront fees deferred	280 875	32 312
	Fees accrued	34 164	(33 384)
	Debt guarantee fee raised	38 873	-
	Unrealised foreign exchange loss (refer to note 30)	747 496	1 675 661
	Capital gain on equity investments (refer to note 32)	(175 315)	(664 495)
	Net impairment loss on financial assets (refer to note 35)	623 178	339 449
	Change in liability for funeral benefits and post retirement medical benefit	2 819	(198 452)
	Net interest income (refer to note 28)	(3 845 347)	(3 669 334)
		134 195	**459 125**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

in thousands of rands	March 2018	March 2017
41. Net decrease in working capital		
Movements in provisions	(75 144)	(61 784)
Decrease in other receivables	8 492	33 235
Increase/(decrease) in other payables	19 129	(82 348)
	(47 523)	**(110 897)**

42. Schedule of Directors' and prescribed officers' emoluments

42.1 Executive members' remuneration and prescribed officers

	Basic salaries and fees R	Medical aid, group life and provident fund contributions R	Sub-sistence and travel R	Cell costs R	Performance Bonus R	Retention Bonus R	Total 2018 R	Total 2017 R
Executive Directors								
Mr PK Dlamini	5 001 943	887 784	59 351	-	1 876 770	1 723 230	9 549 078	9 397 128
Ms K Naidoo [1]	4 197 946	150 137	-	8 004	571 331	-	4 927 418	4 320 439
Executive Managers								
Mr PA Currie	3 303 388	391 983	40 439	24 000	795 888	1 544 112	6 099 810	4 581 542
Mr E Dietrich	2 303 099	556 560	77 473	60 000	626 588	1 027 162	4 650 882	4 404 865
Mr M Hillary	2 222 874	417 951	17 085	24 000	620 347	939 184	4 241 441	3 906 171
Mr M Kubelo [5]	1 061 700	144 427	2 992	11 636	-	-	1 220 755	-
Ms D Mashishi [2]	1 744 630	222 156	42 910	14 000	660 449	-	2 684 145	4 053 543
Ms N Mbele [6]	1 456 095	277 881	70 335	8 000	-	-	1 812 311	-
Mr M Rakgate [4]	1 504 782	244 400	48 640	20 000	-	-	1 817 822	-
Mr R Shaik [1]	3 892 548	153 296	40 801	25 000	602 126	-	4 713 771	3 837 645
Ms S Sibisi [3]	1 150 275	134 016	-	4 696	-	-	1 288 987	2 580 953
Mr M Vivekanandan	2 894 850	666 143	103 676	18 000	871 813	1 231 757	5 786 239	5 379 041
Total	**30 734 130**	**4 246 734**	**503 702**	**217 336**	**6 625 312**	**6 465 445**	**48 792 659**	**42 461 327**

Note

[1] Resigned on the 31 August 2017, bonus paid in April 2018 for 2017.
[2] Resigned on the 31 October 2017, bonus paid in April 2018 for 2017.
[3] Resigned on the 22 August 2017
[4] Appointed on the 1 August 2017
[5] Appointed on the 1 October 2017
[6] Appointed on the 14 August 2017

42. Schedule of Directors' and prescribed officers' emoluments (continued)

42.2 Remuneration of non-executive directors of the Board

	Fees for services as Directors R	Subsistence and travel R	Total 2018 R	Total 2017 R
Mr PJ Moleketi (Chairman)	1 073 262	2 657	1 075 919	1 019 945
Mr FM Baleni (Deputy Chairman)	947 833	6 270	954 103	653 106
Dr L Bhengu-Baloyi	178 905	-	178 905	480 035
Ms T Dingaan	-	-	-	108 029
Ms M Janse Van Rensburg	933 177	-	933 177	714 101
Ms B Mabuza [1]	245 694	880	246 574	763 957
Ms D Marole [1]	248 564	888	249 452	687 588
Mr A Moloto [1]	193 051	-	193 051	597 068
Ms Z Monnakgotla [2]	439 964	2 664	442 628	-
Mr L Motsherane [2]	384 277	1 998	386 275	-
Ms G Mtetwa	1 013 826	3 108	1 016 934	908 656
Mr B Mudavanhu [2]	456 962	2 442	459 404	-
Ms B Ndamase [2]	476 830	-	476 830	-
Ms L Noge-Tungamirai [2]	402 445	444	402 889	-
Ms P Nqeto [2]	454 665	2 664	457 329	-
Ms A Sing	730 281	2 886	733 167	583 420
Prof M Swilling	470 032	-	470 032	319 276
	8 649 768	**26 901**	**8 676 669**	**6 835 181**

[1] Term of contract ended 31 July 2017
[2] Appointed on the 1 August 2017

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43. Risk management

Market Risk

Market risk is the risk that the Bank's earnings and capital will be adversely affected by movements in the level or volatility of market rates or prices such as interest rates and foreign exchange rates. The overarching objective of market risk management in the Bank is to protect the Bank's net earnings against adverse market movements through containing the innate interest rate and foreign currency risks within acceptable parameters.

Market risk management in the Bank is centralised in the Treasury unit and is governed by the interest rate, currency and liquidity risk management policies. As with all risk management policies of the Bank, these policies reside under the authority of the Board of Directors. Whilst the ultimate responsibility for prudent and effective asset-liability management rests with the Board, the authority for policy formulation, revision, strategic management and administration is assigned to the Asset and Liability Management Committee (ALCO). Assets and Liability Management Committee is responsible for assessing and monitoring the Bank's market risk exposures and is supported in these functions by the Group Risk Assurance (GRA) Division.

Interest rate risk

Interest rate risk refers to the susceptibility of the Bank's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the Bank through their net effect on interest rate sensitive assets and liabilities. At the same time movements in interest rates impact on the Bank's capital through their net effect on the market value of assets and liabilities. Interest rate risk in the Bank arises naturally as a result of its funding and lending operations, and occurs primarily in the form of repricing risk caused by mismatches in the amount of assets and liabilities re-pricing at any one time, and to a lesser extent, basis risk, the risk of spread compression between assets and liabilities priced off different reference rates.

The Treasury Unit, under oversight of the Audit and Risk Committee, is charged with managing and containing the Bank's interest rate risk exposures within Board approved limits. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.

The Bank's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates. To achieve this objective, it is the policy of the Bank to measure and manage its interest rate risk exposure both over the short and long-term in order to protect the Bank's earnings stream and ensure its continued financial sustainability. Limits are set both with respect to short-term NII sensitivity using the 12-month cumulative re-pricing gap to total earning assets ratio, and in the longer term, with respect to the portfolio value analysis.

The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Bank's net interest income and market value of equity to extreme interest rate movements. At a minimum, scenarios include hypothetical interest rate shocks both, up and down, of at least 100 basis points.

The re-pricing profile as at financial year-end is encapsulated in the table below. As reflected in the 12-month cumulative re-pricing gap, the Bank is asset sensitive, with an immediate 50 basis points parallel upward or downward shift in short term rates is expected to results in an increase (decrease) in net interest income over the projected 12- month period of approximately R67.85 million (March 2017: R35.97 million).

Hedging of interest rate risk

Desired changes to the Bank's interest rate risk profile are achieved primarily through the use of derivative instruments, particularly interest rate swaps, in line with the Bank's hedging guidelines.

As at 31 March 2018, the Bank had a combined ZAR interest rate and USD interest rate swaps portfolio with a total notional contract amount of R4.42 billion (March 2017: R4.85 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to note 8). The net fair value of these swaps as at 31 March 2018 was R129 million (March 2017: R165 million), comprising assets of R154 million (March 2017: R191 million) and liabilities of R25 million (March 2017: R26.3 million). These amounts are recognised as fair value derivatives.

43. Risk management (continued)

The table below shows the contractual repricing gap for 31 March 2018:

Contractual Repricing Gap in millions of rands		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	>5 Yrs	Total
Cash and cash equivalents	ZAR	3 222	-	-	-	-	-	-	-	3 222
	USD	496	-	-	-	-	-	-	-	496
	EUR	24	-	-	-	-	-	-	-	24
Government bonds	ZAR	-	-	-	-	-	-	-	525	525
Development bonds	ZAR	-	-	-	75	-	100	75	1 767	2 017
Development loans	USD	689	5 574	6 681	18	151	164	169	676	14 122
	EUR	163	-	-	-	-	1	-	-	164
	ZAR	5 978	16 404	1 119	836	33	3 165	5 913	26 705	60 153
Cross currency swaps	ZAR	1 798	-	-	-	-	-	-	-	1 798
	EUR	-	157	55	72	55	440	416	520	1 715
Interest rate swaps	ZAR	-	1 505	-	1 000	-	3 350	750	-	6 605
	USD	-	-	-	-	-	-	141	-	141
Total Financial Market assets		**12 370**	**23 640**	**7 856**	**2 001**	**239**	**7 219**	**7 464**	**30 193**	**90 982**
Cross currency swaps	USD	(1 538)	(523)	-	-	-	-	-	-	(2 061)
	ZAR	-	(172)	(65)	(9)	(23)	(130)	(130)	(230)	(759)
Funding bonds	ZAR	(2 914)	(6 030)	-	-	-	(9 228)	(10 520)	(5 826)	(34 518)
Funding lines of credit	EUR	-	(76)	(238)	(76)	(55)	(454)	(431)	(570)	(1 900)
	USD	(3 613)	(1 150)	(5 819)	(14)	(29)	(184)	(185)	(346)	(11 340)
	ZAR	-	(107)	(329)	-	-	-	-	-	(436)
Interest rate swaps	ZAR	(250)	(5 175)	-	(1 000)	-	-	-	(180)	(6 605)
	USD	-	(141)	-	-	-	-	-	-	(141)
Money market debt	ZAR	(500)	(2 285)	(1 275)	(325)	(700)	-	-	-	(5 085)
Total Financial Market Liabilities		**(8 815)**	**(15 659)**	**(7 726)**	**(1 424)**	**(807)**	**(9 996)**	**(11 266)**	**(7 152)**	**(62 845)**
Repricing Gap		**3 555**	**7 981**	**130**	**577**	**(568)**	**(2 777)**	**(3 802)**	**23 041**	
Cumulative Repricing Gap		**3 555**	**11 536**	**11 666**	**12 243**	**11 675**	**8 898**	**5 096**	**28 137**	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

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43. Risk management (continued)

The table below shows the contractual repricing gap for 31 March 2017

Contractual Repricing Gap in millions of rands		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	>5 Yrs	Total
Cash and cash equivalents	ZAR	2 132	-	-	-	-	-	-	-	2 132
	USD	166	-	-	-	-	-	-	-	166
Government bonds	ZAR	-	-	-	-	-	-	-	245	245
Development bonds	ZAR	-	-	-	75	-	100	-	1 842	2 017
Development loans	USD	1 604	6 075	6 457	-	-	-	-	943	15 079
	ZAR	4 303	9 962	1 150	438	487	664	3 454	34 050	54 508
Cross currency swaps	EUR	-	-	-	-	114	-	-	1 825	1 939
Interest rate swaps	USD	-	-	-	-	-	-	-	191	191
Interest rate swaps	ZAR	-	-	-	-	2 000	1 350	500	820	4 670
Total Financial Market assets		**8 205**	**16 037**	**7 607**	**513**	**2 601**	**2 114**	**3 954**	**39 916**	**80 947**
Cross currency swaps	USD	(15)	(702)	(10)	-	-	-	-	-	(727)
	ZAR	11	(253)	-	-	-	-	-	(608)	(850)
Funding bonds	ZAR	(100)	(8 285)	-	-	(9 228)	-	(897)	(15 079)	(33 589)
Lines of credit	EUR	-	-	-	-	(114)	-	-	(1 825)	(1 939)
	USD	(6 226)	(458)	(4 089)	-	-	-	-	(770)	(11 543)
	ZAR	-	(410)	(120)	-	-	-	-	-	(530)
Interest Rate swaps	USD	-	(191)	-	-	-	-	-	-	(191)
	ZAR	-	(4 670)	-	-	-	-	-	-	(4 670)
Money market debt	ZAR	(650)	(935)	(1 150)	-	-	-	-	-	(2 735)
Total Financial Market Liabilities		**(6 980)**	**(15 904)**	**(5 369)**	**-**	**(9 342)**	**-**	**(897)**	**(18 282)**	**(56 774)**
Repricing Gap		**1 225**	**133**	**2 238**	**513**	**(6 741)**	**2 114**	**3 057**	**21 634**	
Cumulative Repricing Gap		**1 225**	**1 358**	**3 596**	**4 109**	**(2 632)**	**(518)**	**2 539**	**24 173**	

The above analysis is based on performing assets only. Variable interest rate instruments are included in the maturity bucket in which they re-price. Fixed rate instruments, although not technically subject to re-pricing risk, are included in the maturity bucket in which it matures, due to the assumption that it will be rolled at maturity or that it will be held as cash.

Foreign exchange risk

Foreign exchange risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the DBSA arises primarily as a result of foreign currency denominated borrowings, foreign currency lending, equity investments, foreign currency net interest income, expenditure and dividends.

The Bank's primary currency risk management objective is to protect its net earnings against the impact of adverse exchange rate movements. Hedging of currency exposures is effected either naturally through offsetting assets and liabilities of substantially similar size, maturities, currency, and repricing bases; or in the absence thereof, through the use of approved derivative instruments transacted with approved financial institutions.

Hedging of foreign currency risk exposure

The Bank uses cross currency swaps and forward exchange contracts (FECs) to hedge its foreign currency risk. As at 31 March 2018, the Bank had FEC's with a nominal amount of RNil (March 2017:R10.9 million) and cross-currency with a notional amount of R1.81 billion (March 2017: R1.56 billion). The notional amounts indicate the volume of currency hedges outstanding at balance sheet date and do not represent the amount at risk.

43. Risk management (continued)

The notional principal amounts indicate the volume of currency hedged liabilities outstanding at the balance sheet date and do not represent the amount at risk. The fair value of derivative financial instruments represents the positive or negative cash flows which would have occurred had the rights and obligations arising from that instrument been closed out in an orderly market at statement of financial position date.

Foreign currency sensitivity analysis

Potential impact of rand sensitivity on profit/loss based on current net open position/currency exposure.

	March 2018		March 2017	
Currency (in thousands of rands)	EUR	USD	EUR	USD
Cash and cash equivalents	1 646	41,917	23	12 406
Loan assets	11 383	1 193 588	264	1 123 560
Equity Investments	32 255	165 082	31 690	174 505
Cross-currency swaps	117 697	(174 234)	135 648	(52 991)
Derivative foreign exchange contracts	-	-	-	(1 126)
Liabilities	(130 277)	(958 560)	(135 658)	(860 160)
Forex options	(30 000)	(240 000)	-	-
	2 704	**27 793**	**31 967**	**396 194**

Foreign currency exchange rate (FX) sensitivity analysis

Sensitivity	%	EUR/ZAR	EUR potential impact	USD/ZAR	USD potential impact	FX Sensitivity combined
	(15)	12.3904	(6)	10.0564	(36)	(42)
	(10)	13.1193	(4)	10.6749	(24)	(28)
	(5)	13.8481	(2)	11.2395	(12)	(14)
	-	14.5770	-	11.8310	-	-
	5	15.3058	2	12.4226	12	14
	10	16.0347	4	13.0141	24	28
	15	16.7635	6	13.6057	36	42
Spot exchange rate used		14.5770		11.8310		

Liquidity risk

Liquidity risk is defined as the risk of failure to meet all financial obligations on a timely basis, when due, and in the currency due without incurring above normal costs. In the case of the DBSA this risk specifically arises from the inability to honour obligations with respect to commitments to borrowers, lenders and investors and operational expenditure.

In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity risk management policy requires the maintenance of prudential liquidity levels conservatively based on the level of actual disbursements for a rolling 12 months. In addition, in the interest of added prudence, the Bank has adopted the Basel III recommended liquidity risk metrics (the liquidity coverage ratio and the net stable funding ratio as part of the liquidity risk management policy).

Liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificate of deposits, promissory notes as well as liquid debt issues from government, municipalities and other approved issuers.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

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43. Risk management (continued)

Total liquidity at 31 March 2018 was R5.03 billion (March 2017: R4.56 billion). This includes cash and cash equivalents of R3.7 billion (March 2017: R2.3 billion), corporate and municipal bonds of R765 million (March 2017: R2.02 billion) and government bonds amounting to R525 million (March 2017: R245 million).

Available Liquidity	March 2018	March 2017
High Quality Liquid Assets		
Cash and cash equivalents	3 741 853	2 299 247
Government Bonds - Nominal value	525 000	245 000
Other Less Liquid assets		
SOE Bonds - Nominal value	150 000	150 000
Municipal Bonds - Nominal value	615 000	1 867 000
Total available liquidity	**5 031 853**	**4 561 247**

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents (tradable market securities) as described above, the Bank has at its disposal a variety of funding sources should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development finance institutions, money and capital securities issuance under the Bank's domestic medium- term programme and capital market repurchase transactions. The total undrawn credit facilities at year end amounted to approximately R 7.9 billion.

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report which is reviewed and analysed by the Asset and Liability Management Committee on a periodic basis. Calculated on a nominal maturity basis, the 12-month cumulative liquidity gap as at 31 March 2018 was approximately R3.76 billion (March 2017: - R3.02 billion).

The table below analyses the contractual liquidity gap for 31 March 2018.

in millions of rands		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	>5 Yrs	Total
Cash and cash equivalents	ZAR	3 222	-	-	-	-	-	-	-	3 222
	USD	496	-	-	-	-	-	-	-	496
	EUR	24	-	-	-	-	-	-	-	24
Government bonds	ZAR	-	-	-	-	-	-	-	525	525
Development bonds	ZAR	-	-	-	75	-	100	75	1 767	2 017
Development loans	EUR	-	-	-	-	-	1	41	122	164
	USD	-	390	499	552	478	4 301	2 881	5 021	14 122
	ZAR	30	3 363	3 603	1 089	187	5 209	7 889	38 782	60 152
Derivative: Cross Currency Swaps	EUR	-	76	55	76	55	454	431	570	1 717
Total Financial Market Assets		**3 772**	**3 829**	**4 157**	**1 792**	**720**	**10 065**	**11 317**	**46 787**	**82 439**
Cross currency swaps	USD	-	(48)	-	(48)	-	(451)	(1 468)	(48)	(2 063)
	ZAR	-	(17)	(37)	(17)	(37)	130	1 336	(318)	1 040
Funding Bonds	ZAR	(1 395)	-	(576)	(323)	-	(12 464)	(13 696)	(6 064)	(34 518)
Lines of credit	EUR	-	(76)	(55)	(76)	(55)	(454)	(431)	(753)	(1 900)
	USD	-	(123)	(1 560)	(1 306)	(251)	(3 789)	(1 228)	(3 083)	(11 340)
	ZAR	-	(7)	(40)	(7)	(40)	(188)	(92)	(61)	(435)
Money market debt	ZAR	(500)	(2 285)	(1 275)	(325)	(700)	-	-	-	(5 085)
Total Financial Market Liabilities		**(1 895)**	**(2 556)**	**(3 543)**	**(2 102)**	**(1 083)**	**(17 216)**	**(15 579)**	**(10 327)**	**(54 301)**
Liquidity Gap		**1 877**	**1 273**	**614**	**(310)**	**(363)**	**(7 151)**	**(4 262)**	**36 460**	
Cumulative Liquidity Gap		**1 877**	**3 150**	**3 764**	**3 454**	**3 091**	**(4 060)**	**(8 322)**	**28 138**	

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.27 billion.

43. Risk management (continued)

As per the table above DBSA has a positive cumulative liquidity gap where the contractual inflows exceed outflows across all time buckets. This profile is anticipated due to the nature of the business where the Bank has raised long dated stable funding and generated short term amortising assets.

There are no behavioural assumptions made on the liquidity gap and all assets and liabilities are disclosed with the underlying contractual maturity as determined by the cash flow profile for each record.

The table below analyses the contractual liquidity gap for 31 March 2017.

in millions of rands		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	>5 Yrs	Total
Cash and cash equivalents	ZAR	2 132	-	-	-	-	-	-	-	2 132
	USD	166	-	-	-	-	-	-	-	166
Government bonds	ZAR	-	-	-	-	-	-	-	245	245
Development Bonds	ZAR	-	-	-	75	-	100	-	1 842	2 017
Development loans	USD	31	380	1 621	2 249	2 344	2 005	1 561	4 888	15 079
	ZAR	27	694	1 539	2 553	2 914	2 364	5 362	39 056	54 509
Cross currency swaps	EUR	-	74	182	257	234	211	211	770	1 939
Total Financial Market Assets		**2 356**	**1 148**	**3 342**	**5 134**	**5 492**	**4 680**	**7 134**	**46 801**	**76 087**
Cross currency swaps	USD	(15)	(54)	(64)	(108)	(108)	(108)	(108)	(162)	(727)
	ZAR	11	(17)	(86)	(108)	(94)	(80)	(80)	(398)	(852)
Funding Bonds	ZAR	-	-	(2 457)	(1 395)	(11 816)	-	(2 842)	(15 079)	(33 589)
Lines of credit	EUR	-	(74)	(182)	(256)	(234)	(211)	(211)	(770)	(1 938)
	USD	-	(421)	(3 679)	(2 246)	(2 234)	(823)	(448)	(1 692)	(11 543)
	ZAR	-	(7)	(88)	(94)	(94)	(94)	(62)	(91)	(530)
Money market debt	ZAR	(650)	(935)	(1 150)	-	-	-	-	-	(2 735)
Total Financial Market Liabilities		**(654)**	**(1 508)**	**(7 706)**	**(4 207)**	**(14 580)**	**(1 316)**	**(3 751)**	**(18 192)**	**(51 914)**
Liquidity Gap		**1 702**	**(360)**	**(4 364)**	**927**	**(9 088)**	**3 364**	**3 383**	**28 609**	
Cumulative Liquidity Gap		**1 702**	**1 342**	**(3 022)**	**(2 095)**	**(11 183)**	**(7 819)**	**(4 436)**	**24 173**	

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.27billiion.

Cash Flow Hedges Nominal Values 2018

in millions of rands		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	>5 Yrs	Total
Cross Currency Swaps	EUR	-	62	62	125	125	125	125	298	922
Total Financial Market Assets		**-**	**62**	**62**	**125**	**125**	**125**	**125**	**298**	**922**
Cross Currency Swaps	EUR	-	(59)	(59)	(118)	(118)	(118)	(118)	(258)	(848)
	USD	-	(48)	(48)	(95)	(95)	(95)	(95)	(48)	(524)
	ZAR	-	(9)	(9)	(19)	(19)	(19)	(19)	(153)	(247)
Total Financial Market Liabilities		**-**	**(116)**	**(116)**	**(232)**	**(232)**	**(232)**	**(232)**	**(459)**	**(1 619)**
Liquidity Gap		**-**	**(54)**	**(54)**	**(107)**	**(107)**	**(107)**	**(107)**	**(161)**	
Cumulative Liquidity Gap		**-**	**(54)**	**(108)**	**(215)**	**(322)**	**(429)**	**(536)**	**(697)**	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

43. Risk management (continued)

Cash Flow Hedges Nominal Values 2017

in millions of rands		<1M	1-3M	3-12M	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	>5 Yrs	Total
Cross Currency Swaps	EUR	-	61	61	122	122	122	122	415	1 025
Total Financial Market Assets		**-**	**61**	**61**	**122**	**122**	**122**	**122**	**415**	**1 025**
Cross Currency Swaps	USD	-	(54)	(54)	(108)	(108)	(108)	(108)	(162)	(702)
	ZAR	-	(9)	(9)	(19)	(19)	(19)	(19)	(172)	(266)
	EUR	-	(58)	(58)	(116)	(116)	(116)	(116)	(368)	(948)
Total Financial Market Liabilities		**-**	**(121)**	**(121)**	**(243)**	**(243)**	**(243)**	**(243)**	**(702)**	**(1 916)**
Liquidity Gap		**-**	**(60)**	**(60)**	**(121)**	**(121)**	**(121)**	**(121)**	**(287)**	
Cumulative Liquidity Gap		**-**	**(60)**	**(120)**	**(241)**	**(362)**	**(483)**	**(604)**	**(891)**	

Definition of credit risk

Credit risk is the risk of economic loss should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations. Credit risk is inherent mainly in the Bank's development financing and lending operations as a result of potential counterparty defaults on debt repayments. Credit risk may also arise where the downgrading of a client's rating causes the fair value of the investment in that entity to deteriorate. Credit risk is also manifested as country risk in the event where circumstances arise in a country in which an exposure or counterparty is domiciled, resulting in a reduction of the value of assets. Settlement risk is another form of credit risk, which is the risk of a counterparty failing to deliver cash (securities) due to be delivered at a particular moment in time, following release of the corresponding cash (securities) by the Bank in settlement of a transaction

Management of credit risk

The DBSA, as a development finance institution, faces a unique challenge in maintaining a sustainable balance between maximising development returns and minimising financial loss in its lending and other investment operations. As a result, the performance of the Bank is to a large extent dependent on its ability to take credit risks responsibly in exchange for appropriate rewards and to manage the resultant exposure to credit risk effectively in the pursuance of its corporate objectives.

The Bank meets its credit risk management objectives through i) an enterprise-wide framework of credit risk oversight, governance and assurance, ii) an integrated system of internal credit risk ratings, pricing and mitigation guided by its risk appetite, and iii) a rigorous standard for the measurement, monitoring and control of credit risk exposures in the credit portfolio

Credit risk oversight, governance and assurance

Credit risk oversight: The Board of Directors, as part of their oversight duties, sets the tone for the management of risk and defines the level of risk that the Bank is willing to assume, as well as considers the granting of large credits and reviews the overall performance in the management of risk through its subcommittees. A risk appetite statement, that details the level of risk that the Bank is willing to take in order to achieve its objectives and mandate, is approved annually by the Board of Directors.

Credit risk governance: The ongoing governance of the Bank's risk taking activities is devolved to management. For credit risk management, the Bank has in place board and corporate level credit committees mandated to maintain credit policies and standards, review and approve credits under delegated authority, as well as monitor and report the overall level of exposures to credit risk and performance in the management of these exposures. Portfolio reports are presented to the corporate credit committee on a quarterly basis and board valuations committee on a semi-annual basis. The board also reviews and approves the Bank's risk appetite statement on an annual basis.

Credit risk assurance: The quality of credit risk management is assured through the centralised Group Risk Assurance Division, responsible for the development of policy, models and standards in support of the efficient and effective management of credit risk. Credit analysts, who report to Financing Operations Division, have been deployed as a first line of defence to provide an objective view of the quality of individual credits under consideration. This team also works closely with the frontline to monitor the performance of assets post approval on an on-going basis.

43. Risk management (continued)

Credit risk ratings

Credit risk ratings, pricing and mitigation

Obligor credit risk ratings: The Bank is not regulated by the SARB under the Banks Act, but rather by the DBSA act, and as such is not formally obligated to comply with Basel II Pillar 1 requirements. However, as a leveraged financial institution, prudence requires it to maintain the adequate levels of capital to cover for expected losses. The Bank does comply with Basel standards in the development of risk models as industry best practice rather than for regulatory purposes. The key variables in the Bank's quantitative assessment of expected loss and by implication in setting risk- adjusted pricing are:

- Probability of default (PD), which determines the likelihood that the client will not be able to meet its debt repayments based on creditworthiness.
- Exposure at default (EAD), which calculates the size of exposure and thus potential loss at the point of default.
- Loss given default (LGD), which estimates the portion of exposure that is expected not to be recovered at the event of default.

The Bank has developed a number of internal credit risk rating models for all of its major asset classes to calculate credit risk ratings as a basis for assigning a probability of default. All credit ratings are confirmed through the credit committee process to ensure consistency and effective challenge. The credit risk rating models are all subjected to validation and review before implementation. The application of credit risk models has been system enabled and deployed to all business divisions.

The models are also subjected to performance monitoring and validation by a technical committee as a part of governance requirements every three years. The principal objective for this is to ensure that assumptions used in model development are still appropriate and ensure that any deficiencies are identified early and that the models produce the most accurate possible quantitative assessment of the credit risk to which the Bank is exposed, from the level of individual facilities up to the total portfolio. As part of model reviews, these models are calibrated to performance along with functional improvements to cater appropriately for the asset classes being measured.

Country risk ratings

Country risk ratings: The Bank has implemented an internal country risk rating model which uses external ratings agency ratings as well as economic data from various sources such as IMF and the World Bank. The country risk technical committee reviews the country ratings on an annual basis or as necessary in accordance with rating schedules or rapid reviews where the risk profile changes materially over a shorter period. The country risk rating methodology considers solvency, liquidity, economic and political issues to risk rate countries and generate probability of default. The model inputs are continuously updated to reflect economic and political changes in individual countries. The Bank's country risk limits are calculated using sovereign risk ratings in conjunction with debt absorption capacity of countries as measured by the gross domestic product. The limits therefore consider the economic strength of countries ensuring that country exposures are related to the degrees of perceived risk as well as the country's debt absorption capacity. Using PD and LGD in the calculation of the risk limits per country, the limits set are also subject to the availability of capital and the number of simultaneous defaults that can be absorbed by that capital. All limits are set in line with the approved risk appetite.

A key element of DBSA's internal risk rating and pricing model is the PD master rating scale as shown overleaf. This scale has been developed to distinguish meaningful differences in the probability of default risk throughout the risk range. The banding estimates are derived from internal data which is based on the performance of the Bank's loan book. The master-scale is comparable and has been approximately benchmarked to rating agencies as well as similar financial institutions.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

43. Risk management (continued)

Rating Grade	Mid joint PD (%)	Lower bound PD (%)	Upper bound PD (%)	Mapping to S&P	Mapping to Moody's
MS 1	0.01	-	0.02	AAA	Aaa
MS 2	0.02	0.02	0.03	AA+	Aa1
MS 3	0.03	0.03	0.04	AA	Aa2
MS 4	0.04	0.04	0.05	AA-	Aa3
MS 5	0.05	0.05	0.06	A+	A1
MS 6	0.06	0.06	0.08	A	A2
MS 7	0.10	0.08	0.14	A-	A3
MS 8	0.17	0.14	0.24	BBB	Baa1
MS 9	0.30	0.24	0.40	BBB	Baa2
MS 10	0.50	0.40	0.68	BBB-	Baa3
MS 11	0.85	0.68	1.13	BB+	Ba1
MS 12	1.40	1.13	1.90	BB	Ba2
MS 13	2.40	1.90	3.20	BB-	Ba3
MS 14	4.00	3.20	5.50	B+	B1
MS 15	7.00	5.50	9.50	B	B2
MS 16	12.00	9.50	16.00	B-	B3
MS 17	58.00	16.00	99.99	CCC	Caa
Default	**100.00**	**99.99**	**100.00**	**Default**	**D**

Pricing of loans

The pricing of loans has been stable and consistent through the use of a standardised pricing model applied since January 2013. The model was developed to take into account risk capital and deliver an accurate risk adjusted return on capital (RAROC), net present value (NPV) and sustainability profit on an economic basis.

The pricing model has been updated annually to take into account changes to cost structure and budget as well as credit risk performance. The risk ratings from credit risk models approved by the investment committee are used for both the calculation of expected loss in the cash-flow of the model as well as the influence on risk capital held at the cost of capital and the hurdle rate of return required on the risk capital.

Further enhancements to the pricing model were carried out in the 2017/18 financial year to improve the output information including measures such as ROE, ROA, RAROC, ROEC and economic profit. This will enable the setting of hurdle rates specific to types of business with different economic return vs developmental return. Further enhancements to the pricing model include products other than loans. The pricing model was implemented in the 2017/18 financial year.

Credit risk models

The credit risk models (PD, LGD, and EAD) for all major portfolios of the DBSA loan book (Municipal, Balance Sheet Lending and Project Finance) were subjected to review and further development during the 2018/19 financial year.

This is required to be carried out on a 3 year cycle for governance purposes and approved by the Risk Models Technical Committee which is a sub-committee of Investment Committee. Substantial improvements were made to the functional capabilities of the models to cater for possible financial structures and changes in environment.

The new versions of the models are more adaptable and predictive. The models were recalibrated to current performance of the DBSA loan book and larger benchmark portfolios. The new versions of the credit risk models were successfully approved by the Technical Committee and implemented. Performance of these models will be tracked as part of governance requirements.

43. Risk management (continued)

The Bank has not adopted IFRS9. The requirement to comply with IFRS9 in 2018/19 called for further enhancements of the outputs of the credit risk models. The new versions of the models are more adaptable and predictive. The models were recalibrated to current performance of the DBSA loan book and larger benchmark portfolios. The new versions of the credit risk models were successfully approved by the Technical Committee for implementation in 2018/19 financial year. Performance of these models will be tracked as part of governance requirements. 12 month PDs and LGDs were transformed to lifetime measures in order to consider the term structure of loans and enable the calculation of lifetime Expected Credit Loss (ECL) applicable to stage 2 classification loans contributing to the portfolio impairment. The results will be monitored prior to formal implementation of IFRS9 and further enhancements to the outputs of credit risk models for the purposes of IFRS9 compliance will be included in the review process which governs the credit risk models. IAS39 compliant credit models were applied in 2017/18 financial year.

Credit risk mitigation

In addition to pricing for risk, the Bank uses a wide range of instruments to enhance the quality of credit and/or reduce the expected losses in its lending portfolio. The amount and type of credit risk mitigation depends on the asset quality and nature of each transaction. Collateral and guarantees are used by the Bank for credit risk mitigations. The main types of collateral taken comprise mortgage bond over commercial and industrial properties, bonds over plant and equipment, and the underlying moveable assets financed. The Bank also uses various forms of specialised legal agreements like guarantees and similar legal contracts in support of credit extension, where necessary.

Credit risk monitoring, measurement and reporting

The Bank dedicates considerable resources to monitor the quality of credit throughout the life time of assets and measure the exposure and performance of assets across portfolios.

At individual level:

- Performance of credit is monitored and reported in terms of adherence to terms and conditions;
- Credit risk ratings are updated on an annual basis;
- Potential problem loans are identified based on early indications of distress and placed on a credit watch list;
- Non-performing accounts are transferred for independent workout and recovery.
- Financial covenants are an important tool for credit mitigation within the DBSA in monitoring the quality and performance of counterparties.
- A watch list process is in place where clients that are in stress, or where there are signs of possible future stress due to changing operating environment are monitored closely and strategies are put in place to minimise the possibility of default.

At portfolio level:

- Limits are established within the Bank's risk appetite to monitor and control the aggregate amount of risk that the Bank is taking on;
- Overall performance of portfolios is measured and reported on a quarterly basis in terms of standard KPIs.

Credit risk exposure

Maximum exposure

The bank prepares monthly financial results as well as quarterly financial statements. These results are crucial for internal decision making. Consequently, it is imperative that the asset portfolio be comprehensively reviewed and significant risk indicators impacting the valuations and impairments be reflected timeously and adequately in the financial results. As a result, regular reviews are conducted on the loans and equities portfolio. The Finance team reviews the accounting implications of credit risk and investment specific factors within the portfolio on a monthly basis. This ensures that the effect of the changes reported in the monthly financial results and quarterly financial statements are on a proactive and timely basis.

These reviews are conducted as part of and in complementing the Investment Committee process. The following factors are reviewed: global and local economic factors, observable and unobservable market factors, asset specific factors affecting portfolio impairment levels, fair values and discount rates with the objective of ensuring that risk in the asset portfolio is adequately, fairly and timely reflected in the bank's results. The reviews include assessment of the impairment triggers and reversals within the asset portfolio, review of performance of the equity portfolio on a regular basis with the asset managers. In addition the Impairment Working Group and Watch list meetings are held monthly.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

43. Risk management (continued)

in thousands of rands		March 2018 Gross amount	March 2018 Allowance for credit losses	March 2018 Carrying amount	March 2017 Gross amount	March 2017 Allowance for credit losses	March 2017 Carrying amount
(a) Development loans Non Performing book							
Municipalities		490 950	96 694	394 256	341 565	168 498	173 067
Other		3 104 161	1 701 075	1 403 086	2 145 391	1 149 163	996 228
		3 595 111	**1 797 769**	**1 797 342**	**2 486 956**	**1 317 661**	**1 169 295**
Performing book							
Low Risk	Municipal	17 387 872	7 056	17 380 816	16 005 279	13 871	15 991 408
	Other	2 601 721	3 555	2 598 166	2 752 658	3 847	2 748 811
Medium Risk	Municipal	8 887 114	21 301	8 865 813	10 326 671	19 748	10 306 923
	Other	33 621 308	108 174	33 513 134	28 745 052	655 183	28 089 869
High Risk	Municipal	426 582	2 918	423 664	333 441	21 298	312 143
	Other	13 350 938	2 279 394	11 071 544	15 017 169	1 645 759	13 371 410
		76 275 535	**2 422 398**	**73 853 137**	**73 180 270**	**2 359 706**	**70 820 564**
Total book debt		**79 870 646**	**4 220 167**	**75 650 479**	**75 667 226**	**3 677 367**	**71 989 859**

The following types of collateral are held in respect of the above loans: guarantees, cession of debtors, cession of income streams, mortgages, investments, notarial bonds, sinking fund investments, promissory notes, insurance policies and treaty obligations.

in thousands of rands	March 2018 Gross amount	March 2018 Allowance for credit losses	March 2018 Carrying amount	March 2017 Gross amount	March 2017 Allowance for credit losses	March 2017 Carrying amount
Geographical analysis of development loans Non-performing book						
South Africa	1 536 961	656 364	880 597	1 472 919	805 665	667 254
Rest of Africa	2 058 150	1 141 405	916 745	1 014 037	511 996	502 041
Total	**3 595 111**	**1 797 769**	**1 797 342**	**2 486 956**	**1 317 661**	**1 169 295**
Performing book						
South Africa	61 324 647	464 593	60 860 054	56 584 520	482 290	56 102 230
Rest of Africa	14 950 888	1 957 805	12 993 083	16 595 750	1 877 416	14 718 334
Total	**76 275 535**	**2 422 398**	**73 853 137**	**73 180 270**	**2 359 706**	**70 820 564**
Grand Total	**79 870 646**	**4 220 167**	**75 650 479**	**75 667 226**	**3 677 367**	**71 989 859**

Impairment balance sheet (excluding interest in suspense (March 2018: R602.9 million (March 2017:R462.7 million)

in thousands of rands	March 2018	March 2017
Identified impairments		
Performing loans	865 900	1 016 229
Non-performing loans	1 797 769	1 317 661
Total	**2 663 669**	**2 333 890**
Unidentified impairments		
Model driven	1 556 498	1 343 477
Grand Total	**4 220 167**	**3 677 367**

43. Risk management (continued)

in thousands of rands	March 2017 Gross amount	March 2017 Allowance for credit losses	March 2017 Carrying amount
(b) Development bonds Performing			
Municipal	1 290 607	288	1 290 319

The maximum exposure relating to development bond is R1.3 billion (March 2017: R1.3 billion)

in thousands of rands	March 2018 Gross amount	March 2018 Allowance for credit losses	March 2018 Carrying amount	March 2017 Gross amount	March 2017 Allowance for credit losses	March 2017 Carrying amount
(c) Other receivables:						
Trade debtors - 90 Days and above	21 924	3 112	18 812	12 350	2 265	10 085
Other debtors: 90 days and above	203	-	203	356	-	356
	22 127	**3 112**	**19 015**	**12 706**	**2 265**	**10 441**
Performing book						
Trade debtor: 30 days	38 704	-	38 704	42 264	-	42 264
Other debtors: 30 days	19 788	-	19 788	1 558	-	1 558
Trade debtors: 30 to 60 days	18 187	-	18 187	6 939	-	6 939
Trade debtors: 60 to 90 days	2 646	-	2 646	1 806	-	1 806
	79 325	**-**	**79 325**	**52 567**	**-**	**52 567**
Staff and study loans	37	-	37	37	-	37
Municipal deposits	88	-	88	88	-	88
Prepaid expenses	240 761	-	240 761	10 627	-	10 627
	240 886	**-**	**240 886**	**10 752**	**-**	**10 752**
Total book debt	**342 338**	**3 112**	**339 226**	**76 025**	**2 265**	**73 760**

in thousands of rands		March 2018	March 2017
(d) Commitments (Loans signed, but not yet fully disbursed)			
Low Risk - Municipal		272 578	106 002
	- Other	2 033 698	1 040 000
Medium risk	- Municipal	42 647	39 453
	- Other	3 996 217	6 869 294
High Risk- Other		950 817	948 316
		7 295 957	**9 003 065**
(e) Guarantees		**28 217**	**172 938**

in thousands of rands	March 2018 Total	March 2018 3 months	March 2018 3-6 months	March 2018 6-12 months	March 2018 > 12 months	March 2017 Total	March 2017 3 months	March 2017 3-6 months	March 2017 6-12 months	March 2017 > 12 months
(f) Loans that are past due not individually impaired										
Overdue amounts	781 698	460 107	95 016	210 985	15 590	593 301	435 195	131 757	25 174	1 175
Not yet due	11 840 184					11 480 808				
	12 621 882					**12 074 109**				

An amount of R274 million (March 2017: R239 million) was received after the reporting date but before the authorisation of the Annual Financial Statements.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

43. Risk management (continued)

The fair value of collateral held in respect of the above amounted to R169 million (March 2017: R223 million). For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies.

in thousands of rands	March 2018	March 2017
(g) Financial counterparty exposure		
Bonds	2 106 650	2 023 445
Derivatives	1 183 181	704 341
Cash and money markets	3 741 853	2 299 247
	7 031 684	**5 027 033**

Capital management

The Bank's objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank's development finance activities.
- To maintain an adequate credit rating to ensure the Bank continued access to fund at optimal rates, in support of its mission to provide affordable development finance solutions.
- To align the returns on the Bank's assets to its associated risks.

The Bank monitors and manages its capital adequacy within the regulatory leverage constraint and in line with the capital adequacy framework approved by the Board. Whereas the Bank has adopted a self-imposed capital adequacy framework that differentiates between the risks assumed on different asset classes and provides for market and operational risk, the overarching regulatory capital requirement applicable to the institution is derived from the debt- equity maximum of 250%. Implicit in this is a minimum unweighted capital requirement of 28.6%.

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt comprises total liabilities excluding other creditors (as shown on the statement of financial position). Capital comprises share capital, permanent government funding, retained earnings, and reserves. As at 31 March 2018, the debt to equity stood at 156.2% (March 2017: 158.1%). The capital ratio is calculated as shareholders' capital divided by unweighted assets, where unweighted assets comprise total assets (as shown on the statement of financial position). Shareholders capital comprises share capital, permanent government funding, retained earnings, general provisions and the fair reserve. As at 31 March 2018, the capital ratio stood at 38.4 % (March 2017: 38.3%).

44. Non-current asset held-for-sale

During a previous financial year, as a result of calling on its security against a loan in default, the Bank obtained a 100% shareholding in a property investment company with a view to sell. Frandevco is accounted for under IFRS5 as a Non-current Asset Held for Sale as the investment was available for immediate sale following the default of the loan. The value of the asset at the reporting date is R2 (March 2017:R2). Frandevco is in the process of being deregistered.

45. Related parties

45.1 Related party relationships

The DBSA is a Schedule 2 major public entities in terms of the PFMA and therefore falls within the national sphere of government. As a consequence, the Bank has a significant number of related parties that also fall within the national sphere of government.

In addition, the Bank has a related party relationship with the Directors and Executive Management. Unless specifically disclosed otherwise, these transactions are concluded on an arm's length basis and the Bank is able to transact with any entity.

The South African government, through the Ministry of Finance, is the parent of the Bank and exercises ultimate control.

The DBSA has a 100% shareholding in Frandevco.

45. Related parties (continued)

45.2 Transactions with related parties

The following is a summary of transactions with related parties during the year and balances due at end of year:

45.2.1 National public entities

The total book debt of loans extended to national public entities amounts to R18.7 billion (March 2017: R15.8 billion). None of these loans are non-performing.

45.2.2 National mandates

The net amount advanced to National mandates at the end of the year amounted to R87 million (March 2017: R41 million).

45.2.3 BRICS

There were no amounts paid to National Treasury for expenses relating to the BRICS program during the year (March 2017: RNil)

45.2.4 Frandevco

The Bank has 100% shareholding in Frandevco (March 2017; 100%). There were no transactions with Frandevco during the year (March 2017: R Nil).

46. Contingencies

in thousands of rands	March 2018	March 2017
46.1. Guarantees		
The Bank has approved and issued guarantees on behalf of borrowers amounting to	**28 217**	**172 938**

After consideration by management it was decided that these borrowers are unlikely to default and therefore these guarantees were not recognised in the statement of financial position as a liability.

The book debt to the credit provider is	**28 217**	**172 938**

46.2 Contingent liabilities

The Bank operates in a legal and regulatory environment that exposes it to litigation risks. As a result the Bank is involved in disputes and legal proceedings which arise in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings to have a significant adverse effect on the financial position of the Bank. The Bank has assessed the contingent liabilities based on information at balance sheet date and has concluded that the possibility of an outflow of economic benefits is remote. Therefore no contingent liabilities have been disclosed.

47. Commitments

At the reporting date, the Bank had the following commitments:		
Development loan commitments	7 295 957	9 003 065
Development expenditure	5 649	37 644
Project preparation expenditure	83 149	91 370
Equity investments commitments	894 519	1 214 247
Capital commitments	98 473	66 200
	8 377 747	**10 412 526**

47.1 Development loan commitments

As the disbursement pattern for loans committed but not disbursed is a primary function of individual borrowers' implementation and administrative capacities, this pattern is not quantifiable. Loan commitments are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

47.2 Developmental expenditure

Developmental expenditure on loan commitments approved but not yet contracted are to be financed from funds generated from operations and available cash resources.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

47. Commitments (continued)

47.3 Project preparation expenditure

Project preparation expenditure approved but not yet disbursed are to be financed from funds generated from operations and available resources.

47.4 Equity investment commitments

Commitment relates to private equity funds approved but not yet disbursed.

47.5 Capital commitments

Capital expenditure is in respect of property, plant and equipment and intangible assets authorised but not contracted for. These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity. These commitments are expected to be settled in the following financial year.

in thousands of rands	March 2018	March 2017
48. Operating lease obligation		
Minimum lease payments due		
- within one year	508	563
- in second to fifth year inclusive	-	508
Total	**508**	**1 071**

The Bank has entered into commercial lease on property. These leases have an average life of between three and five years with no renewal option or option to acquire the assets at termination date included in the contracts. There are no restrictions placed upon the Bank by entering into these leases.

in thousands of rands	March 2018	March 2017
49. Irregular, fruitless and wasteful expenditure		
Fruitless and wasteful expenditure	7	20
Irregular expenditure	-	929
	7	**949**
Details of fruitless and wasteful expenditure		
Missed flight	-	-
Fee charged on the late cancellation of a disciplinary hearing chaired by an external party	-	19
Interest on late payments	3	1
Lost foreign currency	4	-
Cancelled conference-unrecovered funds	-	-
	7	**20**
Details of irregular expenditure		
Supply chain management variation orders	-	929
	-	**929**

Three incidents of fruitless and wasteful expenditure occurred during the year. One incident relating to the cancelled conference of R285 and no disciplinary action was taken. The interest on late payment was not received from the supplier, and the corrective action was taken to ensure this does not happen again.

No disciplinary action against the employee was taken regarding the lost foreign currency as there was no evidence of gross negligence. There were no incidents of irregular expenditure during the year under review.

in thousands of rands	March 2018	March 2017
50. Funds administered on behalf of third parties		
Balance at beginning of the year	948 841	746 366
Funds received	2 563 653	2 321 002
Interest, foreign exchange and other movements	92 420	93 439
Funds disbursed	(2 567 902)	(2 211 966)
Balance at the end of the year	**1 037 012**	**948 841**
51. Third party managed funds cost recovered		
Third party funds and mandates		
African Peer Review Mechanism (APRM)	-	(1)
African World Heritage Fund (AWHF)	5 203	5 653
Anglo American	604	5 355
Cities Project Preparation Facility (CPPF)	232	5 173
Department of Basic Education for Accelerated Infrastructure Schools Programme	5 521	7 446
Department of Energy - Independent Power Producer Office	83 532	81 982
Eastern Cape Department of Education	2 215	-
Ekurhuleni Metropolitan Municipality	7	747
Elliotdale Human Rural Settlement (EHRS)	-	52
Gautrain Management Agency	431	-
Green Fund	9 718	10 589
Infrastructure Delivery Improvement Programme (IDIP)	-	788
Infrastructure Investment Programme for South Africa (IIPSA)	5 235	3 532
Investment Climate Facility (Anglo)	1 247	76
KFW/HIV/VCT 2 by Voluntary Counselling and Testing Programme	1 764	1 569
KFW SADC Water Fund	2 681	2 189
Limpopo Department of Public Works	1 691	2 114
Limpopo Department of Education	349	-
Municipal Infrastructure Support Agency (MISA)	-	858
National Department of Health	5 605	9 137
National Treasury Cities Support Programme (NTCSP)	3 129	3 532
Pan African Capacity Building Platform (PACBP)	3 724	3 250
	132 888	**144 041**
Third party managed funds managed per division		
Financing Operations	98 916	96 105
Finance	8 927	8 901
Infrastructure Delivery	25 045	33 862
South African Financing Operations	-	5 173
	132 888	**144 041**
Cost recovery for each division		
Corporate Services	106 429	140 569
Financing Operations	158	307
Infrastructure Delivery	26 301	3 165
	132 888	**144 041**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2018

52. Taxation

The Bank is exempt from South African normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act,1962 (Act No. 58 of 1962), as amended, and consequently no liability for normal taxation has been recognised. The Bank is registered for VAT, PAYE, SDL and UIF.

53. Events after the reporting period

There were no material adjusting events after the reporting date. The following were the non-adjusting post balance sheet events

Frandevco
Subsequent to year end, Frandevco, is in the process of being deregistered.

Appointment of the Chief Financial Officer
Boitumelo Mosako CA (SA) was appointed as the Chief Financial Officer on 1 April 2018 and as Director on 01 June 2018.

Auditors
On 17 April 2018, the Auditor General of South Africa (AGSA) announced the termination of auditing contracts with Nkonki Inc with immediate effect. After extensive consideration, engagement and direction from the Board of DBSA, the AGSA has with immediate effect assumed its powers in terms of section 4(3) of the Public Audit Act, 2004 in relation to the DBSA, Nkonki Inc having resigned from its position as external auditors to the DBSA. The Public Audit Act provides, inter alia, for the auditing of institutions in the public sector as well accountability arrangements for the AGSA.

Commitments
Energy Minister on Wednesday 4 April 2018, signed a R56 billion contract, expected to add 2 300 MW of electricity to the national grid over the next five years, with 27 independent renewable energy power producers (IPPs). The DBSA commitment to these IPP projects is R1.5 billion. R127m of the projects were disbursed during February 2018.

ABBREVIATIONS AND ACRONYMS

AADFI	Association of African Development Finance Institutions
AFD	Agence Française de Développement
AfDB	African Development Bank
AUCO	Asset and Liability Management Committee
ASIDI	Accelerated Schools Infrastructure Delivery Initiative
B-BBEE	Broad-Based Black Economic Empowerment
BRIC	Brazil, Russia, India and China
BRICS	Brazil, Russia, India, China and South Africa
BSC	Balanced Scorecard
COMESA	Common Market for Eastern and Southern Africa
DBE	Department of Basic Education
DBSA	Development Bank of Southern Africa Limited
DFID	The United Kingdom's Department for International Development
DFRC	Development Finance Resource Centre
DIRCO	Department of International Relations and Cooperation
DTI	Department of Trade and Industry
EAD	Exposure at default
ECOWAS	Economic Community of West African States
EIB	European Investment Bank
EPC	Engineering, procurement and construction
GDP	Gross domestic product
IASB	International Accounting Standards Board
ICAS	Independent Counseling and Advisory Services
ICT	Information and communications technology
IDIP	Infrastructure Delivery Improvement Programme
IFRS	International Financial Reporting Standards
IIPSA	Infrastructure Investment Programme for South Africa
IPP	Independent Power Producers
IRBA	Independent Regulatory Board for Auditors
JICA	Japan International Cooperation Agency
KfW	The German agency Kreditanstalt für Wiederaufbau
LGD	Loss given default
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
MTEF	Medium-Term Economic Framework
NDP	National Development Plan
NEPAD	New Partnership for Africa's Development
NII	Net Interest Income
NSC	North-South Corridor
NTCSP	National Treasury Cities Support Programme
PD	Probability of default
PEG	Price Earnings Growth
PFMA	Public Finance Management Act, No 1 of 1999
PICC	Presidential Infrastructure Coordinating Commission
PPP	Public/private partnership
PRASA	Passenger Rail Agency of South Africa
REIPPP	Renewable Energy Independent Power Producers Procurement
SA Inc.	South Africa Incorporated
SADC	Southern African Development Community
SANRAL	South African National Roads Agency Limited
SIP	Strategic integrated project
SMME	Small, medium and micro-enterprise
SOC	State-owned company
UNOPS	United Nations Office for Project Services

FINANCIAL DEFINITIONS

Callable capital	The authorised but unissued share capital of the DBSA
Cost-to-income ratio	Operating expenses, (including personnel, general and administration, depreciation and amortisation expenses), project preparation and development expenditure as a percentage of income from operations
Income from operations	Net interest income, net fee income and other operating income
Interest cover	Interest income divided by interest expense
Long-term debt-to-equity ratio	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, as a percentage of total equity
Long-term debt-to-equity ratio (including callable capital)	Total liabilities, excluding other payables, provisions and liabilities for funeral benefits as a percentage of total equity and callable capital
Net interest margin	Net interest income (interest income less interest expense) as a percentage of interest bearing assets
Return on average assets	Net profit or loss for the year expressed as a percentage of average total assets
Return on average equity	Net profit or loss for the year expressed as a percentage of average total equity
Sustainable earnings	Profit or loss from operations before net foreign exchange gain/(loss) and net gain/(loss) from financial assets and financial liabilities, but including revaluation on equity investments

GENERAL INFORMATION

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Banker	The Standard Bank of South Africa
Registered Auditor	Auditor General South Africa
JSE Debt sponsor	Nedbank
Company registration number	1600157FN
Preparer	The Annual Financial Statements were compiled under the supervision of the Chief Financial Officer, Boitumelo Mosako CA (SA)
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