ANNUAL REPORT 2004 2005

The Next Decade

Expanding the Frontiers of Delivery for Sustainable Development

DBSA

Development Bank of Southern Africa

Development Bank of Southern Africa

Investor

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

Advisor

To build institutional, financial, technical and knowledge capacity for development

Partner

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

Development Bank of Southern Africa Limited

Vision

To further the progressive realisation of an empowered and integrated region, free of poverty, inequity and dependency.

To be a leading change agent for sustainable socio-economic development in the SADC region, and a strategic partner in Africa south of the Sahara.

Mission

To maximise our contribution to development by mobilising and providing finance and expertise and by establishing partnerships to develop infrastructure to improve the quality of life of the people of Africa.

Goals

To improve the quality of life of the people of the region and accelerate the sustainable reduction of poverty and inequality.

To advance broad-based economic growth and regional economic integration.

Strategic thrusts

- Broadening and deepening of development impact
- Knowledge management
- Smart partnerships
- Black economic empowerment
- Responsible risk taking and management
- Innovation and entrepreneurship
- Performance recognition and reward
- Alignment of strategy, structure, culture and processes

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Development Bank profile

The Development Bank of Southern Africa (DBSA) is a development finance institution wholly owned by the South African government.

The *mandate* of the Bank is to:

- Fund infrastructure, broadly defined to include economic, social and institutional infrastructure
- Provide financial, technical and other assistance
- Act as a catalyst to maximise private sector involvement

The Bank is guided by the *principles* of additionality, development impact, financial and environmental sustainability, risk management, complementarity with other development finance institutions, partnerships, and knowledge management.

Geographical area of operations: The Development Bank operates in the Southern African Development Community (SADC). It has the following geographical Business Units:

- Gauteng, Free State and North West
- KwaZulu-Natal and Mpumalanga
- Western and Northern Cape
- Eastern Cape
- Limpopo
- International Finance: Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe

The Bank's triple role

Investor

Since inception, the Bank has approved loans and equity of R36,1 billion (resulting in commitments of R29,2 billion). In addition, the Bank also has a guarantee programme in support of development projects, and a further R200 million guarantee was provided for this purpose during the year.

Advisor

Since inception, the Bank has approved grants of R166,6 million (excluding operations by the DBSA Development Fund). In addition, the Bank's advisory role included knowledge support such as:

- Together with the UNDP and the HSRC, the Bank jointly hosted and funded a conference on "Overcoming underdevelopment in South Africa's second economy" to discuss the persistence of the "dual economy" and underdevelopment. The conference, held in Pretoria on 28–29 October 2004, aimed to assist in identifying practical solutions to redress the marginalisation of those trapped in the second economy, and issued in the 2005 *Development Report*.
- The Bank conducted several Development Dialogues, encouraging debates on key issues of national policy, such as the impact of the national budget on municipalities, the State of the Nation address, pertinent international reports, etc. Bank employees also participated in many external policy initiatives, such as government task teams at national, provincial and local level, published articles in refereed journals, and presented papers at national and international conferences.
- In partnership with other institutions, the Bank contributed to several programmes, such as the DBSA/Old Mutual Local Investment Agency (LIA) Initiative; the Tourism Route Investment Programme with the Department of Environmental Affairs and Tourism; and a tourism action plan for Africa with the AU/NEPAD Working Committee.
- During the year, sector assessments were published on education, health, energy, housing, the environment, information and communication technology (ICT), transport, mining, water and tourism. Funding was secured for research into the impact of HIV/Aids on local government in six provinces. A guide to best practice in the operation, maintenance and safety of dams was developed, while the Bank also hosted a regional conference on "Sustaining Africa's water resources".
- The Bank published a new series of *Provincial Socio-economic Profiles*, which provide social

and economic indicators on population growth, economic growth, unemployment levels, and household infrastructure delivery and backlogs. A report on poverty was also published.

- The *Municipal Statistical Infrastructure Review: 1996 and 2001* highlights the progress made in the delivery of household infrastructure at national, provincial and municipal level.
- The *Quantification of Poverty in South Africa: An Inter-regional Profile* describes poverty on an inter-regional level from a quantitative perspective. A composite index was used, incorporating the percentage of households below the poverty line and those without access to basic services.
- The Bank developed new SADC Country Perspectives and DBSA Country Development Strategies for the Democratic Republic of Congo, Madagascar and Zambia. Country Perspectives on Angola, Botswana, Malawi, Mauritius, Mozambique, Namibia and Tanzania were updated.
- The Bank is committed to developing the capacity of its staff and clients. To this end, it set up the DBSA Vulindlela Academy, a training institute that will be launched in 2005/06.

Agency services: The Bank, as part of its advisory role, supports agency services. The Bank currently has 31 agency projects with a combined flow of funds of some R260 million during the year. These projects are diverse in nature and include:

- Joint ventures
- Independent contractor assignments
- Management contracts

Partner

The Bank emphasises the role of partnerships in maximising the impact of development interventions. As discussed in more detail in the rest of the Annual Report, it draws partners from a wide spectrum of development stakeholders, such as national governments, provincial and municipal governments, the private sector, bilateral institutions, multilateral development agencies, non-governmental organisations and community-based organisations.

Financial structure

The Bank is a self-funding institution and raises its funding from domestic and international capital markets, bilateral and multilateral institutions, and internally generated resources.

The Bank has access to a callable capital facility of R4,8 billion, which is part of its capital structure. It is rated by three rating agencies: Fitch, Moody's Investors Service, and Standard and Poor's. All three agencies reaffirmed the Bank's investment grade ratings:

- Fitch: AAA
- Moody's: Baa1
- Standard and Poor's: BBB

Governance structure

Sole owner: South African government

Shareholder representative: Minister of Finance

Chairman of the Board: Jayaseelan Naidoo

Chief Executive Officer and Managing Director: Mandla Gantsho

Board of 15; 14 non-executive

Business performance overview

Selected indicators	2004/05	5-year average (2001–2005)	2003/04	2002/03	2001/02	2000/01
Total capital cost of approvals (R million)	7 917	10 922	5 535	13 775	13 484	13 897
South Africa	7 396	6 638	3 929	10 278	8 477	3 106
Other SADC countries	521	4 284	1 606	3 497	5 007	10 791
Total DBSA contribution to approvals (R million)	3 947	3 299	3 348	3 833	3 151	2 217
% of total capital cost funded by others	50,1	69,6	65,3	72,2	76,6	84,0
Average value of approvals (R million)	45,9	52,4	57,7	62,8	55,3	40,3
Number of investment approvals in period	86	63	58	61	57	55
Disbursements (R million)	2 999	2 558	2 729	3 661	1 781	1 622
Technical support (R million)	18,2	16,8	10,9	29,0	17,0	9,0
Total operating cost (R million)	422,1	315,7	382,3	286,9	255,0	232,1
Total operating cost as % of approvals	10,6	9,6	11,5	7,5	8,1	10,5
Number of employees (excluding contractors, etc.)	490	462	489	470	430	430
Net contribution per employee to disbursements (R million)	5,3	5,3	5,6	7,8	4,1	3,8
% of employment equity managers at year-end	70,0	77,2	77,0	86,0	81,0	72,0
Assets under management (R million)	24 768	21 154	23 684	20 919	18 643	17 755
Impact on South Africa's GDP (R billion)	6,9	8,4	4,3	11,4	13,4	5,6
Impact on employment (number of jobs)	36 475	62 786	24 700	67 954	135 751	49 050
Impact on households benefiting from operations (number of households)	1 947 677	975 443	462 540	762 000	620 000	1 085 000

Financial performance overview

Selected indicators	2004/05	5-year average (2001–2005)	2003/04	2002/03	2001/02	2000/01
Financial results (R million)						
Income excluding provisions and exceptional items	1 026	1 202	1 446	1 651	920	969
Interest on development activities[1]	1 714	1 648	1 872	1 686	1 505	1 465
Interest on investments	607	604	663	597	579	577
Interest paid	1 061	1 086	1 101	967	1 150	1 151
Surplus for the year	604	775	763	1 284	593	632
Financial position (R million)						
Cash and cash equivalents	2 007	1 539	1 913	1 306	1 376	1 092
Financial market assets/investments in government bonds (prior to 2002)	6 197	4 707	5 723	5 107	3 253	3 253
Investment in development activities[1]	16 323	14 152	15 832	14 296	12 004	12 306
Other assets	242	756	216	210	2 010	1 104
Total assets	24 768	21 154	23 684	20 919	18 643	17 755
Issued share capital	200	200	200	200	200	200
Total capital and reserves	11 882	10 107	11 197	10 231	8 898	8 328
Financial market liabilities/medium- and long-term financing (prior to 2002)	12 212	9 956	11 736	9 971	8 341	7 521
Other liabilities	673	1 090	751	717	1 404	1 906
Total liabilities	12 885	11 046	12 487	10 688	9 745	9 427
Financial ratios						
Return on shareholder's funds (%)	5,1	7,8	6,8	12,5	6,7	8,0
Return on assets (%)	2,4	3,7	3,2	6,1	3,2	3,7
Operating costs to income (%)	41,2	27,3	26,4	17,4	27,7	24,0
Interest cover (times)	2,2	2,1	2,3	2,4	1,8	1,8
Reserves to loans ratio (%)	76,1	72,8	72,0	72,4	75,0	68,5
Long-term debt to equity (%)	102,8	98,5	105,9	98,3	95,5	90,3
Cash and cash equivalents to total assets (%)	8,1	7,2	8,1	6,2	7,4	6,2
Issued capital to assets (%)	0,8	1,0	0,8	1,0	1,1	1,1
Total capital and reserves to assets (%)	48,0	47,8	47,3	48,9	47,7	46,9
Financial market liabilities to investment in development activities (%)[1]	68,6	68,6	74,1	69,7	69,5	61,1
Weighted average interest rate on development loans (%)	10,8	12,0	11,0	13,5	12,8	11,7
Total impairment as percentage of development loans (%)[2]	8,2	7,1	6,6	6,1	7,5	7,3
Impairment for loans considered irrecoverable as percentage of development loans (%)	4,9	3,7	3,1	3,3	3,6	3,7

1. Development activities include development loans and investments.
2. Includes reserve for general loan risks.

Abbreviations

AfD	Agence Française de Développement
AU	African Union
BEE	black economic empowerment
DBSA	Development Bank of Southern Africa Limited
€	euro
GDP	gross domestic product
HIPC	Heavily Indebted Poor Countries
HIV/Aids	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HSRC	Human Sciences Research Council
ICT	information and communication technology
ISDA	International Swaps and Derivatives Association
ISMA	International Securities Market Association
IT	information technology
KfW	Kreditanstalt für Wiederaufbau
KPI	key performance indicator
LGNet	Local Government Network
LGSETA	Local Government Sector Education and Training Authority
NEPAD	New Partnership for Africa's Development
PPP	public-private partnership
R	South African rand
SACCAWU	South African Commercial, Catering and Allied Workers' Union
SADC	Southern African Development Community
SAFA	South African Football Association
TIP	Targeted Infrastructure Programme
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
US$	United States dollar

Exchange rate

On 31 March 2005 the R/US$ exchange rate was 6,24
and the R/€ rate was 8,09.

Financial year

The financial year of the Development Bank is from 1 April to 31 March.
Unless otherwise indicated, references to a combined year, for instance 2004/05,
are to the financial year ended 31 March 2005.

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Governor's statement

Minister of Finance
Mr Trevor Manuel, MP

After ten years of our democracy, there is much to celebrate on the transformation and achievements of the Development Bank of Southern Africa. However, given the challenges facing our country, our region and our continent, we cannot afford to sit back and celebrate our past achievements without focusing on the present and future challenges that lie ahead.

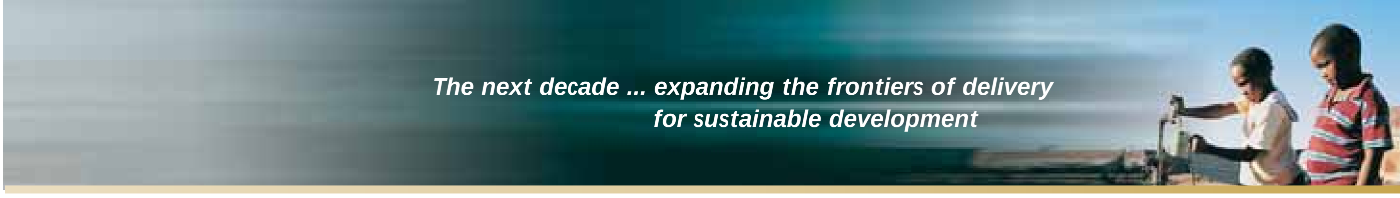
Much still needs to be done towards ending the 'two nations' divide characterising our society, and I have in the last two years challenged the Bank's future annual reports to demonstrate its progress in attaining this objective.

Last year in August, I also challenged the Bank to take a critical look at its role and seek creative solutions to the complex development challenges that cannot be addressed independently by any institution – neither the market, government, international agencies nor civil society. The most daunting challenge we face is that most people without access to services live in rural areas where markets either do not exist or fail to deliver optimal outcomes for a variety of reasons. While there is better access to services in urban areas, markets also do not deliver fully on the needs of the urban poor with regard to housing, community and municipal infrastructure.

These are challenges that I did not expect the Bank to resolve in one or two years. I am aware that the Bank is in the process of finalising its strategic vision and mandate for meeting these challenges, and it is my hope that next year I will report not only on this vision and mandate, but also on how the Bank has started implementing these. The year under review has therefore brought a renewed commitment to development and transformation in the form of government's Contract with the People. This new cycle has a deliberate focus on execution and related capacity building to ensure that we consolidate the foundations of our new democracy, and accelerate progress towards development and poverty alleviation.

The challenge facing the DBSA is to use its resources (financial, technical and human resources) to support some of the key developmental and poverty alleviation programmes. In particular, the Bank needs to support government initiatives to house our people and provide local services such as water, sanitation and electricity, so that we can attain the Millennium Development Goals, which we have committed ourselves to achieve. We need to ask what

Project: The Zamdela township project improved the living conditions of residents by providing a reliable water service – Free State



role the DBSA can play to strengthen our local governments to enable them to provide these basic services to both the rural and urban poor.

We are faced with tremendous challenges and pressures to create sustainable, liveable communities from vast, unintegrated dormitory-like settlements. It is clear that nothing short of creative approaches and innovative interventions will unleash the ingenuity required to generate real solutions to these challenges. We believe that development finance institutions such as the DBSA and public utilities need to lead other stakeholders in taking greater risks to develop more innovative models for sustainable poverty reduction.

The move by the Bank to increase its focus on the poorest quintile over this past year, and in coming years, is a direct response to the challenges that government has posed to the Bank. One of the key lessons that we have learnt as government is that funding alone is often not the only major constraint on development. Many of our delivery agencies, particularly in the provincial and local government sphere, often lack the basic capacity to plan and execute infrastructure projects.

It is my hope that the Bank will in the coming year step up its efforts to improve the capacity of all our provincial and municipal governments to modernise their capital spending programmes, through supporting initiatives like the Infrastructure Development Improvement Programme.

There can be no doubt that the DBSA must also expand its regional role, and assist other Southern African economies to generate higher levels of investment and economic growth, and ultimately progress towards the Millennium Development Goals. This should become more achievable as the Commission for Africa initiative mobilises the necessary external support and helps the New Partnership for Africa's Development (NEPAD) unlock key constraints to the region's development. It should also enable more concerted capacity building, which still remains a major constraint to poverty-reducing development not only in the region, but also here in South Africa.

This annual report takes a look at how the DBSA increased its investments in infrastructure and capacity building, especially in poorer areas. In order to contribute more significantly to sustainable development and provide more support to the less capacitated municipalities charged with service delivery in the country and the region, the Bank has also rebalanced its roles of financier, advisor and partner over the past year. It is positioning itself to provide smarter support and to expand the frontiers of its delivery in the coming decade.

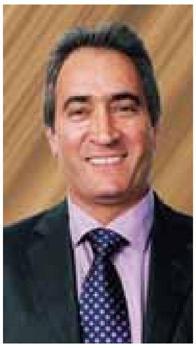
More needs to be done on this front, and greater effort from the Bank is needed to ensure that its funding programmes complement the priorities funded through the Budget, and not merely provide a second bite at the budgetary cake for poorly designed and unsustainable programmes. There is a need for the Bank to critically assess and improve the functioning of many of government's pro-poor programmes, and not to fall into the trap of funding non-performing programmes.

I have little doubt that the Development Bank's renewed drive for deeper and broader development impact, greater outreach, an increased risk appetite, and strong, smart partnerships will be indispensable as it pursues its widely shared vision of an integrated region, progressively free of poverty, inequity and dependency.

I would like to thank the Chairman of the Board of Directors, Jay Naidoo, the Chief Executive Officer, Mandla Gantsho, and indeed all of the Bank's development activists for their dedication and commitment to the agenda of poverty-reducing development and transformation.

Trevor Manuel

Board of Directors



Name and designation: **Dr Iraj Abedian** (49)
Chief Executive Officer and Chief Economist: Pan-African Advisory Services

Academic qualifications:
PhD (Economics), Simon Fraser University, Canada (1993)
MA (Economics), University of Cape Town (1982)
BA Hons (Economics), University of Cape Town (1980)
BEcon, University of Tehran, Iran (1977)

DBSA Director as from: 1 August 2001

Name and designation: **Ms Lucienne Abrahams** (44)
Director: LINK Centre, Wits Graduate School for Public and Development Management, University of the Witwatersrand

Academic qualifications:
Postgraduate Diploma in Public and Development Management, University of the Witwatersrand (1995)
BSc (Chemistry), University of Cape Town (1983)

DBSA Director as from: 1 June 1995

Name and designation: **Ms Thenjiwe Pamela Claudia Chikane** (39)
Chief Executive Officer: MGO Consulting

Academic qualifications:
CA (SA) (1997)
BCompt (Hons), University of South Africa (1995)
BCompt, University of South Africa (1993)
BCom, University of the North (1985)

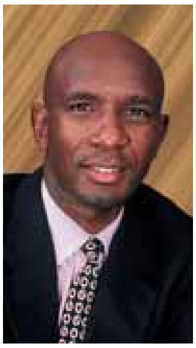
DBSA Director as from: 1 August 2004

Name and designation: **Prof. Brian de Lacy Figaji** (60)
Company Director

Academic qualifications:
MEduc (Administration, Planning and Social Policy), Harvard University (1989)
Diploma in Tertiary Education, University of South Africa (1987)
Graduate Diploma (Engineering), University of Cape Town (1985)
BSc (Engineering), University of Cape Town (1972)
BSc (Science), University of the Western Cape (1969)

DBSA Director as from: 1 August 1997

Name and designation:	**Mr Trevor Fowler** (54) Chief Operating Officer: Office of the Presidency
Academic qualifications:	Pr Eng (1982) BSc (Civil Engineering), University of Manitoba, Canada (1979)
DBSA Director as from:	1 August 2004

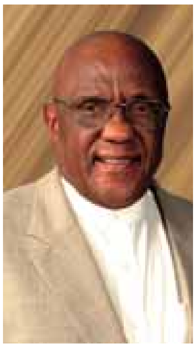


Name and designation:	**Mr Mandla Sizwe Vulindlela Gantsho** (43) Chief Executive Officer and Managing Director, DBSA
Academic qualifications:	Senior Executive Programme, London Business School (2005) MSc (Project Management), George Washington University (2002) CA (SA) (1987) BCom Hons (Financial Management), University of Cape Town (1986) Certificate in Theory of Accountancy, University of Cape Town (1985) BCom (Accountancy), University of Transkei (1983)
DBSA staff member as from:	1 October 1995
DBSA Director as from:	1 February 2001

Name and designation:	**Ms Nomboniso Gasa** (37) Independent gender and policy analyst
Academic qualifications:	Certificate in Women's Studies, University of the Western Cape (1996) BA (Political Science), University of the Western Cape (1990) Certificate in Feminist Literacy and Criticism, Jesus College, Oxford University (1988)
DBSA Director as from:	1 August 2003

Name and designation:	**Dr Lulu Gwagwa** (46) Director: Lulu Gwagwa Development Consultants
Academic qualifications:	PhD (Economics), University College London (2003) MSc (Economics), London School of Economics and Political Science (cum laude) (1990) Certificate in Gender Planning, University College London (1989) BA (Geography), University of Fort Hare (1978)
DBSA Director as from:	1 August 2004

Name and designation:	**Dr Deenadayalen Konar** (51) Consultant
Academic qualifications:	DCom, University of South Africa (1989) MAS, University of Illinois (1981) CA (SA) (1978) Postgraduate Diploma in Accounting, University of Durban-Westville (1978) BCom, University of Durban-Westville (1975)
DBSA Director as from:	1 August 2001 (co-opted to Audit Committee: 1 June 1995)

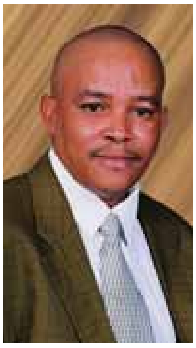


Name and designation:	**Mr Johannes Bhekumuzi Magwaza** (63) Company Director
Academic qualifications:	MA (Industrial Relations), Warwick University (1985) BA (Psychology and Social Anthropology), University of Zululand (1966)
DBSA Director as from:	1 June 1995

Name and designation:	**Mr Ismail Momoniat** (45) Deputy Director-General: Economic Policy and International Financial Relations, National Treasury
Academic qualifications:	MSc (Economics), University of London (1995) BA Hons (Economics), University of South Africa (1992) MSc (Mathematics), University of the Witwatersrand (1990) BSc Hons (Mathematics), University of the Witwatersrand (1978) BSc (Mathematics), University of the Witwatersrand (1977)
DBSA Director as from:	1 July 2004

Name and designation:	**Ms Lindiwe Msengana-Ndlela** (39) Director-General: Provincial and Local Government
Academic qualifications:	MBL, University of South Africa (2002) BEd, University of South Africa (1995) Higher Education Diploma, Rhodes University (1988) BCom, Rhodes University (1987)
DBSA Director as from:	1 August 2004

Name and designation:	**Mr Jayaseelan Naidoo** (50) Director: J&J Group
DBSA Director as from:	1 May 2000
Chairman of the DBSA Board as from:	24 August 2000

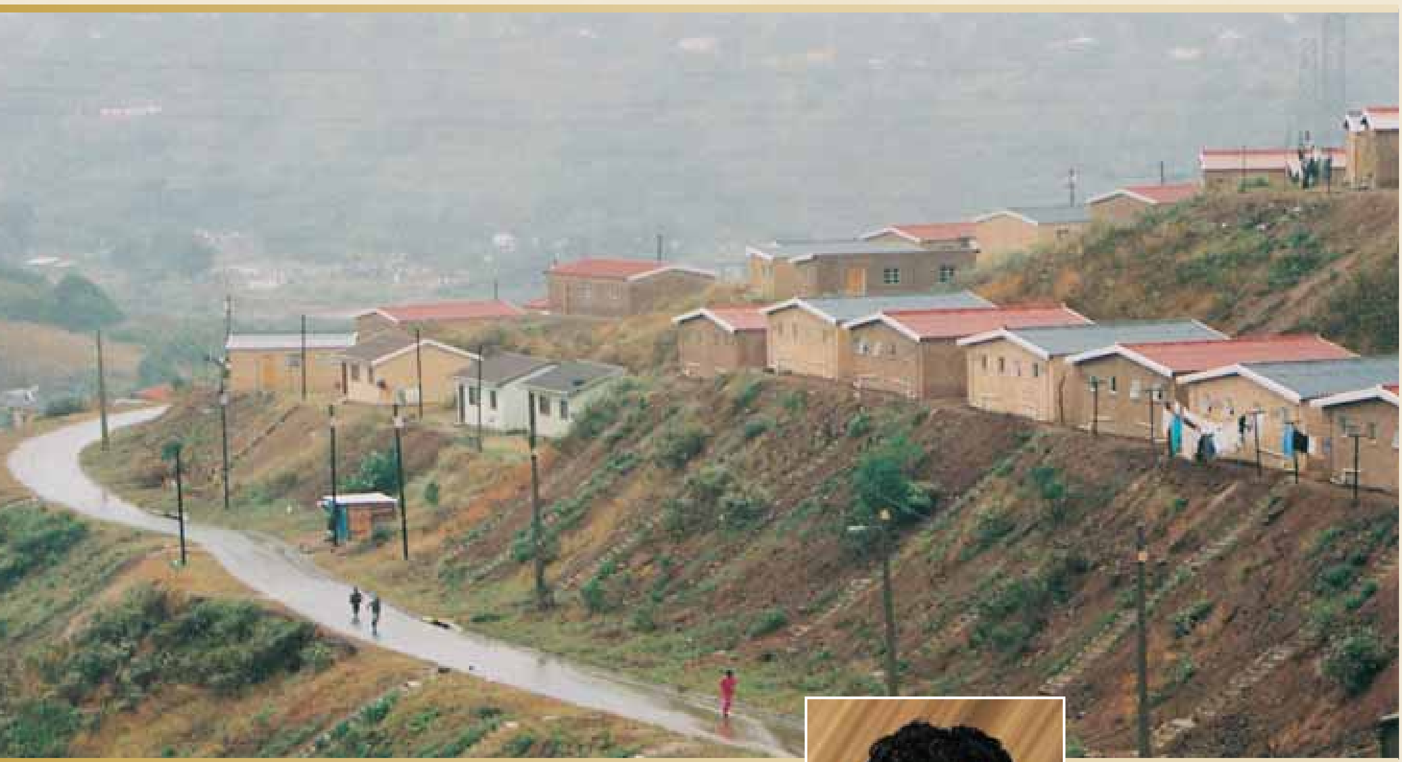


Name and designation:	**Mr Silumko Nondwangu** (40) General Secretary: National Union of Metalworkers of South Africa (NUMSA)
DBSA Director as from:	1 August 2004

Name and designation:	**Mrs Hixonia Nyasulu** (50) Director: TH Nyasulu and Associates
Academic qualifications:	International Programme for Board Members, IMD, Lausanne, Switzerland (1997) Executive Leadership Programme, Cambridge, Massachusetts (1995) BA Hons (Psychology), University of Zululand (1978) BA (Social Work), University of Zululand (1976)
DBSA Director as from:	1 August 1997

DBSA Corporate Secretariat
Dr Paul Kibuuka (Corporate Secretary)
PO Box 1234, Halfway House, 1685

Chairman's report



Chairman
Mr Jayaseelan Naidoo

The Bank's strategic context during the reporting period continued to be stable. In the political sphere, we witnessed further consolidation of democracy, as national non-racial democratic elections took place successfully in South Africa and Mozambique, resulting in general continuity in socio-economic policies. In the economic sphere, economic growth turned upwards significantly, driven by reduced and historically low interest rates and higher consumer spending in the domestic economy. Notably, the rand continued to strengthen against most currencies, resulting in continued volatility and a less favourable exchange rate for key industries such as mining, clothing and textiles.

In the social realm, the legacy of high levels of socio-economic as well as infrastructure imbalances and inequalities persists in South Africa, and to a lesser extent in the region. This is despite the fact that significant strides have been made in this regard over the past decade. Large pockets in the country's rural and urban landscapes are still home to impoverished people, deprived of access to basic water, electricity and housing. These huge backlogs continue to be concentrated in predominantly rural provinces, such as the Eastern Cape, Limpopo and KwaZulu-Natal, where there are major capacity and institutional constraints, in addition to a lack of economic activity.

On the regional and global fronts, Prime Minister Tony Blair's Commission for Africa, which included prominent African leaders such as Minister Trevor Manuel, released an influential report, and built momentum for unprecedented development support for Africa. This report amplified calls on the G8 Group of countries and the European Union to honour existing commitments around debt cancellation, greater market access for African exports and increased aid. This augurs well for Africa, as there is likely to be a build-up over the next decade in development and public finance for the continent, permitting more vigorous implementation of NEPAD and more momentum towards achievement of the Millennium Development Goals.

The 2004/05 reporting period has been a strategic turning point for the Development Bank of Southern Africa. The Bank adopted a new, shared vision, one that envisages an empowered and integrated region, progressively free of poverty, inequity and dependency; and one that urges the Bank to be a leading change agent for socio-economic development in Southern Africa, and a strategic development partner to the wider African continent south of the Sahara.

The new vision – Vision 2014 – arose from a process of introspection that looked creatively into a more proactive role for the Bank in expanding the frontiers of delivery. It built on the successes and lessons of the Bank's Vision 2004 and the Quantum Leap. It took

Project: The eThekwini Metro development programme provided infrastructure in key areas such as electricity, water and sanitation, storm-water drainage and access routes – KwaZulu-Natal

impetus from the Governor's challenge to the Bank to pay special attention to the poorest quintile of the population, who particularly lack access to basic services and meaningful livelihoods. The introspection was underpinned by both the Presidency's ten-year review of transformation, and the Bank's own review of its performance during the past decade. It took strategic direction from the government's own Vision 2014 and its People's Contract, as well as from NEPAD.

The principal strategy underlying the Bank's vision is to invest in infrastructural assets that serve the poor, both directly and indirectly. These extend beyond the traditional hard infrastructural assets to include the softer assets, such as human and institutional capital, where there are serious deficiencies in many parts of the country. The strategy seeks to raise overall investment levels in the national and wider regional economy, from the current levels of 16 per cent of GDP towards 25 per cent, the target investment level to be achieved by 2014. There will be a strong focus on public investment, and continued concern for crowding in the private sector, with special attention to promoting black economic empowerment (BEE). The Bank is acutely aware that higher investment levels are necessary if South Africa and the region are to get closer to achieving the minimum sustained 6 per cent economic growth rate, which is a major driver of job creation.

Within this ambit, the leading strategic thrust will be to broaden and deepen development impact, especially in areas with the highest development needs. This will be achieved through a combination of initiatives, including a new targeted infrastructure programme involving special development credits, a new pricing regime, an increased appetite for smaller projects, a new training academy, and continued support for targeted capacity building grants through the DBSA Development Fund.

This strategic thrust reveals our further commitment to addressing the development challenges facing the second economy, in particular the poorest quintile of the population. Building on its 2003 "hotspots" initiative in the Limpopo and Eastern Cape provinces and on the 2001 Development Fund initiative, the Bank continues to increase its focus on more disadvantaged municipalities. The result will be a gradual shift in the shape of the Bank's portfolio, reflecting not only an increasing number of smaller projects but also a more pro-poor distribution of financial and capacity investments in poor localities. Our strategic focus on expanding the frontiers of delivery is the overarching theme of this year's Annual Report.

Going forward, the Bank's Vision 2014 will see it continue to align its resources and capacities closely with those of government. It will also continue to respond proactively to the imperatives, programmes and projects set out in both the SADC's Regional Indicative Strategic Development Plan and NEPAD. Smart partnerships will be central as the Bank joins forces with government and other role players to tackle the massive infrastructure and human resource gaps facing the country and the region as a whole. These gaps can only be narrowed if the various role players and partners, and notably the private sector, combine their efforts. To this end, we have entered into and fostered a number of partnerships during the past year aimed at deepening and broadening our development impact in the region. These include our support for the South African Football Association (SAFA) in planning the 2010 World Cup.

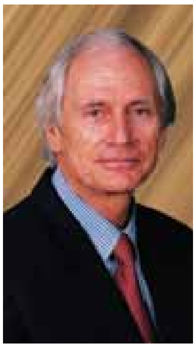
Knowledge management, greater risk taking and partnerships will remain key thrusts for the Bank. The past year heralded the end of the first phase of our knowledge management business plan, which is concerned with enhancing the Bank's internal capacity to deliver. The forthcoming financial period will usher in the second phase, which is aimed at broadening the Bank's range of knowledge-based products and services, and initiating knowledge-based programmes to build the capacity of local government officials. We also reaffirm our commitment to government's BEE policies, and to NEPAD.

In terms of its operations this year, the Bank continued to thrive, effectively balancing and expanding its partner and advisor roles. As reflected in the Directors' report, almost all the Bank's targets in promoting sustainable development, financial sustainability and effective business processes were met or exceeded, while virtually all the learning and growth targets were met. Notably, the efforts of the DBSA Development Fund were harnessed, helping the Fund once again to achieve record performance levels in financing and facilitating local capacity building. It was reassuring to take stock of the Bank's positive performance and contribution over the year, as it showed increased support to smaller projects, which will have a more direct impact on the poor.

In the year ahead, we will build on the successes of the period under review, and gear up our support to implementation and the rapid expansion of the frontiers of delivery. I would like to thank all of the Bank's staff and management for their contribution to the strong results achieved in the past year. This would not have been possible without their dedicated efforts. I am also grateful to Minister Trevor Manuel, Governor of the Bank, for his confidence and support, and to my fellow Board members for their unfailing guidance and commitment to helping the Bank reach greater heights.

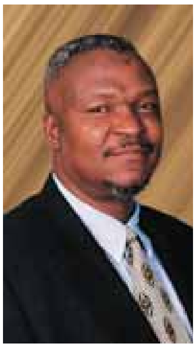
Jayaseelan Naidoo

Executive management



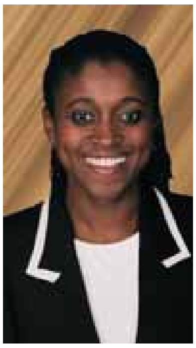
Name and designation:	**Mr Jacob Henry de Villiers Botha** (56) Executive Manager: Strategic Initiatives
Academic qualifications:	Pr Eng (1978) BSc (Eng) (Civil), University of Pretoria (1972) Advanced Management Programme, INSEAD (2002)
DBSA staff member as from:	1 October 1988
Executive Manager as from:	1 October 1996

Name and designation:	**Dr Snowy Joyce Khoza** (47) Executive Manager: Knowledge Management
Academic qualifications:	Economics and Public Finance Certificate, University of South Africa (1999) PhD (Social Policy), Brandeis University, USA (1996) MA (Social Science), University of South Africa (1990) BA Hons (Social Work), University of Fort Hare (1986) BA (Social Work), University of the North (1981)
Executive Manager and DBSA staff member as from:	1 October 2002

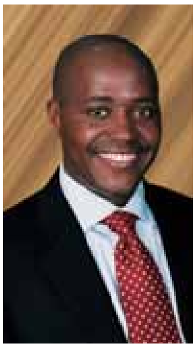


Name and designation:	**Mr Magare Luther Mashaba** (53) Executive Manager: South Africa Operations
Academic qualifications:	MSc (Ag. Econ), Michigan State University (1993) BSc Hons (Ag. Econ), University of Pretoria (1986) BSc (Ag. Econ), University of Fort Hare (1981)
DBSA staff member as from:	14 January 1985
Executive Manager as from:	1 September 2001

Name and designation:	**Ms Zanele Joyce Matlala** (42) Chief Financial Officer
Academic qualifications:	Advanced Management Programme, Insead (2002) CA (SA) (1997) BCompt Hons, University of South Africa (1996) BCom (Accountancy), University of South Africa (1993)
Executive Manager and DBSA staff member as from:	1 January 2002



Name and designation:	**Ms Disebo Moephuli** (41) Executive Manager: Treasury
Academic qualifications:	MBA (Finance), Dalhousie University, Nova Scotia, Canada (1996) BA (Economics), National University of Lesotho (1986)
DBSA staff member as from:	1 April 2000
Executive Manager as from:	1 June 2004

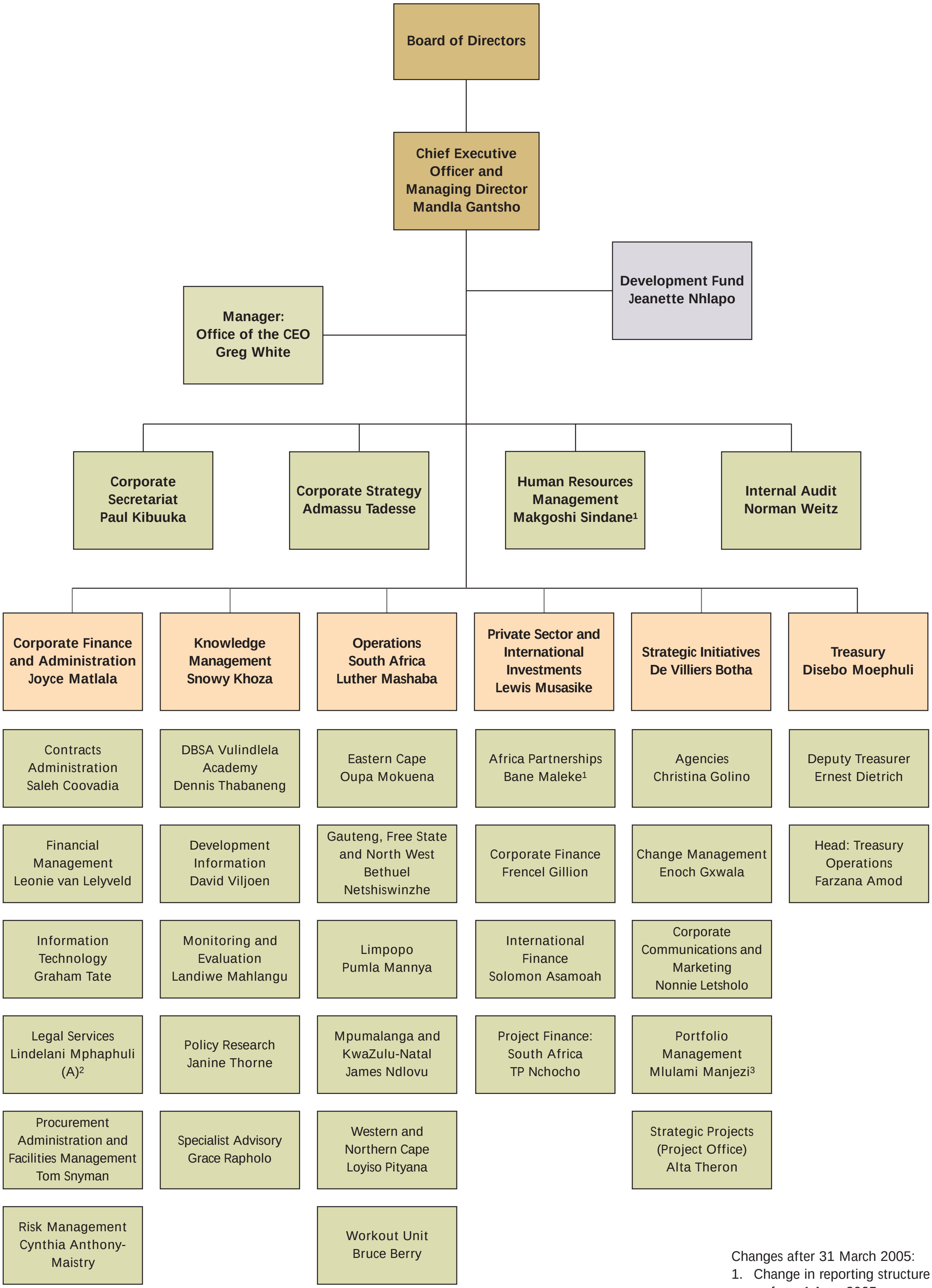


Name and designation:	**Mr Lewis Maxwell Musasike** (44) Executive Manager: Private Sector and International Investments
Academic qualifications:	MBA, University of Warwick (1995) AMCT (UK) (1995) ACMA (CIMA-UK) (1987) CA (Zimbabwe) (1985) BAcc Hons, University of Zimbabwe (1982)
DBSA staff member as from:	1 April 1998
Executive Manager as from:	1 October 2001

Development Fund

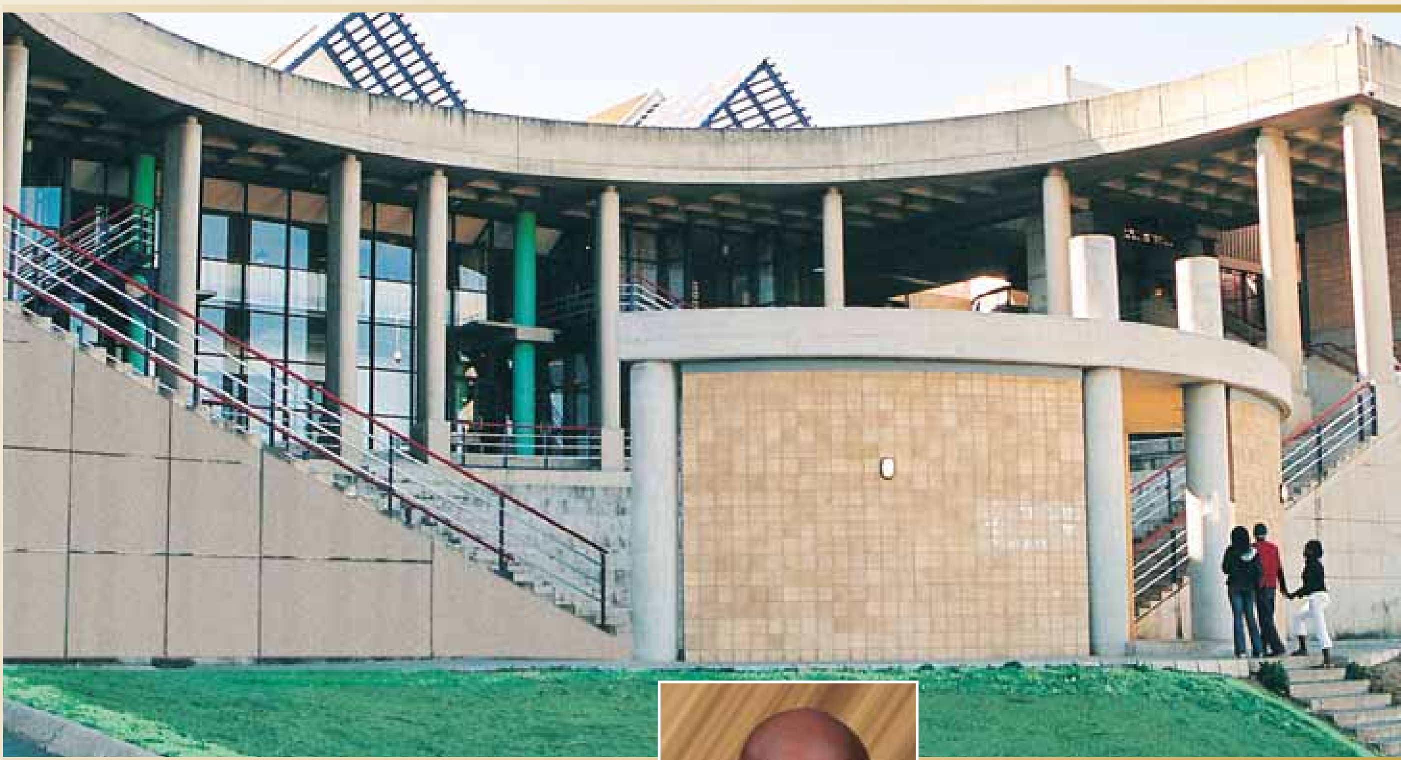
Name and designation:	**Ms Jeanette Nhlapo** (34) Chief Operating Officer: Development Fund
Academic qualifications:	BA Hons (Social Sciences), University of South Africa (1996)
DBSA staff member as from:	18 December 2000
Chief Operating Officer as from:	1 June 2004

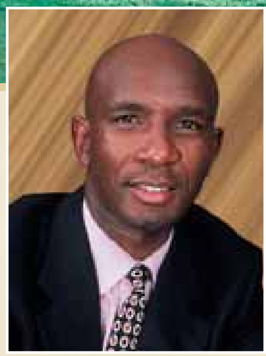
Organisational structure



Changes after 31 March 2005:
1. Change in reporting structure as from 1 June 2005.
2. Acting as from 13 May 2005.
3. As from 1 May 2005.

Managing Director's report





Managing Director
Mr Mandla Gantsho

The year 2004 heralded a new era in South Africa's transformation and in the quest for a better life for all, as the country entered its second decade of democracy. In the same period, the Development Bank reached important milestones of its own.

The Bank's five-year Vision 2004 strategy was concluded, and the organisation embarked on the even more ambitious Vision 2014 strategy, which is closely aligned with government's key delivery targets for the following decade. With regard to the continent and the broader Southern African region, Vision 2014 seeks alignment with the Millennium Development Goals and development priorities identified by NEPAD, as well as other strategically important initiatives such as the Commission for Africa initiated by the British government.

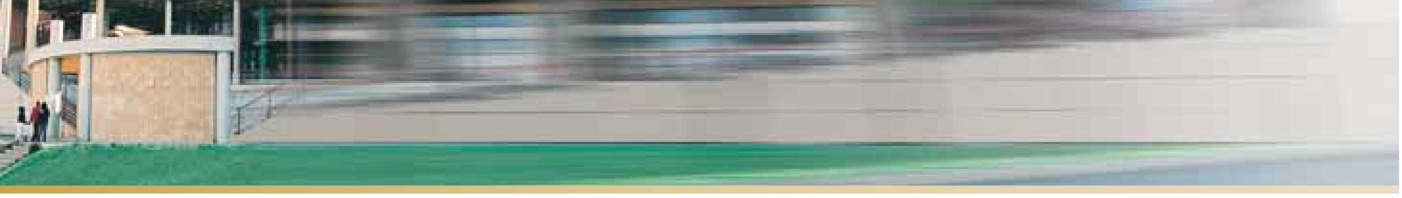
The theme of this Annual Report – "The next decade ... expanding the frontiers of delivery for sustainable development" – is an apt one. It acknowledges the solid foundations that have been established over the past decade, and the past five years in particular, providing a basis for the Bank to broaden and deepen its development impact significantly in the decade that lies ahead.

With regard to business performance, I am pleased to report that during 2004/05 the DBSA Group met and exceeded key targets. Total project approvals for the year amounted to R3,9 billion, which is 30,0 per cent above target. Disbursements on development loans, a key indicator of physical implementation of development projects, reached targeted levels of R3 billion for the year. The number of projects approved increased from 58 in 2003/04 to 86 in 2004/05. This is indicative of a strategic shift towards broadening the Bank's outreach by supporting larger volumes of smaller projects, with particular emphasis on municipal clients who have hitherto been unable to access Development Bank loans.

The DBSA Development Fund, established in 2001 with a dedicated focus on mobilising and providing grant support for institutional capacity building, once again exceeded key performance targets during 2004/05. New project approvals reached record levels of R170 million, 86 per cent above target, while disbursements on capacity building projects amounted to R74 million, exceeding the target by 42 per cent.

The performance of the Bank during 2004/05 is expected to result in the creation of 36 475 jobs, an estimated contribution to GDP of R6,9 billion and to the income of low-income households of R400 million. In addition, it is estimated that the number of households that benefited from project service delivery has increased by more than 300 per cent since 2003/04 to 1,9 million this year.

Project: The Vaal University of Technology programme provided additional tuition space, so that the institution could better serve its students and the broader Vaal Triangle community – Gauteng



The Bank's support for development in SADC countries other than South Africa maintained the momentum established with the broadening of the scope of operations in 1996. New project approvals for the year amounted to R514 million, bringing the total value of the Bank's approvals outside South Africa to R8,8 billion, or 26 per cent of the portfolio as at 31 March 2005. During the year, the Board approved a new business strategy for the Bank's engagement in the SADC region, which is aligned with the objectives of Vision 2014 and places particular emphasis on enhancing the Bank's value-adding activities by integrating both financial and knowledge elements into its product offerings.

A key premise of the Bank's long-term strategy is that accelerated and sustained business growth and development impact will not be achieved by adopting a "business as usual" approach. Innovation, the nurturing of a culture of corporate entrepreneurship, and responsible risk taking are key strategic thrusts underpinning Vision 2014. These thrusts are of particular relevance in broadening the Bank's outreach and becoming more accessible to institutionally and financially challenged local government clients.

During the year, a number of innovations were developed and implemented. These include a new risk strategy, which reflects a greater appetite for risk, and associated mechanisms to enhance the Bank's risk management capacity. In addition, a new pricing model was developed, which inverts the traditional risk-return relationship with respect to the Bank's lending to poorer municipalities. This effectively reduces the cost of the Bank's loans, with returns being measured largely in terms of development impact achieved.

A further notable innovation was the approval by the Board and implementation of a "Targeted Infrastructure Programme" (TIP). This programme makes available highly concessional loan finance and capacity building support for priority, inherently sustainable infrastructure projects identified by municipalities, where affordability currently presents a constraint. The programme will be implemented initially for three years, with R1 billion earmarked for projects over this period. The first two projects of this nature were approved during the year.

The building of sustainable institutional capacity in the local sphere of government continues to present challenges. In this regard, the DBSA Group has committed resources to support the implementation of Project Consolidate, a national initiative spearheaded by the Department of Provincial and Local Government.

The Bank's strategic focus on building its knowledge management capacity remains a key thrust, and excellent progress in implementing the knowledge management strategy was made during the year. Highlights include the establishment of the DBSA Vulindlela Academy, which will play a key role in building capacity internally, providing targeted capacity building for the Bank's clients, rolling out the LGNet and Local Government Resource Centre initiatives, and establishing a focused research capacity within the Bank. The Bank played a pivotal role in a number of knowledge mobilisation and knowledge sharing initiatives during the year. Highlights include a conference on "Overcoming underdevelopment in South Africa's second economy" held in October 2004, the subject of which forms the basis of the 2005 *Development Report*, as well as a pan-African Knowledge Management conference held in Johannesburg in February 2005.

Continuous improvement processes to enhance the operational effectiveness of the DBSA Group remain the focus of attention of a dedicated strategic projects function within the Bank. During the year, good progress was made in a number of areas, including business process renewal, refinement of performance-based recognition and rewards systems, and the establishment of a portfolio management function. Organisational enhancements to improve the alignment of the organisational structure with the demands of Vision 2014 were also approved by the Board for implementation on 1 April 2005. In essence, these enhancements require that a divisionalised structure be implemented.

The financial performance and health status of the Bank remains sound. It has maintained its premier domestic credit ratings, and its international credit rating was upgraded to Baa1 by Moody's Investors Service during the year.

Overall, the Bank has made significant strides during the year, and has strengthened the already sound foundations for business growth, enhanced delivery and sustainable development impact. It stands ready to meet the challenges of development head-on, with vigour and commitment.

I would like to thank the Chairman of the Board, Mr Jayaseelan Naidoo, and fellow Board members for their support during the year. I am deeply appreciative of the guidance provided by the Governor and Shareholder representative, Minister Trevor Manuel.

The Bank's development activists are responsible for turning the vision into tangible results. I would like to acknowledge the dedication and hard work of all my colleagues in making 2004/05 an exciting and productive year, and I look forward to our ongoing collaboration in the quest for a better life for all.

Mandla Gantsho

Operations South Africa

Executive Manager: Luther Mashaba

The Operations South Africa Division has been an integral part of the Bank's development efforts in the first decade of democracy, and is gearing up to consolidate its work in the next ten years. Since the advent of a democratic state in South Africa, the Division has worked to maximise development impact by investing in infrastructure, forming and enhancing strategic partnerships, and providing technical advice. A fundamental concern has been to become financially self-sustaining and to serve as a training ground for development activists, while at the same time pursuing operational and business excellence.

In the year under review, the Division has continued to achieve its fundamental objectives. It has succeeded in growing the lending and investment portfolio, increasing strategic partnerships, accelerating and optimising the benefits and sustainability of its interventions, and retaining and attracting core competencies. The Division is positioned to act as a catalyst for mobilising private and public funds to achieve a developmental state within an integrated development framework. It plays a strategic role in the development finance system through its engagement in the sub-national debt market, thereby promoting the principles of the policy framework on municipal borrowing.

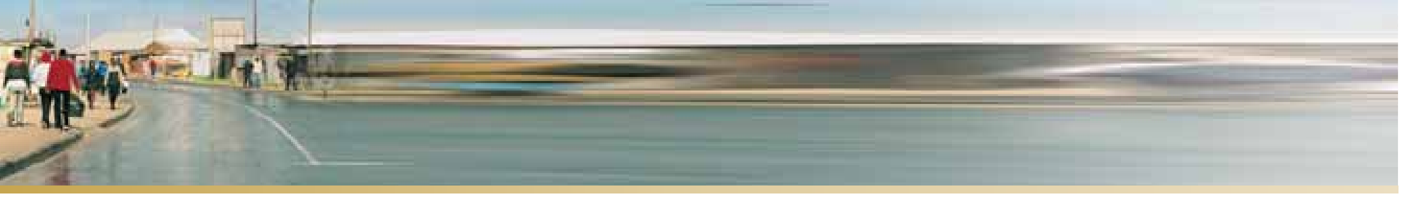
Nature of business

The Division operates in South Africa only and deals mainly with public sector clients, including local, district and metropolitan municipalities. It also works closely with the Private Sector and International Investments Division in deals involving the private sector. Its partners include regional development finance institutions, water boards, other developmentally oriented statutory bodies, tourism authorities, non-governmental entities, further education and training institutions, and private sector bodies.

The Division is organised into Business Units with primary responsibility for the various provinces: Eastern Region (KwaZulu-Natal and Mpumalanga), Western Region (Free State, Gauteng and North West), Southern Region (Northern and Western Cape), Eastern Cape and Limpopo. The Workout Unit designs recovery plans to put clients in financial distress back on a sustainable path.

In the year under review, two Business Units, namely Structured Finance and Operations and Credit Administration, were dismantled and their personnel absorbed into the newly formed Portfolio Management Unit or other parts of the Bank. The Structured Finance Business Unit was originally

Project: The Cape Town Metro infrastructure programme contributed to improving the living conditions of Khayelitsha residents by providing roads and storm-water drainage – Western Cape



established to offer specialised skills related to the development of sophisticated instruments for municipal debt, in line with the policy framework on municipal borrowing. However, as the Bank developed resident expertise in this area over the years the centralisation of the function was considered impractical. Operations and Credit Administration provided specialised and logistical support across the whole area of operations. These services have been absorbed by the Office of the Executive Manager and the Portfolio Management Unit, where it is believed they are better placed. In order to strengthen the capacity of the Executive Manager to carry out these activities, a Coordinator: Operations has been appointed on a strategic level.

Overview of operations

Investments

The Division has made positive progress despite difficult operational circumstances. The year saw institutional and financial problems deepen in a large number of municipalities. In many of them, decision-making processes also slowed down because of the anticipated municipal elections and a more careful approach to long-term commitments by some councils. In this context, the Division still achieved a 28 per cent growth in its investment approvals, mainly to municipal clients. In total, 75 projects with a value of R2,9 billion were approved, bringing the cumulative portfolio in South Africa to R26,8 billion. Cooperation with clients and other funders ensured that the total value of projects supported reached R6,9 billion for the year.

The year was marked by efforts to broaden investment in infrastructure to include less viable entities. The challenge is to reach the rural and less capacitated areas, which have the highest development needs and lowest institutional capacity. In the search for new ways of delivering support, the Division reviewed its risk profiling methodology, so as to make specific provision for the circumstances of the most impoverished areas and give proper recognition to development impact. It also introduced the TIP, which tailors and ring-fences loans to clients who do not qualify for conventional investment loans because of their limited creditworthiness.

In the period under review, investment loans increased by amounts ranging between R5 million and R20 million, and there was a sharp increase in the number of projects approved, mainly for smaller municipalities. The capitalisation of the educational system was also supported through funding to further education and training institutions. An increased exposure to projects with an educational orientation should be seen in the light of a general commitment to strengthening the human resource base.

These trends can be attributed partly to the revised risk analysis methodology, which allowed clients previously regarded as risky to qualify for support. More broadly, they reflect the developmental role the Division plays in addressing market failure, instilling fiscal discipline and making services accessible.

The Division continued to channel investment support through public entities, such as water boards and development corporations, capitalising on their ability to deliver services to communities in a sustainable way. This included support to the metropolitan municipalities, which create an enabling environment for vast numbers of people and businesses in their extended areas of operation. The credit facility for the Cape Town Metro and the capital investment programme for the eThekwini Metro show that the Bank remains the preferred finance partner. Significant co-funding was generated to crowd in private sector financing. The approach is not to be in competition with the private sector, but rather to strengthen the impact of investments through partnerships.

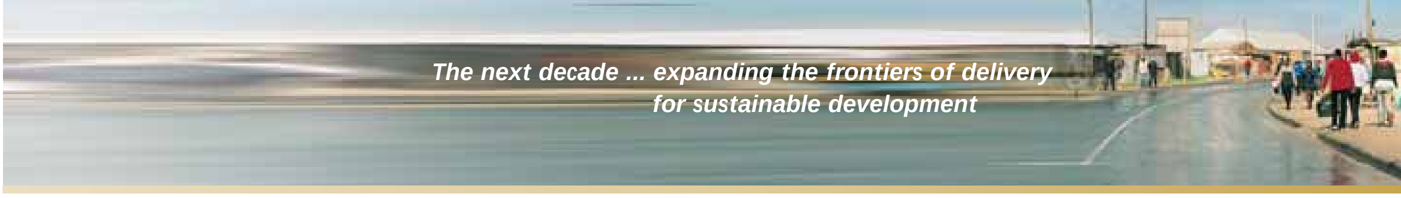
National initiatives

The Division supported several national initiatives by government to assist struggling municipalities, including the Expanded Public Works Programme (EPWP), Project Consolidate and the Vuna Awards. This support took the form of technical assistance as well as tailored investments.

Preparations for the 2010 Soccer World Cup formed a central theme of discussions with government officials and a long-term plan of action in this respect is being implemented. The Bank's support to this venture includes undertaking capacity audits of the host cities and impact assessments of the proposed venues.

Technical support and capacity building for development

Institutional capacity constraints have rendered some municipalities incapable of carrying out their development mandate. The South Africa Operations Division, in conjunction with the DBSA Development Fund, has therefore increased its technical support to clients, focusing on capacity building. Technical assistance is regarded as an integral part of the comprehensive development package, aimed at giving the client the capacity to deliver a satisfactory and sustainable service. Technical assistance grants have funded project design, institutional capacity, feasibility studies, information sharing sessions and strategic planning, among other activities. In 2004/05,



the Division approved new technical assistance interventions to the value of R18,2 million.

Strategic partnerships and alignment

Securing and managing strategic partnerships is a critical element in the development agenda. In the year under review, the Division entered into strategic partnerships with the Gauteng Tourism Authority, the Coega Development Corporation, the Umsobomvu Youth Fund and SAFA. It also entered uncharted waters with initiatives such as urban housing in Gauteng, the My Acre of Africa project in Limpopo, and FRANDEVCO in the Western Cape. Such diverse partnerships resulted from a strategy aimed at catalysing infrastructure development across a broad front.

As far as strategic partnerships with clients and regulating authorities in South Africa are concerned, alignment with the strategic initiatives and planning priorities in the areas of operation is extremely important. The Division paid particular attention to the provincial growth and development strategies and the municipal integrated development plans. In order to appreciate the larger picture of development in each province, an attempt was made to determine the focus of the provincial strategies, quantify their deliverables, contextualise them in the evolving intergovernmental system, and institutionalise their objectives. This allowed technical and investment support to be tailored to provincial and national priorities.

Clients in distress

During the year under review, the Workout Unit continued to assist municipalities in financial distress. Several loan restructuring packages were prepared for such clients, leading to total recoveries of R145 million. Work also started on resolving the problems of defaulting clients transferred from the International Investments and Corporate Finance Units. The Workout Unit continued to work closely with the DBSA Development Fund in providing technical assistance for capacity building to a number of struggling municipalities that had defaulted or showed warning signs of doing so.

Natural disasters and social responsibility

There were several natural disasters during the year, and the Division lent a helping hand to municipalities in alleviating the urgent needs of displaced and affected communities. The Division made various donations for humanitarian assistance, and held discussions with the relevant authorities on disaster management and planning, as well as long-term urban development and housing initiatives. Such initiatives are seen as critical to providing our communities with secure, safe living conditions.

The challenges ahead

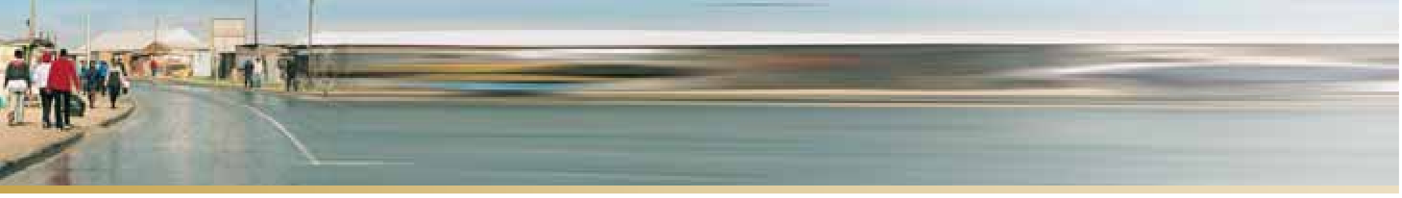
Accelerating service delivery remains at the heart of government policy, and municipalities are expected to continue playing the leading role in this regard. Service delivery can be improved through Project Consolidate, which offers support and capacity building measures, and through giving local governments the competence to spend the municipal infrastructure grant. However, this grant is ring-fenced to fund infrastructure for basic services, and it will require creative efforts on the part of government and the Bank to package projects and leverage this finance. The Division is already doing this through TIP and its normal investment loans. There is a critical need to balance economic and social infrastructure.

Legislative reforms will have a bearing on the Division's business model. The Municipal Property Rates Act, No. 6 of 2004, is intended to standardise property taxation and expand the tax net. The revenue base of the municipalities will increase, and so should their credit ratings and the resources at their disposal to accelerate service delivery. Against this backdrop, the Division will continue to advise municipalities on investment partners and other aspects of infrastructure development.

The ring-fencing of the revenue stream as collateral is part of the Division's business and also a best practice in lending operations. In the local government sector, the practice is enforced by the Municipal Finance Management Act, No. 56 of 2003. Until now, the Business Units in the Division have been ring-fencing the Regional Services Council (RSC) levies as collateral. The phasing out of these levies without matching grants will put pressure on municipal fiscal systems and revenue bases, and hence on their ability to meet their financial commitments. The Division is well positioned to deal with these problems.

With the Soccer World Cup on the horizon, the creation and revitalisation of infrastructure is critical. The Division is readying itself to meet the challenge of planning, funding and project managing large-scale infrastructure investments. Its commitment to the event is reflected in the Memorandum of Understanding signed with SAFA.

The forthcoming municipal elections will pose specific challenges for the Bank and service delivery agents. While pressures to deliver services can be expected to increase, local governments may also feel less able to make long-term commitments. In this uncertain context, it will be the Division's task to ensure that development momentum is maintained.



Private Sector and International Investments

Executive Manager: Lewis M Musasike

Strategic overview

Nature of business

The Bank's Private Sector and International Investments Division comprises three Business Units, namely, Corporate Finance, Project Finance (South Africa) and International Finance. The Corporate Finance Unit is the Bank's window for providing financial support to broad-based BEE transactions, and for investing in third-party funds, especially private equity funds. It operates only in South Africa. The Project Finance Unit also operates only in South Africa and provides financial support to project finance and public-private sector transactions (commonly known as PPPs). Finally, the International Finance Unit is the Bank's window for all its investments and lending activities in the SADC region outside South Africa. The SADC operations are limited to one third of the Bank's total investment and lending operations.

Vision and strategy

Operating within the overall mandate and vision of the Bank, the Division focuses on commercially viable and sustainable transactions and activities, which lead to economic growth and poverty alleviation. Its operations therefore play a leading role in enhancing the financial strength of the Bank and its ability to fulfil its socio-economic mandate successfully. This business strategy, which was implemented as from 1 April 2005, is part of the broader divisionalisation of the Bank approved by the Board of Directors in November 2004.

In preparation for this change of business focus, the Division completed a review of its BEE and SADC strategies, which were both approved by the Board during the past year. In brief, the BEE strategy clarified the operational requirements of the Bank's engagement in this important national imperative, but within the broadly defined infrastructure mandate. In a unique partnership with the PPP Unit of the National Treasury, the Project Finance Unit established a framework within which the Bank will fund the BEE portion in PPPs, in addition to its normal project financing. The first project in which this principle will be tested is the new head office for the Department of Foreign Affairs. With respect to the SADC strategy, the Bank identified the sectors which drive the economic growth and development of the target countries and in which the Bank (through its International Finance Unit) is well positioned to play a catalytic and developmental role, thus furthering the organisation's overall vision of an empowered and integrated region, free of poverty, inequity and dependency. To this end, the International Finance Unit has been focusing on those countries where the Bank has a competitive advantage and where its financial and non-financial resources will have the maximum development impact. These are also countries where there is an increasingly enabling environment, where national priorities are clearly defined and where government is strongly committed to poverty alleviation and economic development.

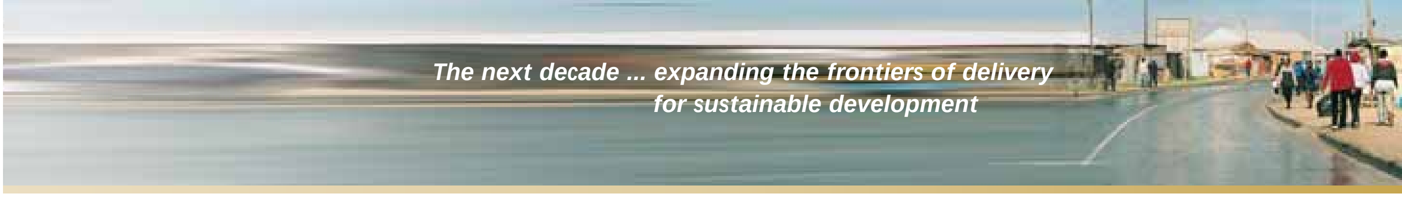
The shift to a profit-centred approach in the Division's business necessitated a review of its skills and competencies; the organisational set-up and its effectiveness; performance measurement criteria; risk policies and limits; and products and services. With respect to the latter, the Division will increasingly use equity and equity-related instruments to promote economic development and benefit from the commercial returns associated with this financing strategy.

Business environment

In South Africa, BEE transactions remained the key driver of corporate activity, as the government extended empowerment to all those sectors that are central to transforming the society. The sector empowerment charters that touch directly on the role of the Bank are those concerning financial services, energy, mining, ICT, tourism, and transport.

With respect to private equity investments, the Bank suspended new investments pending a review of the development effectiveness of this asset class. The Bank has already begun to influence the investment strategies of the fund managers through its representation on the funds that it has invested in and its partnerships with other development institutions that have substantial exposure to this asset class. As the finalisation of the empowerment charter for the private equity and venture capital industry is awaited in 2005, it is becoming more apparent that the industry has evolved into one of the primary funding sources for empowerment transactions. The local private equity industry is continuing to see high levels of activity across all fronts, outpacing the growth being experienced in other international private equity markets.

For the year under review, there was a slowdown in project financing activities. By its nature, this business is associated with long delays in designing and packaging bankable projects, raising the appropriate financing, and negotiating the legal documentation. On the positive side, the National



Treasury through its PPP Unit published a set of guidelines to facilitate the implementation of PPP projects in the broader government sphere. In this regard, it is encouraging to witness an increase in potential transactions that could be done on a project finance and PPP basis. With the implementation of the financial services charter, which requires private sector banks to fund infrastructure and expand affordable banking services to the under-banked, the competitive landscape could become even more challenging. However, as a result of its capacity to absorb many different risks and mobilise third-party participation, the Bank, through its Project Finance Unit, is well positioned to expand its support to a whole range of PPPs in the public sector.

In the rest of the SADC region, the operating environment is progressively turning positive as peace, stability and good governance take hold in a number of countries. The implementation of economic reforms required for countries to reach decision points under the Heavily Indebted Poor Countries (HIPC) Programme has encouraged the privatisation and commercialisation of state-owned enterprises, thus creating a positive platform for the International Finance Unit to provide financial support. In addition, the NEPAD initiative is helping African countries to focus and redirect their energies towards projects and programmes that promote economic growth and development. The International Finance Unit together with the Africa Partnerships Unit of the Bank has identified projects and programmes that promote regional integration as championed by NEPAD. These initiatives are in areas such as energy, telecommunications, tourism and transport.

Notwithstanding these positive developments, there are challenges to overcome, including weak institutional capacity of implementing agencies and governments, evolving legal environments, unstable currencies, and weak financial and banking systems. In addition, the weakening of the US dollar during most of the year negatively affected the volume of business when reported in rand. For these and other reasons, the International Finance Unit will actively leverage its strategic relationships with other development finance institutions and private sector banks, and promote the development of capital markets. The increasing role of the Bank in arranging, syndicating and underwriting transactions is predicated on these strengths.

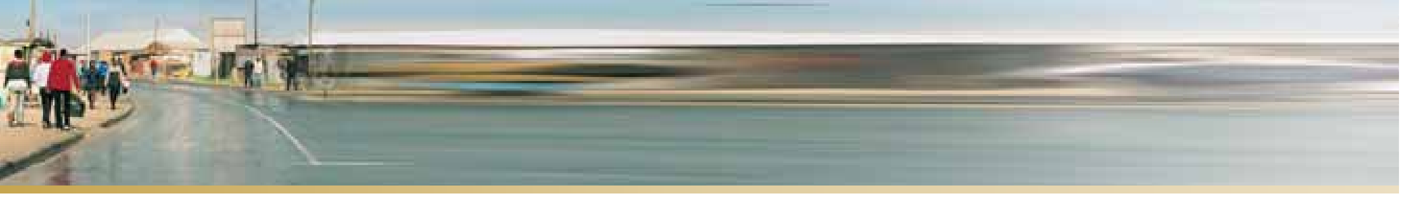
An important area worth mentioning in the context of a challenging operating environment has been the unsatisfactory performance of the investments and loans of the Division. While no defaults were recorded in the Project Finance Unit, certain investments and loans in the Corporate Finance and International Finance Units with loan book values of R121 million and R246,6 million were classified as non-performing (the details are fully disclosed in the financial section of this report). In accordance with the emphasis on portfolio management created at the corporate level, the Division will also allocate appropriate resources to this function.

Overview of operations

From an operational perspective, the Division performed well in the past year, considering the targets and conditions in the operating environment. With total loan and equity approvals of R1,0 billion, the Division met the target set for the year and exceeded the previous year's figure of R0,9 billion. Commitments reached R1,7 billion, against a target of R1 billion and a previous figure of R307 million. In terms of disbursements, the Division achieved a level of R1,6 billion, against a target of R1 billion and an actual of R0,9 billion the previous year. The approvals, commitments and disbursements represented about 26, 48 and 53 per cent respectively of the Bank's achievements for the year. The total investment to date in the SADC region (excluding South Africa) amounts to R8,8 billion. Details of these operational results for each Business Unit are outlined below.

The *Corporate Finance Unit* achieved approvals of R0,4 billion; commitments of R0,3 billion; and disbursements of R0,4 billion. Two highlights in the period under review can be mentioned. Firstly, the Bank invested R0,2 billion in a ground-breaking R0,9 billion platinum expansion project, allowing a broad-based BEE consortium led by Savannah Resources to acquire a 29 per cent shareholding in Aquarius Platinum South Africa (AQPSA), the fifth largest platinum producer in the world. Secondly, the Bank provided financing of R94 million to enable two BEE companies and a broad-based BEE Trust to acquire a 60 per cent equity stake in a new hotel development (One and Only Hotel) at the V&A Waterfront. With the Bank's exit, the BEE stake in the hotel will increase to 80 per cent.

The *Project Finance Unit* operated below its potential, in line with the difficult operating environment outlined above. It achieved approvals of R0,1 billion; commitments of R47 million; and disbursements of R65 million. Its approvals were spread between housing and property development, agro-industry and tourism.



The *International Finance Unit* achieved approvals of R0,5 billion; commitments of R1,4 billion; and disbursements of R1,1 billion. The approvals were mainly in the energy, agro-industry, financial services, and industrial sectors, and they were spread among six of the 13 SADC countries. Of the total approvals, 63 per cent were for the public sector and 37 per cent for the private sector. For the first time, the Bank approved a loan in the Democratic Republic of Congo, for an amount of US$13 million or R81 million. This loan to the power utility SNEL is for a pilot prepayment meter project, whose objective is to rehabilitate and stabilise the distribution network in Kinshasa and increase consumer access to reliable electricity. The Bank also approved a loan to ZESCO, a power utility which is undergoing commercialisation. The loan of US$21 million or R131 million will go towards upgrading income-generating assets, reducing distribution system losses and improving revenue collection through the implementation of prepayment meters. One noteworthy partnership is the co-financing of the rehabilitation and expansion of Tanzania's Mufindi Paper Mill with the East African Development Bank, to which the DBSA has previously provided capacity building and support. The total cost of the project was US$65,88 million, and the DBSA and the East African Development Bank contributed US$9,5 million and US$7 million, respectively.

Prospects for the coming year

During the coming year, corporate activity will largely be driven by BEE transactions, while PPP driven business is on the increase as the various spheres of government, including state-owned enterprises, step up capital expenditure programmes to accelerate delivery. Internationally, the newly approved regional strategy is expected to allow the Bank to expand its operations. The Division will also take advantage of projects identified by NEPAD.

From an organisational standpoint, the Division will fill the existing vacancies and strengthen its capacity to deliver on its vision and strategy.

Strategic Initiatives

Executive Manager: De Villiers Botha

In April 2003, the Chief Executive Officer implemented an extensive restructuring of the organisation. This restructuring reflected Vision 2014 and, among other things, specifically created an enabling mechanism for the Bank to deal more systematically and cleanly with organisational change through the creation of the Strategic Initiatives Cluster.

The Cluster houses the following Units or functions:

- Strategic Projects
- Agencies
- Corporate Communications and Marketing
- Change Management
- Portfolio Management

Strategic Projects

After an analysis of how the desired state of the organisation is influenced by its values, culture and climate, a number of strategic projects were initiated to prepare the organisation for changes required to achieve its Vision 2014 goals and objectives.

The following programmes and projects were coordinated by the Strategic Project Office:

- Change Management Programme
- Business Process Management Programme
- Business Intelligence Programme
- Comparative Review: Soccer Bid 2010
- Comparative review of potential host cities for the 2010 Soccer World Cup
- Data quality assessment
- Quality management gap analysis
- Local Government Resource Centre
- Development of a social accounting matrix for SADC countries

The first four projects listed above are described in detail in the accompanying report on Activities of 2004/05.

The establishment of a Project Office to coordinate strategic projects accelerated delivery on high priority initiatives. The project management processes and methodologies adopted by the Project Office were benchmarked against best practice and proved to be in line with those applied by leaders in the project management market.

Agencies

The Bank, being acutely aware of the capacity constraints on implementing and managing development projects, has established an agency services programme to assist local and international development and funding agencies. The Agencies Unit acts on behalf of these bodies in planning, programming and implementing development initiatives. Such assistance is usually rendered in South Africa and the SADC region, and elsewhere on the continent for certain initiatives related to NEPAD. The Bank is currently involved in about 31 agency projects, which are very diverse in nature (details of these are contained in the accompanying report on DBSA Activities of 2004/05). The services rendered range from simple management and administration of funding to the provision of comprehensive project management, as in the case of the voluntary counselling and testing facilities funded by KfW.

In support of this work, the Bank provides its extensive corporate infrastructure and development knowledge base; and, as far as good corporate governance is concerned, its policies and procedures.

The services offered are flexible and include the following:

- Policy research and development
- Studies and appraisals
- Planning and programming
- Programme and project management
- Funding and disbursements management
- Budgeting, accounting and treasury services
- Logistics, procurement and contracting services
- Corporate services, such as human resources management

The Bank charges a fee ranging from about 2 per cent to 10 per cent, depending on the nature of the services rendered. The fees and recovery of costs charges are not "standardised" and are usually negotiated according to the unique requirements of each project.

Corporate Communications and Marketing

In the year under review, the Corporate Communications and Marketing Unit focused strongly on marketing the organisation through extensive advertising and media campaigns. Several media workshops were held where Bank staff were sensitised to marketing skills, and the Unit initiated a great number of radio, magazine and newspaper advertisements.

The Bank received extensive coverage in both the electronic and print media, for events such as the launch of the Annual Report, launches of the Disaster Relief Fund in KwaZulu-Natal and the Western Cape, Knowledge Management Week and Knowledge Management Africa.

Another strong focus was relationship building, which was addressed through hospitality packages, corporate memberships, sponsorships and frequent donations managed by the Unit.

The Unit was restructured during the year, with a renewed focus on improving the Bank's marketing, internal and external communication.

Change Management

Over the past year, the Bank has strengthened its capacity to manage internal transformation. It has adopted a more comprehensive and integrated approach to strategic, operational and people management processes. A coherent and tightly managed change management programme was implemented, broken up into interrelated projects on leadership development, performance culture, innovation and entrepreneurship, communication and business processes. All these changes are centred on and informed by the corporate strategy.

For the new financial year, change leadership, innovation and entrepreneurship, culture change and performance management at all levels have been prioritised in order to support strategic and operational changes that the Bank is making to improve its development impact.

Portfolio Management

In December 2004, executive management decided to establish a dedicated Portfolio Management Unit to advise on the direction and shape the portfolio needs to take if the long-term vision of the Bank is to be achieved and the shareholder's demands satisfied. As from 1 April 2005, and working in close cooperation with other role players, the Unit will analyse the size and composition of the Bank's aggregated lending and investment portfolio and review the performance of assets on the Bank's loan, equity and guarantee books.

The Portfolio Management Unit will continuously evaluate the level of risk embedded in the assets of the Bank's total portfolio; establish the portfolio returns and performance in both financial and development impact terms; determine the historical trends by sector, province and country; and assess the impact of each project on returns before it is admitted to the portfolio. By considering the impact of each investment decision on the portfolio, the Unit will gain a clearer understanding of the funding requirements for an individual transaction, focusing not only on that specific transaction but taking into account the risk profile of the Bank's entire portfolio.

The Unit will also be required to set up the asset management systems in the Operations Divisions and selected Units; and to develop portfolio management processes and systems, strategies and policies, and reporting mechanisms within the Bank. Regarding sectors or industries, the Unit will follow developments in the sector, consider the impact on the portfolio, and help to formulate strategies for reducing risk where sector or individual exposure is regarded as inappropriate.

Treasury

Executive Manager: Disebo Moephuli

During the year under review, the Treasury Division embarked on the implementation of both Treasury management and Asset and Liability management systems, under the auspices of SunGard Treasury Systems. Both systems should go live in the second quarter of the 2005/06 financial year. The successful implementation of these systems will enable the Division and the Bank as a whole to improve reporting and market risk management and to implement funds transfer pricing fully, in line with the divisionalisation model.

Market conditions

The year was characterised by robust economic growth, a more subdued pace in the appreciation of the rand, and a continued fall in the rate of inflation. Supported by strong consumer and business confidence, as well as a pickup in government spending, the economy grew by 3,7 per cent in the 2004 calendar year, up from 2,8 per cent in 2003. Economic growth in the five years to 2004 averaged 3,4 per cent, representing a notable improvement from the 2,6 per cent recorded for the previous five-year period.

With a stronger pace of consumer spending and business investment, it was no surprise that import growth picked up significantly, contributing to a worsening of the current account deficit. However, as the higher deficit was comfortably financed through capital inflows, it did not lead to a weakening of the rand exchange rate. The rand continued to perform well against most other currencies, although it did not strengthen as much as in the previous financial year. The rand strengthened to R/$6,24 as at 31 March 2005, from R/$6,34 on 1 April 2004.

CPIX inflation, the consumer inflation measure targeted by the South African Reserve Bank, has remained comfortably within the 3 per cent to 6 per cent target range since the last quarter of 2003. In the period under review, CPIX fell to an average of 4,1 per cent, substantially lower than the 5,6 per cent in the previous financial year.

The decline in inflation growth, a resilient currency, and a large increase in foreign exchange reserves which contributed to a rise in South Africa's credit rating, combined to motivate the Reserve Bank to lower the repo rate by another 50 basis points to 7,5 per cent in the last quarter of the review period. Bond yields moved lower accordingly. The yield on the R157 (ten-year long-term government bond) declined by 114 basis points to end the financial year at 8,6 per cent.

Project: Development Bank funding for Grace College, a new co-educational institution situated in the Hilton area outside Msunduzi, provides college/high-school education to pupils graduating from primary schools in the surrounding areas – KwaZulu-Natal

Overview of operations

Funds mobilisation

The approved borrowing programme for the financial year 2004/05 ranged between R1,0 billion and R1,5 billion. Prepayments received on some of the Bank's development loans, however, resulted in a significant reduction in the anticipated net funding requirement for the financial year. As a result new borrowings were limited to R419,5 million, in the form of drawdowns on credit lines from multilateral institutions. Of the amount drawn, the equivalent of R301,9 million was denominated in US dollar for investment in US dollar assets within the SADC region outside of South Africa, while the remainder was denominated in euro. The euro drawdowns were swapped to rand, for investment in projects within South Africa.

Total outstanding debt as at 31 March 2005 amounted to R12,1 billion, resulting in a debt to equity ratio of 103 per cent, well below the policy limit of 250 per cent.

Asset and liability management

Asset and liability management across the Bank is governed by the management policy approved by the Board and falls within the ambit of the Asset and Liability Management Committee. This Committee reports to the Audit and Finance Committee of the Board and meets periodically to assess the Bank's market risk exposure and to consider risk management strategies aimed at containing risk within acceptable levels.

Interest rate risk management

Interest rate risk is measured, monitored and managed, on both a short- and long-term basis. The Bank makes use of interest rate derivatives as well as repositioning of assets under Treasury management to adjust its interest rate risk exposure, as and when desired.

Foreign currency risk management

The Bank's foreign currency exposures are hedged, either through cross-currency swaps with approved counterparties or naturally through offsetting investments outside South Africa. Residual risk remains in the form of US dollars held in the Bank's customer foreign currency (CFC) account. These funds are held in anticipation of drawdowns on existing investment commitments.

Liquidity risk management

Liquidity management is governed by the Bank's liquidity risk policy. It is the preserve of the Bank's Asset and Liability Management Committee to adjust the liquidity bands temporarily, as and when liquidity requirements and market conditions warrant. The policy further prescribes instrument types, maximum tenors, and limits for liquidity investments, in order to ensure sufficient market liquidity of invested funds.

In addition to maintaining a minimum level of liquidity in the form of cash and tradable securities, the Bank also maintains a diverse range of alternative funding sources providing ready access to funds should the need arise. These include:

- Credit lines with reputable financial institutions
- Loan facilities with multilateral, bilateral and other development finance institutions
- Money market securities issuance under the Bank's Domestic Medium-Term Note programme
- Capital market securities issuance under the Bank's existing bond issues, to within the authorised issue amounts
- Capital market repurchase transactions

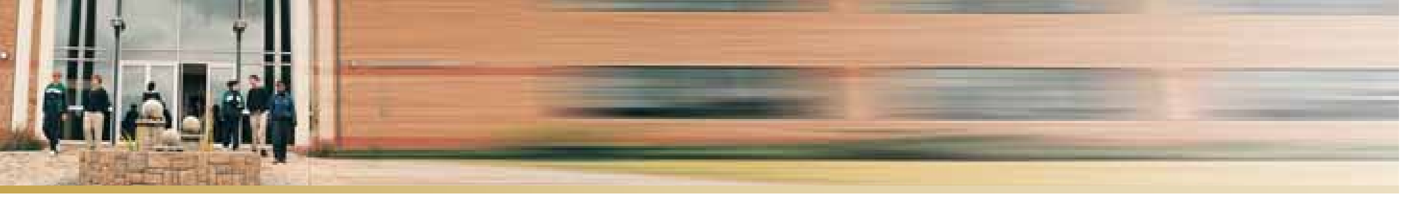
Investment and liquidity management

During 2004/05, average liquidity amounted to R1,68 billion. In line with the revised liquidity policy of the Bank, liquidity is split into operational liquidity and strategic liquidity. The latter consists of investments in longer-term assets and is aimed at reducing the cost of carry and enhancing the return on liquidity funds, whereas the operational liquidity pool is primarily invested in cash and near-cash assets for management of the Bank's short-term cash requirements. At financial year-end, the total liquidity amounted to R1,8 billion.

As at 31 March 2005, the Bank's portfolio of government bonds consisted of investments (in nominal terms) in the R152 (R687,1 million), R194 (R790,3 million), R153 (R658,4 million) and R157 (R836,7 million).

Credit ratings

In January 2005, Moody's Investors Service upgraded the Bank's long-term foreign currency credit rating from Baa2 to Baa1, in line with that of the country. The Bank maintained its credit rating from Standard and Poor's of BBB (long-term) and A-3 (short-term) for foreign currency debt, and A (long-term) and A-1 (short-term) for local currency debt, with a stable outlook. Fitch IBCA also affirmed the Bank's AAA (long-term) and F1+ (short-term) local currency ratings, with a stable outlook. These ratings are equivalent to those of the Republic of South Africa.



Corporate Finance and Administration

Chief Financial Officer: Joyce Matlala

Overview of operations

Financial Management

The Financial Management Unit focuses on designing, maintaining and implementing sound financial processes and controls, and on ensuring full compliance with accounting and relevant regulatory requirements. Its main functions are financial administration; financial accounting and reporting; management accounting and budgeting; financial modelling; tax compliance and advice; processing of payroll-related transactions; and accreditation and payment of service providers.

During the past year the Unit, in partnership with the Corporate Strategy Unit, successfully implemented a financial model to assist in strategic analysis by quantifying the impacts of a variety of strategic business scenarios.

In the coming year, the Unit will remain focused on supporting the strategic directives of the Bank through the provision of its enabling services. This will be achieved by constantly improving the efficiency of its service delivery, while promoting greater awareness of the principles and practices of good financial discipline and control.

Contracts Administration

The Unit is tasked with administrating, controlling and reporting on the loan assets of the Bank and the financial affairs of the agencies. Its primary responsibility is to ensure that the disbursements made, interest raised and repayments received are in accordance with the approved loan agreements.

During the year under review, the Unit administered disbursements totalling R3,0 billion and repayments received totalling R4,0 billion (including capital and interest). The total gross development loan book as at 31 March 2005 was R16,3 billion. The impairment calculation in terms of AC133 for the loan book is also done by the Unit.

The Unit is also responsible for financial administration and reporting on the agencies administered by the Bank on behalf of third parties. There were 31 agencies as at 31 March 2005.

Information Technology

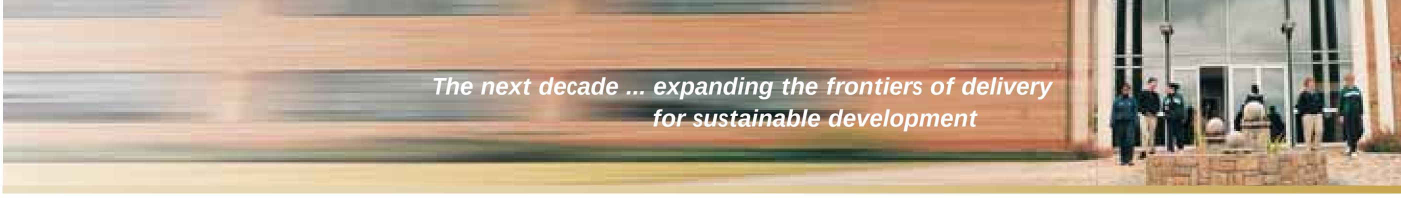
A review of the Bank's information technology (IT) strategy is under way and will be completed early in the new financial year. The new strategy is designed to achieve greater synergy with the Bank's business needs, by aligning the business process and IT architectures and synchronising them with the overall business strategy. The three cornerstone delivery principles of the new strategy are to provide IT architecture that is cost-effective, efficient, and agile enough to respond quickly to changes required in support of Vision 2014.

From an operational perspective, the focus over the past year was on IT governance and security, as there were considerably more security threats this year in the form of viruses and other malware. More than 60 per cent of the Bank's incoming email is eliminated by our Internet service provider before it arrives internally, as it consists of spam and other unsolicited mail or contains viruses. Another area that received attention was compliance with the raft of new legislation that has appeared over the past two to three years.

The Unit defined a new business intelligence/ management information strategy, based on a common virtual data warehouse, and the first phase of this was completed during the year. The virtual data warehouse and an associated meta data repository are now being developed further, with the focus on individual subject-specific requirements to support decision-making in identified areas of the business.

Considerable progress was made on rolling out the Local Government Network (LGNet), with an additional 92 sites connected over the past year, bringing the total to 142. The services that the Unit continues to offer to local authorities via LGNet include email, Internet access, collaboration/instant messaging, and of course access to the Local Government Resource Centre portal. This strategically important project is being carried out in partnership with the South African Local Government Association and the Department of Provincial and Local Government, which will improve its sustainability. The Unit is also working very closely with the Department on Project Consolidate, which should produce a marked increase in the number of local authorities connected to LGNet.

Other significant IT initiatives now under way include the implementation of a new Treasury system, which is scheduled for completion early in the new financial year, and an investigation into the downsizing and replacement of the Human Resource system. During the year, existing buildings on the Bank's property were extensively renovated, and a new auditorium and training facilities were



constructed. This necessitated extensive redesigning and upgrading of the internal network to provide for the additional capacity requirements.

Risk Management

The Unit develops and refines risk management policies, procedures and methodologies, reviews risk exposures and reports to the Board on risk-related matters. Importantly, it is required to provide an independent and objective opinion on risks arising from loan applications.

In the past year, the Unit continued to support the Bank in managing its significant risk exposures. Risk reports provided to the Board of Directors and the Board's Audit and Credit Committees added value to those bodies in meeting their risk management responsibilities.

The Unit continued to champion the implementation of the Bank's enterprise-wide risk management framework. A risk strategy was approved by the Board of Directors. In addition, an operational risk management framework was approved for implementation. The Unit has been working closely with the Group Compliance Function to improve the management of compliance risk and reputational risk exposures.

The Bank's internally developed credit rating methodologies, validated by an external credit rating agency in the previous year, continue to be refined. The Unit has ensured that business continuity management receives the strategic attention it requires.

The Bank's limit structures were reviewed and limits in respect of investment in equity/quasi-equity updated. Country limits were revised following a thorough review of the economic, political and legal frameworks of each country.

The Risk Management Unit contributed to capacity building by providing clients with risk management training during the past year. An introductory training manual developed in the previous year is currently being vetted for accreditation. The Unit played a leading role in offering training to officials of SADC development finance institutions, and presented a paper at the Multilateral Development Banking Risk Forum.

Overview of financial results

The Bank has seen a shift in the levels of profitability, attributable to its strategy to step up delivery against its mandate and accelerate its development impact. This strategy has challenged the Bank to invert the conventional financial risk and reward relationship and leverage its strong financial position to achieve its targeted development impact. However, the Bank is confident that it has the financial flexibility to absorb loan risks and fluctuations in investment income.

The projected financial results for the next five years indicate that the Bank will remain financially sustainable. The following are some of the highlights of the financial results for the year under review.

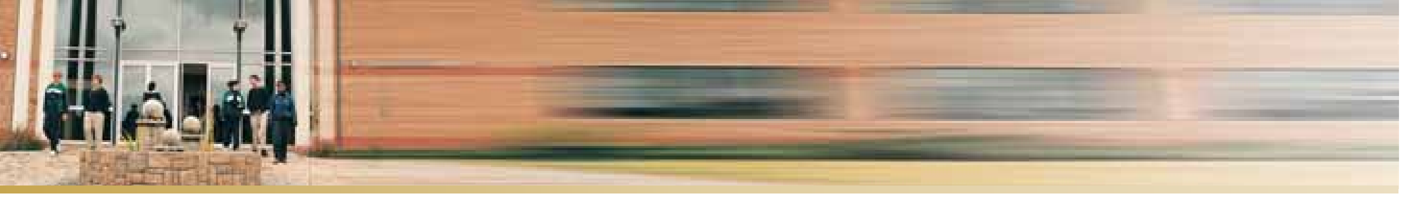
Surplus from operations

The surplus generated from operations before revaluation or foreign exchange adjustments decreased to R694 million, which represents a decrease of 39,5 per cent on 2003/04. This was mainly due to the following factors:

- Net interest income decreased by 12,1 per cent from R1,43 billion to R1,26 billion. Interest income decreased by R213 million (8,4 per cent), mainly as a result of the effect of the low interest rate environment. The impact of this on the net interest income was reduced by the decrease of R39 million (3,6 per cent) in the cost of funding.
- There was an increase, year on year, in the impairment charge to the income statement of R306 million, arising from an increase in the non-performing development loans requiring specific impairment adjustments.
- Other income increased by R66,8 million.
- Operating expenses increased by 10,5 per cent from R382 million to R422 million, mainly due to an increase in general and administration costs of 29 per cent (R29,5 million). This was mainly as a result of increases in public relations activities, which were 73 per cent up on the previous year (R8,8 million); data processing costs, 44 per cent up (R8,7 million); printing and publishing costs, 176 per cent up (R3,5 million); and subsistence and travel costs, 12 per cent up (R1,9 million).
- Technical assistance grants increased to R31,4 million, which included sponsorship of the Vuna Awards and an additional amount of R3,2 million of grants funded from the Chief Executive's Corporate Social Responsibility Fund.

Surplus for the year

The surplus for the year comprises the surplus from operations after taking into account revaluation adjustments on derivative financial instruments, and foreign assets and liabilities. The surplus for the year decreased by 21,0 per cent from R763 million to R604 million.



Derivative financial instruments are used to hedge against adverse movements in interest and exchange rates. Although the net result of the differences on the revaluations should approximate the costs of hedging strategies undertaken over the life of the underlying loan, fluctuations from year to year are expected. The extent of these fluctuations is dependent on market conditions and movement from both the local and international environment, and therefore cannot be quantified accurately.

Unrealised profits and losses resulting from revaluation adjustments made in terms of the accounting policies for derivative financial instruments and foreign loans have had a significant impact on the financial results. There was an unrealised gain of R27 million in respect of the revaluation of financial instruments for the current financial year, compared to a loss of R24 million in the previous year. In addition, an unrealised foreign exchange loss of R118 million was reported for the current period, compared with a loss of R60 million in the previous financial year. The above revaluation adjustments have resulted in a net decrease in profits of R6 million compared to the previous year.

The ratio of operating costs to operating income increased from 26,4 per cent to 41,2 per cent, which is mainly due to the decrease of R420 million in operating income (29 per cent). Operating costs only increased by R40 million (10,5 per cent), despite the increased demands arising from various strategic initiatives undertaken during the year under review.

Assets

Total assets increased from R23,7 billion to R24,8 billion, and the return on average assets declined from 3,2 per cent to 2,4 per cent. The return on assets was lower mainly because the surplus was R160 million less than in the previous year (20,1 per cent).

Financial market assets increased by R474 million (8,3 per cent). The increase is mainly attributable to:

- The increase in the held-to-maturity portfolio (11,8 per cent) as a result of the increased investment in government bonds (R194) of R423 million and an investment in City of Johannesburg municipal bonds of R250 million
- An increase in the hedging instruments (6,2 per cent) as a result of fair value adjustments on the positive fair value hedges resulting from the decline in interest rates over the year
- A decrease in the available-for-sale portfolio (-5,7 per cent) as a result of the maturing of the R151 bonds held in this portfolio

The weighted average interest rate per year on development loans increased from 10,8 per cent to 11,8 per cent. The total book debt of loans considered to be irrecoverable increased from R0,8 billion at 31 March 2004 (4,7 per cent of total loan book debt) to R1 billion at 31 March 2005 (6,2 per cent of total loan book debt).

The total loan impairment (including the reserve for general loan risks) increased from 6,6 per cent of the total loan book debt as at 31 March 2004 to 8,2 per cent as at 31 March 2005. The impairment on loans considered to be irrecoverable increased from R497 million (3,1 per cent of the total loan book debt as at 31 March 2004) to R796 million (4,9 per cent) as at 31 March 2005. The reserve for general loan risks decreased from R557 million to R555 million.

The increase in the total loan impairment as a percentage of total book debt is mainly due to four new borrowers that have moved into the non-performing category (total book debt of R268 million) and to total book debt for the year having increased by only R354 million.

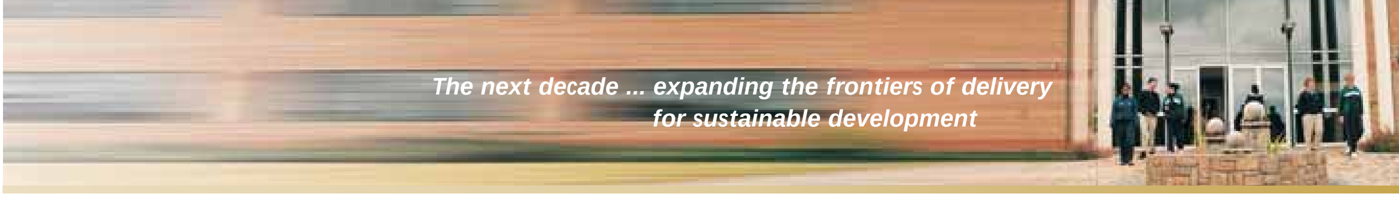
The net increase in development investments was R435 million. This was mainly due to the acquisition of three new investments at a cost of R290 million and to a further R101 million disbursed against approvals for existing investments. The downward fair value adjustments arose from a decrease in the underlying values of the investments and are calculated as the difference between the net asset value and the cost of the investment.

Liabilities

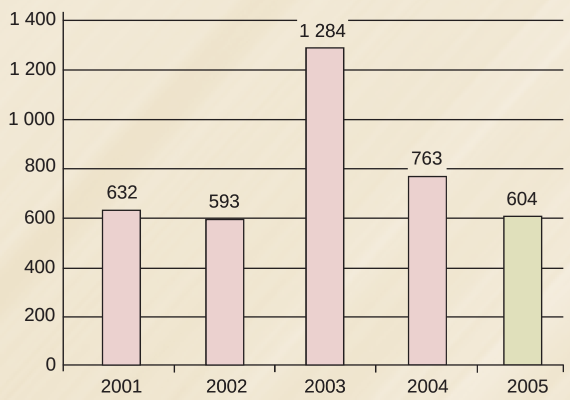
Total liabilities increased by R398 million. This is attributable to an increase of R460 million in financial market liabilities, mainly as a result of the adjustment of the carrying value of local hedged items.

Accounting policies

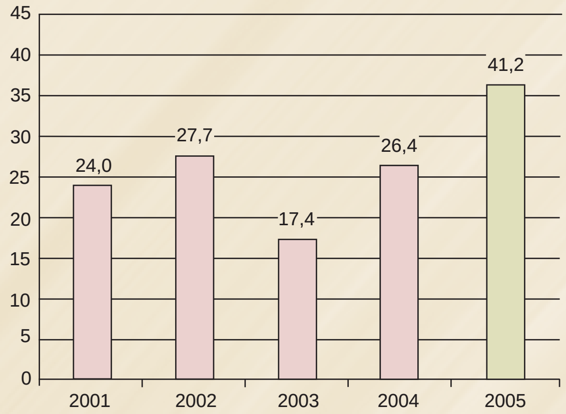
All accounting policies have remained consistent with the previous year.



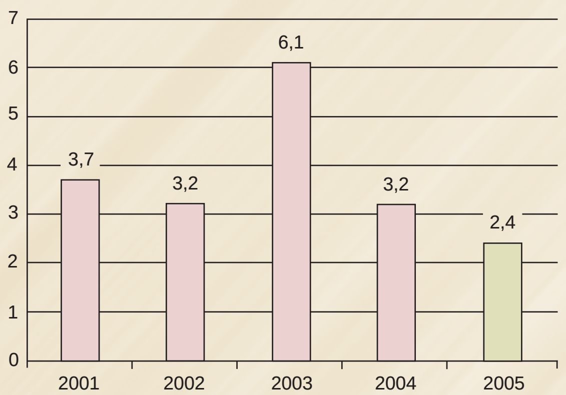
Surplus for the year (R million)



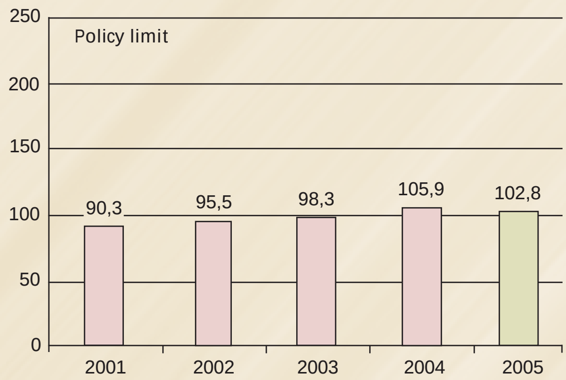
Operating costs to income (%)



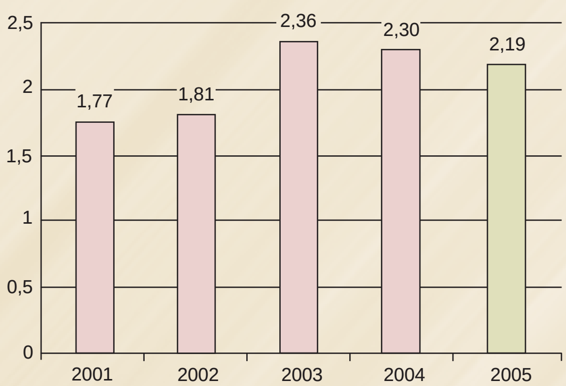
Return on assets (%)



Long-term debt to equity (%)



Interest cover



Knowledge Management overview

Executive Manager: Snowy Khoza

The Knowledge Management Division supports the Development Bank's strategic thrust of becoming an advanced knowledge-based organisation. It facilitates an environment in which a culture of knowledge can flourish, while also ensuring the recruitment and retention of appropriately qualified staff members. The activities of the Division are organised around the knowledge management strategy, which sets out the vision and processes for the achievement of knowledge management across the organisation as a whole. The Division aims to coordinate the production of knowledge throughout the Bank, in support of the greater goal of increasing the development impact of its activities.

Focusing on development research

The main external arm of the Division is the Policy Research Unit, which provides policy research, analysis and advice to a range of external and internal partners and stakeholders. In this process, the Unit establishes partnerships with external research and analysis capacities.

Through the Policy Research Unit, and in partnership with the UNDP and the HSRC, the Bank hosted and funded a conference on "Overcoming underdevelopment in South Africa's second economy" in October 2004. The conference increased awareness on the persistence of underdevelopment and the "dual economy" and assisted in identifying practical solutions to redress the marginalisation of those trapped in the "second economy". These ideas are explored further in the Bank's 2005 *Development Report*, which suggests various pathways out of underdevelopment and establishes a basis for further research.

In addition, the Bank in partnership with iIndigenous Knowledge Systems of South Africa Trust (iIKSSA), African Renaissance of Southern Africa and the Indigenous Knowledge Systems Unit of the University of Zululand hosted a workshop on the management of African indigenous knowledge systems on 24–25 February 2004. Participants from across the SADC region discussed best practice in the application of African indigenous knowledge systems in development, as well as the establishment of a continental Indigenous Knowledge (IK) Network and partnerships among African scholars and practitioners. A key factor in the sustained growth and development of the continent will be its capacity to make efficient and effective use of knowledge resources for the betterment of its own communities.

The Policy Research Unit also contributed to research capacity building, for instance by steering the SADC Agricultural Potential and Regional Trade Information System (SADC – APIS Phase IV), which was approved by the SADC Council of Ministers. The long-term vision of the project is to train SADC

Project: The DBSA Vulindlela Academy was established to provide training to staff within the Bank, municipalities in South Africa, and ultimately clients and partners in the SADC region, especially other development finance institutions – Gauteng nationals in furthering research and to build institutional capacity at country level. In its implementation, postgraduate students were drawn from SADC government ministries, and national skills development and geographic information systems (GIS) have been prioritised.

During the year under review, the Unit published four issues of the *South African Rural Development Quarterly*, an overview of current issues in rural development, as well as 12 issues of the *Rural Monitor*, which assesses media coverage of rural issues. The Unit also held eight Development Dialogues, encouraging debate on key issues of national policy, such as the impact of the national budget on the Bank's clients, the State of the Nation address, pertinent international reports, etc. The Unit participated in 35 external policy initiatives, such as government task teams at national, provincial and local level; and prepared six external and 21 internal policy papers.

In partnership with other institutions, the Bank contributed to several programmes. The DBSA/Old Mutual Local Investment Agency (LIA) initiative aims at accelerating local investment in poverty-stricken areas that exhibit latent economic potential through strategic investment in high-potential projects. The Tourism Route Investment Programme is a joint assignment with the Department of Environmental Affairs and Tourism, which aims to prepare investment frameworks on priority tourism routes in South Africa. The Policy Research Unit represented the Bank on the AU/NEPAD Working Committee for preparing a tourism action plan for Africa. The action plan has been adopted by the AU.

Research into the key areas of macroeconomic development, human development, governance and finance, and infrastructure development culminated in the publication of three articles in refereed publications, as well as ten papers presented at national and international conferences.

Providing development information

The Knowledge Management Division plays a significant role in providing socio-economic and infrastructure-related data and information products and services to inform the development planning and decision-making processes in South Africa at national, provincial and municipal level. During the year, the Development Information Unit in the Division published a new series of *Provincial Socio-economic Profiles*, which reports on access to basic household services, as well as a report on poverty.

The Municipal Statistical Infrastructure Review: 1996 and 2001 highlights the progress made in delivering household infrastructure at national, provincial and municipal level. This comparative data on access to household services, including housing, water, sanitation, electricity, telecommunications and refuse removal, will allow national, provincial and local governments and development agencies to assess their interventions against a statistical backdrop and chart a way forward on the basis of solid evidence.

The Quantification of Poverty in South Africa: An Inter-regional Profile describes poverty on an inter-regional level from a quantitative perspective. It neither analyses the causes and dynamics of poverty nor makes recommendations for action. The report shows changes in the level of poverty on a national, provincial and municipal scale. To provide a clear picture of the level of deprivation of the people in an area, a composite index was calculated, incorporating not only the percentage of households with an income below the poverty line but also the percentage of households without access to basic services. The report shows that the level of poverty is deepening despite the significant increase in per capita and per household income in South Africa.

The new *Provincial Socio-economic Profiles* cover all the social and economic indicators related to major development issues such as population growth (with and without the impact of HIV/Aids), economic growth rates, unemployment levels and household infrastructure delivery, along with the magnitude of household infrastructure backlogs.

The SADC section of the Development Information Unit developed new SADC *Country Perspectives* and DBSA *Country Development* Strategies for the Democratic Republic of Congo, Madagascar and Zambia. The *Country Perspectives* of Angola, Botswana, Malawi, Mauritius, Mozambique, Namibia and Tanzania were updated.

Providing advisory services

During the past year, the bulk of the Specialist Unit's services were directed at ensuring best practice and building the capacity of internal and external clients by offering project appraisals; developing policy and strategy; preparing guidelines for the appraisal of infrastructure projects, taking in cross-cutting issues like the environment and community participation; and publishing and presenting papers at conferences. In the course of the year, the Specialist Unit was renamed the Specialist Advisory Unit, registering the need for a renewed focus on this aspect. Accordingly, the development of a framework for offering advisory services is planned for the forthcoming financial year, as is the implementation of the strategic framework for the Bank's non-lending products and services approved during the past year.

The Unit offered advice on best practice in aspects of sustainable socio-economic development, and contributed to 54 project appraisals and six project and programme evaluations for the Bank's Private Sector Investments and Operations Units. It promoted and coordinated the sharing and extension of development knowledge through six Community of Practice forums. The Unit also successfully project managed the first year of the Bank's five-year strategic support programme for the Department of Public Works with regard to its EPWP.

The Unit established a platform for knowledge management by hosting the successful Knowledge Management Africa conference, which was attended by international, regional and national delegates.

Research into thematic areas of the Bank's investment portfolio issued in several papers that were presented at national and international conferences, including the USA National Association of Women in Construction Convention 2004; conferences on Technology for Women in Business, Public-Private Partnerships in Municipal Service Delivery, Energy Efficiency, and Sustainable Building and Construction; the National EPWP Conference; and the Bank's well-attended Knowledge Week.

Significant strategic direction was provided through the sector assessments published during the year, covering education, health, energy, housing, the environment, ICT, transport, mining, water and tourism. Further assessments of waste management, agriculture, urban renewal, capital markets and the construction sector are planned for the coming year.

A special report on the Eastern Cape's education sector and perspectives on education and training were prepared. Funding was secured for research into the impact of HIV/Aids on local government in six provinces, and nine papers on asphalt paving were reviewed for World Bank conferences.

The Unit developed and launched a guide to best practice in the operation, maintenance and safety of dams; hosted a regional conference on sustaining Africa's water resources; developed a tourism strategy, as a result of which 45 municipalities adopted the Bank's guidelines on responsible tourism planning; and provided guidelines for assessing municipal office buildings. It also monitored the provision of free basic water and sanitation, contributed to the formulation of a strategy for providing sanitation, and explored the job creation potential of implementing this strategy.

Assessing the development effectiveness of Bank-funded projects

The Monitoring and Evaluation Unit has the difficult task of assessing the development impact of Bank-funded projects or programmes through systematic evaluations. The year under review saw the mandate of the Unit broadened to include the monitoring function, and the adoption of a new Monitoring and Evaluation strategy. The name of the Unit was changed from "Operations Evaluation" to "Monitoring and Evaluation" to reflect this. In addition to conducting project evaluations to determine development impact, sustainability, lessons learnt, and so on, the Unit focuses on:

- Building capacity for monitoring and evaluation, both inside and outside the Bank
- Systematically monitoring the performance of Bank-funded projects
- Building partnerships with other development agencies

During the year, the Unit evaluated 20 projects (12 rapid assessments and eight impact assessments). It worked actively with external partners, completing eight joint evaluations with Agence Française de Développement on projects and programmes in South Africa, and a single joint evaluation with Kreditanstalt für Wiederaufbau in Uganda.

The Unit provided training in monitoring and evaluation to provincial government officials from the Department of Local Government and Housing in North West and the Premier's Office in the Eastern Cape.

Attracting and retaining quality employees

The Human Resources Management Unit focuses on managing the attraction, retention and exit of employees. The Unit moved from Knowledge Management to the Office of the CEO as from 1 June 2005. As part of the refinement of the Integrated Rewards and Recognition system of the Bank, individual capability assessments were conducted. This will enable the Bank to establish the skills available and to fill gaps that might hinder the achievement of Vision 2014. The Human Capital strategy and the capability architecture provide a platform from which the Bank's staff can support development activism.

The Bank has provided its knowledge workers with flexibility as far as remuneration and working hours are concerned. This is in recognition of the fact that knowledge contribution is not confined to the immediate workplace, and in line with the worldwide trend to provide knowledge workers with the space and tools necessary to ensure a fluid contribution. Over the coming year, the Unit will endeavour to strengthen its capacity to attract, retain and advise employees, using strategies, policies and procedures that are innovative, continually being adapted to meet employees' needs, and on a par with the best.

Healthy stakeholder relationships are important to the functioning of the Bank. In the case of Human Resources, a relationship with the union SACCAWU is key. The three-year labour agreement that is in place lays the foundation for sound relations. Interaction with the union has had amicable outcomes, including the granting of study assistance to employees' children, thus contributing to the development agenda within the Bank's own structures.

Entrenching diversity

The Bank's commitment to equality and the recognition of the diversity of its people, their skills and environments is reflected in the work that the Employment Equity Unit performed in the year under review. The Unit has now been reincorporated into Human Resources, where it will address issues of inequity and inequality with renewed energy.

Diversity touches many facets of our society and is the very source of the Bank's development agenda. It was the challenges of underdevelopment and poverty arising from our history as a country and continent that gave birth to the development institutions. The agenda of the Employment Equity Unit therefore goes beyond merely ensuring that the Bank reflects the demographics of the country, to understanding the diverse environments that the organisation operates in. Through understanding the predicament of previously marginalised communities and individuals, the Bank is able to render services that talk to "the people on the ground".

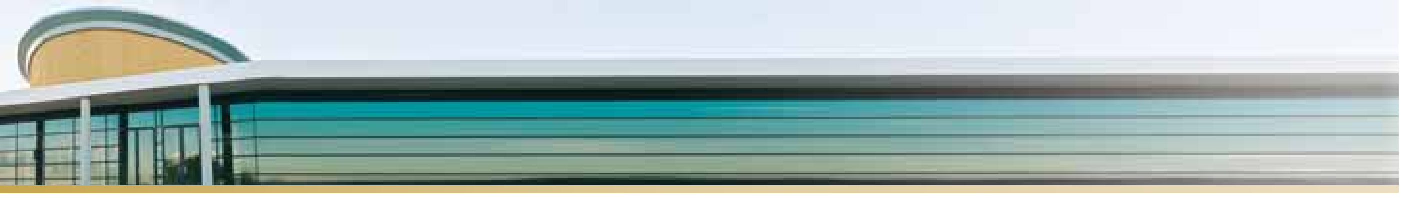
People in Africa are marginalised not only on the basis of race and gender, but also on perceived physical ability and social standing, which can affect their health status. The Bank's HIV/Aids strategy assists its own employees and their families, but also extends to the broader society through the municipalities. The partnership with Humana People to People will help municipalities to develop strategies for dealing with the pandemic. The Bank has also partnered with the Department of Agriculture at Engcobo in the Eastern Cape to improve the food security of the affected community, as part and parcel of the fight against the pandemic.

Together with a new Employment Equity policy, the Bank has established a holistic Women's Development programme to uplift and empower its female employees. It is widely accepted that in striving to achieve the full emancipation of a country, the development of women should be viewed as a priority. Considering the need for women to play a more strategic role in the working environment, the Women's Development programme was translated into a learning continuum, providing for accredited qualifications from certificate to master's degree level. The programme is aimed at shattering the glass ceiling and furthering the equity goal of having women in 50 per cent of management and leadership positions. Owing to its extensive training component, this programme might be transferred to the DBSA Vulindlela Academy at a future stage.

Building capacity of internal and external clients

The Bank strives to maximise its development impact through building the capacity of its staff and clients. The DBSA Vulindlela Academy, which is intended to further this aim, will be launched in the coming financial year. This training institute is based at the Bank's offices in Midrand, but is accessible nationally through its strategic partnerships with the Universities of the Witwatersrand, Limpopo, Stellenbosch and Zululand.

During the past financial year, the Academy was occupied mainly with preparatory work. Physical premises were constructed and training programmes developed in line with the challenges identified in local government. The Academy also reviewed its strategic plans, strengthened its alliances and partnerships, and sought accreditation with the Local Government Sector Education and Training Authority (LGSETA). Although the focus will be internal for the first few years, a very clear strategy for delivering training to local government is already in place. Programmes have already been developed in the areas of Integrated Development Planning, Risk Management, Preferential Procurement, Project Management, and Skills Development Facilitation. Other programmes are still being developed on the basis of research conducted by the Bank and trends revealed in the LGSETA's sector skills plan.



A comprehensive plan has been drawn up to deliver training through the partner universities mentioned above. Facilitators will be sourced from these institutions and in some instances they will provide training facilities. The Academy is staffed by a very strong team of the Bank's senior specialists and alumni, and some of the programmes are expected to commence soon. A full training calendar has been developed for internal staff and is available on the Intranet. External clients will be able to find information about all the available courses, training venues, dates etc. on the DBSA website.

As part of the Human Resources Development Programme, the Academy has placed 29 young graduates throughout the Bank. The programme is a response to government's call to fight poverty and unemployment, especially among the youth, and is in line with the National Skills Development Strategy. The idea is to help young, unemployed graduates gain experience and hopefully become more employable, if they do not find a permanent position in the Bank itself.

In the year ahead, the Academy will shift its focus from designing training programmes to delivering them. The Academy has been provisionally accredited by the LGSETA and all its programmes have also been submitted for accreditation.

Development Fund overview

Chief Operating Officer: Jeanette Nhlapo

In the past three years, the DBSA Development Fund has reached some significant milestones. It has now successfully passed through the establishment phase and entered a period of consolidation. The theme of this Report – "The next decade ... expanding the frontiers of delivery for sustainable development" – is particularly apt for the Development Fund, as it seeks to accelerate its development support and increase its disbursements on programmes and projects.

Overview of operations

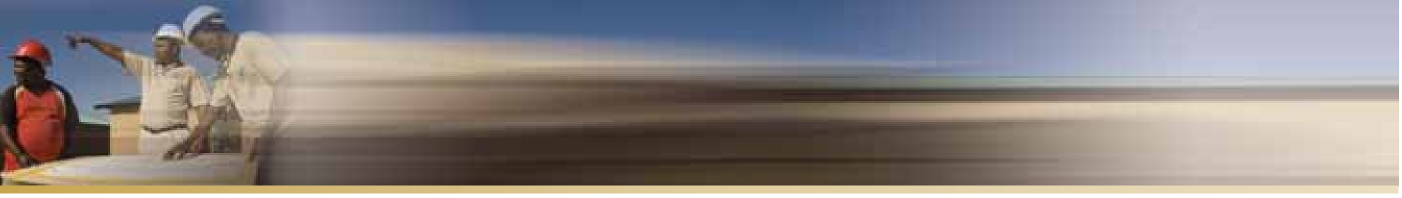
The recent civil unrest in various communities around the country with regard to service delivery and development is a sign that the patience of the poor is stretched to the limit. Although the government and other stakeholders have made enormous progress in developing the capacity of authorities to deliver services, it is apparent that municipalities have not been sufficiently transformed in most areas. Drastic measures need to be taken to address institutional challenges. In his State of the Nation address, the President called for a "strengthening of the local government sphere" by intensifying service delivery to improve the lives of communities.

The DBSA Development Fund was established specifically to boost capacity building and development facilitation. It has contributed significantly in the local government arena over the past three years, by helping municipalities to make strategic and sustainable choices with regard to development and service delivery. This Annual Report presents some of the successes.

By marketing its services extensively and refining its internal processes, the Fund surpassed its performance expectations and increased its exposure to more poorly resourced municipalities. During the year, the Fund almost doubled its commitments and exceeded its target for disbursements. Since inception, the Fund has been capitalised by the Development Bank to an amount of R460 million and has committed R409 million, with disbursements amounting to R127 million. It has reached out to 90 per cent of the municipalities in the country through innovative interventions.

In 2004/05, the Fund once again exceeded the targets set for approvals in its capacity building and portfolio programmes. This constituted an amount of R170 million approved, compared to the target of R92 million. Disbursements in the financial year amounted to R74 million against a target of R52 million. The actual grant approvals of R170 million are even more significant if the leverage of other funds is taken into account, where a ratio of 58 per cent (by the Fund) to 42 per cent (by co-funders) was achieved.

Projects: The Fund supports capacity building programmes and projects aimed at strengthening institutional capacity and human resources development



Several municipalities are still grappling with the challenges and complexities of the relatively new system. The evident lack of implementation capacity in many municipalities is compounded by inadequate basic financial, planning and institutional management skills, which hamper their ability to coordinate activities. The programmes and projects supported by the Fund have sought to build institutional capacity by developing proper systems; developing and facilitating strategies to improve the turnaround times on projects; and entrenching project management processes so that services can be planned, implemented, monitored and evaluated effectively.

It would not be possible for the Fund to deal with all the capacity challenges facing municipalities on its own. Smart partnerships are required to pool the strengths of the different role players, thus ensuring that the interventions made are holistic and sustainable. The Fund has forged partnerships with 13 public and private organisations to implement various programmes of strategic importance.

Revising the development credit facility

The development credit facility introduced in 2003 was reviewed and subsequently transferred to the Bank's lending operations, in an effort to consolidate the lending product mix and allow the Fund to focus solely on capacity development. Municipalities can still apply to the Bank for development credits, and the facility is now located in a pool of lending product options that serve poor municipalities better.

Giving impetus to government priorities

The Bank and the Fund are committed to supporting the national government's agenda and priority programmes by complementing rather than substituting funding and other forms of assistance. The impact of local government is a national issue. Its significance is reflected in Project Consolidate, which aims to fast-track service delivery at the local level, especially in distressed municipalities. This approach corresponds directly with the Fund's endeavour to concentrate on the implementation of projects, which would result in an increase in disbursements. The Fund is integrally involved in Project Consolidate at the national level, representing the Bank on the National Advisory Working Group. At the provincial and municipal levels, the Fund's focus has also shifted towards assisting the most distressed municipalities identified by Project Consolidate.

Introducing an impact tracking system

In the year under review, an impact monitoring system was developed to manage the Development Fund's portfolio. A concept paper was prepared in-house to give strategic direction to the systems engineers who would be designing the appropriate architecture. On this basis a prototype system was designed and presented to the Board for approval. The Board commissioned a pilot project that would enable the system to be refined using real time data, and this is currently in progress. The project will be evaluated at the end of June 2005 to determine whether it can be extended to other provinces.

The system interfaces with the Bank's existing systems and uploads available information to augment reporting. The corporate operations recording (CORE) and business intelligence systems of the Bank provide information on workflow processes and the finances of projects. The new system reports on individual projects, providing tracking by project and project manager at the lowest level, and then cascading the information to the Fund's Balanced Scorecard to produce performance measures.

Prospects for the year

The Fund strengthened its institutional capacity over the past year, developing and refining a number of strategies and policies, and increasing its staff complement. Two additional staff members were appointed to enhance support in Limpopo and the Eastern Cape, the two "hotspot" provinces where there is a need to expedite development initiatives and intervene intensively. Two specialists were also seconded from the Development Bank to drive and coordinate the national Project Consolidate programme.

The Fund remains committed to expanding the frontiers of capacity building for sustainable development during the next decade. It has a pivotal role to play in overcoming the capacity backlogs that still exist in most municipalities, and will build on the good results achieved during the past year to accelerate its development support. In the 39 months of its existence, the Fund has laid a solid foundation for mobilising the necessary resources locally and internationally.

Governance principles

The Board of Directors endorses and is fully committed to complying with the recommendations in the King II Report and the Protocol on Corporate Governance in the Public Sector. In this regard, the Board is constantly striving to develop and improve its corporate governance structures and practices to ensure that they conform to national and international best practice. This demonstrates the Bank's commitment to the highest standards of integrity and ethical conduct in dealing with all its stakeholders.

The Bank is committed to an open and transparent governance process that gives its shareowner and other stakeholders the assurance that, in adding value to and protecting the Bank's financial and human investment, the Bank is being managed ethically in line with best international practice and all applicable legislation and predetermined risk parameters. The Directors subscribe fully to the principles embodied in appropriate international corporate governance codes, including compliance with sound accounting practices. They believe that these principles have significantly been adhered to in discharging their duties.

Strategic objectives and performance management

The Board sets the Bank's strategic objectives and determines performance criteria. Management is charged with the detailed planning and implementation of the objectives, in line with appropriate risk parameters. The Board monitors the achievement of objectives and compliance with policies through a comprehensive system of reporting to Board and Board Committees.

In the past year, delegations of authority to the Managing Director and the Credit Committee were reviewed in order to accelerate delivery and improve operational efficiency. The review also aimed to enhance the strategic focus of the Board and promote broad-based economic development.

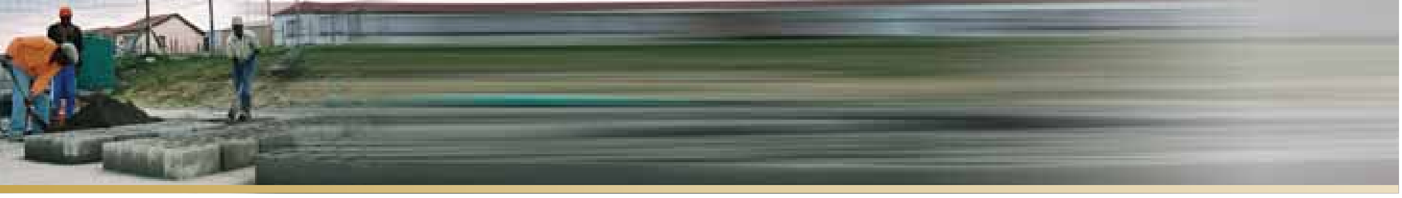
This was followed by reinforced governance and reporting mechanisms, which both empowered the Board and strengthened the Credit Committee and the broad organisational structure.

Business planning and performance assessment

The Board of Directors approved a three-year Corporate Balanced Scorecard in February 2004. This was used as a basis for compiling business plans. Between October 2003 and January 2004, business plans and activity-based budgets were prepared in succession.

In July 2004, the Board carried out a self-evaluation exercise. The Board accepted the results of its annual evaluation and those of its supporting Committees.

Project: The brick-making project initiated by young people in the Stutterheim township of Mlungisi demonstrates the ability of small community development projects to create jobs and alleviate poverty – Eastern Cape



Executive Management conducted corporate performance assessments against predetermined targets in the Balanced Scorecard and these were approved by the Board. The Remuneration Committee of the Board evaluates the performance of the Managing Director and reviews that of the Executive Managers.

Code of Ethics

The Code of Ethics was reviewed in line with industry trends and corporate best practice. The review aligned the Code with regulatory developments and changes in the Bank's policies. The Code commits management and staff to high standards of ethical conduct in their dealings with the Bank's clients and stakeholders. The Code will be reviewed annually to align it with changes in legislation and benchmark it against best practice in other development finance institutions.

Internal controls

Responsibility for the systems of internal financial and operational control rests with the Board. The foundations for internal control processes lie in the Bank's governance principles that incorporate ethical behaviour, legislative compliance and sound accounting practice. Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting and analysis against approved budgets and adherence to policies, processes and guidelines. Executive management is responsible and accountable for determining the adequacy, extent and operation of these systems. The Internal Audit function provides independent assurance, through the Audit and Finance Committee, to the Board of Directors on the effectiveness of the Bank's internal control system.

Regulatory environment and statutory compliance

In line with the provisions of section 51(1)(h) of the Public Finance Management Act, No. 1 of 1999, which enjoin the Board of a public entity to ensure compliance with applicable legislation, the Bank in 2003 established an independent compliance function headed by the Group Compliance Officer. The function is aimed at ensuring that the Bank continuously manages its regulatory risk, through compliance with applicable laws and regulations. The Group Compliance Officer has direct access to the Chief Executive, and the Chairpersons of the Board and the Audit and Finance Committee.

During the year under review, the Bank finalised a group-wide compliance strategy. In addition, it adopted a group compliance manual that spells out roles, responsibilities and guidelines with respect to the management of compliance risk throughout the Bank. The manual identified the Bank's regulatory framework (universe of legislation) and the probability and implications of non-compliance with each aspect of the law.

The Bank monitored and complied fully with the letter and spirit of the framework for levels of materiality and significance, which was developed pursuant to the requirements of sections 55 and 54 of the Public Finance Management Act.

Measures to counter money laundering

In line with international initiatives against money laundering, the South African government promulgated the Financial Intelligence Centre Act, No. 38 of 2001 (FICA). The Act established the Financial Intelligence Centre as the regulatory authority responsible for the collection, analysis and disclosure of information to assist the government in the detection and investigation of money laundering activities. In compliance with the legislation, the Bank formulated and implemented a Money Laundering Control policy and adopted internal rules to facilitate the implementation of the policy. A Money Laundering Control Officer was appointed and an internal process was set up for monitoring and reporting unusual and suspicious transactions to the Financial Intelligence Centre, as required by the Act.

Fraud prevention and whistle-blowing

The Bank maintains an internal fraud hotline that is operated and managed by an independent external service provider, and employees are encouraged to report any suspected corrupt, fraudulent or unethical practices. The Bank thereby gives effect to and complies with the requirements of the Protected Disclosures Act, No. 26 of 2000, with respect to creating an environment in which it is safe for members of staff to report impropriety.

The Board oversees the Bank's Fraud Prevention Plan and internal controls through periodic reports from the Fraud Management Committee, a subcommittee of the Finance and Risk Management Committee. The latter Committee reports directly to the Audit and Finance Committee.

Reporting and disclosure

The Bank is committed to transparent reporting and disclosure. Information provided to all stakeholders,

including financial results and the Annual Report, is presented in a meaningful and relevant manner to enable users to gain a proper and objective perspective of the Bank.

Governance structures

Shareholder linkages

The Bank, through its Board, is accountable to its sole shareholder, the government of the Republic of South Africa, and to Parliament in terms of the Development Bank of Southern Africa Act. A Corporate Plan was submitted to the National Treasury in February 2004, as required in terms of section 52 of the Public Finance Management Act, No. 1 of 1999.

The Corporate Plan serves as an agreement between the Bank and the shareholder, and documents the key performance measures against which organisational performance is assessed. In August 2004, the Bank's 2003/04 Annual Report was launched in the presence of the Minister of Finance in Soweto, Johannesburg.

Minister of Finance

The Minister in his capacity as Governor of the Bank represents the shareholder interests, determines the Bank's mandate, and holds the Board of Directors accountable for managing and controlling the Bank's operations in compliance with the stated mandate.

Board of Directors

The constitution and conduct of the business of the Board of Directors is primarily governed by the Development Bank of Southern Africa Act, No. 13 of 1997, and the regulations made pursuant to the Act. The Board is appointed by the Minister of Finance in his capacity as the shareholder representative, and consists of a minimum of 10 and a maximum of 15 members. Currently, the Board consists of 15 members: 14 are non-executive; the Chief Executive Officer is the sole executive Director. Eleven members of the Board are independent Directors. The Board is chaired by Mr J Naidoo.

The Board reports to the shareholder by way of annual and interim reports, and regular meetings between the Chairperson of the Board, the Chief Executive Officer and the Minister of Finance. During the last financial year, the Board met six times.

The DBSA Board of Directors' charter draws attention to the principal provisions of the Development Bank of Southern Africa Act and sets out matters of policy that the shareholder and the Board ought to follow in order to ensure good corporate governance. It also articulates the fiduciary responsibilities of Directors and the relationship with executive management.

Representatives from the National Treasury, the Chief Operating Officer in the Office of the President, and the Director General: Department of Provincial and Local Government serve on the Board. In accordance with best practice in corporate governance the Board of Directors was reconstituted in July 2004 in terms of the Development Bank of Southern Africa Act. This reconstitution provided for the introduction of the principle of rotation and continuity as set out in the Act, given that the three-year term of nine Directors expired at the end of July 2004. The résumés of the current Board members can be found on page 10.

Board Committees

The Board has established the following committees: Audit and Finance Committee, Credit Committee, Knowledge Strategy Committee, and Remuneration Committee. All the committees have formal written terms of reference that are reviewed periodically to take cognisance of business and regulatory developments and any specific requirements of the Board.

During the year under review, the Board and its committees conducted a review of their effectiveness, and concluded that Board leadership was effective, both at Board and committee level, but that improvement was required in terms of continuous provision of information and training on business and accounting developments. The composition of the Board and its committees together with the record of attendance of individual Directors is on page 45.

Audit and Finance Committee

The Audit and Finance Committee has six members. Four are non-executive Directors; one is a co-opted member. An independent non-executive Director, Dr D Konar, chairs the committee.

The Audit and Finance Committee oversees the financial reporting, internal financial and other control systems. In addition, the Committee assists the Board in providing strategic direction on the Bank's asset and liability management activities within the defined risk appetite, in order to strengthen the Bank's financial position in pursuance of its development mandate.

The Committee reviews internal and external auditing processes, and evaluates risk management, financial and compliance policies and reports. It reviews and approves the annual budgets,

and annual and interim financial statements. the Board on appropriate financial policies, investment limits and funds mobilisation strategies; the annual income, expenditure and capital budget requirements of the Bank; and compliance and procurement policies.

The Committee is supported by two Management Committees, namely, the Asset and Liability Management Committee and the Finance and Risk Management Committee.

Credit Committee

This Committee comprises five members, four of whom are non-executive Directors. The Committee is chaired by Dr I Abedian.

The Committee facilitates credit extensions up to a value of R300 million and is accountable to the Board for portfolio management and the review of significant credit exposures. To perform this function, the Committee reviews the Bank's credit strategy; the Bank's credit risk management programme; credit extension to legal entities in which officers or Directors of the Bank have an interest (including related policies); significant credit exposures; trends in portfolio quality and the adequacy of provision for credit losses; and the credit risk management policies approved by the Board.

The Credit Committee is supported by the Operations Review and the Operations Management Committees.

Knowledge Strategy Committee

The Committee consists of four Directors. Its primary purpose is knowledge management, human capital transformation and human resources development. The Committee serves as a sounding board to review all relevant knowledge management position papers and reports before submission to the Board. The Committee is chaired by Ms L Abrahams. The Committee is supported by the Knowledge Management Committee.

Remuneration Committee

This Committee is chaired by an independent non-executive Director, Mr JB Magwaza, and has four other members – three non-executive Directors and the Chief Executive Officer.

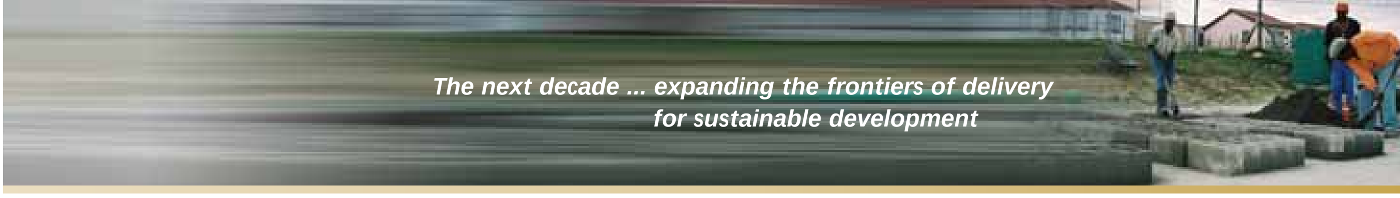
The Committee is charged with the oversight of the human resource policies and remuneration of staff and management. In addition, it assists the Chief Executive Officer with the appointment of executive managers and monitors their performance.

Chief Executive Officer and Managing Director

In terms of the provisions of the Development Bank of Southern Africa Act, the Managing Director is charged with the day-to-day management of the Bank's operations. The Managing Director assists the Board in providing strategic and policy direction to the Bank, and consults regularly with the shareholder representative. The Managing Director also holds the position of Chief Executive Officer.

Corporate Secretary

All Directors have access to the advice and services of the Bank's Corporate Secretary. In terms of the Development Bank of Southern Africa Act, the functions of the Corporate Secretary are in line with the provisions of the Companies Act, No. 61 of 1973.



Committee composition and record of attendance of meetings

	DBSA Board		Audit and Finance Committee		Credit Committee		Knowledge Strategy Committee		Remuneration Committee	
No. of meetings	6		5		3		2		3	
Dr I Abedian	3	✓	3	✓	3	Chair				
Ms L Abrahams	4	✓			3	✓	2	Chair	3	✓
Ms T Chikane[1]	3	✓	1	✓						
Prof. B Figaji	4	✓					2	✓		
Mr T Fowler[2]	3	✓								
Mr M Gantsho	6	✓	5	✓	3	✓	2	✓	3	✓
Ms N Gasa	5	✓								
Dr L Gwagwa[3]	1	✓			–	✓				
Dr D Konar	5	✓	5	Chair					3	✓
Mr JB Magwaza	4	✓					2	✓	3	Chair
Mr I Momoniat[4]	4	✓								
Ms L Msengana-Ndlela[2]	3	✓								
Mr J Naidoo	6	Chair	4	✓					3	✓
Mr S Nondwangu[2]	2	✓								
Mrs H Nyasulu	2	✓								
Mr N Payne[5]	N/A	N/A	4	✓						
Mr I Sehoole[6]	2	✓	2	✓						
Mr N Sowazi[6]	1	✓			2	✓				
Mr Z Titus[7]	2	✓			2	✓				
Mr M Vilakazi[6]	3	✓								

✓ *Membership of Board or Board Committee.*

1. *Appointed to the DBSA Board on 1 August 2004 and to the Audit and Finance Committee as from 30 September 2004.*
2. *Appointed to the DBSA Board on 1 August 2004.*
3. *Appointed to the DBSA Board on 1 August 2004 and to the Credit Committee as from 30 September 2004.*
4. *Appointed to the DBSA Board on 1 July 2004.*
5. *Co-opted member of the Audit and Finance Committee.*
6. *Ceased to be a member of the DBSA Board in August 2004.*
7. *Ceased to be a member of the DBSA Board in August 2004 – became a co-opted member of the Credit Committee as from 9 February 2005.*

The long-term viability and continued success of the Bank critically depend on its ability to align its risk philosophy with its strategic objectives. The Bank's mandate requires it both to promote economic development and to operate under sound banking principles. To balance the sometimes conflicting demands of these objectives, the Bank has adopted a number of strategic thrusts designed to broaden and deepen its development impact. One of these is responsible risk taking and management, embodied in a risk strategy that continuously seeks alignment with the corporate business strategy and Vision 2014.

During the year under review, the Bank sought to optimise the enterprise-wide management of the risks inherent in all its business.

The following new policies were developed and approved by the Board of Directors:

- A new exposures limit policy was adopted for the Bank's equity investment in respect of BEE.
- While the management of operational risk rests with the critical risk analysis, which is reviewed and updated by Internal Audit, the Risk Management Unit took the initiative and developed an operational risk management framework. Resources are being invested to develop expertise in managing this risk.

The following policies were revised:

- The loan pricing strategy was revised to align the Bank's products and services more closely with its development objectives.
- Exposure limits, including those regarding equity/quasi-equity, were revised in respect of various clients or groups of clients and countries.
- The Bank's business continuity plan was reviewed and updated (consultants are currently being appointed to assist in this assignment).

The Bank has also undertaken the following assignments:

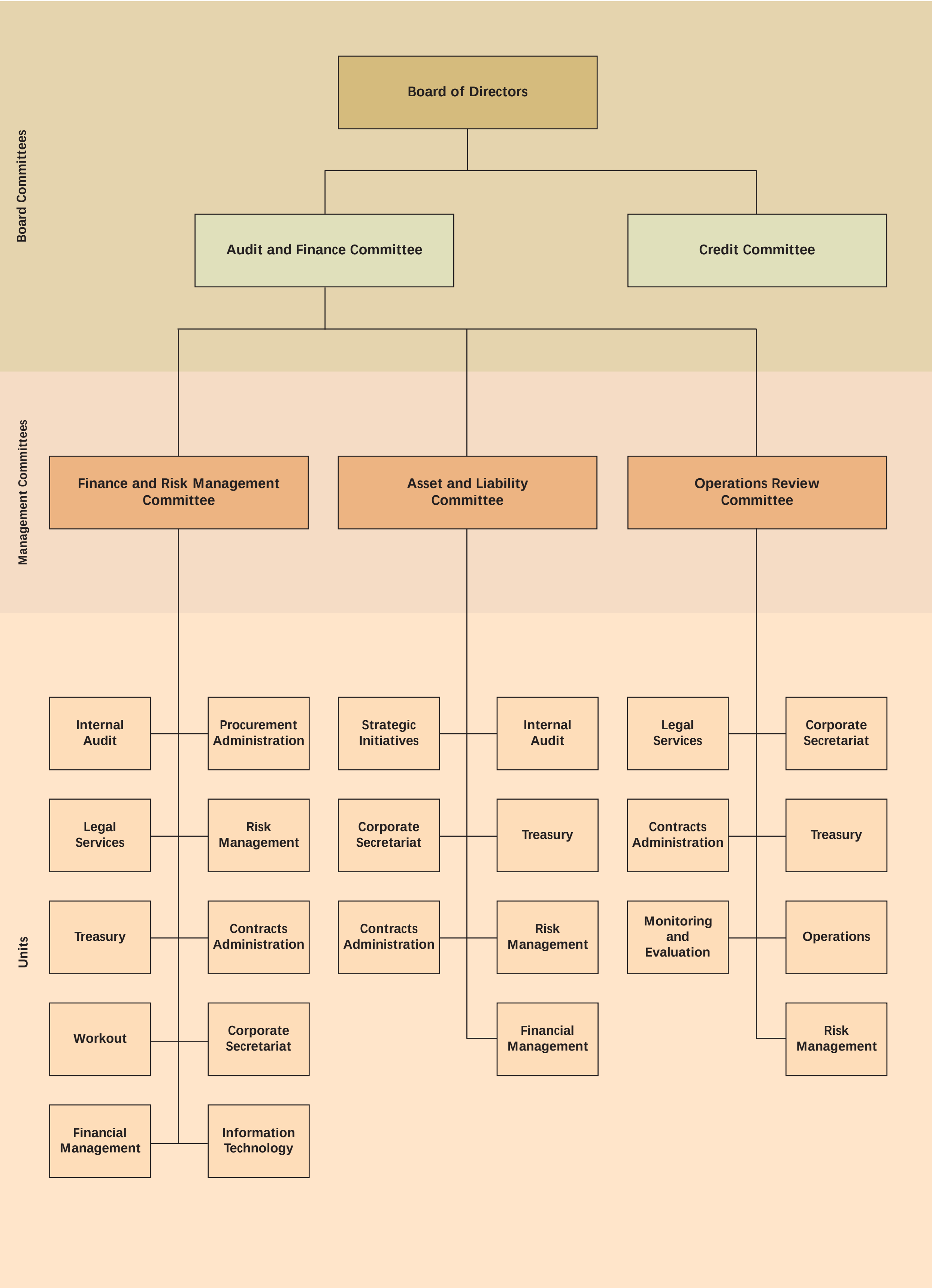
- Development of a reputation risk management framework, intended to enhance the Bank's ability to protect its reputation
- Development of a compliance policy and a manual guiding the Bank on more effective management of its compliance risk exposure
- Development of a credit rating methodology to risk-rate greenfield projects, enabling the Private Sector and International Investments Unit to manage project approvals more effectively

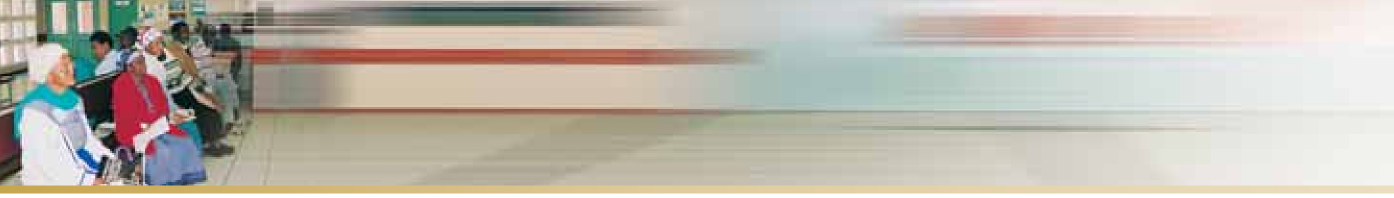
Risk management governance structures

In line with the King II code, the Board of Directors is accountable for the Bank's management of risk. The Board has delegated authority for risk management to the Audit and Finance Committee and the Credit Committee. The governance structures are outlined on the following page.

Project: The Tshwane Metro primary health programme included the construction of new clinics and the refurbishment and extension of existing ones, with the objective of promoting health care by making services more accessible – Gauteng

DBSA risk management governance structure





Responsibilities

The Board of Directors

The responsibilities of the Board of Directors are in accord with those detailed in the King II code. The Board is responsible for:

- Overseeing the whole risk management process and forming an opinion on its effectiveness
- Establishing risk strategy policies in liaison with the Managing Director and senior management
- Determining the Bank's appetite for risk, as expressed in relevant risk management policies
- Ensuring that the Bank has implemented an effective, ongoing process to identify, quantify and proactively manage risk exposure
- Using generally recognised frameworks to maintain sound systems of risk management and internal control
- Ensuring that a systematic, documented assessment of the processes and outcomes surrounding key risks is undertaken
- Reviewing the Bank's quarterly risk management reports
- Appointing a Board Committee to provide assistance in reviewing the risk management process and the significant risk facing the Bank
- Approving new risk management policies and amendments or refinements to existing policies

The Audit and Finance Committee

The Audit and Finance Committee is responsible for:

- Assisting the Board in evaluating the adequacy and effectiveness of the risk management processes
- Performing an assurance function in respect of enterprise-wide risk management
- Reviewing the Bank's significant risk exposures and making recommendations to the Board
- Assisting the Board in providing strategic direction on the Bank's asset and liability management
- Evaluating the audit policy and audit plan
- Evaluating management procedures with regard to internal control
- Evaluating and appointing external auditors
- Considering significant matters arising from the external audit
- Reviewing and evaluating management's comments on reports issued by internal and external auditors
- Advising the Board on strategic financial matters

The Risk Management Unit

While individual Units retain primary responsibility for managing the risk originating from their operations, the Risk Management Unit develops appropriate risk management policies and procedures; ensures, through independent oversight, that risk is identified, monitored and reported within the established risk management framework; and sees to it that risk remains within the risk appetite boundaries approved by the Board of Directors.

The Risk Management Unit, a core competency of the Bank, is functionally independent of risk takers in the various Divisions and reports to the Chief Financial Officer, while the manager of the Unit has access to the Chief Executive Officer and the chairpersons of the Audit and Finance Committee and the Board.

Major risk exposures

The Bank, like all development finance institutions, assumes substantial risk in the natural pursuit of its business objectives. Risk is an inherent part of its business and activities. The Bank distinguishes between credit risk, interest rate risk, currency risk, liquidity risk and operational risk.

Credit risk

Credit risk is the risk of financial loss arising from the failure of a borrower or other financial counterparty to meet its contractual obligations to the Bank. The pursuit of the Bank's development objectives renders substantial credit risk an unavoidable and necessary consequence of its business operations. Credit risk is the major part of the Bank's overall risk, and, in ensuring that the institution remains financially sustainable and is therefore able to achieve its objectives, managing this risk takes precedence.

The Board of Directors and its subcommittee, the Credit Committee, authorise large credit decisions, while the operations executives are authorised to approve smaller credits. A comprehensive and documented appraisal process precedes all credit decisions, irrespective of nominal size. In evaluating and monitoring credit risk, the Bank employs well-tested internal rating models that ensure a thorough and all-embracing risk assessment of each client. Loans and guarantees provided are classified in accordance with the Bank's associated risk

classification system and all clients are reassessed on a semi-annual basis, as part of the ongoing risk monitoring process.

The semi-annual risk classification process is documented in the form of a credit risk migration report, which forms the basis for determining the Bank's provisioning for impaired assets. Credit decisions are further subject to both single obligor limits and the appraised debt service capacity of the borrowers. As part of the credit risk mitigation process, the Bank also requires collateral in the form of eligible assets or third-party guarantees, when deemed prudent. Assets held as security against loans are revalued at prescribed intervals, which vary according to the nature and liquidity of these assets.

Country risk arises from the Bank's lending operations in other SADC countries. Country risk is managed through an all-inclusive risk assessment process, which takes cognisance of the political, economic and legal factors that determine the risk profile of individual countries. Investments are further governed by approved country limits aimed at managing concentration risk at the country level, as well as single obligor limits that address the risk of client concentration. In addition, aggregate investment in other SADC countries is limited to one third of the Bank's total investment portfolio.

Credit risk also arises in the form of financial counterparty risk from Treasury operations, primarily through the Bank's cash and liquidity management activities, and from in-the-money, derivative positions entered into as hedges against undesired currency risks and interest rate risks. Both derivative and cash transactions are restricted to reputable and primarily top-rated financial institutions and all transactions are governed by approved counterparty limits, and subject to ISDA and ISMA master agreements, where applicable. Counterparty credit limits are also supported by instrument limits. All counterparties are monitored continuously, and downward adjustments in limits are effected when deemed prudent. Limits are otherwise reviewed semi-annually, subject to an exhaustive analysis of each approved counterparty.

Interest rate risk

Interest rate risk arises from the adverse impact of interest rate movements on the net interest income and the assets and liabilities of the Bank. This risk stems from the Bank's funding and lending operations, and occurs mainly in the form of repricing risk caused by mismatches in the amount of assets and liabilities maturing at any one time. Other forms of interest rate risk include yield curve risk, basis risk and, to a lesser extent, embedded options risk.

The Treasury Division, under the guidance of the Asset and Liability Management Committee, is charged with managing and containing the Bank's interest rate risk within acceptable boundaries. To this end, the Bank strives to match the interest rate basis of assets and liabilities as far as possible, and make use of interest rate derivatives structured to eliminate undesired risk of this kind.

Currency risk

Currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. It arises from the Bank's foreign currency funding and lending activities. The Bank employs a conservative policy that requires all currency risk to be hedged. As a result, all currency exposures are hedged either naturally through offsetting asset and liability positions or with approved currency derivatives.

Liquidity risk

Liquidity risk is the risk of failure to fund a cash shortfall as and when required, without incurring financial loss. It therefore encompasses both the risk of failing to borrow sufficient funds at prevailing market rates, and the risk of failing to liquidate an asset in a timely manner, and without significant deviation from the prevailing market price. Liquidity risk is managed within the framework of a conservative policy, which requires that the Bank at all times retain liquid assets to an amount ranging between 15 and 30 per cent of total undisbursed loan commitments. Integral to the Bank's asset liability management, liquidity risk management is centralised in the Treasury Division under the oversight of the Asset and Liability Management Committee, which in turn reports to the Audit and Finance Committee of the Board.

The liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificates of deposit, banker's acceptances, as well as liquid debt issues from government, parastatals and other approved issuers. Investments are guided by instrument limits aimed at ensuring sufficient liquidity, consistent with the Bank's requirements from time to time. In addition to ensuring that an adequate level of liquidity is maintained, the Bank further seeks to ensure a diverse range of funding sources, supported by credit lines with bilateral and multilateral development finance institutions.

The Bank also maintains committed credit facilities with selected domestic commercial banks. Additional methodologies used to assess and monitor the Bank's liquidity requirements and risk levels include cash flow forecasts and cumulative maturity gap analyses.

Operational risk

This is the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk is managed through a system of internal controls over all operations to ensure sufficient preventative measures and an adequate flow of information. Controls include policies and procedures for transacting, monitoring of transactions, timely verifications and reconciliation, effective internal audit programmes, and the appropriate delineation of incompatible responsibilities within each of the Bank's Units. As part of the Bank's integrated risk management framework, operational risk has received growing attention, and constant efforts are made to improve and refine its management.

Significant risk areas addressed within the Bank's operational risk management framework include:

- Business continuity planning
- People risk
- System risk
- Fraud prevention
- Legal risk
- Regulatory and compliance risk
- Reputation risk

Capital adequacy

Although not required to comply with the capital adequacy regulations of the South African Reserve Bank, the Development Bank has implemented a capital management policy conservatively modelled on the Basle Accord. As at 31 March 2005, the Bank remained sufficiently well capitalised to support delivery on its development mandate.

Approved risk management policies

In managing the Bank's risk exposures, the Board of Directors has approved the following policies:

- Treasury counterparty limits
- Interest rate risk
- Approved financial instruments
- Foreign currency risk
- Liquidity risk
- Single obligor limits
- Equity/quasi-equity limits
- Investment in third-party managed funds
- Country exposure limits
- Capital adequacy
- Loans loss provisioning
- Exposure to high-risk clients
- Core vs non-core limits
- Loan risk spread and pricing
- Security for loans
- Country risk pricing
- Compliance framework
- Reputation risk framework

The Bank reviews its risk management policies and limits periodically to ensure that they remain relevant, appropriate and applicable. Market risk is managed under the oversight of the Bank's Asset and Liability Management Committee and is governed by the asset and liability management policy approved by the Board, incorporating interest rate, currency and liquidity risk. For the Bank's third-party managed funds, limits on individual funds are set at 25 per cent of the fund or a maximum of R100 million. In aggregate, this should be no more than 10 per cent of the shareholder's funds. The new policy on investment in equity sets an individual limit of 2 per cent of the shareholder's equity. In aggregate, this too should be no more than 10 per cent of the shareholder's funds.

Annual financial statements

Directors’ responsibility for financial reporting

The Directors are responsible for the preparation, integrity and objectivity of financial statements that fairly present the state of affairs of the Bank and of the profit or loss for that period.

In preparing the financial statements:

- The Development Bank of Southern Africa Limited Act, No. 13 of 1997, has been adhered to
- The Public Finance Management Act, No. 1 of 1999, has been adhered to
- South African Statements of Generally Accepted Accounting Practice have been adopted

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 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
- The Audit and Finance Committee and internal and external 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 financial statements.

The financial statements that appear on pages 70 to 104 were approved by the Board of Directors on 30 June 2005 and are signed on its behalf by:

Jayaseelan Naidoo
Chairman of the Board

Mandla Gantsho
Managing Director

Deenadayalen Konar
Chairman of the Audit and Finance Committee

Report of the independent auditors to the Minister of Finance

We have audited the annual financial statements of the Development Bank of Southern Africa Limited as set out on pages 70 to 104 for the year ended 31 March 2005. The annual financial statements are the responsibility of the Development Bank of Southern Africa Limited's directors. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit was also planned and performed to ensure our compliance with sections 27 and 28(1)(a) and (b) of the Public Audit Act, No. 25 of 2004. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa Limited at 31 March 2005 and the results of its operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act of South Africa, sections 284 to 303 and schedule 4, as specified in the Development Bank of Southern Africa Act of South Africa and its regulations, and other reporting requirements as set out in the Public Finance Management Act of South Africa.

KPMG Inc

KPMG Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors
Pretoria
30 June 2005

Gobodo Inc.

Gobodo Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors
Johannesburg
30 June 2005

Assurance report of the independent auditors to the Minister of Finance

We have performed our assurance engagement on the Report on Performance against Predetermined Objectives of the Development Bank of Southern Africa Limited for the year ended 31 March 2005, set out in the Directors' report on pages 55 to 58 of the Bank's Annual Report.

Directors' responsibility

The directors are responsible for the preparation of the Report on Performance against Predetermined Objectives ("the Report").

Auditors' responsibility

Our responsibility is to conclude whether sufficient appropriate evidence has been obtained to support the reasonable assurance conclusion expressed in this Report. We performed our assurance engagement in accordance with the International Standard on Assurance Engagements (3000), Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. That standard requires that we comply with ethical requirements and that we plan the engagement so that it will be performed effectively.

Our assurance engagement involves performing procedures to obtain sufficient appropriate evidence that the performance information is reported against the predetermined objectives, set out on pages 55 to 58 of the Report. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the information reported, whether due to fraud or error.

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

Conclusion

In our opinion, the Report on Performance against Predetermined Objectives, prepared in terms of section 55(2)(a) of the Public Finance Management Act of South Africa, presents in all material respects, the performance of the Development Bank of Southern Africa Limited for the year ended 31 March 2005, against the predetermined objectives set out in the Report.

KPMG Inc

KPMG Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors
Pretoria
30 June 2005

Gobodo Inc.

Gobodo Incorporated
Chartered Accountants (SA)
Registered Accountants and Auditors
Johannesburg
30 June 2005

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the Development Bank of Southern Africa Limited for the year ended 31 March 2005. The report deals with the performance of the Bank and meets the relevant statutory information requirements.

The Directors' report is compiled in terms of the Public Finance Management Act, No. 1 of 1999, and the Development Bank of Southern Africa Act, No. 13 of 1997. The regulations of the latter Act require that the annual financial statements comply with sections 284 to 303 of the Companies Act, No. 61 of 1973, as amended.

The Directors subscribe to the principles and practices of good corporate governance and operate within the ambit of an approved Board charter.

The Directors draw attention to the fact that this report contains certain performance information on the impact of the Bank's participation in the economies of South Africa and other SADC countries through the funding of its various infrastructure projects. This information is generated via economic models, developed with the assistance of economists and academics, using various assumptions in respect of the development and socio-economic impact of the Bank's investments. The inputs into the economic models are obtained from the Bank's information systems and from statistical reports published by various external bodies. It is therefore acknowledged that the resulting performance information is, in this regard, subject to the limitations of the assumptions and information used in the models.

The financial year 2004/05 has been a successful one for the Bank, with the large majority of its strategic objectives achieved or exceeded. As the Bank focuses its South African efforts increasingly on the more disadvantaged municipalities, the shape of its portfolio is changing and features an increasing number of smaller projects. The project approvals and commitments were exceeded, and the financial target for disbursements was met. As in the previous year, the co-funding target was not met, as the smaller municipalities that are increasingly being serviced are less able to mobilise private sector funding, and fewer large private sector projects, where co-funding is easier to mobilise, were approved. The targeted figure for the Bank's BEE procurement spend was met. The non-financial, knowledge-based *Sustainable development impact* targets around "non-lending" products were all met or exceeded.

The two *Financial sustainability* targets of cost-to-income ratio and income growth were not met. It is recognised that income growth in particular is to some extent dependent on factors outside the Bank's control, such as international interest rate movements, and this indicator is therefore being revised for the new year. All other financial targets were met or exceeded, with the Moody's credit rating being raised by one notch. The Bank put substantial effort into change management projects, one of which was business process management, with the result that all *Effective business process* objectives were either met or exceeded. The training expenditure was 5 per cent of the payroll bill, as defined in the budget, although this was lower than the Balanced Scorecard target, which was set at 6 per cent. With this exception, the *Learning and growth* objectives were similarly all met or exceeded.

The Directors look forward to an equally successful year in 2005/06, as the organisational initiatives such as change management and restructuring continue to bear fruit and support the Bank's delivery on the People's Contract.

The functions of the Bank and nature of the business

The Bank is a development finance institution wholly owned by the South African government. It supports economic development and growth, human development and institutional capacity building in Southern Africa, mainly through the funding of infrastructure projects.

The Bank supplements the flow of development funds by forming partnerships with the private and public sectors for projects that develop socio-economic infrastructure.

It is one of five national development finance institutions tasked with promoting development. The others are the Industrial Development Corporation of South Africa Limited, Khula Enterprise Finance Limited, the Land and Agricultural Development Bank of South Africa and the National Housing Finance Corporation Limited.

Objectives

The Bank's corporate strategy and business planning activities are executed within the framework of its Vision 2014, which maps the strategic path for the Bank over the same ten-year planning horizon defined by the government after the 2004 general election. Annually, using the Balanced Scorecard (BSC) methodology, strategic objectives are set for the organisation for the three forthcoming years and approved by the Board. The Board approved the strategic objectives and targets being reported on here in February 2004.

Strategic objectives were derived for the four perspectives of the Corporate Balanced Scorecard:

- Sustainable development impact
- Financial sustainability
- Effective business processes
- Learning and growth

Cascading from these, each Division and Unit developed their corresponding Balanced Scorecards. Using the Bank's integrated strategic management framework, which was finalised during the previous financial year, this process now extends from the high-level Vision and Mission, through the hierarchy of Balanced Scorecards, to business planning and budgeting, and the feedback and control cycles involved in ensuring effective implementation of the plans throughout the year, with regular monitoring and reporting against the budget.

The Bank continues to follow the best practice guidelines on sustainability reporting put forward by the Global Reporting Initiative. This report therefore evaluates the Bank's performance in the economic, environmental and social spheres. The high-level strategic objectives and performance results for the year are shown in the table below, followed by more detailed comments on progress in relation to this "triple bottom line". For comparison, performance in 2003/04 is also shown in the results column, in brackets, unless the KPI has changed since 2003/04, in which case "Not a target in 2003/04" is shown.

High-level performance in 2004/05

Targets	Results 2004/05	Comments
Balanced Scorecard perspective: Sustainable development impact		
1. Strategic objective: Grow lending and investment businesses optimally		Target exceeded
Approvals: South Africa and SADC, DBSA only: R3,0 billion	R3,9 billion (2003/04: R3,4 billion)	
Commitments: R3,0 billion	R3,5 billion (2003/04: R2,6 billion)	Target exceeded
Disbursements: R3,0 billion	R3,0 billion (2003/04: R2,8 billion)	Target achieved
Number of projects approved: 95	86 (Not a target in 2003/04)	7% below target
2. Strategic objective: Broaden the menu of products and services to customers		
Number of new products and services: 2	4 (Not a target in 2003/04)	Target exceeded
3. Strategic objective: Promote and forge smart development partnerships		
Rand value of DBSA's contribution to projects, relative to investment by others – 1:2	1:1 (2003/04: 1:0,66)	Target not achieved
Number of new corporate relationships in implementation (to open up investment opportunities): 3	6 (Not a target in 2003/04)	Target exceeded

High-level performance in 2004/05 (continued)

Targets	Results 2004/05	Comments
Balanced Scorecard perspective: Sustainable development impact		
4. Strategic objective: Optimise the benefits of interventions		
Technical assistance: R12 million	R18,2 million (2003/04: R10,9 million)	Target exceeded
BEE share of DBSA procurement spend: 50%	50% (Not a target in 2003/04)	Target achieved
Number of projects evaluated: 10% of completed projects	19% (Not a target in 2003/04)	20 out of 106 completed projects were evaluated
5. Strategic objective: Become an advanced knowledge-based institution		
Number of major development dialogues, conferences, etc. organised or coordinated by the Bank: 3	8 (Not a target in 2003/04)	Target exceeded
Development publications (articles, journals, etc.): 10	11 (Not a target in 2003/04)	Target exceeded
Knowledge advocacy interventions: 10	19 (Not a target in 2003/04)	Target exceeded
Knowledge Management networks: new Communities of Practice established: 1	2 (Not a target in 2003/04)	Target exceeded
Balanced Scorecard perspective: Financial sustainability		
Strategic objective: Maintain sound financial health		
Growth in interest income: 3% – 6%	Decline of 8,4% (Not a target in 2003/04)	Decline in average interest rate, exchange rate effects, abnormal item in previous year due to adopting AC133 (reported on in more detail in notes to the financial statements) all impacted this measure
Cost to income ratio: 27%	42% (2003/04: 26%)	2,7% of this figure is from unrealised profits and losses on revaluation of derivatives and foreign loans. Costs were 1% below budget, income 11% below budget
Impairment as % of loan book: 10%	8% (2003/04: 6,6%)	Target exceeded
Debt to equity ratio: 250%	103% (2003/04: 106%)	Target exceeded
Capital adequacy ratio: 25%	48% (Not a target in 2003/04)	Target exceeded
Local rating: AAA	AAA (2003/04: AAA)	Target achieved
International rating: Baa2/BBB	Baa1/BBB (2003/04: Baa2/BBB)	Moody’s rating raised by one notch

High-level performance in 2004/05 (continued)

Targets	Results 2004/05	Comments
Balanced Scorecard perspective: Effective business processes		
Strategic objective: Ensure that business processes deliver effectively and efficiently on strategic objectives		
Percentage of business offers delivered to clients on time: 90%	90% (Not a target in 2003/04)	Target achieved
Percentage of projects implemented satisfactorily: 90%	93% (Not a target in 2003/04)	Target exceeded
Percentage of Business Process Renewal priorities completed: 100%	133% (Not a target in 2003/04)	Target exceeded
Percentage of business processes benchmarked and measured: 50%	55% (Not a target in 2003/04)	Target exceeded
Balanced Scorecard perspective: Learning and growth		
1. Strategic objective: Attract, develop and retain competencies in line with employment equity requirements		
Investment in training as a % of payroll: 6%	5% (2003/04: 4,5%)	Budgeted target achieved; the definition of this measure is being revised to get consistency between the Balanced Scorecard and the budget
Turnover rate of employees in strategic job categories: 10%	8% (2003/04: 2%)	Target achieved
Percentage of vacancies filled by employment equity candidates: 75%	91% (Not a target in 2003/04)	Target exceeded
Percentage of individuals graduating from programmes: 80%	100% (Not a target in 2003/04)	Target exceeded
2. Strategic objective: Become an advanced knowledge-based institution		
The knowledge mobilisation network framework approved by March 2005	Approved in September 2004 (Not a target in 2003/04)	Target achieved
3 internal Knowledge Management networks functioning	4 functioning (Not a target in 2003/04)	4 of the 6 internal Communities of Practice have been active during the year

The Bank's commitment to ensuring that its development activities are sustainable means that besides appraising the financial, technical and institutional aspects of proposed projects, it also appraises and reports on their economic, environmental and social aspects.

Economic report

Customers

The Bank supports programmes and projects that address the social, economic and environmental needs of communities in South Africa and the rest of the SADC region. These communities are seen as the main beneficiaries of the support provided by the Bank. Their needs and interests are served via intermediaries, normally public and private sector institutions. These intermediaries are the Bank's main customer base.

Marketing

During the year under review, the Bank implemented its new communications strategy, which involved campaigns to increase the public's awareness of the Bank's mandate and to provide support for both local government and business development initiatives. Television, radio and print were all used to access the public and clients, while addresses to both the Cape Town and Johannesburg Press Clubs initiated bilateral interactions between the Bank and members of the media. A brand development strategy is currently being implemented to establish better strategic alignment between Vision 2014 and the Bank's visual language, and to this end professional agencies have been enlisted to facilitate and provide guidance. Market research was commissioned during the year for both the Bank and the Treasury Division, and the findings will inform and add value to the new marketing strategy.

Partnerships, stakeholders and development impact

The Bank's Vision 2014 identifies smart partnerships as a key strategic thrust. This orientation arises from the central imperative facing the Bank and its shareholder, the South African government, which is to address the massive infrastructure and human resource gaps in the country and region. These are challenges that neither the Bank, nor other public sector institutions, nor the private sector can tackle on their own.

Apart from this core imperative to bridge infrastructure and human resource gaps, there are growing pressures from a variety of national, regional and international social movements for the Bank to join efforts with other development role players in addressing a complex, interconnected set of wider socio-economic and environmental issues, notably local economic development, regional integration, job creation, urban renewal and environmental conservation.

The Bank therefore seeks to increase its development impact on its customers and ultimate beneficiaries by building strong strategic partnerships and alliances. As a public entity, the Bank works closely with various levels of government as well as regional and continental institutions such as the SADC and the AU, and in particular NEPAD. It does so to promote learning, build capacity and generate synergies that will contribute to sustainable development. It works very closely with national and international funding and donor agencies to assist these entities in implementing their development initiatives locally and in the region, while at the same time enabling the Bank to leverage the value of its own financial, advisory and partnership services.

Within South Africa, existing strategic partnerships were maintained and new ones established with national, provincial and local government, as well as with development organisations. New development initiatives include support to the government's Project Consolidate in verifying the infrastructure backlogs, determining the project's capital and operating costs, and proposing methods of strengthening institutional capability. The Bank also supported the South African National Treasury in implementing an ambitious programme to strengthen the capability of provincial infrastructure departments (e.g. education, public works, health), thereby improving the delivery of infrastructure programmes; and entered into agreements with provincial departments to compile provincial social accounting matrices for estimating the development impact of interventions and supporting resource allocation.

As part of the EPWP, a project was launched in partnership with the national social departments. The project includes the conducting of a skills audit to identify employment opportunities and to mainstream the EPWP in the sector. It also deals with the provision of capacity building in project management, by setting up systems, processes and frameworks for effective implementation and delivery; advocacy, advice and technical assistance; and facilitating financial flows.

The DBSA signed a new line of credit with Agence Française de Développement (AfD). The €35 million loan will be used to address development in economically challenged municipalities, particularly in the Eastern Cape and Limpopo provinces.

The Bank also continued to undertake agreed activities on behalf of other development organisations through its agency programme. It was party to 31 such agency agreements, with a combined funding flow of approximately R260 million during the year. Agency work remains an important part of the Bank's development efforts, as this programme enables projects to fulfil their developmental potential when the fund providers lack either the presence in South Africa or the local capacity.

The Bank supported the implementation of the NEPAD strategy, in Africa south of the Sahara generally, and in the SADC more specifically. This entailed mobilising and engaging key stakeholders, building partnerships, strengthening implementation capacity and facilitating the unlocking of constraints on NEPAD-related investment projects and programmes.

Further progress made with partnerships included the joint project preparation fund of R25 million between the DBSA and AfD. This contributed R12 million to feasibility studies on ten projects, such as the conclusion of the feasibility study on the East Africa Submarine Cable; the telecom connectivity between Zambia and Tanzania (Com7); a workshop on the ICT programme of East and Southern Africa (jointly financed with the World Bank); and institutional support to the functioning of the Lesotho/South Africa Joint Bilateral Coordinating Committee.

Capacity building support was provided in the form of expert advice and assistance, regarding the formulation of regional development programmes and national business plans, and the efforts by member states to institutionalise the NEPAD strategy. In addition, grant funding was provided for initiatives such as drawing up business plans to guide the implementation of the rationalisation process of the SADC Secretariat. A similar support programme is being negotiated with the East African Region.

Managing risks to deliver sustainable services

To ensure sustainable support interventions for its customers, the Bank employs sound risk management practices. It does so in line with the Generally Accepted Risk Principles, under which the Board of Directors is accountable for the Bank's management of risks. The Risk Management Unit is responsible for developing appropriate risk management policies and procedures. These policies are then approved by the Audit Committee on delegated authority and submitted to the Board of Directors for adoption.

During the year under review, an internally generated risk strategy was developed, and approved by the Board in November 2004. The main objective of this strategy will be to continuously align risk management with the Bank's business strategy and Vision 2014. Other new policies which were developed during the year include a new exposure limit policy for the Bank's equity investment in respect of BEE, and an operational risk management framework.

The following documents were revised to guide responsible risk taking, while also enabling the Bank to meet its development objectives:

- The loan pricing strategy, aimed at establishing a closer alignment of the Bank's products and services with its development objectives
- The business continuity plan, the reviewing and updating of which will continue into 2005/06

The Bank also reviewed and refined its internal credit rating methodologies and its country and client limits. These were aligned with the Bank's strategy, and more particularly with its risk appetite. Country limits were revised using the risk-rating model as applied during the past years, as well as the current policy and methodology employed to determine the exposure limits.

The Bank has also undertaken the following assignments:

- Development of a reputation risk management framework, intended to enhance the Bank's ability to protect its reputation
- Development of a compliance policy and a manual guiding the Bank on more effective management of its compliance risk exposure
- Development of a credit rating methodology to risk-rate greenfield projects, enabling the Private Sector and International Investments Unit to manage project approvals more effectively

The Board of Directors is satisfied that the risk management process used by the Bank has enabled it to manage its risk exposures appropriately. The risk profile of the Bank's total loan portfolio remained within acceptable risk tolerances in the year under review, with 2 per cent (2 per cent in 2003/04) considered as high risk, 22 per cent (23 per cent) as medium risk, and 71 per cent (69 per cent) as low risk. The default category has remained at 5 per cent.

Monitoring and evaluation of development interventions

The Bank recently adopted a Monitoring and Evaluation strategy, which has as its main focus the monitoring of operational activities and funded projects and the evaluation of completed interventions. As part of this strategy the Bank has prepared itself for quarterly reporting, which will be informed by the monitoring of projects under implementation. This function will be further complemented by extensive evaluations of programmes and projects. The evaluations assess the extent to which the Bank has contributed towards sustainable development impact.

During the year, 20 projects in different economic sectors were evaluated (compared to 12 during 2003/04). There were eight full evaluations and 12 rapid assessments. Continuous monitoring and evaluation of its operational activities and projects will enable the Bank to apply lessons learnt not only in respect of programme and project design, but also in the design of policies, systems and portfolio architectures. This in turn will help to ensure that the Bank lays a sound foundation for advancing the development agenda.

Black economic empowerment

Black economic empowerment remains a strategic imperative for the Bank. New policies and processes to support BEE procurement were implemented from the start of the financial year. The Bank revised its systems to better identify BEE spend, which currently stands at 50 per cent of the procurement potential. Further refinement of the management and reporting of BEE procurement will continue during the 2005/06 financial year.

Delivery of products and services

Investment loans and equity

In the year under review, the Bank made new approvals to a total value of R3,9 billion. This is 15 per cent higher than the R3,4 billion of 2003/04 and includes R250 million of equity investments. Approvals within South Africa reached R2,9 billion, 16 per cent higher than the R2,5 billion of 2003/04. The total cumulative net approvals for South African clients reached R26,8 billion (2003/04: R23,9 billion). Approvals in the SADC region amounted to R0,5 billion or 13 per cent of total approvals for the year (versus R0,9 billion or 26 per cent of total approvals in 2003/04). The cumulative support programme in the SADC now amounts to R8,8 billion (R8,3 billion at the end of the previous year).

The continued strength in the rand-dollar exchange rate, as was the case in 2003/04, can again be described as the main cause for a further drop in the approvals to SADC countries. (The dollar is the major currency for transactions in Africa.) The growth in approvals within South Africa (28 per cent since 2003/04) is due, inter alia, to the increased emphasis by the Bank on social infrastructure, which grew from 3 per cent of approvals to 22 per cent, as well as to continued investment support to metropolitan infrastructure programmes and an increased level of support to district and local municipalities.

South Africa – provincial focus

The creation of dedicated Business Units to focus on the poorest provinces – Eastern Cape and Limpopo – continued to have positive results, with these two provinces receiving a combined 11 per cent of the Bank's new investment approvals within South Africa. This is encouraging, as eradicating the capacity constraints in these provinces, through programmes managed by national government (in the form of support instruments like Project Consolidate), provincial governments or the DBSA Development Fund, will be a long and demanding process.

In the other provinces, the spatial distribution of investments broadly followed the patterns of previous years, with KwaZulu-Natal receiving R1 billion of new approvals, followed by the Western Cape (R0,8 billion), Gauteng (R0,5 billion) and Mpumalanga (R0,3 billion). The increased support to Mpumalanga was due to equity investments being made in a key mining project, while a significant decrease occurred in investment support to North West (R80 million versus R500 million the previous year). All provinces received support from the Development Bank during the year, ranging from 1,8 per cent of total approvals in South Africa (Northern Cape) to 32,5 per cent (KwaZulu-Natal).

Sectoral focus

In sectoral terms, the funding portfolio of the Bank in South Africa and the rest of the SADC was again dominated by water infrastructure (23 per cent of total approvals versus 38 per cent the previous year) and commercial infrastructure (19 per cent versus 31 per cent). The total approved portfolio showed a substantial increase in investment approvals for social infrastructure (20 per cent versus 3 per cent the previous year) indicative of the Bank's increased focus on community-oriented infrastructure. Approvals became more diversified, with other important sectoral focuses being energy (13 per cent, as in 2003/04), residential infrastructure (13 per cent), sanitation (5 per cent versus 3 per cent during 2003/04), educational infrastructure (5 per cent) and roads infrastructure (2 per cent versus 3 per cent). In the SADC, the focus of approvals was on entrepreneurial development (33 per cent) and energy-related infrastructure (66 per cent).

Overall, this is a continuation of the general investment focus reported during 2003/04, with an increased emphasis on social infrastructure.

Disbursements

Another indicator for the Bank is disbursements to clients during the year, in accordance with the implementation of approved projects. The Bank disbursed R3,0 billion, up from the R2,8 billion of 2003/04. This was supported partly by the higher approval rate of investments in South Africa, notwithstanding the lower approval rate in the SADC and the lower rand value of disbursements to SADC clients, with the strengthening of the rand against the US dollar affecting that level of disbursements.

Technical assistance

Technical assistance, aimed at enabling clients to plan and implement investment projects effectively, increased to a total approved grant portfolio of R18,2 million (67 per cent higher than the 2003/04 figure of R10,9 million). This was in support of new investment approvals, with 28 per cent of technical support approvals going to KwaZulu-Natal, for example, in support of the R1,1 billion investment approvals in that province. All provinces received support, with the Eastern Cape receiving the most at R7,4 million (34 per cent of the total). Although the approval rate of investments in this province is still low (R151 million), this support is contributing to building up an investment base which is now on a growth path. Grants from the Bank (excluding the Development Fund) were mainly for institution building and planning-related activities.

Development impact of the Bank's operations during 2004/05

The Bank participates indirectly in the economy through the funding of infrastructure projects. Its focus falls on development dynamics that enhance economic and social benefits, thereby improving the quality of human life, creating jobs and alleviating poverty. As part of the broader public sector, the Bank deploys public funds cost-effectively to reflect society's needs and preferences.

The development impact of the Bank's activities is estimated on an annual basis through the application of economic and statistical models. These models take into account the linkages created with other economic role players, for instance through the purchasing of materials or through salaries and profits that are ploughed back into the economy in the form of additional spending.

The analysis for 2004/05 indicates that funding portfolio activities are higher in real terms (i.e. adjusted for inflation) than for the previous financial year. The real increases from the previous year are:

- Approvals for DBSA plus co-funders: 38 per cent
- Approvals for DBSA only: 14 per cent
- Commitments (DBSA only): 31 per cent
- Disbursements (DBSA only): 2 per cent

The increase in disbursements was relatively low, due to reduced approvals and commitments in the previous financial year. Funds approved in other SADC countries (excluding South Africa) are down by 69 per cent for the DBSA plus co-funders, and by 43 per cent for the DBSA alone. For approvals in the South African portfolio, the corresponding figures are up by 81 per cent and 35 per cent respectively. DBSA funds committed and disbursed are both down by 15 per cent in the South African portfolio, but are up by 379 per cent and 94 per cent respectively in other SADC countries, from a relatively low base.

Statistics South Africa has developed a Household Infrastructure Needs Index to guide infrastructure development support in the provinces. This index was compared with the disbursements by the Bank to each province, in total and per capita terms. Eastern Cape and Limpopo received less support from the Bank than the Needs Index suggests is required, mainly owing to the lack of institutional capacity in these provinces. Gauteng and Northern Cape received relatively more support.

The table on page 63 shows the estimated economic impact on the SADC region, including South Africa, for the year under review, compared at constant prices with the adjusted impacts for 2003/04.

Estimated economic impacts of DBSA funding

Funding portfolio and indicator	Estimated impact 2004/05	Estimated impact 2003/04
Total funds approved by the Bank and co-funders		
Total	R8,0 billion	R5,6 billion (R5,8 billion)
South Africa	R7,5 billion	R4,0 billion (R4,1 billion)
SADC excluding South Africa	R0,5 billion	R1,6 billion (R1,7 billion)
Impact on GDP		
Total	R6,9 billion	R4,3 billion (R4,4 billion)
South Africa	R6,4 billion	R3,1 billion (R3,2 billion)
SADC excluding South Africa	R0,5 billion	R1,2 billion (R1,2 billion)
Impact on employment (numbers)		
Total	36 475	24 732
South Africa	34 320	17 369
SADC excluding South Africa	2 155	7 363
Total disbursements by the Bank		
Total	R3,0 billion	R2,8 billion (R2,9 billion)
South Africa	R2,1 billion	R2,4 billion (R2,5 billion)
SADC excluding South Africa	R0,9 billion	R0,4 billion (R0,5 billion)
Impact on GDP		
Total	R2,5 billion	R2,4 billion (R2,4 billion)
South Africa	R2,0 billion	R2,0 billion (R2,0 billion)
SADC excluding South Africa	R0,5 billion	R0,4 billion (R0,4 billion)

Estimated economic impacts of DBSA funding (continued)		
Funding portfolio and indicator	**Estimated impact 2004/05**	**Estimated impact 2003/04**
Impact on employment (numbers)		
Total	14 713	12 417
South Africa	11 989	10 267
SADC excluding South Africa	2 724	2 150
Impact on low-income households		
Total	R0,4 billion	R0,3 billion (R0,3 billion)
South Africa	R0,3 billion	R0,3 billion (R0,3 billion)
SADC excluding South Africa	R0,1 billion	R0,0 billion (R0,0 billion)
Impact on capital utilisation		
Total	R6,0 billion	R6,1 billion (R6,3 billion)
South Africa	R4,5 billion	R5,3 billion (R5,4 billion)
SADC excluding South Africa	R1,5 billion	R0,8 billion (R0,9 billion)

1. *For more information on the economic model, contact the Corporate Secretary of the Development Bank. A more detailed report on the economic modelling is contained in the accompanying report on DBSA Activities of 2004/05.*
2. *2003/04 rand figures adjusted to 2004/05 prices in brackets.*

In the year under review, the development indicators have generally increased in the total SADC funding portfolios. For example, for total funds approved by the DBSA and co-funders, GDP, employment, income to low-income households and capital utilisation increased by 58 per cent, 47 per cent, 62 per cent and 41 per cent respectively (compared in constant prices). Only one indicator for all countries decreased, namely capital utilisation for disbursements, which fell by 4 per cent.

Based on the analysis carried out using the model, it is estimated that for the total funds approved by the Bank and its co-funders, an additional 36 475 job opportunities were created in the SADC region. The Bank's own disbursements are estimated to have created 14 713 employment opportunities, of which 11 989 are in South Africa. In both instances the number of employment opportunities increased, by 47 per cent for total funds approved and by 18 per cent for disbursements.

In general, the Bank's funding in 2004/05 was more labour-intensive than in 2003/04. This is due to significant differences in the composition of the funding portfolios in the two years. The water sector, for example, which is very capital-intensive, attracted 50 per cent of total funds approved by the DBSA and its co-funders in 2003/04, compared to 23 per cent in 2004/05. A high proportion of the jobs created were unskilled and semi-skilled (85 per cent in the SADC and 87 per cent in South Africa only), reflecting the Bank's efforts to address unemployment.

Capital is one of the basic production factors required for a functioning economy. To support the economic activity initiated by the Bank and its co-funders in the year under review, a capital amount of approximately R16,2 billion would have had to be employed directly and indirectly in the SADC (including South Africa). Indirect use refers to the capital required to produce materials and other inputs supplied to projects funded by the Bank. This constituted around 7 per cent of South Africa's gross fixed capital formation in 2004/05 (compared to 6 per cent during 2003/04).

In addition, the implementation of projects funded by the Bank produces more economic activity, from which the government derives additional fiscal revenue. Making broad assumptions in the model that the spending of this revenue follows the same pattern as the national budget, it is estimated that the Bank's projects during 2004/05 could produce the following, simultaneous, social benefits in South Africa:

Social impacts	**DBSA and co-funders: approvals**	**DBSA only: disbursements**
Additional educators appointed	2 947	946
Additional fully serviced hospital beds	552	177
Additional doctors appointed by government	57	18
Additional grant per beneficiary per annum (rands)	107	34
Additional low-cost houses constructed	2 770	889

Employing effective business processes

The Bank recognises the important role that effective business processes play in any organisation. It has therefore put considerable effort into its business process management programme, which was launched during the previous year, and was incorporated into the wider change management programme during the year under review. The value chain of the Bank has been decomposed into seven major and 22 second-level processes, grouped into:

- Business management processes, through which the performance expectations of the enterprise are planned and tracked
- Operational processes, through which the core business is executed
- Enabling processes, through which support capabilities, resources and services are delivered internally to the organisation

The business process management programme and the required supporting infrastructure have been institutionalised. Mapping of existing processes is largely complete and many of the new processes have also been finalised. The processes and support systems are being measured and improved to ensure that they enable the Bank as a whole to deliver effectively and efficiently on its Vision 2014 strategic goals and the Balanced Scorecard strategic objectives.

Change management

The Bank has long recognised that change will be a way of life for the foreseeable future, that "business as usual" is no longer adequate, and that readiness to change is absolutely essential in implementing the organisation's strategy and meeting the demands of the shareholder and other stakeholders. A holistic change management initiative was launched in June 2004 to address the additional cultural requirements as identified by senior management for delivery on Vision 2014.

The emphasis fell particularly on the four areas of leadership, innovation, communication and a performance-focused culture. Substantial effort has been devoted in the past year to defining the enhancements needed in each of these areas, and extensive programmes will be implemented during the 2005/06 financial year. A comprehensive change management approach is being applied to ensure that staff buy in and the initiatives are successfully adopted. These developments are described in more detail in the accompanying report on DBSA Activities of 2004/05.

Environmental report

The DBSA places particular emphasis on the environmental impact of its products and services, as well as that of its own operational activities. The Bank undertakes environmental performance management in several areas.

Biodiversity

In-house measures: Management and staff are committed to maintaining the biodiversity of the Bank's 26 ha site, which is valued from the point of view of both conservation and recreation. An area of veld on the site has been used for the construction of new buildings to accommodate the DBSA Vulindlela Academy, the Bank's new training facility for staff and clients.

External measures: The Bank's commitment to preserving biodiversity in the external environment has been demonstrated through the financial and advisory support that it rendered to several initiatives:

- The Bank, together with Conservation International and the local community, supported the Job Creation Trust in conducting a feasibility study on a holiday resort in the Niewoudtville area. The municipality has agreed to redesign the resort completely to conserve the unique succulent vegetation and optimise visitors' experience of the area's distinctive biodiversity.
- The Bank supported a Department of Water Affairs and Forestry initiative to design a biodiversity plan for several district municipalities falling under the Mzimvubu-Keiskamma Water Management Area, one of South Africa's largest catchment areas.
- The Bank serves on national steering committees and special national teams dealing with desertification, community-based natural resource management and other related biodiversity initiatives. In this capacity it ensures that commitments to various international conventions, made through initiatives such as the National Biodiversity Action Plan, are fulfilled.

Products and services concerned with the environment

In the period under review, the Bank supported a variety of projects concerned with the natural environment. Substantial progress was made on the anchor projects supported by the Bank's World Summit on Sustainable Development Programme. These include projects in the catchment area of the Klein River, near the towns of Stanford and Hermanus; the Working for Water Programme, which clears invasive alien vegetation on government land; and the Department of Agriculture's LandCare Programme, which helps private landowners to preserve indigenous fynbos.

The Bank also actively pursued several partnerships, including a Memorandum of Understanding with the World Bank, which facilitated the approval of South Africa's first Clean Development Mechanism hydro-power project through the World Bank's Prototype Carbon Fund. The DBSA is the World Bank's regional agent in identifying and proposing projects to the Clean Development Mechanism for emission reductions, and the above-mentioned project, which is located in Bethlehem, was the first to be approved under this agency agreement.

Compliance

The Bank is committed to complying with international best practice on environmental matters. It participates as an observer in the joint initiative between the UNEP Financial Institutions and the Global Reporting Initiative to develop environmental indicators for the banking and financial sector.

The Bank encourages its clients to implement best practice in their organisations. In this regard it has provided financial support to the Buffalo City Municipality for implementing an environmental management system and to the Makana Municipality for preparing a local environmental action plan.

Legal compliance is observed in all projects that the Bank invests in, and disbursements are only made once the required environmental permits have been issued by the relevant authorities.

Social report

As a state-owned development finance institution whose main aim is to improve the quality of life of the region's people and accelerate the sustainable reduction of poverty and inequity through the development of infrastructure, the Bank requires all its activities to be socially responsible. As in the previous year, the Bank follows the Global Reporting Initiative's guidelines for the financial industry in reporting on the social component of its triple bottom line.

The Bank continued to invest in key economic sectors and facilitate regional integration in the rest of the SADC region. These SADC countries, which fall into three categories broadly defined by the World Bank as low (Angola, Democratic Republic of Congo, Lesotho, Malawi, Mozambique, Tanzania, Zambia and Zimbabwe), lower-middle (Namibia and Swaziland) and upper-middle income (Botswana, Mauritius and Seychelles), accounted for almost 14 per cent of the Bank's loan book during the period under review. Approvals for investments in the low-income SADC countries constituted 82 per cent of this investment in the region, with the remaining 18 per cent being invested in Mauritius and Namibia.

Overall management of social issues

As sustainable development impact is a key perspective in the Corporate Balanced Scorecard, the appraisal process also ensures that the interventions the Bank supports will make an enduring difference to people's lives. It therefore assesses projects' anticipated impact on quality of life, human capital formation, gender equity, and empowerment.

To ensure consistent application of best practice in its operational work, the Bank has a number of internal Communities of Practice. During the year, the Social Community of Practice revised the social appraisal guidelines to take into account the Equator Principles and the revised International Finance Corporation (IFC) approach to social assessment; prepared the framework for the DBSA Corporate Social Responsibility Fund; and developed social impact indicators to be used at project level. The Bank embarked on this exercise to deepen its development impact and align itself with global and national imperatives.

Social sector work

As in previous years, in addition to assessing and appraising the social dimensions of programmes and projects, the Bank undertook policy and specialist work in the areas of human resource development, health, general human and social development, and gender equity.

Human resource development

The Bank provided input and advice on the development of institutional operating plans for the Universities of Zululand, Limpopo, Johannesburg and South Africa, and for Mangosuthu Technikon. It also helped develop and implement plans for strategy, academic guidance, human resources and physical facilities at the Waterberg College and provided technical assistance to eight other private further education and training institutions for strategic planning and physical facility guidelines. It compiled a report on the education sector in the Eastern Cape and published perspectives on education and training with respect to local government and further education and training.

Highly conscious of the deleterious effects of unemployment on human development, especially among the youth, the Bank undertook a study of youth and unemployment. The study concluded that the youth require sustained interventions, such as ensuring that the curricula of institutions of higher education and further education and training are aligned to the needs of the economy. Such interventions, together with mobilising young people at local level and massive reskilling programmes, are key to ensuring that the youth have a voice and are able either to find or create work opportunities.

The Bank's human development and social specialists were also involved with the social sector of the EPWP. As a result, the DBSA Development Fund will provide financial assistance to the Social Sector EPWP for conducting an institutional audit to scope the management requirements for mainstreaming the programme within and across the three national social division departments i.e. health, education and social development. The Fund will also support a study of potential work opportunities linked to expanding social service delivery within the EPWP.

In addition to this, the Bank, in partnership with the University of the Witwatersrand, began to explore ways of deepening and widening the sustainable development impact of South Africa's hosting of the 2010 Soccer World Cup, particularly with respect to poorer communities.

Health

The Bank's work in the health sector focused on HIV/Aids, particularly on voluntary counselling and testing, which is an essential component of the care, management and treatment of sufferers. The German government, through its development bank, the Kreditanstalt für Wiederaufbau (KfW), made available a grant of €9 million to fund the improvement of voluntary counselling and testing facilities in Mpumalanga, KwaZulu-Natal and Eastern Cape. The DBSA is responsible for implementing the programme in collaboration with the national and provincial Departments of Health.

National and provincial steering committees were formed to oversee the programme and specifically to guide the implementation of Phase 1, which entails facilities audits and performance evaluations of 300 clinics in the provinces. The Voluntary Counselling and Testing Consortium (including Africon and the Health Systems Trust), which was appointed to implement the programme, has submitted a Phase 1 report with detailed information on the status of the clinics in the provinces. The report is being used to inform provincial planning and to guide the prioritisation of clinics for upgrading, thus enabling improved delivery of services. The second phase of the programme (the upgrading) will commence during the 2005/06 financial year.

Gender equity

The Bank's externally focused gender equity programme for the year included its Women in Construction programme, which conducted monthly workshops in all the provinces, dealing mainly with providing access and ensuring successful participation for women in construction projects. Additional workshops were held to prepare women contractors in Gauteng to participate in the four-year Freedom Park project at Salvokop, Pretoria. As part of the Bank's World Summit on Sustainable Development Programme, a special provincial workshop series on sustainability in projects was also held country-wide for women in construction. In recognition of her contribution to promoting gender equity, the leader of the Bank's Women in Construction programme, Ingrid Verwey, received the international Crystal Vision Award at a gala event in the USA.

The Bank, in partnership with the Gender Advocacy Programme, has developed training material for building leadership capacity in local government. In addition, the Bank helped the Gender Advocacy Programme to facilitate dialogue between the media and women councillors in the Western Cape.

Social responsibility towards employees

Development of the Bank's human capital

The Development Bank adheres fully to the principle that it has a major social responsibility towards its staff. It prides itself on the progressive, supportive and comprehensive policies it has in place to attract and retain its most valuable asset – its human capital. The Bank revised and updated a number of its policies during the period under review, including its HIV/Aids assistance programme, its study grant policy, the Young Professionals programme and its policies on staff loans and housing schemes.

The Bank's employee assistance programme, which already offers life management counselling, was extended to include assistance programmes for HIV/Aids and funerals.

Employee turnover and job creation

The number of Bank employees, excluding contract workers and young professionals and interns who are placed on a temporary basis, remained constant at 490 on 31 March 2005. Staff turnover was higher than in the previous year. The number of permanent staff leaving was 26 in 2003/04 and 44 in 2004/05 – an increase from 5,4 per cent of staff to 9,0 per cent. The increase was particularly evident in the management and professional categories and in the African group, where the number rose from 11 in the previous year to 32 in 2004/05.

Senior management remuneration

The total remuneration for the Bank's executive managers is found in the notes to the financial statements on page 98.

Awards fostering sustainable success

The annual Chief Executive Awards programme was established in 2001 and is designed to recognise and reward mission-supportive behaviour, actions and contributions that go beyond the normal parameters of the work streams and Balanced Scorecard outputs of individuals and teams. Seven awards are made using criteria set out in the terms of reference. The submissions were evaluated taking into consideration principles of fair composition of nominees and equitable access to the selection process. As in previous years, the standard of entries was high.

Gender equity

To ensure greater gender equity and diversity internally, the Bank repeated a study done in the previous year to identify equity issues in the composition of its work teams and suggest how these could be addressed. A demand analysis was completed as the first step of a Women's Development programme. This is the start of a learning continuum, and implementation will continue during the 2005/06 financial year.

Employee profile

The employee profile as at 31 March 2005 was as follows:

Permanent employees	**African**		**Asian**		**Coloured**		**White**		**Total**
Job category	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	**Female**	**Male**	
Executives	3	3	–	–	–	–	–	1	7
Managerial	6	10	1	1	1	2	3	6	30
Professional	61	73	8	7	3	2	43	103	300
Support	78	28	3	1	3	2	35	3	153
Total	148	114	12	9	7	6	81	113	490
Actuals (%)	53		4		3		40		100
Targets (%)	54		3		9		34		100

The Bank continued to strive for a balanced staff complement within the employment equity strategic framework approved by the Board. As the table shows, African and Asian groups are very close to the targets, while coloured representation is below target, and white representation above target.

At present, Africans constitute 86 per cent of executives and whites 14 per cent. The gender ratio of male to female is 57:43.

At the managerial level, 53 per cent are African, 7 per cent Asian, 10 per cent coloured and 30 per cent white. The gender ratio of male to female is 63:37.

At the professional level, 45 per cent are African, 5 per cent Asian, 2 per cent coloured and 48 per cent white. The gender ratio of male to female is 62:38.

Support staff are 69 per cent African, 3 per cent Asian, 3 per cent coloured and 25 per cent white. The gender ratio of male to female is 22:78.

Non-permanent employees

In addition to the above permanent employees, the Bank has 76 contractors, 12 young professionals, 7 interns and 2 staff seconded to other institutions. This brings the overall staff complement to 587 as at 31 March 2005.

Training

The Bank continues to invest in staff education, training and development. During 2004/05, the Bank spent 5 per cent of the remuneration budget on training, which was lower than the target of 6 per cent but higher than the 2003/04 figure of 4,5 per cent. In addition, the Bank has established a training institute, the DBSA Vulindlela Academy, which will be launched in the coming months. This Academy will deliver capacity building to both internal staff and external clients of the Bank. It has established strategic partnerships with the Universities of the Witwatersrand, Limpopo, Stellenbosch and Zululand, and has also drawn up comprehensive plans with these institutions to provide adequate training interventions for Bank staff. In the year ahead, the Academy will shift its focus from designing training programmes to delivering them.

Social responsibility

The DBSA Corporate Social Responsibility Fund was established during the year. This complements the Bank's primary corporate social responsibility functions by providing grants to deserving projects that fall outside the Bank's infrastructure financing mandate yet demonstrate strong development impact potential. A primary focus of the Fund is short-term disaster relief. Other areas include support for educational initiatives and for community-based projects of a pilot nature, with strong potential for replication. A total of 11 projects, with a combined contribution of R5 million, were approved during the year. Of the total, over R3 million (68 per cent) went towards relieving natural disasters in the KwaZulu-Natal, Eastern Cape and Western Cape provinces. For more details refer to the accompanying report on DBSA Activities of 2004/05.

Suppliers

The Bank fully supports government's procurement policy designed to promote BEE and greater black involvement in the mainstream of the economy. It has both an internal procurement policy and a procurement committee to vet and approve the selection of all service suppliers.

Management deals directly with any complaints or problems related to its social responsibility towards suppliers. The Bank has set up a Procurement Support Office in April 2004. It was established particularly to improve interaction with suppliers.

Directors' opinion

In the opinion of the Directors, the financial statements fairly present the financial position of the Bank at 31 March 2005 and the results of its operations and cash flows for the year then ended. The financial statements were approved on 30 June 2005.

The Directors have no reason to believe that the business will not be a going concern in the year ahead. They are also of the opinion that the Bank complies, in all significant respects, with the provisions of the Public Finance Management Act, No. 1 of 1999.

Information required under Schedule 4 of the Companies Act

Share capital and dividends: The callable capital of the Bank is R4,8 billion and the paid-up capital R200 million. A nil dividend has been declared for the current financial year (2003/04: nil).

Directorate and Secretariat: The names of the members of the Board of Directors and the Secretariat appear on pages 10 to 13.

Board Committee memberships: Details appear in the corporate governance statement on page 45.

Directors' emoluments: Details appear on page 98.

Balance sheet

at 31 March 2005

	Notes	2005 R 000	2004 R 000
Assets			
Cash and cash equivalents	2	**2 006 530**	1 913 410
Other debtors	3	**17 780**	13 572
Financial market assets	4	**6 196 828**	5 723 157
Post-retirement medical benefits investment	5	**59 083**	53 142
Home ownership scheme loans	6	**19 715**	18 931
Development investments	7	**715 805**	280 537
Development loans	8	**15 606 714**	15 551 816
Property, plant and equipment	9	**145 058**	129 893
Total assets		**24 767 513**	23 684 458
Equity and liabilities			
Capital and reserves		**11 882 123**	11 197 045
Share capital	10	**200 000**	200 000
Permanent government funding	11	**3 792 344**	3 792 344
Revaluation reserve on land and buildings		**87 422**	87 422
Future cash flow hedge		**106 016**	38 870
Reserve for general loan risks		**554 915**	556 693
Valuation of financial instruments		**54 069**	39 807
Accumulated surplus		**7 087 357**	6 481 909
Liabilities		**12 885 390**	12 487 413
Other creditors	12	**577 351**	630 285
Financial market liabilities	13	**12 211 587**	11 752 042
Provision for post-retirement medical benefits	14	**96 452**	105 086
Total shareholder's equity and liabilities		**24 767 513**	23 684 458

Income statement

for the year ended 31 March 2005

	Notes	2005 R 000	2004 R 000
Operating income		**1 026 094**	1 445 741
Interest income	15	**2 321 337**	2 534 570
Interest paid	16	**(1 061 482)**	(1 100 771)
Net interest income		**1 259 855**	1 433 799
Movements in impairment	17	**(236 362)**	69 942
		1 023 493	1 503 741
Other income	18	**92 851**	26 019
Foreign exchange loss	19	**(117 574)**	(59 773)
Revaluation of financial instruments	20	**27 324**	(24 246)
Operating expenses		**(422 424)**	(382 327)
Technical assistance grants		**(34 242)**	(20 513)
Staff costs	21.1	**(244 534)**	(251 385)
General and administration expenses	21.2	**(130 558)**	(101 060)
Depreciation	9.1	**(13 090)**	(9 369)
Surplus from operations		**603 670**	1 063 414
Grant to Development Fund		**–**	(300 000)
Surplus for the year		**603 670**	763 414

Cash flow statement

for the year ended 31 March 2005

	Notes	2005 R 000	2004 R 000
Net cash inflow from operating activities		**1 807 111**	1 597 558
Interest received from development loans	24.1	**1 643 280**	1 859 359
Interest received from development investments	24.1	**30 438**	16 157
Interest received from investments	24.2	**600 999**	676 330
Interest paid	24.3	**(994 467)**	(1 050 487)
Cash generated from other operations	24.4	**526 861**	96 199
Net cash outflow from development activities		**(659 721)**	(1 229 264)
Development loan disbursements	8	**(2 590 651)**	(2 729 196)
Development loan principal repayments	24.1	**2 330 179**	1 538 378
Development investments		**(365 007)**	(17 933)
Technical assistance grants paid		**(34 242)**	(20 513)
Net cash outflow from investment activities		**(29 039)**	(9 894)
Replacement of property, plant and equipment		**(28 255)**	(8 567)
Home ownership scheme advances to employees		**(784)**	(1 327)
Net cash (outflow)/inflow from financing activities		**(1 025 231)**	249 242
Short-term financing repaid		**–**	(236 550)
Decrease in long-term liabilities		**550**	(1 223)
Financial market liabilities repaid		**(1 489 108)**	(661 081)
Financial market liabilities raised		**463 327**	1 148 096
Movement in cash and cash equivalents		**93 120**	607 642
Cash and cash equivalents at the beginning of the year		**1 913 410**	1 305 768
Cash and cash equivalents at the end of the year	2	**2 006 530**	1 913 410

Statement of changes in equity

for the year ended 31 March 2005

	Notes	2005 R 000	2004 R 000
Share capital	10	**200 000**	200 000
Permanent government funding	11	**3 792 344**	3 792 344
Grant Fund		**–**	–
Opening balance		**–**	70 000
Transfer to accumulated surplus		**–**	(70 000)
Revaluation reserve on land and buildings		**87 422**	87 422
Opening balance		**87 422**	77 682
Surplus on revaluation of buildings		**–**	9 740
Future cash flow hedge		**106 016**	38 870
Opening balance		**38 870**	18 017
Impact of adoption of AC133		**–**	(21 034)
Fair value adjustments of cash flow hedges		**67 146**	41 887
Reserve for general loan risks		**554 915**	556 693
Opening balance		**556 693**	–
Impact of adoption of AC133		**–**	533 527
Transfer to accumulated surplus		**(1 778)**	23 166
Revaluation of financial instruments		**54 069**	39 807
Opening balance		**39 807**	–
Impact of adoption of AC133		**–**	(26 056)
Movement in valuation of financial instruments:			
– fair value adjustment of available-for-sale financial market instruments		**14 262**	54 689
– fair value adjustment of available-for-sale development investments		**–**	11 174
Accumulated surplus		**7 087 357**	6 481 909
Opening balance		**6 481 909**	6 073 305
Surplus for the year		**603 670**	763 414
Impact of adoption of AC133		**–**	(401 644)
Transfer from reserve for general loan risks		**1 778**	(23 166)
Transfer from Grant Fund		**–**	70 000
Total capital and reserves at the end of the year		**11 882 123**	11 197 045

1. Accounting policies

1.1 Basis of accounting

The financial statements are prepared on a historical cost basis, except for property, plant and equipment, and financial instruments, as described in the relevant notes. The policies on which the annual financial statements are based conform with South African Statements of Generally Accepted Accounting Practice (SA GAAP). The following are the principal accounting policies used by the Bank, which are consistent with those used in the previous year, except where indicated otherwise.

Fair value information is not provided for insignificant financial assets, where it is impractical to obtain such information. The principal characteristics of those underlying financial instruments are, however, disclosed.

1.2 Financial instruments

1.2.1 Classification

Upon initial recognition, assets are designated as trading, or managed as part of a portfolio of trading assets which were acquired principally for the purpose of generating profit from short-term fluctuations in price and derivative assets that do not form part of an effective hedging relationship are classified as assets carried at fair value. Assets carried at fair value consist of money market instruments, capital market instruments and repurchase and reverse purchase agreements.

Originated loans and receivables are loans and receivables created by the Bank providing money to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise development loans and advances to customers other than purchased loans as well as bonds purchased at original issuance and collaterised debt transactions.

Held-to-maturity assets are financial assets with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. These include certain purchased loans and advances to customers and certain debt investments.

Available-for-sale financial assets are financial assets that are not held for trading purposes, originated by the Bank or held-to-maturity. Assets to be held for an indefinite period of time, which may be sold in response to need for liquidity, are classified as available-for-sale. Available-for-sale instruments are money market placements and certain debt and equity investments.

Cash and cash equivalents comprise cash and money market instruments. These are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Upon initial recognition, liabilities are designated as trading, or managed as part of a portfolio of trading liabilities which were acquired principally for the purpose of generating profit from short-term fluctuations in price and derivative liabilities that do not form part of an effective hedging relationship are classified as liabilities carried at fair value.

Capital market bonds, euro-rand bonds, lines of credit and other financial liability hedged items that do not form part of an effective hedging relationship are classified as funding liabilities carried at cost.

1.2.2 Recognition

The bank recognises financial assets held at fair value and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Held-to-maturity loans and originated loans and receivables are recognised on the day they are transferred to the Bank.

1.2.3 Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all assets and liabilities held at fair value and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

1.2.4 Fair value measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current credit status of the counterparties.

1.2.5 Gains and losses on subsequent measurement

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

Gains and losses arising from a change in the fair value of instruments held at fair value other than those classified as available-for-sale are recognised in the income statement.

1.2.6 Hedge accounting

If there is a hedging relationship between a derivative instrument and a related item being hedged, the hedged instrument is measured at fair value. The treatment of any resultant gains and losses is set out below.

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 reliably measured
- The hedge is highly effective throughout the reporting period
- 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

The fair value of derivative hedging instruments is calculated in the same way as the fair value of instruments held at fair value (refer to accounting note 1.2.4 above).

Derivative financial instruments are always deemed to be carried at fair value unless they are designated as effective hedging instruments and comply with the hedge accounting criteria.

The Bank utilises cross-currency swaps, 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 balance sheet and are reported as either positive or negative fair values.

Derivative instruments transacted as economic hedges but not qualifying for hedge accounting treatment are treated in the same way as instruments in the trading portfolio. These hedging instruments are reported as non-qualifying hedges.

Where a derivative financial instrument hedges the exposure to changes in the fair value of a recognised asset or liability, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses on remeasurement of both the hedging instrument and the hedged item are recognised in the income statement. These amounts are included in gains less losses from non-trading financial instruments.

Where a derivative financial instrument hedges the exposure to variability in the cash flows of recognised assets or liabilities or anticipated transactions or firm commitments, the effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in equity. The ineffective part of any gain or loss is recognised in the income statement.

When a hedged anticipated transaction or firm commitment results in the recognition of an asset or liability, the cumulative gain or loss on the hedging instrument recognised in equity is removed from equity and included in the initial measurement of the asset or liability. Otherwise the cumulative gain or loss recognised in equity is transferred to the income statement at the same time that the hedged transaction affects net profit or loss and included in the same line item as the hedged transaction.

When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss recognised in equity remains in equity and is recognised in accordance with the above policy. If the hedged transaction is no longer expected to occur, the cumulative gain or loss recognised in equity is recognised in the income statement immediately.

1.2.7 Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held at fair value that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Bank commits to sell the assets. The Bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the Bank.

1.2.8 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

1.2.9 Impairment

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Originated loans and advances and held-to-maturity loans

The recoverable amount of originated loans and advances and purchased loans that are classified as held-to-maturity is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term balances are not discounted.

Loans and advances are presented net of specific allowances for non-recoverability. Specific allowances are made against the carrying amount of loans and advances that are identified as being impaired based on regular reviews of outstanding balances to reduce these loans and advances to their recoverable amounts. The expected cash flows for portfolios of similar assets are estimated based on previous experience and considering the credit rating of the underlying customers and late payments of interest and penalties. Increases in the allowance account are recognised in the income statement. When a loan is known to be uncollectible, all the necessary legal procedures have been completed, and the final loss has been determined, the loan is written off directly.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down or allowance is reversed through the income statement.

Financial assets remeasured to fair value through equity

The recoverable amount of an equity instrument is its fair value. The recoverable amount of debt instruments and purchased loans remeasured to fair value is calculated as the present value of expected future cash flows discounted at the current market rate of interest.

Where an asset remeasured to fair value directly through equity is impaired, and a write-down of the asset was previously recognised directly in equity, the write-down is transferred to the income statement and recognised as part of the impairment loss. Where an asset measured to fair value directly through equity 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 equity is reversed to the extent that the asset is impaired. Any additional impairment loss is recognised in the income statement.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the income statement.

1.3 Foreign currency

Foreign currency transactions are recorded at the rate of exchange prevailing at the date of the transaction. At balance sheet date, monetary assets and liabilities denominated in foreign currency are reported using the closing exchange rate.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised foreign exchange differences on unsettled foreign monetary assets and liabilities, are recognised in the income statement.

1.4 Development investments

This represents equity, bills or bonds extended to unlisted institutions for financing of development programmes or projects.

Development investments are classified either as available-for-sale or held-to-maturity. Available-for-sale assets are carried at fair value and assets held-to-maturity are carried at amortised cost less impairment.

1.5 Development loans

A development loan is credit extended to institutions for the financing of development programmes or projects repayable over a specified loan period at agreed terms and conditions.

Development loans are treated as loans and receivables originated by the entity and are carried at amortised cost, using the effective interest rate method. Purchased loans that the Bank has the intent and the ability to hold to maturity are classified as held-to-maturity assets. Purchased loans that the Bank does not intend to hold to maturity are classified as available-for-sale assets.

The treatment of revenue recognition is described in note 1.8.

1.5.1 Impairment against development loans

Development loans are classified as non-performing when the payment of principal and interest has become 180 days past due or when, in the opinion of the Directors, the recovery of the whole loan or a portion thereof becomes doubtful. Once these loans have been identified as irrecoverable, an impairment provision is raised. The impairment provision is reviewed on a biannual basis and any changes are charged to the income statement. Factors that mitigate risk, such as the presence and quality of securities, are taken into consideration.

In addition, a reserve for general loan risks is maintained based on the risk grading of the applicable borrowers, in the following categories:

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

1.6 Property, plant and equipment

Items of property, plant and equipment which qualify for recognition as an asset are initially measured at cost. An impairment test is performed where there are indicators of impairment. If the recoverable amount is less than the carrying amount, the asset is impaired, and the impairment loss is recognised in the income statement. The recoverable amount is the higher of the net selling price of the asset or the value in use.

Where an asset is carried at a revalued amount, revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date.

Any revaluation surplus is included in equity.

Surpluses or deficits on the disposal of property, plant and equipment are credited to income. The surplus or deficit is the difference between the net disposal proceeds and the carrying amount of the asset.

1.6.1 Land

Land is stated at fair value. It is revalued every three years. No depreciation is provided.

1.6.2 Buildings

The building, including improvements, is stated at fair value at the date of revaluation, less accumulated depreciation and any subsequent accumulated impairment losses.

The revaluation surplus will be realised at the time of sale. The buildings are depreciated over their estimated useful life.

1.6.3 Other fixed assets

All other fixed assets, comprising furniture and fittings, motor vehicles, computer equipment and office equipment, are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation is provided on the straight-line basis, over the expected useful life of the asset.

Where the recoverable amount of an asset has declined, the carrying value is reduced to reflect the decline and is charged to the income statement.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant or equipment. All other expenditure is recognised in the income statement as an expense as incurred.

1.6.4 Rates of depreciation

The annual rates used to depreciate property, plant and equipment are as follows:

Buildings	4%
Furniture and fittings	10%
Motor vehicles	20%
Computer equipment	33,33%
Office equipment	20%

1.7 Provisions

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

1.8 Revenue recognition

Interest income on development loans is recognised as income on the accrual basis, taking into account the effective yield of the asset or the applicable floating interest rate. The interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Guarantee fees and commitment fees charged on development loans are recorded as income on the accrual basis as services are rendered.

Fees received in advance on the commencement of development loans are deferred and recognised as income over the lifetime of the loan.

Interest on other investments is recorded as income on the accrual basis, using the effective interest rate method.

Dividends are recognised when the Bank's right to receive payment is established. They are incorporated in other income, which is separately disclosed in the notes to the income statement.

Income received for non-banking services rendered to third parties is recognised as income when the services are rendered.

1.9 Borrowing costs

All borrowing costs are expensed in the period in which they are incurred. Discounts and premiums or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity are calculated on an effective interest rate basis.

1.10 Retirement benefits

1.10.1 Post-retirement medical benefits

Provision is made for post-retirement benefits in the form of health care plans for eligible employees and pensioners. This is a defined benefit plan.

The Bank has adopted the policy of accelerating the recognition of actuarial gains and losses by recognising them when they arise.

The Bank currently holds an investment that is used to fund the liability for the post-retirement medical benefit. This investment does not meet the definition of a "Plan Asset" and is therefore disclosed separately on the balance sheet.

1.10.2 Provident fund

The provident fund is a defined contribution fund. The Bank contributes to the provident fund on the basis of a fixed contribution. This fund does not require an actuarial valuation.

Current contributions to the provident fund operated for the benefit of employees are charged against income as incurred.

1.11 DBSA Development Fund

The DBSA Development Fund is a section 21 company that was incorporated on 21 December 2001. This fund is not consolidated as the definition of control is not met.

A full set of financials has been prepared in a separate Annual Report for the Development Fund.

1.12 Offsetting

Assets and liabilities are not offset except when offsetting is required or permitted by another South African Statement of Generally Accepted Accounting Practice.

Items of income and expenses are only offset when another South African Statement of Generally Accepted Accounting Practice requires or permits it, or the gains, losses and related expenses arising from the same or similar transactions and events are not material.

1.13 Contingent liabilities

Contingent liabilities are disclosed when a possible obligation arises from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events, not wholly within the control of the Bank, or where a present obligation exists but is not recognised because it is not probable that there will be an outflow of resources or the amount cannot be reliably estimated.

Contingent assets are disclosed where it is probable that an inflow of economic benefits will occur.

1.14 Events after balance sheet date

All adjusting events, both favourable and unfavourable, that occur between balance sheet date and the date when the financial statements are issued have been reported and adjusted in the financial statements.

Those events that are indicative of conditions that existed after balance sheet date are not adjusted for.

1.15 Comparative figures

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current period.

1.16 Funds administered on behalf of third parties

The Bank has entered into agreements with a number of development entities to administer funds on their behalf. The activities of these entities relate to development and include development research, policy formulation, grants and loans.

These funds are not included in the balance sheet of the Bank. Refer to note 27.

	2005 R 000	2004 R 000

2. Cash and cash equivalents

	2005 R 000	2004 R 000
Fixed deposits	**434 764**	130 000
Call deposits	**913 723**	1 566 435
Cash at bank	**605 436**	155 256
Accrued income on deposits and securities	**52 607**	61 719
	2 006 530	1 913 410

The average annual interest rate on cash and cash equivalents detailed above was 12,62% (2004: 10,60%).

3. Other debtors

	2005 R 000	2004 R 000
Staff loans	**1 008**	1 145
Other receivables	**21 861**	23 520
Less impairment	**(5 089)**	(11 093)
	17 780	13 572

	2005 R 000	2004 R 000

4. Financial market assets

	2005 R 000	2004 R 000
Held-to-maturity	**1 053 063**	380 500
Originated loans and receivables	**139 938**	7 569
Available-for-sale	**1 172 910**	2 070 583
Assets carried at fair value	**2 883 474**	2 519 634
Hedging instruments	**947 443**	744 871
	6 196 828	5 723 157

Full details of the financial market assets are contained in the schedule provided under note 31.

5. Post-retirement medical benefits investment

	2005 R 000	2004 R 000
Medipref Management Limited	**59 083**	53 142

This investment represents the market value of funds invested by the Bank to fund post-retirement medical benefits for eligible employees and pensioners. Medipref Management Limited invests in funds that consist of cash, interest-bearing investments, equities and international assets. Details of the post-retirement medical benefit liability are contained in note 14.

6. Home ownership scheme loans

	2005 R 000	2004 R 000
Home ownership scheme loans	**19 715**	18 931

The Bank operates a home ownership scheme. In terms of this scheme, mortgage bonds are provided to Bank employees at reduced interest rates. The Bank and Nedcor Bank Limited have entered into an agreement whereby Nedcor Bank Limited administers the loan scheme on behalf of the Bank.

All loans are secured by fixed property. Loans are provided to a maximum of 108% of the market value of the fixed property, to allow for transfer fees to be capitalised.

At 31 March 2005 the effective interest rate was 9,5% per year (2004: 10,0%).

7. Development investments

7.1 Available-for-sale

	2005 R 000	2004 R 000
7.1.1 American International Group African Infrastructure Fund (AIG)	**175 707**	57 944
Total contributions at cost	**132 365**	92 240
Plus fair value adjustment	**46 676**	(27 176)
Less foreign exchange adjustment	**(3 334)**	(7 120)

The Bank has contributed US$17 864 753 (2004: US$11 246 026) to the AIG Infrastructure Fund, which represents 6,7875% of the total shareholding.

	2005 R 000	2004 R 000
7.1.2 Commonwealth Africa Investments Limited	**24 183**	24 967
900 ordinary shares at cost	**5**	5
900 redeemable preference shares at cost, which represents 15,75% of the total preference shareholding	**52 518**	52 518
Less impairment	**(26 661)**	(21 858)
Less foreign exchange adjustment	**(1 679)**	(5 698)
The investment in Commonwealth Africa Investments Limited is denominated in US$.		
7.1.3 Continuity SA (Pty) Ltd	**642**	600
200 ordinary shares at cost	**600**	600
Plus fair value adjustment	**42**	–
The Bank's shareholding in Continuity SA represents 20% of the total shareholding.		
7.1.4 Durban Marine Theme Park (Pty) Ltd	**35 113**	50 000
1 unsecured, convertible debenture at cost	**50 000**	50 000
Less fair value adjustment	**(14 887)**	–
The debenture accrues interest at a non-compounding rate of 13% per annum, which will be accumulated and paid on redemption date.		
7.1.5 Ethos Technology Fund	**6 139**	4 250
Capital contributions at cost	**10 838**	4 250
Less fair value adjustment	**(4 699)**	–
The Bank has made a commitment of R25 million to the Ethos Technology Fund 1 Partnership SA. The Bank's shareholding in Ethos Technology Fund is 9,36% of the total shareholding.		
7.1.6 Franchise Fund	**1**	1
50 000 ordinary shares at cost	**50**	50
1 700 000 – 8% redeemable cumulative preference shares at cost	**1 700**	1 700
650 000 –15% redeemable debentures at cost	**650**	650
Less fair value adjustment	**(2 399)**	(2 399)
The 8% redeemable cumulative preference shares and the 15% redeemable debentures will be redeemed on 28 April 2005.		

	2005 R 000	2004 R 000
7.1.7 Millennium Consolidated Investments Equity	**38 993**	17 195
Capital contributions at cost	**44 117**	21 633
Less fair value adjustment	**(5 124)**	(4 438)

The Bank has made a commitment of R100 million to the MCI Value Partners Fund 1, which currently represents 33% of the aggregate committed capital of the Fund.

	2005 R 000	2004 R 000
7.1.8 New Africa Mining Fund	**30 370**	6 973
Capital contributions at cost	**32 357**	6 973
Less fair value adjustment	**(1 987)**	–

The Bank has made a commitment of R100 million to the Fund, which represents 17,74% of the total Fund.

	2005 R 000	2004 R 000
7.1.9 Pan-African Investment Partners Limited/ Pan-Commonwealth African Partners Limited	**44 555**	–
Capital contributions at cost	**41 731**	–
Add foreign exchange adjustment	**2 824**	–

The Bank has made a commitment of US$50 million to the Fund, which represents 24,5% of the total Fund.

	2005 R 000	2004 R 000
7.1.10 Proparco Investments	**7 337**	6 678
49 500 shares at cost	**4 891**	4 891
Add fair value adjustment	**2 363**	707
Add foreign exchange adjustment	**83**	1 080

This investment is denominated in euros and represents 0,56% of the total shareholding.

	2005 R 000	2004 R 000
7.1.11 Rich Rewards Trading 47 (Pty) Ltd trading as Remcor Mining		
200 ordinary shares at cost	**200**	–

The Bank's interest in Remcor represents 20% of its ordinary equity shareholding.

	2005 R 000	2004 R 000
7.1.12 Chuma Platinum SPV (Pty) Ltd	**63 612**	–
18 043 ordinary shares and shareholder's loan	**11 783**	–
51 829 preference shares at cost	**51 829**	–

The ordinary shares were issued at par value at a cost of R180 and represent an interest of 18,04%.

The shareholder's loan is interest free and repayable by mutual agreement. The redeemable preference shares accumulate dividends at a rate of 14,859%.

	2005 R 000	2004 R 000
7.1.13 Malibongwe Platinum SPV (Pty) Ltd	**25 370**	–
18 043 ordinary shares and shareholder's loan	**4 699**	–
20 671 preference shares at cost	**20 671**	–

The ordinary shares were issued at par value at a cost of R180 and represent an interest of 18,04%.

The shareholder's loan is interest free and repayable by mutual agreement. The redeemable preference shares accumulate dividends at a rate of 14,859%.

	2005 R 000	2004 R 000
7.1.14 Savannah Platinum SPV (Pty) Ltd	**159 018**	–
18 043 ordinary shares and shareholder's loan	**29 456**	–
129 562 preference shares at cost	**129 562**	–

The ordinary shares were issued at par value at a cost of R180 and represent an interest of 18,04%.

The shareholder's loan is interest free and repayable by mutual agreement. The redeemable preference shares accumulate dividends at a rate of 14,859%.

	2005 R 000	2004 R 000
7.1.15 Women's Private Equity Fund	**5 415**	2 256
Total investment at cost	**10 015**	3 618
Less fair value adjustment	**(4 600)**	(1 362)

The Bank has made a commitment of R35 million to the Women's Private Equity Fund 1. The Bank's interest in the Fund at 31 March 2005 is 27,2%.

7.2 Held-to-maturity

	2005 R 000	2004 R 000
7.2.1 Lepelle Northern Water Capital Project Bills	**99 150**	109 673
Capital project bills at cost	**28 351**	30 678
Unamortised discount	**70 799**	78 995
Discount capitalised	**102 564**	102 564
Less discount recognised	**(31 765)**	(23 569)

The Capital project bills had an original nominal value of R132,2 million and have maturities varying from 30 April 2000 to 31 October 2005.

	2005 R 000	2004 R 000

8. Development loans

8.1 Analysis of development loans

Balance at the beginning of the year	**16 048 602**	15 037 891
Impact of adoption of AC133	**–**	215 179
Adjusted balance at the beginning of the year	**16 048 602**	15 253 070
Movements during the year:	**354 161**	795 532
– Loans disbursed	**2 590 651**	2 729 196
– Contractual interest	**1 771 523**	1 829 454
Interest per income statement	**1 699 010**	1 776 887
Impairment of current year interest	**72 513**	52 567
– Development loans written off	**(10 781)**	(33 924)
– Revaluation of foreign loans	**(23 773)**	(331 457)
– Gross repayments	**(3 973 459)**	(3 397 737)
Gross development loans	**16 402 763**	16 048 602
Impairment against development loans (per note 8.9)	**(796 149)**	(496 786)
Net development loans	**15 606 714**	15 551 816

The weighted average return on the loan book was 11,06% (2004: 11,00%)

8.2 Maturity analysis of development loans

2005	**–**	2 117 406
2006	**1 978 934**	1 199 094
2007	**850 812**	763 524
2008	**1 521 273**	1 310 920
2009	**1 248 522**	1 068 491
2010–2014	**5 958 026**	5 726 083
2015–2019	**3 654 663**	3 039 117
2020 and thereafter	**1 190 533**	823 967
	16 402 763	16 048 602

8.3 Sectoral analysis

Commercial infrastructure	**2 130 172**	2 234 136
Communication and transport infrastructure	**799 526**	1 007 722
Energy	**3 395 333**	3 024 461
Human resources development	**476 433**	569 047
Institutional infrastructure	**12 343**	15 623
Residential facilities	**742 162**	88 840
Roads and drainage	**2 062 177**	2 145 257
Sanitation	**953 070**	1 636 780
Social infrastructure	**753 558**	464 909
Water	**5 077 989**	4 861 827
	16 402 763	16 048 602

	2005 R 000	2004 R 000

8.4 Geographical analysis

	2005 R 000	2004 R 000
Eastern Cape	**849 324**	836 095
Free State	**675 015**	725 450
Gauteng	**3 250 710**	3 905 593
KwaZulu-Natal	**3 649 425**	3 343 220
Limpopo	**598 580**	593 236
Mpumalanga	**815 454**	808 053
North West	**591 570**	508 148
Northern Cape	**202 007**	168 789
Western Cape	**1 520 988**	1 346 216
Multi-regional – South Africa	**215 576**	212 591
SADC (excluding South Africa)*	**4 034 114**	3 601 211
– Botswana	**251 875**	269 158
– Lesotho	**543 762**	587 954
– Malawi	**134 258**	64 002
– Mauritius	**255 444**	164 639
– Mozambique	**1 255 207**	975 531
– Namibia	**620 424**	502 688
– Swaziland	**189 280**	172 124
– Zambia	**549 994**	452 579
– Multinational	**233 870**	412 536
	16 402 763	16 048 602
*Amount in US$ included in the above SADC loans	**212 352**	225 403

8.5 Client classification

	2005 R 000	2004 R 000
Development finance institutions	**148 763**	156 571
Educational institutions	**416 028**	533 360
Local government	**7 576 247**	7 689 496
National and provincial government	**476 851**	433 850
Private sector	**3 442 717**	3 104 605
Public utilities	**4 342 157**	4 130 720
	16 402 763	16 048 602

8.6 Fixed and variable interest rate loans

	2005 R 000	2004 R 000
Fixed interest rate loans	**10 504 221**	9 302 412
Variable interest rate loans	**5 898 542**	6 746 190
	16 402 763	16 048 602

	2005 R 000	2004 R 000

8.7 Non-performing loans

8.7.1 Sectoral analysis

	2005 R 000	2004 R 000
Commercial infrastructure	**452 882**	429 837
Communication and transport infrastructure	**168 773**	291
Energy	**75 990**	66 400
Human resources development	**9 048**	1 838
Institutional infrastructure	**907**	849
Roads and drainage	**47 958**	35 619
Sanitation	**134 334**	124 848
Social infrastructure	**25 930**	12 225
Water	**100 990**	85 160
	1 016 812	757 067

8.7.2 Geographical analysis

	2005 R 000	2004 R 000
Eastern Cape	**49 767**	48 645
Free State	**154 295**	191 699
Gauteng	**144 979**	44 645
KwaZulu-Natal	**18 761**	3 332
Limpopo	**–**	91 566
Mpumalanga	**44 631**	47 204
North West	**242 508**	192 396
Northern Cape	**31 089**	23 469
Northern Province	**42 650**	–
Western Cape	**12 445**	11 139
Multi-regional – South Africa	**29 102**	25 927
SADC (excluding South Africa)	**232 234**	77 045
– Malawi	**72 077**	64 002
– Swaziland	**154 518**	7 953
– Mozambique	**5 639**	5 090
Botswana	**14 351**	–
	1 016 812	757 067

8.7.3 Client classification

	2005 R 000	2004 R 000
Development finance institutions	**60 770**	54 565
Educational institutions	**8 365**	1 269
Local government	**354 534**	287 942
National and provincial government	**–**	8 668
Private sector	**219 200**	94 472
Public utilities	**373 943**	310 151
	1 016 812	757 067

	2005 R 000	2004 R 000
8.8 Client concentration		
One client as percentage of total loan portfolio	**11,8%**	9,8%
Seven clients as percentage of total loan portfolio	**35,7%**	38,4%
8.9 Impairment against development loans		
Balance at the beginning of the year	**496 786**	912 617
Impact of adoption of AC133	**–**	(340 575)
– Reversal of loan loss provision	**–**	(912 617)
– Raising of impairment	**–**	572 042
	496 786	572 042
Impairment of current year interest	**72 513**	52 567
Loans written off during the year	**(10 781)**	(33 924)
Income statement movement	**237 531**	(93 899)
– Specific impairment	**237 531**	(24 232)
– Change in estimate	**–**	(69 667)
Balance at the end of the year	**796 049**	496 786

9. Property, plant and equipment

9.1 Reconciliation of property, plant and equipment

	Revalued land R 000	Revalued buildings R 000	Computer equipment R 000	Furniture and fittings R 000	Motor vehicles R 000	Office equipment R 000	Total R 000
At 31 March 2005							
Cost or revaluation							
At the beginning of the year	18 800	110 127	35 162	2 250	663	3 430	170 432
Additions	–	22 578	3 853	1 085	359	380	28 255
At the end of the year	18 800	132 705	39 015	3 335	1 022	3 810	198 687
Accumulated depreciation							
At the beginning of the year	–	11 684	25 703	608	378	2 166	40 539
Total depreciation for the current year	–	4 058	6 733	1 530	111	658	13 090
Depreciation on buildings – historical cost	–	1 714	6 733	1 530	111	658	10 746
Depreciation on buildings – revalued	–	2 344	–	–	–	–	2 344
At the end of the year	–	15 742	32 436	2 138	489	2 824	53 629
Net book value	18 800	116 963	6 579	1 197	533	986	145 058
At 31 March 2004							
Cost or revaluation							
At the beginning of the year	18 800	99 070	29 821	1 194	663	2 577	152 125
Revaluation	–	9 740	–	–	–	–	9 740
Additions	–	1 317	5 341	1 056	–	853	8 567
At the end of the year	18 800	110 127	35 162	2 250	663	3 430	170 432
Accumulated depreciation							
At the beginning of the year	–	7 713	20 926	482	248	1 801	31 170
Total depreciation for the current year	–	3 971	4 777	126	130	365	9 369
Depreciation on buildings – historical cost	–	1 627	4 777	126	130	365	7 025
Depreciation on buildings – revalued	–	2 344	–	–	–	–	2 344
At the end of the year	–	11 684	25 703	608	378	2 166	40 539
Net book value	18 800	98 443	9 459	1 642	285	1 264	129 893

	2005 R 000	2004 R 000

9.2 Valuation

9.2.1 Land

The land constitutes Portion 465 (of Portion 442) of the farm Randjesfontein 405 measuring 25,066 hectares donated by the South African Government.

The land was valued at a fair value of R18,8 million by Davis Langdon Farrow Laing, an independent quantity surveyor, on 31 March 2004, using the sales comparison approach. This valuation did not change from the previous valuation, which was also performed by Davis Langdon Farrow Laing on 31 March 2001.

9.2.2 Buildings

The buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R22,6 million were effected during the 2005 financial year (2004: R1,32 million).

The buildings are valued every three years and were valued at R109,9 million on a replacement value basis by Davis Langdon Farrow Laing, an independent quantity surveyor, on 31 March 2004, using the income capitalisation approach.

The historical book value of the buildings is R58,368 million (2004: R39,848 million).

10. Share capital

	2005 R 000	2004 R 000
Authorised		
500 000 ordinary shares at a par value of R10 000 each	**5 000 000**	5 000 000
Issued capital		
20 000 ordinary shares at a par value of R10 000 each	**200 000**	200 000
Callable capital		
480 000 ordinary shares at a par value of R10 000 each	**4 800 000**	4 800 000

The Development Bank of Southern Africa Limited Act, No. 13 of 1997, section 18, allows Directors to issue shares from time to time and to call upon the shareholders in respect of any moneys to be paid to the Bank.

The Board may, with the approval of the shareholder previously given at a shareholder's meeting, increase the share capital of the Bank.

	2005 R 000	2004 R 000

11. Permanent government funding

This represents capital provided by the South African government and remains part of the permanent capital of the Bank. No funds have been received since March 1994.

There are no repayment terms and this funding is interest-free.

	2005 R 000	2004 R 000
Received to date	**3 792 344**	3 792 344

12. Other creditors

	2005 R 000	2004 R 000
Trade creditors and sundry accruals	**70 893**	63 226
DBSA Development Fund	**301 237**	385 702
Provision for funeral benefits (see note 12.1)	**2 925**	–
Accruals for leave pay, bonuses and retirements (see note 12.2)	**52 338**	28 252
Accrued interest	**149 958**	153 105
	577 351	630 285

12.1 Provision for funeral benefits

This benefit is in respect of all current and retired employees of the Bank.

In respect of these employees, an amount of R20 000 is paid out to the family upon the death of the employee or retired alumnus.

The obligation was actuarially valued on 31 March 2005.

The principal assumptions in determining the funeral benefits obligation are as follows:

	2005	2004
Discount rate (before taxation)	**8,5%**	–

The projected unit method has been used to determine the actuarial valuation.

12.2 Accruals for leave pay, bonuses and retirements

	2005 R 000	2004 R 000
Leave pay accrual	**13 488**	14 150
Bonus accrual	**27 000**	14 102
Retirements accrual	**11 850**	–
	52 338	28 252

	2005 R 000	2004 R 000

13. Financial market liabilities

Liabilities carried at fair value	**955 790**	718 857
Hedging instruments	**43 423**	94 767
Hedged items	**4 108 620**	3 733 057
Liabilities carried at cost	**6 474 496**	6 731 450
Non-qualifying hedged items	**629 258**	473 911
	12 211 587	11 752 042

Full details of the financial market liabilities are contained in the schedule provided under note 31.

14. Provision for post-retirement medical benefits

This benefit is in respect of current and retired employees of the Bank who are currently members of Discovery Health.

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

In respect of these employees, 100% of the medical aid contributions are paid by the Bank.

The investment in Medipref as specified in note 5 has been set aside to fund this obligation.

The related obligation, which was actuarially valued, is detailed below:

Present value of obligation at 31 March 2004	**105 086**	66 095
Interest cost	**9 563**	6 722
Current service cost	**7 327**	8 593
Benefits paid	**(2 339)**	(2 089)
Actuarial (gain)/loss for the year	**(23 185)**	25 765
Present value of obligation at 31 March 2005	**96 452**	105 086
Market value of Medipref at 31 March 2004	**53 142**	46 795
Increase in market value for the year	**5 941**	6 347
Market value of Medipref at 31 March 2005	**59 083**	53 142

The principal assumptions in determining the post-retirement medical benefits obligation are as follows:

– Discount rate (before taxation)	**8,5%**	9,0%
– Medical aid inflation rate	**6,5%**	8,0%

The projected unit credit method has been used to determine the actuarial valuation.

	2005 R 000	2004 R 000

15. Interest income

	2005 R 000	2004 R 000
Development loans (refer to note 15.1)	**1 699 010**	1 776 887
Development investments	**21 333**	94 945
Government stock	**142 011**	366 803
Money market	**388 306**	200 273
Capital market	**66 783**	88 966
Home ownership	**1 882**	2 211
Other interest received	**2 012**	4 485
	2 321 337	2 534 570

15.1 Client classification

	2005 R 000	2004 R 000
Development finance institutions	**5 204**	12 676
Educational institutions	**43 883**	60 487
Local government	**864 089**	950 044
National and provincial government	**53 559**	49 812
Private sector	**322 746**	313 509
Public utilities	**409 529**	390 359
	1 699 010	1 776 887

16. Interest paid

	2005 R 000	2004 R 000
Registered bonds	**515 845**	566 156
Foreign loans	**304 644**	305 104
Other	**240 993**	229 511
	1 061 482	1 100 771

17. Movements in impairment

	2005 R 000	2004 R 000
Other debtors, including sundry write-offs	**(5 972)**	6 018
Development investments	**4 803**	17 939
Development loans	**237 531**	(93 899)
	236 362	(69 942)

18. Other income

	2005 R 000	2004 R 000
Non-interest income		
– Fees and sales	**45 237**	13 659
– Dividend income	**25 599**	9 167
Less recovered expenses	**(871)**	(543)
– Consultants	**(603)**	(78)
– Travel and subsistence	**(268)**	(465)
	69 965	22 283
Sundry income	**22 886**	3 736
	92 851	26 019

	2005 R 000	2004 R 000

19. Foreign exchange loss

	2005 R 000	2004 R 000
Foreign exchange loss on development loans	**(7 586)**	(392 383)
Foreign exchange gain on development investments	**9 633**	4 952
Foreign exchange (loss)/gain on funding	**(47 139)**	427 880
Foreign exchange loss on hedging derivatives	**(72 482)**	(100 222)
	(117 574)	(59 773)

20. Revaluation of financial instruments

	2005 R 000	2004 R 000
Revaluation of currency hedging derivatives	**77 179**	22 703
Revaluation of "held for trading" capital market financial instruments	**5 543**	(39 582)
Revaluation of "held for trading" money market financial instruments	**(4 828)**	(575)
Revaluation of hedged funding	**(409 698)**	3 725
Revaluation of ZAR interest hedging derivatives	**359 128**	(10 517)
	27 324	(24 246)

21. Operating expenses

21.1 Staff costs

	2005 R 000	2004 R 000
Post-retirement medical benefits provision movement (refer to note 21.1.1)	**(14 575)**	32 644
Other staff costs	**259 109**	218 741
	244 534	251 385

Included in other staff costs are Directors' emoluments and Executive management remuneration, as follows:

	2005 R 000	2004 R 000
Directors' emoluments	**3 736**	3 717
Executive management remuneration	**10 720**	7 315
	14 456	11 032

Full details are provided in the Schedule of Directors' emoluments, note 30.

21.1.1 Movement in post-retirement medical benefits provision

	2005 R 000	2004 R 000
Medipref investment	**(5 941)**	(6 347)
Present value of obligation	**(8 634)**	38 991
	(14 575)	32 644

Details are included in note 14.

	2005 R 000	2004 R 000
21.2 General and administration expenses		
are arrived at after taking into account:		
Auditors' remuneration	**4 776**	3 983
– audit fee	**4 670**	3 927
– expenses	**106**	56
Technical services	**20 418**	18 506
Communication costs	**5 140**	5 835
Information technology	**28 344**	19 604
Regional Services Council levies	**4 457**	3 981
Subsistence and travel	**17 219**	15 325
Other	**50 204**	33 826
	130 558	101 060

22. Taxation

The Bank is exempt from normal taxation in terms of the Income Tax Act, No. 58 of 1962, as amended, section 10(1)(t)(x), and consequently no provision for normal taxation has been made.

23. Retirement benefits

23.1 Defined contribution plan

The Development Bank of Southern Africa Provident 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 Fund Act, No. 24 of 1956, is a defined contribution plan for employees on the permanent staff of the Bank.

The number of employees covered by the plan: 498 (2004: 567).

	2005 R 000	2004 R 000
Total amount expensed during the year (including Group Life Assurance and Income Continuity Benefits) amounted to	**28 155**	28 093

23.2 Medical aid

	2005 R 000	2004 R 000
Bank contributions	**15 425**	14 431

The number of employees belonging to the medical aid: 494 (2004: 482).

	2005 R 000	2004 R 000

24. Cash flow statement

24.1 Interest received from development activities

	2005 R 000	2004 R 000
Gross development loan repayments (refer to note 8)	3 973 459	3 397 737
Principal repayments	(2 330 179)	(1 538 378)
Interest received from development loans	1 643 280	1 859 359
Interest received from development investments	30 438	16 157
	1 673 718	1 875 516

24.2 Interest received from investments

	2005 R 000	2004 R 000
Accrued interest at the beginning of the year	46 656	60 249
– Accrued interest	61 719	75 518
– Accrued interest on development investments	(15 063)	(15 269)
Credited to income statement for the year	606 950	662 737
Accrued interest at the end of the year	(52 607)	(46 656)
– Accrued interest	(52 607)	(61 719)
– Accrued interest on development investments	–	15 063
	600 999	676 330

24.3 Interest paid

	2005 R 000	2004 R 000
Accrued interest at the beginning of the year		
– Other creditors (refer to note 12)	153 105	164 423
Charged to income statement for the year		
– Interest expense (excluding unrealised foreign exchange gains and losses)	991 320	1 039 169
Accrued interest at the end of the year		
– Other creditors (refer to note 12)	(149 958)	(153 105)
	994 467	1 050 487

24.4 Cash generated from other operations

	2005 R 000	2004 R 000
Surplus for the year	603 670	763 414
Adjustments for:		
– Movement in provisions	293 649	(377 854)
– Technical assistance grants paid	34 242	20 513
– Interest expensed	752 382	760 928
– Interest received from investments	(606 951)	(662 737)
– Interest received from development loans and investments	(1 714 386)	(1 871 833)
– Depreciation	13 090	9 369
– Foreign exchange revaluation	34 554	757 487
– Payment to Development Fund	–	300 000
– Decrease in financial market instruments	1 065 398	84 075
– Decrease in other debtors	24 174	50 555
– Increase in other creditors	27 039	262 282
	526 861	96 199

	2005 R 000	2004 R 000

25. Commitments

At the date of the balance sheet, the Bank had the following commitments:

25.1 Loan commitments

	2005 R 000	2004 R 000
Loans approved by the Board of Directors but not signed	**3 841 863**	2 741 857
Loans signed but not disbursed	**3 197 456**	2 351 318
	7 039 319	5 093 175

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.

25.2 Technical assistance grants

	2005 R 000	2004 R 000
Grants approved by the Board of Directors but not signed	**27 240**	12 980
Grants signed but not disbursed	**31 734**	26 465
	58 974	39 445

The above loan and grant commitments are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

25.3 Capital commitments

	2005 R 000	2004 R 000
Capital expenditure authorised but not contracted for	**61 592**	55 613

These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity.

26. Contingent liabilities

26.1 Employee loans

The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees.

	2005 R 000	2004 R 000
Loan balances secured	**483**	604

	2005 R 000	2004 R 000
26.2 Guarantees		
The Bank has approved and issued guarantees on behalf of borrowers amounting to	**220 000**	220 000
It is the opinion of management that the borrower is unlikely to default, and therefore this guarantee was not recognised in the balance sheet as a liability.		
Total value of credit line (principal amount) and current exposure	**200 000**	200 000
The Bank guarantees the payment of any sum of principal, interest, commission, damages, expenses and any other sum to a maximum aggregate of 110% of the principal amount. These guarantees are uncollateralised.		
26.3 Regional Services Council	**1 091**	1 091
At 31 March 2005, there was a contingent liability in respect of interest payable to the Regional Services Council. This matter is under dispute. No interest has been accrued during the current financial year.		

27. Funds administered on behalf of third parties

Balance at the beginning of the year	**150 159**	251 771
Funds received	**339 589**	171 907
Funds disbursed	**(363 869)**	(273 519)
Funds at the end of the year	**125 879**	150 159

28. Related parties

The Bank made no grant to the DBSA Development Fund in the current financial year (2004: R300 million).

For details of the intercompany loan account, please refer to note 12.

In addition, a management contract exists whereby the Bank provides certain administrative services to the Development Fund.

29. Events after balance sheet date

There were no events occurring after the balance sheet that require any adjustment or disclosure.

30. Schedule of Directors' emoluments

30.1 Non-executive directors' remuneration

	Fees for services as directors R	Subsistence and travel R	Total 2005 R	Total 2004 R
I Abedian	172 500	2 130	174 630	193 442
L Abrahams	184 725	1 662	186 387	218 737
T Chikane	37 500	780	38 280	–
B Figaji	42 225	–	42 225	30 246
N Gasa	42 225	2 280	44 505	7 710
L Gwagwa	7 500	588	8 088	–
D Konar	187 500	1 440	188 940	226 394
JB Magwaza	172 500	–	172 500	238 349
J Naidoo (Chair)	315 000	1 800	316 800	350 281
S Nondwangu	22 500	645	23 145	–
H Nyasulu	19 725	–	19 725	23 810
I Sehoole	27 225	1 080	28 305	39 523
N Sowazi	15 000	300	15 300	42 761
M Vilakazi	22 500	495	22 995	46 745
	1 268 625	13 200	1 281 825	1 417 998

Fees for services as directors of the DBSA Development Fund

H Nyasulu	247 500	273 718
M Vilakazi	23 445	16 743

Refer to the financial statements of the DBSA Development Fund for further details regarding these fees.

30.2 Executive members' remuneration

	Basic salaries R	Medical aid, group life and provident fund contributions R	Other allowances and benefits R	Performance incentives[1] R	Total 2005 R	Total 2004 R
Chief Executive Officer and Managing Director						
MSV Gantsho	2 083 732	123 956	246 770	–	2 454 458	2 298 715
Executive managers	6 638 929	914 026	29 233	3 137 418	10 719 606	7 315 035
JH de V Botha	1 408 899	34 530	17 955	625 599	2 086 983	1 675 892
ZJ Matlala	1 055 826	200 795	–	609 293	1 865 914	1 225 177
LM Musasike	1 090 798	182 722	–	564 480	1 838 000	1 416 556
SJ Khoza	1 067 595	212 394	–	531 799	1 811 788	1 314 411
AK Mohammed[2]	245 135	6 003	–	–	251 138	941 033
D Moephuli[3]	735 317	114 624	–	386 080	1 236 021	–
J Nhlapo[4]	216 100	–	–	–	216 100	741 966
L Mashaba[3]	819 259	162 958	11 278	420 167	1 413 662	–
Total	8 722 661	1 037 982	276 003	3 137 418	13 174 064	9 613 750

Notes:

1. *Performance incentives are in respect of the year ended 31 March 2005, but will be paid during the year ending 31 March 2006.*
2. *Resigned 30 June 2004.*
3. *Appointed 1 June 2004.*
4. *Transferred to Development Fund 1 June 2004.*

31. Financial market assets and liabilities

Classification	Currency	2005 Carrying value R 000	2005 Fair value R 000	2005 <1 year R 000	2005 1–5 years R 000	2005 >5 years R 000	Weighted average interest rate %	2004 Carrying value R 000	2004 Fair value R 000	2004 Current R 000	2004 Non-current R 000
Financial market assets		6 196 828	6 251 263	2 309 050	639 047	3 248 731		5 644 965	5 644 965	2 326 324	3 318 641
Held to maturity		1 053 063	1 107 498	–	–	1 053 063		380 500	380 500	–	380 500
Capital market instruments											
Government bonds											
R194		803 091	832 705	–	–	803 091	10,00	380 500	380 500	–	380 500
Municipal investments		249 972	274 793	–	–	249 972		–	–	–	–
COJ01		50 034	50 026	–	–	50 034	11,95	–	–	–	–
COJ02		199 938	224 767	–	–	199 938	11,90	–	–	–	–
Originated loans and receivables		139 938	139 938	139 938	–	–		7 569	7 569	7 569	–
Cash and other deposits											
Funds under management		139 938	139 938	139 938	–	–	–	7 569	7 569	7 569	–
Available for sale		1 172 910	1 172 910	945 677	157 464	69 769		2 070 583	2 070 583	1 019 172	1 051 411
Capital market instruments		1 023 142	1 023 142	795 909	157 464	69 769		1 903 554	1 903 554	852 143	1 051 411
Government bonds		732 431	732 431	714 334	–	18 097		1 659 697	1 659 697	811 961	847 736
R151		–	–	–	–	–	12,00	811 961	811 961	811 961	–
R152		714 334	714 334	714 334	–	–	12,00	830 279	830 279	–	830 279
R153		18 097	18 097	–	–	18 097	13,00	17 457	17 457	–	17 457
Corporate bonds		290 711	290 711	81 575	157 464	51 672		243 857	243 857	40 182	203 675
AB02		81 741	81 741	–	81 741	–	14,25	57 301	57 301	–	57 301
DCF01		30 000	30 000	30 000	–	–	8,54	30 195	30 195	–	30 195
IV01		13 031	13 031	–	–	13 031	16,00	12 277	12 277	–	12 277
IV02		37 969	37 969	–	37 969	–	12,55	36 388	36 388	–	36 388
LB01		38 641	38 641	–	–	38 641	11,50	–	–	–	–
RW01		20 390	20 390	20 390	–	–	12,00	–	–	–	–
SBK3		37 754	37 754	–	37 754	–	11,25	35 895	35 895	–	35 895
SBK4		–	–	–	–	–	12,50	40 182	40 182	40 182	–
T017		31 185	31 185	31 185	–	–	12,00	31 619	31 619	–	31 619
Money market instruments		149 768	149 768	149 768	–	–		167 029	167 029	167 029	–
Debentures		–	–	–	–	–	–	167 029	167 029	167 029	–
Negotiable certificates of deposit		50 160	50 160	50 160	–	–	6,85	–	–	–	–
Promissory notes discount		49 241	49 241	49 241	–	–	4,56	–	–	–	–
Promissory notes yield		50 367	50 367	50 367	–	–	–	–	–	–	–

31. Financial market assets and liabilities (continued)

Classification	Currency	2005 Carrying value R 000	2005 Fair value R 000	2005 <1 year R 000	2005 1–5 years R 000	2005 >5 years R 000	Weighted average interest rate %	2004 Carrying value R 000	2004 Fair value R 000	2004 Current R 000	2004 Non-current R 000
Assets carried at fair value		2 883 474	2 883 474	716 296	92 194	2 074 984		2 537 929	2 537 929	969 720	1 568 209
Capital market Instruments		1 931 398	1 931 398	–	10 000	1 921 398		1 452 563	1 452 563	–	1 452 563
Government bonds		1 921 398	1 921 398	–	–	1 921 398		1 401 000	1 401 000	–	1 401 000
R153		794 324	794 324	–	–	794 324	13,00	766 286	766 286	–	766 286
R157		1 117 333	1 117 333	–	–	1 117 333	13,50	634 714	634 714	–	634 714
R153 funds under management		9 741	9 741	–	–	9 741	–	–	–	–	–
Corporate bonds		10 000	10 000	–	10 000	–	–	51 563	51 563	–	51 563
AB02		–	–	–	–	–	–	20 837	20 837	–	20 837
AB04		10 000	10 000	–	10 000	–	8,86	10 011	10 011	–	10 011
RW01		–	–	–	–	–	–	20 715	20 715	–	20 715
Money market instruments		**699 908**	**699 908**	**699 908**	**–**	**–**		**968 585**	**968 585**	**968 585**	**–**
Negotiable certificates of deposit		67 482	67 482	67 482	–	–	6,85	–	–	–	–
Promissory notes discount		–	–	–	–	–	–	29 468	29 468	29 468	–
Funds under management		177 646	177 646	177 646	–	–	6,85	236 853	236 853	236 853	–
Repurchase agreements		454 780	454 780	454 780	–	–	7,50	702 264	702 264	702 264	–
Positive economic hedges		**252 168**	**252 168**	**16 387**	**82 193**	**153 588**		**116 781**	**116 781**	**1 135**	**115 646**
Agence Française de Développement 1											
– interest rate swap		149 648	149 648	7 829	60 684	81 135	–	62 193	62 193	–	62 193
Agence Française de Développement 3.1											
– cross-currency swap		8 916	8 916	2 229	6 687	–	7,67	6 610	6 610	(112)	6 722
Agence Française de Développement 3.3											
– cross-currency swap		3 536	3 536	505	3 031	–	10,27	5 276	5 276	646	4 630
Kreditanstalt für Wiederaufbau 1.2											
– cross-currency swap		27 063	27 063	687	3 066	23 310	1,42	20 939	20 939	225	20 714
Kreditanstalt für Wiederaufbau 1.4		21 990	21 990	597	2 394	18 999	1,45	16 133	16 133	317	15 816
Kreditanstalt für Wiederaufbau 2.1											
– cross-currency swap		7 982	7 982	206	568	7 208	1,35	5 630	5 630	59	5 571
Kreditanstalt für Wiederaufbau 4.1											
– cross-currency swap		16 074	16 074	5 046	9 859	1 169	4,18	–	–	–	–
Kreditanstalt für Wiederaufbau 2.3		5 202	5 202	(227)	(1 257)	6 686	2,98	–	–	–	–
Kreditanstalt für Wiederaufbau 1.6		4 790	4 790	(226)	(1 023)	6 039	3,08	–	–	–	–
Kreditanstalt für Wiederaufbau 3.1		6 967	6 967	(259)	(1 816)	9 042	2,89	–	–	–	–
Hedge accounted activities		947 443	947 443	507 139	389 389	50 915		648 384	648 384	329 863	318 521
Cash flow hedges – assets		6 503	6 503	1 827	5 285	(609)		16 144	16 144	2 579	13 565
Kreditanstalt für Wiederaufbau 3.2											
– cross-currency swap		4 013	4 013	1 351	3 839	(1 177)	11,64	12 740	12 740	2 029	10 711
Chiao Tung Bank Co Ltd		2 490	2 490	476	1 446	568	2,61	3 404	3 404	550	2 854

31. Financial market assets and liabilities (continued)

Classification	Currency	2005 Carrying value R 000	2005 Fair value R 000	2005 <1 year R 000	2005 1–5 years R 000	2005 >5 years R 000	Weighted average interest rate %	2004 Carrying value R 000	2004 Fair value R 000	2004 Current R 000	2004 Non-current R 000
Fair value hedges – assets		940 940	940 940	505 312	384 104	51 524		632 240	632 240	327 284	304 956
13,5% coupon note interest rate swap		68 718	68 718	32 364	35 031	1 323	8,24	43 898	43 898	24 758	19 140
Agence Française de Développement 2											
– cross-currency swap		16 844	16 844	11 229	5 615	–	12,13	24 595	24 595	9 837	14 758
Agence Française de Développement 3.2											
– cross-currency swap		7 254	7 254	1 814	5 440	–	11,64	7 331	7 331	1 465	5 866
DV21 interest rate swap		420 337	420 337	169 267	239 871	11 199	7,98	293 126	293 126	144 733	148 393
DV23[1]		55 554	55 554	36 708	18 465	381	8,06	(42 546)	(42 546)	3 740	(46 286)
European Investment Bank 2.2		32 848	32 848	23 646	9 202	–	6,45	29 280	29 280	19 499	9 781
European Investment Bank 2.3		24 910	24 910	15 475	9 435	–	6,65	22 286	22 286	11 282	11 004
European Investment Bank 3.2		25 756	25 756	14 807	10 890	59	7,69	19 883	19 883	11 241	8 642
Kreditanstalt für Wiederaufbau 1.1		5 351	5 351	–	535	4 816	11,24	3 470	3 470	–	3 470
Kreditanstalt für Wiederaufbau 1.3		12 584	12 584	–	1 258	11 326	7,57	10 165	10 165	–	10 165
Kreditanstalt für Wiederaufbau 1.5 and 2.2		15 827	15 827	–	855	14 972	6,88	12 137	12 137	–	12 137
Chiao Tung Bank Co Ltd		16 525	16 525	1 738	7 339	7 448	8,06	20 612	20 612	1 808	18 804
Private placement interest rate swap		238 432	238 432	198 264	40 168	–	–	188 003	188 003	98 921	89 082
Financial market liabilities		(12 211 587)	(13 909 075)	(1 141 975)	(1 999 911)	(9 069 701)		(11 673 850)	(12 212 839)	(1 636 438)	(10 037 412)
Liabilities carried at fair value		(955 790)	(955 790)	(906 832)	(39 786)	(9 172)		(701 298)	(701 298)	(726 356)	25 058
Money market instruments											
Repurchase agreements		(886 422)	(886 422)	(886 422)	–	–	7,50	(711 888)	(711 888)	(711 888)	–
Derivatives											
Interest rate swaps		(2 786)	(2 786)	(2 209)	(577)	–	11,35	(3 342)	(3 342)	(3 342)	–
Negative economic hedges		(66 582)	(66 582)	(18 201)	(39 209)	(9 172)		13 932	13 932	(11 126)	25 058
Agence Française de Développement 1											
– interest rate swap[2]		(40 634)	(40 634)	(1 827)	(14 112)	(24 695)	–	35 646	35 646	–	35 646
Agence Française de Développement 4.1		(4 011)	(4 011)	(4 720)	(4 405)	5 114	4,18	(13 320)	(13 320)	(8 407)	(4 913)
Agence Française de Développement 4.2		(3 039)	(3 039)	(1 749)	(2 414)	1 124	7,96	(4 767)	(4 767)	(1 650)	(3 117)
Kreditanstalt für Wiederaufbau 2.3		(4 071)	(4 071)	–	(204)	(3 867)	2,81	(1 163)	(1 163)	(338)	(825)
Agence Française de Développement 3.3											
– cross-currency swap		(1 434)	(1 434)	(2 348)	914	–	7,51	–	–	–	–
Kreditanstalt für Wiederaufbau 4.1											
– cross-currency swap		(2 543)	(2 543)	(6 176)	(18 141)	21 774	4,02	–	–	–	–
Kreditanstalt für Wiederaufbau 1.6		(3 906)	(3 906)	–	(391)	(3 515)	2,91	(1 212)	(1 212)	(331)	(881)
Agence Française de Développement 3.1											
– cross-currency swap		(1 837)	(1 837)	(1 381)	(456)	–	7,58	–	–	–	–
Kreditanstalt für Wiederaufbau 3.1		(5 107)	(5 107)	–	–	(5 107)	2,73	(1 252)	(1 252)	(400)	(852)

31. Financial market assets and liabilities (continued)

Classification	Currency	2005 Carrying value R 000	2005 Fair value R 000	2005 <1 year R 000	2005 1–5 years R 000	2005 >5 years R 000	Weighted average interest rate %	2004 Carrying value R 000	2004 Fair value R 000	2004 Current R 000	2004 Non-current R 000
Hedge accounted activities		(43 423)	(43 423)	(10 429)	(38 363)	5 369		(34 134)	(34 134)	(15 431)	(18 703)
Cash flow hedges – liabilities		(29 100)	(29 100)	(5 926)	(23 348)	174		(18 431)	(18 431)	(9 808)	(8 623)
Agence Française de Développement 2 – cross-currency swap		(1 187)	(1 187)	(1 285)	98	–	12,13	(1 924)	(1 924)	–	(1 924)
Agence Française de Développement 3.2 – cross-currency swap		(1 634)	(1 634)	(1 411)	(223)	–	11,64	(1 443)	(1 443)	(1 829)	386
Kreditanstalt für Wiederaufbau 1.1		(14 163)	(14 163)	(2 980)	(8 738)	(2 445)	11,24	(11 065)	(11 065)	(3 148)	(7 917)
Kreditanstalt für Wiederaufbau 1.3		(5 320)	(5 320)	2 496	(6 762)	(1 054)	7,57	(2 901)	(2 901)	(2 011)	(890)
Kreditanstalt für Wiederaufbau 1.5 and 2.2		(6 796)	(6 796)	(2 745)	(7 722)	3 671	6,88	(1 098)	(1 098)	(2 820)	1 722
Fair value hedges – liabilities		(14 323)	(14 323)	(4 503)	(15 015)	5 195		(15 703)	(15 703)	(5 623)	(10 080)
Kreditanstalt für Wiederaufbau 3.2 – cross-currency swap		(12 034)	(12 034)	(4 885)	(14 715)	7 566	11,64	(15 703)	(15 703)	(5 623)	(10 080)
Salt Lake swap		(2 289)	(2 289)	382	(300)	(2 371)	4,70	–	–	–	–
Hedged items		(4 108 620)	(4 065 935)	(42 412)	(882 754)	(3 183 454)		(3 670 790)	(3 557 403)	(226 163)	(3 444 627)
Local – capital market instruments		(3 363 142)	(3 363 142)	–	(441 550)	(2 921 592)		(2 909 739)	(2 969 464)	(144 973)	(2 764 766)
Public		(2 625 097)	(2 625 097)	–	–	(2 625 097)	–	(2 302 770)	(2 302 770)	(144 973)	(2 157 797)
DV21		(1 482 492)	(1 482 492)	–	–	(1 482 492)	15,00	(1 346 256)	(1 346 256)	(144 973)	(1 201 283)
DV23		(1 142 605)	(1 142 605)	–	–	(1 142 605)	10,00	(956 514)	(956 514)	–	(956 514)
Private		(738 045)	(738 045)	–	(441 550)	(296 495)		(606 969)	(666 694)	–	(606 969)
Private placement		(441 550)	(441 550)	–	(441 550)	–	–	(391 969)	(391 969)	–	(391 969)
13,5% coupon note		(296 495)	(296 495)	–	–	(296 495)	–	(215 000)	(274 725)	–	(215 000)
Foreign – other funding liabilities		(745 478)	(702 793)	(42 412)	(441 204)	(261 862)		(761 051)	(587 939)	(81 190)	(679 861)
Agence Française de Développement 2	€5 717	(46 280)	(47 275)	(30 854)	(15 426)	–	2,00	(73 655)	(75 777)	(29 462)	(44 193)
Agence Française de Développement 3.2	€3 807	(30 819)	(31 698)	(7 704)	(23 115)	–	2,00	(36 787)	(38 000)	(7 357)	(29 430)
European Investment Bank 2.2		(129 344)	(129 344)	–	(129 344)	–	13,75	(125 288)	(125 291)	(13 568)	(111 720)
European Investment Bank 2.3		(122 251)	(122 251)	–	(122 251)	–	15,00	(119 585)	(119 585)	(13 932)	(105 653)
European Investment Bank 3.2		(126 592)	(126 592)	–	(126 592)	–	13,25	(121 263)	(121 263)	(12 822)	(108 441)
Kreditanstalt für Wiederaufbau 1.1	€5 155	(41 733)	(35 302)	–	(4 173)	(37 560)	2,00	(39 851)	(32 201)	–	(39 851)
Kreditanstalt für Wiederaufbau 1.3	€6 628	(53 654)	(45 387)	–	(497)	(53 157)	2,00	(51 234)	(41 421)	–	(51 234)
Kreditanstalt für Wiederaufbau 1.5 and 2.2	€10 106	(81 810)	(68 287)	–	(4 389)	(77 421)	2,00	(78 120)	62 121	–	(78 120)
Kreditanstalt für Wiederaufbau 3.2	€9 673	(78 306)	(64 435)	–	–	(78 306)	2,00	(74 774)	(58 440)	–	(74 774)
Chiao Tung Bank Co Ltd	€5 559	(34 689)	(32 222)	(3 854)	(15 417)	(15 418)	3,00	(40 494)	(38 082)	(4 049)	(36 445)

31. Financial market assets and liabilities (continued)

Classification	Currency	2005 Carrying value R 000	2005 Fair value R 000	2005 <1 year R 000	2005 1–5 years R 000	2005 >5 years R 000	Weighted average interest rate %	2004 Carrying value R 000	2004 Fair value R 000	2004 Current R 000	2004 Non-current R 000
Liabilities carried at cost		(6 474 496)	(8 354 706)	(137 136)	(858 486)	(5 478 874)		(6 731 450)	(7 416 550)	(616 214)	(6 115 236)
Local – capital market instruments		(2 857 400)	(3 390 024)	–	–	(2 857 400)		(3 352 940)	(3 810 693)	(500 000)	(2 852 940)
Public		**(2 857 400)**	**(3 390 024)**	**–**	**–**	**(2 857 400)**		**(3 352 940)**	**(3 810 693)**	**(500 000)**	**(2 852 940)**
DV07		(1 852 104)	(2 384 728)	–	–	(1 852 104)	12,13	(1 847 535)	(2 297 638)	–	(1 847 535)
DV20		–	–	–	–	–	–	(500 000)	(507 650)	(500 000)	–
DV23		(1 005 296)	(1 005 296)	–	–	(1 005 296)	–	(1 005 405)	(1 005 405)	–	(1 005 405)
Foreign		(3 617 096)	(4 964 682)	(137 136)	(858 486)	(2 621 474)		(3 378 510)	(3 605 857)	(116 214)	(3 262 296)
Capital market intruments		**(1 443 827)**	**(2 736 610)**	**–**	**–**	**(1 443 827)**		**(1 390 171)**	**(1 905 718)**	**–**	**(1 390 171)**
Public		(1 443 827)	(2 736 610)	–	–	(1 443 827)		(1 390 171)	(1 905 718)	–	(1 390 171)
Euro-rand 0%		(491 496)	(1 241 116)	–	–	(491 496)	–	(438 136)	(651 541)	–	(438 136)
Euro-rand 30-year		(952 331)	(1 495 494)	–	–	(952 331)	13,50	(952 035)	(1 254 177)	–	(952 035)
Other liabilities		(2 173 269)	(2 228 072)	(137 136)	(858 486)	(1 177 647)		(1 988 339)	(1 700 139)	(116 214)	(1 872 125)
African Development Bank 3 $	$50 000	(312 000)	(324 638)	–	(78 000)	(234 000)	1,95	–	–	–	–
African Development Bank		(450 000)	(484 502)	(50 000)	(200 000)	(200 000)	8,22	(500 050)	(205 780)	(50 050)	(450 000)
African Development Bank $	$52 500	(327 600)	(333 158)	(43 680)	(174 720)	(109 200)	1,95	(374 927)	(383 542)	(44 109)	(330 818)
European Investment Bank 1.2		(49 704)	(61 010)	–	(49 704)	–	14,30	(49 604)	(60 814)	–	(49 604)
European Investment Bank 3.1		(94 891)	(126 592)	–	–	(94 891)	13,25	(94 286)	(121 263)	–	(94 286)
European Investment Bank 3.3	$99 771	(99 771)	(100 300)	(9 070)	(36 280)	(54 421)	1,90	(100 751)	(101 167)	–	(100 751)
European Investment Bank 4A	$13 343	(83 257)	(84 007)	–	(41 629)	(41 628)	1,90	(84 075)	(84 914)	–	(84 075)
European Investment Bank 4B.1	$9 260	(57 781)	(58 351)	(2 583)	(28 664)	(26 534)	1,90	(58 348)	(58 931)	–	(58 348)
European Investment Bank 4B.2	$22 421	(139 908)	(141 289)	(8 772)	(70 179)	(60 957)	1,90	(141 282)	(142 694)	–	(141 282)
European Investment Bank 5.1	$62 438	(389 614)	(349 150)	–	(87 185)	(302 429)	1,90	(393 442)	(352 395)	–	(393 442)
Nordic Investment Bank 1	$8 000	(49 920)	(50 999)	(6 400)	(25 600)	(17 920)	1,97	(56 712)	(57 980)	(6 301)	(50 411)
Nordic Investment Bank 1.2	$7 647	(47 718)	(49 018)	(7 341)	(29 365)	(11 012)	1,97	(55 600)	(57 177)	(7 414)	(48 186)
Nordic Investment Bank 1.3	$8 824	(55 059)	(55 554)	(8 320)	(33 280)	(13 459)	1,97	(63 013)	(64 801)	(7 414)	(55 599)
Natexis Banque[3]	$1 143	(9 256)	(4 164)	–	–	(9 256)	0,10	(8 839)	(3 593)	–	(8 839)
Société Générale[4]	$839	(6 790)	(5 340)	(970)	(3 880)	(1 940)	4,67	(7 410)	(5 088)	(926)	(6 484)

31. Financial market assets and liabilities (continued)

Classification	Currency	2005 Carrying value R 000	2005 Fair value R 000	2005 <1 year R 000	2005 1–5 years R 000	2005 >5 years R 000	Weighted average interest rate %	2004 Carrying value R 000	2004 Fair value R 000	2004 Current R 000	2004 Non-current R 000
Non-qualifying hedged items		(629 258)	(489 221)	(45 166)	(180 522)	(403 570)		(536 178)	(503 454)	(52 274)	(483 904)
Foreign – Other liabilities		(629 258)	(489 221)	(45 166)	(180 522)	(403 570)		(536 178)	(503 454)	(52 274)	(483 904)
Agence Française de Développement 1	€14 072	(113 920)	(116 500)	(9 493)	(37 973)	(66 454)	2,00	(117 848)	(119 297)	(9 065)	(108 783)
Agence Française de Développement 3.1	€5 167	(41 827)	(43 018)	(10 456)	(31 371)	–	2,00	(49 925)	(51 572)	(9 985)	(39 940)
Agence Française de Développement 3.3	€2 460	(19 914)	(20 482)	(4 978)	(14 936)	–	2,00	(23 770)	(24 554)	(6 145)	(17 625)
Agence Française de Développement 4.1	€13 563	(109 794)	(113 230)	(15 685)	(62 739)	(31 370)	2,00	(123 950)	(123 950)	(19 428)	(104 522)
Agence Française de Développement 4.2	€3 938	(31 875)	(32 873)	(4 554)	(18 215)	(9 106)	2,00	(35 469)	(35 469)	(5 124)	(30 345)
Kreditanstalt für Wiederaufbau 1.2	€7 942	(64 294)	(54 381)	–	(6 429)	(57 865)	2,00	(61 394)	(49 603)	–	(61 394)
Kreditanstalt für Wiederaufbau 1.4	€6 536	(52 909)	(44 757)	–	(5 291)	(47 618)	2,00	(50 523)	(40 825)	(2 527)	(47 996)
Kreditanstalt für Wiederaufbau 1.6	€2 162	(17 504)	(14 807)	–	(1 750)	(15 754)	2,00	(16 715)	(13 506)	–	(16 715)
Kreditanstalt für Wiederaufbau 2.1	€2 239	(18 124)	(15 117)	–	(906)	(17 218)	2,00	(17 306)	(13 751)	–	(17 306)
Kreditanstalt für Wiederaufbau 2.3	€2 254	(18 246)	(15 221)	–	(912)	(17 334)	2,00	(17 423)	(13 845)	–	(17 423)
Kreditanstalt für Wiederaufbau 3.1	€2 827	(22 887)	(18 835)	–	–	(22 887)	2,00	(21 855)	(17 082)	–	(21 855)
Kreditanstalt für Wiederaufbau 4.1	€14 572	(117 964)	(95 562)	–	–	(117 964)	2,00	–	–	–	–

Notes:

The following instrument categories have changed between 2004 and 2005 and have been disclosed currently in accordance with their 2005 status

Instrument		Disclosure value R 000
Financial market assets as per 2004 disclosure		**5 723 157**
1. DV23	Negative fair value hedge	(42 546)
2. Agence Française de Développement 1		
– interest rate swap	Positive fair value hedge	(35 646)
Financial market assets as per 2005 disclosure		**5 644 965**
Financial market liabilities as per 2004 disclosure		**(11 735 793)**
1. DV23	Negative fair value hedge	42 546
2. Agence Française de Développement 1		
– interest rate swap	Positive fair value hedge	35 646
Previously disclosed separately as long-term loans		
3. Natexis Banque		(8 839)
4. Société Générale		(7 410)
Financial market liabilities as per 2005 disclosure		**(11 673 850)**

Development Bank of Southern Africa Limited

Registration number

1600157FN

Registered office

Headway Hill
1258 Lever Road
Midrand
South Africa

Postal address

PO Box 1234
Halfway House
1685
South Africa

Telephone

+27 11 313 3911

Fax

+27 11 313 3086

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