3.1.3 Hedge accounting

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

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

A hedging relationship exists where:

- At the inception of the hedge there is formal documentation of the hedge
- The hedge is expected to be highly effective
- The effectiveness of the hedge can be 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

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

The fair value of derivative hedging instruments is calculated in the same way as the fair value of instruments held at fair value through profit or loss (refer to accounting note 3.1.2).

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

The Bank utilises various derivative instruments like cross-currency swaps, interest rate swaps 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.

Fair value hedges

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

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest rate method is used is amortised to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains in retained earnings until disposal of the equity security.

Cash flow hedges

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

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or the forecast transaction for a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability.

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

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

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

Hedge of monetary assets and liabilities

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

3.1.4 Repurchase and resale agreements

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

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

3.1.5 Derecognition

A financial asset is derecognised when the Bank transfers substantially all the risks and rewards of ownership or it loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

A financial liability is derecognised when the contractual obligations are discharged, cancelled or expire.

Available-for-sale assets and assets held at fair value through profit or loss that are sold are derecognised and the 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 loans and receivables are derecognised on the day they are transferred by the Bank.

3.1.6 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 liabilities simultaneously.

3.2 Share capital and reserves

3.2.1 Share capital

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

3.2.2 Permanent government funding

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

3.2.3 Revaluation reserve on land and buildings

This reserve represents the valuation adjustment recognised on the revaluation of land and buildings.

3.2.4 Hedging reserve

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

3.2.5 Reserve for general loan risks

The reserve is maintained based on the risk grading of applicable borrowers, in the following categories:

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

Any adjustment to the reserve is recognised as a movement directly between retained earnings and the reserve for general loan risks.

3.2.6 Fair value reserve

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

3.3 Property and equipment

3.3.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, except for land and buildings which is stated at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model. Land and buildings are revalued on an annual basis.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

3.3.2 Subsequent costs

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

3.3.3 Depreciation

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

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

• Buildings	40 years
• Fixtures and fittings	10 years
• Office equipment	5-10 years
• Motor vehicles	4 years
• Computer equipment	3 years

Depreciation methods, useful lives and current residual values are reassessed at the reporting date.

3.4 Intangible assets

3.4.1 Recognition and measurement

Intangible assets that are acquired by the Bank, and which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses.

3.4.2 Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss when incurred.

3.4.3 Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use. The estimated useful lives for the current and comparative periods are as follows:

- Computer software 3 years

3.5 Impairment

3.5.1 Financial instruments

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

Available-for-sale financial instruments

Where an available-for-sale financial 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.

Loans and advances and held-to-maturity investments

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

Calculation of recoverable amount

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

Reversals of impairment

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

If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss as far as the impairment was previously recognised in profit or loss.

Impairment of development loans

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

The non-performing book is split into two categories, namely municipalities and non-municipalities. This is done as the characteristics of these categories differ. For municipalities the recovery rate is based on the historical success rate of rescheduled loans. For the non-municipal loans each non-performing borrower is individually assessed to determine its recovery rate.

Impairment of performing loans can only be accounted for if there is objective evidence that a loss event has occurred after the initial recognition of the financial asset but before the balance sheet date. In order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired, a credit impairment for incurred but not reported losses is created based on historic loss patterns, estimated emergence periods and the Bank's internal credit risk rating system.

3.5.2 Non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in profit or loss or through equity if the asset had been revalued.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.6 Non-current assets held-for-sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held-for-sale. Immediately before classification as held-for-sale, the assets are remeasured in accordance with the Bank's accounting policies. Thereafter generally the assets are measured at the lower of their carrying amount and fair value less cost to sell. Impairment losses on initial classification as held-for-sale and subsequent gains or losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

3.7 Employee benefits

3.7.1 Defined contribution plans

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

3.7.2 Other long-term employee benefits

The Bank contributes to a defined benefit plan for post-retirement medical benefits for a closed group of eligible employees and pensioners. The present value of the post-retirement medial aid obligation is actuarially determined annually on the projected unit credit method and any actuarial gains or losses are immediately recognised in the income statement. 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 not offset against the post-retirement obligation.

3.7.3 Termination benefits

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

3.7.4 Short-term benefits

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

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

3.7.5 Home ownership scheme

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. The loans are held at amortised cost less impairment losses.

3.8 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3.9 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt agreement.

These financial guarantee contracts are classified as insurance contracts as defined in IFRS4: *Insurance Contracts*. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the expenditure required to settle the contract at the balance sheet date.

The Bank performs liability adequacy tests on financial guarantee contract liabilities to ensure that the carrying amount of the liabilities is sufficient in view of the future cash flows when performing the liability adequacy test. The Bank discounts all expected contractual cash flows and compares this amount to the carrying value of the liability; where a shortfall is identified, an additional provision is made.

3.10 Contingent liabilities and commitments

3.10.1 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and 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 a present obligation that arises from past events but is not recognised due to lack of probable cash outflows or the amount of the obligation cannot be measured with sufficient reliability. Contingent liabilities are not recognised in the balance sheet but are disclosed in the notes.

3.10.2 Commitments

Items are classified as commitments where the Bank has committed itself to future transactions. Commitments are not recognised in the balance sheet, but disclosed in the notes.

3.11 Revenue

Revenue described below represent the most appropriate equivalent of turnover. Revenue is derived substantially from the business of development activities and comprises interest income and interest expense.

3.11.1 Interest income and interest expense

Interest income and expenses are recognised in the income statement for all interest-bearing instruments using the effective interest method. In terms of the effective interest rate method, interest is recognised at a rate that exactly discounts estimated future cash payments or receipts over the expected life (or where appropriate, a shorter period) of the financial instrument to the carrying amount on the financial statements at initial recognition. Direct incremental transaction costs incurred and origination fees received as a result of bringing margin-yielding assets on to the balance sheet, are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit or loss) and amortised as interest income over the life of the asset. The effective interest rate is established on initial recognition of the financial assets and liabilities and is not revised subsequently.

Interest excludes the effect of interest rate hedges, which is included under the revaluation of financial instruments line.

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

3.12 Other operating income

Fees that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fee income (appraisal, commitment, guarantee and penalty fees) is recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

3.13 Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Bank at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the closing exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments.

3.14 Segment reporting

A segment is a distinguishable component of the Bank that is either providing related products or services (business segment) or is providing products or services within a particular environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Bank's segment reporting is based primarily on geographical segments, in which the Bank's development loans are classified according to different geographical markets.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Enabling services (unallocated items) comprise mainly treasury activities, corporate assets and expenses.

Geographical segments

The Bank's development loan portfolio is managed in South Africa, but the clients and projects are located in different countries. Thus, the Bank's geographical segment is classified into South Africa and SADC countries other than South Africa.

Business segments

The Bank's secondary segment is business and has been determined according to the type of client as follows:

- Private sector clients
- Public sector clients

3.15 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 and no benefit is derived.

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

3.16 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, are reported and adjusted in the financial statements.

Those events that are indicative of conditions that came into existence after balance sheet date are not adjusted for.

3.17 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 39.

3.18 Related parties

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

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

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

Other related party transactions are also disclosed in terms of the requirements of the standard. The objective of the standard and the financial statements is to provide relevant and reliable information, and therefore materiality is considered in the disclosure of these transactions.

3.19 New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 March 2007, and have not been applied in preparing these financial statements:

- IFRS 7 *Financial Instruments*: *Disclosures* and the Amendment to IAS 1 *Presentation of Financial Statements*: *Capital Disclosures* require extensive disclosures about the significance of financial instruments for an entity's financial position and performance, and qualitative and quantitative disclosures on the nature and extent of risks. IFRS 7 and amended IAS 1, which become mandatory for the Bank's 2008 financial statements, will require extensive additional disclosures with respect to the Bank's financial instruments and share capital.
- IFRIC 7 *Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies* addresses the application of IAS 29 when an economy first becomes hyperinflationary and in particular the accounting for deferred tax. IFRIC 7, which becomes mandatory for the Bank's 2008 financial statements, is not expected to have any impact on the financial statements.
- IFRIC 8 *Scope of IFRS 2 Share-based Payment* addresses the accounting for share-based payment transactions in which some or all of goods or services received cannot be specifically identified. IFRIC 8 will become mandatory for the Bank's 2008 financial statements, with retrospective application required. The amendment is not expected to have any impact on the financial statements.
- IFRIC 9 *Reassessment of Embedded Derivatives* requires that a reassessment of whether embedded derivatives should be separated from the underlying host contract should be made only when there are changes to the contract. IFRIC 9 becomes mandatory for the Bank's 2008 financial statements. The Bank has not yet determined the potential effect of the interpretation.

4. Determination of fair values

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

4.1 Property and equipment

The fair value of land and buildings is based on an annual valuation performed by an independent quantity surveyor using the income capitalisation approach.

4.2 Investments in equity and debt securities

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

Equity investments valuations are based on the underlying value of the net assets within the investment vehicles concerned. These valuations are calculated based on the financial statements provided by the Directors of the investee companies.

4.3 Post-retirement medical benefits investment

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

4.4 Financial instruments

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments as reflected in the table under note 43.

Capital market securities

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs.

Derivatives

Forward exchange contracts are either marked-to-market using listed market prices or by discounting the contractual forward price and deducting the current spot rate. For interest rate swaps, market quoted rates are used.

The fair value of interest rate swaps is the estimated amount that the Bank would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

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 observable indicators at the balance sheet date and profits or losses are only recognised to the extent that they relate to changes in factors that market participants will consider in setting prices.

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.

Interest-bearing loans and borrowings

The fair value is calculated based on discounted expected future principal and interest cash flows.

Interest rates used for determining fair value

The Bank uses the government yield curve as at 31 March 2007 plus an adequate constant spread to discount financial instruments.

5. Changes in accounting policy and classification

5.1 Implementation of amendments to IAS 39

Financial assets and liabilities that are managed and the performance of which is evaluated on a fair value basis in accordance with documented risk management and investment strategies are classified as held at fair value through profit or loss.

Upon adoption of amendments to IAS 39, the Bank considered the fair value designation, and de-designated and reclassified as available-for-sale certain financial instruments that were previously classified as held at fair value through profit or loss. Money market instruments (promissory notes and negotiable certificates of deposit) were de-designated and reclassified as available-for-sale. This was limited to R377 000 on retained earnings. As the amount is considered immaterial, no adjustment has been made to the financial results.

Capital market instruments that were already designated and accounted for as held at fair value through profit or loss have retained their designation and thus have no transitional impact.

Repurchase agreement assets and liabilities are now reclassified and therefore measured at amortised cost. The fair value approximated amortised cost due to the short-term duration of these instruments. The change in classification has had no significant financial effect and no restatement of comparatives was considered necessary.

5.2 Reclassification of revaluation on bonds

The income statement classification of fair value adjustments on government bonds was modified during the year. Management previously recognised fair value adjustments as part of non-interest income as there was no intention to trade in these instruments. After detailed consideration the fair value adjustments were reclassified to the revaluation of financial instruments line. Comparative figures were reclassified for consistency, which resulted in R110.7 million being reclassified from interest income to revaluation of financial instruments for the 2006 financial year. Refer to note 27.

5.3 Reclassification of repurchase and resale agreements.

Included in interest expense is an amount of R108 million (2006: R28 million) in respect of interest on repurchase and sale transactions reclassified from interest income. Refer to note 28.

5.4 Reclassification of DV23 financial liability

In terms of the amendments to IAS 39 (Financial Instruments: Recognition and measurement), the Bank had the option on conversion to IFRS to voluntarily designate financial assets and financial liabilities as at fair value through profit or loss. The designation was implicitly effected in that the financial effect of such designation was recorded in the 31 March 2006 financial statements, although the liability was inappropriately classified and disclosed as a hedged item. In line with the amendments to IAS 39 in respect of the fair value option that became effective for annual financial periods beginning on or after 1 January 2006, management has now formalised the designation of this liability at fair value through profit or loss. Management have demonstrated that this designation meets the criteria in IAS 39 (revised) because it is managed on a fair value basis.

This liability has accordingly been reclassified in the comparatives at 31 March 2006. There is no effect on current or prior year income or net assets.

6. Segment reporting

Primary segments

	South Africa		SADC (excluding South Africa)		Corporate services[1]		Total	
(R 000)	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
Income	**1 535 065**	1 723 115	**935 881**	388 985	**609 101**	482 875	**3 080 047**	2 594 975
Interest income on development loans	1 514 629	1 393 482	467 112	361 598	–	–	1 981 741	1 755 080
Interest income on investments	–	8 195	–	–	559 072	476 779	559 072	484 974
Non-interest income	**122 256**	44 804	**60 023**	72 284	**-**	–	**182 279**	117 088
Other income	**(101 820)**	276 634	**408 746**	(44 897)	**50 029**	6 096	**356 955**	237 833
Exchange gains/(losses)	(205 356)	3 624	304 246	(49 362)	60 401	5 545	159 291	(40 193)
Revaluation of financial instruments	103 536	273 010	104 500	4 465	(17 203)	(3 292)	190 833	274 183
Sundry income	–	–	–	–	6 831	3 843	6 831	3 843
Technical assistance	(16 544)	(12 897)	(5 185)	(5 152)	(10 373)	(14 931)	(32 102)	(32 980)
Expenses	**(945 639)**	(773 258)	**(411 494)**	(317 583)	**(408 040)**	(370 772)	**(1 765 173)**	(1 461 613)
Interest expense	(853 320)	(724 841)	(390 104)	(335 047)	–	–	(1 243 424)	(1 059 888)
Operating expenses	(77 877)	(71 070)	(16 703)	(16 012)	(403 596)	(363 958)	(498 176)	(451 040)
Depreciation and amortisation	–	–	–	–	(5 648)	(6 803)	(5 648)	(6 803)
Movement in impairments	(14 442)	22 653	(4 687)	33 476	1 204	(11)	(17 925)	56 118
Profit from operations	**572 882**	936 960	**519 202**	66 250	**190 688**	97 172	**1 282 772**	1 100 382
Total assets	**15 902 298** 57%	13 827 339 52%	**5 320 223** 19%	4 175 905 16%	**6 703 503** 24%	8 415 470 32%	**27 926 024** 100%	26 418 714
Total liabilities	**8 725 710** 65%	8 526 113 65%	**3 989 045** 30%	3 941 066 30%	**673 038** 5%	732 879 6%	**13 387 793** 100%	13 200 058
Key ratios by segment (%)								
Operating cost to income	**12**	7	**16**	(18)	**72**	77	**35**	31
Leverage	**55**	62	**75**	94	**10**	9	**48**	50
Net interest to income	**43**	39	**8**	7	**92**	99	**42**	45
Return on assets	**4**	7	**10**	2	**3**	1	**5**	4

1. Corporate services include Treasury, Human Capital and Technology, Corporate Finance, Capacity Development and Deployment, Research and Information, Office of the CEO, Strategic Operations, and Corporate Strategy and Communication.

6. Segment reporting (continued)

Secondary segments

(R 000)	Private sector 2007		Private sector 2006		Public sector 2007		Public sector 2006		Corporate services[1] 2007		Corporate services[1] 2006		Total 2007		Total 2006
Income	**667 092**		441 111		**1 803 854**		1 670 989		**609 101**		482 875		**3 080 047**		2 594 975
Interest income on development loans	446 533		313 058		1 535 208		1 442 022		–		–		1 981 741		1 755 080
Interest income on investments	–		–		–		8 195		559 072		476 779		559 072		484 974
Non-interest income	**148 431**		73 595		**33 848**		43 493		**–**		–		**182 279**		117 088
Other income	**72 128**		54 458		**234 798**		177 279		**50 029**		6 096		**356 955**		237 833
Technical assistance	(7 859)		(7 343)		(13 869)		(10 706)		(10 373)		(14 931)		(32 102)		(32 980)
Expenses	**(375 018)**		(249 970)		**(982 115)**		(840 871)		**(408 040)**		(370 772)		**(1 765 173)**		(1 461 613)
Profit from operations	**284 215**		183 798		**807 870**		819 412		**190 688**		97 172		**1 282 772**		1 100 382
Total assets	**5 780 169**	21%	4 054 833	15%	**15 442 352**	55%	13 948 411	53%	**6 703 503**	24%	8 415 470	32%	**27 926 024**	100%	26 418 714
Total liabilities	**3 467 877**	26%	2 807 457	21%	**9 246 878**	69%	9 659 222	73%	**673 038**	5%	732 879	6%	**13 387 793**	100%	13 200 058
Key ratios by segment (%)															
Operating cost to income	**14**		8		**12**		3		**72**		77		**35**		31
Leverage	**60**		69		**60**		69		**10**		9		**48**		50
Net interest to income	**16**		17		**35**		38		**92**		99		**42**		45
Return on assets	**5**		5		**5**		6		**3**		1		**5**		4

1. Corporate services include Treasury, Human Capital and Technology, Corporate Finance, Capacity Development and Deployment, Research and Information, Office of the CEO, Strategic Operations, and Corporate Strategy and Communication.

in thousands of rand	**2007**	2006

7. Cash and cash equivalents

Fixed deposits	**–**	10 000
Call deposits	**532 090**	907 108
Cash at bank	**358 267**	536 889
	890 357	1 453 997

The average annual interest rate on cash and cash equivalents detailed above was 8,41% (2006: 7,78%).

8. Trade and other receivables

Other trade receivables	**112 156**	56 740
Accrued income	**57 529**	46 838
Staff loans	**787**	922
Prepayments	**2 263**	934
Less impairment (refer to note 29)	**(3 896)**	(5 100)
	168 839	100 334

9. Non-current assets held for sale

Property and movable assets is presented as held for sale following a decision by management to dispose of the assets held as security to recover funds advanced to Serious Mills (Pty) Ltd (Sebowana Mills). Sebowana Mills was placed under provisional liquidation during 2005 and an amount of R7,2 million is due to the Bank. The sale of the assets was effected during the current financial year and there was a profit of R2,7 million (refer to note 30).

	–	3 187

10. Financial market assets

Held-to-maturity	**782 291**	1 049 622
Loans and receivables	**640 374**	789 044
Available-for-sale	**772 983**	1 285 523
Assets measured at fair value through profit or loss	**2 350 379**	2 379 219
Hedge accounted activities	**719 190**	1 052 509
	5 265 217	6 555 917

Full details of the financial market assets are contained in the schedule provided under note 43.

in thousands of rand	**2007**	2006
11. Post-retirement medical benefits investment	**74 175**	68 643

This asset represents the market value of the Bank's contribution to Medipref Management Ltd to fund the post-retirement medical benefits for eligible employees and pensioners. Details of the post-retirement medical benefit liability are contained in note 25. This investment does not meet the definition of a Plan Asset and is therefore not offset against the liability.

12. Home ownership scheme loans	**21 203**	22 697

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 Ltd have entered into an agreement whereby Nedcor Bank Ltd 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 2007, the effective interest rate was 11,0% per year (2006: 9,5%).

13. Equity investments

These investments are accounted for through profit and loss in line with other venture capital organisations.

13.1 American International Group African Infrastructure Fund (AIG)	**85 021**	120 965
Total contributions at cost	**96 844**	124 347
(Less)/plus fair value adjustment	**(22 260)**	2 048
Plus/(less) foreign exchange adjustment	**10 437**	(5 430)

The Bank has contributed US$18 442 060 (2006: US$19 667 491) to the AIG Infrastructure Fund, which represents 6,908% of contributions to the Fund.

13.2 Circle Pharmaceuticals Zambia Ltd	**14 595**	–
8 000 000 preference shares at cost	**14 685**	–
Less foreign exchange adjustment	**(90)**	–

The Bank has made an investment of R14,7 million in Circle Pharmaceuticals Zambia Ltd, which consists of "Class A" 28,65% cumulative redeemable preference shares. The shares are redeemable in November 2011.

13.3 Continuity SA (Pty) Ltd	**1**	1
200 ordinary shares at cost	**600**	600
Less fair value adjustment	**(599)**	(599)

The Bank's shareholding in Continuity SA represents 20% of the total shareholding.

in thousands of rand	2007	2006
13.4 Development Bank of Zambia	**4 889**	4 136
670 ordinary shares at cost	**4 135**	4 136
Plus foreign exchange adjustment	**754**	–

The Bank has made a commitment of US$670 000 to the Development Bank of Zambia, which represents 10% of the total shareholding.

13.5 Durban Marine Theme Park (Pty) Ltd	**47 082**	41 948
1 unsecured, convertible debenture at cost	**50 000**	50 000
Less fair value adjustment	**(2 918)**	(8 052)

The debenture accrues interest at a non-compounding rate of 13% per annum, which will be accumulated and paid on redemption date.

13.6 Ethos Technology Fund	**14 018**	10 512
Capital contributions at cost	**17 840**	16 028
Less fair value adjustment	**(3 822)**	(5 516)

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 total contributions to the Fund.

13.7 Kunene Finance Company (Pty) Ltd	**5 474**	2 564
6 411 ordinary shares at cost	**2 564**	2 564
Plus fair value adjustment	**2 910**	–

The ordinary shares were issued to the Bank as a part settlement of the redemption of the preference shares and debentures of the Franchise Fund. The Bank's shareholding in Kunene Finance Company (Pty) Ltd represents 0,93% of the total shareholding.

13.8 Motrade 238 (Pty) Ltd		
25 million preference shares at cost	**25 000**	–

The Bank has made an investment of R25 million in Motrade 238 (Pty) Ltd, in the form of preference shares.

The redeemable preference shares accumulate dividends at the rate of 80% of the prime overdraft rate. There is a dividend grace period of 3 years during which no dividends will be paid, but interest is capitalised.

13.9 New Africa Mining Fund	**64 251**	43 339
Capital contributions at cost	**52 583**	43 577
Plus/(less) fair value adjustment	**11 668**	(238)

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

in thousands of rand		**2007**	2006
13.10	**One and Only Cape Town Holdings (Pty) Ltd**		
	20 000 ordinary shares at cost	**86 400**	86 400

The Bank has made an investment of R86,4 million in One and Only Cape Town Holdings (Pty) Ltd, which represents 20% of the total shareholding.

13.11	**Pan-African Investment Partners Ltd/Pan-Commonwealth African Partners Ltd**	**238 385**	47 438
	Capital contributions at cost	**107 413**	51 892
	Plus/(less) fair value adjustment	**96 433**	(3 764)
	Plus/(less) foreign exchange adjustment	**34 539**	(690)

The Bank has made a commitment of US$50 million, which represents 26,7% of the total Fund.

13.12	**Proparco Investments**	**9 500**	7 026
	49 500 shares at cost	**4 891**	4 891
	Plus fair value adjustment	**3 494**	2 724
	Plus/(less) foreign exchange adjustment	**1 115**	(589)

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

13.13	**Rich Rewards Trading 47 (Pty) Ltd trading as Remcor Mining**	**1**	1
	200 ordinary shares at cost	**200**	200
	Less fair value adjustment	**(199)**	(199)

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

13.14	**Chuma Platinum SPV (Pty) Ltd**	**122 077**	82 996
	18 043 ordinary shares	**3 248**	3 248
	Plus fair value adjustment	**61 672**	22 854
	Shareholders' loan	**8 535**	8 535
	Less fair value adjustment on shareholders' loan	**(3 207)**	(3 470)
	51 829 preference shares at cost	**51 829**	51 829

The ordinary shares were issued at par value at a cost of R180 and represent an interest of 18,04% in the company. The shareholders' loan is interest-free and repayable by mutual agreement. The redeemable preference shares accumulate dividends at a rate of 14,859% per annum.

in thousands of rand		2007	2006
13.15	**Malibongwe Platinum SPV (Pty) Ltd**	**47 682**	32 028
	18 043 ordinary shares	**3 248**	3 248
	Plus fair value adjustment	**22 857**	7 248
	Shareholders' loan	**1 451**	1 451
	Less fair value adjustment on shareholders' loan	**(545)**	(590)
	20 671 preference shares at cost	**20 671**	20 671

The ordinary shares were issued at par value at a cost of R180 and represent an interest of 18,04%, in the company. The shareholders' loan is interest-free and repayable by mutual agreement. The redeemable preference shares accumulate dividends at a rate of 14,859% per annum.

13.16	**Savannah Platinum SPV (Pty) Ltd**	**156 228**	149 258
	18 043 ordinary shares	**3 248**	3 248
	Plus fair value adjustment	**7 057**	895
	Shareholders' loan	**26 208**	26 208
	Less fair value adjustment on shareholders' loan	**(9 847)**	(10 655)
	129 562 preference shares at cost	**129 562**	129 562

The ordinary shares were issued at par value at a cost of R180 and represent an interest of 18,04%, in the company. The shareholders' loan is interest-free and repayable by mutual agreement. The redeemable preference shares accumulate dividends at a rate of 14,859% per annum.

13.17	**Shanduka Value Partners Fund 1 (formerly Millennium Consolidated Investments Equity)**	**62 989**	50 750
	Capital contributions at cost	**57 779**	46 704
	Plus fair value adjustment	**5 210**	4 046

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

13.18	**Womens' Private Equity Fund**	**34 595**	24 707
	Total investment at cost	**19 022**	14 998
	Plus fair value adjustment	**15 573**	9 709

The Bank has made a commitment of R35 million to the Womens' Private Equity Fund. The Bank's interest in the Fund at 31 March 2007 was 27,2%.

13.19	**Zambian Energy Corporation**	**7 297**	–
	1 000 000 ordinary shares at cost	**7 500**	–
	Less foreign exchange adjustment	**(203)**	–

The Bank has made an investment of R7,5 million in the Zambian Energy Corporation, which represents 20% of the total shareholding.

		1 025 485	704 069

in thousands of rand	**2007**	2006

14. Development loans

14.1 Analysis of development loans

in thousands of rand	**2007**	2006
Balance at the beginning of the year	**17 696 161**	16 402 763
Movements during the year:	**2 940 410**	1 293 398
Loans disbursed	**3 557 786**	2 924 652
Interest accrued	**2 019 373**	1 792 617
Interest per income statement	**1 981 741**	1 755 080
Impairment of current year interest	**37 632**	37 537
Development loans written off	**(14 212)**	(42 508)
Foreign exchange adjustment	**344 864**	(42 173)
Gross repayments	**(2 967 401)**	(3 339 190)
Gross development loans	**20 636 571**	17 696 161
Impairment against development loans (per note 14.9)	**(439 535)**	(396 986)
Net development loans	**20 197 036**	17 299 175

14.2 Maturity analysis of development loans

in thousands of rand	**2007**	2006
2007	**–**	1 926 261
2008	**3 043 439**	1 734 006
2009	**1 624 893**	1 392 602
2010	**1 722 713**	1 422 037
2011	**1 692 208**	1 413 649
2012–2016	**7 310 392**	6 037 203
2017–2021	**4 303 620**	3 325 162
2022 and thereafter	**939 306**	445 241
	20 636 571	17 696 161

14.3 Sectoral analysis

in thousands of rand	**2007**	2006
Commercial infrastructure	**2 768 789**	2 449 728
Communication and transport infrastructure	**1 002 912**	562 716
Energy	**3 765 364**	3 494 982
Human resources development	**468 448**	454 357
Institutional infrastructure	**21 157**	10 274
Residential facilities	**1 355 553**	773 823
Roads and drainage	**2 489 734**	2 196 289
Sanitation	**974 792**	954 398
Social infrastructure	**2 248 715**	1 428 695
Water	**5 541 107**	5 370 899
	20 636 571	17 696 161

in thousands of rand	**2007**	2006
14.4 Geographical analysis		
Eastern Cape	**985 770**	845 660
Free State	**668 655**	660 035
Gauteng	**3 950 536**	3 344 850
KwaZulu-Natal	**5 141 756**	4 448 465
Limpopo	**505 901**	698 818
Mpumalanga	**1 114 556**	809 777
North West	**654 630**	601 945
Northern Cape	**262 238**	227 467
Western Cape	**2 057 503**	1 746 299
Multi-regional – South Africa	**226 804**	225 198
SADC (excluding South Africa) and multinationals*	**5 068 222**	4 087 647
Angola	**143 209**	–
Botswana	**228 770**	233 396
Lesotho	**475 457**	490 272
Malawi	**277 627**	246 392
Mauritius	**170 047**	271 736
Mozambique	**1 452 632**	1 334 116
Namibia	**591 667**	585 062
Swaziland	**265 483**	203 623
Tanzania	**222 935**	–
Uganda	**57 624**	–
Zambia	**1 062 590**	686 938
Multinationals	**120 181**	36 112
	20 636 571	17 696 161
*Amount in US$ included in the above SADC loans	**353 025**	276 971
14.5 Client classification		
Development finance institutions	**399 606**	142 569
Educational institutions	**342 800**	367 157
Local government	**9 716 130**	8 245 384
National and provincial government	**309 659**	505 073
Private sector	**4 858 157**	3 427 658
Public utilities	**5 010 219**	5 008 320
	20 636 571	17 696 161
14.6 Fixed and variable interest rate loans		
Fixed interest rate loans	**13 954 029**	11 606 499
Variable interest rate loans	**6 682 542**	6 089 662
	20 636 571	17 696 161

in thousands of rand	**2007**	2006
14.7 Non-performing loans (included in total development loans)		
14.7.1 Sectoral analysis		
Commercial infrastructure	**532 833**	497 904
Communication and transport infrastructure	**166 343**	127 301
Energy	**45 916**	30 439
Human resources development	**6 438**	12 015
Institutional infrastructure	**96**	92
Roads and drainage	**28 251**	59 409
Sanitation	**92 103**	116 158
Social infrastructure	**63 011**	23 085
Water	**66 691**	92 354
	1 001 682	958 757
14.7.2 Geographical analysis		
Eastern Cape	**75 622**	59 110
Free State	**81 558**	100 598
Gauteng	**205 973**	167 461
KwaZulu-Natal	**4 639**	11 210
Limpopo	**34 442**	53 726
Mpumalanga	**23 704**	30 035
North West	**280 696**	245 069
Northern Cape	**32 251**	35 566
Western Cape	**16 517**	14 380
Multi-regional – South Africa	**36 686**	32 672
SADC (excluding South Africa)	**209 594**	208 930
Lesotho	**1 819**	–
Malawi	**79 753**	69 366
Mozambique	**6 922**	6 224
Swaziland	**121 100**	133 340
	1 001 682	958 757
14.7.3 Client classification		
Development finance institutions	**65 850**	56 586
Educational institutions	**5 468**	12 016
Local government	**273 474**	298 524
Private sector	**486 245**	291 648
Public utilities	**170 645**	299 983
	1 001 682	958 757

in thousands of rand	**2007**	2006
14.8 Client concentration		
One client as percentage of total loan portfolio	**13,5%**	12,2%
Seven clients as percentage of total loan portfolio	**39,1%**	38,7%
14.9 Impairment against development loans		
Balance at the beginning of the year	**396 986**	796 049
Impact of adoption of IFRS	**–**	(364 634)
Restated balance at the beginning of the year	**396 986**	431 415
Impairment of current year interest	**37 632**	37 537
Loans written off during the year	**(14 212)**	(42 508)
Income statement movement	**19 129**	(29 458)
Balance at the end of the year	**439 535**	396 986

15. Intangible assets

in thousands of rand	**2007**	2006
Computer software		
Cost		
At the beginning of the year	**6 412**	–
Additions	**486**	6 412
At the end of the year	**6 898**	6 412
Accumulated amortisation		
At the beginning of the year	**922**	–
Amortisation	**2 260**	922
At the end of the year	**3 182**	922
Net carrying value	**3 716**	5 490

16. Property and equipment

16.1 Reconciliation of property and equipment

in thousands of rand	Revalued land	Revalued buildings	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
At 31 March 2007							
Cost or revaluation							
At the beginning of the year	18 800	181 120	9 812	4 200	1 022	4 442	219 396
Revaluation	1 200	74 770	–	–	–	–	75 970
Additions and improvements	–	684	801	565	-	159	2 209
Assets written off	–	–	(198)	(14)	(301)	–	(513)
At the end of the year	20 000	256 574	10 415	4 751	721	4 601	297 062
Accumulated depreciation							
At the beginning of the year	–	1 574	6 003	2 730	752	3 132	14 191
Depreciation	–	–	2 365	505	135	383	3 388
Assets written off	–	–	(198)	(14)	(301)	–	(513)
At the end of the year	–	1 574	8 170	3 221	586	3 515	17 066
Net carrying value	20 000	255 000	2 245	1 530	135	1 086	279 996
At 31 March 2006							
Cost or revaluation							
At the beginning of the year	18 800	132 705	39 015	3 335	1 022	3 810	198 687
Revaluation	–	27 687	–	–	–	–	27 687
Additions and improvements	–	23 915	375	865	–	632	25 787
Transfer to non-current assets held for sale	–	(3 187)	–	–	–	–	(3 187)
Assets written off	–	–	(29 578)	–	–	–	(29 578)
At the end of the year	18 800	181 120	9 812	4 200	1 022	4 442	219 396
Accumulated depreciation							
At the beginning of the year	–	–	32 436	2 138	489	2 824	37 887
Depreciation	–	1 574	3 145	592	263	308	5 882
Assets written off	–	–	(29 578)	–	–	–	(29 578)
At the end of the year	–	1 574	6 003	2 730	752	3 132	14 191
Net carrying value	18 800	179 546	3 809	1 470	270	1 310	205 205

in thousands of rand	**2007**	2006

16.2 Valuation

16.2.1 Land

The land constitutes Portion 465 (of Portion 442) of the farm Randjesfontein 405 measuring 25,066 hectares, donated by the South African government in 1985.

The land was valued at a fair value of R20,0 million by Davis Langdon Farrow Laing, an independent quantity surveyor, on 31 March 2007, using the income capitalisation approach (March 2006: R18,8 million).
The land is reflected at the revalued amount, as the cost was nil.

16.2.2 Buildings

The existing buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R0,68 million were effected during the 2007 financial year (2006: R4,0 million).

The existing buildings were valued at a fair value of R255,0 million by Davis Langdon Farrow Laing, an independent quantity surveyor, on 31 March 2007, using the income capitalisation approach.

The historical book value of the existing buildings is R84,2 million (2006: R83,5 million).

17. Share capital

in thousands of rand	**2007**	2006
Authorised		
500 000 ordinary shares (2006: 500 000) at a par value of R10 000 each	**5 000 000**	5 000 000
Issued capital		
20 000 ordinary shares (2006: 20 000) at a par value of R10 000 each	**200 000**	200 000
All issued capital is fully paid.		
Callable capital		
480 000 ordinary shares (2006: 480 000) 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.

in thousands of rand	2007	2006
18. 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. To date no cash repayments have been made. The full amount initially received is equal to the residual amount and is thus allocated to equity.		
Received to date	**3 792 344**	3 792 344
19. Revaluation reserve on land and buildings	**191 079**	115 109
This reserve represents the valuation surplus recognised on the revaluation of the land and buildings.		
20. Hedging reserve	**13 251**	19 511
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments where the hedge transaction has not yet occurred.		
21. Reserve for general loan risks	**613 420**	531 775
The reserve is maintained based on the risk grading of the borrowers as detailed in accounting policy note 3.2.5 and movements are recognised directly between reserve for general loan risks and retained earnings.		
22. Fair value reserve	**(18 632)**	14 275
The reserve comprises all fair value adjustments for available-for-sale financial market instruments.		
23. Trade and other payables		
Trade and sundry payables	**58 750**	62 919
DBSA Development Fund	**214 449**	332 225
Sundry accruals	**63 959**	53 568
Accrued interest	**160 305**	150 012
	497 463	598 724

in thousands of rand	**2007**	2006
24. Liability for funeral benefits	**3 371**	3 253

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 2007.

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

	2007	2006
Discount rate (before taxation)	**7,75%**	7,50%
Inflation rate	**6,75%**	4,50%

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

Movement in liability for funeral benefits recognised in the balance sheet

	2007	2006
Balance at the beginning of the year	**3 253**	2 925
Increase in the liability	**118**	460
Company contributions	**–**	(132)
Balance at the end of the year	**3 371**	3 253

25. Liability for post-retirement medical benefits

The Bank operates an unfunded defined benefit plan for qualifying employees. Under the plan, the Bank pays 100% of the medical aid contributions of current and retired employees 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.

The investment in Medipref, as specified in note 11, has been set aside to fund this obligation.

The amount recognised in the balance sheet in respect of the Bank's post-retirement medical benefit is detailed below:

	2007	2006
Present value of unfunded obligation at the beginning of the year	**130 902**	96 452
Interest cost	**9 570**	8 079
Current service cost	**5 497**	3 804
Benefits paid	**(3 304)**	(2 817)
Actuarial loss for the year	**29 539**	25 384
Present value of unfunded obligation at the end of the year	**172 204**	130 902

The amount recognised in the profit or loss in respect of the defined benefit plan is as follows:

	2007	2006
Interest cost	**9 570**	8 079
Current service cost	**5 497**	3 804
Actuarial loss for the year	**29 539**	25 384
The total charge for the year (included in staff costs in the income statement).	**44 606**	37 267

in thousands of rand	**2007**	2006
Market value of Medipref at the beginning of the year	**68 643**	59 083
Increase in market value for the year	**5 532**	9 560
Market value of Medipref at the end of the year	**74 175**	68 643

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

Discount rate (before taxation)	**7,75%**	7,50%
Medical aid inflation rate	**6,75%**	6,50%

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

Sensitivity analysis

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

The liability was recalculated to show the effect of a one percentage point decrease or increase in the rate of medical aid inflation.

	Central assumption	% point decrease	% point increase
Medical aid inflation rate	**6,75%**	**- 1%**	**+ 1%**
Accrued liability 31 March 2007 (R 000)	172 204	145 464	206 176
% Change	–	-15,5%	+19,7%
Current service + interest cost 2007/08 (R 000)	19 119	15 881	23 277
% Change	–	-16,9%	+21,7%
Sensitivity results from previous valuation: medical aid inflation rate 2006	6,5%	- 1%	+ 1%
Current service + interest cost 2006/07 (R 000)	15 067	12 695	18 035
% Change	–	-15,7%	+19,7%

The obligation for the three years prior to March 2006 are as follows:	**R 000**
March 2005	96 452
March 2004	105 086
March 2003	66 095

in thousands of rand	**2007**	2006

26. Financial market liabilities

Liabilities held at fair value through profit or loss	**1 193 151**	1 235 243
Hedge accounted activities	**57 578**	60 252
Hedged items	**2 608 372**	3 033 758
Liabilities carried at amortised cost	**8 222 352**	7 622 378
Non-qualifying hedged items	**633 302**	515 548
	12 714 755	12 467 179

Full details of the financial market liabilities are contained in the schedule provided under note 43.

in thousands of rand	**2007**	2006

27. Interest income

Development loans (refer to note 27.1)	**1 981 741**	1 755 080
Equity investments	**–**	8 195
Money market	**115 053**	92 981
Capital market	**439 096**	380 178
Home ownership	**2 014**	1 900
Other interest received	**2 909**	1 720
	2 540 813	2 240 054

The above is net of impaired interest of R37,6 million.

Refer to note 5.2 and 5.3 for reclassifications during the year.

27.1 Client classification

Development finance institutions	**21 031**	10 870
Educational institutions	**34 398**	36 334
Local government	**957 157**	908 307
National and provincial government	**45 398**	58 040
Private sector	**439 660**	302 188
Public utilities	**484 097**	439 341
	1 981 741	1 755 080

28. Interest expense

Local funding - lines of credit	**30 186**	29 977
Local funding - capital market	**812 163**	703 927
Foreign funding - lines of credit	**197 370**	156 770
Foreign funding - capital market	**203 705**	169 214
	1 243 424	1 059 888

Interest expense excludes the effect of the ZAR interest rate derivatives, which is included in realised revaluation of financial instruments under note 32, as it is considered to form part of non-interest revenue.

Refer to note 5.3 for reclassifications during the year.

29. Movement in impairments

Other debtors, including sundry write-offs (refer to note 8)	**(1 204)**	11
Equity investments	**–**	(26 671)
Development loans	**19 129**	(29 458)
	17 925	(56 118)

in thousands of rand	**2007**	2006
30. Other operating income		
Non-interest income:		
Fee income	**46 807**	56 181
Realised capital gains on equity investments	**49 783**	60 753
Dividend income	**86 227**	199
Less recovered expenses:	**(110)**	(209)
Consultants	**–**	(57)
Travel and subsistence	**(110)**	(152)
	182 707	116 924
Profit on sale of non-current asset held for sale (refer to note 9)	**2 726**	–
Sundry income	**3 677**	4 007
	189 110	120 931
31. Net foreign exchange gain/(loss)		
Unrealised	**86 055**	(44 702)
Foreign exchange gain: Development loans	**277 671**	(46 014)
Foreign exchange gain: Cash and cash equivalents	**60 401**	5 545
Foreign exchange gain: Equity investments	**53 262**	(8 864)
Foreign exchange loss: Funding	**(570 521)**	70 722
Foreign exchange gain: Hedging derivatives	**265 242**	(66 091)
Realised	**73 236**	4 509
Foreign exchange gain: Development loans	**67 193**	3 841
Foreign exchange gain: Funding and hedging	**6 043**	668
	159 291	(40 193)
32. Revaluation of financial instruments		
Unrealised	**61 380**	149 407
Revaluation of capital market financial instruments held at fair value through profit or loss	**(50 136)**	120 273
Revaluation of equity investments	**167 036**	10 779
Revaluation of hedged funding: fair value hedges	**200 173**	(141 641)
Revaluation of ZAR interest hedging derivatives	**(189 961)**	163 862
Revaluation of foreign currency hedging derivatives	**(65 732)**	(3 866)
Realised	**129 453**	124 776
Revaluation of capital market financial instruments held at fair value through profit or loss	**6 662**	6 803
Revaluation of money market financial instruments held at fair value through profit or loss	**(2 227)**	7 155
Revaluation of ZAR interest hedging derivatives	**142 221**	114 110
Revaluation of foreign currency hedging derivatives	**(17 203)**	(3 292)
	190 833	274 183

in thousands of rand	**2007**	2006
33. Operating expenses		
33.1 Staff costs		
Post-retirement medical benefits liability movement (refer to note 33.1.1)	**35 770**	24 890
Other staff costs	**311 028**	290 754
	346 798	315 644
Included in other staff costs are Directors' emoluments and executive management remuneration as detailed below:		
Directors' emoluments	**7 847**	7 412
Executive management remuneration	**14 039**	13 789
	21 886	21 201
Full details are provided in the Schedule of Directors' emoluments, note 42.		
33.1.1 Movement in post-retirement medical benefits liability		
Movement in market value of Medipref investment	**(5 532)**	(9 560)
Movement in unfunded obligation	**41 302**	34 450
	35 770	24 890
Details are included in note 25.		
33.2 General and administration expenses		
Auditors' remuneration	**5 482**	5 448
audit fee	**5 390**	5 337
expenses	**92**	111
Technical services	**17 340**	12 662
Communication costs	**5 424**	4 936
Information technology	**34 415**	33 188
Regional Service Council levies	**1 369**	4 275
Subsistence and travel	**23 709**	18 547
Assets acquired below R1 000 expensed	**263**	–
Other	**63 376**	56 340
	151 378	135 396
33.3 Depreciation and amortisation	**5 648**	6 803
Buildings	**–**	1 573
Computer equipment	**2 365**	3 145
Furniture and fittings	**505**	592
Motor vehicles	**135**	263
Office equipment	**383**	308
Intangible assets	**2 260**	922

in thousands of rand	**2007**	2006

34. 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.

35. Retirement benefits

35.1 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: 530 (2006: 527)

Total amount expensed during the year (including Group Life Assurance and Income Continuity Benefits)	**30 821**	27 851

36. Cash flow statement

36.1 Interest received from development activities

Gross development loan repayments (refer to note 14.1)	**2 967 401**	3 339 190
Principal repayments	**(1 325 819)**	(1 597 232)
Interest received from development loans	**1 641 582**	1 741 958
Interest received from equity investments	**–**	8 195
	1 641 582	1 750 153

36.2 Interest received from investments

Credited to income statement for the year	**559 072**	476 779

36.3 Interest paid

Accrued interest at the beginning of the year		
Other creditors (refer to note 23)	**150 012**	149 958
Charged to income statement for the year		
Interest expense (excluding unrealised foreign exchange gains and losses)	**1 243 424**	1 059 888
Accrued interest at the end of the year		
Other creditors (refer to note 23)	**(160 305)**	(150 012)
	1 233 131	1 059 834

in thousands of rand	2007	2006
36.4 Cash generated from other operations		
Profit for the year	**1 282 772**	928 382
Adjusted for:		
Dividends received	**(86 227)**	(199)
Movement in provisions	**19 129**	(56 129)
Technical assistance grants paid	**32 102**	32 980
Interest expensed	**1 243 424**	1 059 888
Interest income	**(2 540 813)**	(2 240 054)
Depreciation and amortisation	**5 648**	6 803
Profit on sale of non-current assets held for sale	**(2 726)**	–
Net foreign exchange (gain)/loss	**(159 291)**	40 193
Revaluation of financial instruments	**(190 833)**	(274 183)
Capital gain realised on equity investment	**(49 783)**	(60 753)
Movement in home ownership scheme	**1 494**	(2 982)
Increase in post-retirement medical benefits investment	**(5 532)**	(9 560)
Increase in post-retirement medical benefits liability	**41 302**	34 450
Increase in funeral benefits liability	**118**	328
(Increase) in accounts receivable	**(68 505)**	(29 947)
(Decrease)/increase in accounts payable	**(111 554)**	24 244
	(589 275)	(546 539)

37. Commitments

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

37.1 Loan commitments

	2007	2006
Loans approved by the Board of Directors but not signed	**7 646 706**	6 103 137
Loans signed but not disbursed	**5 317 004**	3 647 338
	12 963 710	9 750 475

As the disbursement pattern for loans committed but not disbursed is dependent on the individual borrowers' implementation and administrative capacities, the disbursement pattern is not quantifiable. These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity.

37.2 Technical assistance grants

	2007	2006
Grants approved by the Board of Directors but not signed	**17 949**	16 178
Grants signed but not disbursed	**44 082**	42 209
	62 031	58 387

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.

in thousands of rand	**2007**	2006
37.3 Capital commitments		
Capital expenditure in respect of property and equipment authorised but not contracted for:	**27 703**	27 058

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

These commitments are expected to be settled in the following financial year.

38. Contingent liabilities

38.1 Employee loans

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

	2007	2006
Loan balances secured:	**340**	426

38.2 Guarantees

	2007	2006
38.2.1 The Bank has approved and issued guarantees on behalf of borrowers amounting to:	**492 973**	420 000

It is the opinion of management that these borrowers are unlikely to default, and therefore these guarantees were not recognised in the balance sheet as a liability.

	2007	2006
The total book debt to the credit provider is	**472 973**	400 000

38.2.2 The Bank has undertaken to underwrite the commitments of the Development Fund in respect of the Siyenza Manje initiative and the continued grant operations to the extent of its agreed contribution to the Fund's funding requirements as determined from time to time.

39. Funds administered on behalf of third parties

	2007	2006
Balance at the beginning of the year	**162 021**	125 879
Funds received	**484 708**	422 474
Funds disbursed	**(401 787)**	(386 332)
Funds at the end of the year	**244 942**	162 021

40. Related parties

The DBSA is one of nineteen schedule 2 major public entities in terms of the Public Finance Management Act and therefore falls within the national sphere of government. As a consequence, the Bank has a significant number of related parties that fall within the national sphere of government.

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

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

40.1 Transactions with related parties

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

40.2 Major public entities

40.2.1 National public entities

The total book debt for loans extended to national public entities amounts to R2 202 677 879. None of these amounts are non-performing.

40.2.2 Development Fund

In order for the Fund to carry out its functions, it utilises the offices, staff, services and facilities of the Bank, for which it pays a management fee. This fee is charged at a market rate of 4% of operating costs of the Fund. At year-end, R214 million was owed to the DBSA Development Fund (2006: R332 million).

40.2.3 Related party transactions as disclosed by Directors and Executive Managers for the 2006/07 financial year

Name of Director/ Executive Manager	Name of the project	Borrower	Amount	Declared at meeting	Interest rate	Specific impairment	Nature of interest
Direct interest **Non-executive Directors**							
Mr Jay Naidoo	Gautrain Infrastructure Project	Bombela (Pty) Ltd and Strategic Partners Group	Senior loan - R150 million Standby senior loan - R50 million Additional empowerment equity - R35 million	29 June 2006	6 months Jibar +2,05% 6 months Jibar +2,05% 6 months Jibar +3,0%	None	Chairperson and shareholder of the J&J Group with interests in Murray & Roberts, which is a member of the consortium.
Dr Iraj Abedian	Pan African Infrastructure Development Fund (PAIDF)	Pan African Infrastructure Development Fund (PAIDF)	US$100 million equity	22 February 2007	N/A	N/A	Chief Executive of Pan African Advisory Services, which provided consultancy services for the conceptualisation of the PAIDF.
Dr Claudia Manning	Pan African Infrastructure Development Fund (PAIDF)	Pan African Infrastructure Development Fund (PAIDF)	US$100 million equity	22 February 2007	N/A	N/A	Dr Manning's company, Sangena Investments, has been approached by the fund managers with a view to providing consultancy services.
	Department of Foreign Affairs (DFA) Building	SPV of Imbumba-Aganang Consortium	Senior loan - R150 million BEE equity Finance - R79,8 million Performance guarantees - R70 million	29 March 2007	Indicative terms not yet finalised	N/A	Director of Sangena Investments, which is a transaction advisor on behalf of the DFA.
Dr Lulu Gwagwa	Neotel Bridging and Nexus Empowerment Equity Finance	Neotel and Nexus Empowerment	Bridging facility - R466,7 million Equity loan - R151,5 million Preference shares - R100,5 million	18 October 2006	3 months Jibar +2,5% 3 months Jibar +2,5% 75% of prime rate	None None None	Involvement of close family member in Nexus.

Related party transactions as disclosed by Directors and Executive Managers for the 2005/06 financial year

Name of Director/ Executive Manager	Name of the project	Borrower	Amount	Declared at meeting	Interest rate	Specific impairment	Nature of interest
Direct interest **Non-executive Directors**							
Mr Jay Naidoo	Gautrain Infrastructure Project	Bombela (Pty) Ltd and Strategic Partners Group	R175 million	24 November 2005	6 months Jibar* +2,25%	None	Chairperson and shareholder of the J&J Group with interests in Murray & Roberts, which is a member of the consortium.
	Grant funding for Independent Power Project (IPP)	BEE Consortium	R5 million	18 September 2006	N/A	N/A	Director and shareholder of J&J BEE group. Thata J&J Consortium intends to participate in the IPP tender, for which the DBSA has set aside a R5 million funding package for a BEE consortium.
Dr D Konar	Debt and equity funding for Glocomm Broad Band Wireless Network	Glocomm Broad Band Wireless Network	R350 million	22 February 2006	3 months Jibar* +3%	N/A	Non-executive Director of Sentech, a company which is a shareholder in Glocomm.
Dr Claudia Manning	Equity in Local Investment Agency (LIA)	Local Investment Agency	R4 million	19 October 2005	N/A	None	Performed consultancy services for the concept of LIA.
Executive Management							
Dr MSV Gantsho	Debt funding for One & Only Cape Town Holdings	Piton Capital	R3,45 million	30 March 2006	6 months Jibar +2%	None	BEE shareholder of One & Only Cape Town Holdings.
	Debt funding for DCD Dorbyl	DCD Dorbyl BEE Company	R85 million	28 February 2006	15%	None	Shareholder of BEE company invested in DCD Dorbyl.

Notes:
1. All transactions were approved at arm's length and the normal DBSA terms and conditions applied.
2. All interests were declared at the meetings where the approvals were considered and the relevant Director did not form part of the decision-making process.

* Terms had not been finalised

41. Events after balance sheet date

There were no events occurring after balance sheet date that required any adjustment or disclosure.

42. Schedule of directors' emoluments

42.1 Remuneration of non-executive Directors and co-opted members of the Board

	Fees for services as Directors R	Subsistence and travel R	Fees for other services R	Total 2007 R	Total 2006 R
I Abedian	240 000	1 980	7 500	249 480	191 620
L Abrahams	–	–	–	–	104 150
A Boraine	52 500	108	–	52 608	36 731
T Chikane	90 000	720	–	90 720	65 900
T Dingaan	52 500	432	–	52 932	7 608
B Figaji	75 000	4 424	–	79 424	65 223
N Gasa	52 500	633	–	53 133	15 210
L Gwagwa	37 500	504	–	38 004	11 028
R Kfir	–	–	3 500	3 500	7 500
D Konar	375 000	1 080	58 860	434 940	201 080
W Lucas-Bull	195 000	900	–	195 900	35 000
JB Magwaza	22 500	3 035	–	25 535	150 000
C Manning	52 500	900	–	53 400	15 180
J Modise	52 500	900	–	53 400	7 680
J Naidoo (Chair)	360 000	540	–	360 540	294 676
S Nondwangu	15 000	225	–	15 225	15 225
H Nyasulu	–	–	–	–	10 550
N Payne	37 500	1 080	–	38 580	7 860
M Silinga	7 500	11 845	–	19 345	7 500
	1 717 500	29 306	69 860	1 816 666	1 249 721

42. Schedule of Directors' emoluments (continued)

42.2 Executive members' remuneration

	Basic salaries R	Medical aid, group life and provident fund contributions R	Other allowances and benefits R	Total 2007 R	Total 2006 R
Chief Executive Officer and Managing Director					
P Baloyi[1]	1 231 047	106 470	–	1 337 517	–
MSV Gantsho[2]	596 098	26 831	425 850	1 048 779	2 253 285
Executive managers	6 729 008	1 324 595	444 496	8 498 099	7 633 349
JH de V Botha[3]	284 062	3 107	15 491	302 660	1 461 006
E Dietrich[4]	853 461	196 809	–	1 050 270	–
SJ Khoza	1 096 784	219 839	124 836	1 441 459	1 342 882
G Mantashe[5]	609 900	102 600	–	712 500	–
L Mashaba	976 904	202 984	94 836	1 274 724	1 206 637
ZJ Matlala[6]	–	–	–	–	1 119 114
D Moephuli[7]	–	–	–	–	926 029
LM Musasike[8]	954 004	192 839	174 333	1 321 176	1 352 681
J Nhlapo[9]	61 328	14 469	–	75 797	–
L Pityana[10]	353 077	66 991	–	420 068	–
A Tadesse[11]	617 604	170 592	35 000	823 196	–
L van Lelyveld[12]	921 884	154 365	–	1 076 249	225 000
Total	8 556 153	1 457 896	870 346	10 884 395	9 886 634

	2007	2006
Performance incentives		
Chief Executive Officer and Managing Director		
P Baloyi[1]	**1 300 000**	–
MSV Gantsho[2] 2004/05	**–**	2 036 686[13]
2005/06	**–**	1 872 243[14]
	1 300 000	3 908 929
Executive managers	**5 410 000**	3 155 395
JH de V Botha[3]	**–**	830 862
E Dietrich[4]	**735 000**	–
SJ Khoza	**720 000**	820 906
G Mantashe[5]	**680 000**	–
L Mashaba	**830 000**	707 642
ZJ Matlala[6]	**–**	–
D Moephuli[7]	**–**	39 804
LM Musasike[8]	**–**	756 181
J Nhlapo[9]	**75 000**	–
L Pityana[10]	**780 000**	–
A Tadesse[11]	**780 000**	–
L van Lelyveld[12]	**810 000**	–
Total	**6 710 000**	7 064 324
End-of-service payments		
Chief Executive Officer and Managing Director		
MSV Gantsho[15]	**2 343 975**	–
Executive managers		
JH de V Botha[3]	**130 778**	3 000 000
Total	**2 474 753**	3 000 000

Notes:
1. Appointed to position 1 July 2006.
2. Contract ended 30 June 2006.
3. Contract ended 30 June 2006.
4. Appointed to position 1 April 2006.
5. Appointed to position 1 July 2006.
6. Resigned 31 December 2005.
7. Resigned 31 January 2006.
8. Resigned 15 February 2007.
9. From 1 October 2006 15% is related to DBSA work.
10. Appointed to position 1 October 2006.
11. Appointed to position 1 September 2006.
12. Appointed to position 1 January 2006.
13. Performance bonus in respect of 2004/05 financial year approved after year-end and paid in October 2005.
14. Performance bonus provided in respect of 2005/06 financial year.
15. Contractual end-of-service payment payable on non-renewal of contract with effect from the termination date of 30 June 2006.

43. Financial instruments

The Bank uses floating and fixed rate debt securities and lines of credit to finance its operations. Such funds are raised mainly in South African rands, euros and US dollars. This gives rise to credit, interest rate and foreign currency exposures, which are managed partially by derivative financial instruments.

43.1 Derivatives

The Bank enters into derivative transactions to hedge undesired market risk exposures. Qualifying hedges are designated as either fair value or cash flow hedges. Derivatives held for hedging consist of:

43.1.1 Derivatives designated as fair values hedges

The Bank's fair value hedges principally consist of interest rate and cross-currency swaps that are used to hedge changes in fair value due to fluctuation in the market rates of interest and currency exchange.

43.1.2 Derivatives designated as cash flow hedges

Cross-currency swaps concluded to hedge potential changes in cash flow due to currency exchange rate movements are designated as cash flow hedges.

43.2 Interest rate risk

Interest rate risk refers to the potential susceptibility of the Bank's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flow and income stream of the Bank through their effect on assets and liabilities that are sensitive to interest rate changes. At the same time, movements in interest rates impact on the Bank's capital through their effect on the market value of assets and liabilities.

The Treasury Division, under oversight of the Asset and Liability Management Committee, is charged with managing and containing the Bank's interest rate risk within acceptable boundaries. The Bank makes use of a variety of analytical techniques to measure and monitor interest rate risk exposures. These include static and dynamic repricing gap analyses, as well as duration-based rate sensitivity analysis aimed at measuring the impact of interest rate movements on the Bank's economic value of equity (EVE). The repricing profile as at financial year-end is encapsulated in the table below. As reflected in the 12-month cumulative repricing gap, the Bank is asset-sensitive, with an immediate 100 basis points parallel upward/(downward) shift in the yield curve expected to result in an increase/(decrease) in net interest income over the projected 12-month period of approximately R17 million.

43.2.1 Hedging of exposure to interest rate risk

ZAR interest rate swaps are used to achieve an appropriate match of fixed and floating rate exposures, in line with the Bank's hedging policy.

At 31 March 2007, the Bank had interest rate swaps with a total notional contract amount of R2,6 billion (2006: R2,8 billion).

The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to accounting policy note 3.1.3).

The net fair value of swaps at 31 March 2007 was R553 million (2006: R1 billion), comprising assets of R559 million (2006: R1 billion) and liabilities of R6 million (2006: R10 million). These amounts are recognised as fair value derivatives.

43.2.2 Interest rate sensitivity gap

The table below reflects the repricing periods in respect of interest-bearing financial assets and liabilities.

in millions of rand	Currency	<1 month	1–3 months	3–12 months	1–2 years	2–3 years	3–4 years	4–5 years	>5 years	Total
Financial market assets		**1 971,60**	**3 590,06**	**3 846,87**	**1 215,11**	**995,86**	**1 725,29**	**830,80**	**10 052,86**	**24 228,45**
Cash and cash equivalents	ZAR	835,78	–	–	–	–	–	–	–	**835,78**
	EUR	1,85	–	–	–	–	–	–	–	**1,85**
	USD	52,73	–	–	–	–	–	–	–	**52,73**
Money market instruments	ZAR	50,00	50,00	–	–	–	–	–	–	**100,00**
Repurchase assets	ZAR	640,37	–	–	–	–	–	–	–	**640,37**
Investment: government bonds	ZAR	–	–	263,43	263,43	–	658,40	–	1 392,70	**2 577,96**
Investment: corporate bonds	ZAR	–	10,00	–	80,00	–	92,00	20,00	90,00	**292,00**
Investment: municipal bonds	ZAR	–	–	–	–	–	50,00	–	200,00	**250,00**
Interest rate swaps: investment corporate bonds	ZAR	–	72,00	–	(20,00)	–	(52,00)	–	–	**–**
Development loans	ZAR	387,85	3 344,76	1 299,66	862,23	919,33	937,05	774,96	8 258,29	**16 784,13**
	EUR	–	–	1,17	1,17	1,17	1,76	2,05	9,,69	**17,01**
	USD	–	–	2 282,07	24,98	70,34	26,39	27,21	74,05	**2 505,04**
	ZMK	–	21,13	–	–	–	–	–	–	**21,13**
	TZS	–	93,27	–	–	–	–	–	–	**93,27**
Cross-currency swaps: development loans	TZS	–	(93,33)	–	–	–	–	–	–	**(93,33)**
	USD	(210,71)	113,25	(15,59)	(50,41)	(48,69)	(88,48)	(39,07)	(111,39)	**(451,09)**
	ZMK	–	(21,02)	–	–	–	–	–	–	**(2,02)**
	ZAR	213,73	–	16,13	53,71	53,71	100,17	45,65	139,52	**622,62**
Financial market liabilities		**(1 352,69)**	**(2 959,46)**	**(2 400,21)**	**(11,51)**	**(8,55)**	**(2 226,77)**	**(12,93)**	**(2 747,82)**	**(11 719,94)**
Funding: lines of credit	ZAR	–	–	(343,30)	(100,00)	(100,00)	(200,00)	–	–	**(743,30)**
	EUR	–	(31,73)	(31,73)	(93,51)	(101,15)	(107,22)	(110,76)	(947,54)	**(1 415,35**
	USD	–	(922,74)	(1 057,03)	(4,50)	(4,50)	(4,50)	(4,50)	(9,00)	**(2 006,77)**
Cross-currency swaps: lines of credit	ZAR	–	(736,72)	(5,34)	(12,35)	(9,25)	(13,52)	(13,36)	(203,65)	**(994,19)**
	EUR	–	31,73	31,73	93,51	101,15	107,22	110,76	947,54	**1 423,64**
	USD	–	–	5,46	5,32	5.18	5,05	4,91	11,91	**37,83**
Interest rate swaps: lines of credit	ZAR	–	(300,00)	–	100,00	100,00	100,00	–	–	**–**
	EUR	–	–	–	–	–	–	–	–	**–**
	USD	–	–	–	–	–	–	–	–	**–**
Funding: bonds	ZAR	–	–	–	–	–	(2 113,82)	–	(4 762,00)[1]	**(6 875,82)**
	EUR	–	–	–	–	–	–	–	–	**–**
	USD	–	–	–	–	–	–	–	–	**–**
Interest rate swaps: funding bonds	ZAR	(215,00)	(1 000,00)	(1 000,00)	–	–	–	–	2 215,.00	**–**
	EUR	–	–	–	–	–	–	–	–	**–**
	USD	–	–	–	–	–	–	–	–	**–**
Repurchase liability	ZAR	(1 137,69)	–	–	–	–	–	–	–	**(1 137,69)**
Interest rate repricing gap		**618,91**	**630,60**	**1 446,66**	**1 203,60**	**987,31**	**(501,48)**	**817,87**	**7 305,04**	**12 508,51**
Cumulative repricing gap		**–**	**1 249,51**	**2 696,17**	**3 899,77**	**4 887,08**	**4 385,60**	**5 203,47**	**12 508,51**	**–**

1. The ZAR funding bonds include the zero coupon Eurorand issue maturing in 2027, stated net of interest still to accrue.

43.3 Foreign currency risk

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the DBSA arises primarily from the Bank's foreign currency funding and lending activities. The Bank employs a conservative policy that forbids the assumption of speculative foreign currency positions. As such all major currency exposures are hedged, either naturally through offsetting assets and liabilities of substantially similar nominal size, maturities, currency, and repricing bases, or in the absence thereof, through the use of approved derivative instruments transacted with reputable financial institutions. However, manageable residual risk remains in the form of US dollars and euros net open positions. As at 31 March 2007, the net open foreign currency positions on the Bank's interest-bearing assets and liabilities amounted to assets of USD28 million and EUR1,9 million. In addition, foreign currency equity investments at year-end evaluations amounted to USD48 million and EUR974 000 respectively.

43.3.1 Hedging of exposure to foreign currency risk

The Bank uses cross-currency swaps to hedge its foreign currency risk. The principal terms of these swaps are substantially similar to those of the hedged items with regard to maturity dates, interest reset dates, nominal values and amortisation profiles.

At 31 March 2007, the Bank had cross-currency swaps with a total notional contract to the amount of R1,6 billion (2006: R1 billion).

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

43.3.2 Cash flow and fair value hedges

The Bank classifies its cross-currency swap contracts as fixed-to-floating, floating-to-floating or fixed-to-fixed. The fixed rate foreign currency to floating rate domestic currency contracts, as well as the floating rate foreign currency to floating rate foreign currency contracts are classified as fair value hedges if hedge accounting requirements are met; and otherwise as economic hedges with changes in fair values thereof recognised in profit or loss. However, the fixed rate foreign currency to fixed rate domestic currency swaps are classified as cash flow hedges of forecast transactions, and are therefore accounted for in terms of accounting policy note 3.1.3.

The total net fair value of cross-currency swap contracts employed as cash flow hedges at 31 March 2007 amounted to R13 million (2006: R20 million), encompassing assets of R70 million (2006: R80 million) and liabilities of R57 million (2006: R60 million) recognised in cash flow derivatives.

The total net fair value of cross-currency swap contracts employed as fair value hedges at 31 March 2007 amounted to R144 million (2006: R52 million), encompassing assets of R145 million (2006: R65 million) and liabilities of R1 million (2006: R13 million) recognised in fair value derivatives.

43.3.3 Economic hedges

Changes in the fair value of cross-currency swap contracts that economically hedge monetary assets and liabilities in foreign currencies, and on which hedge accounting is not applied, are recognised in the income statement.

As at 31 March 2007, the total net fair value of currency derivatives recognised as economic hedges of foreign currency monetary assets and liabilities amounted to R137 million (2006: R26 million), encompassing assets of R146 million (2006: R50 million) and liabilities of R9 million (2006: R24 million) recognised in fair value derivatives.

43.3.4 Fair values

The carrying amounts and fair values of financial instruments are disclosed in the financial market instruments table on the following page.

Financial market assets and liabilities

Classification	Currency	Nature of risk being hedged	2007 Carrying value R 000	2007 Fair value R 000	2007 <1 year R 000	2007 1–5 years R 000	2007 >5 years R 000	Weighted average rate %	2006 Carrying value R 000	2006 Fair value R 000	2006 Current R 000	2006 Non-current R 000
Financial market assets			**5 265 217**	**5 311 951**	**1 033 135**	**1 438 288**	**2 793 794**		**6 555 917**	**6 628 887**	**1 616 981**	**4 968 797**
Held to maturity			**782 291**	**829 024**	**265 275**	**317 068**	**199 948**		**1 049 622**	**1 122 592**	**–**	**1 079 483**
Capital market instruments			**532 318**	**535 942**	**265 275**	**267 043**	**–**		**799 649**	**829 510**	**–**	**829 510**
Government bonds												
R195			265 275	266 080	265 275	–	–	11,96	–	–	–	–
R196			267 043	269 862	–	267 043	–	11,52	–	–	–	–
R194			–	–	–	–	–		799 649	829 510	–	829 510
Municipal investments			249 973	293 082	–	50 025	199 948		249 973	293 082	–	249 973
COJ01			50 025	55 812	–	50 025	–	11,93	50 031	55 812	–	50 031
COJ02			199 948	237 270	–	–	199 948	11,53	199 942	237 270	–	199 942
Loans and receivables			**640 374**	**640 374**	**640 374**	**–**	**–**		**789 044**	**789 044**	**789 044**	**–**
Repurchase agreements			640 374	640 374	640 374	–	–	8,71	565 257	565 257	565 257	–
Funds under management			–	–	–	–	–		223 787	223 787	223 787	–
Available for sale investments			**772 983**	**772 983**	**101 535**	**208 044**	**463 404**		**1 285 523**	**1 285 523**	**434 092**	**851 431**
Capital market instruments			**671 448**	**671 448**	**–**	**208 044**	**463 404**		**866 417**	**866 417**	**14 986**	**851 431**
Government bonds			369 827	369 827	–	–	369 827		381 458	381 458	–	381 458
R157			268 339	268 339	–	–	268 339	8,63	278 921	278 921	–	278 921
R204			101 488	101 488	–	–	101 488	7,27	102 537	102 537	–	102 537
Corporate bonds			301 621	301 621	–	208 044	93 577		484 959	484 959	14 986	469 973
AB02			48 110	48 110	–	48 110	–	12,41	80 955	80 955	–	80 955
AB05			30 434	30 434	–	–	30 434	8,76	31 321	31 321	–	31 321
CAL01			38 910	38 910	–	38 910	–	8,04	50 636	50 636	–	50 636
DC03			19 510	19 510	–	19 510	–	8,22	–	–	–	–
LB01			55 744	55 744	–	55 744	–	8,37	58 351	58 351	–	58 351
SBK3			35 771	35 771	–	35 771	–	11,50	37 696	37 696	–	37 696
SBK7			63 142	63 142	–	–	63 142	9,63	108 204	108 204	–	108 204
DC02			–	–	–	–	–		14 986	14 986	14 986	–
IV01			–	–	–	–	–		13 435	13 435	–	13 435
IV02			–	–	–	–	–		37 852	37 852	–	37 852
LGL1			–	–	–	–	–		41 536	41 536	–	41 536
AB04			9 999	9 999	–	9 999	–	9,88	9 987	9 987	–	9 987
Money market instruments			**101 535**	**101 535**	**101 535**	**–**	**–**		**419 106**	**419 106**	**419 106**	**–**
Negotiatable certificates of deposit			101 535	101 535	101 535	–	–	7,21	398 651	398 651	398 651	–
Promissory notes discount			–	–	–	–	–		20 455	20 455	20 455	–

Financial market assets and liabilities (continued)

Classification	Currency	Nature of risk being hedged	2007 Carrying value R 000	2007 Fair value R 000	2007 <1 year R 000	2007 1–5 years R 000	2007 >5 years R 000	Weighted average rate %	2006 Carrying value R 000	2006 Fair value R 000	2006 Current R 000	2006 Non-current R 000
Assets carried at fair value through profit or loss			**2 350 379**	**2 350 379**	**8 588**	**789 242**	**1 552 549**		**2 379 219**	**2 379 219**	**14 710**	**2 364 509**
Capital market instruments			**2 149 440**	**2 149 440**	**–**	**750 518**	**1 398 922**		**2 244 462**	**2 244 462**	**–**	**2 244 462**
Government bonds			2 149 440	2 149 440	–	750 518	1 398 922		2 244 462	2 244 462	–	2 244 462
R153			750 518	750 518	–	750 518			796 638	796 638	–	796 638
R157			1 189 639	1 189 639	–	–	1 189 639	13,50	1 236 597	1 236 597	–	1 236 597
R204			209 283	209 283	–	–	209 283	8,00	211 227	211 227	–	211 227
Derivatives			54 252	54 252	–	–	54 252		109 061	109 061	21 812	87 249
DV23 - interest rate swap		interest rate	54 252	54 252	–	–	54 252	10,00	109 061	109 061	21 812	87 249
Positive economic hedges			146 687	146 687	8 588	38 723	99 375		25 696	25 696	(7 102)	32 798
Agence Française de Développement 5.1[1]		currency and interest	14 774	14 774	–	4 728	10 046	3,00	(6 319)	(6 319)	(3 349)	(2 970)
Agence Française de Développement 3.1		currency and interest	7 345	7 345	3 673	3 672	–	3,50	2 334	2 334	555	1 779
Agence Française de Développement 3.3		currency and interest	4 116	4 116	2 058	2 058	–	3,50	2 168	2 168	183	1 985
Kreditanstalt für Wiederaufbau 1.2		currency and interest	33 029	33 029	–	6 606	26 423	2,00	20 980	20 980	629	20 351
Kreditanstalt für Wiederaufbau 1.4		currency and interest	26 672	26 672	–	5 334	21 338	2,00	16 758	16 758	503	16 255
Agence Française de Développement 5.2		currency and interest	9 471	9 471	–	3 031	6 440	3,50	–	–	–	–
Agence Française de Développement 4.1[9]		currency and interest	10 483	10 483	2 097	8 387	–	3,50	(9 736)	(9 736)	(4 771)	(4 965)
Agence Française de Développement 4.2[4]		currency and interest	1 689	1 689	338	1 351	–	3,50	(5 308)	(5 308)	(1 911)	(3 397)
Kreditanstalt für Wiederaufbau 4.1[5]		currency and interest	21 477	21 477	–	644	20 833	2,00	(27)	(27)	–	(27)
Kreditanstalt für Wiederaufbau 2.1		currency and interest	9 195	9 195	–	1 379	7 816	2,00	5 984	5 984	180	5 804
Salt Lake		currency and interest	–	–	–	–	–	–	1 664	1 664	1 614	50
ALM Fixed US assets hedges		currency	853	853	60	512	281	5,40	–	–	–	–
ALM Zamcel asset hedge		currency	364	364	364	–	–	5,61	–	–	–	–
Kreditanstalt für Wiederaufbau 2.3[2]		currency and interest	2 229	2 229	–	334	1 895	2,00	(883)	(883)	(221)	(662)
Kreditanstalt für Wiederaufbau 1.6[3]		currency and interest	1 878	1 878	–	376	1 502	2,00	(1 247)	(1 247)	(225)	(1 022)
Kreditanstalt für Wiederaufbau 3.1[8]		currency and interest	3 112	3 112	–	311	2 801	2,00	(672)	(672)	(289)	(383)

Financial market assets and liabilities (continued)

Classification	Currency	Nature of risk being hedged	2007 Carrying value R 000	2007 Fair value R 000	2007 <1 year R 000	2007 1–5 years R 000	2007 >5 years R 000	Weighted average rate %	2006 Carrying value R 000	2006 Fair value R 000	2006 Current R 000	2006 Non-current R 000
Hedge accounted activities			**719 190**	**719 190**	**17 363**	**123 934**	**577 893**		**1 052 509**	**1 052 509**	**379 135**	**673 374**
Cash flow hedges – assets			69 780	69 780	7 575	30 449	31 755		79 792	79 792	10 782	69 010
Chiao Tung Bank Co Ltd		currency	14 926	14 926	2 090	8 508	4 329	3,00	17 229	17 229	3 274	13 955
Agence Française de Développement[1]		currency	54 854	54 854	5 485	21 941	27 427	3,50	62 563	62 563	7 508	55 055
Fair value hedges – assets			**649 410**	**649 410**	**9 788**	**93 484**	**546 137**		**972 717**	**972 717**	**368 353**	**604 364**
13.5% coupon note interest rate swap		interest rate	63 208	63 208	–	–	63 208	13,50	81 180	81 180	12 382	68 798
Agence Française de Développement[1]		currency	57 650	57 650	5 765	23 060	28 825	3,50	33 323	33 323	15 662	17 661
Kreditanstalt für Wiederaufbau 3.2[7]		currency	5 669	5 669	–	567	5 102	2,00	(11 080)	(11 080)	(1 884)	(9 196)
Agence Française de Développement 2		currency	–	–	–	–	–		4 377	4 377	4 377	–
Agence Française de Développement 3.2		currency	6 791	6 791	3 396	3 396	–	3,50	3 587	3 587	179	3 408
Chiao Tung Bank Co Ltd[6]		currency	4 482	4 482	628	2 555	1 300	3,50	(1 596)	(1 596)	–	(1 596)
DV21 interest rate swap		interest rate	389 952	389 952	–	–	389 952	15,00	483 720	483 720	38 698	445 022
European Investment Bank 2.2		interest rate	21 445	21 445	–	21 445	–	13,75	30 924	30 924	7 731	23 193
European Investment Bank 2.3		interest rate	11 677	11 677	–	11 677	–	15,00	22 015	22 015	8 146	13 869
European Investment Bank 3.2		interest rate	18 386	18 386	–	18 386	–	13,25	26 726	26 726	6 414	20 312
Kreditanstalt für Wiederaufbau 1.1		currency	13 921	13 921	–	2 784	11 137	2,00	6 957	6 957	–	6 957
Kreditanstalt für Wiederaufbau 1.3		currency	23 602	23 602	–	4 720	18 881	2,00	8 282	8 282	–	8 282
Kreditanstalt für Wiederaufbau 1.5 & 2.2		currency	32 626	32 626	–	4 894	27 732	2,00	8 553	8 553	899	7 654
Private placement interest rate swap		interest rate	–	–	–	–	–		275 749	275 749	275 749	–
Financial market liabilities			**(12 714 755)**	**(14 645 520)**	**(1 724 629)**	**(2 787 860)**	**(8 202 267)**		**(12 467 178)**	**(14 873 632)**	**(2 160 466)**	**(7 447 348)**
Liabilities carried at fair value through profit or loss			**(1 193 151)**	**(1 193 151)**	**(10 294)**	**(4 529)**	**(1 178 328)**		**(1 235 243)**	**(1 235 243)**	**(2 814)**	**(1 226 499)**
Derivatives			(5 554)	(5 554)	(1 025)	(4 529)	–		(10 299)	(10 299)	(2 814)	(1 555)
Interest rate swaps – internal portfolio		interest rate	(1 025)	(1 025)	(1 025)	–	–	11,50	(2 393)	(2 393)	(838)	(1 555)
Interest rate swaps – LB01		interest rate	(4 529)	(4 529)	–	(4 529)	–	11,88	(7 906)	(7 906)	(1 976)	(5 930)
Designated liability			(1 178 328)	(1 178 328)	–	–	(1 178 328)		(1 224 944)	(1 224 944)	–	(1 224 944)
DV23			(1 178 328)	(1 178 328)	–	–	(1 178 328)	10,00	(1 224 944)	(1 224 944)	–	(1 224 944)
Negative economic hedges			(9 269)	(9 269)	(9 269)	–	–		–	–	–	–
ALM Floating US assets hedges		currency	(3 123)	(3 123)	(3 123)	–	–	5,40	–	–	–	–
ALM Celtel Tanzania assets hedges		currency	(6 146)	(6 146)	(6 146)	–	–	5,61	–	–	–	–
Hedge accounted activities			**(57 578)**	**(57 578)**	**(306)**	**(10 654)**	**(46 617)**		**(60 252)**	**(60 252)**	**(32 233)**	**(28 019)**
Cash flow hedges – liabilities			(56 526)	(56 526)	(306)	(10 128)	(46 092)		(60 252)	(60 252)	(32 233)	(28 019)
Agence Française de Développement 2		currency	–	–	–	–	–		(316)	(316)	(316)	–
Kreditanstalt für Wiederaufbau 5.1		currency	(1 056)	(1 056)	–	(528)	(528)	2,50	–	–	–	–
Agence Française de Développement 3.2		currency	(612)	(612)	(306)	(306)	–	3,50	(1 471)	(1 471)	(74)	(1 397)
Kreditanstalt für Wiederaufbau 3.2		currency	(8 720)	(8 720)	–	(872)	(7 848)	2,00	(11 466)	(11 466)	(1 949)	(9 517)
Kreditanstalt für Wiederaufbau 1.1		currency	(18 222)	(18 222)	–	(3 644)	(14 578)	2,00	(23 741)	(23 741)	(4 511)	(19 230)
Kreditanstalt für Wiederaufbau 1.3		currency	(11 817)	(11 817)	–	(2 363)	(9 454)	2,00	(10 361)	(10 361)	(12 744)	2 383
Kreditanstalt für Wiederaufbau 1.5 & 2.2		currency	(16 099)	(16 099)	–	(2 415)	(13 684)	2,00	(12 897)	(12 897)	(12 639)	(258)
Fair value hedges – liabilities			(1 051)	(1 051)	–	(525)	(525)		–	–	–	–
Kreditanstalt für Wiederaufbau 5.1		currency	(1 051)	(1 051)	–	(525)	(525)	2.50	–	–	–	–

Financial market assets and liabilities (continued)

Classification	Currency	Nature of risk being hedged	2007 Carrying value R 000	2007 Fair value R 000	2007 <1 year R 000	2007 1–5 years R 000	2007 >5 years R 000	Weighted average rate %	2006 Carrying value R 000	2006 Fair value R 000	2006 Current R 000	2006 Non-current R 000
Hedged items			**(2 608 372)**	**(2 199 060)**	**(26 287)**	**(503 799)**	**(2 078 285)**		**(3 033 758)**	**(3 033 758)**	**(510 905)**	**(2 522 853)**
Local			**(2 026 170)**	**(1 697 498)**	**–**	**(328 672)**	**(1 697 498)**		**(2 636 931)**	**(2 636 931)**	**(478 526)**	**(2 158 405)**
Capital market instruments			(1 697 498)	(1 697 498)	–	–	(1 697 498)		(2 281 684)	(2 281 684)	(478 526)	(1 803 158)
Public			(1 419 861)	(1 419 861)	–	–	(1 419 861)		(1 507 954)	(1 507 954)	–	(1 507 954)
DV21			(1 419 861)	(1 419 861)	–	–	(1 419 861)	15,00	(1 507 954)	(1 507 954)	–	(1 507 954)
Private			(277 637)	(277 637)	–	–	(277 637)		(773 730)	(773 730)	(478 526)	(295 204)
Private placement			–	–	–	–	–		(478 526)	(478 526)	(478 526)	–
13,5% coupon note			(277 637)	(277 637)	–	–	(277 637)	13,50	(295 204)	(295 204)	–	(295 204)
Other local funding			(328 672)	(328 672)	–	(328 672)	–		(355 247)	(355 247)	–	(355 247)
European Investment Bank 2.2			(115 052)	(115 052)	–	(115 052)	–	14,28	(116 594)	(116 594)	–	(116 594)
European Investment Bank 2.3			(101 864)	(101 864)	–	(101 864)	–	14,99	(118 593)	(118 593)	–	(118 593)
European Investment Bank 3.2			(111 756)	(111 756)	–	(111 756)	–	13,53	(120 060)	(120 060)	–	(120 060)
Foreign			**(582 202)**	**(501 562)**	**(26 287)**	**(175 127)**	**(380 787)**		**(396 827)**	**(396 827)**	**(32 379)**	**(364 448)**
Other funding liabilities			(582 203)	(501 562)	(26 287)	(175 127)	(380 788)		(396 827)	(396 827)	(32 379)	(364 448)
Agence Française de Développement 2			–	–	–	–	–		(14 186)	(14 186)	(14 186)	–
Agence Française de Développement 3.2	€1 903,51		(18 571)	(18 475)	(9 285)	(9 285)	–	3,50	(21 256)	(21 256)	(14 242)	(7 014)
Kreditanstalt für Wiederaufbau 1.1	€5 155,13		(50 294)	(40 098)	–	(10 059)	(40 235)	2,00	(38 379)	(38 379)	–	(38 379)
Agence Française de Développement 1	€11 726,85		(114 408)	(110 894)	(12 585)	(45 763)	(56 060)	3,50	(96 032)	(96 032)	–	(96 032)
Kreditanstalt für Wiederaufbau 1.3	€6 627,71		(64 661)	(51 550)	–	(12 932)	(51 728)	2,00	(49 340)	(49 340)	–	(49 340)
Kreditanstalt für Wiederaufbau 1.5 & 2.2	€10 105,74		(98 593)	(77 136)	–	(14 789)	(83 804)	2,00	(75 233)	(75 233)	–	(75 233)
Kreditanstalt für Wiederaufbau 3.2	€9 673,00		(94 370)	(72 823)	–	(9 437)	(84 933)	2,00	(72 011)	(72 011)	–	(72 011)
Kreditanstalt für Wiederaufbau 5.1	€11 250,00		(109 756)	(101 267)	–	(54 878)	(54 878)	2,00	–	–	–	–
Chiao Tung Bank Co. Ltd	€4 324,00		(31 550)	(29 319)	(4 417)	(17 984)	(9 150)	3,00	(30 390)	(30 390)	(3 951)	(26 439)
Liabilities carried at amortised cost			**(8 222 352)**	**(10 659 082)**	**(1 644 416)**	**(2 075 093)**	**(4 502 844)**		**(7 622 378)**	**(10 174 600)**	**(1 567 573)**	**(3 201 370)**
Local			**(3 996 196)**	**(4 702 793)**	**(1 137 685)**	**(1 855 897)**	**(1 002 613)**		**(4 182 292)**	**(4 942 469)**	**(1 328 858)**	**–**
Money market instruments			(1 137 685)	(1 137 685)	(1 137 685)	–	–		(1 328 858)	(1 328 858)	(1 328 858)	–
Repurchase agreements			(1 137 685)	(1 137 685)	(1 137 685)	–	–	8,30	(1 328 858)	(1 328 858)	(1 328 858)	–
Capital market instruments			(2 858 510)	(3 565 108)	–	(1 855 897)	(1 002 613)		(2 853 434)	(3 613 611)	–	–
Public			(2 858 510)	(3 565 108)	–	(1 855 897)	(1 002 613)		(2 853 434)	(3 613 611)	–	–
DV07			(1 855 897)	(2 386 780)	–	(1 855 897)	–	15,30	(1 848 075)	(2 386 780)	–	–
DV23			(1 002 613)	(1 178 328)	–	–	(1 002 613)	9,97	(1 005 359)	(1 226 831)	–	–

Financial market assets and liabilities (continued)

Classification	Currency	Nature of risk being hedged	2007 Carrying value R 000	2007 Fair value R 000	2007 <1 year R 000	2007 1–5 years R 000	2007 >5 years R 000	Weighted average rate %	2006 Carrying value R 000	2006 Fair value R 000	2006 Current R 000	2006 Non-current R 000
Foreign			**(4 226 157)**	**(5 956 289)**	**(506 731)**	**(219 195)**	**(3 500 231)**		**(3 440 085)**	**(5 232 131)**	**(238 715)**	**(3 201 370)**
Capital market instruments			**(1 546 967)**	**(3 243 044)**	**–**	**–**	**(1 546 967)**		**(1 478 262)**	**(3 243 044)**	**–**	**(1 478 262)**
Public			(1 546 967)	(3 243 044)	–	–	(1 546 967)		(1 478 262)	(3 243 044)	–	(1 478 262)
Euro-rand 0%			(594 406)	(1 613 042)	–	–	(594 406)	12,81	(526 059)	(1 613 042)	–	(526 059)
Euro-rand 30-year			(952 561)	(1 630 002)	–	–	(952 561)	13,50	(952 203)	(1 630 002)	–	(952 203)
Other liabilities			**(2 679 190)**	**(2 713 245)**	**(506 730)**	**(219 196)**	**(1 953 264)**		**(1 961 823)**	**(1 989 087)**	**(238 715)**	**(1 723 108)**
African Development Bank $3.1	$50 000,00		(364 850)	(375 633)	–	–	(364 850)	5,90	(307 500)	(320 514)		(307 500)
African Development Bank 2.1			(293 301)	(300 387)	–	–	(293 301)	9,97	(335 201)	(349 992)	(41 900)	(293 301)
African Development Bank $ 1	$38 500,00		(280 935)	(286 989)	–	–	(280 935)	5,90	(279 825)	(286 560)	(43 050)	(236 775)
African Development Bank $ 3.2	$50 000,00		(364 850)	(374 205)	–	–	(364 850)	5,90	–	–	–	–
European Investment Bank 1.2			(49 950)	(50 699)	(49 950)	–	–	14,14	(49 809)	(58 927)	(49 809)	–
European Investment Bank 3.1			(96 235)	(111 692)	–	(96 235)	–	5,35	(95 423)	(127 622)	–	(95 423)
European Investment Bank 3.3	$13 082,00		(95 459)	(95 338)	–	–	(95 459)	5,35	(89 393)	(90 111)	(13 409)	(75 984)
European Investment Bank 4A	$11 675,00		(85 190)	(85 465)	–	–	(85 190)	5,35	(82 056)	(82 900)	(20 514)	(61 542)
European Investment Bank 4B.1	$8 102,00		(59 122)	(59 313)	–	–	(59 122)	5,35	(56 947)	(53 973)	(11 389)	(45 558)
European Investment Bank 4B.2	$19 619,00		(143 156)	(143 618)	–	–	(143 156)	5,35	(137 890)	(130 683)	(27 578)	(110 312)
Nordic Investment Bank 1	$6 000,00		(43 782)	(44 284)	–	–	(43 782)	5,80	(43 050)	(44 083)	(8 610)	(34 440)
Nordic Investment Bank 1.2	$5 294,00		(38 631)	(39 116)	–	(38 631)	–	5,96	(39 794)	(41 039)	(14 326)	(25 468)
Nordic Investment Bank 1.3	$6 470,00		(47 216)	(47 929)	–	–	(47 216)	5,96	(47 029)	(46 449)	(7 235)	(39 794)
European Investment Bank 5.1	$62 438,00		(455 611)	(455 189)	(455 611)	–	–	5,35	(383 995)	(345 440)	–	(383 995)
Agence Française de Développement 5.2	$25 000,00		(243 902)	(232 595)	–	(78 049)	(165 854)	3,00	–	–	–	–
Natexis Banque	€1 143,00		(11 155)	(6 016)	–	(1 605)	(9 550)	0,10	(8 540)	(6 016)	–	(8 540)
Société Générale	€559,00		(5 845)	(4 777)	(1 168)	(4 677)	–	4,67	(5 370)	(4 777)	(895)	(4 475)
Non-qualifying hedged items			**(633 302)**	**(536 650)**	**(43 327)**	**(193 783)**	**(396 192)**		**(515 548)**	**(369 779)**	**(46 941)**	**(468 607)**
Other liabilities			(633 302)	(536 650)	(43 327)	(193 783)	(396 192)		(515 548)	(369 779)	(46 941)	(468 607)
Agence Française de Développement 4.1	€9 688,00		(94 512)	(91 696)	(18 902)	(75 610)	–	3,50	(86 543)	(84 169)	(28 559)	(57 984)
Agence Française de Développement 5.1	€10 000,00		(97 561)	(90 058)	–	(31 219)	(66 341)	3,00	(74 446)	(72 404)	–	(74 446)
Kreditanstalt für Wiederaufbau 1.2	€7 942,01		(77 483)	(62 164)	–	(15 497)	(61 986)	2,00	(59 125)	(48 506)	–	(59 125)
Kreditanstalt für Wiederaufbau 1.4	€6 535,73		(63 763)	(50 836)	–	(12 753)	(51 011)	2,00	(48 656)	(39 922)	–	(48 656)
Kreditanstalt für Wiederaufbau 1.6	€ 2 162,22		(21 095)	(16 818)	–	(4 219)	(16 876)	2,00	(16 097)	(13 207)	–	(16 097)
Kreditanstalt für Wiederaufbau 2.1	€2 238,76		(21 842)	(17 182)	–	(3 276)	(18 565)	2,00	(16 667)	(13 438)	–	(16 667)
Kreditanstalt für Wiederaufbau 2.3	€2 253,84		(21 989)	(17 188)	–	(3 298)	(18 690)	2,00	(16 779)	(13 530)	–	(16 779)
Kreditanstalt für Wiederaufbau 3.1	€2 827,00		(27 582)	(21 145)	–	(2 758)	(24 823)	2,00	(21 047)	(16 682)	–	(21 047)
Kreditanstalt für Wiederaufbau 4.1	€14 572,00		(142 164)	(105 930)	–	(4 265)	(137 899)	2,00	(108 481)	–	–	(108 481)
Agence Française de Développement 3.3	€1 229,97		(12 670)	(11 938)	(6 335)	(6 335)	–	3,50	(13 735)	(13 948)	(4 578)	(9 157)
Agence Française de Développement 4.2	€2 813,00		(27 439)	(26 621)	(5 488)	(21 951)	–	3,50	(25 125)	(25 125)	(4 188)	(20 938)
Agence Française de Développement 3.1	€2 583,36		(25 203)	(25 074)	(12 602)	(12 602)	–	3,50	(28 848)	(28 848)	(9 616)	(19 232)

Financial market assets and liabilities (continued)

Hedges are classified either as assets or liabilities depending on the credit or debit closing balance. Thus classification between assets and liabilities may change from year to year. Below is a reconciliation of the financial assets and liabilities between the 2006 and 2007 Annual Financial Reports, as certain hedges have changed categories.

Instrument		Category	Disclosure R 000
Financial market assets as per 2006 disclosure			**6 616 927**
	Reclassifications		
1.	Agence Française de Développement 5.1	Negative economic hedge	(6 319)
2.	Kreditanstalt für Wiederaufbau 2.3 – cross-currency swap	Negative economic hedge	(5 534)
3.	Kreditanstalt für Wiederaufbau 1.6 – cross-currency swap	Negative economic hedge	(5 309)
4.	Agence Française de Développement 4.2	Negative economic hedge	(5 308)
5.	Kreditanstalt für Wiederaufbau 4.1 – cross-currency swap	Negative economic hedge	(9 186)
6.	Chiao Tung Bank Co Ltd	Negative fair value hedge	(1 596)
7.	Kreditanstalt für Wiederaufbau 3.2 – cross-currency swap	Negative fair value hedge	(11 080)
8.	Kreditanstalt für Wiederaufbau 3.1 – cross-currency swap	Negative economic hedge	(6 942)
9.	Agence Française de Développement 4.1	Negative economic hedge	(9 736)
Financial market assets as per 2007 disclosure			**6 555 917**
Financial market liabilities as per 2006 disclosure			**(12 528 188)**
	Reclassifications		
1.	Agence Française de Développement 5.1	Negative economic hedge	6 319
2.	Kreditanstalt für Wiederaufbau 2.3 – cross-currency swap	Negative economic hedge	5 534
3.	Kreditanstalt für Wiederaufbau 1.6 – cross-currency swap	Negative economic hedge	5 309
4.	Agence Française de Développement 4.2	Negative economic hedge	5 308
5.	Kreditanstalt für Wiederaufbau 4.1 – cross-currency swap	Negative economic hedge	9 186
6.	Chiao Tung Bank Co Ltd	Negative fair value hedge	1 596
7.	Kreditanstalt für Wiederaufbau 3.2 – cross-currency swap	Negative fair value hedge	11 080
8.	Kreditanstalt für Wiederaufbau 3.1 – cross-currency swap	Negative economic hedge	6 942
9.	Agence Française de Développement 4.1	Negative economic hedge	9 736
Financial market liabilities as per 2007 disclosure			**(12 467 178)**

For further disclosure on other risks, please refer to the risk management section on page 61 of this Report.

Development Bank of Southern Africa Limited

Registration number	1600157FN
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DBSA
Development Bank
of Southern Africa

Annual Report team

Project sponsor: Admassu Tadesse

Core team: Dave Evans; Donovan Govender; Theo Jansen van Vuuren; Mamathe Kgarimetsa-Phiri; Dumisani Magadlela; Thomas Mannya; Fikile Masondo; Mathanda Mathenjwa; Helen Moatshe; Thapelo Mokoena; Neo Motsisi; Zak Nanabhay; Janet Perch; Mariaan Roos; Rina Roothman; Lyn Sumners; Janine Thorne; Vuyo Tetyana; Susan Visser

Assisted by: Debbie Blackburn; Linda Cilliers; Julie Clarke; MaryAnne de Beer; Emile du Toit; Walter Galloway; Gerrie Geringer; Suretha Hamman-Naudé; Germaine Janse van Rensburg; Patrick Karani; Paul Kibuuka; Dorothy Kobe; Ruan Kruger; Lucky Madikiza; Evodia Malefane; Stephen Mamabolo; Portia Matamela; Zodwa Mbele; Bernard Mhango; Lloyd Morolo; Josephilda Nhlapo-Hlope; Godfrey Okolobo; Willem Peach; Booye Rousseau; Tom Scott; Leo Sibanda; Alta Theron; Jean Triegaardt; Khatutshelo Tshipala; Dries van Niekerk; Ingrid Verwey

Language editor: Ivan Vladislavic

DBSA Development Fund

Vision

To be a leading catalyst in municipal capacity building in order to maximise the impact of development finance in South Africa

Mission

To capacitate municipalities and communities for effective service delivery and economic development in order to improve the quality of life of the people of South Africa

Products and services

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

- **Funds:** Capacity building funding through grants
- **Expertise:** Mobilisation and deployment of technical experts to implement infrastructure projects
- **Development facilitation:** Technical support and sharing of knowledge

Guiding principles

The Fund will pursue the following guiding principles in the implementation of its strategy:

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

Accelerating the implementation of Vision 2014

DBSA

Development Fund

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Contents

Abbreviations

BEE	black economic empowerment
BSC	Balanced Scorecard
DBSA	Development Bank of Southern Africa Limited
DPLG	Department of Provincial and Local Government
DWAF	Department of Water Affairs and Forestry
€	euro
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IDP	Integrated Development Plan
KfW	Kreditanstalt für Wiederaufbau
LED	local economic development
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
R	South African rand
SALGA	South African Local Government Association
US$	United States dollar

Market definition

This Annual Report uses the capacity-based classification of municipalities formulated by the DBSA and the DBSA Development Fund: Market 1 municipalities are well capacitated (i.e. metros). Market 2 and 3 municipalities are progressively poorer and less capacitated, with the former typically being large and medium-size towns and the latter mainly being rural municipalities.

Financial year

The financial year of the DBSA Development Fund is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2006/07, are to the financial year ended 31 March.

Business and financial overview

Financial results	2007 R million	2006 R million	2005 R million
Grant received from the DBSA	**–**	172,0	–
Capacity building grants disbursed	**67,3**	120,4	74
Development facilitation costs	**6,6**	9,6	8,2
Siyenza Manje costs	**42,2**	–	–
Operating expenditure	**5,8**	9,0	6,1
Funding reserve	**209,9**	331,8	299
Approvals for the year	**20,4**	70,0	170
Grant commitments at end of year	**139,3**	227,2	278

Comments on summary of results

This year, the DBSA Development Fund focused on accelerating the Siyenza Manje programme, which led to its capacity building activities being scaled down. As a result, **capacity building grants** disbursed and approved during the year were lower by 44% and 71%, respectively.

As this is the first year of the Siyenza Manje programme, no comparative figures for the programme are available.

Operating expenditure decreased by 36% relative to the previous year, owing mainly to a reduction in management fees, as the basis for calculating these fees has changed.

Outstanding commitments were reduced as a result of increased efforts to accelerate the disbursement of grants during the year, along with lower grant approvals.

The Development Fund endeavours to build sustainable resources for the people of South Africa.

Chairman of the Board: Brian Figaji

Since its registration on 21 December 2001 as a section 21 company under the Companies Act, No. 61 of 1973, the DBSA Development Fund has worked to maximise the impact of development finance by providing grant funding to overcome human, institutional and financial constraints in South Africa.

In the last few years, the Fund has developed a more direct partnership with government. As a result, the Fund has focused on supporting local authorities in improving service delivery to the communities they serve. The objective is to promote efficient and effective service delivery, build institutional and human capacity at local government level, and help create opportunities for local economic development. The Fund's core products and services include the mobilisation and deployment of technical, planning and financial expertise to accelerate municipal infrastructure delivery; grant funding for capacity building; and development facilitation.

The renewed strategy of the partnership has resulted in direct financial support from National Treasury and a cooperation agreement between the Development Fund, the Department of Provincial and Local Government, and the Department of Water Affairs and Forestry.

Our history and main objectives have been recapped here to provide a context for the changes that the Fund and the Bank as a whole have made and will be making in future, as we raise our standards and shift towards a development paradigm that ensures deeper, broader and more sustained development impact.

The flagship initiative of the partnership between government and the Development Bank, the Development Fund's Siyenza Manje programme, has been implemented in 86 municipalities and eight provinces. The initial focus is to help meet the national goal of eradicating backlogs in sanitation by December 2007. The results of this drive are clearly visible around the country, with impressive successes in the Indaka and Uthukela municipalities in KwaZulu-Natal and the Tswaing and Maquassi Hills municipalities in North West. During a recent site visit, Board members were delighted to witness at first hand the tangible results of the Fund's interventions.

The team at the DBSA Development Fund, together with the army of willing Siyenza Manje deployees and young professionals, intends to leave a legacy not only of completed projects, but of competent officials in the technical departments of targeted municipalities. These officials should be able to operate and maintain infrastructure projects once deployees have been withdrawn.

The deployment of technical experts is expected to help mentor municipal officials and young professionals in project management, systems development and programme implementation. The Fund received co-funding of R56 million from the National Treasury, as part of a three-year commitment of R749 million. This makes it possible for the Fund to expand Siyenza Manje, and the team is exploring the options in collaboration with other stakeholders.

The planned development of case studies and lessons learnt from experience will be put into effect soon. The Development Fund is doing cutting-edge work through the Siyenza Manje programme. The lessons must be captured and shared as widely as possible, in order to disseminate best practices and capitalise on opportunities

The deployment of technical experts is expected to help mentor municipal officials and young professionals in project management.

in other parts of the country. Additional initiatives are under way to develop impact and sustainability measures and indicators, alongside the broader DBSA systems and processes that are currently being established.

I would like to congratulate the Chief Operating Officer and her team on the remarkable development impact they have achieved.

The work of the Development Fund has also enabled us to unlock internal synergies within the Bank, by ensuring that the other divisions, such as South Africa Operations and Strategic Operations, support the programmes of our partner municipalities through the products they offer. This collaboration has allowed the Fund and the other units in the DBSA to work together in supporting appropriate local government initiatives.

The next few years promise to be very exciting for the Development Fund. There is more hard work ahead, especially as we confront the geography of apartheid settlements and the poverty associated with it. The challenge for all of us, whether members of the Board, staff of the Fund or deployees, is to build the requisite institutional and human capacity, alongside the systems and processes that will enable local government to provide sustainable services to the most marginalised communities.

I wish all of you the best for the next year, as we continue to pursue development impact objectives beyond the business scorecards and annual targets. I would also like to thank my fellow Board members for their unwavering support, especially in the crucial initial phase of implementing Siyenza Manje.

Brian Figaji

Board of Directors

DBSA Development Fund

Prof. Brian de Lacy Figaji (62)
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)

Chairman of the DBSA Development Fund Board as from:
24 November 2005, with effect from 21 February 2006

Other directorships:
Bovidae Investments – Non-executive Director
Cape Lime – Non-executive Director
Development Bank of Southern Africa – Non-executive Director
Dormell – Chairman of the Board (non-executive)
Gemini Moon Trading – Non-executive Director
HHO Africa – Chairman of the Board (non-executive)
I & J Holdings – Chairman of the Board (non-executive)
Marib Holdings – Chairman of the Board (non-executive)
Nedbank Ltd – Non-executive Director
PetroSA – Non-executive Director

Mr Paul Cambo Baloyi (51)
Chief Executive Officer: DBSA Development Fund

Academic qualifications:
Advanced Management Programme, INSEAD (2006)
MBA, University of Manchester (2004)
Senior Executive Programme, Harvard Business School (2001)
Management Development Programme, University of Stellenbosch (1996)
Commercial Banking Diploma, Institute of Bankers, Licentiate (1989)

DBSA Development Fund Chief Executive Officer as from:
1 July 2006

Other directorships:
Business Venture – Non-executive Director
Development Bank of Southern Africa – Chief Executive Officer and Managing Director
Platinum Park – Non-executive Director

Dr Iraj Abedian (51)
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 Development Fund Director as from:
21 December 2001

Other directorships:
Applied Fiscal Research Centre (AFReC), University of Cape Town – Non-executive Director
Development Bank of Southern Africa – Non-executive Director
IAMA Global Trade – Non-executive Director
Munich Re – Non-executive Director
National Business Initiative – Non-executive Director
Transnet Ltd – Non-executive Director
Velvet Moon Stones – Non-executive Director

Mr Andrew Boraine (48)
Chief Executive Officer: Cape Town Partnership

Academic qualifications:
MA (Community Education and Resources), University of Cape Town (1987)
BA Hons (Economic History), University of Cape Town (1987)
BA (History), University of Cape Town (1983)

DBSA Development Fund Director as from:
24 November 2005

Other directorships:
Accelerate Cape Town – Non-executive Director
Convenco – Chairman of the Board (non-executive)
Development Bank of Southern Africa – Non-executive Director
SA Cities Network – Chairman of the Board (non-executive)

Mr Nick Christodoulou (58)
Chief Executive: Business Development, Sanlam

Academic qualifications:
MBA, University of Pretoria (1976)
BSc Engineering (Industrial), University of Pretoria (1973)

DBSA Development Fund Director as from:
22 August 2002

Other directorships:
Break-Thru Financial Services (Pty) Ltd – Non-executive Director
Gensec Property Services Ltd – Chairman of the Board
Safrican Insurance Company Ltd – Director
Sanlam Financial Services – Director
University of the Western Cape – Council Member

Ms Nomboniso Gasa (39)
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 Development Fund Director as from:
1 August 2003

Other directorships:
Commission for Gender Equality – Commissioner
Development Bank of Southern Africa – Non-executive Director
HSRC – Non-executive Director

Mr Johannes Bhekumuzi Magwaza (65)
Company Director

Academic qualifications:
MA (Industrial Relations), Warwick University (1985)
BA (Psychology and Social Anthropology), University of Zululand (1966)

DBSA Development Fund Director as from:
26 October 2004

Other directorships:
Anglo American Corporation of SA Ltd – Non-executive Director
Dorbyl Ltd – Non-executive Director
Ithala Development Finance Corporation Ltd – Non-executive Director
Moreland Estates (Pty) Ltd – Non-executive Director
Motseng Marriott Property Services – Non-executive Director
Mutual and Federal Limited – Chairman of the Board
Nedcor Bank Ltd – Non-executive Director
Nedcor Ltd – Non-executive Director
Pamodzi Investment Holdings – Non-executive Director
Rainbow Chicken Ltd – Non-executive Director
Tongaat-Hulett Group Ltd – Non-executive Director

Mr Samson Gwede Mantashe (52)
Executive Manager: Strategic Operations

Academic qualifications:
BCom (Hons), University of South Africa (2002)
Effective Directorship Programme, Kagiso Leadership School (1998)
BCom, University of South Africa (1997)

Executive Manager and DBSA staff member as from:
1 July 2006

Other directorships:
Joint Initiative for Priority Skills Acquisition (JIPSA) – Chairperson
South African Communist Party (SACP) – Chairperson
Teba Bank Ltd – Non-executive Director

Mr Madoda Vilakazi (43)
General Manager: Ekapa Mining (Pty) Ltd

Academic qualifications:
MBA, University of the Witwatersrand (2000)
Management Advancement Programme, University of the Witwatersrand (1997)
Industrial Relations Diploma, Damelin Institute (1994)
Certificate in Arbitration, Mediation and Conflict Resolution, IMMSA (1993)

DBSA Development Fund Director as from:
20 November 2001

Other directorships:
ALDA (Pty) Ltd – Non-executive Director
PBS (Pty) Ltd – Non-executive Director

Director during the year under review

Dr Mandla Sizwe Vulindlela Gantsho (45)
Chief Executive Officer, DBSA

DBSA Development Fund Director between:
1 February 2001 and 30 June 2006

Chief Operating Officer

Ms Jeanette Nhlapo (37)
Chief Operating Officer: DBSA Development Fund

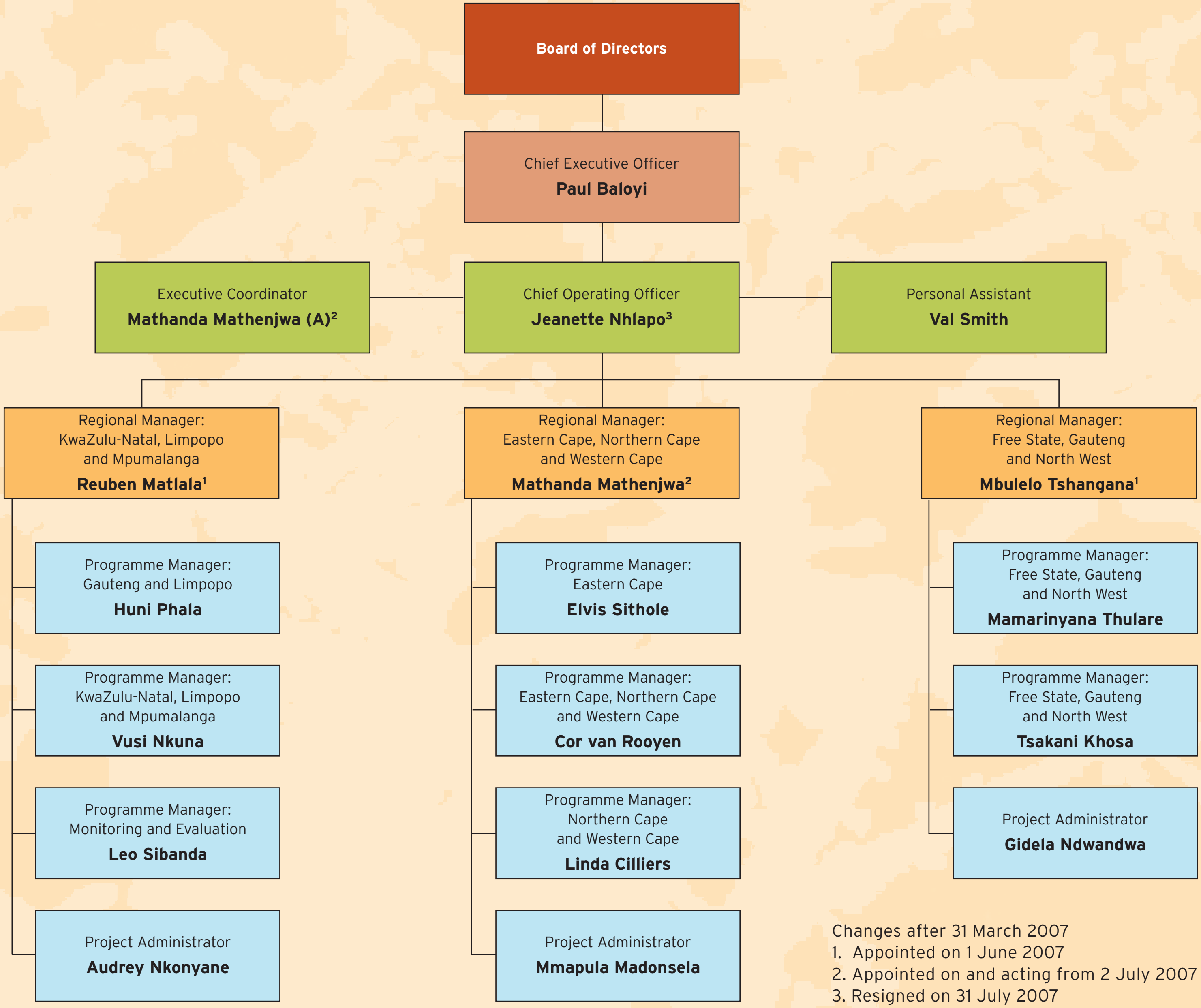
Academic qualifications:
Senior Executive Programme, Columbia Business School (2006)
BA Hons (Social Sciences), University of South Africa (1996)

DBSA staff member as from:
18 December 2000

Chief Operating Officer as from:
1 June 2004

DBSA Development Fund Director between:
22 February 2006 and 31 July 2007

Organisational structure



Changes after 31 March 2007
1. Appointed on 1 June 2007
2. Appointed on and acting from 2 July 2007
3. Resigned on 31 July 2007

Chief Executive Officer: Mr Paul Baloyi

The social and economic transformation and development of South Africa form the strategic context in which the DBSA Development Fund operates. Within these unfolding processes, the lack of institutional capacity to deliver infrastructure services has been exposed as a key constraint on progress. The expansion of infrastructure remains central to the sustainable reduction of poverty.

Basic and social infrastructure are important in the short term, as they address essential human needs, whereas economic and institutional infrastructure are the foundations of sustainable, long-term improvements in quality of life. The Development Fund and the Bank place strong emphasis on the elements of social infrastructure that play a central role in human development, such as hospitals, clinics, universities and technikons. Though frequently overlooked, recreation and community learning facilities are crucial in building stable social relations, understanding and trust, qualities that bind the social fabric itself.

Alongside the DBSA Vulindlela Academy, the Fund also works to strengthen institutional infrastructure, which plays a key role in socio-economic development for the benefit of the poor. Without the appropriate structures, systems and processes, there can be no effective and efficient implementation or sound governance. We have paid more and more attention to such infrastructure in recent years, as the challenges of execution have become more pronounced.

I am pleased to report that in the year under review, Siyenza Manje, the flagship programme of the restructured Development Fund and the Department of Provincial and Local Government, provided targeted implementation support to some 86 under-capacitated municipalities, most of them identified by Project Consolidate. This is well above the targeted level of support. Priority attention was given to water and sanitation investments, in line with the national strategic imperatives of eradicating the bucket toilet system by December 2007 and providing clean water to all by December 2010, as reflected in the Chief Operating Officer's report. The Development Fund has commendably achieved and exceeded other key development impact indicators.

Like the Bank itself, the Development Fund experienced a year of change. This was the first full year of implementing the Siyenza Manje programme. The main thrust of the Fund's activities is now to mobilise and deploy technical experts, who can provide hands-on support in accelerating the implementation of infrastructure projects at provincial and municipal levels. Through Siyenza Manje, the Fund acts as an implementation agent for the Department of Provincial and Local Government and the Treasury. As in the past, the Development Fund continued to provide grant funding for capacity building, as well as technical support and knowledge sharing for development facilitation. From its origins as a relatively simple grant-disbursing entity, the Development Fund has rapidly grown into a complex implementation support operation for basic and social infrastructure.

While the Development Fund will continue to emphasise basic and social infrastructure, we are mindful of the importance of economic infrastructure, which makes a major contribution to social development, directly and indirectly. Economic infrastructure enables people to access services and economic opportunities, thus lowering the barriers to advancement. This is particularly important for the rural poor, who are usually isolated and face major obstacles in accessing transport, energy, communication and water services. These services are key factors in the sustainable prevention of water-borne and hand-borne diseases such as cholera, and in the prevention of respiratory diseases and injuries that arise from home use of coal and paraffin as energy sources. Services also enable education and save precious time for rural people, especially women, who have to endure the burden of collecting and transporting water over long distances.

A total of 97 newly recruited experts tasked with fast-tracking project delivery were deployed to municipalities facing infrastructure backlogs.

Going forward, the Development Fund, in partnership with the DBSA and other role players, will seek innovative ways of supporting economic infrastructure to promote local economic development, job creation and overall sustainability.

I would like to express my sincere appreciation to the Governor of the Bank, Minister Trevor Manuel, for his wise and forceful support of the Development Fund's work. I would also like to thank the Chairman of the Board, Prof. Brian Figaji, for his astute leadership, and my fellow Directors for their unfaltering commitment and guidance.

I am pleased to acknowledge the early contributions of the new experts who have joined the Fund during the year. Their efforts will be instrumental over the next 24 months, as we join forces with government at all levels to ensure the rapid delivery of priority infrastructure services.

Last but not least, I am grateful to the management and staff of both the Fund and the Bank for their hard work during the past year and continued dedication as we move ahead.

Paul Baloyi

Chief Operating Officer: Ms Jeanette Nhlapo

Operations report

The past financial year was one of change for the DBSA Development Fund. As initially conceived, the Fund was a grant-making entity that targeted specific institutional capacity impediments to the effective delivery of services by provincial and local government. More recently, in implementing the Siyenza Manje programme, the Fund has evolved into a complex project implementation support entity, focusing on the delivery of basic and social infrastructure services. Siyenza Manje, which mobilises and deploys hands-on technical experts to support the implementation of infrastructure projects at provincial, district and local municipality level, now constitutes the main thrust of the Fund's activities.

Through its capacity building programme, the Fund also continued to provide grant funding for institutional capacity building, as well as technical support and knowledge sharing for development facilitation. The Fund's systems and operations have been reorganised to support the new strategic thrust, ensuring that both Siyenza Manje and the grant funding programmes receive stronger operational support.

Siyenza Manje

During the year, the DBSA Development Fund, through the Siyenza Manje programme, deployed experts in various municipalities to assist with the implementation of infrastructure projects, planning and financial capacity building. The programme is in line with the government's developmental agenda, particularly the concerns expressed by President Mbeki about the slow pace of development, even when adequate resources have been allocated.

The Siyenza Manje programme targeted municipalities on the Project Consolidate list whose municipal infrastructure grants were not being disbursed. It also gave priority to water and sanitation investments, in line with the national strategic imperatives of eradicating the bucket toilet system by December 2007 and providing clean water to all by December 2010. Experts tasked with fast-tracking project delivery were deployed to municipalities confronting infrastructure backlogs in these areas.

A total of 97 experts were deployed in 86 municipalities in all provinces except Gauteng. Deployees were placed at provincial, district and local levels, which allowed the Fund to compare different approaches and pilot a "shared services" approach. It found that the success or failure of this approach was determined largely by the character of relations between the different spheres of government.

Despite recruitment challenges, the Siyenza Manje programme made significant strides in participating municipalities: 471 projects are in implementation and 97 have been completed. Nearly 178000 households have gained access to water and 126 000 to sanitation, while almost 70 000 bucket toilets have been eradicated. There has been a significant improvement in Municipal Infrastructure Grant (MIG) expenditure. At the end of March 2007, expenditure for 2006/07 stood at 64% of the MIG budget for the participating municipalities. In some provinces, the deployees had to initiate MIG project registrations, as most of the projects were not on the MIG list. The table opposite (top) depicts the status of MIG budgets and expenditure in the participating municipalities.

In addition to deployees focused on project implementation, the Development Fund also deployed planners and financial experts to help municipalities with systems development, policy development and skills transfer. The table opposite (bottom) summarises the areas of assistance, the number of systems or policies developed, and the number of people trained.

MIG budget and expenditure, 2005/06 - 2006/07

Province	2005/06 (R 000)		2006/07 (R 000)	
	MIG budget	MIG expenditure	MIG budget	MIG expenditure
Eastern Cape	0	0	896 810	622 695
Free State	20 000	15 000	155 740	111 160
KwaZulu-Natal	16 545	16 545	142 251	100 860
Limpopo	20 000	8 013	139 300	66 759
Mpumalanga	149 500	37 200	301 615	132 653
North West	0	0	49 700	42 700
Northern Cape	3 500	3 000	6 717	5 244
Western Cape	1 224	1 164	14 069	12 208
Total	**210 769**	**80 922**	**1 706 202**	**1 094 279**

Systems, policies and skills transfer, 2006/07

Type of support	Number	Interventions
Technical training (number of people)	165	On-the-job training, mentoring and coaching in project management, contract management, analysis and approval of technical reports, MIG registrations and reporting
Financial training (number of people)	63	On-the-job training, mentoring and coaching in aspects of the Municipal Finance Management Act (MFMA), e.g. budgeting, income and expenditure, reporting, supply chain management; Generally Recognised Accounting Practice; and Generally Accepted Municipal Accounting Practice
Service delivery and budget implementation plans	13	Assisted municipalities with plans that link Integrated Development Plans (IDPs) and budgets
Quarterly financial reports	18	Staff trained in developing quarterly financial reports for submission, as required by the MFMA
Municipal administrative policies developed (officials trained in implementation)	131	Policies developed on banking and investment, credit control, subsistence and travel, budgeting, fixed assets, tariffs, rates, records management, anti-corruption measures, supply chain management, promotion of access to information, multi-skilling, staff retention, overtime, leave and public facilities
Municipal administrative systems implemented	14	Systems implemented for financial management (creditors, updating receipts, printing of cheques), project management, document management and filing

Siyenza Manje deploys hands-on technical experts to support implementation of infrastructure projects at provincial, district and local municipal level.

Capacity building programme

The shift in the Development Fund's focus was reflected in the staffing and activities of the capacity building programme. The number of personnel allocated to the programme management component of the grant funding portfolio was reduced significantly from ten to three, leaving each programme manager with a portfolio of three provinces. Most of the Fund's work was on projects in implementation rather than new approvals.

Grant funding approved by the Fund in 2006/07 decreased to R20,4 million, but remained higher than the R14 million targeted for new approvals. While the Fund continued to support municipalities through capacity building interventions approved in previous years, a focused review of existing commitments was undertaken to identify inactive interventions. Interventions judged to be inappropriate in view of changes in funding needs and priorities were terminated and the finance released for reallocation. In the year under review, the Fund terminated R48 million in existing commitments and disbursed R67,3 million (against a target of R78 million, excluding terminations and reallocations).

In the year ahead, the Development Fund expects the remaining commitments of R139 million to be disbursed or terminated, as appropriate. To enhance portfolio management, the terms and conditions of grant funding agreements have been amended so that commitments may be implemented and spent in the same financial year in which they were approved by the Fund.

Jeanette Nhlapo

The DBSA Development Fund conducts regular reviews of the projects it funds, both to ensure that current projects meet their objectives and to enhance decision-making on future projects. This section briefly reviews five projects in different provinces. These projects, which had all been completed by the time of the assessment, represent support for planning, systems development and training, particularly with regard to IDPs. Also assessed is the Siyenza Manje programme, an ongoing initiative to deploy technical experts in municipalities throughout the country.

Umjindi Local Municipality
capacity building programme
Mpumalanga

Sector: Systems Development and Training
Funding: R450 000
Year of approval: 2003

Objective: This capacity building programme involved the design of four elements: a participative local economic development (LED) strategy to identify anchor projects for attracting investors; a computerised performance management system to facilitate results-based management; a spatial development management programme to enhance land-use management; and a management and tracking system for the treatment of patients at two clinics under the municipality's jurisdiction.

Achievements: The **general efficiency** of the municipality has been improved. Its new computer-based systems have strengthened its operational capacity and service delivery. Municipal officials also point to shorter processing times for documents due to the workflow management capability, as well as higher productivity. They believe that governance issues around documentation will also improve now that the system has been finalised.

The opportunities identified in the LED strategy contributed to the establishment of new businesses. At the clinics, waiting times are now much shorter. Patient information is easy to access, which materially reduces the risk of inappropriate treatment. Since the amount of paperwork has been reduced, health care staff can now spend more quality time with patients.

Emfuleni Local Municipality
IDP support programme
Gauteng

Sector: Planning
Funding: R302 000
Year of approval: 2002

Objective: The first objective of the project was to help the municipality compile an IDP in line with statutory requirements. A detailed IDP, in which priority issues were identified, was duly compiled. The second objective was to build the municipality's capacity to review the IDP without further assistance from external consultants. This required strengthening its planning capacity and developing processes for documenting future reviews, thus ensuring that the intervention would be sustainable.

Achievements: Integrated planning within the municipality has become an incremental process of aligning plans to budgets and municipal services. The municipality has long struggled to consolidate democracy at community level, while maintaining sound governance, management and provision of services. Despite these challenges, there are clear indications that the IDP has evolved into a **comprehensive and purposeful planning document** to guide municipal service delivery. The municipality now relies on its own internal capacity to design, develop and implement the IDP processes. There is a sense of ownership of the IDP process and content, particularly at political level. Public participation is well institutionalised in the municipal planning process.

Mafikeng Local Municipality
spatial development framework
North West

Sector: Planning
Funding: R638 000
Year of approval: 2004

Objective: In June 2003, the Mafikeng Local Municipality was placed under provincial administration in terms of section 139 of the Constitution. When this intervention ended in April 2005, the North West Department of Developmental Local Government and Housing launched a recovery strategy that included a spatial development framework. Although the municipality acknowledged the need forsuch a framework within its broader IDP, the funds to develop it were lacking. The DBSA Development Fund supported a programme to establish a spatial development framework, thus creating an enabling environment for further revenue generation.

Achievements: A **spatial development framework** was established and approved by the council in July 2006, and the municipality is satisfied with its quality. As the framework sets out development zones for different amenities, it will help the municipality to approve plans and investment projects more speedily and efficiently. Other benefits include proper forecasting of infrastructure requirements for different municipal clients.

Department of Local Government and Housing capacity building programme
Free State

Sector: Planning and Training
Funding: R7,44 million
Year of approval: 2004

Objective: This programme, managed by the Free State Department of Local Government and Housing, helped local municipalities to improve their institutional and administrative capacity. The DBSA Development Fund supported seven elements of the programme, including the assessment of capacity needs in housing delivery, the development of housing sector plans and master systems plans, and shared service centres.

Achievements: The project established **internal governance and management structures** in the form of a steering committee and dedicated capacity through various directorates. The planning processes followed by the Department were inclusive and participatory, which served to entrench cooperative governance and democracy. The objectives of the programme were achieved and sector plans for housing were developed, as were a land tenure system and a framework to guide housing delivery, especially in rural municipal areas.

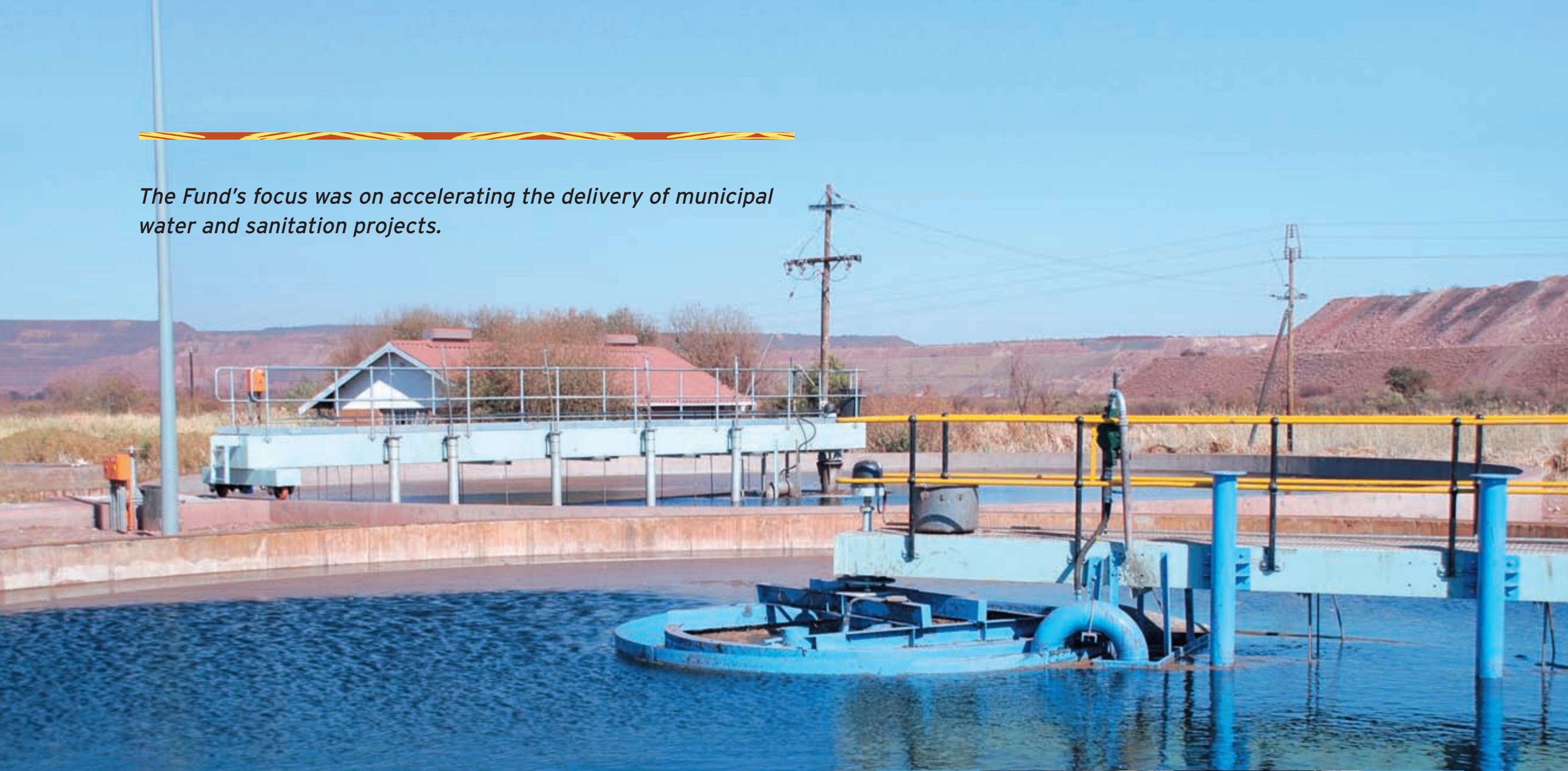
Greater Tzaneen Local Municipality IDP capacity building programme
Limpopo

Sector: Planning
Funding: R150 000
Year of approval: 2002

Objective: The Greater Tzaneen Local Municipality was created when various small towns and villages were amalgamated during the municipal demarcation process of 2000. An IDP was prepared in 2001, but several inadequacies were revealed in subsequent years. This project was aimed at helping the municipality to compile a new IDP. As the foundation of the municipal development agenda, the IDP had to be based on the needs of the communities served by the municipality. Accordingly, there was extensive consultation with the different wards, followed by a consolidation and prioritisation process to inform the municipal budget.

Achievements: The intervention contributed significantly to shaping the current format of the **municipal IDP**. The first generation IDP for Greater Tzaneen was developed in 2001 through broad consultation and introduced a new form of participatory development to communities. However, this resulted in a plan that was little more than a "wish list", as critics put it, bearing little relationship to municipal revenue streams. This kind of disjunction shaped the MFMA requirement that IDPs must be aligned to budgets.

The inadequacies of the first generation IDPs indicated that national planning guidelines and processes needed to reconsider the intricacies of intergovernmental relations, as well as the relations of local governments and communities. In the case of Tzaneen, community participation seems to be relatively well structured, in that it involves many different stakeholders. However, more work is needed to ensure transparency and openness when it comes to prioritising projects and budgetary allocations.



The Fund's focus was on accelerating the delivery of municipal water and sanitation projects.

Siyenza Manje capacity deployment programme

Under the Siyenza Manje programme, the Fund deployed technical experts in various municipalities to fast-track the delivery of municipal infrastructure. The focus this year was on accelerating the delivery of municipal water and sanitation projects. A Technical Programme Manager was also deployed in North West to facilitate the identification and implementation of projects for eradicating bucket sanitation; to deal with funding shortfalls on behalf of the DBSA and the province; to build stakeholder relations; and to provide capacity building to provincial and municipal staff.

Achievements: The impact of this intervention in the North West was the **eradication of 8 000 bucket toilets** and the employment of 400 local people at R1 400 a month during the first ten months of the programme. Furthermore, 50 members of the community received semi-skilled training in construction-related activities and 35 black economic empowerment (BEE) companies were supported directly. A total of R100 million in MIG funding was disbursed. At year-end, only 2 000 bucket toilets remained to be replaced.

Corporate governance

The DBSA Development Fund's commitment to the principles of good corporate governance, as espoused in the King II Report and the Protocol on Corporate Governance for the Public Sector, accords with that of its controlling entity, the DBSA. The Development Fund's corporate governance framework, with the exception of the Board of Directors, is shared with the DBSA.

The Directors of the Fund subscribe to the principles embodied in appropriate international corporate governance codes, including compliance with sound accounting practices. They believe that these principles have been adhered to in all significant respects in discharging their fiduciary duties during the year.

Board of Directors

According to the Articles of Association of the Fund, the DBSA has the right to nominate and appoint all Directors of the Fund and to remove or substitute them from time to time. Six of the members of the Board, including the Chairman, are non-executive Directors. The Chief Executive Officer of the DBSA, the Executive Manager: Strategic Operations of the DBSA and the Chief Operating Officer of the Fund are the only executive Directors. The Fund Board is chaired by Prof. Brian Figaji.

During the year, the Bank approved a Capacity Development and Deployment strategy to enhance the synergy between the different sections of the DBSA Group that provide capacity building. This strategy gives the Fund Board governance oversight of the DBSA Vulindlela Academy and the Agencies Unit. In addition, the Bank's Strategic Operations Division will monitor and evaluate the development impact of the DBSA Group's operations, including Siyenza Manje and other activities of the Fund.

The role of the Board is to determine the direction and strategy of the Fund, to monitor the achievement of business objectives, and to ensure that the Fund meets its responsibilities to its shareholder. The Board is further responsible for ensuring that the control environment adequately protects the Fund's assets against major risks. In addition to monitoring the performance of executive management, the Board also contributes to reviewing the Fund's goals and strategic objectives.

The Board reports to the shareholder through annual and interim reports, and through regular meetings between the Chairman of the Board, the Chief Executive Officer and the Minister of Finance. In order to facilitate reporting and ensure that the Fund's activities are in line with the strategy of its shareholder, the Chairman of the Fund is a member of the DBSA Board and reports on significant resolutions of the Fund Board at each meeting of the DBSA Board.

Board committees

Section 77 of the Public Finance Management Act, No. 1 of 1999, recommends that an entity and its subsidiary share an Audit Committee and related systems if this is cost effective. Accordingly, the DBSA Development Fund Board directs and controls the operations of the Fund through the Board committees that it shares with the DBSA. Each Board committee has a distinct mandate and terms of reference. Further details on the committee structure and governance system are given in the corporate governance report on pages 55 to 60 of the DBSA Annual Report.

As part of the effectiveness review conducted during the year, the Board resolved to retain its oversight role for the implementation of the Siyenza Manje initiative and to discontinue the Capacity Deployment Committee. The Board is now responsible for the implementation of dedicated strategies that complement the government's interventions to enhance the capacity for service delivery through hands-on deployment of technical staff at municipalities.

Corporate Secretary

All Directors have access to the advice and service of the DBSA Corporate Secretary. In terms of the DBSA Act, No. 13 of 1997, the functions of the Corporate Secretary are in line with the provisions of the Companies Act, No. 61 of 1973.

Board composition and record of attendance 2006/07

Four Board meetings were held during the year and the attendance of individual members is reflected in the table below.

Number of meetings	**4**
Prof. Brian Figaji (Chairperson)	4
Dr Iraj Abedian	3
Mr Paul Baloyi[1]	3
Mr Andrew Boraine[2]	1
Mr Nick Christodoulou	4
Dr Mandla Gantsho[3]	1
Ms Nomboniso Gasa	1
Mr JB Magwaza	3
Mr Gwede Mantashe[4]	1
Ms Jeanette Nhlapo	4
Mr Madoda Vilakazi	3

1. Appointed as executive Director on 1 July 2006
2. Appointed as non-executive Director on 29 June 2006
3. Resigned as executive Director on 30 June 2006
4. Appointed as executive Director on 31 October 2006

Risk management

The Development Fund is a section 21 company of the Development Bank and subscribes to the corporate risk management frameworks and governance and compliance processes described in the DBSA Annual Report.

In managing risks, the Fund utilises the log frame matrix as a monitoring tool. It also uses the DBSA's normal risk systems, procedures and internal controls, and is developing a problem-solving strategy with the Department of Provincial and Local Government and the South African Institution of Civil Engineering.

During the year, the Fund deployed the Siyenza Manje task force in eight provinces to capacitate municipalities. It is rigorously monitoring the deployment activities, and various measures are being developed to mitigate the risks and challenges identified. The deployment exposes the Fund to new types of risks, over and above those covered in the main DBSA Annual Report, and these are discussed below.

Development impact: Despite the support of dedicated Siyenza Manje deployees, municipalities may not achieve the intended objectives. This risk is mitigated by formulating strategies and engaging stakeholders on implementing service delivery in areas where targeted dates are unlikely to be achieved.

Institutional risk: Projects implemented under the supervision of Siyenza Manje may be at risk because of a lack of technically suitable staff in the municipalities. This is being addressed through the accelerated recruitment and mentoring of young graduates and the integration of Siyenza Manje with the deployment programme of the South African Institution of Civil Engineering. In this way, a pool of graduates is developing skills under the guidance of Siyenza Manje and contributing to the management and supervision of technical quality aspects of the programme by overseeing the transfer of skills to deployees and municipal staff.

Welfare and safety: There is a risk that the deployment of staff in rural areas may expose them to medical and travel-related problems. Medical and travel insurance is therefore provided, as is an adequate travel allowance for accommodation in a secure environment.

Participation: Role players who are currently spearheading other capacity building programmes may react negatively to the deployment of task force staff in areas where they are already operating. To avoid this potential concern, the introduction of Siyenza Manje deployees is being addressed as a partnership with other stakeholders. The working arrangements for deployees are workshopped and formalised with other role players, using a comprehensive change management approach.

Reputation risk: Failures will harm the image of both the Fund and the DBSA, and undermine the potential for future interventions. As a countermeasure, the risk management function of the Bank also oversees the Fund's operations and standards of best practice, to ensure that the Fund adheres to principles of good governance in all respects.

Legal risks: Some elements of the Siyenza Manje programme fall outside the Bank's traditional sphere of activity. Care is taken to ensure that new components are structured and contracts drawn up in a robust way, such that they meet the Bank's legal requirements and can be enforced.

Litigation: The Siyenza Manje deployees are in the position of professional service providers. Perceived failure to deliver in line with agreements or losses suffered as a result of deployees' activities may give rise to lawsuits. Professional indemnity insurance cover for professionals has therefore been put in place, in addition to the measures mentioned above.

The Directors are satisfied that, during the year under review, risk exposures of the Fund have been adequately identified, quantified and mitigated, and that there have been no apparent breakdowns in the control and management of the Fund's risk exposures.

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 DBSA Development Fund, its business and its transactions, as well as the financial position of its trade or business.

In preparing the financial statements:

- The Companies Act, No. 61 of 1973, as amended, has been adhered to
- The Public Finance Management Act, No. 1 of 1999, has been adhered to
- International Financial Reporting Standards 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 Fund's assets.
- Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going-concern basis.
- The Audit Committee of the Development Bank 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 period under review.

The Directors have a reasonable expectation that the Fund 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 26 to 40 were approved by the Board of Directors on 26 July 2007 and signed on its behalf by:

Brian Figaji
Chairman of the Board

Paul Cambo Baloyi
Chief Executive Officer

Report of the Audit Committee

We are pleased to present our report for the financial year ended 31 March 2007.

Audit Committee members and attendance are reflected on page 60 in the corporate governance statement of the DBSA Annual Report.

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the PFMA and Treasury Regulations 27.1.7 and 21.1.10(b) and (c).

s51(1)(a)(ii) of the PFMA states the following:

(a) The accounting authority must ensure that the public entity has and maintains -
   - (i) effective, efficient and transparent systems of financial and risk management and internal control
   - (ii) a system of internal audit under the control and direction of an audit committee complying with and operating in accordance with regulations and instructions prescribed in terms of sections 76 and 77
   - (iii) an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost effective.

The Audit Committee also reports that it has adopted appropriate formal terms of reference as its Audit Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

The effectiveness of internal control

The Audit Committee is of the opinion, based on the information and explanations given by management and the internal auditors and discussions with the independent external auditors on the results of their audits and the status in addressing the matters raised, that the internal accounting controls are operating satisfactorily, to ensure that the financial records may be relied upon for preparing the annual financial statements, and accountability for assets and liabilities is maintained.

Nothing significant has come to the attention of the Audit Committee to indicate that any material breakdown in the functioning of these controls, procedures and systems has occurred during the year under review.

The quality of in-year management and monthly and quarterly reports submitted in terms of the PFMA

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Accounting Authority and the Bank during the year under review.

For the past financial year, the Bank has functioned without a dedicated Chief Financial Officer, the functions being performed by the Chief Risk Officer. For purposes of sound internal control and to meet the requirements of the PFMA and Treasury Regulations, it is essential that a Chief Financial Officer be appointed expeditiously.

Evaluation of financial statements

The Audit Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report with the independent external auditors and the Accounting Authority
- Reviewed the independent external auditors' management letter and management's response thereto
- Reviewed changes in accounting policies and practices
- Reviewed significant adjustments resulting from the audit

The Audit Committee concurs and accepts the independent external auditors' conclusions on the annual financial statements, and is of the opinion that the audited annual financial statements should be accepted and read together with the report of the independent external auditors.

DKonar

Deenadayalen Konar
Chairman of the Audit Committee

Report of the independent auditors to the Minister of Finance

Report on the financial statements

We have audited the annual financial statements of the DBSA Development Fund, which comprise the Directors' report, the balance sheet as at 31 March 2007, the income statement, statement of changes in equity and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out on pages 26 to 40.

Directors' responsibility

The company's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act (Act No. 1 of 1999) and by the Companies Act of South Africa (Act No. 61 of 1973). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the DBSA Development Fund at 31 March 2007 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act (Act No. 1 of 1999) and by the Companies Act of South Africa (Act No. 61 of 1973).

Gobodo Inc.
Registered Auditor

Per Loganathan Govender
Chartered Accountant (SA)
Registered Auditor
Director
26 July 2007

1st Floor, Block B, Empire Park
55 Empire Road
Parktown
Johannesburg

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the DBSA Development Fund for the year ended 31 March 2007. The report reviews the performance of the DBSA Development Fund and reflects significant progress with the implementation of the Siyenza Manje programme in the first full year of its roll-out. Siyenza Manje is a partnership programme involving the following main stakeholders: National Treasury, the DBSA, the Department of Provincial and Local Government (DPLG), the South African Local Government Association (SALGA) and the Department of Water Affairs and Forestry (DWAF). This report meets the relevant statutory information requirements.

The Development Fund has its own independent Board, and the Directors of this Board subscribe to the principles of good corporate governance. Operationally, the Fund and the DBSA share governance systems and internal control frameworks as permitted in terms of the Public Finance Management Act. Further details on the Fund's corporate governance structures and practices are provided on page 20 of this Annual Report.

The functions of the Fund and nature of the business

The DBSA Development Fund was registered on 21 December 2001 as a section 21 company under the Companies Act, No. 61 of 1973. The core business of the Fund is to maximise the impact of development finance by mobilising and deploying technical resources and providing grant funding to address human, institutional and financial constraints on rural and urban development, thereby promoting efficient and effective service delivery and local economic development.

Mobilisation and deployment of technical expertise

The new approach of the DBSA Development Fund is centred on providing hands-on support, primarily to municipalities, but also to selected sector departments such as the Department of Water Affairs and Forestry and the Department of Provincial and Local Government. The Development Fund's flagship intervention is the Siyenza Manje programme, which assists municipalities with implementing infrastructure projects as part of the national drive to accelerate the delivery of basic services to communities. At the heart of the initiative is the deployment of skilled expertise to municipalities, particularly in the areas of engineering and technical services, as well as project and financial or treasury management. These experts are twinned with technical officials within the municipalities to ensure that skills for planning and implementing infrastructure projects are transferred. In addition, young graduates are also assigned to these experts to be mentored and coached, with the objective of retaining them within the municipalities. The Siyenza Manje programme intends to leave a legacy not only of completed projects but also of capable officials within the technical and treasury departments of targeted municipalities, who will be able to operate and maintain the assets once the deployment programme has been completed.

Grant funding for capacity building

Before embarking upon the Siyenza Manje programme as a partner and implementer, the DBSA Development Fund had a key role in channelling technical assistance grant funding to municipalities, backed by a recapitalisation grant from the DBSA. This role is being phased out in favour of a focus on Siyenza Manje. However, the Fund is still giving support to interventions that will ensure the long-term sustainability of the Siyenza Manje programme, such as improving service delivery and critical municipal management systems for operations and maintenance.

Development facilitation

In close collaboration with the DBSA and other stakeholders, the Fund continues to provide municipalities and service delivery organisations with capacity building, development knowledge, and technical support and expertise.

Objectives and high-level performance results

In line with the commitment to good corporate governance, the Directors continued to broaden the content and improve the standard of the DBSA Development Fund's reporting, based on the "triple bottom line" of social, economic and environmental development achievements. This report reflects the Development Fund's achievements in this regard.

The Fund operates on a three-year business cycle for corporate strategy and business planning. It uses the Balanced Scorecard (BSC) methodology to set objectives and targets under the strategic guidance of the Board. The strategic objectives for 2006/07 were set in terms of four perspectives: financial sustainability, sustainable development impact, effective business processes, and learning and growth. The Board approved the 2006/07 objectives on 21 February 2006, and the BSC was used as the basis for the performance management of all staff.

The table on the following page summarises the Fund's performance against its high-level strategic objectives and targets for the year ended 31 March 2007. During the course of the year, the strategic direction and business focus of the Fund were reviewed and redirected. The Fund's focus shifted sharply from grant funding towards the implementation of infrastructure projects, with the emphasis on practical support in the operational, functional and technical areas.

The DBSA Development Fund's high-level performance in 2006/07

Targets	Results 2006/07	Comments
Balanced Scorecard perspective: Financial sustainability		
1. Strategic objective: Maintain sound financial health		
Operational expenditure not to exceed approved budget by 10%	Operational expenditure: Only R54,6 million (operational expenditure 46% below budget) (2005/06: R18,6 million)	Target achieved; primarily due to change in focus and lower remuneration and travel expenses (arising from lag effects in the contracting of new personnel)
2. Strategic objective: Mobilise funding for the Development Fund from international and local funding institutions		
50% of funds leveraged	42% co-funding leveraged (2005/06: 51%)	Target not achieved; target affected by new focus on direct implementation support through Siyenza Manje (as opposed to grant making and co-financing of capacity building)
3. Strategic objective: Develop and maintain new partnerships		
Increase new strategic partnerships and maintain and deepen existing ones	Partnerships: DWAF (new), DPLG (new) and SALGA (enhanced) (2005/06: one partnership developed)	Target achieved
Balanced Scorecard perspective: Sustainable development impact		
1. Strategic objective: Facilitate delivery of infrastructure by deploying task force in municipalities		
90 experts deployed	97 experts deployed, of which 16 are young professionals (Not a target in 2005/06)	Target exceeded
20 municipalities to be supported	86 municipalities supported (Not a target in 2005/06)	Target exceeded
30 projects implemented in under-resourced municipalities	97 projects completed 471 projects under implementation in under-resourced municipalities (Not a target in 2005/06)	Target exceeded

The DBSA Development Fund's high-level performance in 2006/07

Targets	Results 2006/07	Comments
Balanced Scorecard perspective: Sustainable development impact		
2. Strategic objective: Build human and institutional capital for sustainable development		
R14 million approvals in under-resourced municipalities	Total approvals: R20,4 million approved in under-resourced municipalities (Not a target in 2005/06)	Target exceeded
R78 million disbursements	Total disbursements: R67,3 million excluding R48 million grants terminated (Not a target in 2005/06)	Target not achieved; existing commitments of R48 million were terminated due to changes in funding needs and priorities, and the Fund's disbursements were reduced in line with the new direction away from traditional grant disbursements
3. Strategic objective: Evaluate the impact of Development Fund programmes		
9 case studies	11 case studies undertaken (2005/06 : 10 projects evaluated)	Target exceeded
4. Strategic objective: Publish a comprehensive evaluation report for the Development Fund		
1 evaluation report published	Joint publication undertaken with DBSA *Lessons Learnt Report* (Not a target in 2005/06)	Target achieved
5. Strategic objective: Build strong market awareness of and demand for Development Fund products and services		
6 roadshows 2 press releases 1 brochure and 6 banners	2 roadshows completed 1 press release, 2 brochures and 6 banners produced (Not a target in 2005/06)	Target not achieved; initiative terminated due to change in strategy and focus

The DBSA Development Fund's high-level performance in 2006/07

Targets	Results 2006/07	Comments
Balanced Scorecard perspective: Effective business processes		
1. Optimise business development and service delivery value chain processes and deliver higher levels of client service excellence		
30 project completion reports by March 2007	10 projects completed or terminated by March 2007 (Not a target in 2005/06)	Target not achieved
Review policies, procedures and processes by December 2006	Revisions to key policies and procedures completed (Not a target in 2005/06)	Target achieved
6 weeks turnaround time	14 weeks turnaround time attained (Not a target in 2005/06)	Target not achieved
2. Strategic objective: Maintain high standards of corporate governance		
Annual Report completed by July 2006	Annual Report completed in June 2006 (2005/06: Target achieved)	Target achieved
Interim Report completed by November 2006	Interim Report completed in October 2006 (2005/06: Target achieved)	Target achieved
Balanced Scorecard perspective: Learning and growth		
1. Strategic objective: Improve competency levels of staff		
15 staff members trained	12 staff members attended various training courses (2005/06: Target not met as only 53% of staff members were trained in accordance with development plans)	Target not achieved
2. Strategic objective: Align staff performance plans with BSC		
17 staff performance plans aligned with BSC	All staff performance contracts are aligned with BSC (2005/06: Target not achieved)	Target achieved
3. Strategic objective: Create conducive environment for innovation		
1 innovative venture taken to implementation	Discussions ongoing regarding innovative venture (Quality Audit and Assurance) (2005/06: Siyenza Manje capacity deployment task force implemented)	Target not achieved

The Directors report that the Development Fund achieved or exceeded 63% of the targets set for the year. Several of these targets were significantly exceeded, including the mission-critical targets driving development impact, such as the number of projects implemented and completed, the number of municipalities supported, and the number of experts deployed. These particular targets were among the top targets prioritised by management with regard to implementing the new hands-on approach of the Siyenza Manje programme. The high performance in the key development impact targets was due to a combination of synergies, partnerships and the extraction of quick wins in the first year of Siyenza Manje.

Other targets, such as disbursements and funding leverage ratios were de-emphasised, in line with the change of focus adopted by the Board in the middle of the period under review, and the achievements in this regard were slightly below target. As already mentioned, the new focus entailed a concentration on the deployment of skilled human resources, in key technical and functional areas, and a reduction in the provision of financial resources. Nevertheless, the Board has noted that performance in other areas, principally those that are internally focused or related to housekeeping, was slightly below target, primarily due to the emphasis placed on external project implementation in order to accelerate delivery.

During 2006/07, the Fund approved grant funding amounting to R20,4 million, a sharp reduction from previous years, in line with the new strategy. Nevertheless, this amount was higher than the R14 million target set for new approvals at the beginning of the year.

While the Fund continued to assist municipalities in drawing down on previously approved grants for co-sponsored capacity building interventions, there was a special review of existing commitments, regarding inactive interventions in particular. Where such interventions were no longer valid due to changes in funding needs and priorities, existing commitments were terminated and released for reallocation to other interventions. In the year under review, the Fund terminated R48 million in existing commitments and disbursed R67,3 million. The Fund had initially targeted a grant disbursement level of R78 million, prior to the terminations and reallocations that took place during the course of the year.

The following sections review the main activities of the Fund in relation to the "triple bottom line", the three pillars of sustainable development indicated above.

Economic report

The DBSA established the DBSA Development Fund specifically to maximise the provision of development assistance and finance to under-capacitated communities with high levels of poverty and service delivery backlogs. To date, the Bank has provided grants totalling R632 million for the Fund to fulfil its capacity building and development mandate.

The Fund's capacity building support to municipalities aims to sustain the thrust of the government's Project Consolidate in the long run. Project Consolidate identified 136 local municipalities that require priority hands-on support to accelerate service delivery and overcome poverty. In support of the objectives of Project Consolidate, the DBSA Development Fund, together with its partners in government, set a target of assisting an initial 20 municipalities in 2006/07, but exceeded this target significantly by reaching 86. A total of 97 infrastructure projects have been completed, while another 471 projects are in implementation. An amount of R20,4 million was committed to poorly resourced municipalities, exceeding the target of R14 million. The Fund made disbursements of R67,3 million and withdrew non-performing grants totalling R48 million. The Directors are pleased with the significant success achieved in the capacity building portfolio of the Fund.

Funding mobilisation

The DBSA Development Fund aims to maximise the impact of its development resources and therefore leverages contributions by clients and third parties as far as possible. During the year, a leverage ratio of 42% was achieved. This demonstrates that the Fund implemented its co-funding policy and that clients were willing to contribute to their own capacity building. The National Treasury has pledged funding support for Siyenza Manje of R749 million over a three-year cycle.

Efficient and effective operating systems

The DBSA and the Fund revised the management agreement on the services to be rendered by the Bank's operational and support units, and the revised agreement has been implemented successfully. The Board approved the implementation of a project management methodology and system. This system will initially be piloted to manage the broader deployment initiatives throughout the service delivery value chain.

The terms and conditions of grant funding agreements were amended to enhance portfolio management of commitments, providing for commitments to be implemented and spent in the financial year of approval by the Fund. In 2007/08, the Fund expects the remaining commitments of R139 million to be disbursed or terminated, as appropriate.

Towards sound financial health

The Fund's operational expenditure in 2006/07 was 46% below the projected budget. The lower operational costs were in large part due to lower remuneration costs arising from lag effects in the contracting of new personnel and related cost savings in travel, subsistence and internal staff training.

Environmental report

The DBSA Development Fund pays particular attention to the environmental impact of its operations. Although it does not set separate objectives for environmental impact, the Fund's appraisal framework includes a module on the environmental impact of all projects supported. In addition, Siyenza Manje deployees play a key role in ensuring that municipalities adhere to environmental management legislation in the service delivery objectives. They are also required to transfer skills to officials so that the latter are able to plan and implement projects in an environmentally responsible manner.

Social and institutional report

In support of the objective of improving client services and the effectiveness of municipal service delivery, the Development Fund deployed technical professionals to key national and provincial government departments. These deployees were tasked with removing blockages, accelerating the approval process for municipal infrastructure grants, and improving the overall service delivery chain for local government. In addition, the Fund reached out to many young graduates, who were recruited and paired with experts as part of a long-term strategy to promote human capital development and youth empowerment.

Siyenza Manje deployees are involved in mentoring, coaching and other forms of capacity building, such as the development of systems and policies (e.g. for supply chain management). The mentoring and coaching activities take place within the technical, financial and planning functions of the municipalities.

Owing to the shift in focus of the Development Fund, and in the context of the DBSA's realignment process, the personnel allocation to the programme management component of the grant funding portfolio was reduced significantly. The reduction was from ten to three, leaving each programme manager with a portfolio of three provinces. Most work was on projects in implementation rather than new approvals.

Innovation

Among the Fund's main goals is the development of market-relevant new products and services. The Fund is constantly seeking innovative programmes to address the capacity needs and challenges of poorly resourced municipalities. During 2006/07, the Fund initiated discussions with the South African Institution of Civil Engineering (SAICE) around quality audits and assurances on work done by Siyenza Manje deployees.

Conclusion

The Fund's main focus has been on the Siyenza Manje programme in the first year of its implementation. Significant progress has been made on facilitating the implementation of priority infrastructure projects at municipal level. Despite the challenges encountered, support from and collaboration with key stakeholders contributed significantly to the substantial progress made in rolling out the programme. As the Fund moves into the 2007/08 financial year, the implementation of Siyenza Manje will be expanded and accelerated. The programme is a good example of an effective partnership focused on improving service delivery by under-capacitated local governments.

Balance sheet at 31 March 2007

in rands	Notes	2007	2006
Assets			
Current assets			
Accounts receivable	2	**214 824 780**	333 336 051
Cash and cash equivalents	3	**–**	1 863 849
Total assets		**214 824 780**	335 199 900
Funds and liabilities			
Funds			
Funding reserve		**209 938 393**	331 763 754
Current liabilities			
Cash and cash equivalents	3	**230 849**	–
Accounts payable	4	**4 655 538**	3 436 146
Total funds and liabilities		**214 824 780**	335 199 900

Income statement for the year ended 31 March 2007

in rands	Notes	**2007**	2006
Gross funding deficit		**(116 148 336)**	42 029 708
Grants received	1.6	**–**	172 000 000
Capacity building grants disbursed and development facilitation costs	5	**(73 992 438)**	(129 970 292)
Siyenza Manje costs	6	**(42 155 898)**	–
Interest received		**97 371**	184 050
Operating expenses		**(5 774 396)**	(8 998 361)
General and administration expenses	7.1	**(3 185 126)**	(6 499 866)
Staff costs	7.2	**(2 589 270)**	(2 498 495)
Deficit for the year		**(121 825 361)**	33 215 397
Transfer from funding reserve		**121 825 361**	(33 215 397)
		–	–

Statement of changes in funding reserve for the year ended 31 March 2007

in rands	Funding reserve
Balance at 1 April 2005	298 548 357
Transfer to funding reserve	33 215 397
Balance at 31 March 2006	331 763 754
Transfer from funding reserve	(121 825 361)
Balance at 31 March 2007	**209 938 393**

Statement of cash flows for the year ended 31 March 2007

in rands	Notes	**2007**	2006
Cash flows from funding activities	8	**(2 192 069)**	1 646 709
Cash receipts		**118 511 271**	139 907 366
Cash payments		**(120 703 340)**	(138 260 657)
Interest received		**97 371**	184 050
Movement in cash and cash equivalents		**(2 094 698)**	1 830 759
Cash and cash equivalents at beginning of the year		**1 863 849**	33 090
Cash and cash equivalents at end of the year		**(230 849)**	1 863 849

1. Accounting policies

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretation adopted by the International Accounting Standards Board (IASB).

1.2 Basis of preparation

The financial statements are presented in South African rand and are prepared on the historical cost basis.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

1.3 Accounts receivable

Accounts receivable are stated at cost.

1.4 Financial instruments

1.4.1 Classification

Management determines the appropriate classification of financial assets and liabilities on initial recognition.

1.4.2 Cash and cash equivalents

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.

1.5 Trade and other payables

Trade and other payables are stated at cost.

1.5.1 Provisions

A provision is recognised in the balance sheet when the Fund has a present legal or constructive obligation as a result of a past event, from which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

1.6 Grants received

Grants received from the Development Bank of Southern Africa Limited (DBSA) are recorded as income when the grant has been approved by the Board of Directors of the DBSA. Costs relating to these grants are charged to operating expenses.

1.7 Grants disbursed

Grants disbursed consist of amounts disbursed to beneficiaries, including facilitation costs incurred by the Fund. Only those projects that have been approved and implemented by the Fund are charged to grants disbursed.

1.8 Development facilitation costs

Costs incurred in respect of projects under investigation and projects that have been approved but not implemented are charged to development facilitation costs.

in rands	**2007**	2006
2. Accounts receivable		
Interest receivable	**6 005**	19 857
Other debtors	**–**	1 091 238
Staff advances: Siyenza Manje	**369 373**	–
Development Bank of Southern Africa Limited	**214 449 402**	332 224 956
	214 824 780	333 336 051
3. Cash and cash equivalents		
Current account	**(230 849)**	1 863 849
4. Accounts payable		
Development Bank of Southern Africa Limited	**920 519**	1 279 874
Leave pay and bonus provisions	**3 681 302**	1 956 647
Accrued expenses	**53 717**	199 625
	4 655 538	3 436 146
5. Capacity building grants disbursed and development facilitation costs		
Capacity building grants disbursed	**67 348 735**	120 374 903
Development facilitation costs	**6 643 703**	9 595 389
	73 992 438	129 970 292
6. Siyenza Manje costs		
Administration costs	**260 577**	–
Consulting fees	**351 491**	–
Data processing costs	**109 093**	–
Communication costs	**459 485**	–
Public relations activities	**138 525**	–
Remuneration	**34 248 715**	–
Subsistence and travel costs	**6 343 981**	–
Training costs	**244 031**	–
	42 155 898	–

in rands	2007	2006

7. Operating expenses

7.1 General and administration expenses

General and administration expenses comprise:

Audit fees	**130 074**	159 549
Management fees	**2 424 832**	5 421 597
Other operating costs	**630 220**	918 720
	3 185 126	6 499 866

Management fees are paid to the Development Bank of Southern Africa Limited for administration services rendered to the Fund.

7.2 Staff costs

Secretaries	**667 590**	599 861
Training	**51 278**	49 946
Non-executive Directors' emoluments (refer to 7.2.1)	**510 390**	350 876
Executive Directors' emoluments[1]	**1 360 012**	1 497 812
J Nhlapo – Chief Operating Officer[2]		
Basic salary	**687 460**	696 102
Medical aid, group life and provident fund contributions	**169 852**	182 398
Other allowances and benefits	**77 700**	84 000
Performance incentives	**425 000**	535 312
	2 589 270	2 498 495

Notes

1. Other Executive Directors:
   MSV Gantsho's tenure effectively ended on 30 June 2006.
   P Baloyi was appointed as an Executive Director from 1 July 2006.
   G Mantashe was appointed as an Executive Director from 31 October 2006.
   The above-mentioned Executive Directors do not receive Directors' emoluments from the Fund.
2. As from 1 October 2006, in view of the reorganised functional structure and responsibilities, the total salary of the COO is apportioned between the DBSA and the Development Fund at a ratio of 15% to 85%, respectively.

in rands				**2007**	2006

7.2.1 Non-executive Directors' emoluments

	Salaries/fees R	Subsistence and travel R	Attendance fees R	Total R	Total R
I Abedian	–	180	22 500	**22 680**	15 180
A Boraine	–	–	7 500	**7 500**	–
N Christodoulou	–	–	30 000	**30 000**	7 500
BD Figaji	240 000	–	30 000	**270 000**	40 000
N Gasa	–	210	7 500	**7 710**	7 500
N Gwagwa[1]	–	–	–	**–**	15 336
JB Magwaza	120 000	–	30 000	**150 000**	15 000
H Nyasulu[2]	–	–	–	**–**	242 860
M Vilakazi	–	–	22 500	**22 500**	7 500
	360 000	390	150 000	**510 390**	350 876

Notes

1. N Gwagwa's tenure ended on 24 November 2005.
2. H Nyasulu's tenure as Chairperson effectively ended on 21 February 2006.

8. Reconciliation of net funding (deficit)/surplus to cash flows from funding activities

	2007	2006
Deficit for the year	**(121 825 361)**	33 215 397
Interest received	**(97 371)**	(184 050)
Deficit before working capital changes	**(121 922 732)**	33 031 347
Movement in accounts receivable	**118 511 271**	(32 092 634)
Movement in accounts payable	**1 219 392**	707 996
	(2 192 069)	1 646 709

in rands	**2007**	2006
9. Approvals and commitments		
Grant approvals for the year	**20 400 000**	70 038 000
Total outstanding grant commitments at end of the year	**139 311 846**	227 176 000

10. Taxation

The Fund is exempt from income tax in terms of section 10(1)(cN) of the Income Tax Act, No. 58 of 1962.

11. Related party

in rands	**2007**	2006
Transactions		
Development Bank of Southern Africa		
Grant funding received	**–**	172 000 000
Management fees paid	**2 424 832**	5 421 597
Balances		
Outstanding balance due from DBSA	**213 528 883**	330 945 082

The DBSA has undertaken to underwrite the commitments of the Development Fund in respect of the Siyenza Manje initiative and the continued grant operations to the extent of its agreed contribution to the Fund's funding requirements as determined from time to time.

12. Retirement benefits and post-retirement medical benefits

The liabilities for employees who are currently employed by the Bank and contracted to the DBSA Development Fund are fully disclosed in the financial statements.
The staff employed on the Siyenza Manje programme are contracted to the Fund on an annual basis, and therefore no liability exists in respect of these employees for retirement benefits and post-retirement medical benefits.

13. Post balance sheet event

An amount of R56 296 750 was received from National Treasury in May 2007 for funding of the Siyenza Manje programme.

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DBSA

Development Fund

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