The DBSA is one of the leading development finance institutions on the continent. We provide project consulting, preparation, deal syndication, finance, implementation and maintenance solutions for socio-economic infrastructure development in South Africa. Our areas of focus include energy, transport, water, ICT, education, health and housing.

www.dbsa.org
The DBSA's Integrated Annual Report aims to present a comprehensive overview of the DBSA's strategy, performance, risk, and sustainability. It is designed to provide stakeholders with an understanding of the DBSA's operations, including financial performance, strategic objectives, and governance. The report includes an overview of the DBSA's strategy, performance against targets, and a discussion of key risks and opportunities. It also highlights the DBSA's commitment to sustainability and its impact on development.

The report is structured into several key sections:

1. **Introduction**
   - Overview of the DBSA's role and impact on development.
   - Key performance indicators and financial highlights.

2. **Performance**
   - Financial performance against targets.
   - The DBSA's strategies and performance against targets.

3. **Risk and Opportunities**
   - Identification of key risks and opportunities.
   - Risk management practices.

4. **Governance and Sustainability**
   - Governance structure and oversight.
   - Sustainability policies and initiatives.

5. **Conclusion**
   - Future plans and strategic direction.

The report concludes with a forward-looking information section, discussing potential challenges and opportunities for the DBSA in the coming years.

The DBSA's Integrated Annual Report is a key tool for stakeholders to understand the DBSA's performance, strategic direction, and impact on development.
Following the achievements of the past 21 years, the success of the next phase of our development will depend on our ability to optimally mobilise our resources and deal decisively with the structural and competitiveness challenges that hold back production and investment in our economy. Key to achieving that will be the work done by development finance institutions (DFIs), including the Development Bank of Southern Africa (DBSA).

We have outlined clearly in the National Development Plan (NDP) what our goals are, up to 2030. One of the strengths on which the implementation of the NDP rests is the financial health and capacity of DFIs. The DBSA, in particular, is well-placed to play a pivotal role in government’s plan to increase investment in South Africa as well as in the regional integration agenda.

“The DBSA, in particular, is well-placed to play a pivotal role in government’s plan to increase investment in South Africa as well as in the regional integration agenda.”

Nhlanhla Nene, MP
Minister of Finance

Government intends to invest R813 billion over the next three years in infrastructure across a number of important sectors, including energy, transport, water and social services. Extensive investments in infrastructure are required to unlock the full potential of the SADC region as well as the broader African economy. Organisations such as the DBSA must continue to be a catalyst to facilitate increased trade and support key infrastructure programmes such as the North South Corridor and the Programme for Infrastructure Development in Africa’s Priority Action Plan.

This Integrated Annual Report details the excellent performance of the DBSA in delivering on its mandate, in spite of challenging macro-economic factors. I am pleased that the organisational review, successfully concluded in the previous financial year has helped the Bank deliver on the development agenda, including in critical areas such as energy generation, social infrastructure and regional integration projects. The DBSA provided a total of R13.0 billion in infrastructure financing, bringing to R51.3 billion the total disbursements over the past five years. In addition, the Bank built 15 schools, 1128 rural houses, 60 doctors’ rooms and refurbished 26 clinics. Within the municipal market, the Bank’s total funding reached R5.4 billion in this financial year. An amount of R6.4 billion was also committed to this segment and it is estimated that over 289 000 households will benefit once these projects are completed.

Government intends to invest R813 billion over the next three years in infrastructure across a number of important sectors, including energy, transport, water and social services. I congratulate the DBSA Board, management and staff on the Bank’s results for 2015. This collective effort has translated into a meaningful contribution to sustainable infrastructure development. I have no doubt that the DBSA will continue to grow in strength and undertake to work closely with this critical institution as it seeks to build a more inclusive society for all.

Nhlanhla Nene
Minister of Finance and Governor of the DBSA.
The DBSA is a South African state-owned enterprise (SOE) and one of the leading development finance institutions (DFIs) in Southern Africa. At our 31 March 2015 year-end, we had development assets of R633 billion spread across 13 African countries, mainly in the energy, roads, water, transport and social infrastructure sectors, as well as 547 permanent and contract employees working to deliver our strategy, ultimately aimed at assisting the South African government in supplying sustainable infrastructure for its communities.

CONSTITUTION OF THE DBSA

The DBSA was established in 1983 to perform a broad economic development function within the homeland constitutional dispensation that prevailed at the time. In 1994, the new constitutional and economic dispensation of South Africa resulted in the transformation of the role and function of the DBSA. As a result, the DBSA was reconstituted, as a DFI in 1997 in terms of the DBSA Act.

The constitution and conduct of the DBSA Board of Directors are primarily governed by the DBSA Act and further regulated by the PFMA, the principles of King III and the Protocol on Corporate Governance in the Public Sector.

The Bank’s mandate is defined by section 3 of the DBSA Act. Its primary purpose is to promote economic development and growth, human resource development and institutional capacity building in South Africa and the wider African continent. It does so by:

- Mobilising financial and other resources from the private and public sectors, national or international, on a wholesale basis.
- Appraising, planning and monitoring the implementation of development projects and programmes.
- Facilitating the participation of the private sector and community organisations in development projects and programmes.
- Providing technical assistance, particularly in respect of human resource development and training with regard to the identification, preparation, evaluation, financing, implementation and management of development projects and programmes.
- Funding or mobilising wholesale funding for initiatives to minimise or mitigate the environmental impact of development projects or programmes.
- Assisting other international, national, regional and provincial initiatives in order to achieve an integrated finance system for development.
- Assisting other institutions in the national or international, public and private sectors with the management of specific funds.

The DBSA Act’s regulations provide for a sharp focus on infrastructure development, especially in South Africa, where it is located, in a development finance system in which various DFIs have been given specific areas of focus in order to limit duplication and unnecessary overlaps.

THE ENVIRONMENT IN WHICH WE OPERATE

OVERVIEW OF THE OPERATING ENVIRONMENT

The International Monetary Fund (IMF) projects that global economic growth will increase from 3.1% in 2014 to 3.9% in 2015. Economic activity in advanced economies has strengthened. The continent’s recovery from the 2008 global economic crisis has been encouraging with the IMF predicting growth rates of 4.5% for 2015. This is above the curve set by the European Union and the American markets. Infrastructure investments and resource markets have contributed to Africa’s growth while emerging regulatory frameworks, good governance and clear macro-economic policy has also boosted the continent’s attractiveness to investors. Growth will continue in 2015 even though it might be slower than in other years as international partners deal with their domestic pressures. The falling oil prices in 2014 led to more cautious budgets in oil-rich countries like Angola and Nigeria, while falling commodity prices resulted in slower economic growth.

In South Africa, the manufacturing industry declined to 13.9% of gross domestic product (GDP) in 2014, showing evidence of a slowdown in demand from external markets such as China. In the last 18 months, Africa saw elections in Zimbabwe, Nigeria, Botswana, Egypt, and Mozambique, among others. Elections were largely peaceful but Boko Haram’s insurgency in Nigeria and West Africa caused serious instability and continues to do so. Al-Shabaab in East Africa has the potential to destabilise the East African region too and derail the economic gains made in Kenya and the neighbouring states. The concept of third-termism among African leaders has led to widespread unrest in Burundi and could potentially upset the fragile peace in the Great Lakes region. There are important lessons to be learned from the Ebola pandemic. Poor social and economic infrastructure could significantly impact the provision of health and education services, which will have disastrous outcomes on communities and countries in times of crisis.
Improvements to the continent’s infrastructure in recent years have been responsible for more than half of Africa’s recently improved economic performance and have the potential to contribute even more in the future.

The global outlook presents both opportunities and risks for South Africa. The recovery in advanced economies will translate into moderately higher demand for South African exports. Prices for South Africa’s main commodities have declined and the terms of trade – the country’s export prices compared with its import prices – have deteriorated, widening the current account deficit.

Emerging markets are expected to continue growing, but at a reduced pace that reflects significant adjustments to currency levels, capital inflows, current account and fiscal deficits, debt levels, and varying levels of business and consumer confidence.

Many South African institutions are adjusting to changing economics and patterns of demand, integrating into global and regional value chains and expanding their African footprint. Furthermore, implementation of well-targeted sector initiatives will promote greater competitiveness and balanced economic growth.

Greater regional integration has also provided a new growth opportunity for South African businesses. Africa is, however, faced with the challenge of overcoming a huge infrastructure deficit which limits the benefits of initiatives to achieve regional integration. Greater integration will positively influence the rate of development on the continent and is therefore considered an essential building block towards a prosperous Africa. Without sound and well-maintained infrastructure, national economic development will remain severely constrained. Improvements to the continent’s infrastructure in recent years have been responsible for more enhanced competitiveness, greater spatial efficiency in growing cities and accelerated rural development. It also prioritises measures to build a capable and effective state that delivers services to citizens while encouraging business investment and growth.

South Africa’s economy grew by only 1.5% in 2014, down from 2.2% in 2013, according to preliminary estimates of real GDP released by Stats SA. This represents a further slowdown from the recorded average growth of just above 2% for the period 2008 to 2012. South Africa experienced an average growth rate of approximately 5% in real terms between 2004 and 2007, before the global economic crisis.

GDP growth is forecast to improve over the medium term as infrastructure constraints ease, private investment recovers and exports grow. However, recent trends have led to understandable concerns about the country’s growth prospects.

THE DBSA'S ROLE IN SUPPORTING THE NDP OBJECTIVES

The strategy of the DBSA is linked to the objectives of the NDP. The diagram alongside illustrates the role of the DBSA as well as various examples of activities linked to each NDP objective.

<table>
<thead>
<tr>
<th>OUTCOME &gt;&gt;</th>
<th>DBSA’s ROLE &gt;&gt;</th>
<th>EXAMPLE &gt;&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create an economy that will create more jobs</td>
<td>Infrastructure Delivery division: ASIDI and Eastern Cape Rural Housing Programmes</td>
<td></td>
</tr>
<tr>
<td>Investing in economic infrastructure</td>
<td>Funding of various energy, transport and ICT projects</td>
<td></td>
</tr>
<tr>
<td>Environmentally sustainable and resilient: Transition to a low carbon-economy</td>
<td>Preparation and funding of IPPs</td>
<td></td>
</tr>
</tbody>
</table>
| An inclusive and integrated rural economy | • Funding of bulk water supply  
• Eastern Cape Rural Housing Programme |
| Funding of various energy, transport and ICT projects | • Funding of projects in SADC  
• North-South corridor |
| Transforming human settlements | • Eastern Cape Rural Housing Programme  
• Housing Impact Fund |
| Improving the quality of education, training and innovation | • IDD: ASIDI Programme |
| Quality health care for all | • IDD: refurbishment of health clinics and construction of doctors’ rooms  
• Funding of student accommodation |
| Social protection |  |
| Building safer communities |  |
| Building a capable and developmental state | Provision of technical support in the planning and implementation of projects |
| Fighting corruption | IDD: management of procurement processes in appointing service providers |
| Transforming society and uniting the country | Supporting development impact through investment in social and economic infrastructure |
Recognising the infrastructure deficit on the wider African continent and that participation in such projects would support broader regional integration, the DBSA obtained mandate approval to expand operations beyond SADC to all countries on the African continent.

**SHAREHOLDER NEEDS**

Supporting cities to promote economic growth and spatial transformation to create an environment conducive for inclusive growth, job creation and poverty eradication by providing well-maintained and well-functioning infrastructure.

The DBSA is recognised as a critical component of the national infrastructure system with a mandate to contribute meaningfully towards national infrastructure objectives. The government has provided further guidance.

Rapid urbanisation and the need for spatial transformation as outlined in the NDP are putting pressure on cities and other large urban municipalities to increase the level of spending on strategic infrastructure. Municipalities should not rely only on fiscal transfers and their immediate own revenue sources to finance infrastructure investment. Hence the National Treasury, in collaboration with relevant stakeholders, has embarked on the reforming of municipal borrowing strategies. Factors that hamper the development of municipal debt market in South Africa include short maturity of loans offered by commercial banks, an underdeveloped secondary bond market, low municipal creditworthiness and high borrowing rates.

The DBSA is well-positioned to play a critical role in the development and deepening of the municipal debt market, through support and expansion in debt maturities, enhancing secondary market liquidity through expanding available issuances and encouraging innovation in lending instruments. Furthermore, the DBSA can use municipal infrastructure bonds, municipal bond underwriting, project finance, and various contracting models as some of the ways to encourage greater private investment in the municipal infrastructure investment.

Capacity constraints are hindering delivery in secondary cities and under-resourced municipalities.

In South Africa, overcoming the funding and implementation challenges of infrastructure projects in the municipal segment, particularly secondary and under-resourced municipalities, is a key priority. These municipalities generally continue to underspend on their allocated infrastructure budget funds and financial governance and institutional limitations continue to plague many, resulting in inadequate service delivery. The DBSA can also provide planning and implementation capacity support interventions to selected municipalities.

Whilst supporting the provision of hard infrastructure is important for long-term, sustainable growth, the provision of social infrastructure in the education, health, sanitation and other spheres can bring short-term relief and strengthen the social fabric, promoting resilient, productive communities.

The promotion of regional integration through infrastructure development is a key pillar in Africa’s growth and development agenda.

In Africa, overcoming poverty and inequality and achieving economic prosperity will be achieved through a strategy of regional integration aimed at fostering industrialisation and intra-regional trade. Infrastructure development, including transportation, energy, telecommunications and the supply of water, are examples of what is needed. The DBSA must position itself to make a contribution in these important areas.

The DBSA must service both domestic and regional requirements.

Although it has significant domestic challenges to respond to, the DBSA must deepen its response to the development needs of Southern Africa and the wider continent, in line with the SADC Integrated Infrastructure Development Plan, and the Programme for Infrastructure Development in Africa (PIDA), which is led by the African Union Commission, the NEPAD Secretariat and the African Development Bank Group (AfDB). In particular, the DBSA must ensure that South Africa fulfils its obligations in relation to support for infrastructure development in the region's development corridors.

Recognising the infrastructure deficit on the wider African continent and that participation in such projects would support broader regional integration, the DBSA obtained mandate approval to expand operations beyond SADC to all countries on the African continent. The DBSA acknowledges that investment support to the SADC region remains critical and will remain the primary focus area of the organisation, whilst investments beyond SADC will play an important role in supporting the Bank's overall financial sustainability.

The DBSA must continue to identify niche markets and improve its performance.

There is an increasing number of development finance institutions (DFIs) active on the continent and in the region. The development finance landscape is changing rapidly. Apart from the traditional role-players, a growing number of emerging countries are engaging with Africa as development finance partners. Even commercial banks are extending their presence to development financing. The DBSA is challenged to become a development financier of choice and must continuously seek to improve its processes and capacity to remain relevant in the market it serves.

Financial sustainability is key if the DBSA is to remain viable.

The DBSA's role in supporting infrastructure development through non-revenue generating development activities and services has had a corrosive effect on the institution's capital base over the past couple of years. The Bank's strategy must continue to correct this anomaly as it moves forward, especially given the fragile state of the global and domestic economy. In this context, the DBSA must remain financially sustainable and seek to generate annual return on average equity of at least inflation by 2017.

In response to the above challenges as well as the need to be more client-centric, the DBSA continues to review its strategy and operating model to ensure that its infrastructure development activities are geared towards maximising developmental impact and making a meaningful contribution to the development of infrastructure to support the improvement of the quality of life of people, economic growth and regional integration.

**Mission**

To advance the development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions.
At the core of our mandate, the DBSA seeks to play a pivotal role in delivering developmental infrastructure in South Africa and the rest of Africa.

A prosperous and integrated region, progressively free of poverty and dependency.

To advance the development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development solutions to:

• Improve the quality of life of people through the development of social infrastructure.
• Support economic growth through investment in economic infrastructure.
• Support regional integration.

Our work targets investments mainly in:

ENERGY  TRANSPORT
WATER  ICT

We also provide support to sectors such as:

HEALTH  EDUCATION  HOUSING

In implementing our strategy we recognise that there are various risks associated with our business. Key amongst these are:

• Incorrect investment strategy to deliver on our infrastructure funding targets.
• Inability to secure deals competitively on a portfolio basis.
• Failure to deliver on our non-financing mandates.
• Failure to remain financially sustainable.
• Inadequate capital levels to support development growth and targets.
• Failure to adapt the business model due to changes in the business environment.
• Ineffective and inefficient business processes.
• Failure to recruit, develop and retain key staff.
• Fraud and corruption.
• Failure to comply with legislation.

Refer to pages 24 to 26 for further detail regarding our key risks identified and how we have mitigated these.
OUR BUSINESS MODEL

OUR RESOURCES >>>

INTELLECTUAL CAPITAL
Our strong brand, reputation and relationships.
- Experience in infrastructure development: 31 years.
- Owned by the South African government.
- Infrastructure development services: Project preparation, financing and implementation.

SOCIAL CAPITAL
The communities in which we operate are at the core of what we do. Clients, partners and government relationships are central to our business to support infrastructure development.
- Countries in which we operate: 13 (2014: 13).
- Key regulators: the National Treasury, Parliament and the Department of Labour, Johannesburg Securities Exchange.

FINANCIAL CAPITAL
Funds available for us to use in our business, including financing resources, such as debt and equity, as well as funds generated through our operation and investments.
- Capital and reserve: R23.7 billion (2014: R19.9 billion).
- Additional capital received from government to support growth: R2.5 billion (2014: R2.4 billion).
- Interest bearing liabilities: R46.2 billion (2014: R42.9 billion).
- Cash generated from operations: R2.7 billion (2014: R2.0 billion).

HUMAN CAPITAL
The people we employ as well as others we work with, their health, knowledge and skills.

OUR VALUE CHAIN >>>

DBSA’S PRIMARY FOCUS
1. PLAN >>> 2. PREPARE >>> 3. FINANCE >>> 4. BUILD >>> 5. MAINTAIN/IMPROVE >>>

SERVICES
- Under-resourced municipalities
- Project identification
- Feasibility assessments
- Technical assistance
- Financial structuring
- Project preparation
- Lead arranger
- Provide vanilla and bespoke financing opportunities
- Debt
- Mezzanine finance
- Limited non-recourse lending
- Mandate lead arranger

CLIENTS/MARKETS
- Municipalities
- Public-Private Partnerships
- Public-public partnerships
- Regional integration

- South Africa
- Municipalities
- State-Owned Enterprises
- Public-Private Partnerships
- Public-Public Partnerships
- Private sector

- The rest of Africa
- State-Owned Enterprises
- Public-Private Partnerships
- Private sector

- National and provincial government departments
- Municipalities

- Supporting the maintenance, upgrading and improvement of social infrastructure projects
THE DBSA’S BUSINESS MODEL IS BASED ON THE REQUIREMENT THAT THE BANK SHOULD REMAIN FINANCIALLY SUSTAINABLE WHilst DELIVERING ITS DEVELOPMENT MANDATE. The Bank’s business model is premised on the following four main components:

1. Secure funding from reserves, capital markets, other DFIs and government.
2. Prepare, fund and deliver infrastructure, whilst supporting the transfer of skills and knowledge. Some of our funding activities are provided on concessory terms and conditions.
3. Enhance development impact in defined areas, whilst earning interest and non-interest income. Additional non-infrastructure financing related development activities to assist government in socio-economic developments will be provided on a full cost recovery basis.
4. Plough back profits into reserves and learn from experiences.

OUR OUTPUTS >>

PROJECT PREPARATION
- Appointed as managing agent for €100 million Infrastructure Investment Programme for South Africa (IIPSA).
- Total projects approved for funding: €5.8 billion.
- Projects being prepared for funding: €260 billion.
- Majority of projects being prepared are in energy and transport sectors.
- Total project preparation financing spend to date (including co-financing): R401 million.

FINANCIAL RESULTS
- Net profit: R1.2 billion.
- Paid to providers of capital: interest income: R7.0 billion.
- Staff costs: R607.3 million.

INFRASTRUCTURE IMPLEMENTATION
- Municipal:
  - Planning:
    - Three infrastructure master plans completed and released.
    - Implementation:
      - 11 municipalities supported.
      - Number of projects in planning stage: 22.
      - 84 projects in construction.
      - 60 projects completed.
  - Non-municipal:
    - Schools completed: 15.
    - Schools in construction: 48.
    - Houses built: 126.
    - Doctors’ rooms completed: 40.
    - Health clinics completed: 26.
    - National Youth Service Corps (NARYSEC) programme: 850 apprentices placed.

INFRASTRUCTURE FINANCING
- Total infrastructure disbursements: R13 billion
  - Energy: R7.0 billion
  - Water: R2.1 billion
  - Transport: R1.3 billion
  - Communications: R350 million
  - 113 projects supported.
- Disbursement to municipalities in South Africa: R5.3 billion, of which R1.3 billion to secondary municipalities and R4.1 billion to under-resourced municipalities.
- Number of municipal clients: 153.
- Book debt to secondary and under-resourced municipalities: R6.7 billion.
- Disbursements to the rest of SADC: R467 million.
- Implementation support to municipalities.

INFRASTRUCTURE IMPLEMENTATION
- Schools completed:
  - More than 9,000 scholars enrolled during 2015.
  - Jobs created: 6,462.
  - SMMEs benefiting: 734.
- Houses completed:
  - Jobs created: 852.
  - SMMEs benefiting: 20.
- Health:
  - Construction of 160 doctors’ consulting rooms.
  - Maintenance of 26 clinics.

DEVELOPMENT OUTCOMES >>

MUNICIPAL (SOUTH AFRICA)
- Energy (includes upgrading of substations and electrification of households): 90,096 households (total project impact).
- Rehabilitation of roads: 1,066 households (total project impact).
- Water (includes reticulation and provision of bulk water): 56,695 households (total project impact).
- Sanitation includes reticulation, upgrading and construction of waste water treatment works: 123,234 households (total project impact).

NON-MUNICIPAL (SOUTH AFRICA AND SADC)
- Energy generation:
  - Renewable: 346 MW (total project impact: 975 MW).
  - Coal: 99 MW (total project impact: 9,000 MW).
  - Gas: 24 MW (total project impact: 340 MW).
- Education:
  - Student accommodation: 2,350 beds (total project impact: 6,504 beds).
- Housing:
  - Affordable housing units: 36,000 (total project impact: 90,000 units).
  - Transport:
    - Bus Rapid Transit: 71 buses (total project impact: 171 buses).

IMPLEMENTATION SUPPORT TO MUNICIPALITIES (NON-LENDING)
- 4,452 households received access to new and improved service in water, sanitation and electricity.
- 1,773 temporary job opportunities created.
THE DBSA AND ITS STRATEGY

The DBSA's strategy maintains the Bank's focus on social and economic infrastructure development but with an emphasis on driving financial and non-financial investments in the primary sectors of energy, transport, water, and communications, whilst providing support to various social sectors such as health, education and housing to a lesser extent.

DBSA primarily plays a key role in the preparation, funding and building phases of the infrastructure development value chain. The diagram below summarises the targeted sector coverage, the DBSA's role, client segments, the division responsible for delivering the outcomes, and the targeted deliverables for 2016 as well as the three years to March 2018.

2016 BALANCED SCORECARD

<table>
<thead>
<tr>
<th>Customer Perspective (50%)</th>
<th>Key Performance Indicator</th>
<th>Actual March 2015</th>
<th>Target 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustained growth in development impact</td>
<td>Infrastructure financing</td>
<td>R13.0 billion</td>
<td>R17.8 billion</td>
</tr>
<tr>
<td>Integrated infrastructure solutions provider</td>
<td>Value of infrastructure disbursements</td>
<td>R5.4 billion</td>
<td>R6.0 billion</td>
</tr>
<tr>
<td>South Africa</td>
<td>Municipalities</td>
<td>R3.7 billion</td>
<td>R4.0 billion</td>
</tr>
<tr>
<td>- Metropolitan cities</td>
<td>R1.3 billion</td>
<td>R1.5 billion</td>
<td></td>
</tr>
<tr>
<td>- Secondary municipalities</td>
<td>R0.5 billion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Under-resourced municipalities</td>
<td>Value of social infrastructure disbursements (education, health, housing and water)</td>
<td>R0.2 billion</td>
<td>R1.2 billion</td>
</tr>
<tr>
<td>- Value of economic infrastructure disbursements in South Africa (transport, energy, ICT)</td>
<td>SADC (excluding RSA)</td>
<td>R6.7 billion</td>
<td>R5.6 billion</td>
</tr>
<tr>
<td>Rest of Africa (including SADC)</td>
<td>R0.6 billion</td>
<td>R3.5 billion</td>
<td></td>
</tr>
<tr>
<td>Project preparation</td>
<td>Value of projects prepared: R6.4 billion</td>
<td>Value of projects approved: R4 billion</td>
<td></td>
</tr>
<tr>
<td>Planning and implementation support to municipalities</td>
<td>Project planning support</td>
<td>Three plans completed in line with agreement with respective municipalities</td>
<td>80% of milestones completed</td>
</tr>
<tr>
<td>- Compilation of critical milestones in preparation of funding and infrastructure plans</td>
<td>Project implementation</td>
<td>80%</td>
<td>80% of milestones completed</td>
</tr>
<tr>
<td>- Compilation of critical milestones for mandated programmes</td>
<td>Implementation and delivery support programmes</td>
<td>Total funds under management</td>
<td>R2.0 billion</td>
</tr>
<tr>
<td>- Implementation support to SIP 6: National Integrated Municipal Infrastructure</td>
<td>Integrated Infrastructure Plan (IIP) completed</td>
<td>Three catalytic projects completed</td>
<td></td>
</tr>
<tr>
<td>Client and partner satisfaction</td>
<td>Client and partner satisfaction</td>
<td>Rating of 4.2</td>
<td>Conduct survey (use actual rating)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Financial Perspective (30%)</th>
<th>Key Performance Indicator</th>
<th>Actual March 2015</th>
<th>Target 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintain financial sustainability</td>
<td>Sustainable earnings</td>
<td>R808 million</td>
<td>R911 million</td>
</tr>
<tr>
<td>Net interest margin</td>
<td>43.6%</td>
<td>40.9%</td>
<td></td>
</tr>
<tr>
<td>Return on average equity</td>
<td>5.7%</td>
<td>3.6%</td>
<td></td>
</tr>
<tr>
<td>Non-performing loan book after specific impairments</td>
<td>1.9%</td>
<td>3.3%</td>
<td></td>
</tr>
<tr>
<td>Cost-to-income ratio of IDD</td>
<td>89%</td>
<td>95%</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Internal Perspective (10%)</th>
<th>Key Performance Indicator</th>
<th>Actual March 2015</th>
<th>Target 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide innovative infrastructure solutions</td>
<td>New product development (product diversification)</td>
<td>Pilot syndication product approved by Board</td>
<td>R100 million fees generated based on new products launched</td>
</tr>
<tr>
<td>Effectiveness of business intelligence and knowledge management processes</td>
<td>Rating of 3 out of 5</td>
<td>Effectiveness of implementation measured through internal survey</td>
<td></td>
</tr>
<tr>
<td>Continuous improvement of internal systems and processes</td>
<td>Cost-to-income ratio (excluding IDD)</td>
<td>31%</td>
<td>Max 35%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Learning and Growth (10%)</th>
<th>Key Performance Indicator</th>
<th>Actual March 2015</th>
<th>Target 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create and maintain a high performance culture</td>
<td>Development and retention of key skills</td>
<td>90% of key skills retained</td>
<td>85% of key skills retained</td>
</tr>
<tr>
<td>Leadership development as part of succession planning programme</td>
<td>Selected managers completed leadership development programme</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementation of culture change initiative</td>
<td>Implementation of culture change initiative</td>
<td>80% of milestones completed in line with project plan</td>
<td>Conduct staff culture survey</td>
</tr>
</tbody>
</table>
# THE DBSA AND ITS STRATEGY

## OUR STRATEGY (CONTINUED)

### THREE-YEAR TARGETS

<table>
<thead>
<tr>
<th>KEY SECTOR COVERAGE</th>
<th>DBSA’S ROLE</th>
<th>COUNTERPARTY ENTITIES</th>
<th>KEY DELIVERABLES OVER THE NEXT THREE YEARS TO 2018</th>
</tr>
</thead>
</table>
| **MUNICIPAL**  
(including water and sanitation, electricity, roads and refuse) | Lending | Municipalities (all) | Total disbursements: R19.9 billion |
|  | Project planning support |
|  | (pre-financing support) | Secondary and under-resourced municipalities | Completion of the following outcomes for selected municipalities: |
|  |  |  | • Investment plans |
|  | Project implementation support |
|  | (post-financing support) | Secondary and under-resourced municipalities | • Feasibility plans |
|  | Implementation support to SIP 6, National Integrated Municipality Infrastructure Programme | • PICC  
• Municipalities | • Funds sourcing |
|  |  |  | Completion of the following outcomes for selected municipalities: |
|  |  |  | • Technical planning |
|  |  |  | • Procurement |
|  |  |  | • Contract management |
|  |  |  | Provide implementation support to selected projects |
| **OTHER SOCIAL**  
Water, education, health and housing (non-municipal) | Lending |  
• Public-Private Partnerships  
• Higher education  
• SOCs (such as Water Boards)  
• Private companies  
• Investment funds | Total disbursements: R5.4 billion |
|  | Implementation support to: |
|  | • SIP 13: National Schools Programme  
• Accelerated Schools Infrastructure Delivery Initiative  
• Eastern Cape Rural Housing Programme  
• Various health programmes | National and provincial government | Support the development of integrated schools infrastructure plan, construction of 72 schools, 4 000 housing units, 102 doctors’ consulting rooms, support repairs and maintenance at 251 health clinics |
| **ECONOMIC INFRASTRUCTURE**  
• Bulk water  
• Transportation/logistics  
• Power/energy  
• Telecommunications  
• Liquid fuels (oil/gas) | Project preparation | National and provincial government |
|  |  | Public-Private Partnerships |
|  |  | SOCs |
|  |  | Private companies |
|  | Lending and/or direct investment | National and provincial government |
|  |  | Public-Private Partnerships and IPPs |
|  |  | SOCs |
|  |  | Joint ventures |
|  |  | Private companies |
|  |  | Concessions |
|  |  | Joint ventures |
|  | Fund management services | National government | Value of projects approved: R19 billion |
|  |  | Support various funds with management services | Total disbursements South Africa: R20.1 billion  
Total disbursements rest of Africa: R20.8 billion |
In all its activities, the DBSA maintains an open dialogue with its stakeholders. We believe this dialogue and the development of strategic partnerships are not only fundamental sources of information but are also important for responsible corporate governance. In short, stakeholder dialogue is vital for the effective execution of the DBSA’s mandate.

**A STAKEHOLDER ENGAGEMENT-DRIVEN STRATEGY**

The DBSA’s stakeholders are those entities or individuals who may be significantly affected by the Bank’s activities, products and services and who may be expected to affect the ability of the DBSA to carry out its mandate successfully.

### DBSA STAKEHOLDER MAP

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>How we engage</th>
<th>What we engage on</th>
<th>Stakeholder’s contribution to value creation</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government (shareholder representative)</td>
<td>Regular meetings with the Governor and the National Treasury</td>
<td>DBSA’s developmental role; long-term sustainability; financial performance; Shareholder Compact</td>
<td>To enhance employees’ engagement and commitment as their efforts contribute to the Bank’s success</td>
<td>48 – 49</td>
</tr>
<tr>
<td>Employees</td>
<td>Staff engagements at numerous levels; training and development needs analysis; results presentations; performance reviews; internal media; whistle-blower’s hotline; staff surveys</td>
<td>Strategy; financial performance; people development and training; transformation and employment equity; code of conduct</td>
<td>-</td>
<td>95 – 98</td>
</tr>
<tr>
<td>Clients and partners</td>
<td>Client and partner surveys; client and partner meetings; marketing campaigns</td>
<td>Client needs (funding and non-funding support); implementation support (non-funding support); perceptions and expectations; job creation; environmental impact</td>
<td>-</td>
<td>10 – 19</td>
</tr>
<tr>
<td>Regulators</td>
<td>Regular communication, meetings and reports with/to: • Standing Committee on Finance • Select Committee on Finance • National Treasury • Financial Intelligence Centre • Department of Labour</td>
<td>Compliance requirements; needs and expectations; feedback on performance; human capital matters</td>
<td>Provides the enabling regularity framework in which we operate</td>
<td>38 – 47</td>
</tr>
<tr>
<td>Providers of finance</td>
<td>Meetings with analysts and rating agencies; investor road shows; announcement of results; website</td>
<td>Financial performance; market trends and issues; future prospects; organisational sustainability</td>
<td>Provide financial capital required to sustain and grow the business</td>
<td>102 – 109</td>
</tr>
<tr>
<td>Suppliers</td>
<td>One-on-one meetings; presentations</td>
<td>Contract and service agreements; performance</td>
<td>-</td>
<td>101</td>
</tr>
<tr>
<td>Community</td>
<td>Project implementation; community surveys; marketing campaigns; website</td>
<td>Investment in socio-economic development; access to basic services; local labour opportunities</td>
<td>Communities are ultimately key beneficiaries of our services and they provide a deeper understanding our social responsibility expectations, including job creation and environmental impact</td>
<td>15 – 99</td>
</tr>
<tr>
<td>Media</td>
<td>Media briefings; press conferences and releases; print media</td>
<td>Key strategic initiatives; project information; operational and financial performance</td>
<td>Raise public awareness of our strategy, products and services as well as our operational results</td>
<td>-</td>
</tr>
</tbody>
</table>
MANAGING OUR RISKS AND OPPORTUNITIES

At the DBSA managing risk and opportunities is a fundamental part of delivering on our mandate ensuring that the Bank delivers, on a sustainable basis. This linkage is depicted graphically below:

Risk is managed on three levels in the Bank, namely strategic, operational and business.

**Strategic risk**
The chance that unforeseen opportunities or threats may render the DBSA’s strategy ineffective or uncompetitive or that events or circumstances may occur which could hinder the ability of the DBSA to implement its strategy and deliver on its mandate successfully.

**Operational risk**
The chance that internal or external events and circumstances can have a disruptive impact on the reliability, continuity, quality and efficiency of the DBSA’s operations or cause damage to tangible assets and harm to intangible assets.

**Business risk**
The chance that unknown events or circumstances can result in deviations from the returns expected on individual business propositions or impact on the planned outcomes of specific value-creating initiatives.

As shown in the diagram below, the DBSA’s risk management system comprises the following interrelated functions:

- The five lines of defence risk management strategy that allocates roles and accountabilities at various tactical levels in the Bank.
- Risk governance, which entails the creation of an enabling environment for the structured management, oversight and reporting of risks.
- Risk process, which entails the planning, understanding and responding to risks inherent in the DBSA’s strategy, operations and business.
- Risk assurance, which entails the combined efforts of various parties in monitoring and assessing the adequacy, effectiveness and economy of the governance, control and oversight of risks.

THE DBSA’S ENTERPRISE RISK MANAGEMENT SYSTEM

During the year embedding the five lines of defence model continued in line with the Bank’s risk maturity journey. The benefits of the model are that it clearly defines the roles and responsibilities for the management of risk within the DBSA and emphasises the fundamental concept that risk ownership and management is everyone’s responsibility from the Board right through to the client-facing units. The model is summarised below:

<table>
<thead>
<tr>
<th>Line of defence</th>
<th>Role</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>Business units, support functions, line management and all staff</td>
<td>Implementation and management of risk</td>
</tr>
<tr>
<td>Second</td>
<td>Group Risk Assurance</td>
<td>Perform a policy-setting and monitoring role to ensure implementation of risk management principles and adherence to regulation and legislation</td>
</tr>
<tr>
<td>Third</td>
<td>Internal and External Audit</td>
<td>Independent assurance on the effectiveness of risk management</td>
</tr>
<tr>
<td>Fourth</td>
<td>Executive Committee</td>
<td>Responsibility and oversight of DBSA activities to ensure that they are consistent with business strategy and policies as approved by the Board</td>
</tr>
<tr>
<td>Fifth</td>
<td>Board</td>
<td>Overseeing the activities of the DBSA and accountable to the shareholder for the Bank’s strategy and performance</td>
</tr>
</tbody>
</table>

The DBSA Board is ultimately accountable for the effective management of risks within the Bank and has adopted an enterprise risk management (ERM) framework and approach to managing risk exposures. This approach ensures that the DBSA takes a holistic view of the risks inherent in its strategy, operations and business, and that the management of risks is embedded into the mainstream planning, business and decision-making processes. Risk exposures are measured against an approved risk appetite statement that is aligned to the organisational strategy, prepared by management and approved by the Board on an annual basis.

The Group Risk Assurance division provides risk policies, strategies and best practice standards for the DBSA as a whole in order to mitigate the main risk exposures inherent in its mandate. Each division is responsible for controlling and monitoring the risks in its operating environment, while the Group Risk Assurance division undertakes risk monitoring and consolidated reporting at a Bank-wide level, drawing on and aggregating the risk reporting from the divisions. The Board’s Audit and Risk Committee is mandated to oversee the implementation of the Bank’s ERM framework and assesses key risk reports and indicators on a quarterly basis.

Regulatory and best practice requirements, as well as on-going changes to the regulatory environment within which the DBSA operates, require an increased focus on compliance. This includes the need to ensure compliance with not only the applicable legislation, but also supervisory requirements and industry guidelines. The DBSA’s compliance risk management programme is aligned with the Generally Accepted Compliance Practice Framework of the Compliance Institute of South Africa. The compliance framework supports the active management of compliance risk, which entails a four-phase cyclical approach to identify, assess, manage and monitor compliance risk. Compliance risk is the risk that processes, procedures and controls implemented by the DBSA to comply with applicable laws and regulations are not followed and/or are inadequate and ineffective. The failure to manage compliance risks can result in financial penalties, criminal prosecution, reputational damage and greater regulatory scrutiny and intervention.

The DBSA Board and management formally endorse the establishment of the compliance function and are committed to ensuring that business within the DBSA is run with integrity, complies with all regulatory and best practice requirements and is conducted in accordance with the highest ethical standards. On an annual basis the adequacy and effectiveness of the DBSA’s compliance function is evaluated.

**KEY ENTERPRISE-WIDE RISKS**

The DBSA Board and management team continuously review the top corporate risks to ensure an appropriate understanding of the Bank’s operating environment. The diagram alongside and table overleaf sets out the main risks identified as well as key mitigation plans implemented. The diagram also reflects the movement in the risk trend from the previous financial year.
### BUSINESS CONTINUITY MANAGEMENT

The Business Continuity Management (BCM) function aims to ensure that the Bank can adequately respond, recover and restore business operations resulting from business interruption. BCM is deemed to be a key process within the DBSA and is being fully integrated into the business. In order to ensure a certified business continuity capability, the DBSA has aligned to the ISO Standard 22301 and the Business Continuity Institute’s (BCI) ‘Good Practice Guidelines (GPG).’

### CONTINUITY ASSURANCE FRAMEWORK

The Continuity Assurance Framework (CAF), which is depicted graphically below, provides management with an evaluation of the enterprise's preparedness in the event of a major business disruption and assists with the identification of any issues that may limit interim business processing and restoration.

There are five elements that form the basis for the CAF. These elements ensure that we have the ability to adequately respond to any incident by preparation and anticipation, we are able to prevent and mitigate any disruptive incident, and if the incident does occur we are able to adequately respond, recover and restore business as soon as possible, ultimately building a resilient organisation. This framework enables us to effectively measure and report on the BCM capability for the Bank.

#### Continuity Assurance Framework

**Objective:** A state of readiness to face any challenge

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### Risk Management

**Risk**

- Incorrect investment strategy to deliver on infrastructure funding targets
- Inability to secure deals competitively on a portfolio basis
- Failure to remain financially sustainable
- Failure to deliver on non-financing mandates
- Inadequate capital levels to support developmental growth and targets
- Failure to adapt the business model due to changes in the business environment
- Ineffective and inefficient internal processes
- Failure to recruit, develop and retain key staff
- Ineffective and inefficient information communications technology systems to effectively support strategy
- Fraud and corruption
- Compliance risk
- Failure to comply with legislation

**Possible impact**

- Failure to deliver on disbursement targets and the required development impact
- Failure to deliver on infrastructure disbursement targets
- Inability to continue delivering on mandate
- Need to secure development activities
- Negative impact on relationship and reputation with mandating authorities
- Need for capital support from government
- Risk to retaining key staff
- Risk to delivery on ICT strategy
- Financial losses incurred
- Fines and penalties

**Steps taken in mitigation**

- Board approved strategies and investment targets
- Detailed analysis and research undertaken prior to approval
- Establishment of project preparation function to support the development of the project pipeline
- Provision of planning and implementation support to under-capacitated municipalities
- Dedicated market analysis
- Continuous assessment of alternative sources of funding
- Review and improvements of pricing model
- Proactive monitoring of the credit portfolio
- Financial sustainability criteria of infill linked return-on-equity agreed with the shareholders
- Strategy, financial plan and three-year financial forecast annually reviewed and approved by Board
- Close management of credit and investment risks
- Continuous assessment of alternative sources of funding
- Cost management programme implemented
- Dedicated implementation division established with the necessary skills and resources
- Review of operations by the Board
- Cost recovery principles incorporated in memorandum of agreements
- Improved pricing and cost model implemented
- Capital management strategy has been approved and is being rolled out
- Annual review of strategy and operating model by the Board, taking into account changes in the operating environment
- Various initiatives identified and implemented to improve process efficiencies
- Retention strategy taking into account performance incentives, remuneration benchmarks, performance evaluation and personal development plans
- Succession plan reviewed regularly
- Implementation of the approved ICT strategy
- Improved ICT efficiencies through the adoption and rollout of best practice in line with COBIT
- Internal controls reviewed on a regular basis
- Implementation of a fraud prevention plan as well as a fraud hotline
- Compliance reviewed by Audit and Risk Committee

**Link to strategy**

- Board approved strategies and investment targets
- Detailed analysis and research undertaken prior to approval
- Establishment of project preparation function to support the development of the project pipeline
- Provision of planning and implementation support to under-capacitated municipalities
- Dedication ofPage 25.
- Effective and efficient information communications technology systems to effectively support strategy
- Inadequate capital levels to support developmental growth and targets
- Failure to adapt the business model due to changes in the business environment
- Ineffective and inefficient internal processes
- Failure to recruit, develop and retain key staff
- Ineffective and inefficient information communications technology systems to effectively support strategy
- Fraud and corruption
- Compliance risk
- Failure to comply with legislation

### Strategic objectives

- Sustained growth in development impact
- Integrated infrastructure solutions provider
- Remain financially sustainable

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### People, Facilities, Processes and Technology

**PREVENTION**

- Understanding the organisation and its context
  - Gap analysis
  - Leadership commitment
  - ERM strategy
  - Threat and Vulnerability Risk Assessment (TVRA)
  - Business Impact Assessment (BIA)
  - Management review
  - Monitoring, measurements, metrics and BCM dashboard, policy
  - Methodology, standards, regulation, best practice
  - Continuous improvement

**MITIGATION**

- Developing the BCM strategy
  - BCM strategies
  - People (human capital)
  - Facilities
  - Technology
  - Suppliers
  - Stakeholders
  - Vital records
  - Cost versus benefit analysis
  - Corporate plan/strategy
  - Emergency management
  - Incident management

**RESPONSE**

- Activating the plans
  - Disaster declaration/communication protocol
  - Crisis management and incident response management
  - Supplier management
  - Stakeholder management
  - Emergency response plan
  - Business continuity plan - Business recovery for core business
  - IT continuity plan
  - DRM continuity plan
  - Crisis management team
  - Damage assessments

**RECOVERY**

- BCM processes
  - Saukage and restoration team
  - Alternative site IT, War, facilities, people
  - Minimum service levels
  - Resumption of all operations
  - Resumption of all IT systems
  - Manage business area recovery
  - People coordination
  - Travel/travel team
  - Additional budgetary expenses
  - Business resumptions

**RESTORATION**

- BCM processes
  - Normalisation to pre-disaster conditions
  - Transition
  - Restore original site or alternative site
  - Facilities
  - ICT
  - Business restoration

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### Note:

The numbers assigned to the risks above coincide with those used in the diagram on page 25.
To support the implementation of the strategy and ensure operational efficiencies, the Bank’s operating structure is designed around eight divisions.

Lending operations are split on a geographical basis with the South Africa Financing division focusing on all lending activities within South Africa whilst the International Financing division focuses on those activities beyond South Africa. The Financing Operations division supports the two lending divisions with project preparation, product and sector expertise, as well as portfolio management services. The Infrastructure Delivery division is responsible for the delivery of important infrastructure development programmes in the education, housing and health sectors.

Finally, support functions are configured into four divisions: Corporate Services, Finance, Strategy and Group Risk.
The DBSA’s total disbursements are at a new record high of R13 billion (2014: R12.7 billion), mostly in South Africa. As a result, the total development assets increased to R63.1 billion (2014: R55.5 billion) and total assets to R71 billion (2014: R63.8 billion).

Jabu Moleketi
Chairman of the DBSA Board

Our work targets investments mainly in:

- Energy
- Transport
- Water
- ICT

OPERATING ENVIRONMENT

The infrastructure challenge in Africa remains immense and the DBSA has an important role to fulfill in meeting this challenge. The expansion of the Bank’s mandate to encompass the entire continent has been welcomed. It is critical that South Africa and the rest of Africa capitalise on infrastructure development and intra-continental trade to raise higher levels of industrialisation and economic growth. This means leveraging infrastructure investments not only to improve connectivity and trade within the continent, but also boost the development of local industries and markets.

A CLEAR STRATEGY

The Board has approved the strategy of the Bank. You will be able to retrace the development thereof in this Integrated Annual Report.

The Bank’s mandate (see pages 4 to 9) has been clarified and enhanced. The Bank’s primary purpose is to promote economic development and growth through our involvement in preparing, facilitating, funding or delivering impactful development projects and programmes.

The executives of the Bank have engaged with stakeholders, in particular government (see pages 20 to 21) to clarify their needs and have developed a clear strategy in response thereto and the mandate. The three key strategic objectives of the Bank are to achieve sustained growth in developmental impact, to be an integrated infrastructure solutions provider and to maintain financial sustainability. The strategic enablers which will assist the Bank in delivering on these objectives were also identified (see page 11).

GOVERNANCE

The Board of Directors has been charged with the governance of the Bank and are well suited to oversee the delivery of the strategy. I refer you to the governance structure of the Bank on page 38, which depicts the aspects of the strategy delivered by the executive functions and governed by the committees of the Board and, ultimately, the Board as a whole.

We have appointed a number of new members to the Board, following the rotation of Directors. I wish to thank Andrew Borane, Claudia Manning and Anthony Julies for the valuable contributions they have made during their tenure, particularly during the period of organisational review and the significant changes that were effected. By the same token, we welcome the new energy brought by Gugu Mthethwa, Arthur Moloto, Anuradha Sing and Mark Swilling, all respected and experienced professionals in their fields. Their brief profiles, together with those of the remaining Directors, can be found on pages 34 to 37.

We have this year included extensive reports from each of the committees to indicate their roles and responsibilities, as follows:

- Audit and Risk Committee (see pages 50 to 52).
- Board Credit and Investment Committee (see page 53).
- Human Resources, Nomination, Social and Ethics Committee (see pages 54 to 55).
- Infrastructure Delivery and Knowledge Committee (see page 56).

PERFORMANCE

I wish to congratulate the Chief Executive Officer, Patrick Dlamini, and his executive team on a pleasing set of results and meaningful impact achieved in 2015.

The DBSA’s total disbursements are at a new record high of R13 billion (2014: R12.7 billion), mostly in South Africa. As a result, the total development assets increased to R63.1 billion (2014: R55.5 billion) and total assets to R71 billion (2014: R63.8 billion).

The Bank produced a net profit of R1.2 billion (2014: R787 million), a valuable contribution to ensuring the Bank’s ability to continue delivering on its mandate of infrastructure development support.

The results are discussed in more detail in the section PERFORMANCE AND OUTLOOK, which starts on page 58, and includes the detailed performance and future outlook of each of the Bank’s divisions.

Outlook

The pleasing and profitable results have given the DBSA a proper springboard from which to achieve its strategy.

In South Africa, the Bank will continue to centre its efforts on municipal markets – metros, secondary cities and under-resourced areas – to facilitate infrastructure development. The focus on the key sectors of energy, roads, water and sanitation and technology remains. The detailed approach for the rest of Africa will be improved.

Lastly, I would like to thank Minister Nhlanhla Nene, in his capacity as Governor of the Bank, for our positive engagements which augur well for the future.

Jabu Moleketi
Chairman
Frans Baleni (55)
General Secretary
National Union of Mineworkers
Independent Non-executive Director as from 1 January 2010
Expertise
Strategic leadership, human capital development and finance
Academic qualifications
• MA Social Studies, University of Johannesburg: Diplomate in Political Science and Trade Unionism, Whitehall College, Ireland.

Patrick Dlamini (45)
Chief Executive Officer
Executive Director as from 1 September 2010
Expertise
Strategic leadership, human capital development and finance
Academic qualifications
• Advanced Executive Programme, Kellogg School of Management, USA; CFA; University of the Witwatersrand: Business School: Business Studies Unit, Natal: Natal Technikon.
• BCom, University of KwaZulu-Natal.

Other directorships
• BOPHYLD: Director.
• Brligens Worldwide SA: Director.
• Lamaria Holdings: Non-executive Director.
• Lamaria International Airport: Non-executive Director.
• Other directorships:
  • Elijah Bonani Memorial Trust: Chairman (Non-executive).
  • Mineworkers Investment Trust: Chairman (Non-executive).
  • Jokabana Family Trust: Trustee (Non-executive).

Thembisa Dlomo (42)
Consultant and Director of Companies
Independent Non-executive Director as from 1 August 2007
Expertise
Business and Leadership Consulting
Academic qualifications
• HDip Tax, University of the Witwatersrand.
• LLB, Harvard University, Cambridge USA.
• LLM, University of KwaZulu-Natal.
• BProc, University of KwaZulu-Natal.

Other directorships
• Executive Director: Sharewise Investment Holdings (Pty) Limited.
• University of KwaZulu-Natal: Member of Council (Science).
• AABSA Bank Ltd: Pension Fund Trustee.

Omar Latiff (61)
Chief Financial Officer
Executive Director as from 1 August 2007
Expertise
Finance, accounting, governance and risk management
Academic qualifications
• MA Social Sciences, University of KwaZulu-Natal.
• BCom (Accounting), University of South Africa.
• BCom (Accounting), University of KwaZulu-Natal.

Other directorships
• AfriCapital Limited: Non-executive Director.
• Ithubu (Pty) Limited: Non-executive Director.
• AfriCharitable Trust: Trustee.
• Afri Employee Employment Trust: Trustee.
• Argon Asset Management: Non-executive Director.
• Africa Business News (Pty) Limited: Non-executive Director.
• Pan African Business Media Holdings (Pty) Limited: Non-executive Director.
• Industrial Development Corporation: Non-executive Director.
• Ixilov Capital (Pty) Limited: Non-executive Director.
• Cell C Foundation: Non-executive Director.
• Vusela Sun Holdings: Non-executive Director.
• Luhunu Women’s Investment Holdings: Non-executive Director.
• Nabewu Investment Holdings: Non-executive Director.

Busisiwe Makusha (51)
Director of Companies
Independent Non-executive Director as from 1 August 2011
Expertise
Strategy, business and investment analysis
Academic qualifications
• BA (Mathematics), City University of New York (Hunter College), USA.
• MBA: Stern School of Business, New York University.

Other directorships
• AfriCapital Investment Holdings (Pty) Limited: Non-executive Director.
• Richards Bay Minerals (Pty) Limited: Non-executive Director.
• JP Morgan Sub Saharan Africa, Non-executive Director.
• MTN Group Limited, Non-executive Director.
• Tambi Ltd, Non-executive Director.
• Vodacom Group Limited: Non-executive Director.

Dawn Marole (54)
Chief Financial Officer
Executive Director as from 1 August 2011
Expertise
Strategy, management, finance, human capital and business development
Academic qualifications
• BA (Management), City University of New York (Hunter College), USA.
• MBA: Stern School of Business, New York University.

Other directorships
• Exoritaka Investment Holdings (Pty) Limited: Non-executive Director.
• Rataniba Women’s Investment (Pty) Limited: Non-executive Director.

Jolinkomo Family Trust: Trustee
University of Johannesburg:
• Non-executive Director.

Mineworkers Investment Trust: Chairman (Non-executive).

JB Marks Bursary Trust Fund: Trustee.

Other directorships
• Commissioner: KZN Planning Commission.
• Chairperson: AIDS Foundation of Southern Africa.
• Chairperson: Transformation Multiversity, Southern Africa.
• Chairperson: Agroecology National Initiative.
• Inaugural governor for SACANI (South Africa Comprehensive Agriculture National Initiative).

Jabu Moleketi (57)
Director as from 1 January 2010
Independent Non-executive Chairman as from 1 September 2011
Expertise
Research, policy analysis, project management, public health infrastructure, poverty reduction and development and strategy and facilitation, leadership coaching and author
Academic qualifications
• Stipend: (Public Administration), University of KwaZulu-Natal.
• MA Social Policy, University of KwaZulu-Natal.
• LLB (Public Law), University of KwaZulu-Natal.
• University of Natal: Diploma in Political Science and Trade Unionism.

Other directorships
• Executive Director: Sharewise Investment Holdings (Pty) Limited.
• University of KwaZulu-Natal: Member of Council (Science).
• AABSA Bank Ltd: Pension Fund Trustee.

Lanseria Holding: Non-executive Director.

Xcargo: Director.

BOPHYLD: Director.

Other directorships
• Commissioner: KZN Planning Commission.
• Chairperson: AIDS Foundation of Southern Africa.
• Chairperson: Transformation Multiversity, Southern Africa.
• Chairperson: Agroecology National Initiative.
• Inaugural governor for SACANI (South Africa Comprehensive Agriculture National Initiative).

Lehumo Women’s Investment Holdings: Non-executive Director.

Turner Holdings: Non-executive Director.

Lufuno Women’s Investment Holdings: Non-executive Director.

Busisiwe Makusha (51)
Director of Companies
Independent Non-executive Director as from 1 August 2011
Expertise
Strategy, business and investment analysis
Academic qualifications
• BA (Mathematics), City University of New York (Hunter College), USA.
• MBA: Stern School of Business, New York University.

Other directorships
• AfriCapital Investment Holdings (Pty) Limited: Non-executive Director.
• Richards Bay Minerals (Pty) Limited: Non-executive Director.
• JP Morgan Sub Saharan Africa, Non-executive Director.
• MTN Group Limited, Non-executive Director.
• Tambi Ltd, Non-executive Director.
• Vodacom Group Limited: Non-executive Director.

Busisiwe Makusha (51)
Chairman: Executive Magic (Pty) Limited
Consulting
Independent Non-executive Director as from 1 August 2011
Expertise
Strategy, management, finance, human capital and business development
Academic qualifications
• BA (Management), City University of New York (Hunter College), USA.
• MBA: Stern School of Business, New York University.

Other directorships
• Exoritaka Investment Holdings (Pty) Limited: Non-executive Director.
• Rataniba Women’s Investment (Pty) Limited: Non-executive Director.

Dawn Marole (54)
Chief Financial Officer
Executive Director as from 1 August 2011
Expertise
Strategy, management, finance, human capital and business development
Academic qualifications
• BA (Management), City University of New York (Hunter College), USA.
• MBA: Stern School of Business, New York University.
BOARD OF DIRECTORS (continued)

Gugu Mhtwaa (35)
Managing Executive Finance, Vodacom South Africa
Independent Non-executive Director as from 1 August 2014

Expertise
Business management, auditing and financial management, risk management, financial reporting, transformation and diversity

Academic qualifications
• Partner development programme, DBS;
• Executive Leadership Development Programme, University of Stellenbosch Business School;
• Chartered Accountant (SA);
• Post-graduate diploma in Economic Principles, University of: London, UK;
• Bachelor of Arts Honours Development Studies, University of Limpopo;
• Bachelor of Arts in Education, University of Limpopo.

Other directorships
• Rand Africa Non-executive Director;
• TWG Non-executive Director;
• Convenco Development Bank of Southern Africa (Convenco): Director.

Arthur Motais (46)
Political and Economic Advisor to the Speaker of National Assembly at Parliament of South Africa
Independent Non-executive Director as from 1 July 2014

Expertise
Law, economics and political strategy

Academic qualifications
• MSc in Finance and Financial Law, University of London, UK;
• Post-graduate diploma in Economic Principles, University of London, UK;
• Bachelor of Arts Honours Development Studies, University of Limpopo;
• Bachelor of Arts in Education, University of Limpopo.

Kamesh Naidoo (42)
Chief Financial Officer, Executive Director as from 1 January 2013

Anuradha Sing (44)
Chief Investment Officer at Kagiso Capital (Pty) Limited
Independent Non-executive Director as from 1 August 2014

Expertise
Finance

Academic qualifications
• Chartered Accountant (SA);
• Advanced Certificate in Auditing, University of Johannesburg;
• Certificate in the Theory of Accounting Science (CTA), University of Witswatersrand;
• BCom Hons (Accounting), University of Witswatersrand.

Other directorships
• Avenue Group (Pty) Limited: Director.

Prof Mark Seligso (55)
Divisional Head: Sustainable Development, University of Stellenbosch
Independent Non-executive Director as from 1 August 2014

Expertise
Research, policy analysis, sustainable development

Academic qualifications
• PhD, Management Science, University of Warwick, UK;
• Bachelor of Arts Honours, Department of Political Studies, Wits University;
• Bachelor of Arts, Wits University.

Other directorships
• Leadership Development (NPQ): Non-executive Director;
• Kagiso Capital (Pty) Limited: Executive Director.

Mary Viikasis (37)
Group Financial Director: MMI Holdings Limited
Independent Non-executive Director as from 1 August 2011

Expertise
Business management, auditing and financial management

Academic qualifications
• Chartered Accountant (SA);
• MBA, Wits Business School;
• BSc (Mechanical), University of Natal (Durban).

Other directorships
• Zenithia Bursary Fund: Non-executive Director;
• MMI Strategic Investments (Pty) Limited: Non-executive Director;
• Tshwane University of Technology: Accountant.

Andrew Boraine (56)
Chief Executive, Western Cape Economic Development Partnership; Adjunct Professor: African Centre for Cities, University of Cape Town
Independent Non-executive Director as from 1 August 2005

Expertise
Risk, compliance, development finance and financial markets

Academic qualifications
• MBA Banking, University of London, UK;
• Master of Arts (Economics), Wits University;
• Bachelor of Education (BEd), University of the Western Cape;
• Higher Diploma in Education (HDE), University of the Western Cape.

Other directorships
• South African National Roads Agency Ltd: Non-executive Director.

Anthony Jables (52)
Chief Director: Strategy and Risk Management, National Treasury
Non-executive Director as from 1 January 2013

Resigned 1 December 2014

Expertise
Risk, compliance, development finance and financial markets

Academic qualifications
• MBA Banking, University of London, UK;
• Master of Arts (Economics), Wits University;
• Bachelor of Education (BEd), University of the Western Cape;
• Higher Diploma in Education (HDE), University of the Western Cape.

Other directorships
• South African National Roads Agency Ltd: Non-executive Director.

Dr Claudia Meming (48)
Director of Companies, DBSA Company Secretary as from 1 May 2010

Expertise
Economic development, infrastructure development and project management

Academic qualifications
• DFH, University of Suisse, UK;
• MPhil, University of Suisse;
• BA Hons (Economics History), University of Witswatersrand;
• BA, University of Witswatersrand.

Other directorships
• Baxi Real Holdings: Non-executive Director;
• Sangoa Investments: Non-executive Director;
• Metcalfe Januarie: Chairman (Non-executive Director).

Balthabile Sowazi (43)
Director of Companies
Independent Non-executive Director as from 1 August 2005
Term ended 31 July 2014

Expertise
Governance and legal

Academic qualifications
• LLB, Rhodes University;
• BA Law, University of Swaziland.

Other directorships
• None.
The Directors of the DBSA are committed to full compliance with the principles embodied in international corporate governance codes and strive to align the Bank’s corporate governance with national and international best practices. The DBSA governance framework is set out below.

**APPLICATION OF GOVERNANCE PRINCIPLES**

The DBSA Board of Directors is committed to applying the recommendations of King III and complying with legislation, chieft among these being the Development Bank of Southern Africa Act, No 13 of 1997 and the Public Finance Management Act (PFMA), No 1 of 1999. The Board continually assesses the governance landscape of the Bank and is satisfied that it has adequately discharged its responsibilities with regard to the different legislative requirements as well as the main recommendations of the King III Report.

The DBSA is aligned with and supports all the relevant legislation in South Africa and in the SADC region that applies to its activities. The Bank is also aligned with international development finance best practice and subscribes to the Corporate Governance Development Framework for integrated corporate governance into investment operations of financing institutions of African Development Finance Institutions (AfDFI) Prudential Standards Guidelines and Rating system.

During the previous year the DBSA was accepted as a signatory to support the ten principles of the United Nations Global Compact (UNGC) promoting human rights, labour, environment and anti-corruption.

Partnerships with other initiatives provide a good mechanism for entities to support activities and form a platform for promoting accountability and good practices. Key partnerships include:

- **Institute**
- **Benefits/Remarks**

  **SADC Development Finance Resource Centre (DFRC)**
  Together with the Industrial Development Corporation (IDC), the DBSA is one of the main supporters of the SDFC, a resource centre for development finance, which provides significant support to the network of development finance institutions in SADC.

- **Association for African Development Finance Institutions**
  The main activities of the AfDFI are the provision of information and training in the techniques of banking and finance, as well as policy development advice to African bankers and finance officers. The AfDFI is a strategy network and resource base for the DBSA’s interactions with other development finance institutions in the African continent.

**SHAREHOLDER LINKAGES**

The DBSA is wholly owned by the South African government and is incorporated in terms of the DBSA Act, which determines the mandate of the Bank. In its capacity as Governor and shareholder representative, the Minister of Finance holds the Board of Directors accountable for managing the Bank to deliver on this mandate. The DBSA is regulated in terms of the DBSA Act, the PFMA and its accompanying regulations. The Bank is classified as a Schedule 2 public entity under the Treasury Regulations. It is classified as a Schedule 2 public entity under the PFMA. During the year, the Board held an annual general meeting with the Shareholder, where specific resolutions were taken. This provided an opportunity for the shareholder and the Board to engage on strategic and operational matters.

**STRATEGIC OBJECTIVES AND PERFORMANCE MANAGEMENT**

In line with section 52 of the PFMA, the Bank submits a Shareholder Compact and Corporate Plan to the National Treasury during February of each year. This serves as an agreement between the Bank and the Shareholder and documents the key performance measures and targets against which organisational performance is assessed. The Board reports on performance and related matters to the Shareholder by way of annual and interim reports and regular meetings are held between the Board Chairman, the Chief Executive Officer and the Governor.

Based on the Corporate Plan, the Board sets the Bank’s strategic objectives and determines its performance criteria. Management is then charged with the detailed planning and implementation of those objectives, within appropriate risk parameters.

The DBSA uses the Balanced Scorecard (BSC) methodology to implement its strategy and to monitor and report on performance against predetermined targets. The Bank has reviewed its key performance indicators and the results of this evaluation are shown in the Directors’ Report on page 115 to 116. The Audit and Risk Committee of the Board evaluated the organisational performance, while the Human Resources, Nomination, Social and Ethics (HRNSE) Committee oversaw the performance assessment of the Bank.

**MINISTRY OF FINANCE (SOLE SHAREHOLDER)**

**MINISTRY OF FINANCE (SOLE SHAREHOLDER)**

**Chairman: Jabu Moleketi**

<table>
<thead>
<tr>
<th>Board committee</th>
<th>AUDIT AND RISK COMMITTEE</th>
<th>BOARD CREDIT AND INVESTMENT COMMITTEE</th>
<th>HUMAN RESOURCE, NOMINATION, SOCIAL AND ETHICS COMMITTEE</th>
<th>INFRASTRUCTURE DELIVERY AND KNOWLEDGE COMMITTEE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-executive members</td>
<td>Omar Latiff <em>(Chairperson)</em></td>
<td>Thembisa Dinanga <em>(Chairperson)</em></td>
<td>Brian Figi (co-opted) Omar Latiff</td>
<td>Dawn Mariste <em>(Chairperson)</em> Frans Baleni Lungile Bhengu-Baloyi Brian Figi (co-opted) Busisiwe Mabuza Jabu Moleketi</td>
</tr>
<tr>
<td>Executive members</td>
<td>Patrick Dlamini</td>
<td>Kamlesh Naidoo</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Responsibilities</td>
<td>Oversees the Bank’s internal control framework, reviews and evaluates the integrity of financial and other statutory reporting, financial strategy, budget, capital expenditure, treasury strategies, loan impairments, risk management processes and compliance with laws and regulations. The committee further oversees the internal and external audit functions, reviews the internal Audit Plan and the annual assessment of significant risk exposures, as well as the Office of the Chief Financial Officer.</td>
<td>Reviews the Bank’s credit strategy, credit risk management policy and programme, trends in portfolio quality, adequacy of provision for credit losses.</td>
<td>The committee supports the implementation of the human capital management policy and strategy, the nomination of Directors, executive remuneration for the DBSA, Board of Directors’ affairs and governance, as well as social and ethics matters.</td>
<td>Oversees the implementation of the strategic mandate and infrastructure delivery programmes, as well as the Bank’s policy, advisory and knowledge management function.</td>
</tr>
<tr>
<td></td>
<td>See pages 50 to 52 for the Board Credit and Investment Committee Report for further detail</td>
<td></td>
<td>See pages 54 to 55 for the Human Resources, Nomination, Social and Ethics Committee Report for further detail</td>
<td>See page 56 for the Infrastructure Delivery and Knowledge Committee Report for further detail</td>
</tr>
</tbody>
</table>

**DBSA Executive Management Committee**

**Chairman: Patrick Dlamini**

<table>
<thead>
<tr>
<th>Steering committee</th>
<th>Finance and Treasury Committee</th>
<th>Investment Committee</th>
<th>Corporate Services Committee</th>
<th>Infrastructure Delivery and Knowledge Management Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairperson</td>
<td>Chairperson: Paul Currie</td>
<td>Chairperson: Dolores Mathishi</td>
<td>Chairperson: Sinazo Sitisi</td>
<td></td>
</tr>
</tbody>
</table>
VALUES
Following the finalisation of the organisational review of the DBSA, the Bank adopted a new set of values to drive the desired behaviour within the organisation.

The values include:

<table>
<thead>
<tr>
<th>HIGH PERFORMANCE</th>
<th>SHARED VISION</th>
<th>INTEGRITY</th>
<th>INNOVATION</th>
<th>SERVICE ORIENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>We are enabled, empowered and inspired to deliver consistent quality, effective and efficient results we are accountable and rewarded for.</td>
<td>We share and keep the sustainability, strategic intent and mandate of the DBSA top of mind in all our decisions and actions.</td>
<td>Our dealings, interactions and actions are proof of transparent and ethical behaviour that show respect and care for all our people (employees, stakeholders, shareholders, clients and communities).</td>
<td>We challenge ourselves continuously to improve what we do, how we do it and how well we work together.</td>
<td>We deliver responsive and quality service that speaks to the need of our clients and continuously build relationships that result in win-win outcomes.</td>
</tr>
</tbody>
</table>

CORRUPTION AND ANTI-COMPETITIVE BEHAVIOUR
The DBSA has a zero tolerance approach to dishonest, corrupt and illegal conduct. This approach is central to the Bank’s Code of Ethics. Risks are investigated and appropriate measures taken before investing in areas where such practices may be more prevalent.

Criminal behaviour is not tolerated and formal charges are laid against any perpetrator. Internal proceedings are also instituted against perpetrators, who are dismissed if found to have participated in unacceptable behaviour.

The Bank’s comprehensive risk management approach covers all operations and risks associated with corrupt and dishonest behaviour. These are analysed and assessed as part of the risk management process.

The DBSA does not condone anti-competitive behaviour.

ETHICS MANAGEMENT
The Bank continues to promote ethics within its working environment. New recruits as well as the existing employees receive training based on the DBSA Code of Ethics. The Ethics Officer plays a critical role in offering counsel on request to staff members to ensure that ethical principles are clearly understood. A dedicated ethics helpline encourages staff to seek advice on ethical issues and report any concerns in this regard.

In keeping with the obligations imposed by the PFMA, the DBSA Act and other relevant legislation regarding conflicts of interest, the Bank generally reviews and updates its Conflict of Interest Policy. Employee declarations of interest are recorded at least annually, while Board members are required to declare their interest before they can participate in any Board or committee meeting. Where Board members have a direct or indirect personal or business interest, they must withdraw from the proceedings when the Board and its committees consider the matter, unless the Board determines that the member’s interest is immaterial or irrelevant.

No related-party transactions with Board members occurred during the financial year, except for payments in respect of attendance at Board and Board committee meetings. Directors’ fees are disclosed as part of the Annual Financial Statements in note 45.

The HR/SE Officers monitor compliance with the Bank’s Code of Ethics and other relevant social, ethical and legal requirements as well as best practice and ensures that the DBSA is meeting its responsibilities to its various stakeholders. This includes social transformation in the workplace and the safety, health and dignity of all employees.

BOARD AND DIRECTORS
ROLE AND FUNCTION OF THE BOARD
The Board takes overall responsibility for directing the DBSA towards the achievement of its strategic objectives, vision and mission, as well as the Bank’s overall performance. The Board embraces the principles set out by King III and acknowledges that:

• The Board should act in the best interests of the DBSA.
• The Board is the custodian of corporate governance and undertakes to provide leadership based on an ethical foundation, as well as ensuring that ethics are managed effectively.
• The DBSA is, and should be seen to be, a responsible corporate citizen, doing business ethically, considering and managing the impact of the Bank’s operations on the natural environment as well as internal and external stakeholders.
• Strategy, risk, performance and sustainability are inseparable.
• The DBSA must have an effective and independent Audit Committee.

• The Board is responsible for the governance of risk, including technology risk, as well as for determining the Bank’s levels of risk tolerance.
• The Board should ensure that risk monitoring is a continual process and that risk assessments are performed on an ongoing basis with appropriate risk responses, notwithstanding that management is responsible for implementing the risk management plan and providing assurance to the Board in this regard.
• The Board should ensure that the risk frameworks are such that they increase the probability of anticipating unpredictable risks and that appropriate risk disclosure is made to stakeholders.

BOARD CHARTER
The DBSA Board is governed by a Board Charter, which outlines the principal provisions of the DBSA Act, the fiduciary responsibilities of Directors, the relationship with executive management and matters of policy that the Shareholder and the Board ought to follow in order to ensure good corporate governance. The Board regards the Charter as a living document, updated periodically to align with changes required by relevant legislation and regulation.

The role of the Board, as defined by the
Board Charter, can be summarised as follows:

The Board shall ensure that the Bank achieves the mandate of the organisation as defined by the Shareholder through the Bank’s founding statute (the DBSA Act).

• It has a responsibility to the broader stakeholders, which include the government and potential beneficiaries of DBSA products and services, clients, lenders and employees, to achieve continuing prosperity for the Bank.

• It must exercise leadership, enterprise, integrity and judgement in directing the Board to achieve continuing prosperity and to act in the best interests of the Bank while respecting the principles of transparency and accountability.

• It must provide strategic guidance to management in the formulation and review of corporate strategy and shall approve major plans of action, governance policies, appropriate procurement and provisioning systems, annual budgets and business plans.

• It should ensure that the technology and systems used in the Bank are adequate to run the business properly for it to be competitive through the efficient use of its assets, processes and human resources.

• It must ensure that the Shareholder’s performance objectives are achieved and that the same can be measured in terms of performance of the DBSA Board. In this regard, the Board shall annually conclude a Shareholder Compact as required in terms of the PFMA to document key performance areas.

• The Board members shall develop and put in place a Code of Ethics outlining the values, ethics, and beliefs that guide the behaviour of DBSA Board and define the ethical standards applicable to it and to all who deal with it.

• Board members shall monitor the social responsibilities of the DBSA Board and promulgate policies consistent with the Bank’s legitimate interests and good business practices.

BOARD EFFECTIVENESS ASSESSMENT

A formal independently conducted Board evaluation is performed on a bi-annual basis and self-assessment is done during the interim periods. During the financial year, the DBSA conducted a web-based self-assessment using the Governance Assessment Instrument (GAI) made available by the Institute of Directors in Southern Africa (IoDSA). The GAI assists organisations to review and consider King III and other relevant governance legislation and provides detailed assessment, gap analysis and reporting functionality. The GAI also provides for one national benchmark governance platform.

The Bank subscribes to good governance practices and ensures that these practices are implemented and monitored. Consequently, the Bank is a participant to this assessment instrument and the indications are that the Bank is on the right track in terms of implementing good governance best practices. The results of the assessment indicated an overall assessment grading of AAA (2014: AAA), representing a “highest application” level across the various assessed categories.

A formal, independent evaluation of the Board and individual Directors was also conducted during the financial year.

COMPOSITION OF THE BOARD

At year-end, the Board consisted of 14 Directors, 12 of whom were independent non-executives. Independence of Directors is considered based on the following criteria: has no involvement in the day-to-day operations of the Bank nor has any financial or other interest which may influence that Director’s independence.

The Chief Executive Officer (CEO) and Chief Financial Officer (CFO) are the only Executive Directors in line with the recommendations of King III. A member from the National Treasury serves on the Board as a shareholder representative. Anthony Julies, as shareholder representative, resigned from the Board with effect from 1 December 2014 as his new position as the Deputy Director-General Asset and Liability Management Division at the National Treasury would result in a direct conflict of interest in the execution of various responsibilities associated with his new role. The Bank is awaiting confirmation for his replacement from the National Treasury.

In terms of the Board Charter, no distinction is made with respect to the fiduciary responsibility of shareholder representatives and the Independent Non-executive Directors.

The Non-executive Directors have diverse backgrounds in commerce and industry. Their collective experience enables them to provide sound, objective judgement in decision-making. All Directors exercise unfettered discretion in the fulfilment of their duties, resulting in constructive debate at meetings that continues to yield well-considered decisions.

The current composition of the Board and brief résumés of its members can be found on pages 34 to 37.

The position of Chairman is currently held by an Independent Non-executive Director, Jabu Moloketsi, whose role is clearly defined and separated from that of the Chairman, Patrick Dlamini. Likewise, the responsibilities of CEO and CFO are strictly separated from those of the Non-executive Directors to ensure that no single Director can exercise unilateral decision-making. The Chairman provides leadership and guidance to the Board and encourages proper deliberation on all matters requiring Directors’ attention, while obtaining input from other Directors. The CEO is responsible for implementing the strategy and operational decisions. The independent and other Non-executive Directors are not involved in the day-to-day operations of the DBSA.

OTHER CHANGES TO THE BOARD

Andrew Boraine and Claudia Manning completed their third term as Non-executive Directors on 31 July 2014.

The DBSA Act gives the Board a mandate to appoint the committees necessary to carry out its fiduciary responsibilities. In line with the principles of King III, all committees of the Board have formally approved terms of reference to ensure effective decision-making, monitoring and reporting. The terms of reference are reviewed periodically, along with the overall effectiveness and performance of the committees. Each committee is chaired by an independent Non-executive Director and comprises both Non-executive and Executive Directors, with the exception of the Audit and Risk Committee and the HRNSE Committee, which comprise only Non-executive Directors. In line with the recommendations of King III, all members of the HRNSE Committee are Independent Non-executive Directors.

The membership and responsibilities of each of the Board committees are reflected in the diagram on page 38.

Detailed reports on the activities of each of the Board committees commence on pages 50 to 56.
**GOVERNANCE AND SUSTAINABILITY**

### BOARD AND COMMITTEE RECORD OF ATTENDANCE

The Board met six times during 2015. Details of Directors’ attendance at Board and committee meetings for the financial year are set out in the table below.

<table>
<thead>
<tr>
<th></th>
<th>DBSA Board</th>
<th>Audit and Risk Committee</th>
<th>Board Credit and Investment Committee</th>
<th>Human Resources, Nomination, Social and Ethics Committee</th>
<th>Infrastructure Delivery and Knowledge Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Number of meetings</strong></td>
<td>6</td>
<td>8</td>
<td>13</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td><strong>Independent Non-executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Jabu Moleketi (Chairman)</td>
<td>6</td>
<td>11</td>
<td>3</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Frans Baleni (Deputy Chairman)</td>
<td>6</td>
<td>4</td>
<td>4 (Chair)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lungile Bhengu-Baloyi</td>
<td>6</td>
<td>1 (Chair)</td>
<td>5</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Andrew Borane⁴</td>
<td>0/1</td>
<td>1/2</td>
<td></td>
<td></td>
<td>1/1</td>
</tr>
<tr>
<td>Thembisa Dingaan</td>
<td>6</td>
<td>8 (Chair)</td>
<td>12 (Chair)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Omar Latiff</td>
<td>6</td>
<td>8 (Chair)</td>
<td>13</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Busisiwe Mabuza</td>
<td>6</td>
<td>1 (Chair)</td>
<td>11</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Claudia Manning⁵</td>
<td>1/1</td>
<td>4</td>
<td>1</td>
<td>1 (Chair)</td>
<td></td>
</tr>
<tr>
<td>Dawn Marole</td>
<td>4</td>
<td>7</td>
<td></td>
<td>5 (Chair)</td>
<td></td>
</tr>
<tr>
<td>Arthur Moloto⁶</td>
<td>5/5</td>
<td>4/5</td>
<td>6/9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gugu Mtetwa⁶</td>
<td>5/5</td>
<td>3/5</td>
<td></td>
<td></td>
<td>2/4</td>
</tr>
<tr>
<td>Anuradha Sing⁶</td>
<td>5/5</td>
<td>8/9</td>
<td></td>
<td></td>
<td>2/3</td>
</tr>
<tr>
<td>Mark Swilling⁶</td>
<td>4/5</td>
<td>3/5</td>
<td></td>
<td></td>
<td>2/4</td>
</tr>
<tr>
<td>Mary Vilakazi</td>
<td>1</td>
<td>3</td>
<td>9</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Anthony Julies⁷</td>
<td>5/5</td>
<td>3/6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Executive Directors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Patrick Dlamini (Chief Executive Officer)</td>
<td>6</td>
<td>2 (Chair)</td>
<td>10</td>
<td>4 (Chair)</td>
<td>3</td>
</tr>
<tr>
<td>Kamesni Naidoo (Chief Financial Officer)</td>
<td>6</td>
<td>6</td>
<td></td>
<td></td>
<td>6</td>
</tr>
<tr>
<td><strong>Members co-opted to Board Committees</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prof Brian Figaji - by invitation</td>
<td>2</td>
<td>11</td>
<td>3</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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**1.** Board meetings includes four scheduled meetings, annual general meeting as well as one Strategy Board meeting.

**2.** Audit and Risk Committee includes four scheduled meetings and four special meetings.

**3.** Board Credit and Investment Committee includes 11 scheduled meetings.

**4.** Board member co-opted to oversee the evaluation process of the appointment of the external auditors.

**5.** Resigned from the Board with effect from 31 July 2014.

**6.** Appointed with effect from 1 August 2014.

**7.** Resigned with effect from 1 December 2014.

**8.** By invitation.

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**DIRECTORS’ REMUNERATION**

Details of the Directors’ remuneration are discussed in the Remuneration Report on pages 48 to 49.

**COMPANY SECRETARY**

All Directors have access to the advice and services of the Bank’s Company Secretary, Bathobile Sowazi. The Board is satisfied that the Company Secretary maintains an arm’s-length relationship with the Board at all times and is sufficiently qualified to act in accordance with and update Directors on the recommendations of the King III Report and other relevant regulations and legislation.

The role and function of the Company Secretary include:

- Providing the Directors, collectively and individually, with guidance in respect of their duties, responsibilities and powers.
- Providing information on laws, legislation, regulations and matters of ethics and good corporate governance relevant to the DBSA.
- Making Directors aware of any laws or regulations relevant to the Bank.
- Properly recording the minutes of meetings, inter alia, meeting attendance registers, resolutions, Directors’ declarations and all notices and circulars issued by the DBSA.
- Preparing the notice of the annual general meeting.

It is further the responsibility of the Company Secretary to keep the Board updated in regard to ethics, governance and regulations. The Board then reviews any changes and appropriate measures are implemented to comply with best practice in such a way as to support sustainable performance.

All Directors are entitled, at the expense of the DBSA, to seek independent professional advice on any matters concerning the affairs of the Bank.

**INTERNAL CONTROL ENVIRONMENT**

Responsibility for the systems of internal financial and operational control rests with the Board and has, without subrogation, been delegated to the Audit and Risk Committee. The Bank’s governance principles on ethical behaviour, legislative compliance and sound accounting practice lay the foundation for its internal control processes, while the enterprise-wide risk management approach and risk strategy adopted by the Board form the framework for internal control. Executive management is accountable for determining the adequacy, extent and operation of control systems.
The internal audit function conducts periodic reviews of key processes linked to the significant risk of the Bank to provide independent assurance to the Board and management on the effectiveness of the internal control system. Members of the Audit and Risk Committee review the work of Internal Audit and the Chief Audit Executive has unfettered access to the Chairman of the committee and the Board to ensure the escalation of any significant audit matters requiring immediate Board attention.

**QUALITY ASSURANCE ASSESSMENTS FOR THE INTERNAL AUDIT FUNCTION (INTERNAL AND EXTERNAL)**

Internal Audit conforms to the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors). The DBSA Internal Audit Department “Generally Conforms” to the International Standards for the Professional Practice of Internal Auditing (Institute of Internal Auditors).

**COMBINED ASSURANCE**

Per the requirements of King III, the DBSA has implemented a combined risk assurance model which is co-ordinated and managed by the internal audit function. King III describes the combined assurance model as “Integrating and aligning assurance processes in a company to maximise risk and governance oversight and control efficiencies and optimise overall assurance to the audit and risk committee, considering the company’s risk appetite”. The DBSA combined assurance model reflects the key risks facing the DBSA coupled with the key processes and controls in place to ensure the mitigation and/or minimisation of these key risks. Along with the five levels of defence strategy the DBSA has adopted (refer page 23 of the Risk Management Report), the combined assurance model seeks to identify the assurance providers of the identified key risks. The assurance providers are delineated in the Combined Assurance Map which is based on the corporate strategic objectives and risks. The Map drives the Internal Audit Annual Plan and the three-year Rolling Plan. The assurance providers report accordingly to the required governing bodies regarding the outcome of the assessment of the risks and control environment in place to mitigate those risks.

A Combined Assurance Policy has been developed which includes the formation of a formal Combined Assurance Working Committee where the various assurance provider representatives are members. The policy defines the process, model and terms of Combined Assurance within the Bank as well as the responsibilities of the Audit and Risk Committee and those of the assurance providers. Key to this is the implementation of Control Self Assessments (CSAs) by management as management assurance, done periodically, over time. Additionally, the internal audit function issues a written assessment annually to the Audit and Risk Committee as required by King III. The written assessment provides assurance by Internal Audit on the overall control environment taking cognisance of the governance, information technology, risk management and operational/financial risk areas. The assurance provided is informed by the outcome of the audits/reviews conducted based on an approved risk-based audit plan.

**FRAUD PREVENTION AND WHISTLE-BLOWING**

The PFMA places an obligation on the Bank to adopt a fraud prevention plan, which encourages employees to report any suspected corrupt, fraudulent, criminal or unethical practices. The Bank strives to create an environment in which it is safe for employees to report impropriety, in accordance with the requirements of the Protected Disclosures Act, No 26 of 2000. The whistle-blowing process and procedure are well embedded and the independently administrated toll-free hotline is fully operative.

**Hotline statistics**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotline reports</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>Direct reports</td>
<td>7</td>
<td>7</td>
</tr>
<tr>
<td>Complaints and compliments line</td>
<td>1</td>
<td>–</td>
</tr>
<tr>
<td>Total allegations</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>• Founded</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>• Unfounded on initial allegation, however founded on other issues</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>• Unfounded</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>• In progress</td>
<td>7</td>
<td>–</td>
</tr>
<tr>
<td>Total allegations</td>
<td>11</td>
<td>8</td>
</tr>
<tr>
<td>Disciplinary action on founded matters</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Criminal/civil action</td>
<td>1</td>
<td>3</td>
</tr>
<tr>
<td>• Management action to be taken</td>
<td>3</td>
<td>–</td>
</tr>
<tr>
<td>• Other corrective action</td>
<td>–</td>
<td>1</td>
</tr>
</tbody>
</table>
REMUNERATION REPORT

For the DBSA to achieve its mandate, the organisation is committed to a remuneration philosophy that:
• Supports the execution of the DBSA’s mandate and business strategy.
• Promotes good governance and risk management.
• Aligns its policies, procedures and practices with best practice and legislation (the PFMA and King III, in particular).
• Motivates and reinforces performance at all levels (organisational, divisional, unit and individual).
• Ensures long-term financial sustainability of the Bank.

The DBSA’s application of its remuneration philosophy aims to meet the strategic objectives of:
• Aiming to be market competitive in specific labour markets in order to attract, retain and motivate key and talented people.
• Determining the value proposition of the various job levels required by the DBSA.
• Ensuring that the hybrid of performance and competency management forms an integral part of remuneration, thereby influencing the remuneration components of base pay and incentives.
• Payment of fair, appropriately structured and competitive remuneration.
• Applying good governance to remuneration practices within approved structures.
• Supporting the DBSA’s culture as embedded in its values.

BOARD REMUNERATION

The DBSA compensates and remunerates Non-executive Directors in a manner which enables the Bank to attract and retain high calibre and professional Directors to ensure that the Board has at all times the necessary skills required for the Bank to execute on its mandate.

Non-executive Directors are remunerated according to their scope of responsibility and contribution to the DBSA’s operating and financial performance, taking into account industry norms, including the State-Owned Enterprise Remuneration Guidelines as well as the external market and benchmarks.

Non-executive Directors receive fees according to their attendance at meetings. In addition to these, the Chairman of the Board and the Chairpersons of the Board committees receive annual retainer fees so that they are also available to provide strategic advice to the Chief Executive and management outside Board and committee meetings. Non-executive Directors are not entitled to receive short- or long-term incentives.

Board members are also compensated for expenses incurred in pursuance of the Bank’s business.

The HRNSE Committee reviews the Non-executive Directors’ fees and makes recommendations to the Board and the Minister for consideration and approval.

Details of fees earned by the Non-executive Directors are reflected in note 45 to the Annual Financial Statements.

EMPLOYEE REMUNERATION

The Board of Directors is committed to attracting, motivating, managing and retaining Group Executives of the highest calibre for the DBSA through the payment of fair, appropriately structured and competitive remuneration. The DBSA recognises a mix of both competencies and performance in its remuneration structure.

The remuneration packages for the group executive team are divided into fixed and variable components, including short-term performance incentives. The Bank is currently designing a long-term incentive scheme which will seek to ensure that the Bank’s ultimate long-term delivery outcomes are achieved.

GUARANTEED PACKAGES

All employees, including Executive Directors and Group Executives, receive a guaranteed package (GP) based on their roles and responsibilities. Contributions to retirement and insured benefits are included in the GP. Employees can choose to participate in a Bank-nominated medical aid scheme.

The HRNSE Committee reviews the Chief Executive and Group Executives’ remuneration and makes recommendations to the Board and the Minister for consideration.

All permanent employees and employees with contracts longer than three years are required to join the DBSA Provident Fund, a defined contribution scheme. Besides the retirement fund contributions, lump sum contributions may be made to the fund.

The retirement age for DBSA employees is 60. Some employees who have been with the DBSA for longer than 18 years have a retirement age ranging from 60 to 65 years, depending on their respective employment contracts.

The retirement of an unfunded defined post-retirement medical benefit plan for qualifying employees. In terms of the plan, the Bank pays 100% of the medical aid contributions of qualifying pensioners. Pensioners include retired employees and their widow(er)s. Refer to note 19.2 to the Annual Financial Statements for further details of post-retirement medical benefits liability.

Funeral benefits cover is provided to all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon death of an employee or retired employee.

Increases in GP for employees are based on a review of market data, the consideration of individual performance and potential and the business priorities of the DBSA.

The DBSA provides a range of benefits to employees over and above the guaranteed remuneration packages. Key benefits include study assistance for employees, study assistance for employees’ children in tertiary education, annual leave, sick leave, as well as maternity and paternity leave.

SHORT-TERM INCENTIVES

All employees, including Executive Directors and Group Executives, participate in a yearly short-term incentive plan. Bonus payments are discretionary and depend on business performance and individual contribution.

The performance of the Executive Management team is measured against predetermined goals as approved by the Board. All bonuses are capped at the following percentage of the GP:

<table>
<thead>
<tr>
<th>Role</th>
<th>Maximum percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chief Executive Officer</td>
<td>100%</td>
</tr>
<tr>
<td>Chief Financial Officer</td>
<td>80%</td>
</tr>
<tr>
<td>Group Executives</td>
<td>80%</td>
</tr>
</tbody>
</table>

Details of the remuneration of Executive Directors and Group Executives are reflected in note 45 to the Annual Financial Statements.
We are pleased to present our report for the financial year ended 31 March 2015.

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

MEMBERSHIP

The Audit and Risk Committee members and attendance are reflected on page 44 in the Corporate Governance Report. In compliance with Treasury Regulations 271.3 and 271.4, the Chairperson is an Independent Non-executive Director and has the requisite business, financial and leadership skills for the position. All the committee members are financially literate, with the majority being non-executive members. The names and qualifications of Directors serving on the Audit and Risk Committee are detailed in the Board of Directors section of the Integrated Annual Report on pages 34 to 37.

AUDIT AND RISK COMMITTEE RESPONSIBILITY

The functions of the Audit and Risk Committee are regulated by the PFMA and King III Report. The Committee oversees the Bank's internal control framework and reviews and evaluates the integrity of financial and other statutory reporting, risk management processes, compliance with laws and regulations and ethics management. It oversees the internal and external audit functions and reviews the Internal Audit Plan and the annual assessments of significant risk exposures.

The committee oversees and also advises the Board on income, expenditure and capital budget requirements; tax management; treasury arrangements and funds mobilisation strategies; transfer pricing policies; development loan impairments; management of assets and liabilities; and the Bank’s overall financial health and sustainability.

The Audit and Risk Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the PFMA and Treasury Regulations 271.7 and 21310(b) and (c). Section 51(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 central 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 and Risk Committee’s responsibility also includes:

- Considering the appointment, rotation and/or termination of the external auditors and nominating to the Board for approval.
- Approving the terms of engagement of the external auditors, including their audit fee and determining the nature and extent of any non-audit services.
- Monitoring and reporting to the Board on the independence, objectivity and required skills and competence of the external auditors to execute the audit in terms of International Standards on Auditing.
- Monitoring the effectiveness of the processes to create awareness and develop an understanding of relevant legislation and regulation to ensure compliance by management.
- IT governance on behalf of the Board to ensure proper system security, data integrity and business continuity, disaster recovery and review of the reports of the Chief Information Officer.
- Oversight over the enterprise-wide risk management (ERM) approach to managing risk exposures.
- Consideration of the expertise, resources and experience of the Bank’s finance function.

COMBINED ASSURANCE

The Audit and Risk Committee’s corporate governance processes comply with the requirements of the King Report on Corporate Governance (King III) with respect to ensuring that a combined assurance model is applied to provide a coordinated approach to assurance. The model aims to optimise the assurance coverage obtained from risk, internal providers and external assurance providers on risks attached to the Bank.

ASSURANCE BY MANAGEMENT

- Received and reviewed the reports from management regarding the adequacy of development loan and equity investment impairments.
- Received and reviewed the accounting policies, practices, judgements and estimates adopted in the preparation of the Annual Financial Statements and found those to be appropriate.
- Reviewed reports from management regarding the going concern and financial sustainability of the organisation, noted the challenges and declining financial performance over the last four years not including year ended 31 March 2015. Appropriate measures are urgently being reviewed to improve the long-term financial sustainability.
- The continued preparation of the Annual Financial Statements on a going concern basis was adopted.

ASSURANCE BY GROUP RISK ASSURANCE (GRA)

The Board considers risk management to be a key business discipline designed to balance risk and reward and, therefore through the Audit and Risk Committee oversees the approved ERM approach to the management of risk exposures. The Audit and Risk Committee delegated to management the responsibility to design, implement and monitor the risk management plan. To this end, the following internal management committees exist that monitor and report on various components of risk to the Audit and Risk Committee:

- Treasury-related risks are monitored through an internal Asset and Liability Management and in accordance with the Chief Financial Officer’s portfolio.
- Operational risks are addressed under the ERM framework.

Internal assurance from the GRA function was obtained through quarterly ERM reports and dashboards prepared independently of management and in accordance with the ERM framework. Operational risk management is facilitated by the GRA function and reported through the ERM reports to the Audit and Risk Committee. These risks are considered in relation to assurance reports from other sources.

ASSURANCE BY INTERNAL AUDIT

Internal Audit is a key internal assurance provider and provides the Board with a report of its activities which, along with other assurance provider sources, is used by the Board in reporting on and assessing the Bank’s system of internal control and risk management.

- Considered and recommended for approval to the Board the one- and three-year Internal Audit Plans and monitored Internal Audit’s adherence to these plans.
- Received and reviewed reports from Internal Audit concerning the effectiveness of internal controls, systems and processes as well as the adequacy and appropriateness of management’s corrective action plans.

- Considered all material forensic reports and established whether appropriate action was taken by management.
AUDIT AND RISK COMMITTEE REPORT (CONTINUED)

ASSURANCE BY THE INDEPENDENT EXTERNAL AUDITORS

- Reviewed and approved the External Audit Plan, including the proposed scope and audit fee and determined the nature and scope of non-audit services.
- Received and reviewed external audit reports for the year pertaining to the Annual Financial Statements for the year ended 31 March 2015 and the interim results for the six months ended 30 September 2014.
- Make recommendations, when appropriate, to the Board regarding the rotation of the external audit function.

FRAUD AND CORRUPTION

The Audit and Risk Committee provides oversight over the fraud and corruption prevention controls and mechanisms within the Bank's operating environment. To this end:

- Risk incidents are logged in an operational risk register and monitored.
- There is sufficient forensic capacity in internal Audit, with an appointed forensic specialist.
- The Bank has a toll-free whistle-blowing hotline operated by Deloitte and employees are encouraged to report any suspected corrupt, fraudulent, criminal or unethical practices. A summary of the hotline statistics and resulting disciplinary actions where this was required is included in the Corporate Governance Report on page 47.

IT GOVERNANCE

The Audit and Risk Committee provides oversight over the IT systems and automated controls and mechanisms within the Bank's operating environment. To this end:

- A proper business recovery plan and off-site disaster recovery centre is in place and daily backups as well as periodic disaster recovery testing occurs.
- An ICT Steering Committee considers significant IT investment and expenditure, technology performance and compliance with Service Level Agreements with business.
- The Audit and Risk Committee considered the maturity level of the ICT operations and is satisfied that sufficient provision is made for business recovery in the event of a disaster and also concludes from the results of the work performed by both Internal and External Audit that sufficient coverage of system and manual internal controls was obtained.

THE EFFECTIVENESS OF INTERNAL CONTROL

The Audit and Risk Committee is of the opinion, based on the information and explanations given by management and Internal Audit 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 (manual and automated) 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 and Risk 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 MANAGEMENT AND QUARTERLY REPORTS SUBMITTED IN TERMS OF THE PFMA

The Audit and Risk Committee is satisfied with the content and quality of quarterly reports prepared and issued by the Board of Directors and the management of the Bank during the year under review.

EVALUATION OF FINANCIAL STATEMENTS

The Audit and Risk 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 and Risk Committee has evaluated the Integrated Annual Report and Annual Financial Statements for the year ended 31 March 2015 and considers that it complies, in all material respects, with requirements of sections 27 to 31 of the Companies Act, the PFMA, IFRS and that the adoption of the going concern basis in preparing the Annual Financial Statements is appropriate. The Audit and Risk Committee is of the opinion that these Annual Financial Statements fairly present the financial position of the DBSA as at 31 March 2015 and the results of its operations and cash flow information for the year then ended and concurs and accepts the independent external auditor's conclusions on the Annual Financial Statements. It is of the opinion that the audited Annual Financial Statements should be accepted and read together with the report of the independent external auditors.

We are pleased to present our report for the financial year ended 31 March 2015.

The Board Credit and Investment Committee has adopted appropriate formal terms of reference as its Board Credit and Investment Committee Charter, has regulated its affairs in terms of the Companies Act, the PFMA, IFRS and that the adoption of the going concern basis in preparing the Annual Financial Statements is appropriate. The Audit and Risk Committee is of the opinion that these Annual Financial Statements fairly present the financial position of the DBSA as at 31 March 2015 and the results of its operations and cash flow information for the year then ended and concurs and accepts the independent external auditor's conclusions on the Annual Financial Statements. It is of the opinion that the audited Annual Financial Statements should be accepted and read together with the report of the independent external auditors.

BOARD CREDIT AND INVESTMENT COMMITTEE RESPONSIBILITY

The Board has delegated the responsibility for the management of credit and investment risk to its Board Credit and Investment Committee, supported by the executive management level Investment Committee. The Board Credit and Investment Committee is responsible for the approval of all transactions that would result in the Bank’s aggregate exposure that is above the approval limits of the Investment Committee. The Investment Committee, which is chaired by the Chief Risk Officer, is responsible for approving all transactions that would result in the Bank’s aggregate exposure to a single obligor being below the approval limits.

The committee is also responsible for recommending aggregate exposures of more than the approval limits to the Board Credit and Investment Committee.

In managing credit and investment risks further, the Bank, through its Group Risk Assurance division, also seeks to embed policies and processes on credit and investment risk appetite and prudential limits. It also guides the formulation of risk strategy and businesses’ risk positioning by ensuring that sound risk principles and practices are adopted and maintained. Finally the Bank, in support of its mandate, seeks to align development impact with credit and investment risks decisions and to optimise reward by evaluating risk exposures and ongoing outcomes in tandem.

Refer to pages 105 to 106 of the Chief Financial Officer’s Report for an overview of the quality of the credit portfolio.

The committee has reviewed the Bank’s credit strategy, credit risk management programmes, trends in portfolio quality, the adequacy of provision for credit losses and the credit risk management policies approved by the Board. The committee approves all credit and investment proposals where counterparty exposures exceed amounts set out in the table below.

<table>
<thead>
<tr>
<th>Country/Type of Risk</th>
<th>Credit Rating</th>
<th>Maximum Exposure</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td></td>
<td>R1 000 million</td>
</tr>
<tr>
<td>Municipal clients</td>
<td></td>
<td>R500 million</td>
</tr>
<tr>
<td>Other public sector clients</td>
<td></td>
<td>All</td>
</tr>
<tr>
<td>State Supported Programmes</td>
<td></td>
<td>All</td>
</tr>
<tr>
<td>Private sector clients</td>
<td></td>
<td>All</td>
</tr>
<tr>
<td>Rest of SADC</td>
<td></td>
<td>All</td>
</tr>
<tr>
<td>Low risk countries</td>
<td></td>
<td>R500 million</td>
</tr>
<tr>
<td>Medium risk countries</td>
<td></td>
<td>R250 million</td>
</tr>
<tr>
<td>High risk and post conflict countries</td>
<td></td>
<td>All</td>
</tr>
<tr>
<td>Low risk countries</td>
<td></td>
<td>R1 000 million</td>
</tr>
<tr>
<td>Medium risk countries</td>
<td></td>
<td>R500 million</td>
</tr>
<tr>
<td>High risk and post conflict countries</td>
<td></td>
<td>All</td>
</tr>
</tbody>
</table>

Note: DBSA uses the following rating scale to measure risk: MS1 to 7: low risk, MS 8 to 13: medium risk and MS14 and above: high risk.

Omar Latiff
Chairman of the Audit and Risk Committee

Thembisile Dingaan
Chairperson of the Board Credit and Investment Committee
HUMAN RESOURCES, NOMINATION, SOCIAL AND ETHICS
COMMITTEE REPORT
for the year ended 31 March 2015

We are pleased to present our report for the financial year ended 31 March 2015.

The HRNSE Committee has adopted an appropriate formal terms of reference as its HRNSE Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

MEMBERSHIP

The HRNSE Committee members and attendance are reflected on page 44 in the Corporate Governance Report. The Chairperson is an Independent Non-executive Director. All committee members are Non-executive Directors and all members have the requisite business, financial and leadership skills for the position. The names and qualifications of Directors serving on the committee are detailed in the Board of Directors section of the Integrated Annual Report on pages 34 to 37. The CEO is not a member of the committee but attends meetings by invitation.

HUMAN RESOURCES, NOMINATIONS, SOCIAL AND ETHICS COMMITTEE RESPONSIBILITY

The Board of Directors has established the HRNSE Committee to support it in the execution of its duties with respect to implementation of the human capital strategy, nomination of Directors and executive remuneration for the DBSA, Board/Directors’ affairs and governance as well as social and ethics issues. The Board of Directors is the focal point of corporate governance in the DBSA. It is ultimately accountable and responsible for the performance, affairs and behaviour of the Bank. The HRNSE Committee has the responsibility to ensure that there are adequate processes, policies systems and procedures to ensure sound corporate governance. The committee meets at least four times a year. The committee can utilise the services of independent advisors on matters relating to remuneration.

The primary functions of the committee is to consider, monitor and report to the Board on key issues such as remuneration, nomination and related matters, social and ethics related matters, compliance with King III, the DBSA Act and Regulations and any additional corporate governance requirements of DBSA. Specific responsibilities of the committee include:

GOVERNANCE, NOMINATIONS AND DIRECTORS’ AFFAIRS

• Assist the Board in its determination and evaluation of the adequacy, efficiency and appropriateness of the governance structure and practices of the Bank.

• Advise, evaluate and assist the Board on any issues of fundamental strategic importance to the Bank that are beyond the scope of the specific authorities mandated to other Board committees.

• Establish and review a Board continuity plan for approval by the Board entailing:
  - A review of the performance of and planning for successors to the Executive and Non-executive Directors.
  - Measures to ensure continuity of Non-executive Directors.
  - A regular review of the composition of skills, experience and other qualities required for the effectiveness of the Board.
  - An annual assessment of the Board as a whole which assessment shall be coordinated by the Chairperson of the Board assisted by the Company Secretary.

• Assess regularly the conduct and competence of directors and Board committees, the overall effectiveness of the Board and report thereon to the Board.

• Regularly review the required mix of skills and experience on the DBSA Board with a view to identifying any skills gap on the Board.

• Review the performance of the CEO.

REMUNERATION

• Consider for approval by the Board remuneration policy and Bank employment practices in addition to any other strategic human resource issues referred to it by management and the Board of Directors in line with market trends and prevailing legislation.

• Review and recommend performance incentive policies applicable to the Executive Directors and Group Executives to the Board of Directors to ensure that they are fairly rewarded for their individual and joint contribution to the DBSA performance.

• Determine remuneration, retention incentive and termination policies and procedures for Executive Management.

• Make recommendations to the Shareholder for considerations regarding fees of the Chairman and the Non-executive Directors.

• Make recommendations to the Board for approval of the annual staff salary increase.

• Recommend for approval percentage limits to which executive management may authorise remuneration for staff such as: the maximum bonus as a percentage of total cost to company, and how much may be discretionary.

• Consider and recommend to the Board for approval the quantum of incentive pool for Executives of the DBSA.

• Determine and review superannuation arrangements.

• Obtain for the Group whatever remuneration related information the committee may need from time to time.

HUMAN RESOURCES

• Review and recommend the DBSA human capital strategy and risk management strategy to be implemented. Further detail regarding the Bank’s remuneration philosophy and policies is provided in the Remuneration Report on pages 48 to 49.

• Monitor implementation and execution of the Bank’s human capital strategy and transformation as well as issues policy requirement for implementation by management.


• Oversee employment equity and other human capital statutory reports.

• Oversee the implementation of the Bank’s training and development plan.

SOCIAL AND ETHICS

The committee ensures that management cultivates a culture of ethical conduct and sets the values to which the Company adheres. In this respect the committee:

• Monitors the Bank’s activities, having regard to relevant legislation and codes of best practice, in respect of social and economic development, good corporate citizenship, the environment, health and public safety, consumer relationships and sound labour and employment practices.

• Reviews the Bank’s values and consider for recommendation to the Board the ethics related policies like the Conflict of Interest Policy, Code of Ethics, and the Whistle-blowing policy.

• Considers and recommends for approval to the Board the Ethics Management Programme.

Refer to the Governance Report as reflected on pages 38 to 47 for further detail.

Dawn Marsole
Chairperson of the Human Resources, Nomination, Social and Ethics Committee

INFRASSTRUCTURE DELIVERY AND KNOWLEDGE COMMITTEE REPORT

We are pleased to present our report for the financial year ended 31 March 2015.

The Infrastructure Delivery and Knowledge Committee (IDKC) has adopted an appropriate formal terms of reference as its Infrastructure Delivery and Knowledge Committee Charter, has regulated its affairs in compliance with this Charter and has discharged all its responsibilities as contained therein.

MEMBERSHIP

The IDKC members and attendance are reflected on page 44 in the Corporate Governance Report. The Chairperson is an Independent Non-executive Director. The majority of committee members are non-executive members and all committee members have the requisite business, financial and leadership skills for the position. The names and qualifications of Directors serving on the IDKC are detailed in the Board of Directors section of the Integrated Annual Report on pages 34 to 37.

INFRASTRUCTURE DELIVERY AND KNOWLEDGE COMMITTEE RESPONSIBILITY

The IDKC is a subcommittee of the Board of Directors and supports the Board in the execution of its duties. The committee is accountable to the Board to properly consider and evaluate any matter that it has been mandated to deal with. The Board has ultimate responsibility in controlling the business and directing the operations of the Bank. This includes accepting strategic mandates, programmes that will help with infrastructure delivery and programme implementation support in South Africa and the region, monitoring existing mandates, approval and monitoring of key infrastructure projects and overseeing the knowledge and research programmes of the Bank in line with the philosophy that the Bank is a centre of excellence in infrastructure development.

NON-FINANCING INFRASTRUCTURE DELIVERY SUPPORT AND PROGRAMME IMPLEMENTATION (STRATEGIC MANDATES)

The DBSA is committed to supporting government in accelerating the implementation of agreed infrastructure and implementation programmes on a fully funded and/or cost recovery basis. These strategic mandates may include the provision of project management and other support in key priority sectors critical to the achievement of national objectives of economic growth, job creation and infrastructure delivery. The mandate of the committee does not extend to the financing needs of programmes supported. The IDKC is responsible for:

• Providing strategic guidance on the support to be provided to public entities and spheres of government in priority sectors.
• Recommending to the Board a framework to guide the selection of new government infrastructure delivery and strategic mandates and programmes for implementation by the DBSA.
• Considering and approving all new strategic mandates and programmes for implementation by the DBSA.
• Delegating to the CEO the responsibility for consideration and approval of all new projects within an approved mandate. The CEO will recommend for approval by the IDKC appropriate frameworks, portfolio risk management strategies, risk tolerances, appetite limits, policies and procedures to be adopted by the DBSA to monitor and mitigate exposure to the Bank. The CEO shall monitor the performance of the portfolio, monitor and review emerging issues, and provide a report to the IDKC on all approvals in the quarter as well as projects declined in the period.
• Monitoring compliance to the framework and progress on the implementation of mandates and programmes that fall under the committee's purview.
• Identifying issues related to implementation of the programmes for tabling at the Board of Directors for consideration or decision.

Refer to pages 89 to 94 for an overview of performance results for the Bank's Infrastructure Delivery division.

INFRASTRUCTURE DELIVERY

As a DFI focused on infrastructure, the DBSA is required to constantly monitor developments in infrastructure planning and implementation and the enabling environment that impacts on the delivery of infrastructure and its financing. The committee:

• Considers and recommends best practice related to DFIs and infrastructure planning, financing and implementation.
• Reviews the overall performance of infrastructure delivery in the Bank.
• Provides strategic guidance to the gathering and analysis of project and spatial information to improve infrastructure planning, financing, delivery tracking and performance.

KNOWLEDGE MANAGEMENT

As a knowledge bank, the DBSA is committed to facilitate processes of internal and external knowledge development and sharing to facilitate appropriate learning to enhance its status as an Infrastructure DFI. The committee:

• Recommends for approval by the Board a knowledge management strategy for the DBSA that has both an internal and external focus and incorporates a transversal knowledge management system for the DBSA and a research strategy.
• Monitors the implementation and impact of DBSA’s knowledge management strategy.
• Identifies knowledge management outputs or issues considered relevant by the committee for tabling for consideration or decision by the Board of Directors.

Frans Baleni
Chairman of the Infrastructure Delivery and Knowledge Management Committee
Financial position


Net interest income margin: 2011: 45.8%, 2012: 42.6%, 2013: 40.0%, 2014: 45.6%, 2015: 45.6%


Total capital and reserves to total assets: 2011: 37.7%, 2012: 33.5%, 2013: 31.0%, 2014: 31.2%, 2015: 31.2%

Cash and cash equivalents to total assets: 2011: 0.1%, 2012: (0.7%), 2013: (1.6%), 2014: 1.3%, 2015: 1.3%

Return/(loss) on average total equity: 2011: 0.2%, 2012: (2.1%), 2013: (4.8%), 2014: 4.3%, 2015: 4.3%

Financial performance

1. Operating income excludes net foreign exchange gain/(loss), net gain/(loss) from financial assets and liabilities, but includes revaluations on equity investments. Prior year numbers were restated.

2. Operating expenses include personnel expenses, general and administrative expenses, and depreciation.

3. Net interest income margin is calculated as net interest income (interest income less interest expense) over interest income.
The DBSA has delivered very strong developmental and financial results in a challenging operational environment.

Regional integration is critical in growing both the South African and broader continent’s economies. Following the successes of the previous financial year, the International Financing division faced a challenging trading environment. Total approvals amounted to R12.2 billion. Disbursements were at a new high of R13.0 billion (2014: R12.7 billion). Disbursements were largely driven by R6.7 billion disbursed to economic infrastructure transactions, R3.7 billion to metros, R1.3 billion to secondary municipalities and R0.5 billion to under-resourced municipalities. In addition to the disbursements, the Infrastructure Delivery division had R2.0 billion (2014: R1.5 billion) under management and Project Preparation unlocked projects to the value of R6.3 billion for funding. These contributed to a 17.0% increase in the total infrastructure development support in 2015 of R21.4 billion (2014: R18.2 billion).

Innovation can support the DBSA to solve client and market needs more effectively, gain a competitive edge through product diversification, accelerate delivery of infrastructure and expand reach.

The DBSA remains sustainable and provides foundation for future growth

The Bank produced a strong financial performance with net profit of R1.2 billion (2014: R787 million), sustainable earnings of R808 million (2014: R339 million) and cost-to-income ratio of 31% (2014: 28%). Our Infrastructure Delivery division is managed on a full cost recovery basis and achieved a net profit of R16.2 million for the year (2014: R12 million), representing a cost recovery ratio of 32%.

Balance sheet strengthened to achieve financial growth

Overall, our financial position remains sound, with the Bank’s credit rating maintained in line with the sovereign rating and we continue to see the financial benefits of our restructuring concluded during 2013. Total assets grew by 11% to R71 billion (2014: R63.8 billion). The total development assets increased by 14% to R63.1 billion (2014: R55.5 billion), with the non-performing loan book after specific impairments at only 19% (2014: 2.2%). The debt/equity ratio of 195.7% remained well below the 250% statutory threshold. For more details on the Bank’s financial performance see the CFO’s Report on pages 102 to 109.

Development impact continues to grow

The DBSA has a strong record of supporting the Southern African Development Community (SADC) region’s transformation. Through our portfolio of lending operations as well as project implementation and programme management support activities, we are promoting growth which is both inclusive and sustainable in nature. Measuring the Bank’s overall contribution to the region’s development is a challenging and complex undertaking. The Bank is just one of many players promoting development, alongside other government agencies, development partners, companies and civil society organisations. In this context, it is difficult to attribute overall development results to the work of a single organisation. We therefore assess our results by building a picture of our support from a project level.

Key development outcomes achieved during the year include:
- Our planning and implementation support to under-resourced municipalities yielded the following: 27 projects were in planning, and 60 projects completed – 17 in transport, six in water and sanitation as well as 37 in the energy sector. A total of 1,773 job opportunities were created from the projects in implementation. Three infrastructure plans were completed in line with milestones agreed with respective municipalities.
  - An estimated 289,000 households (2014: 264,000) will benefit from commitments in favour of various municipalities across the country. In all, R101 million was disbursed in terms of the JEPF Programme, bringing electricity to 9,794 households.
  - Non-municipal funding for 2015 in both South Africa and SADC contributed substantially to energy generation, including 975 MW renewable energy, coal project preparation financing for 9,000 MW and 340 MW in gas. The Bank also contributed to funding 120,000 houses, 1,880 km of roads, 5204 beds for student accommodation and support to procure 171 buses for the Bus Rapid Transit System.
- Through our Infrastructure Delivery division we completed the construction of 15 schools, 1,128 affordable houses, 26 health clinics and 60 doctors’ consulting rooms. In addition 48 schools and 2,420 affordable houses were in various stages of construction at year-end.

Note: Estimated development impact based on funds committed. Actual impact would be dependent on time of actual disbursements.
OVERALL, CLIENT SATISFACTION LEVELS HAVE INCREASED SINCE THE ORGANISATIONAL REVIEW

The client and partner survey was finalised in August 2014. Overall, 85% of respondents indicated that they are satisfied with the DBSA, vs. 69% in 2011. On average, DBSA was scored 4.2 in terms of overall satisfaction in 2014, compared to 3.8 in 2012 (on a scale of 1 to 5). There was a significant increase in respondents very satisfied with the DBSA, from 16% in 2011 to 46% in 2014.

CHIEF EXECUTIVE OFFICER’S REPORT (CONTINUED)

DEVELOPING AND LEVERAGING OUR STRATEGIC PARTNERSHIPS

Developing and leveraging our strategic partnerships and relationships remains an important focus area for us to profitably expand and deepen our penetration of our selected market segments and geographic markets. Strategic partnerships enable businesses to gain competitive advantage through access to knowledge and project funding.

Our membership to various global and continental groupings has begun to bear fruit as we see strategic partnerships develop into co-financing opportunities. There are three notable engagements to which we wish to draw attention. The International Development Finance Club (IDFC) is a grouping of 23 emerging and established partners who have a common objective to improve the socio-economic conditions in their countries through sharing information and deepening collaboration in co-financing opportunities. In 2015, the DBSA was given the responsibility of leading the Working Group tasked with developing a concept paper on triangular cooperation as a model for developing a concept paper on co-financing opportunities. The BIICS bloc is one of the more powerful interest blocs aimed at driving sustainable development in the developing world. The DBSA’s active membership in this grouping will augur well for future co-financing opportunities in Africa broadly and in South Africa specifically.

The Bank also continues to participate in various World Economic Forum (WEF) engagements most notably the African Strategic Infrastructure Initiative, an initiative to accelerate the implementation of the Programme for Infrastructure Development in Africa’s Priority Action Plan. More detail of our involvement is provided under the International Division’s operational report.

International partners will continue to play a role in deepening our objectives to reduce poverty, increase regional integration and ensure sustainable development through our investments and engagements with clients.

OUTLOOK

Our outlook remains favourable. We have, after the extensive organisational review, crystallised our strategy (see pages 10 to 19) and we have commenced the hard work to achieve our ultimate goal of eradicating poverty through sustainable efforts in providing much needed infrastructure to this continent.

In order to contribute to the reduction in Africa’s infrastructure financing gap, we have committed to expand our annual disbursements to R17.8 billion in the new financial year and then further to R22.0 billion and R26.4 billion respectively for 2017 and 2018. These are indeed ambitious targets which will require the collaboration of all key stakeholders and role-players to be achieved.

A key focus in the year ahead will be on continuing to develop the project preparation skills urgently required to progress projects from concept to bankability. By so doing, more projects will be moved to the stage at which potential funders will consider lending to them. We plan to cultivate these skills (including those necessary for scoping, pre-feasibility and feasibility work) with other DFIs, to develop a strong pipeline of projects for not only the DBSA and other DFIs to fund, but where appropriate to crowd-in private sector funders through syndication.

Our infrastructure implementation and delivery services provide us with significant opportunities to further support national and provincial government departments in making a meaningful contribution to the alleviation of social infrastructure backlogs, especially in the fields of education, health and housing, as well as municipalities.

We are driven to deliver, motivated by our vision of a prosperous and integrated region, progressively free of poverty and dependency.

Patrick Diamini
Chief Executive Officer
EXECUTIVE MANAGEMENT AS AT 31 MARCH 2015

Patrick Dlamini (45)  
Chief Executive Officer  
Appointed: 1 September 2012

Academic qualifications  
• Advanced Management Programme, Kellogg School of Management  
• EDP, University of the Western Cape’s Business School  
• Business Studies Unit, Natal Technical  
• BCom, University of Kwazulu-Natal.

Other directorships  
• Director: BOPHYLD, Bridges Worldwide SA and Xcargo

For portfolio performance and outlook see Chief Executive Officer’s Report on pages 62 to 65.

Paul Currie (53)  
Chief Risk Officer  
Appointed: 2 January 2001

Academic qualifications  
• BSc (Physiology), University of Port Elizabeth.  
• MSc (Mathematics), University of Western Cape (1992).  
• BEd (Psychology), Wits University.  
• MBA, University of Cape Town Graduate School of Business (1995).  
• Post-graduate diploma in Marketing, UKZN.  
• CFA Charter (2002).  

Other directorships  
• Non-executive Director: Bridges Worldwide SA and Xcargo

For portfolio performance and outlook see Managing Our Risks on pages 22 and 23.

Ernst Dietrich (51)  
Acting Group Executive: South Africa Financing  
Appointed: 1 February 2015

Academic qualifications  
• MBA (with distinction), Institute of Financial Management, Manchester Business School and University of Wales.  
• Chartered Accountant (SA).  

Other directorships  
• Trustee: Pan Infrastructure Development Fund (DBSA nominee)  
• Representative: Group Executive: Corporate Services

For portfolio performance and outlook see South Africa Financing on pages 72 to 77.

Michael Hillary (44)  
Group Executive: Corporate Services  
Appointed: 1 October 2012

Academic qualifications  
• Chartered Accountant (SA).  

Other directorships  
• Director: BOPHYLD, Bridges Worldwide SA and Xcargo

For portfolio performance and outlook see Corporate Services on pages 95 to 98.

Mohsin Virkzanandaz (45)  
Group Executive: Strategy  
Appointed: 24 March 2014

Academic qualifications  
• MBA, Kellogg School of Management, USA.  
• Bachelor of Arts (Honours) in Economics and Mathematical Methods in the Social Sciences (MMSS), Northwestern University, USA.

Other directorships  
• Refer to pages 10 to 12 for an overview of our strategy

Kameshri Naadu (40)  
Chief Financial Officer  
Appointed: 1 September 2012

Academic qualifications  
• Chartered Accountant (SA).

Other directorships  
• Non-executive Director: Board of Directors of the DBSA Staff Foundation

For portfolio performance and outlook see Corporate Services on pages 95 to 98.

Riaz (Moe) Shaik (55)  
Group Executive: International Financing  
Appointed: 13 August 2012

Academic qualifications  
• Master’s degree in Optometry (Cum Laude), University of Kwazulu-Natal.  
• B Optometry, University of Kwazulu-Natal.  
• Bachelor of Accounting, University of Kwazulu-Natal.

Other directorships  
• Non-executive Director: Cables & Wire International Ltd.

For portfolio performance and outlook see International Financing on pages 83 to 88.

Sinazo Sibisi (47)  
Group Executive: Infrastructure Delivery  
Appointed: 1 April 2012

Academic qualifications  
• Master’s degree in Development Finance, University of Cape Town.

Other directorships  
• Non-executive Director: Foresight Advisory Services (Pty) Ltd.

For portfolio performance and outlook see Infrastructure Delivery on pages 89 to 94.

Rolene Mashishi (46)  
Group Executive: Corporate Services  
Appointed: 1 September 2011

Academic qualifications  
• BCom Hons, University of Cape Town.  
• MBA, University of Cape Town Graduate School of Business.

Other directorships  
• None

For portfolio performance and outlook see Chief Financial Officer’s Report on pages 102 to 109.

Denesa Willems (55)  
Group Executive: Infrastructure  
Appointed: 1 February 2015

Academic qualifications  
• Bachelor of Accountancy, University of Pretoria.

Other directorships  
• Non-executive Director: Board of Directors of the DBSA Staff Foundation

For portfolio performance and outlook see Infrastructure Delivery on pages 95 to 98.

Sinazo Sibisi (47)  
Group Executive: Infrastructure Delivery  
Appointed: 1 April 2012

Academic qualifications  
• Master’s degree in Development Finance, University of Cape Town.

Other directorships  
• Non-executive Director: Foresight Advisory Services (Pty) Ltd.

For portfolio performance and outlook see International Financing on pages 83 to 88.

Riaz (Moe) Shaik (55)  
Group Executive: International Financing  
Appointed: 13 August 2012

Academic qualifications  
• Master’s degree in Optometry (Cum Laude), University of Kwazulu-Natal.  
• B Optometry, University of Kwazulu-Natal.  
• Bachelor of Accounting, University of Kwazulu-Natal.

Other directorships  
• Non-executive Director: Cables & Wire International Ltd.

For portfolio performance and outlook see International Financing on pages 83 to 88.

Sinazo Sibisi (47)  
Group Executive: Infrastructure Delivery  
Appointed: 1 April 2012

Academic qualifications  
• Master’s degree in Development Finance, University of Cape Town.

Other directorships  
• Non-executive Director: Foresight Advisory Services (Pty) Ltd.

For portfolio performance and outlook see Infrastructure Delivery on pages 89 to 94.
FINANCING OPERATIONS

The Financing Operations division was established after the organisational review of the Bank in 2013 and provides project preparation and fund management services to selected external clients. The division also provides middle- and back-office support to our lending divisions. This report provides an update on the progress made in the delivery of project preparation as well as the fund management services.

PROJECT PREPARATION

The demand for infrastructure development in Africa is extensive and one of the key bottlenecks is the development and preparation of bankable projects. In addition, the planning and delivery of large infrastructure projects is complex and fraught with risk. Hence, many projects fail or are implemented with budget and timeline overruns. Over time, many DFIs have tried to fill the space where government capacity is low and risk is high. Although this landscape is evolving and expanding, current DFIs in Africa have not proven a large scale successful model. This need and these challenges translate into an opportunity for the DBSA to create a high-skill, scaled-up, end-to-end project development and preparation business that de-risks projects and delivers project concepts to bankability.

Through the DBSA’s project preparation function, the Bank is seeking to:

• Build a portfolio of pipeline projects to be presented for funding consideration.
• Mobilise project preparation funds from own balance sheet and funding partners.
• Build capacity and systems to mobilise and appraise projects in pipeline.

The key project preparation principles are as follows:

• The potential project must align with the Bank’s development mandate and be within the identified priority sectors of the Bank.
• The sponsors must be able to demonstrate a high probability of being able to bring the project to bankability within a reasonable time frame.
• The principle of co-financing must apply with the sponsors showing commitment to the project by contributing a significant portion of the development costs from their own sources.
• Each facility must be priced to reflect its risk. Pricing must reflect equity type returns for projects funded from DBSA’s funding.
• The facility must be refinanced from the capital funding of the project once financial close is reached.
• The Bank shall seek to obtain a right to finance a portion of the total debt package of the project. The minimum portion of the debt to be financed by the Bank shall be agreed upfront with the sponsors and included in the facility agreement.
• The facilities shall not be used for any expenses incurred for the sponsor’s own staff.

PERFORMANCE FOR 2015

By year-end, 20 projects to the value of R260 billion (2014: R193 billion) were in various stages of preparation, mainly in the energy and transport sectors. Of these, 11 were in South Africa and nine on the rest of the continent. A total of R6.4 billion (2014: R3.9 billion) was approved for funding by the DBSA. A key driver of the performance is the Bank’s support of the Department of Energy’s implementation of the Renewable Energy Independent Power Producers Procurement (REIPPP) programme. During the year the Bank invested R6.1 million (2014: R 20.9 million) from its own sources in the preparation of projects, whilst leveraging R396 million (2014: R197 million) from third party funders.

Key highlights for the year:

• Assisted the IPP Office in the analysis of the information received under request for information registration (RfIR) for Co-Gen. The team is finalising the appointment of a transaction advisor panel, which will be assisting with all the planned IPP procurement programmes for REIPPPP to base load
• The DBSA was appointed as implementing agent for Small-scale IPP.
• The DBSA and the Gautrain Management Agency have signed a Memorandum of Understanding aimed at assisting the agency with finalisation of the feasibility study on the expansion of the Gautrain system (Phase 2).

INFRASTRUCTURE AND INVESTMENT PROGRAMME FOR SOUTH AFRICA (IIPSA)

As part of the Bank’s project preparation activities, the DBSA continued to support the management of IIPSA on behalf of the National Treasury and the European Commission (EU). The IIPSA facility sponsored by the EU was concluded during the 2014 financial year, unlocking R200 million for project preparation for three years, and to be implemented over the next seven years. The IIPSA financing agreement includes the following terms:

• IIPSA will operate by providing innovative financing involving the co-financing of EU grants together with loans from participating South African and European development finance institutions.
• It is estimated that a leverage effect of at least five to 10 times the amount of financial non-refundable contributions could be achieved.
• In order to be eligible, projects should preferably be supported by more than one of the participating finance institutions in the consortium.

During the first round of request-for-proposals, the Bank received 250 applications, with an estimated value of R90 billion. Of the 250 applications, 80 early review reports were completed and 27 projects were accepted into the IIPSA pipeline. Eight projects have been shortlisted for due diligence and appraisals have been completed on six of the projects of which five have been recommended for funding. Due diligence is continuing for the remaining 19 projects.

SADC PROJECT PREPARATION AND DEVELOPMENT FUND

The Bank’s partnership with the SADC Project Preparation and Development Fund (PPDF) to support project development across SADC continued well during the year. The SADC Secretariat has concluded two further funding agreements with the German development finance institution, KfW (for €4.8 million) and the European Union Regional Office Gabonese (for €11.7 million) to support project preparation for the projects as identified in the SADC Regional Infrastructure Development Master Plan (RIDMP) and especially those projects that have been shortlisted in the SADC short-term priority list.

Fifteen applications were referred from IIPSA, of which Ministers of Infrastructure in the SADC recommended that four be considered for funding from the PPDF, of these, one project has been approved and the feasibility studies are underway.

A request for proposals was launched and 54 project applications were received on 30 October 2014. SADC Secretariat has disqualified 20 project applications as a result of these not meeting the SADC RIDMP requirements, which left a balance of 34 project applications. The PPF unit has evaluated the 34 project applications and the outcome was as follows:

• After further scrutiny another 10 applications failed to meet the requirements of SADC RIDMP
• Fifteen project applications were rejected and will be recommended for appraisal at a later stage.
• Eight project applications were accepted for the appraisal stage.
• One project application has been approved for funding of the eight projects, with the remaining projects still undergoing appraisal.

There are currently 12 projects in the pipeline, including the four from IIPSA.

OUTLOOK

Going forward, the Bank will seek to play a significant part in early stage project development and target to prepare projects to the stage of financial non-refundable funding. This will also enable the Bank to expand its non-interest income revenue through syndication fees generated.
FINANCING OPERATIONS (CONTINUED)

**FUND MANAGEMENT SERVICES**

**GREEN FUND**

The Green Fund is an R800 million national fund aimed at supporting South Africa’s transition to a green economy. The vision of the Green Fund is “to provide catalytic finance to facilitate investment in green initiatives”. The DBSA manages the Green Fund on behalf of the Department of Environmental Affairs (DEA) on a full cost recovery basis.

The United Nations Environmental Programme (UNEP) defines the green economy as one that results in “improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities”. The South African government has initiated a range of strategic policy imperatives to accelerate the entrenchment of green approaches in the development process and thus aid South Africa in transitioning to a green economy. The Green Fund is one of the key initiatives which have emerged from this national policy framework.

The Green Fund aims to support initiatives contributing to South Africa’s transition to a low carbon, resource efficient and climate resilient development path delivering high resource efficient and climate resilient initiatives contributing to South Africa’s transition to a green economy. The vision of the Green Fund is to support initiatives through green interventions that will contribute significantly to job creation. This involves the use of public money to catalyse innovation and investment on behalf of a range of economic stakeholders in activities that directly enhance employment creation.

The government seeks to create 150 000 jobs over the life of the programme. The DBSA was tasked with the establishment and operationalisation of a Jobs Fund Programme Management Unit (JF-PMU) to undertake the implementation of the Jobs Fund programme. The Fund supports initiatives that pilot new and scale up existing innovative approaches to employment creation, with a special focus on opportunities for young people and women. The emphasis is on partnerships with established private and public institutions to create self-sustaining employment opportunities that lead to long-term systemic change in the industry and economy as a whole, through the provision of an external stimulus in the form of finite, once-off and matched public grant funding. Following the successful incubation of the Fund, the Fund was transferred back to the National Treasury with effect from 30 September 2014.

At the time of hand-over to the National Treasury, the portfolio of approved and committed projects, representing 85 projects, increased from R3.4 billion on 31 March 2014 to R5.0 billion on 30 September 2014 across the four funding windows. Jobs Fund grants were matched by R6.1 billion’s worth of contributions from project partners. It is estimated that in excess of 143 000 new permanent jobs will be created and the placement of 56 000 beneficiaries in existing jobs will be facilitated over the implementation period.

Disbursements for the financial year totalled R533.8 million, bringing the total value of disbursements from inception to R1.5 billion. To date, 401 217 permanent jobs and 9 468 temporary jobs have been created, whilst 6 551 beneficiaries have completed time bound internships and 66 483 beneficiaries have been trained.

**Green Fund investments across sectors (in millions of rands)**

<table>
<thead>
<tr>
<th>Sector</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable water management</td>
<td>227</td>
<td>214</td>
<td>265</td>
</tr>
<tr>
<td>Sustainable waste management and recycling</td>
<td>28</td>
<td>33</td>
<td>40</td>
</tr>
<tr>
<td>Sustainable transport</td>
<td>19</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Sustainable human settlements</td>
<td>37</td>
<td>42</td>
<td>51</td>
</tr>
<tr>
<td>Waste management and recycling</td>
<td>17</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Land use management and models</td>
<td>12</td>
<td>15</td>
<td>20</td>
</tr>
<tr>
<td>Industrial cleaner production and conservation projects</td>
<td>10</td>
<td>20</td>
<td>25</td>
</tr>
<tr>
<td>Renewable energy and energy efficiency</td>
<td>8</td>
<td>10</td>
<td>15</td>
</tr>
<tr>
<td>Biodiversity and ecosystem services</td>
<td>3</td>
<td>5</td>
<td>8</td>
</tr>
</tbody>
</table>

**Investment projects**

- Sustainable water management
- Sustainable waste management and recycling
- Sustainable transport
- Sustainable human settlements
- Waste management and recycling
- Land use management and models
- Industrial cleaner production and conservation projects
- Renewable energy and energy efficiency
- Biodiversity and ecosystem services

**Graph:**

- Investment projects: 10% Sustainable water management, 8% Sustainable waste management and recycling, 5% Sustainable transport, 3% Sustainable human settlements, 2% Waste management and recycling, 2% Land use management and models, 1% Industrial cleaner production and conservation projects, 2% Renewable energy and energy efficiency, 1% Biodiversity and ecosystem services.

**South Africa, Siyasebenza**
SOUTH AFRICA FINANCING

Helping Municipalities Deliver Services, Unleashing Economic Growth

The South Africa Financing division plays an important role in helping the South African government deliver the infrastructure the country requires to provide essential services to its people, mainly at the local government level, as well as the bulk enabling and economic infrastructure needed to unlock the country’s economic growth potential.

Through our work in the municipal space, we focus on improving social infrastructure – water and sanitation, electricity, community facilities, roads and transportation. This is aimed at delivering a better quality of life to the country’s citizens as well as ensuring that economic growth is inclusive.

The division’s support to enhance economic infrastructure is centred on energy generation, bulk water supply, industrial transport and other large-scale services. Investment in these sectors is considered essential to ensure that South Africa has the capacity required to foster sustainable economic growth and development.

While the bulk of our funding is to public sector customers, we also support selected private sector clients. We have recently broadened our product range to provide more non-financial services, such as debt lead arranging and transaction advisory services, as well as providing specific planning and implementing support for infrastructure projects at the municipal level.

Building a Foundation for the Future

The South Africa Financing division demonstrated very strong growth for the year. We approved lending facilities totalling R22.1 billion (compared to R10.6 billion in the previous year), signed commitments worth R15.2 billion (R7.6 billion in 2014) and made disbursements of R14.2 billion (from R9.2 billion in 2014). Of the approvals, R3.8 billion was allocated to energy projects, R4.0 billion to transport projects, R7.3 billion to metros, R3.8 billion to secondary and under-resourced municipalities and R2.1 billion to social infrastructure.

Disbursements in the year were the highest on record, supporting growth in the gross loan book from R38.2 billion in 2014 to R45.5 billion for 2015, an increase of 19%.

Supporting Social Development and Service Delivery

Assisting the Weakest Municipalities as Well as the Metros

Municipalities play an important role in the provision of basic services to South Africans and business as a whole. The need to improve and increase infrastructure in municipalities is therefore of critical importance. Against the backdrop of the demand on existing and new infrastructure is expected to rise with more people migrating to larger cities and towns in search of employment opportunities and the expansion of businesses that utilise the current existing infrastructure in their daily operations.

Institutional weaknesses at municipal level remain acute. The ability of municipalities to render services to their communities and access financial resources for the implementation of infrastructure programmes is under increasing pressure. In some instances, this contributes to service delivery protests. As municipalities are a key target market for the DBSA, these capacity constraints pose significant challenges for us to provide support in an affordable and sustainable manner.

Our financing of the eight metros increased significantly from 2014, but competition from commercial banks in the metropolitan market remained strong. In the year, apart from approvals of R8.5 billion, we committed R4.7 billion and disbursed R3.7 billion (2014: R23.5 billion) to this market. We significantly increased our support to the country’s weakest municipalities and built up strong approvals and disbursements to those in secondary cities. We enhanced our support to the weakest municipalities by sharply increasing disbursements to those in the under-capacitated category. Totalling R1.8 billion (2014: R0.9 billion), the level of disbursements to both secondary (R1.3 billion) and under-resourced (R4.9 billion) municipalities was the highest in our history and represented an increase of 117% from the previous financial year. About a third of the disbursements were part of our bridging finance programmes (see details in the balance sheet) and rest were term loans (R1.3 billion). The growth in the disbursements to these municipalities enabled the division to maintain its financial exposure of R6.7 billion to secondary and under-resourced municipalities, supporting 149 municipalities. Approvals of R3.6 billion and commitments of R2.1 billion concluded during the year will provide a sound foundation for disbursements in the new financial year.

Under-resourced municipalities have very weak economic bases and an institutional capacity, combined with an almost complete reliance on national government transfers for both capital and operating expenditure. These municipalities require intensive support in all aspects of infrastructure delivery and management. This includes support to strengthen their ability to plan, prepare and implement projects and to utilise support through fiscal transfers. Their ability to strengthen their economic base and own revenue streams is also limited and requires external interventions to improve the situation. The extent of these challenges requires the development of integrated solutions involving a number of stakeholders to provide support to the full business cycle of project development, implementation and operations in order to achieve greater impact.

In the year we disbursed R415.4 million (2014: R413.5 million) to the weakest loaded projects. It is anticipated that approximately 66 700 households will benefit from access to water and sanitation when these MIG projects are completed.

In terms of INEP, projects worth R445.9 million to electrify houses in poor communities were approved and disbursements totalling R106.6 million (2014: R50.0 million) were made. The funding will assist these municipalities to connect 9 797 households.

During the year the division focused on increasing efficient infrastructure delivery through technical capacity support to under-resourced municipalities to strengthen their ability to plan and prepare projects for implementation with increased capital spending. In this regard, the emphasis was not only on DBSA-funded municipalities, but included other under-resourced municipalities with substantial service delivery backlogs and potential for the unblocking of new project pipelines for accelerated infrastructure investment. The footprint in providing planning support was extended to eleven under-resourced municipalities, reaching eight provinces.

The Bank also secured mandate agreements from five municipalities (Uthukela district municipality as well as Emnambithi, Umlumbi, Emfuleni and Thembelihle of the Eastern Cape), that will see the DBSA providing infrastructure planning support to them based on infrastructure assessment outcomes. Planning support in terms of these mandate agreements will be prioritised in the 2016 financial year to ensure project readiness for accelerated funding and implementation. The Emfuleni Municipality was supported through the successful approval and packaging of nine water and sanitation projects amounting to R224 million as part of the Bank’s for MIG pledging programme.

In addition, two municipalities received an operational model for fast-tracked project implementation and loan disbursement.

The Planning and Implementation units provided support to the ‘Back-to-Basics’ initiative in North West Province. DBSA has joined forces with other stakeholders in the North-West Task Team to support distressed municipalities in the province. All ‘Back-to-Basics’ Action Plans for the individual municipalities have been finalised, followed by the introduction of an ‘operational model’ for the implementation of the proposed support and interventions. The Planning Support unit identified all possible DBSA support and intervention efforts to the individual municipalities. At this stage, five municipalities have been identified for potential lending and non-lending support namely, NPak’a Modimo District Municipality, Kgatleng River, Moretele, Madibeng and Maquassi Hills. The ‘Back-to-Basics’ initiatives open up opportunities for the implementation of new project pipelines for the delivery of the Bank’s integrated value proposition. Going forward, more strategic partnerships will be sought to advance the delivery of municipal infrastructure and impact in under-resourced municipalities.

Eleven DBSA-funded projects received implementation support, mainly in the water, sanitation, roads, storm water, electricity and fleet sectors. Four of the supported municipalities are classified as SONA municipalities, which were identified for support in the President’s
SOUTH AFRICA FINANCING (CONTINUED)

State of the Nation Address (SONA) in June 2014. Of the remaining SONA municipalities, the DBSA has completed the appraisals for lending support to four municipalities, namely Ngaka Modiri Molema District Municipality for Mig Front-loading and Misupa, Mvoti and Ntabankulu municipalities for INEP front-loading.

To date, the implementation unit has facilitated a total disbursement of R648.6 million to these client municipalities. Furthermore, 60 projects have been completed by 31 March 2015. As a result of the implementation of the DBSA-funded projects, 3,667 households are benefiting from new or improved access to water and sanitation services and 4,855 households have received new access to electricity services. In addition, 1,773 temporary job opportunities have been created.

The Cities Project Preparation Facility (Cities PPF) is an initiative by the National Treasury, managed through DBSA, set up to capitate 18 targeted municipalities and create a pipeline of catalytic spatially integrated infrastructure projects to enable the government’s Urban Network Strategy. The Cities PPF identified 13 beneficiary municipalities. A total of 12 professional service providers were appointed to assist with project preparation, including concept studies, pre-feasibility studies and feasibility studies. Altogether, 195 projects were studied. Altogether, 195 projects were completed and 12 professional service providers were appointed to municipalities. A total of 12 professional service providers were appointed to municipalities.

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SOUTH AFRICA FINANCING (CONTINUED)

BOLSTERING THE SUPPLY OF AFFORDABLE HOUSING AND STUDENT ACCOMMODATION

In an effort to assist with the eradication of backlogs in housing in South Africa, the Bank continued to invest in a variety of student accommodation, affordable housing schemes and externally managed funds with mandates aligned with those of the DBSA. In the year, we committed R930 million and disbursed R7 million to support the development of student accommodation at various higher education institutions. We further committed R222 million (2014: R194 million) in the Old Mutual Housing Impact Fund, which is financing the construction of affordable homes for sale and rent, as well as providing housing loans and rental accommodation for families and students.

The Durban University of Technology (DUT) has embarked on a 10-year strategic plan to maintain its relevance and teaching successes. One aspect of the plan is to increase student housing to a target of 30% of enrolment in facilities on or adjacent to its campuses. Research has found that students housed close to university campuses are able to use teaching and learning facilities maximally and perform better than similar students in universities where accommodation is provided further away from the campus. This case study records the efforts and development impact of the DUT’s plan to build a student village on its main Durban campus.

The DUT is a multi-campus institution with facilities spread over five campuses in Durban and two in Pietermaritzburg. The main campus is the Steve Biko campus in Durban. It was formed as the Durban Institute of Technology in 2002 through the merger of M. Sultan Technikon and Technikon Natal. Four years later, when tertiary education institutions were restructured, the institution was renamed the Durban University of Technology.

The university has an enrolment of approximately 24 700 students, 6 000 of whom are accommodated in residences. Some 3 000 students live in residences leased by DUT around the CBD of Durban, with some within walking distance of its various campuses while a few are up to 10 kilometres away. Residences that are situated far from the campuses are expensive for the university to run in terms of rental costs as well as the transport service it provides for students. Students at the far campuses are disadvantaged by the transport service and are unable to easily access the libraries or facilities after hours when the buses have departed. Some of the accommodation the university leases is not conducive for studying and does not provide the standards of safety or security the university wishes to provide to students. The DUT’s student village project was launched in late 2014.

The new student village will start housing students for the first time in June 2015.

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OBJECTIVE BEING ADDRESSED

The DUT has an unusually fragmented campus for a South African university but it is not alone in having an unsatisfactory student accommodation situation. In 2001 the Department of Higher Education and Training (DHET) published the findings of its investigation into student housing.

One of the findings linked the performance of students on state financial assistance to the availability of student housing and showed that students housed in facilities close to their campuses were able to make better use of learning facilities than those who had to commute to campus. Moreover, students who qualified academically for university places and for state financial assistance, but for whom there were no housing places available, had a much higher failure rate. The investigation concluded this was a financially wasteful outcome of public money on subsidising university teaching and financial aid to unsuccessful students. The study estimated that the current accommodation backlog was 200 000 beds in residences and recommended that the ideal level of student accommodation on campuses in rural communities should be 80%, with a 50% level in urban areas. The impetus of these findings resonated with the DUT faculty’s experience. By accommodating more students in on-campus residences, the DUT would be able to significantly improve the level of academic support it could provide to its students.

APPRAISO

The DUT has developed a strategic plan for teaching, research and infrastructure to fulfill its aspiration to be, according to its vision, a “preferred university for developing productive citizenship”. One part of the strategic plan is to raise the level of student accommodation on campuses in rural communities from the present 12% to 30% of total enrolment over a 10-year period. The university intends to reduce the number of students staying in off-campus residences and increase the numbers accommodated in residences on-campus. The first step in that plan envisaged building a student village with 804 beds on the main Steve Biko campus and relocating students from distance accommodation to the new facility. The student village project was budgeted at R195 million, R165 million in funding coming from a capital grant from the DHET, but the university needed to raise the balance of R90 million from the market.

OUTCOMES AND MEASURABLE IMPACTS

DBSA has a long standing relationship with the DUT. The Bank financed previous university infrastructure projects. For the student village project the DBSA assisted the DUT to specify a request for proposal (RFP) for its financial requirements. DUT is regulated by the FYMA and hence it must produce good communications (including loans) in a manner that is competitively fair and transparent. As soon as the RFP was issued in February 2014, the DBSA moved quickly to carry out a due diligence on the DUT, assisted by the extensive understanding of the client on the part of the investment project team. At the competitive tendering situation for the DUT project, the DBSA possessed good market intelligence on recent student accommodation loans that it had bid for and therefore knew how to price the loan. The proactive approach used by the project team enabled them to submit an investment proposal to the Bank’s Credit and Investment Committee that was approved without referral in April. The DUT was informed that the Board Credit and Investment Committee approved the Transaction. Negotiations with the DUT on the Bank’s offer were swiftly concluded and a loan agreement was signed in June 2014. Disbursement started the same month. Construction of the student village started on schedule but completion of the project slipped by four months due to unforeseen water problems on the site. The new student village will start housing students for the first time in June 2015.

Future monitoring of the cohort of students housed on-campus will need to take place to measure the impact on academic performance attributable to their proximity to learning facilities.

SUSTAINABILITY

The DUT’s student village project is one part of a strategic plan the university has embarked on which is sustainably financed from redirecting operational expenditure from housing costs towards servicing debt on the capital programme. Financial savings that the DUT has been able to make by giving up leases on accommodation facilities located in the Durban CBD come from two sources. First, the university no longer has to lease buildings that are unoccupied during the vacation breaks. Second, the university is no longer paying transport contractors to bus students to and from their residences. These operational savings increase the DUT’s debt servicing ability.
ECONOMIC INFRASTRUCTURE AND GROWTH
Development is multi-sectoral in nature and an integrated approach is required to maximise the impact of investments. Investments in social infrastructure, such as health, housing and education, must be supported by investments in bulk enabling infrastructure, such as energy, water and transport.

ENHANCING INVESTMENT IN POWER GENERATION
The division targets priority economic sectors for investment, based on national infrastructure requirements. A key focus area during the year was the continued support for energy generation capacity, including renewable energy, as well as coal and gas-fired power sources in the country, a strategic imperative given current supply constraints.

In the renewable energy sector, the division exceeded expectations in extending debt finance through its participation in the Renewable Energy Independent Power Producers Procurement (REIPPPP) programme. This programme is being driven by the Department of Energy to create an enabling environment for private sector investment in biomass, solar, wind and small-scale hydro energy generation facilities, as well as seek to involve broad-based black economic empowerment (B-BEE) parties and, in particular, to ensure that their capacity is built up to contribute competitively in future energy sector programmes. The DBSA supported the programme by contracting and managing transaction advisors to assist in designing and developing documentation for projects (capped at about R3.6 billion) to fund the purchase of renewable energy, as well as coal and gas-fired power sources in the country, a strategic imperative given current supply constraints.

For the year, the division committed R4.2 billion for Round 3 of the REIPPPP and Peak and peaks programmes and disbursed R2.4 billion (2014: R3.7 billion) for Rounds 1 and 2 of the REIPPPP and Peak programmes. Of these amounts, R1 billion (2014: R1.86 billion) was committed and R166 million (2014: R187 million) was disbursed in favour of B-BEE enterprises.

The division further strengthened its support of coal power-generating programmes, disbursing R3 billion (2014: R2 billion) in the year.

AUGMENTING BULK WATER INFRASTRUCTURE
Investments in bulk water infrastructure are required to address both growing household demand and the needs of the mining, manufacturing and agricultural sectors, which are heavily reliant on water for production.

As part of our bulk water funding strategy, we disbursed a further R2.03 billion (2014: R2.35 billion) in the year to the Trans-Caledon Tunnel Authority (TCTA) for the Moi-Mpeli Water Augmentation Scheme in KwaZulu-Natal.

SUPPORTING TRANSPORT INFRASTRUCTURE
Investment to enhance industrial transport facilities is another important government focus. This is to support national efforts, which include moving more freight from road to rail, reducing the country’s carbon footprint, growing the mining sector, creating jobs and positioning South Africa as a regional trans-shipment hub.

As part of the Bank’s role, alongside HSB plc and Pamoja Capital Proprietary Limited as transaction advisors and debt arrangers to the Tshwane Rapid Transit System, the DBSA committed R766 million to the project in 2015.

BACKGROUND
Tshwane Rapid Transit (TWT) required a total of R766 million to procure 67 buses and the driver training required for the first phase of the A Re Yeng Bus Rapid Transit (BRT) project in Tshwane. TWT signed a R448 million agreement with the DBSA in November 2014 to fund the purchase of 40 Mercedes Benz Compressed Natural Gas (CNG) buses as well as the local content of 131 Volvo diesel buses. In December 2014, an additional R298 million loan was extended to the project.

At the inception of the project, buses will run from Paul Kruger and Nana Sita streets in Thembisa, Pretoria Central Business District (CBD) to the Hatfield Garage Station in Arcadia Street. The A Re Yeng BRT is forecast to transport about 127 000 passengers per day once phase one is operational.

The DBSA is committed to investing in public transport networks to ensure safe, efficient and绿色 transport systems. Tshwane BRT project is one of 12 BRT projects in the country that will receive the DBSAs support. South Africa’s Public Transport Strategy (2013) moving transport towards an improved quality integrated Mass Rapid Public Transport Network, which includes rapid, taxi and bus services. Rapid transit systems have been identified by national government as one of the viable transportation options that can ensure sustainability, equity and unconfested mobility in the country. The 2050 vision is to extend 85% of the metropolitan cities’ population to be within one kilometre of a public transport service network line.

The shareholders of the TWT are the City of Tshwane, the DBSA, the Department of Transport, the Gauteng province and the communities of the Tshwane Metropolitan Area.

Non-municipal approvals, 2015

Non-municipal commitments, 2015

Non-municipal disbursements, 2015

Non-municipal, 2015

TWT signed a R4887 million agreement with the DBSA in November 2014 to fund the purchase of 40 Mercedes Benz Compressed Natural Gas (CNG) buses as well as the local content of 131 Volvo diesel buses.

OBJECTIVE BEING ADDRESSED
The National Land Transportation Act (NHLTA) provides the legal framework for the development and implementation of the Integrated Rapid Public Transport Networks (IRPTN) by metropolitan cities in South Africa. The NTLA provides the framework for the negotiation of 30-year contracts that municipalities can enter into during the implementation of BRT projects. Tshwane’s IRPTN strategy sets out the network plan for BRT corridors and integration with rail services such as the Gautrain and PRASA commuter rail lines in the short, medium and long term.

Other key strategic objectives are to facilitate the corporatisation of the affected operators and provide them with value-adding opportunities through training, so as to assist them to access sustainable income prospects.

APPROACH
The City of Tshwane will roll out the BRT in phases, with phase one seeing the delivery of the buses in four batches over two years. Ownership of the buses will vest in TWT, which will procure the buses and charge a user fee on a toll-in-toll basis using a few per kilometre payment system, guarantees a minimum number of kilometres to cover debt services, all operating costs and a profit element.

OUTCOMES AND MEASURABLE IMPACTS
The project will have a significant impact on the socio-economic and economic development of the city and its inhabitants as well as Gading as a whole, with the following development impact:
• An estimated increase of the provincial GDP by R437 million.
• An estimated 700 000 additional employment opportunities, of which 275 will be for skilled workers.
• An estimated 1 640 additional fiscal impact for government of R30 million.
• Improved quality of life through an efficient, safe and affordable transport system.

SUSTAINABILITY
The BRT will move an estimated 100 000 passengers per day, reducing the metropolitan area’s carbon footprint. 77% of the 10 000 jobs to be created during the construction phase and about 1 000 jobs during operation of the system will be filled by the City. TWT has a specific on-boarding of women and disabalites in the taxi and bus industry.

For further information contact: www.tshwanerapidtransit.net

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Networks (IRPTN) by metropolitan cities for integration across different transport modes. The IRPTN strategy sets out the network plan for BRT corridors and integration with rail services such as the Gautrain and PRASA commuter rail lines in the short, medium and long term.

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• Improved quality of life through an efficient, safe and affordable transport system.
The project entails the development, financing, procurement, construction, testing, commissioning, operation and maintenance by Kwa XU CSP South Africa (Pty) Limited of a green field solar power station installation with a 100 MW net power generating capacity, together with associated infrastructure and facilities.

**Development Bank of Southern Africa**

- **Sustainability**
  - One of the main contractors, Abengoa Solar S.A, global leader in the development, ownership and construction of the solar power generation, has an excellent track record spanning approximately 17 years in the solar energy sector. The key project data include:
    - The only multi technology development in the 300 MW Solaric Platform in Savill which includes trough, tower and PV plants.
    - PS 10 (11 MW) and PS 20 (22 MW) – the world’s first commercial tower plants located at the Solaric Platform.
    - ISO (3 x 50 MW) trough plants in Spain.
    - Solaria 280 MW – the world’s largest trough plant located in the USA.
    - The world’s first solar and gas combined plants through the ISO 50 MW Huma 1mac.
    - An integrated solar and gas combined cycle plant in Algeria and a similar one in Morocco.
    - The first CSP plant in the United Arab Emirates through the Shams 1. A 100 MW plant in Abu Dhabi.

The loan period of 16 years including availability of grace periods is in line with typical development finance practice.

**Important Lessons Learnt and Critical Success Factors**

- Abengoa Solar S.A is the main partner and subsidiary in this project with its track record will undoubtedly contribute positively to the success of the project. Solar energy can contribute significantly to addressing the current challenges in energy that Eskom faces.
- There is a considerable growing need for countries to reduce their emissions and achieve greater energy independence while facing these factors.
- Increasing volatility in fossil fuel prices.
- Significant increase in demand for energy and CO2 emissions in emerging countries.
- Decreased nuclear generation in the energy mix of developed and developing countries.

The most important factor that sets concentrating solar power apart from other forms of renewable energy generation is its dispatchability, or the ability to adjust production to the demand. Dispatchability is considered essential, and perhaps most valuable, for electric utilities. Having the ability to adjust energy generation to the demand curve has the benefit of being able to sell electricity to the grid at peak generation hours, with a resulting increase in price, and the ability to compensate for the effects of intermittent sources.

**Developmental Impact**

The Community Trust which has been formed comprises separate women, youth and general communities in Pofadder and Upington. Dividends flowing to the Community Trust over the life of the project will be applied towards local economic activities such as contour mapping and geotechnical analyses have been completed. The facility being developed will utilise parabolic trough technology with a molten salt thermal energy storage facility that allows extending electricity generation up to 2.5 hours after sunset.

The project is at an advanced stage of development on all fronts. Project preparation activities such as contour mapping and geotechnical analyses have been completed. The environmental authorisations have been received. The site for the project has been purchased and registration into the name of Kwa XU CSP South Africa (Pty) Limited will occur on ministerial approval of the subdivision.

**Outcomes and Measurable Impacts**

Once developed, the key components of the project will be:

- A solar field with parabolic trough collectors and the heat transfer system (HTS).
- A molten salt storage system or thermal energy storage (TSS).
- A steam cycle with steam turbine generator.
- A cooling system.
- Other auxiliary equipment.

The solar thermal plant collects solar energy with the parabolic trough collectors and converts this energy into electricity in the steam cycle. The TES storage has a capacity to store energy for 2.5 hours during off-peak hours and dispatch it during peak hours.

**Reporting Stronger Financial Results**

South Africa’s finance minister recorded a net profit of R1.2 billion (2014: R739.8 million) in the year despite increasing competition, especially in the metros and secondary municipalities.

Interest earned from investment activities increased to R4.1 billion compared to the prior year’s R3.5 billion. Interest expense also increased to R2.5 billion (from R2.0 billion), in line with the increase in the debt/equity ratio. This contributed to a net interest income ratio of 39%, down from the 43% recorded in 2014.

Operating expenses increased from R663.3 million to R799.9 million in 2015, whilst the cost-to-income ratio increased marginally to 4.6% from 4.0% recorded in 2014.

The impairment loss of R329.9 million was significantly lower than the R559.6 million recorded in 2014. The prior year impairment charge was largely concentrated on the division’s non-public sector investments book, which is more susceptible to changes in economic conditions.

**Outlook**

In the year under review we improved our support to under-resourced municipalities and, importantly, built a strong foundation on which to build in the next year. The same can be said for our efforts in the energy and transport sectors. Our continued engagement with independent power producers laid the basis for good disbursements in 2016.

Preparatory work for clients in the transport industry (with regard to rail and ports in particular) will also see our involvement in this sector increase in the next two years.

Going forward and recognising that the demand for infrastructure is greatest in large urban centres, the DBSA and the National Treasury are currently discussing various approaches to support the development of economic infrastructure to expand the income generation base of municipalities. Crowding-in the private sector investment is essential to increasing the funds available to large urban centres.

During January 2015, a working group, comprising representatives from the National Treasury and the DBSA, was established to begin design solutions on how to create and maintain a strong project pipeline, increase the market for municipal infrastructure development as well as consider how to further crowding-in the private sector.

During the new financial year the working committee will seek to also collaborate with selected municipalities and private sector institutions to plot a number of solutions prior to full implementation. Key solutions under consideration include:

- Structuring of new loan products to support the funding of long-term assets with short- to medium-term funding, exposing them to a refinancing risk as well as increasing the borrowing rates or costs of the underlying assets. With the implementation of Basel III, an opportunity has been identified for institutions such as the DBSA to fund the longer end of the loan, which is the typical role of development finance institution, for periods from 10 to 20 years, whilst the period shorter than ten years would be funded by the private or commercial bank market. The success of such a product would depend on how municipalities changing their current behaviour of funding long-term assets with short- to medium-term funding.

- Securitisation options of the existing loan book.

Loans to urban cities could be amalgamated, packaged and sold off to attract and crowd-in private sector capital. There is proven appetite from both the commercial bank market and the debt capital markets for exposures to cities and large urban centres. Crowding-in the private sector will also enable the DBSA to free up capital for reinvestment into infrastructure projects.

- Extending the grants bridging programme to large cities.

Since 2010, following the promulgation of enabling legislation by National Treasury, the DBSA has participated in the provision of bridging finance to various secondary and under-resourced
SOUTH AFRICA FINANCING (CONTINUED)

municipalities by pledging conditional grant transfers. Two programmes are currently running under the conditional grant pledging framework by DBSA, namely Municipal Infrastructure Grant (MIG) and Integrated National Electrification Programme (INEP). The benefits arising from these programmes include the acceleration of service provision for electricity, water and sanitation and saving on cost escalations on infrastructure due to the rapid implementation of infrastructure.

On the back of the successful implementation of the MIG and INEP, DBSA was appointed by National Treasury to manage and host the Cities Project Preparation Facility (PPF). The main objective of the programme is to support metropolitan and large cities of bankable projects. Project preparation plays an important role in unlocking viability. During 2015, the PPF has disbursed R619 million, with a focus on road and energy projects.

We are realistic about the challenges that we face. The scale of planning that is required in local government is such that it is something that the DBSA’s efforts will only be able to meet partially. We look forward to working together with other parties in this regard. Similarly, procurement processes in local government are often complex, inhibiting the expedient delivery of infrastructure. We will continue to engage with the appropriate parties to help ease the blockages that exist and so assist in providing much-needed social infrastructure, guided by the national imperatives of job creation and economic development.

We challenge limiting conventions today, to create liberating change tomorrow.

INTERNATIONAL FINANCING

LEVERAGING INFRASTRUCTURE DEVELOPMENT OPPORTUNITIES OUTSIDE SOUTH AFRICA

Regional integration is critical in growing both the South African and broader continent’s economies. The DBSA’s International Financing division supports the country and the Bank’s regional development and integration strategy, aimed at facilitating trade in Africa by investing in infrastructure projects outside of South Africa, through:

- Providing financing, related products and services for commercially viable and sustainable projects, primarily in the energy, transport, water and telecommunications sectors, which contribute to economic development and regional integration.
- Supporting project planning and development, advocacy and partnership building for resource mobilisation.
- Promoting inter-regional integration and cooperation between SADC and the adjoining regional economic communities in Africa.

Infrastructure demands on the continent are extensive. It is clear that, as a financier alone, the DBSA is unable to address the significant infrastructure gaps on the continent. While the DBSA has achieved much over the last few years, it has and can only contribute to a small portion of the infrastructure development needs. Part of the challenge is not so much the availability of finance, but the readiness of bankable projects in the region.

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Approvals and commitments

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Disbursements

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<td>R619 million</td>
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Employee numbers

| 31 |

Net loss

| R39.3 million |

Total assets

| R15.5 billion |

Performance and Outlook

2015 Integrated Annual Report

For continental and national strategic consideration, the DBSA may consider investments outside the pivot countries identified, only with the authorisation of the Board.
INTERNATIONAL FINANCING (CONTINUED)

OPERATIONAL RESULTS
Africa’s macro-economics remain favourable. The commercial vibrancy and its growth acceleration has resulted from more than its natural resource endowments. The key reasons behind Africa’s growth surge were improved political and macro-economic stability arising from the economic reforms of the late 1990s and early 2000s. Initially, several African countries saw a cessation of deadly hostilities, creating the political stability necessary to foster economic growth. Governments then took actions to lower inflation, trim foreign debt and shrink budget deficits. Finally, policies to stimulate economic activity and deepen markets were adopted. These included privatising state-owned enterprises, reducing trade barriers, cutting corporate taxes, strengthening the regulatory and legal systems as well as investment in infrastructure. Economic growth and expansion have attracted significant interest from investors across the globe and introduced new competitive and complimentary dynamics on the continent. These dynamics, as well as the high cost of funding in capital and lending markets, make it more difficult for projects to meet the required hurdle rate. This is particularly challenging for infrastructure sectors and projects that have long-term goals and offer relatively low financial returns.

Following the successes of the previous financial year, the International Financing division faced a challenging trading environment. Total approvals amounted to R2.2 billion (2014: R4.6 billion) and disbursements totalled R619 million (2014: R3.6 billion).

Disbursements were led by projects in the energy sector in two countries, namely Ghana and Zambia. Disbursements were largely targeted towards energy, telecommunications and infrastructure development funds across multiple countries.

The division’s gross development loan book of R41 billion decreased marginally from the R43.3 billion recorded in 2014. The decrease was mainly attributable to the impact of the lower disbursements and repayments received in the normal course of business. Investments in Zambia constituted 30.5% (2014: 28%) of the loan exposure, followed by Angola and Zimbabwe. These three countries together made up almost 69% (2014: 64%) of the division’s loan portfolio. Our commitment to the development of the North-South Corridor (NSC) is evident, with the roads sector constituting 50% (2014: 45%) of the loan portfolio, followed by the energy sector with 22% (2014: 25%).

In 2014, the Cenpower deal won the London-based Thomson Reuters’ Project Finance International (PFI) Magazine Awards as the African Power Deal of the Year. The partnership included states from South Africa, the Netherlands and Japan. The Cenpower deal presents an innovative blueprint for future power deals in Africa and shows the potential for collaboration and implementation of deals in the energy sector, which is most vital for the continent’s economic development and growth. Cenpower will provide 340 MW of power at the Tema Heavy Industrial Area, which will drive industrialisation in Ghana and ultimately contribute to regional integration in West Africa.

Ghana has an installed electricity capacity of just over 2 500 MW, generated 12 billion kWh of power in 2015, of which 67% was from hydroelectricity and the remainder from fossil fuels. The Kpone Independent Power Plant (KIPP) project will be the largest independent power producer in Ghana, contributing approximately 10% of Ghana’s total installed capacity and approximately 20% of its available thermal generation capacity. As a Combined Cycle Gas Turbine (CCGT) plant, it will be amongst Ghana’s most efficient thermal power stations. Once in production, KIPP will be a critical base-load component in meeting Ghana’s growing electricity demand.

Ghana plans to add 2500 MW to its grid by 2030 thereby increasing its citizens’ access to electricity even further. In fact, most rural district capitals and villages have access to the national electricity grid. The additional power in Ghana could offset some of the energy backlog in West Africa where only 49% of the population has access to a decent energy supply. Projects such as Cenpower will go a long way towards reducing that backlog.

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INTERNATIONAL FINANCING

Development of Key Corridors, Supporting Partnerships and Project Origination Development

Regional integration is critical to the growth of the South African economy as well as that of the broader continent. To promote regional integration, the Bank supports key infrastructure corridors, such as the North-South Corridor (NSC). This development corridor was established under the auspices of the Tripartite Alliance of the SADC, the COMESA, and the EAC and is endorsed by the African Union. The programme is directed toward regional economic integration through the upgrade and extension of transport links (road, rail, ports and one-stop border posts) in Southern and East Africa. South Africa champions this initiative through the Presidential Infrastructure Champion Initiative, which President Jacob Zuma chairs.

The DBSA is working with the Department of International Relations and Cooperation (DIRCO) secretariat in coordinating reports to the President on the NSC with other stakeholders, providing the Presidency, the NSC Steering Committee and the Working Groups with feedback on the status and developments on the NSC and other strategic initiatives and facilitating effective participation of South African entities and companies in the development of the NSC (including working closely with international DFIs, organisations and the private sector).

During the year, the DBSA continued to provide support to various projects on the priority list, including the support to the development of one-stop border posts (OSBPs). The DBSA is part of the process of consultations between the South African Revenue Service (SARS), which facilitated meetings between the Border Control Operational Coordinating Committee, and the government of Zimbabwe’s Ministry of Transport. The parties are well progressed in concluding a Memorandum of Understanding (MoU) and the Bilateral Agreement on the Beitbridge OSBP. Work on the development of the Beitbridge Master Plan is underway, driven by the South African side, with the intention to develop a special economic zone along the Musina-Beitbridge gateway. This will be expanded to cover the Zimbabwean side once the OSBP MoU and Bilateral Agreement are finalised.

The division has been involved in the process of establishing the Border Management Agency (BMA), led by the Department of Home Affairs, and the process of developing a draft OSBP policy for South Africa, led by the Department of National Treasury.

The International Financing division regards partnership and project origination development as an important initiative for both development and business strategy. While the initiative supports the development of infrastructure solutions for the region, it is also a competitive business strategy that enables the division to play a proactive role in shaping projects and securing financing opportunities.

During the year, we continued to build strong local know-how through forging in-country partnerships with DFIs across the SADC region as well as with various European DFIs around the development of renewable energy across the continent.

During the 2012 World Economic Forum in Africa discussions in Addis-Ababa, African business leaders and their international counterparts endorsed the launch of an African-focused business-driven initiative to accelerate the implementation of the Programme to Infrastructure Development in Africa (PIDA) Priority Action Plan (PAP).

The African Strategic Infrastructure Initiative (ASI) was formally kicked off in Johannesburg on 9 July 2012 as a joint initiative of the World Economic Forum (WEF) with the African Development Bank (AfDB), the African Union Commission and the NEPAD Planning and Coordinating Agency (NPCA) as the overall coordinating agencies of PIDA. The ASI platform is co-chaired by the CEO of the DBSA, Patrick Dlamini, and the General Electric CEO for Africa, Jay Ireland. The key objectives of ASI include the following:

• To establish a best practice framework for Public-Private Partnerships (PPPs), financing and capacity building for improved infrastructure development in Africa
• To enable the public sector to benefit from transparent, objective and informed input from the private sector
• To develop a priority pipeline of projects in line with the PAAPP, focusing on Africa’s priority infrastructure projects

The DBSA is a key role player in the Business Working Group (BWG), which provides a platform for business leaders to provide private sector input into Africa’s priority infrastructure projects. As an active member of the ASII, during the January 2014 Summit in Davos, the Central Corridor, covering the East African countries Tanzania, Uganda, Burundi and Rwanda, was selected as the pilot programme for the acceleration of the implementation of key infrastructure projects. The Central Corridor is a multi-modal trade and transport corridor within the East African Region, with a combination of road and railway network linking the four landlocked countries to the port of Dar es Salaam. It has been the most cost-effective corridor in the region due to its geographical location and ample investment opportunities, with various studies pointing to the economic viability of this corridor.

As such, the focus of the corridor member states has been to prepare the corridor opportunities to meet the requirement of the global investors’ appetite for infrastructure projects through PPPs. The WEF and the ASI BWG have supported the processes throughout. The DBSA, as a BWG member, provided the necessary technical support and appointed independent technical expertise for the packaging of the shortlisted 23 projects in phase 1. The DBSA, WEF, Boston Consulting Group (BCG), NEPAD Agency and AfDB, in collaboration with Central Corridor-Transit-Transport Facilitation Agency (CC-TTFA), worked tirelessly alongside a dedicated Regional Task Force Group to identify the projects, prioritise, prepare and package them for showcasing at the Presidential Roundtable and Central Corridor High Level Industry and Investor Forum held respectively on 25 and 26 March 2015 in Dar es Salaam. The 23 priority projects were packaged in terms of the type of financial model for them to get a better grasp on how projects are financially structured; capacitating CC-TTFA to be more critical when reviewing the financial structures of projects being prepared by consultants.

• To establish key relationships with various government departments within the Central Corridor (Tanzania, Burundi, Rwanda, Uganda and DRC); has been invited to attend more PIDA project progress meetings on the continent, and is now in consultation with the NEPAD Planning and Coordinating Agency (NPCA) to further support the programme as the NPCA takes ownership of this initiative.

• The DBSA was also invited to the Integrated Corridor Development Partners Convention, an initiative in collaboration with World Bank Group and the EAC to rehabilitate and invest in the Inland Waterways Programme (including all the lake ports in the EAC). Further interaction is underway to explore opportunities for the DBSA in this programme.

• The BCG, the project manager of this initiative, and the DBSA have many synergies given the institutional knowledge created through the successful and close collaboration during the ASI. Since WEF Africa 2015, managing partner for BCG, Adam Ideai, has insisted on his willingness and commitment to once again partner with DBSA on the NSC and the Inga programme.

Regional integration is critical to the growth of the South African economy as well as that of the broader continent. To promote regional integration, the Bank supports key infrastructure corridors, such as the North-South Corridor (NSC).
We are optimistic that many of the projects approved and committed in 2015 will be disbursed in 2016.

FINANCIAL OVERVIEW
The division recorded disappointing financial results for the year. The lower than expected disbursements and the impact of impairments and revaluations on equity investments contributed to the net loss of the year of R39.3 million (2014: profit of R3 million).

Interest income of R823 million was 2.4% higher than the R804 million recorded in 2014. However, the net interest margin decreased from 63% in 2014 to 57% in 2015, mainly as a result of increased competition in the market.

Following a successful 2014, during which we generated significant non-interest income of R221 million, the division recorded non-interest income of R176.3 million during 2015. The decline was mainly attributable to the impact of the lower commitments and disbursements on which we generate upfront and commitment fees, as well as a decline in income earned on non-financing related activities. The division has traditionally been primarily a provider of senior debt and over the last number of years has sought opportunities to expand the product offering to services such as transaction advisory and mandate lead arranging. During the year under review, the division continued to seek new opportunities to diversify these income sources. However, a lack of opportunities in the market contributed to the decline in non-interest revenue.

Overall operating costs remained well managed and increased by 3.9% to R36.6 million, well below the prevailing inflation rate.

Due to the decline in commodity prices and institutional weaknesses in some institutions, the division experienced deterioration in the value of some of its loan and equity investments. Impairments increased from R173.3 million in 2014 to R415.5 million in 2015, whilst the net unrealised revaluation loss on equity investments amounted to R134.8 million (2014: R591.2 million). These losses contributed significantly to the net loss for the year.

OUTLOOK
Infrastructure development on the continent is multi-faceted, complex and takes a long time to implement. Furthermore, market dynamics continue to change, including the needs of our clients as well as the entry of many new players into the African infrastructure market.

We are optimistic that many of the projects approved and committed in 2015 will be disbursed in 2016. We will continue to leverage relationships with the leading infrastructure agencies from Europe, Asia and the BRIC nations to secure co-financing on regional projects.

The Bank is well positioned to provide infrastructure finance to the continent and increase its footprint in the core sectors of energy, transport and water. The improvement of infrastructure on the continent will bring immense strategic benefits to both South Africa and the rest of the continent such as increased access to export markets and economic integration, thereby supporting various bi-national commissions between the South African government and other African countries, as well as committing to regional integration.

INFRASTRUCTURE DELIVERY

ASSISTING THE GOVERNMENT IN PROVIDING ESSENTIAL INFRASTRUCTURE
The DBSA, through the Infrastructure Delivery division, supports government in leveraging skills and capabilities to accelerate the implementation of a number of infrastructure programmes in the key priority sectors of education, health and housing, as well as various municipal infrastructure programmes.

In providing this support, the Bank seeks to become a centre of excellence in infrastructure delivery by:

- Managing the design and construction of government infrastructure projects using innovative, turnkey solutions to drive greater value for money, asset sustainability and full functionality.

Funds under management
R2.0 billion
(2014: R1.5 billion)

Employee numbers
6 permanent,
88 contractors
(mostly engineers, construction project managers, programme managers and quantity surveyors)
(2014: 8 permanent, 26 contractors)

Completed
15 schools, 112 rural houses, 60 doctors’ consulting rooms and refurbished 26 clinics

112% of programme expenditure recovered

IMPLEMENTING AGENT SERVICES
- Management of the design and construction of infrastructure projects
- Using innovative turnkey solutions to drive greater value for money, asset sustainability and full functionality

PROGRAMME MANAGEMENT SERVICES
- Provision of programme management and specialist expertise to support the planning, design, budgeting, execution and maintenance of infrastructure projects and programmes

PROGRAMME COORDINATION SERVICES
- Gathering and analysing projects and spatial information to improve infrastructure planning, project prioritisation, delivery coordination and performance

INNOVATIVE LEARNING SOLUTIONS
- Provision of innovative infrastructure delivery learning solutions that deliver measurable improvements in individual and business performance as well as development impact

PROJECT DELIVERY VALUE CHAIN

INCEPTION
- Prioritisation models and scenarios of infrastructure development impacts
- Information on infrastructure trends
- Up-to-date and accurate information on the spatial location and quality of infrastructure as well as the status of planned and current projects

CONCEPT DEVELOPMENT
- Adoption of appropriate procurement options
- Appropriate project design

IMPLEMENTATION PLANNING
- Accurate and realistic project planning and costing
- Life cycle costing, maintenance plans and partnerships to drive full functionality

TENDER
- Enabling artisans to access sustainable job opportunities through work-based artisan development programmes

EXECUTION AND MONITORING
- Gathering and analysing project and programme information to improve performance
- Providing programme management and specialist expertise to support state entities and the private sector in managing the planning, design, budgeting, execution and maintenance of infrastructure projects and programmes.

HANDOVER AND CLOSEOUT
- Gathering and analysing projects and spatial information to improve infrastructure planning, project prioritisation, delivery coordination and performance

DEVELOPMENT BANK OF SOUTHERN AFRICA
2015 Integrated Annual Report
The division's identity is distinct from the infrastructure funding mandate of the Bank in that it acts as an implementing agent as well as a programme manager and coordinator for infrastructure projects. It supports the government by filling the gap left by weak implementing agents of the state that have underperformed in the delivery of social infrastructure. Many government departments suffer from limited institutional capacity, which impacts on the way infrastructure projects are planned, costed, packaged, executed and managed. We aim to help by providing a professional, cost-effective service, while recovering all our costs.

A key enabler for the division is the Innovation and Design Lab and the Accelerated Schools Infrastructure Development Initiative (ASIDI). These support the Eastern Cape Department of Education to build new schools across six provinces in South Africa. They form part of the department’s medium-term objectives of which are to replace schools built with inappropriate materials (such as mud) with properly constructed facilities which meet basic levels of functionality-in terms of water, sanitation, electricity and fencing. ASIDI is part of the department’s overall plan to bring about better access to education and improve learning outcomes. At year-end a further 48 schools were at various stages of completion, whilst nine were at procurement or foundation stage due to the non-performance of contractors which are being replaced.

The construction of the schools has led to the creation, during 2022, of 4,662 employment opportunities during the financial year. Out of a total of R2.1 billion, R70 million expenditure was allocated in favour of 734 SMMEs. Since 2013, a total of 9,915 employment opportunities have been created under this programme. In the 2015 school year, 9,612 learners enrolled at these new schools.

The programme provides opportunities to use alternative building technologies, which were far less costly and quicker to erect than traditional bricks and mortar, without comprising the quality of the facilities. We learned valuable lessons in this project, which will use for our work going forward.

In June 2014, the National Department of Health appointed the Bank to carry out the minor refurbishment and maintenance of facilities at 94 clinics in the Northern Cape across the country. By year-end, we had completed work on the remaining 26 clinics not finalised during the previous financial year.

The programme also enabled us to link artisans (students and graduates of further education and training colleges) to contractors to gain experience on the job. We intend to extend this model, helping provide essential maintenance of public facilities and at the same time securing employment for young people.

The programme provided support to the Human Settlements units in the National Department of Human Settlements to act as an implementing agent for the Elliotdale Rural Sustainable Human Settlements Pilot Project. The project is part of the Enhanced People’s Housing Process. This project presented an ideal case study for the DBSA and the Eastern Cape and national Departments of Human Settlements to design and pilot a programme that would provide an innovative development solution to a sector of the economy where there is persistent market failure. The project is unique, as it addresses housing backlogs through an integrated approach.

During the year the DBSA completed the final 240 of 800 units as part of phase 2 of the programme, bringing the total number of houses completed during phase 1 and 2 to 1,000.

The department allocated to the Bank a further 4,000 units during the year which were already at various stages of implementation for completion over the next two years. At year-end, 888 units had been completed and the remaining units were at various stages of completion.

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**CLINIC FACILITIES MAINTENANCE**

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**MANAGING PROGRAMMES**

The Infrastructure Delivery division’s Programme Management Unit helps support the planning, design, budgeting, execution and maintenance of infrastructure projects to both government and private clients.

**THE NATIONAL RURAL YOUTH SERVICE CORPS**

The National Rural Youth Service Corps programme, established in 2011, aims to create economic opportunities for the rural youth, including skills training. The Bank hosts the programme’s Technical Support unit, providing monitoring of and quality assurance support to the Department of Rural Development and Land Reform. In the year 850 (2014: 2 027) learners were placed in infrastructure employment opportunities through the programme.

We also helped facilitate the registration of eight youth enterprises by learners who are leaving the programme.
The Limpopo Department of Health (LDoH) appointed the DBSA as an implementing agent for emergency work in 42 health facilities in Limpopo. The MOU was signed in November 2014 and it was expected that IDD would have contractors for emergency repairs by the beginning of December 2014. With limited time to deliver and also taking into consideration the life threatening environment of the hospitals, IDD couldn’t afford delays in executing the programme. What worked for the IDD was the availability of an approved panel of contractors that the division had put in place during the year. The IDD utilised an existing partnership to immediately dispatch a team of engineers to within close proximity. Contractors were successful in resourcing their teams to ensure that all project sites were fully resourced at any point in time.

Having had experience in the schools building programme, IDD was able to facilitate the supply of equipment giving assurance that once goods are delivered, IDD would pay within 14 days. Suppliers had to fast-track the delivery of long lead items. IDD had to facilitate regular meetings with the management contractors, the client and the receiving hospital management. This assisted in issues being addressed without delay and clear communication lines defined among all parties involved (especially health facilities representatives). All completed tasks had to be signed off by the CEO of the hospital or health facility which gave us assurance that the project has been delivered within expected quality.

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Laundry units replaced in Mankweng Hospital.
The Infrastructure Delivery division works to gather and analyse project and spatial information to improve infrastructure planning – including prioritising projects and coordinating their delivery – on behalf of government departments and other clients. The South African cabinet approved 18 strategic integrated projects (otherwise known as SIPs), each one made up of a large number of infrastructure components, to support economic development. The DBSA was appointed to coordinate SIP 6 – the Integrated Municipal Infrastructure Project. It aims to address maintenance backlogs and upgrades required in, among others, bulk water reticulation and sanitation and electricity and roads, in the 23 least-resourced district municipalities.

As the SIP 6 coordinator, we need to collate information from all relevant agencies, departments and implementing agents and report quarterly to the Presidential Infrastructure Coordinating Commission (PICC). Among the key stakeholders with whom we engage are Eskom, the Council for Scientific and Industrial Research, the South African National Roads Agency Limited, the national departments of Water Affairs, Energy, Basic Education, Health, Public Works, Rural Development and Land Reform, Transport, Cooperative Governance and Traditional Affairs as well as municipalities, district municipalities and water boards.

During the year, the DBSA presented the consolidated business plan to the PICC Technical Task team and obtained approval from the task team. The division will be presenting the 23 district plans to the various districts during the first quarter of the new financial year.

FINANCIAL RESULTS
A key component of the implementation of the Infrastructure Delivery division’s strategy is to structure the service offering on a full cost-recovery basis, including indirect expenses. For the year, programme income amounted to R156.3 million, representing 112% of programme expenditure of R139.9 million. Net income amounted to R16.2 million (2014: R12.0 million).

OUTLOOK
The demand for quality infrastructure in South Africa’s communities remains extensive. We see numerous opportunities to assist in the delivery of infrastructure and build on the lessons learnt to date. We are, however, realistic about the challenges we face. These include delays in decision-making by our clients, the poor performance of some of our contractors, a lack of a culture of innovation and the failure to meet appropriate profit margins and recover our operational costs. As a result, we have put in place controls and plans to mitigate these challenges and ensure that they do not disrupt the implementation of programmes and our overall strategic objectives.

Over the next few years we will seek to significantly increase our portfolio under management, but not at the expense of providing quality infrastructure to our communities. In the year ahead, we will focus on bringing these projects into full implementation and some to completion. We will further continue work to improve our systems and processes to respond effectively to the various market needs.

459 permanent and fixed-term contract employees (2014: 425)
88 fixed-term contractors for selected programmes and agencies (2014: 141)
65.5% black representation (2014: 68%)
Staff retention ratio of 90.0% (2014: 90.1%)
R28.4 million disbursements per employee (2014: R30.0 million)

Employee headcount at 31 March 2015

<table>
<thead>
<tr>
<th>Division</th>
<th>Budgeted headcount</th>
<th>Actual headcount including offers accepted of vacancies</th>
<th>Vacancy level (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa Financing</td>
<td>82</td>
<td>77</td>
<td>5</td>
</tr>
<tr>
<td>International Financing</td>
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<td>31</td>
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</tr>
<tr>
<td>Financing Operations</td>
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<td>101</td>
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<tr>
<td>Finance and Treasury</td>
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<td>46</td>
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<tr>
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<td>Risk</td>
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<tr>
<td>Corporate Services</td>
<td>104</td>
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<tr>
<td><strong>Total (excluding IDD)</strong></td>
<td><strong>492</strong></td>
<td><strong>453</strong></td>
<td><strong>39</strong></td>
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<tr>
<td>Infrastructure Delivery</td>
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<td>116</td>
<td>18</td>
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<tr>
<td><strong>Total, including IDD</strong></td>
<td><strong>628</strong></td>
<td><strong>547</strong></td>
<td><strong>81</strong></td>
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</tbody>
</table>

DIVERSITY AND EQUAL OPPORTUNITY
The DBSA is committed to creating and maintaining an environment which provides equal opportunities for all employees, with special consideration given to previously disadvantaged groups. The formal company employment equity policy codifies this commitment and stipulates the promotion of equal opportunity, the elimination of unfair discrimination and the implementation of positive measures to redress disadvantages previously experienced by designated groups.

In establishing the numerical employment equity goals for the DBSA, the methodology, key challenges, lessons learnt, potential growth rate of the DBSA, benchmarks and the BBBEE scorecard have been taken into consideration in setting the target to 2017. The key focus is to improve or set realistic targets to ensure the DBSA has a representative workforce.
### Summary of the DBSA’s EE goals to 2017

<table>
<thead>
<tr>
<th>Job category</th>
<th>African</th>
<th>Coloured</th>
<th>Indian</th>
<th>White</th>
<th>Foreign national</th>
<th>Total</th>
<th>Black</th>
<th>Black female</th>
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<tr>
<td>FY2015</td>
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<td>2</td>
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<td>15</td>
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<tr>
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<td>43</td>
<td>115</td>
<td>75</td>
<td>547</td>
<td>266</td>
<td>281</td>
</tr>
<tr>
<td>Percentage (%)</td>
<td>53</td>
<td>4</td>
<td>8</td>
<td>21</td>
<td>14</td>
<td>100</td>
<td>49</td>
<td>51</td>
</tr>
<tr>
<td>Employment equity target(%)</td>
<td>67</td>
<td>23</td>
<td>10</td>
<td>100</td>
<td></td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Note**: includes agencies that are contracted by the DBSA.

It must be noted that the target for black top management and mid management professionally qualified employees has been adjusted downwards from 85.7% to 80% and 88.1% to 75% respectively. These targets have been adjusted taking into consideration the lack of available skills in the labour market and the time constraints in developing these skills.

These targets will be revised in 2017, when the next plan is developed. The target for black employees living with disabilities has been increased to 3%.

Total actual workforce by employment type and designated group, split by gender, as at 31 March 2015 was as follows:

<table>
<thead>
<tr>
<th>Employment diversity (total)</th>
<th>21%</th>
<th>21%</th>
<th>15%</th>
<th>15%</th>
</tr>
</thead>
</table>

### Skills Development

Research consistently highlights the importance of talent management to the success of an organisation. It has become one of the key focal points for executive teams. Success, though, depends on the degree to which an organisation’s policies and processes support one another and the single goal of talent management. To this end, the Bank has critically reviewed and updated policies associated with talent management, including the employee policy and the development policy. In addition, a particular focus has been placed on executive and leadership development, with the creation of a behavioural competency framework for leadership and an associated development strategy.

The DBSA is firmly committed to the development of its employees. The DBSA invests heavily in developing our internal skills pipeline and resourcing from the external talent base to combat the skills shortage that exists in the development finance sphere. At least 3% of the Bank’s payroll is set aside for training and development of staff.

### Remuneration for Women and Men

Remuneration and employee benefits are attractive, well structured and competitive and are aligned with legislation. Remuneration practices are regularly reviewed and the Bank is committed to removing unfair discrimination in pay scales. Pay differentials are disclosed in terms of employment equity legislation. The income levels of men and women are continually reviewed and any possibly unfair anomalies are addressed.

Positions are evaluated and graded in terms of job outputs – race and gender are not considered in the evaluation process. This ensures a like-for-like comparison in the marketplace. The DBSA has only one pay scale, based on job contribution and market comparisons.

The Bank’s remuneration policy is detailed further on pages 48 to 49 of this report.

### Skills Development Investment

Research consistently highlights the importance of talent management to the success of an organisation. It has become one of the key focal points for executive teams. Success, though, depends on the degree to which an organisation’s policies and processes support one another and the single goal of talent management. To this end, the Bank has critically reviewed and updated policies associated with talent management, including the employee policy and the development policy. In addition, a particular focus has been placed on executive and leadership development, with the creation of a behavioural competency framework for leadership and an associated development strategy.

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All employees are encouraged to take ownership of their developmental journey. Employees, together with their managers, are expected to complete individual development plans on an annual basis. This is to ensure that they consistently stay relevant in their field of expertise, close any skills gaps and build their careers accordingly.

During the year, a combination of internal and outsourced training sessions were conducted covering, among others, the following key technical business management skills: • Project finance. • Deal syndication. • Business development. • Advanced corporate credit skill. During the year, R13.8 million (2014: R5.4 million) was invested in staff training, supporting 556 employees (27% women and 28% men) in 2 304 interventions. Of the total, 65% (2014: 64%) of the employees trained were from the black designated group. Going forward, it is anticipated that the Bank will invest significantly in the training of our staff, especially in the areas of new business development skills, deal and syndication structuring expertise as well as municipal pre- and post-financing support. This is in order to support the Bank’s ambitious objectives.

As part of the managers’ development programme, in the year 11 managers enrolled in and completed the leadership Development Programme.

### Employee Wellbeing

The DBSA Wellbeing Programme provides the Bank the opportunity to make our employees healthier and, in this way, help reduce costs related to health care, productivity and absenteeism. It helps encourage the healthy behaviour of our employees in both the workplace and at home. A targeted wellbeing programme may therefore help to improve not only the DBSA’s financial performance, but also the health and sustainability of our communities in the long term. The Bank will continue to increase the level of participation in these offerings and is currently reviewing its Wellness Programme, in which it invested R381 000 (2014: R726 000) in the year.

In addition, R49 400 worth of wellness interventions were sponsored by external agencies.

The DBSA Employee Wellness Programme provides independent support and services to all staff and management. These include amongst others the following:

- **Psychological and trauma counselling support.**
- Telephone counselling and support.
- Face-to-face counselling.
- Access to online support services.
- Legal counselling and support.
- Financial counselling and support.
- Referral services.
- Management support services.
- Absenteeism and incapacity consultancy.
- Employee wellness training interventions.
- Ad-hoc on-site interventions.

The Independent Wellness Services Provider for the DBSA is the Careways Group (since October 2014) and was previously the ICAS Group. The DBSA has an onsite clinic that is managed by a full-time nurse.

A summary analysis of the utilisation of the Employee Wellness Programme and the clinic facilities utilisation is as follows:

- **Wellness Engagement Programme** A total of 126 employees participated in the employee wellness programme for the 2014/15 financial year. The most commonly presenting problem cases were as follows:
  - Relationship issues.
  - Personal development.
  - Stress.
  - Health and lifestyle.
  - Mental illness and psychiatric.
  - Organisational issues.

### DBSA clinic facilities

The DBSA clinic is well utilised by the employees. The clinic provides basic medical services enabling employees to utilise these services without staying away from work. The clinic provides employees with the opportunity to test vital healthcare signs such as high blood pressure and diabetes. In addition the clinic takes care of the legislative...
CORPORATE SERVICES (CONTINUED)

requirements in respect of occupational health and injury on duty (OCHID).

- Other employee wellness initiatives
  The Human Capital team hosted its Annual Wellness Event in September 2014 and the key themes for the event were:
  - Health screening.
  - Healthcare support programmes and interventions.
  - Employee wellness activities to promote an active and healthy lifestyle.

Human Capital developed a calendar of wellness initiatives that spanned over the financial year to facilitate our employees well-being and engagement so that they could deliver on the DBSA strategy and goals.

OCCUPATIONAL HEALTH AND SAFETY

Occupational health and safety standards are covered by prevailing legislation. The DBSA’s operations conform to the principles of the International Labour Organization’s Guidelines on Occupational Health and Safety. Occupational health and safety concerns are the direct responsibility of the Chief Executive Officer. The Corporate Health and Safety policy statement outlines the intentions and principles in relation to the Bank’s overall safety and health performance. The policy statement provides the basis for the framework for action during the year. Formal Health and Safety Committees with management and worker representatives cover all staff.

To provide an operational forum for the management and governance of health and safety in the workplace, the DBSA has implemented an Occupational Health and Safety Committee. All divisions are required to nominate a representative to serve on the committee. In total, 11 (2014: 11) staff members, representing 2.2% of the workforce, formed part of the committee. Forty (2014: 27) health and safety team members support the Bank. Five evacuation drills were conducted during the year. Three lost-time injuries were reported to the

Commissioner and 23 minor injuries were reported and treated by our on-site medical practitioner. These injuries all occurred at the DBSA premises in Midrand. The table below summarises these incidences and their impact.

<table>
<thead>
<tr>
<th>Occupational and health safety incidents during the year</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>First aid injury (minor)</td>
<td>23</td>
<td>26</td>
</tr>
<tr>
<td>Lost-time injury (disabling)</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Immaterial (One contractor) and one visitor</td>
<td>Immaterial (One contractor)</td>
</tr>
</tbody>
</table>

The lost-time injuries consisted of a contractor on site puncturing his hand with a sharp object while performing his function and three employees slipped and fell on the stairs. The minor injuries included a bee sting, a wasp sting, paper and glass cuts, back injury, slips, trips and falls.

ENVIRONMENTAL AND SOCIAL COMMITMENT

The DBSA regards sustainable development as a fundamental aspect of its strategic development. It appreciates that sustainable development is an institutional commitment and it forms a primary part of the Bank’s quest for good corporate citizenship and sound business practices. The Bank further subscribes to a precautionary approach to environmental and social matters, seeking to anticipate and prevent possible negative impacts on the environment and society.

DBSA ENVIRONMENTAL FRAMEWORK

The DBSA recognises the importance of placing poverty eradication and achievement of sustainable development at the centre of its development agenda. The Bank is legally obliged to promote sustainable development through its operations and this is integrated into the Bank’s strategy, which highlights the need for effective integration of environment and sustainability issues as the key to ensuring sustainable economic and social development.

<table>
<thead>
<tr>
<th>Number of Incidents</th>
<th>Impact</th>
<th>Number of Incidents</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>First aid injury (minor)</td>
<td>23</td>
<td>26</td>
<td>Immaterial</td>
</tr>
<tr>
<td>Lost-time injury (disabling)</td>
<td>4</td>
<td>2</td>
<td>Zero workdays lost (One contractor)</td>
</tr>
</tbody>
</table>

The DBSA regards sustainable development as a fundamental aspect of its strategic development. The Bank promotes sustainable development through its operations by ensuring that the Bank’s environmental and social impacts are managed and monitored effectively. The Bank subscribes to the International Labour Organisation’s Guidelines, as well as the UNGC, which incorporate the United Nations’ 10 principles that address the areas of human rights, labour, environment and anti-corruption.

The DBSA seeks to ensure that it reports on and effectively considers its environmental, ethical, governance, social and economic performance.

DBSA’s CONTRIBUTION TOWARDS THE DEVELOPMENT OF SUSTAINABLE SOUTH AFRICA AND A GREEN ECONOMY

The Bank is actively involved in broadening its support for the development of a greener economy and sustainable green infrastructure across its mandated areas. In particular, the Bank is working with the Department of Environmental Affairs (DEA) and the National Treasury with the aim of facilitating and ensuring greener infrastructure and sustainable development across the region. The Bank is also involved in the following environmental and sustainable development related initiatives:

- Collaboration in the environmental sector with the DEA. This programme is aimed at knowledge sharing, sustainable development and the development of greener infrastructure. It applies to both the built environment and the natural environment in South Africa. This involves policy work, such as the use of the budget, in the future, in mainstreaming decisions in infrastructure and other initiatives to green behaviour.
- Implementing the Green Fund: Management of an R800 million Fund to March 2015, to assist a transition to a sustainable society.
- Research and publications related to the greening of the economy, green jobs, climate change and green infrastructure development.
- Funding of the Independent Power Producers and renewable energy projects.
- Several Clean Development Mechanism (CDM) projects aimed at carbon emissions reductions.

ENVIRONMENTAL POLICY STATEMENT

The DBSA is committed to the following:

1) Continual improvement of the Bank’s environmental management system in line with the international standards, SANS ISO 14000, on environmental management systems.
2) Pollution prevention emanating from our in-house activities and operations.
3) Compliance with all applicable environmental legislative and regulatory requirements and other requirements to which the DBSA subscribes, related to our environmental aspects.
4) Environmental and sustainability considerations at the DBSA are founded on the following key DBSA documents: the DBSA Environmental Sustainability Strategy, the DBSA Environmental Policy, the environmental management system and the DBSA Environmental Management Procedures. These documents combine to form the DBSA environmental management framework. The DBSA environmental management framework serves as the structure that ensures the DBSA’s operations, programmes and projects are socially responsible, environmentally sound and in line with government requirements.
5) The DBSA environmental management framework serves to ensure ongoing improvement of its environmental performance. To this end, the DBSA management and staff take cognisance of the fact that their activities and operations have an impact on the environment and thus take full responsibility to address not only environmental risks and impacts related to their products and services, but also environmental impacts related to their in-house activities and operations. In order to do this, the DBSA strengthens its environmental management framework and initiatives with integrated reporting and membership to the United Nations Global Compact (UNGC).

INTEGRATED REPORTING, GLOBAL REPORTING INITIATIVE AND UNGC

A key component of the Bank’s environmental framework is the need to not only manage but also monitor, evaluate and strengthen the effectiveness and sustainability of the Bank’s operations, programmes and projects. Therefore, the DBSA has adopted integrated and sustainable reporting principles, which underlie the Bank’s reporting initiatives. During 2013 the DBSA also became a member of the UNGC. The UNGC is the world’s largest corporate citizenship initiative that addresses and integrates corporate social reporting (CSR) requirements with integrated reporting requirements. As a result, the DBSA Integrated Annual Report has been compiled to align with both the integrated and sustainability reporting requirements of the Global Reporting Initiative’s Framework, the UNGC Guidelines, as well as the UNGC, which incorporates the United Nations’ 10 principles that address the areas of human rights, labour, environment and anti-corruption.

The DBSA seeks to ensure that it reports on and effectively considers its economic, ethical, governance, social and environmental performance.

GLOBAL REPORTING INITIATIVE AND UNGC

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ENVIRONMENTAL AND SOCIAL COMMITMENT (CONTINUED)

ENVIRONMENTALLY SUSTAINABLE OPERATIONS

The DBSA Environmental Policy and Environmental Framework requires all programmes and projects a

In line with the Constitution of the Republic of South Africa, particularly Section 24 - the environmental rights, the Bank is committed to providing an environmentally safe work place for its employees and to minimising environmental impact. Consequently, the Bank actively seeks to reduce its direct environmental impact on the biophysical environment, namely, air, land and water from all its operations and activities.

In addition, the Bank has developed (and continues to refine) its environmental appraisal procedures (EAPs), which outline the Bank’s approach to environmental appraisal and due diligence. The EAPs are aligned with national and international best practice for environmental assessment and are implemented by the Bank’s environmental specialists, to direct them in how to approach and implement environmental appraisals and due diligence at the Bank.

The EAPs ensure that the Bank’s environmental appraisals are applied in a consistent manner that supports and enhances the Bank’s decision-making processes and mitigates and manages environmental risk while also ensuring increased development impact.

With regard to its operations, the major environmental aspects that the Bank is working towards reducing its impact on include, in order of magnitude of impact:

- Energy demand management and generation of energy from renewable energy sources.
- Business travel management.
- Office paper use and recycling.
- Solid waste generation and recycling.
- Water consumption reduction.

These initiatives reduce the Bank’s carbon emissions, water use and waste generation and maintain a sustainable campus with the ultimate aim of reducing the Bank’s ecological impact. As the DBSA strives to conduct its activities as a responsible corporate citizen, it has not attracted any material monetary fines or sanctions resulting from non-compliance with environmental laws and regulations.

The DBSA is situated in Gauteng province, South Africa. More specifically, it is in Midrand, west of the N1 highway between Samrand Road and Olifantsfontein Road. The site is classified as Etopi Granite Grassland and is considered sensitive, with Archean granite and gneiss of the Halfway House Granite at the core of the Johannesburg Dome supporting leached, shallow, coarse-grained, sandy soil which is poor in nutrients. The 24 ha (246 125 m²) site consists mainly of open natural grassland, dominated by haporthaena hirta grass, surrounded by development and roads. The vegetation type of this site is Etopi Granite Grassland of the Mesic Highveld Grassland Bioregion, with haporthaena the dominant species. This grassland falls within a strongly seasonal summer rainfall region, which has very dry winters with frequent frosts. The site is relatively small and ecologically isolated, with a uniform habitat, which translates into small-mammal richness. It has a long history of intensive land use, as a result of which sensitive species have long since yielded. The presence and abundance of bird species in this habitat varies from season to season - the area is lush and green in summer after the rains and dry and brown or burnt during winter. It favours ground-living bird species, such as lapwings, francolins, pipits, long claws, larks and chats.

Environmentally Sensitive Areas

Areas of the DBSA campus are ecologically sensitive and, as a consequence, the Bank has implemented a programme to protect its ecological resources and habitats.

In addition, it includes mandatory ecological assessments, the implementation of mitigation measures and monitoring in its projects.

REDUCING THE WASTE WE GENERATE

A critical aspect of the DBSA’s waste management strategy is the extensive recycling of various types of waste, including cans and tins, cardboard, newspapers and magazines, plastic and paper.

PAPER RECYCLING AND OUR SMART-PRINTING PROGRAMME

We are making good progress with our programme to recycle paper, which was introduced in July 2011. For 2015, the target was to recycle 15% of the paper we used. However, we exceeded this target, mainly as a result of recycling old documentation and files.

Paper usage and recycling

<table>
<thead>
<tr>
<th>Year</th>
<th>Paper used</th>
<th>Paper recycled</th>
<th>Percentage recycled</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>25 tons</td>
<td>22.3 tons</td>
<td>146%</td>
</tr>
<tr>
<td>2014</td>
<td>23.8 tons</td>
<td>27.8 tons</td>
<td>125%</td>
</tr>
</tbody>
</table>

ENERGY

The DBSA focuses on reducing its consumption of energy, mainly in the form of electricity. We have implemented a range of initiatives to reduce consumption, including installing timers on light switches and on circuits to control air conditioning. During 2015, the Bank’s energy consumption increased marginally from 3.22 MW to 3.56 MW. Since 2007, the DBSA has reduced its direct electricity consumption by 56%. As a responsible corporate citizen, aligned with global imperatives, we have set an aspirational target to improve our non-renewable energy efficiency by 10% in the short to medium term.

Electricity consumption (MW)

\[
\begin{array}{|c|c|c|}
\hline
\text{Year} & \text{Electricity Consumption} \\
\hline
2015 & 3.22 \\
2014 & 3.56 \\
2013 & 3.87 \\
2012 & 3.65 \\
2011 & 3.32 \\
\hline
\end{array}
\]

EMISSIONS, EFFLUENTS AND WASTE

The Bank has implemented a wide range of energy-reduction initiatives to lower our greenhouse gas emissions. These initiatives are continually reviewed to ensure that the Bank is continuously improving its environmental performance.

The Bank recognises that water is an increasingly scarce and critical global resource. Although our operations are not particularly water-intensive, we have committed to more efficient water consumption through reduced consumption on our campus. We also support various projects that enhance the capacity of the population to adapt to water scarcity, as well as water management solutions.

Water-wise initiatives include the following:

- Uprooting alien vegetation.
- Planting only indigenous trees.
- Installing dry urinals in the men’s bathrooms.

Total water used on the DBSA campus from municipal water sources is reflected in the graph to the right. During the year, we noticed a marked increase in the average monthly water consumption. The increase in water usage was mainly as a result of the following:

- The Bank was previously charged only for water used in one meter, whilst two meters had been installed on the DBSA campus. During the year the council corrected the anomaly and back-dated the charges for three years.

Water consumption (litres)

\[
\begin{array}{|c|c|c|c|c|}
\hline
\text{Year} & \text{Water Consumption} \\
\hline
2015 & 15,16.00 \\
2014 & 15,16.00 \\
2013 & 15,15.00 \\
2012 & 15,15.00 \\
2011 & 15,15.00 \\
\hline
\end{array}
\]

The DBSA is committed to being a responsible custodian of water by measuring, monitoring and reporting our water use as standard business practice and, where possible, proactively implementing initiatives to conserve water.

The Bank recognises that water is an increasingly scarce and critical global resource. Although our operations are not particularly water-intensive, we have committed to more efficient water consumption through reduced consumption on our campus. We also support various projects that enhance the capacity of the population to adapt to water scarcity, as well as water management solutions.

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\[
\begin{array}{|c|c|c|c|c|}
\hline
\text{Year} & \text{Water Consumption} \\
\hline
2015 & 15,16.00 \\
2014 & 15,16.00 \\
2013 & 15,15.00 \\
2012 & 15,15.00 \\
2011 & 15,15.00 \\
\hline
\end{array}
\]

Effluents emanate mainly from the routine cleaning and maintenance of the campus. All effluents are cleaned of pollutants and grey water is discharged into municipal reticulation systems. Waste material is disposed of through legitimate contractors at certified waste disposal facilities. Although the Bank does not generate significant volumes of waste it is mindful to recycle as much as possible.

SOCIAL COMMITMENT IMPROVING THE QUALITY OF LIFE OF COMMUNITIES AND INDIVIDUALS

The DBSA is involved in projects and programmes in various areas throughout the SADC region and its direct influence on communities is therefore substantial. The Bank supports the employment of local people and continually interacts with local stakeholders, as appropriate. Given the nature of its operations, such interaction typically relates to development matters and any possible negative impacts of projects. Additional information regarding the Bank’s estimated development impact is reflected on pages 15 as well as the respective operational reports.

The DBSA strives to create value for local suppliers through its preferential procurement practices and supports the appointment of previously disadvantaged individuals, benefiting communities in South Africa and the region. The DBSA is a Level 2 contributor (2014-Level 3) and achieved a total score of 88.6 out of 100 on its latest B-BBEE assessment.
MEETING THE DBSA'S STRATEGIC OBJECTIVES

The Bank delivered a solid set of financial results for the year ended 31 March 2015, given that the macro-economic environment was a mixed bag of positive and negative factors. The year was characterised by a high volatility in the foreign exchange rate, rising interest rates, improvement in the US economy, decrease in the oil price and inflation, as well as wildcard strikes in the mining sector.

We made significant strides towards our strategic objective of maintaining financial sustainability in order to continue to achieve our desired development impact. This progress is reflected in the key indicators of return on equity, quality of earnings, a more diversified product base, growth in income and cost containment.

Project preparation and product diversification remains a priority to support our disbursement growth aspirations. The business is supported by a pricing approach that drives the achievement of financial sustainability. As the Bank is not a deposit-taking institution, we continue our efforts to find innovative ways to reduce the average cost of debt through a diverse funding base and by matching funding from a currency and tenor perspective. This is critical in light of the expansion of the Bank’s mandate to the rest of Africa. So too is the effective management of interest rate and foreign exchange risk through a portfolio of derivative instruments.

STRONG FINANCIAL PERFORMANCE

Refer to the Statement of Comprehensive Income on page 121 of this report.

NET INTEREST INCOME

Interest income increased by 16.4% to R5.3 billion (2014: R4.6 billion), while the Bank’s interest expense increased by 20.7% to R3.0 billion (2014: R2.5 billion), resulting in an increase in net interest income by 11.3% to R2.3 billion (2014: R2.1 billion). This continues the growth achieved in the previous year. Interest income received in cash during the year represents 93.1% of total interest income.

The Bank continued to manage its average cost of borrowing despite an increase in credit spreads on new funding, credit downgrade of the Bank (in line with the downgrade of the sovereign ratings) and a 25 basis points increase in the repo rate.

Overall the net interest margin eased slightly to 43.6% (2014: 45.6%), mainly as a result of a decline in margins earned due to tight pricing of some deals and the impact of the delayed International Financing disbursements.

NON-INTEREST REVENUE

Following a successful 2014 during which the Bank generated significant non-interest revenue of R579 million, the Bank recorded R373 million during 2015. The prior year non-interest revenue was boosted by fees earned on disbursements in the International Financing space and REIPPs.

NET EXCHANGE GAIN

The Bank benefited from the depreciation of the rand from R10.52:US$1 at the beginning of the year to R12.13:US$1 at year-end, recording R490 million in foreign exchange revaluation profits (2014: R280 million). This was largely driven by the Bank’s dollar asset net open position.

IMPAIRMENTS

The strength and the quality of the development loan book continues to be within acceptable levels and recoverability from the loan book is regularly reviewed. The impairment charge marginally increased to R743 million (2014: R735 million) from the prior year in tandem with growth in loan book portfolio. Refer to the development loans section for further detail.

EXPENSES

The Bank’s cost management strategies continue to bear fruit with the overall cost-to-income ratio of 34.4% (2014: 28.5%). The ratio increased from the prior year due to an active strategy to capitate key skills required to support our business growth.

The Bank provided R35 million in development expenditure significantly up from the R16.6 million provided in 2014. We celebrate the achievement in our disbursement to secondary and under-resourced municipalities with an increase in our development expenditure. We see our strategy supported to unfold municipalities that are at the heart of service delivery to the Bank and communities that need it most. This pipeline is healthy with over R33 million of expenditure to be unlocked in 2015/16. The success in these municipalities is dependent on the continued support from the National Treasury.

Investment from own sources into project preparation activities totalled R6.1 million (2014: R20.9 million) for the year, whilst R396 million was unlocked from partners. It is anticipated that the Bank will significantly increase its own investment in preparation activities in the year ahead. Up to R200 million has been allocated from our own resources to support this business strategy. We are ramping up to play our catalytic DFI role of increasing bankable infrastructure projects.

Value added statement

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>R’000</td>
<td>%</td>
</tr>
<tr>
<td>Interest income</td>
<td>5 327 312</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(3 002 929)</td>
</tr>
<tr>
<td>Wealth created by trading operations</td>
<td>2 324 383</td>
</tr>
<tr>
<td>Fee income</td>
<td>232 928</td>
</tr>
<tr>
<td>Foreign exchange gain</td>
<td>469 673</td>
</tr>
<tr>
<td>Loss from financial assets and financial liabilities</td>
<td>(299 832)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>139 971</td>
</tr>
<tr>
<td>Total wealth created</td>
<td>2 887 123</td>
</tr>
<tr>
<td>Distributed as follows</td>
<td></td>
</tr>
<tr>
<td>Retained growth</td>
<td>1 982 610</td>
</tr>
<tr>
<td>Impairment loss on financial assets</td>
<td>743 361</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>25 108</td>
</tr>
<tr>
<td>Profit for the year attributable to the shareholders</td>
<td>1 214 141</td>
</tr>
<tr>
<td>Employees</td>
<td>607 271</td>
</tr>
<tr>
<td>Benefits and remuneration</td>
<td>607 271</td>
</tr>
<tr>
<td>Suppliers</td>
<td>259 313</td>
</tr>
<tr>
<td>Expenses</td>
<td>259 313</td>
</tr>
<tr>
<td>Social responsibility projects</td>
<td>37 929</td>
</tr>
<tr>
<td>Grants</td>
<td>37 929</td>
</tr>
<tr>
<td>Total</td>
<td>2 887 123</td>
</tr>
</tbody>
</table>

NET PROFIT AND SUSTAINABLE EARNINGS

The Bank achieved operating profit of R1.2 billion (2014: R787 million), an increase of 54.3% from the prior year. Sustainable earnings increased by 76.6% to R808 million (2014: R374 million). Sustainable earnings (excluding revaluations on equity investments but excluding fair value adjustments on other financial instruments and foreign exchange gains and losses) are the normalised earnings of the Bank and more accurately reflect the operational performance. This represents a key milestone in the achievement of financial sustainability.

A return-on-equity of 5.7% was achieved, on target in terms of our financial model and provides a sound platform to exceed growth in our disbursements for 2015/16. This is a substantial improvement on the 4.3% achieved in the prior year whilst the return on assets increased to 1.8% (2014: 1.3%).

Kameshni Naidoo
Chief Financial Officer

The Bank provided R35 million in development loans section for further detail.

Value added statement

<table>
<thead>
<tr>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>R’000</td>
<td>%</td>
</tr>
<tr>
<td>Interest income</td>
<td>5 327 312</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(3 002 929)</td>
</tr>
<tr>
<td>Wealth created by trading operations</td>
<td>2 324 383</td>
</tr>
<tr>
<td>Fee income</td>
<td>232 928</td>
</tr>
<tr>
<td>Foreign exchange gain</td>
<td>469 673</td>
</tr>
<tr>
<td>Loss from financial assets and financial liabilities</td>
<td>(299 832)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>139 971</td>
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<td>Grants</td>
<td>37 929</td>
</tr>
<tr>
<td>Total</td>
<td>2 887 123</td>
</tr>
</tbody>
</table>
HEALTHY BALANCE SHEET
Refer to the Statement of Financial Position on page 120 of this report.

BALANCE SHEET STRENGTHENING
A key factor in ensuring financial sustainability is to have a strong balance sheet to fund the long-term growth of the asset portfolio. The capital injection by the government therefore aims at increasing the equity capital base to fund growth while ensuring we remain below the prudential debt/equity ratio limit of 250%. It is imperative, however, that in strengthening the balance sheet the Bank achieves resilience, particularly considering the uncertainty of the economic environment globally.

In the year, the strengthening of the balance sheet was aided by the capital injection by the shareholder of R2.5 billion and support from our investor base continues. Investors continue to support our borrowing plan which is a key pillar and building block in sustaining our business objectives. There has been a narrowing of the asset and liability matching gap. The Bank’s balance sheet remains asset sensitive and the debt/equity ratio is managed within the 250% limit.

Total disbursements reached R13 billion (2014: R12.7 billion), a new record high. Municipalities, state-owned entities and participants in the IPP programme continued to dominate the profile of development loans, disbursements and repayments over the past five years.

DEVELOPMENT LOANS AND BONDS
Development loans increased by R7 billion during the financial year on the back of R11.9 billion in disbursement, R4.8 billion in interest capitalised, R1.8 billion in foreign exchange adjustments and R11 billion in repayments. The top 10 loan disbursements for the year accounted for 70% of the total disbursements.

The graph below reflects gross and net development loans, disbursements and repayments over the past five years.

As part of our product diversification approach, some development loans were structured as development bonds, commencing with R750 million in the prior year and R502 million in the current year. The development bond portfolio is designated as ‘held to maturity’ and ‘held at amortised cost’ in support of balance sheet strengthening in maintaining appropriate levels of volatility introduced by fair value designation.

IMPAIRED AND THE QUALITY OF THE LOAN BOOK
The impairment charge marginally increased from prior year consistent with our strong growth in the loan book. This reflects a better and active management of impairments. The non-performing loan percentage shows a decreasing trend since 2013.

The strength and quality of the development book continues to improve and a significant part is rated as median risk. In line with the Bank’s credit review process, the recoverability from the loan book is assessed regularly. Based on the detailed assessment conducted, the non-performing development loan book at R3.0 billion remains consistent with 2014 and the impairment provision increased to R2.9 billion from R2.4 billion. At 5.1% (2014: 5.8%), the value of non-performing loans (NPLs) as a percentage of the gross development loan book is within an acceptable level of 6%. The increase in the impairment level in 2015 continues to be in line with the new recovery rates, changes in risk ratings and specific impairment considerations. There has been an increase in portfolio impairment and specific impairments have stabilised. This swing in trend is pleasing, showing that there is no compromise in improving the bottom line.

Provisions against NPLs (specific impairments) increased from R2 billion to R2.2 billion in the year and the NPL coverage ratio increased from 66.3% to 72.1%. The NPL coverage ratio is a measure of the amount of specific impairment provision held against the NPLs and management expects to recover the unimpaired portion through the realisation of securities and other recovery methods.

Provisions against the performing book (portfolio impairments) increased from R355 million (0.7% of the performing loan book) to R473 million (1.3% of the performing book), mainly attributable to the growth in the loan book.
CHIEF FINANCIAL OFFICER’S REPORT (CONTINUED)

The Bank’s exposure to the energy sector at year-end was R2.1 billion (2014: R1.8 billion), representing 36.9% (2014: 31.6%) of the total portfolio. Exposure to the roads and transport sector increased to R7.8 billion (2014: R7.2 billion). Our investment in the energy sector is in line with the economic challenges facing South Africa. It is anticipated that our role will evolve over the next 20 years towards the transport and water security segments.

EQUITY INVESTMENTS
The Bank’s equity investments increased by 10% during the current year to R5.1 billion (2014: R4.6 billion) on the back of disbursements on commitments made in prior periods. The revaluation losses on the equities portfolio decreased by 72% from R778 million in the prior year to R219 million. Given that the Bank remains concerned about the performance of its investments in private equity, going forward the Bank will monitor the volatility in investment valuation, consolidate and exit investments where there are performance issues or where there is no strategic fit with the Bank’s strategy. The Bank continues to have a commitment of R19 billion (2014: R19 billion) in existing equity projects.

LIQUID PORTFOLIO
The Bank has sufficient liquidity to meet all financial obligations on a timely basis. Access to capital markets is aligned to the state owned entity auction calendar. The Bank’s liquidity portfolio is made up of cash and liquid assets that meet the criteria for high quality liquid assets. As of 31 March 2015, the portfolio stood at R5.9 billion (2014: R6.3 billion). Liquidity management is a key focus area for the Bank’s treasury department. In January 2015, the Board approved a new policy for liquidity risk management. The new policy aims to make the Bank more resilient to any liquidity event. The Bank is not governed by the Bank’s Act and the Basel III regulations, but the Bank seeks to adopt best practice in the management of liquidity risk. At a minimum, the Bank holds liquidity equal to or higher than the highest monthly average disbursements over the previous four quarters. In addition, the Bank keeps enough liquidity to survive a 30 day liquidity event along the liquidity coverage ratio (LCR) guidelines (minimum 30 day LCR ratio of 100%).

DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT
The Bank provides clients with the flexibility they require to the extent that the resulting risk remains manageable within the confines of the risk appetite of the DBSA. This is necessary, not only to ensure the financial feasibility of the development projects financed by the Bank, but also to ensure its long-term competitiveness in its primary markets. As a result, the optimal mix of fixed versus floating rate debt funding is driven by borrower demand and our risk management strategies. While much of the resulting interest rate and exchange rate risk is eliminated naturally through the matching of assets and liabilities, a substantial portion of residual risk remains, necessitating the use of derivative instruments to lock in the net interest margin in our work to ensure long-term financial sustainability. As part of the Bank’s risk management approach, the DBSA uses swaps and foreign exchange contracts as hedging instruments. The use of swaps was effective in managing the risk and achieving the strategic intent relating to financial sustainability. Derivative assets decreased from R1.3 billion to R1.0 billion during the year, mainly due to the upward shift in the yield curve and exchange rate movements.

EQUITY
The Bank received a R2.5 billion capital injection from National Treasury during the year. This significantly assisted in enhancing the Bank’s capital adequacy and supporting growth in our disbursements.

PERFORMANCE AND OUTLOOK

The Bank’s Treasury unit has transitioned from a passive to an active environment which has resulted in improved risk management, increasing yield enhancements and minimising the cost of debt in an increasing interest rate environment. In addition the balance sheet strengthening strategies adopted have prevented R600 million in cash flows leaving the Bank and leakage of EUR46 million in cancellation costs. Funding includes drawing on
lines of credit from local and international banks and development financial institutions, capital market issuances (bonds), money market issuances (commercial paper and bridging bonds) and private placements. Actual funding and compensation of the funding sources to which the Bank has access are driven by expected disbursement outcomes, market demand for DBSA paper, asset and liability portfolio management and pricing considerations. As part of the strategy to diversify funding sources the Bank’s treasury management function continually monitors markets both domestically and offshore in order to identify opportunities to lower the Bank’s borrowing cost whilst at the same time expanding the universe of investors and lenders in order to secure access to the quantum of funding required on a timely and cost effective basis.

Funding liabilities increased by R3.1 billion during the financial year, compared to a R7.7 billion increase in development assets. The difference was covered mainly by the capital injection of R2.5 billion received from National Treasury and operational cash flows. Debt securities amounting to R6.8 billion are measured at fair value, whilst the remainder are measured at amortised cost.

The projected funding sources comprise funding from the domestic capital market, local and international commercial banks, development finance institutions and money market (as part of the asset-lead-liability-lag strategy). Specific tenors and interest rate bases (fixed vs. floating) for new long-term debt issuance are driven by investor demand, market conditions, building the Bank’s funding curve, demand/supply imbalances, asset and liability portfolio management and their associated cost impact at the time of issuance. Any new funding will be sourced and structured to achieve better matching of assets and liabilities and to reduce the cost of funding.

The Bank was more active in the capital markets and conducted 11 auctions during the year and widened the investor base that includes small and mid-size asset managers, through more frequent investor engagement.

Commercial paper issuances, money market funding and revolving credit facilities have been used primarily as part of the asset-lead-liability-lag strategy, which resulted in diversification of funding and minimising the cost of debt. The Bank’s domestic medium term note (DMTN) programme registered with the Johannesburg Securities Exchange stands at R35 billion, of which R7.3 billion remains available. Committed borrowing facilities from foreign DFIs and with commercial banks remain pivotal in the Bank’s efforts to diversify the Bank’s medium- to long-term funding strategy and in achieving the desired asset and liability matching. These facilities form the main source of foreign borrowings for the DBSA. The level is driven by the anticipated need for foreign currency funding towards on-lending in SADC region and to the extent to which commitments are made to South African projects eligible for specific foreign currency denominated lines of credit.

New facilities with DFIs and commercial banks are currently being negotiated and are subject to agreement on key terms and pricing. A total of R4.65 billion equivalent is currently available from committed facilities as at 31 March 2015.

FOREIGN BORROWINGS

Foreign borrowings are utilised to match fund loan book assets to minimise the foreign currency risk and to obtain cost efficient funding. The source of the foreign borrowings will be from foreign DFIs and local and international commercial banks. Opportunities for offshore public debt issuances are continuously evaluated to identify opportunities to reduce the cost of funding and to diversify the investor base in support of the revised DBSA strategy.

The Bank has obtained a foreign currency borrowing limit with the Minister of Finance in terms of section 66.7(b) of the PFMA as follows:

- **R17 billion** for the 2015 financial year
- **R22 billion** for the 2016 financial year
- **R26 billion** for the 2017 financial year

### POST-RETIREMENT MEDICAL PROVISION

A gap of R901 million exists between medical provision assets and liabilities and efforts to close the gap are continuing. The Bank is focusing on increasing the return on the investments and identifying additional cash resources to boost the investment portfolio.

### OUR CREDIT RATINGS

Credit rating reviews were conducted by Standard and Poor’s (SSP’s), Fitch and Moody’s. Moody’s downgraded the DBSA during the year in line with the downgrade in the sovereign rating. The table below summarises the ratings as at 31 March 2015.

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Fitch</th>
<th>S&amp;P</th>
<th>Moody’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Long-term rating – National</td>
<td>A+ (d)(f)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Short-term rating – National</td>
<td>F1+ (d)(f)</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Long-term rating – Local rating</td>
<td>-</td>
<td>BB+(zaf)</td>
<td>-</td>
</tr>
<tr>
<td>Short-term rating – Local rating</td>
<td>-</td>
<td>A2</td>
<td>-</td>
</tr>
<tr>
<td>Long-term foreign – Currency</td>
<td>-</td>
<td>BB+(zaf)</td>
<td>Ba 2</td>
</tr>
<tr>
<td>Short-term foreign – Currency</td>
<td>-</td>
<td>A3</td>
<td>n/a</td>
</tr>
</tbody>
</table>

### OUTLOOK – MAINTAINING FINANCIAL SUSTAINABILITY

The Bank’s aim is to achieve maximum development impact by facilitating accelerated infrastructure funding. Our role as a development finance institution is to assume some of the early-stage project risk by helping prepare and finance certain projects and then onselling the funding of these projects to other funders, once the risk is reduced. We consider the effect of stimulating infrastructure financing critical to maximising development impact due to the counter-cyclical role it plays in the economy.

Financial sustainability remains a key strategic imperative and we will continue to focus on net interest margin, balance sheet strengthening, foreign exchange management as well as liquidity management. The Bank’s financial strategy will continue to support the DBSA’s growth in lending, including the extension of the mandate to the rest of Africa, as well as the work of the Infrastructure Delivery division, the project preparation investment initiatives and the product diversification of our business proposition which requires us to innovatively fund and crowd in funding for large-scale infrastructure projects.

The R3 billion capital injection in 2016 will support the DBSA to deliver successfully, in terms of both volume and the effectiveness of infrastructure finance to the respective target markets, especially the municipal market, and ensure that the Bank remains below the prudential debt/ equity limit of 250% (including callable capital).

Driven by the Bank’s clear financial strategy, the focus of our financial performance for 2016 is as follows:
- **Constant net interest margin.**
- **Cost-containment below target.**
- **Strong income flows from disbursements targets.**

### POST-BALANCE SHEET EVENTS

Subsequent to year-end, a Board resolution was passed to increase the DMTN programme limit from R35 billion to R80 billion. No other significant matters post year-end were identified.

### APPRECIATION

We appreciate the significant contributions made by all our stakeholders in the last year, and to name a few key stakeholders underpinning the financial sustainability: from government, through the National Treasury, the investor community and ratings agencies, the banks and DFIs that understand the need to provide concessional funding to maximise our development impact, to the Board for its ongoing wisdom and guidance and our staff for their focused tireless commitment in delivering on our strategy.

Kamlesh Naidoo
Chief Financial Officer
INDEPENDENT AUDITOR’S REPORT TO PARLIAMENT ON DEVELOPMENT BANK OF SOUTHERN AFRICA
for the year ended 31 March 2015

REPORT ON THE FINANCIAL STATEMENTS
INTRODUCTION
We have audited the financial statements of the Development Bank of Southern Africa as set out on pages 120 to 176, which comprise the statement of financial position as at 31 March 2015, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

ACCOUNTING AUTHORITY’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS
The Board of Directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and sections 27 to 31 of the Companies Act of South Africa and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR’S 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 about 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 management, 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 unqualified audit opinion.

OPINION
In our opinion, the financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa as at 31 March 2015 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and section 27 to 31 of the Companies Act of South Africa, being the relevant and corresponding sections of those specified in the Development Bank of Southern Africa Act.

OTHER MATTER
We draw attention to the matter below. Our opinion is not modified in respect of this matter.

OTHER REPORTS REQUIRED BY THE COMPANIES ACT
As part of our audit of the financial statements for the year ended 31 March 2015, we have read the Directors’ Report and the Audit and Risk Committee’s Report for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS
In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objectives presented in the annual report, non-compliance with legislation and internal control. We performed tests to identify reportable findings as described under each subheading but not gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

PREDETERMINED OBJECTIVES
We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the Bank for the year ended 31 March 2015:

- Objective 1: Improve the quality of life of people through the development of social infrastructure on pages 115 to 116.
- Objective 2: Support economic growth through investment in economic infrastructure on pages 115 to 116.
- Objective 3: Support regional integration on pages 115 to 116.
- Objective 4: Maintain financial sustainability on pages 115 to 116.

DIRECTORS’ RESPONSIBILITY FOR THE FINANCIAL REPORTING
for the year ended 31 March 2015

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

In preparing the financial statements:

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

To enable the Directors to meet their financial reporting responsibilities:

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

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

The Directors have a reasonable expectation that the Bank has adequate resources to operate in the foreseeable future and have adopted the going-concern basis in preparing the financial statements.

The financial statements that appear on pages 115 to 176 were approved by the Board of Directors on 1 July 2015 and signed on its behalf by:

Phillip Jabulani Moleketi
Chairman of the Board

Patrick Khulekani Dlamini
Chief Executive Officer

Omar Latiff
Chairperson of the Audit and Risk Committee
We evaluated the reported performance information against the overall criteria of usefulness and reliability.

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury’s annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury’s Framework for managing programme performance information (FMPPP).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

ADDITIONAL MATTER

Although we raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, we draw attention to the following matter below.

ACHIEVEMENT OF PLANNED TARGETS

Refer to the annual performance report on pages 115 to 116 for information on the achievement of planned targets for the year.

COMPLIANCE WITH LEGISLATION

We performed procedures to obtain evidence that the Bank had complied with legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act.

INTERNAL CONTROL

We considered internal control relevant to our audit of the financial statements, annual performance report and compliance with legislation. We did not identify any significant deficiencies in internal control.

We did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives. We draw attention to the following matter below.

ACHIEVEMENT OF PLANNED TARGETS

Refer to the annual performance report on pages 115 to 116 for information on the achievement of planned targets for the year.

COMPLIANCE WITH LEGISLATION

We performed procedures to obtain evidence that the Bank had complied with legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act.

INTERNAL CONTROL

We considered internal control relevant to our audit of the financial statements, annual performance report and compliance with legislation. We did not identify any significant deficiencies in internal control.
DIRECTORS’ REPORT (CONTINUED)

PERFORMANCE INFORMATION

<table>
<thead>
<tr>
<th>Strategic objective</th>
<th>Key performance indicator</th>
<th>Target</th>
<th>Results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustained growth in development impact</td>
<td>Total infrastructure financing South Africa Municipalities • Metropolitan cities • Secondary municipalities • Under-resourced municipalities</td>
<td>R15 400 million R4 600 million R3 000 million R1 200 million R300 million R150 million R5 300 million R4 500 million</td>
<td>R13 026 million R12 406 million R5 439 million R3 671 million R1 279 million R498 million R224 million R8 743 million R8 19 million</td>
</tr>
<tr>
<td>Integrated infrastructure solutions provider (Refer to note 1 below for explanation of refinement in strategic objectives)</td>
<td>Project preparation Value of projects prepared</td>
<td>R3 000 million</td>
<td>R6 388 million</td>
</tr>
<tr>
<td>Planning and implementation support to municipalities • Planning: Number of infrastructure plans completed and accepted by the respective municipalities • Project implementation: Completion of critical milestones for mandated programmes</td>
<td>Implementation and delivery support programmes • Education • Health • Housing • Implementation support to SIP 6, National Integrated Municipal Infrastructure Programme</td>
<td>80% of milestones completed 80% of milestones completed 80% of milestones completed Consolidated business plans</td>
<td>71% of milestones completed 97% of milestones completed 100% of milestones completed Consolidated business plans completed and accepted</td>
</tr>
<tr>
<td>Client and partnership satisfaction</td>
<td>Maintain financial sustainability Sustainable earnings</td>
<td>Conduct survey</td>
<td>Rating of 4.2 out of 5</td>
</tr>
<tr>
<td></td>
<td>Net profit</td>
<td>R500 million</td>
<td>R1 214 million</td>
</tr>
<tr>
<td></td>
<td>Return on average equity</td>
<td>2.0%</td>
<td>5.7%</td>
</tr>
<tr>
<td></td>
<td>Non-performing loan book (after specific provisions)</td>
<td>3.3%</td>
<td>1.9%</td>
</tr>
<tr>
<td></td>
<td>Cost recovery/fees generated on delivery projects</td>
<td>100%</td>
<td>112%</td>
</tr>
<tr>
<td>Provide innovative infrastructure solutions</td>
<td>New product development Pilot syndication product</td>
<td>Pilot syndication product approved by Board</td>
<td>Effective business intelligence and knowledge management process Effective implementation measured through internal survey</td>
</tr>
<tr>
<td>Continuous improvement of internal systems and processes</td>
<td>Cost-to-income</td>
<td>42.0%</td>
<td>34.4%</td>
</tr>
<tr>
<td>Create and maintain high performance culture</td>
<td>Development and retention of key skills Leadership development as part of succession planning programme • Coaching programme implemented for identified Group Executives and General Managers • Approval of succession plan</td>
<td>80% of milestones completed in line with project plan</td>
<td>80% completed</td>
</tr>
<tr>
<td>Implementation of culture change initiative</td>
<td>80% of milestones completed in line with project plan</td>
<td>80% completed</td>
<td></td>
</tr>
<tr>
<td>GOING CONCERN</td>
<td>PERFORMANCE INFORMATION</td>
<td></td>
<td></td>
</tr>
<tr>
<td>DIVIDEND</td>
<td>No dividend has been declared for the current and previous financial year. The DBSA does not have a dividend policy as part of its contract with the shareholder. The benefits of reinvesting in the mandate of the DBSA far outweigh the benefit of a dividend to the shareholder.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>SHARE CAPITAL</td>
<td>Under the Amendment Act, the Bank’s authorised capital has been increased to R20.2 billion, which is divided into two million and twenty thousand ordinary shares of R10 000 each. Furthermore, the authority of the Board to increase the share capital (after consultation with the shareholders) is limited to the issued share capital and only the Minister has authority to adjust the authorised share capital, after consultation with the Board.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUTHORISED CAPITAL</td>
<td>2 020 000 ordinary shares (2014: 500 000) at par value of R10 000 each.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>CALLABLE CAPITAL (AUTHORISED BUT UNISSUED SHARE CAPITAL)</td>
<td>2 000 000 ordinary shares (2014: 480 000) at a par value of R10 000 each.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>ISSUED CAPITAL</td>
<td>20 000 ordinary shares (2014: 20 000) at par value of R10 000 each.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BORROWING POWERS</td>
<td>As per Regulation 44 of the Regulations made under section 17 of the DBSA Act, the Directors may in their discretion borrow or raise funding for the purposes of the Bank, subject to the leverage ratio not exceeding 2.5 times the permanent capital and accumulated reserves. An annual borrowing programme, based on projections of business activity for the following financial year, is submitted to National Treasury for approval. The current year debt raised was within the approved programme, and the overall borrowings remained within the leverage ratio limit.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: 1. As part of the DBSA’s annual strategic review process and finalisation of the 2015/16 DBSA Corporate Plan, the Bank refined its mandate and strategic objectives, as defined in the approved 2014/15 Corporate Plan, and collapsed the following strategic objectives: “Improve the quality of life of people through the development of social infrastructure”, “Support economic growth through investment in economic infrastructure”, “Support regional integration”, “Infrastructure delivery support and programme implementation” and “Provide excellent client service” into “Sustained growth in development impact” and “Integrated infrastructure solutions provider”. All related key performance indicators were also collapsed into the two objectives. In addition the Bank’s mandate statement was updated to incorporate elements of the desired outcomes approved in the 2014/15 Corporate Plan. For presentation purposes the balanced scorecard reflected above has been updated to reflect the alignment of the strategic objectives to the respective key performance indicators and targets.
DIRECTORATE AND SECRETARIAT
Details pertaining to the names of Board members and the Secretariat appear on pages 34 to 37.
Non-executive Directors are subject to retirement by rotation. They hold office for a period of three years and are eligible for reappointment. The Chief Executive Officer may be appointed for a period not exceeding five years and is eligible for reappointment.
Details of the Directors’ current service contracts are as follows:

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Number of terms served as Non-executive Director</th>
<th>From</th>
<th>To</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr PJ Moloketi</td>
<td>Independent Non-executive Chairperson</td>
<td>2</td>
<td>1 January 2013</td>
<td>31 December 2015</td>
</tr>
<tr>
<td>Mr FM Baleni</td>
<td>Independent Non-executive Deputy Chairperson</td>
<td>2</td>
<td>1 January 2013</td>
<td>31 December 2015</td>
</tr>
<tr>
<td>Mr PK Dlamini</td>
<td>Chief Executive Officer and Managing Director</td>
<td>Not applicable</td>
<td>1 September 2012</td>
<td>31 August 2016</td>
</tr>
<tr>
<td>Dr L Bhengu-Baloyi</td>
<td>Independent Non-executive Director</td>
<td>2</td>
<td>1 August 2014</td>
<td>31 July 2017</td>
</tr>
<tr>
<td>Ms T Dingaan</td>
<td>Independent Non-executive Director</td>
<td>3</td>
<td>1 August 2013</td>
<td>31 July 2016</td>
</tr>
<tr>
<td>Ms O Latief</td>
<td>Independent Non-executive Director</td>
<td>3</td>
<td>1 August 2013</td>
<td>31 July 2016</td>
</tr>
<tr>
<td>Ms B Matlwa</td>
<td>Independent Non-executive Director</td>
<td>2</td>
<td>1 August 2014</td>
<td>31 July 2017</td>
</tr>
<tr>
<td>Ms D Maseke</td>
<td>Independent Non-executive Director</td>
<td>2</td>
<td>1 August 2014</td>
<td>31 July 2017</td>
</tr>
<tr>
<td>Mr A Mokota</td>
<td>Independent Non-executive Director</td>
<td>1</td>
<td>1 August 2014</td>
<td>31 July 2017</td>
</tr>
<tr>
<td>Ms G Molae</td>
<td>Independent Non-executive Director</td>
<td>1</td>
<td>1 August 2014</td>
<td>31 July 2017</td>
</tr>
<tr>
<td>Ms K Naidoo</td>
<td>Chief Financial Officer</td>
<td>Not applicable</td>
<td>1 January 2013</td>
<td>31 December 2015</td>
</tr>
<tr>
<td>Ms A Singh</td>
<td>Independent Non-executive Director</td>
<td>1</td>
<td>1 August 2014</td>
<td>31 July 2017</td>
</tr>
<tr>
<td>Prof M Swilling</td>
<td>Independent Non-executive Director</td>
<td>1</td>
<td>1 August 2014</td>
<td>31 July 2017</td>
</tr>
<tr>
<td>Ms M Vilakazi</td>
<td>Independent Non-executive Director</td>
<td>2</td>
<td>1 August 2014</td>
<td>31 July 2017</td>
</tr>
<tr>
<td>During the year</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr A Boraine</td>
<td>Independent Non-executive Director</td>
<td>3</td>
<td>1 August 2011</td>
<td>31 July 2014</td>
</tr>
<tr>
<td>Mr A Julies</td>
<td>Non-executive Director (shareholder representative)</td>
<td>1</td>
<td>1 January 2013</td>
<td>30 November 2014</td>
</tr>
<tr>
<td>Dr C Manning</td>
<td>Independent Non-executive Director</td>
<td>3</td>
<td>1 August 2011</td>
<td>31 July 2014</td>
</tr>
</tbody>
</table>

1. These Directors’ contracts came to an end during the financial year 2015 and were not renewed.
2. Resigned with effect from 1 December 2014.

The details of the Directors’ interests in related party transactions and Directors’ emoluments are set out in notes 41 and 45 respectively of the financial statements. The governance structure is detailed on page 38.

REMUERATION POLICY
The Human Resources, Nomination, Social and Ethics Committee ensures that employees are fairly rewarded for their contributions to the performance of the Bank. The provision of performance bonuses is at the sole discretion of the Board. Sign-on bonuses were paid to qualifying employees to attract sufficiently skilled and experienced individuals.

BUSINESS AND REGISTERED ADDRESS
The Bank’s business and registered address details appear on page 179.

TAXATION STATUS
The Bank is exempt from normal taxation in terms of section 10(1)(x) of the Income Tax Act, 1962 (Act No 58 of 1962), as amended. The Bank is subject to and complies with all other South African taxes, including employees’ tax and value added tax. The DBSA paid VAT amounting to R36.1 million during 2015 financial period.

CHANGES IN ACCOUNTING POLICIES
The accounting policies applied during the year ended 31 March 2015 are in all material respects consistent with those applied in the annual financial statements for the year ended 31 March 2014, as no changes in accounting policies were effected in the 2015 financial year.
### STATEMENT OF FINANCIAL POSITION

*as at 31 March 2015*

<table>
<thead>
<tr>
<th>in thousands of rands</th>
<th>Notes</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>5</td>
<td>3 901 663</td>
<td>4 135 667</td>
</tr>
<tr>
<td>Trade and other receivables</td>
<td>6</td>
<td>227 880</td>
<td>145 296</td>
</tr>
<tr>
<td>Investment securities</td>
<td>7</td>
<td>2 009 916</td>
<td>2 161 341</td>
</tr>
<tr>
<td>Derivative assets held for risk management</td>
<td>8.1</td>
<td>1 036 624</td>
<td>1 309 325</td>
</tr>
<tr>
<td>Post-retirement medical benefits investment</td>
<td>9</td>
<td>9 536</td>
<td>63 209</td>
</tr>
<tr>
<td>Home ownership scheme loans</td>
<td>10</td>
<td>5 462</td>
<td>7 544</td>
</tr>
<tr>
<td>Equity investments</td>
<td>11</td>
<td>5 092 061</td>
<td>4 610 448</td>
</tr>
<tr>
<td>Development bonds</td>
<td>13</td>
<td>1 290 390</td>
<td>772 743</td>
</tr>
<tr>
<td><strong>Post-retirement medical benefits investment</strong></td>
<td>9</td>
<td>9 536</td>
<td>63 209</td>
</tr>
<tr>
<td>Home ownership scheme loans</td>
<td>10</td>
<td>5 462</td>
<td>7 544</td>
</tr>
<tr>
<td>Equity investments</td>
<td>11</td>
<td>5 092 061</td>
<td>4 610 448</td>
</tr>
<tr>
<td>Development bonds</td>
<td>13</td>
<td>1 290 390</td>
<td>772 743</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>70 944 139</td>
<td>63 825 541</td>
<td></td>
</tr>
<tr>
<td><strong>Equity and liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trade and other payables</td>
<td>17</td>
<td>811 755</td>
<td>813 665</td>
</tr>
<tr>
<td>Provisions</td>
<td>18</td>
<td>122 711</td>
<td>55 968</td>
</tr>
<tr>
<td>Liability for funeral benefits</td>
<td>19.1</td>
<td>3 150</td>
<td>4 108</td>
</tr>
<tr>
<td>Post-retirement medical benefit liability</td>
<td>19.2</td>
<td>160 412</td>
<td>165 051</td>
</tr>
<tr>
<td>Funding: debt securities</td>
<td>20</td>
<td>33 353 036</td>
<td>29 216 814</td>
</tr>
<tr>
<td>Funding: lines of credit</td>
<td>21</td>
<td>12 565 985</td>
<td>13 606 441</td>
</tr>
<tr>
<td>Derivative liabilities held for risk management</td>
<td>8.2</td>
<td>244 545</td>
<td>63 899</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>47 261 454</td>
<td>43 924 968</td>
<td></td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>70 944 139</td>
<td>63 825 541</td>
<td></td>
</tr>
</tbody>
</table>

### STATEMENT OF COMPREHENSIVE INCOME

*for the year ended 31 March 2015*

<table>
<thead>
<tr>
<th>in thousands of rands</th>
<th>Notes</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>28</td>
<td>5 327 312</td>
<td>4 576 209</td>
</tr>
<tr>
<td>Interest expense</td>
<td>29</td>
<td>(3 002 929)</td>
<td>(2 487 759)</td>
</tr>
<tr>
<td><strong>Net interest income</strong></td>
<td>29</td>
<td>2 324 383</td>
<td>2 088 450</td>
</tr>
<tr>
<td>Net fee income</td>
<td>30</td>
<td>232 925</td>
<td>334 630</td>
</tr>
<tr>
<td>Net foreign exchange gain</td>
<td>31</td>
<td>489 873</td>
<td>279 945</td>
</tr>
<tr>
<td>Net loss from financial assets and financial liabilities</td>
<td>32</td>
<td>(299 832)</td>
<td>(629 496)</td>
</tr>
<tr>
<td>Other operating income</td>
<td>33</td>
<td>139 971</td>
<td>244 076</td>
</tr>
<tr>
<td><strong>Other income</strong></td>
<td>562 740</td>
<td>229 153</td>
<td></td>
</tr>
<tr>
<td>Operating income</td>
<td>2 887 123</td>
<td>2 317 603</td>
<td></td>
</tr>
<tr>
<td>Project preparation</td>
<td>34</td>
<td>(6 138)</td>
<td>(20 887)</td>
</tr>
<tr>
<td>Development expenditure</td>
<td>35</td>
<td>(35 015)</td>
<td>(1 575)</td>
</tr>
<tr>
<td>Net impairment loss on financial assets</td>
<td>36</td>
<td>(743 361)</td>
<td>(734 871)</td>
</tr>
<tr>
<td>Personnel expenses</td>
<td>36</td>
<td>(607 271)</td>
<td>(561 597)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>37</td>
<td>(253 175)</td>
<td>(177 597)</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>38</td>
<td>(25 106)</td>
<td>(18 627)</td>
</tr>
<tr>
<td><strong>Profit from operations</strong></td>
<td>1 214 141</td>
<td>787 042</td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td>39</td>
<td>(2 914)</td>
<td>(15 423)</td>
</tr>
<tr>
<td><strong>Profit for the year</strong></td>
<td>1 214 141</td>
<td>787 042</td>
<td></td>
</tr>
</tbody>
</table>

### STATEMENT OF OTHER COMPREHENSIVE INCOME

*for the year ended 31 March 2015*

<table>
<thead>
<tr>
<th>in thousands of rands</th>
<th>Notes</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit for the year</td>
<td>1 214 141</td>
<td>787 042</td>
<td></td>
</tr>
<tr>
<td>Items that will not be reclassified to profit and loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gain on revaluation of land and buildings</td>
<td>24</td>
<td>15 769</td>
<td>-</td>
</tr>
<tr>
<td>Items that may be reclassified subsequently to profit and loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Unrealised (loss)/gain on cash flow hedges</td>
<td>25</td>
<td>(88 253)</td>
<td>109 108</td>
</tr>
<tr>
<td>Gain/(loss) on cash flow hedges reclassified to statement of comprehensive income</td>
<td>25</td>
<td>142 583</td>
<td>(87 767)</td>
</tr>
<tr>
<td>Fair value adjustment of available-for-sale financial assets</td>
<td>27</td>
<td>(2 129)</td>
<td>(13 535)</td>
</tr>
<tr>
<td><strong>Other comprehensive income</strong></td>
<td>52 202</td>
<td>7 806</td>
<td></td>
</tr>
<tr>
<td><strong>Total comprehensive income for the year</strong></td>
<td>1 282 112</td>
<td>794 849</td>
<td></td>
</tr>
</tbody>
</table>
### STATEMENT OF CASH FLOWS
for the year ended 31 March 2015

<table>
<thead>
<tr>
<th>in thousands of rands</th>
<th>Notes</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit for the year</td>
<td>1 214 141</td>
<td>787 042</td>
<td></td>
</tr>
<tr>
<td>Adjustments for:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>38</td>
<td>25 108</td>
<td>18 627</td>
</tr>
<tr>
<td>Grants and project preparation</td>
<td>44 867</td>
<td>37 866</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>33</td>
<td>(29 821)</td>
<td>(30 618)</td>
</tr>
<tr>
<td>Upfront fees deferred</td>
<td>47 379</td>
<td>8 135</td>
<td></td>
</tr>
<tr>
<td>Fees accrued (development loans)</td>
<td>(16 763)</td>
<td>(8 135)</td>
<td></td>
</tr>
<tr>
<td>realised capital gain on equity investments</td>
<td>44 879</td>
<td>(168 481)</td>
<td></td>
</tr>
<tr>
<td>Unrealised loss from financial assets and liabilities</td>
<td>304 245</td>
<td>610 615</td>
<td></td>
</tr>
<tr>
<td>Unrealised foreign exchange gain</td>
<td>476 213</td>
<td>77 662</td>
<td></td>
</tr>
<tr>
<td>Net impairment</td>
<td>35</td>
<td>743 361</td>
<td>734 870</td>
</tr>
<tr>
<td>Net interest income</td>
<td>29</td>
<td>(2 324 383)</td>
<td>(2 088 450)</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>438 671</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>Movements in provisions</td>
<td>31 690</td>
<td>(95 091)</td>
<td></td>
</tr>
<tr>
<td>Decrease/(increase) in other receivables</td>
<td>43 346</td>
<td>7 (7 663)</td>
<td></td>
</tr>
<tr>
<td>Decrease in home ownership scheme loans</td>
<td>2 082</td>
<td>1 389</td>
<td></td>
</tr>
<tr>
<td>Decrease in other payables</td>
<td>(9 126)</td>
<td>(53 725)</td>
<td></td>
</tr>
<tr>
<td>Change in liability for funeral benefits and post-retirement medical benefits</td>
<td>(4 639)</td>
<td>15 430</td>
<td></td>
</tr>
<tr>
<td>Interest received</td>
<td>502 055</td>
<td>(139 496)</td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>4 959 549</td>
<td>4 319 032</td>
<td></td>
</tr>
<tr>
<td>Dividends received</td>
<td>29 821</td>
<td>30 618</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash generated from operating activities</strong></td>
<td>2 660 756</td>
<td>1 955 167</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows used in development activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development loan disbursements</td>
<td>14</td>
<td>(11 897 533)</td>
<td>(11 281 242)</td>
</tr>
<tr>
<td>Development loan principal repayments</td>
<td>6 644 818</td>
<td>4 695 035</td>
<td></td>
</tr>
<tr>
<td>Development bonds</td>
<td>(502 000)</td>
<td>(750 000)</td>
<td></td>
</tr>
<tr>
<td>Net increase in equity investments</td>
<td>(495 361)</td>
<td>(444 707)</td>
<td></td>
</tr>
<tr>
<td>Grants paid and project preparation</td>
<td>(7 443)</td>
<td>(37 866)</td>
<td></td>
</tr>
<tr>
<td>Net advances to national mandates</td>
<td>(140 169)</td>
<td>(2 028)</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash used in development activities</strong></td>
<td>(6 397 688)</td>
<td>(7 820 810)</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of property, plant and equipment</td>
<td>15</td>
<td>(38 712)</td>
<td>(85)</td>
</tr>
<tr>
<td>Proceeds from sale of property and equipment</td>
<td>–</td>
<td>448</td>
<td></td>
</tr>
<tr>
<td>Purchase of intangible assets</td>
<td>16</td>
<td>(7 045)</td>
<td>(6 479)</td>
</tr>
<tr>
<td>(Decrease)/increase in financial market instruments</td>
<td>(684 879)</td>
<td>326 243</td>
<td></td>
</tr>
<tr>
<td><strong>Net cash (utilised)/generated from investing activities</strong></td>
<td>(730 188)</td>
<td>319 673</td>
<td></td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Receipts from National Treasury</td>
<td>23</td>
<td>2 500 000</td>
<td>2 400 000</td>
</tr>
<tr>
<td>Financial market liabilities repaid</td>
<td>13 662 946</td>
<td>11 963 371</td>
<td>(8 050 173)</td>
</tr>
<tr>
<td>Financial market liabilities raised</td>
<td>2 400 000</td>
<td></td>
<td>14 125 210</td>
</tr>
<tr>
<td><strong>Net cash generated from financing activities</strong></td>
<td>4 199 575</td>
<td>8 475 037</td>
<td></td>
</tr>
<tr>
<td><strong>Net (decrease)/increase in cash and cash equivalents</strong></td>
<td>(267 545)</td>
<td>2 929 073</td>
<td></td>
</tr>
<tr>
<td><strong>Effect of exchange rate movements on cash balances</strong></td>
<td>31</td>
<td>33 541</td>
<td>(45 548)</td>
</tr>
<tr>
<td><strong>Movement in cash and cash equivalents</strong></td>
<td>(234 004)</td>
<td>2 883 525</td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents at the beginning of the year</td>
<td>4 135 667</td>
<td>1 252 142</td>
<td></td>
</tr>
<tr>
<td><strong>Cash and cash equivalents at the end of the year</strong></td>
<td>5</td>
<td>3 901 663</td>
<td>4 135 667</td>
</tr>
</tbody>
</table>
ACCOUNTING POLICIES
for the year ended 31 March 2015

1. STATEMENT OF COMPLIANCE
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), the requirements of the Public Finance Management Act (PFMA) of South Africa, 1999 (Act No 1 of 1999) and sections 27 to 31 of the Companies Act of South Africa, 2008 (Act No 71 of 2008) (Companies Act), being the relevant and corresponding sections of those specified in the Development Bank of Southern Africa Act, 1997 (Act No 13 of 1997) (DBSA Act) and Treasury Regulations. The financial statements were approved by the Board of Directors on 1 July 2015.

As a PFMA Schedule 2 entity, the Bank is applying IFRS for financial reporting purposes instead of Statements of Generally Accepted Accounting Practice (SA GAAP). The application of IFRS for financial reporting purposes instead of GAAP was approved by National Treasury.

1.1 BASIS OF PREPARATION

1.1.1 BASIS OF MEASUREMENT
The financial statements have been prepared on the historical cost basis, except for the following:

• Derivative financial instruments are measured at fair value.
• Financial instruments at fair value through profit or loss are measured at fair value.
• Available-for-sale financial assets are measured at fair value.
• Land and buildings are measured at fair value.
• Post-retirement medical benefit is measured at actuarial values.
• Non-current assets held-for-sale.

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

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

• Note 1.2.5 – Derivative and 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). All derivatives are recognised initially at fair value. Subsequent to initial recognition, they are re-measured at fair value which include an estimated component relating to credit risk adjustment.

• Notes 1.4.3 and 1.5.3 – Depreciation and amortisation and the useful lives of property and equipment and intangible assets:
  Depreciation and amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of each part of an item of property and equipment and intangibles. Land is not depreciated.

• Notes 7, 11, 14, 15, 19, 20 and 21 – Valuation of financial instruments:
  – Note 7 – Investment securities:
    Investment securities are designated at fair value through profit or loss upon initial recognition, when they form part of a group of financial assets managed and evaluated on a fair value basis in accordance with a documented investment strategy.
  – Note 11 – Valuation of equity investments:
    Equity investments are designated at historical cost or as held-to-maturity if they have fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. All other equity investments are designated at fair value through profit and loss which is determined from observable market data in respect of similar financial instruments. Where market observable data is not available, they are estimated based on appropriate assumptions.
  – Note 14 – Measurement of the recoverable amounts and impairment of development loans and bonds:
    Development loans and bonds are carried at amortised cost. However judgements are applied when determining fair value and assessments of recoverable amounts and impairments calculations.

• Note 15 – Valuation of land and buildings:
  Land and buildings are measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model.

• Note 19 – Measurement of funeral benefit obligations and post-retirement medical benefit:
  Obligations for contributions to defined contribution provident fund plans are recognised as an expense in profit or loss when they are due.

• Note 20 – Debt securities:
  Debt securities designated at fair value through profit or loss consists of bonds which are listed and unlisted.
  Debt securities carried at amortised cost consists of bond issues and money market issuance.
  – Note 21 – Lines of credit:
    Lines of credit are carried at amortised cost. However judgements are applied when determining fair value disclosures.

These disclosures supplement the commentary on financial risk management (refer to note 46).

1.1.3 PROVISIONS
Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 – Provisions. Provision is made for undrawn loan commitments if it is probable that the facility will be drawn and result in the recognition of an asset at an amount less than the amount advanced.

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

1.2 FINANCIAL INSTRUMENTS
Financial instruments consist of cash and cash equivalents, investment securities, derivatives assets and liabilities, equity investments, development loans and bonds and other loans and other receivables, home ownership scheme loans, other payables, binding liabilities, funding: debt securities, funding: lines of credit and repurchase agreements.

1.2.1 FINANCIAL ASSETS
The Bank classifies its financial assets into the following categories:

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

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets on initial recognition and re-evaluates this classification at every reporting date. All financial assets are initially recognised at fair value plus transaction costs, except those measured at fair value through profit or loss. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models. The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. Regular way purchases and sales of financial assets are recognised on the trade date at which the Bank commits to purchase or sell the asset. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are recognised initially on the trade date, which is the date that the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial assets are measured as below, excluding transaction costs (refer to note 1.10.3).

Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held-for-trading and those designated at fair value through profit or loss at inception.
STATEMENT OF COMPLIANCE (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

1.2.1 FINANCIAL ASSETS (CONTINUED)

Financial assets at fair value through profit or loss (continued)

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

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

• It eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset or recognising the gains or losses on a different basis.

• A portfolio of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy and information about the Bank is provided internally on that basis to key management personnel. Under these criteria, the main classes of financial assets designated as at fair value through profit and loss by the Bank are equity investments and investment securities.

Subsequent to initial recognition, these financial assets are measured at fair value. All related realised and unrealised gains and losses arising from changes in fair value are recognised in net gains from financial assets in the statement of comprehensive income.

Loans and receivables

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

This category comprises development loans, cash and cash equivalents, other receivables, home ownership loans and collateralised advances.

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

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

Held-to-maturity financial assets

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

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

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

Available-for-sale financial assets

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

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

1.2.2 FINANCIAL LIABILITIES

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

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

Financial liabilities at fair value through profit or loss

The Bank has designated financial liabilities at fair value through profit or loss in the following circumstances:

• The liabilities are managed, evaluated and reported internally on a fair value basis.

• The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Relevant notes set out the amount of each class of financial liability that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant liability class.

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

Financial liabilities at amortised cost

All other financial liabilities not designated at fair value through profit or loss are designated as financial liabilities held at amortised cost. These financial liabilities are initially recognised at fair value and subsequently at amortised cost.

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

1.2.3 DERIVATIVE FINANCIAL INSTRUMENTS

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

Qualifying derivatives

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

Non-qualifying derivatives

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

1.2.4 DERECOGNITION

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

The Bank derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

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

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

1.2.4 DERECOGNITION (CONTINUED)

Trade date and settlement date accounting

The trade date is the date that an entity commits itself to purchase or sell an asset and trade date accounting refers to (a) the recognition of an asset to be received and the liability to pay for it on the trade date, and (b) derecognition of an asset that is sold, recognition of any gain or loss on disposal and the recognition of a receivable from the buyer for payment on the trade date. The settlement date is the date that an asset is delivered to or by an entity and settlement date accounting refers to (a) the recognition of an asset on the day it is received by the entity, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered from the entity.

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

1.2.5 HEDGE ACCOUNTING

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

• A hedge of the fair value of a recognised asset or liability (fair value hedge).

• A hedge of a highly probable future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge).

A hedging relationship exists where:

• At the inception of the hedge there is formal documentation of the hedge.

• The hedge is expected to be highly effective.

• The effectiveness of the hedge can be measured reliably.

• The hedge is highly effective throughout the reporting period.

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 note 1.10).

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

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

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

Fair value hedge

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

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

Cash flow hedge

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

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

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

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 statement of comprehensive income.

Hedge of monetary assets and liabilities

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

1.2.6 REPURCHASE AND RESALE AGREEMENTS

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

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

1.2.7 OFFSETTING OF FINANCIAL INSTRUMENTS

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

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

1.2.8 IMPAIRMENT OF FINANCIAL INSTRUMENTS

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

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

Available-for-sale financial assets

Where an available-for-sale financial asset remeasured to fair value through other comprehensive income is impaired and an impairment of the asset was previously recognised directly in other comprehensive income, the impairment is transferred to the statement of comprehensive income and recognised as part of the impairment loss. Where an asset measured to fair value through other comprehensive income is impaired and an increase in the fair value of the asset was previously recognised in equity, the increase in fair value of the asset recognised in other comprehensive income is reversed to the extent that the asset is impaired. Any additional impairment loss is recognised in the statement of comprehensive income.
1. STATEMENT OF COMPLIANCE (CONTINUED)

1.2 FINANCIAL INSTRUMENTS (CONTINUED)

1.2.8 IMPAIRMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

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

Calculation of recoverable amount

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

Reversals of impairment

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

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

A reversal of impairment loss on equity investments is recognised in profit and 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 loss. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between the loss estimates and actual loss experience. Development loans are considered non-performing when two consecutive repayments have not been honoured by the borrower or when there are other indicators that the loan may be impaired.

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

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

1.2.9 CASH AND CASH EQUIVALENTS

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

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

1.2.10 LOANS TO SHAREHOLDERS, DIRECTORS, MANAGERS AND EMPLOYEES

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

1.3 IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

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

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

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

1.4 PROPERTY, PLANT AND EQUIPMENT

1.4.1 RECOGNITION AND MEASUREMENT

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

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

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

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

Freehold land and buildings are subsequently carried at fair value, based on periodic valuations performed either by an independent valuator or management. These revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss.

1.4.2 SUBSEQUENT COSTS

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

1.4.3 DEPRECIATION

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

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

<table>
<thead>
<tr>
<th>Item</th>
<th>Estimated useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings</td>
<td>40 years</td>
</tr>
<tr>
<td>Furniture and fittings</td>
<td>10 years</td>
</tr>
<tr>
<td>Office equipment</td>
<td>5 – 10 years</td>
</tr>
<tr>
<td>Motor vehicles</td>
<td>4 – 5 years</td>
</tr>
<tr>
<td>Computer equipment</td>
<td>3 years</td>
</tr>
</tbody>
</table>
1. STATEMENT OF COMPLIANCE (CONTINUED)

1.4 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

1.5 INTANGIBLE ASSETS

1.5.1 RECOGNITION AND MEASUREMENT

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

1.5.2 SUBSEQUENT EXPENDITURE

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

1.5.3 AMORTISATION

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

<table>
<thead>
<tr>
<th>Item</th>
<th>Estimated useful life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Software</td>
<td>3 – 15 years</td>
</tr>
</tbody>
</table>

1.6 SHARE CAPITAL AND RESERVES

1.6.1 SHARE CAPITAL

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

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

If the Bank reacquires its own equity instruments, these instruments are classified as treasury shares and any consideration paid is recognised as a direct reduction from equity. The gains or losses on purchase, sale, issue or cancellation of treasury shares are recognised directly in other comprehensive income. Consideration paid is recognised as a direct reduction from equity. The gains or losses on purchase, sale, issue or cancellation of treasury shares are recognised directly in other comprehensive income. Interest associated with liabilities classified as equity instruments is accounted for as dividends.

1.6.2 PERMANENT GOVERNMENT FUNDING

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

1.6.3 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 or not yet affected profit or loss.

1.6.4 FAIR VALUE RESERVE

The fair value reserve comprises all fair value adjustments for available-for-sale investments, excluding impairment losses.

1.6.5 RESERVE FOR GENERAL LOAN RISKS

The general loan risk reserve is maintained based on the latest internal risk rating of borrowers. A risk review process for all clients is conducted twice per annum. The reserve for each risk category is estimated by calculating each risk category as follows:

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

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

1.6.6 REVALUATION RESERVE ON LAND AND BUILDINGS

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

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

1.7 REVENUE

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

1.7.1 INTEREST

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

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

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

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

1.7.2 FEES AND COMMISSION

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

Upfront fees are deferred and recognised over the term of the loan. Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

1.8 FOREIGN CURRENCY TRANSLATIONS

**Functional and presentation currency**

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

At each statement of financial position date:

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

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The Bank’s financial statements are presented in South African rands, which is the Bank’s functional currency.
1. STATEMENT OF COMPLIANCE (CONTINUED)

1.8 FOREIGN CURRENCY TRANSLATIONS (CONTINUED)

for the year ended 31 March 2015

ACCOUNTING POLICIES (CONTINUED)

The results and financial position of a foreign operation are translated into the functional currency using the following procedures:
- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position.
- Income and expenses for each statement of comprehensive income item are translated at exchange rates at the dates of the transactions.
- Any resulting exchange differences are recognised as a separate component of equity.

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions are recognised in the income statement.

Foreign exchange gains and losses resulting from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary items, such as financial assets held at fair value through profit or loss, are reported as part of the fair value gain or loss on such instruments. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1.9 NET INCOME FROM OTHER FINANCIAL INSTRUMENTS AT FAIR VALUE

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

1.10 DETERMINATION OF FAIR VALUES

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

1.10.1 PROPERTY AND EQUIPMENT

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

1.10.2 POST-RETIREMENT MEDICAL BENEFITS INVESTMENT

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

1.10.3 FINANCIAL INSTRUMENTS

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

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The method of determining the fair value of financial instruments can be split into the following categories:
- Level 1 – Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm’s length basis.
- Level 2 – Valuation techniques using market observable inputs. Such techniques may include: using recent arm’s-length market transactions, reference to the current fair value of similar instruments and discounted cash flow analysis, pricing models or other techniques commonly used by market participants.
- Level 3 – Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as day one profit and loss, is either amortised over the life of the transaction, deferred until the instrument’s fair value can be determined using market observable inputs, or realised through settlement.

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

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

Equity investments

Equity investments

Equity investments

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

Equity investments

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

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

The Bank uses valuation techniques in measuring equity instruments, including:
- Price of recent investment, if available.
- Discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates.
- Price earnings growth (PEG).
- Option pricing models.

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

Equity investments held-to-maturity consist of preference shares and debentures.

Capital market securities

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

Derivatives

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

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

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

Interest-bearing loans and borrowings

The fair value of interest-bearing loans is determined through discounted cash flow analyses, using market-derived discount rates as at the reporting date. The Bank does not believe that there is a comparable market for its targeted infrastructure programme development loans.

Interest rates used for determining fair value

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

1.11 PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

Provisions are recognised for onerous contracts when the expected benefits to be derived by the Bank from a contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected cost of continuing with the contract. Before a provision is established, the Bank recognises any impairment loss on the assets associated with that contract.
1.13.1 DEFINED CONTRIBUTION PLAN
Restructuring provisions are recognised when the Bank has developed a detailed formal plan for restructuring and has raised a valid expectation that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring and is recorded in other operating expenses in profit or loss.

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

1.12 FINANCIAL GUARANTEES
Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently measured at the higher of the amortised amount and the best estimate in accordance with IAS 37. Financial guarantees are included in other financial liabilities.

Financial guarantee liabilities are measured at their present value. The present value is calculated using the probability weighted expected cash outflows, discounted at the secondary market rate on similar instruments.

Financial guarantees are obligations for which the Bank is contractually committed to make payments, providing a guarantee that the holder is compensated for losses that are incurred as a result of an uncertain event. The guarantee liability is subsequently measured at the lower of the amortised amount and the best estimate in accordance with IAS 37.

1.13.2 DEFINED BENEFIT PLAN
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

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

1.13.4 SHORT-TERM EMPLOYEE BENEFITS
Short-term employee benefits obligations including annual leave are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.13.5 HOME OWNERSHIP SCHEME
The Bank operated a home ownership scheme, in terms of which mortgage bonds were provided to the Bank’s employees at reduced interest rates. The loans are measured at amortised cost less any impairment losses.

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

1.15 OTHER OPERATING INCOME
Other fee income is recognised as the related services are performed.

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

1.16 EVENTS AFTER THE REPORTING PERIOD
An event, which could be favourable or unfavourable, that occurs between the end of the reporting period and the date that the financial statements are authorised for issue.

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

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

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

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

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

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

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

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

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

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

1.19 NON-CURRENT ASSETS HELD-FOR-SALE (CONTINUED)

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

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

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

1.20 SEGMENTAL REPORTING

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 March 2015

1. NEW STANDARDS AND INTERPRETATIONS

The following new standards have been issued by the IASB and are not yet effective:

- IFRS 15: Revenue from Contracts with Customers (1 January 2017).

The following annual improvements have been issued by the IASB:

- IAS 16: Property, Plant and Equipment (1 July 2014).
- IAS 38: Intangible Assets (1 July 2014).
- IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation (1 January 2016).
- IFRS 9: Non-current Assets Held-for-sale (1 January 2016).
- IFRS 7: Financial Instruments Disclosures (1 January 2016).

2. SEGMENTAL INFORMATION

The Bank has four reportable segments, as listed below, which are the Bank’s strategic business units. These business units are managed separately, based on the Bank’s management and internal reporting structure for each of the strategic business units, the Bank’s Management Committee reviews internal management reports on at least a quarterly basis.

The following are the Bank’s reportable segments:

- South Africa Financing.
- International Financing.
- Infrastructure Delivery division.
- Treasury.
## 2. SEGMENTAL INFORMATION (CONTINUED)

### OPERATING REPORTABLE SEGMENTS

**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 31 March 2015

<table>
<thead>
<tr>
<th>South Africa Financing</th>
<th>International Financing</th>
<th>Infrastructure Delivery</th>
<th>Treasury</th>
<th><em>All other</em></th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest income on development loans</td>
<td>3 983 275</td>
<td>3 401 681</td>
<td>823 179</td>
<td>802 936</td>
<td>–</td>
</tr>
<tr>
<td>Interest income on development bonds</td>
<td>112 366</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Interest income on investments</td>
<td>16 387</td>
<td>62 028</td>
<td>56</td>
<td>1 193</td>
<td>–</td>
</tr>
<tr>
<td>Total interest income</td>
<td>4 112 028</td>
<td>3 463 709</td>
<td>823 235</td>
<td>804 129</td>
<td>1 998</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(2 499 558)</td>
<td>(1 974 694)</td>
<td>(391 912)</td>
<td>(294 580)</td>
<td>(1 819)</td>
</tr>
<tr>
<td>Net interest income</td>
<td>1 612 470</td>
<td>1 489 015</td>
<td>471 323</td>
<td>509 549</td>
<td>179</td>
</tr>
<tr>
<td>Non-interest income</td>
<td>122 429</td>
<td>135 836</td>
<td>76 297</td>
<td>221 173</td>
<td>156 095</td>
</tr>
<tr>
<td>Net fee income</td>
<td>99 419</td>
<td>92 582</td>
<td>22 669</td>
<td>61 744</td>
<td>99 059</td>
</tr>
<tr>
<td>Dividends</td>
<td>9 731</td>
<td>9 084</td>
<td>20 090</td>
<td>21 534</td>
<td>–</td>
</tr>
<tr>
<td>Surplus income</td>
<td>13 279</td>
<td>34 170</td>
<td>33 538</td>
<td>137 895</td>
<td>57 036</td>
</tr>
<tr>
<td>Operating income</td>
<td>1 735 399</td>
<td>1 624 851</td>
<td>547 620</td>
<td>730 722</td>
<td>156 274</td>
</tr>
<tr>
<td>Expenses</td>
<td>(409 835)</td>
<td>(624 953)</td>
<td>(452 099)</td>
<td>(208 577)</td>
<td>(139 938)</td>
</tr>
<tr>
<td>Net profit/loss</td>
<td>1 325 564</td>
<td>999 891</td>
<td>99 521</td>
<td>522 145</td>
<td>42 337</td>
</tr>
<tr>
<td>Development expenditure1</td>
<td>(35 015)</td>
<td>(1 179)</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Project preparation</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Revaluation of equity investments2</td>
<td>(84 294)</td>
<td>(258 506)</td>
<td>(134 816)</td>
<td>(519 187)</td>
<td>–</td>
</tr>
<tr>
<td>Sustainable earnings</td>
<td>1 206 255</td>
<td>739 813</td>
<td>(39 295)</td>
<td>2 958</td>
<td>16 336</td>
</tr>
<tr>
<td>Net foreign exchange gain/(loss)3</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Net (loss)/gain from financial assets and liabilities4</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Profit/(loss) before distributions</td>
<td>1 206 255</td>
<td>739 813</td>
<td>(39 295)</td>
<td>2 958</td>
<td>16 336</td>
</tr>
<tr>
<td>Grants</td>
<td>(1 245)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(169)</td>
</tr>
<tr>
<td>Transfer to IDD5</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>15 667</td>
</tr>
<tr>
<td>Retained profit/(loss)</td>
<td>1 205 010</td>
<td>739 813</td>
<td>(39 295)</td>
<td>2 958</td>
<td>16 167</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Development loans</td>
<td>43 797 290</td>
<td>36 580 053</td>
<td>12 942 929</td>
<td>13 498 192</td>
<td>–</td>
</tr>
<tr>
<td>Development bonds</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Equity investments</td>
<td>7 290 390</td>
<td>772 743</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Other assets</td>
<td>2 511 798</td>
<td>2 365 343</td>
<td>2 580 263</td>
<td>2 245 105</td>
<td>–</td>
</tr>
<tr>
<td>Total assets</td>
<td>47 599 479</td>
<td>39 718 719</td>
<td>15 523 883</td>
<td>15 742 264</td>
<td>234 714</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>50 146 483</td>
<td>33 664 359</td>
<td>8 355 711</td>
<td>9 047 282</td>
<td>206 588</td>
</tr>
<tr>
<td>Key ratios by segment</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
</tbody>
</table>

1. All Other segments include Corporate Services, Risk, CEO, Finance Operations, Strategy and Finance divisions.
2. Development expenditure relates to support for under-resourced municipalities.
3. Development expenditure and losses have been split between equity investments and financial assets for segment reporting purposes.
4. Treasury is responsible for foreign exchange management across the Bank and as such all foreign exchange gains and losses have been reclassified to Treasury.
5. This represents the assistance granted from DEBSA to IDD in support of mandate of the division.
### 3. FINANCIAL ASSETS BY CATEGORY

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Loans and receivables</th>
<th>Non-financial items</th>
<th>Fair value through profit or loss</th>
<th>Held-to-maturity</th>
<th>Available-for-sale</th>
<th>Total carrying amount</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2015</td>
<td>Cash and cash equivalents</td>
<td>3 901 663</td>
<td>3 901 663</td>
<td>3 901 663</td>
<td>3 900 613</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trade and other receivables</td>
<td>163 588</td>
<td>64 292</td>
<td>151 382</td>
<td>99 992</td>
<td>378 542</td>
<td>2 009 916</td>
</tr>
<tr>
<td></td>
<td>Investment securities</td>
<td>7</td>
<td>–</td>
<td>1 351 382</td>
<td>99 992</td>
<td>1 351 382</td>
<td>1 351 382</td>
</tr>
<tr>
<td></td>
<td>Derivative assets held for risk management</td>
<td>8</td>
<td>–</td>
<td>1 036 624</td>
<td>–</td>
<td>1 036 624</td>
<td>1 036 624</td>
</tr>
<tr>
<td></td>
<td>Home ownership scheme loans</td>
<td>10</td>
<td>–</td>
<td>5 462</td>
<td>–</td>
<td>5 462</td>
<td>5 462</td>
</tr>
<tr>
<td></td>
<td>Equity investments</td>
<td>11</td>
<td>–</td>
<td>5 000 376</td>
<td>91 685</td>
<td>5 092 061</td>
<td>5 092 061</td>
</tr>
<tr>
<td></td>
<td>Development loans</td>
<td>14</td>
<td>–</td>
<td>56 740 219</td>
<td>–</td>
<td>56 740 219</td>
<td>56 740 219</td>
</tr>
<tr>
<td></td>
<td>Development bonds</td>
<td>13</td>
<td>–</td>
<td>1 290 390</td>
<td>91 685</td>
<td>1 399 671</td>
<td>1 399 671</td>
</tr>
<tr>
<td></td>
<td></td>
<td>60 810 932</td>
<td>64 292</td>
<td>7 568 382</td>
<td>1 482 067</td>
<td>70 304 215</td>
<td>60 051 040</td>
</tr>
</tbody>
</table>

### 4. FINANCIAL LIABILITIES BY CATEGORY

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Loans and receivables</th>
<th>Non-financial items</th>
<th>Fair value through profit or loss</th>
<th>Held-to-maturity</th>
<th>Available-for-sale</th>
<th>Total carrying amount</th>
<th>Fair value</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 2015</td>
<td>Cash and cash equivalents</td>
<td>4 135 667</td>
<td>4 135 667</td>
<td>–</td>
<td>–</td>
<td>4 135 667</td>
<td>3 834 753</td>
</tr>
<tr>
<td></td>
<td>Trade and other receivables</td>
<td>6</td>
<td>40 986</td>
<td>105 210</td>
<td>–</td>
<td>–</td>
<td>145 296</td>
</tr>
<tr>
<td></td>
<td>Investment securities</td>
<td>7</td>
<td>–</td>
<td>1 743 848</td>
<td>166 653</td>
<td>250 840</td>
<td>2 161 341</td>
</tr>
<tr>
<td></td>
<td>Derivative assets held for risk management</td>
<td>8</td>
<td>–</td>
<td>1 308 325</td>
<td>–</td>
<td>1 308 325</td>
<td>1 308 325</td>
</tr>
<tr>
<td></td>
<td>Home ownership scheme loans</td>
<td>10</td>
<td>7 544</td>
<td>–</td>
<td>–</td>
<td>7 544</td>
<td>7 544</td>
</tr>
<tr>
<td></td>
<td>Equity investments</td>
<td>11</td>
<td>–</td>
<td>4 503 876</td>
<td>106 572</td>
<td>4 610 448</td>
<td>4 610 448</td>
</tr>
<tr>
<td></td>
<td>Development loans</td>
<td>14</td>
<td>–</td>
<td>50 076 235</td>
<td>–</td>
<td>50 076 235</td>
<td>45 981 604</td>
</tr>
<tr>
<td></td>
<td>Development bonds</td>
<td>13</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>772 743</td>
<td>772 743</td>
</tr>
<tr>
<td></td>
<td></td>
<td>54 259 532</td>
<td>105 210</td>
<td>7 568 049</td>
<td>1 045 968</td>
<td>250 840</td>
<td>63 217 599</td>
</tr>
</tbody>
</table>

* The Bank does not speculate in financial instruments, hence the held-for-trading classification is not used. All derivative instruments concluded by the Bank are for risk management purposes and therefore disclosed as designated at fair value through profit or loss.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2015

6. TRADE AND OTHER RECEIVABLES

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash at bank</td>
<td>795 640</td>
<td>569 399</td>
</tr>
<tr>
<td>Call deposits</td>
<td>3 106 023</td>
<td>3 566 268</td>
</tr>
<tr>
<td>Total</td>
<td>3 901 663</td>
<td>4 135 667</td>
</tr>
</tbody>
</table>

The average interest rate earned on fixed and call deposits detailed above was 5.60% (March 2014: 5.07%). The Bank’s exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities is disclosed in note 46.

6. TRADE AND OTHER RECEIVABLES (CONTINUED)

Included in the balance for trade debtors are third party managed funds and mandates comprising:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>African Capacity Building Foundation</td>
<td>103</td>
<td>3 299</td>
</tr>
<tr>
<td>African Peer Review Mechanism</td>
<td>300</td>
<td>–</td>
</tr>
<tr>
<td>African World Heritage Fund</td>
<td>1 473</td>
<td>–</td>
</tr>
<tr>
<td>Anglo American Capacity Building Programme</td>
<td>2 407</td>
<td>525</td>
</tr>
<tr>
<td>Department of Basic Education for Accelerated Infrastructure Schools Programme</td>
<td>142 595</td>
<td>6 728</td>
</tr>
<tr>
<td>Department of Human Settlements</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td>Department of Local Government</td>
<td>–</td>
<td>3</td>
</tr>
<tr>
<td>Department of Rural Development and Land Reform</td>
<td>10</td>
<td>2 084</td>
</tr>
<tr>
<td>Department of Water Affairs Pretoria</td>
<td>–</td>
<td>7</td>
</tr>
<tr>
<td>Ekurhuleni Metropolitan Municipality</td>
<td>335</td>
<td>–</td>
</tr>
<tr>
<td>Ejobalisana Rural Human Settlement</td>
<td>2 796</td>
<td>–</td>
</tr>
<tr>
<td>Ex-employee debtors</td>
<td>2 086</td>
<td>559</td>
</tr>
<tr>
<td>Free State Department of Police Roads and Transport</td>
<td>–</td>
<td>1 419</td>
</tr>
<tr>
<td>Finland Ministry of Foreign Affairs</td>
<td>–</td>
<td>8 105</td>
</tr>
<tr>
<td>Gauteng Department of Local Government and Housing</td>
<td>–</td>
<td>291</td>
</tr>
<tr>
<td>Gauteng Health Revitalisation Programme</td>
<td>–</td>
<td>747</td>
</tr>
<tr>
<td>Greater Kokstad Municipality</td>
<td>30</td>
<td>–</td>
</tr>
<tr>
<td>Green Fund</td>
<td>261</td>
<td>8</td>
</tr>
<tr>
<td>Independent Power Producers Office</td>
<td>3 984</td>
<td>–</td>
</tr>
<tr>
<td>Industrial Development Corporation</td>
<td>169</td>
<td>–</td>
</tr>
<tr>
<td>Infrastructure Delivery Improvement Programme</td>
<td>134</td>
<td>–</td>
</tr>
<tr>
<td>Infrastructure Investment Programme for South Africa</td>
<td>18</td>
<td>3 599</td>
</tr>
<tr>
<td>Jobs Fund</td>
<td>471</td>
<td>12</td>
</tr>
<tr>
<td>KFW Bank Group</td>
<td>–</td>
<td>39</td>
</tr>
<tr>
<td>KFW HIV/VCT 2 Programme</td>
<td>261</td>
<td>456</td>
</tr>
<tr>
<td>KFW SADC Water Fund</td>
<td>647</td>
<td>–</td>
</tr>
<tr>
<td>KwaZulu-Natal Department of Health</td>
<td>–</td>
<td>31</td>
</tr>
<tr>
<td>Land and Agricultural Development Bank</td>
<td>170</td>
<td>732</td>
</tr>
<tr>
<td>LO Net</td>
<td>–</td>
<td>163</td>
</tr>
<tr>
<td>Moses Kotane Institute</td>
<td>359</td>
<td>–</td>
</tr>
<tr>
<td>Municipal Financial Improvement Programme</td>
<td>–</td>
<td>2 872</td>
</tr>
<tr>
<td>Municipal Infrastructure Support Agency</td>
<td>–</td>
<td>760</td>
</tr>
<tr>
<td>National Department of Health</td>
<td>4 160</td>
<td>7 955</td>
</tr>
<tr>
<td>National Department of Health: Health PPP Project</td>
<td>–</td>
<td>870</td>
</tr>
<tr>
<td>National Rural Youth Services Corporation</td>
<td>1 130</td>
<td>4 505</td>
</tr>
<tr>
<td>National Treasury Cities Support Programme</td>
<td>1 118</td>
<td>1 094</td>
</tr>
<tr>
<td>National Treasury Municipal Capitalisation Fund</td>
<td>556</td>
<td>547</td>
</tr>
<tr>
<td>New Partnership for Africa’s Development</td>
<td>206</td>
<td>1 795</td>
</tr>
<tr>
<td>Pan African Capacitation Building Platform</td>
<td>–</td>
<td>137</td>
</tr>
<tr>
<td>Presidency National Planning</td>
<td>–</td>
<td>416</td>
</tr>
<tr>
<td>Spatial Development Initiative</td>
<td>545</td>
<td>254</td>
</tr>
<tr>
<td>Water Demand Management</td>
<td>–</td>
<td>7</td>
</tr>
<tr>
<td>Total</td>
<td>164 553</td>
<td>44 749</td>
</tr>
</tbody>
</table>

7. INVESTMENT SECURITIES

Investment securities consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government bonds</td>
<td>526 224</td>
<td>758 221</td>
</tr>
<tr>
<td>Municipal bonds</td>
<td>832 602</td>
<td>813 108</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>172 466</td>
<td>172 519</td>
</tr>
<tr>
<td>Total</td>
<td>1 531 382</td>
<td>1 743 848</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Type</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal bonds</td>
<td>99 992</td>
<td>168 663</td>
</tr>
<tr>
<td>Government bonds</td>
<td>161 796</td>
<td>238 441</td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>704</td>
<td>704</td>
</tr>
<tr>
<td>Money market instruments</td>
<td>216 746</td>
<td>11 693</td>
</tr>
<tr>
<td>Available-for-sale securities</td>
<td>378 542</td>
<td>250 840</td>
</tr>
<tr>
<td>Total investment securities</td>
<td>2 009 916</td>
<td>2 161 341</td>
</tr>
</tbody>
</table>

### 8. DERIVATIVE ASSETS AND LIABILITIES HELD FOR RISK MANAGEMENT

#### 8.1 DERIVATIVE ASSETS HELD FOR RISK MANAGEMENT

<table>
<thead>
<tr>
<th>Instrument type</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate derivatives</td>
<td>280 268</td>
<td>297 690</td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>756 356</td>
<td>1 010 635</td>
</tr>
<tr>
<td>Total derivative assets</td>
<td>1 036 624</td>
<td>1 309 325</td>
</tr>
</tbody>
</table>

#### 8.2 DERIVATIVE LIABILITIES HELD FOR RISK MANAGEMENT

<table>
<thead>
<tr>
<th>Instrument type</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate derivatives</td>
<td>(37 287)</td>
<td>(23 958)</td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>(207 258)</td>
<td>(39 941)</td>
</tr>
<tr>
<td>Total derivative liabilities</td>
<td>(244 545)</td>
<td>(63 899)</td>
</tr>
</tbody>
</table>

#### 8.3 NET DERIVATIVES HELD FOR RISK MANAGEMENT

<table>
<thead>
<tr>
<th>Fair value hedges of interest rate risk</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value hedges of foreign exchange risk</td>
<td>242 982</td>
<td>273 732</td>
</tr>
<tr>
<td>Cash flow hedges of foreign exchange risk</td>
<td>189 090</td>
<td>355 078</td>
</tr>
<tr>
<td>Economic hedges (foreign exchange contracts and cross-currency swaps)</td>
<td>360 007</td>
<td>616 616</td>
</tr>
<tr>
<td>Total economic hedges</td>
<td>792 079</td>
<td>1 244 426</td>
</tr>
</tbody>
</table>

### 9. POST-RETIREMENT MEDICAL BENEFITS INVESTMENT

<table>
<thead>
<tr>
<th>Type</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fair value of plan assets</td>
<td>59 536</td>
<td>63 209</td>
</tr>
</tbody>
</table>

### 10. HOME OWNERSHIP SCHEME LOANS

<table>
<thead>
<tr>
<th>Type</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current employees</td>
<td>3 662</td>
<td>3 881</td>
</tr>
<tr>
<td>Ex-employees</td>
<td>1 800</td>
<td>3 663</td>
</tr>
<tr>
<td>Total</td>
<td>5 462</td>
<td>7 544</td>
</tr>
</tbody>
</table>

The Bank operated a home ownership scheme, in terms of which mortgage bonds were provided to Bank employees at reduced interest rates. No new loans are granted under this scheme and Nedbank Limited administers the winding down of this scheme on behalf of the Bank. No further loans have been issued since March 2007.

The loans are repayable on a monthly basis and are secured by fixed property. Loans were 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 2015 the effective interest rate was 7.5% (2014: 7.5%).

### 11. EQUITY INVESTMENTS

<table>
<thead>
<tr>
<th>Type</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity investments consistent of the following:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity investments designated at fair value through profit or loss</td>
<td>5 000 376</td>
<td>4 503 876</td>
</tr>
<tr>
<td>Equity investments held-to-maturity</td>
<td>91 685</td>
<td>106 572</td>
</tr>
<tr>
<td>Total</td>
<td>5 092 061</td>
<td>4 610 448</td>
</tr>
</tbody>
</table>

Equity investments represent strategic investments by the Bank and are long-term in nature. As the Bank has more than five investments, a register is maintained.

#### 11.1 EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

<table>
<thead>
<tr>
<th>Cost</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>4 423 210</td>
<td>3 978 504</td>
</tr>
<tr>
<td>Acquisitions</td>
<td>625 049</td>
<td>688 528</td>
</tr>
<tr>
<td>Capital return</td>
<td>(187 873)</td>
<td>(243 822)</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>4 860 386</td>
<td>4 423 210</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fair value adjustment and impairment</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>(523 001)</td>
<td>93 364</td>
</tr>
<tr>
<td>Current year fair value adjustment (refer to note 32)</td>
<td>(204 223)</td>
<td>(772 673)</td>
</tr>
<tr>
<td>realised capital gain</td>
<td>44 879</td>
<td>168 481</td>
</tr>
<tr>
<td>Impairment loss (refer to note 35)</td>
<td>–</td>
<td>(12 173)</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>(682 345)</td>
<td>(523 031)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Foreign exchange adjustments</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>603 667</td>
<td>272 262</td>
</tr>
<tr>
<td>Unrealised gain (refer to note 31)</td>
<td>160 475</td>
<td>194 970</td>
</tr>
<tr>
<td>Realised gain (refer to note 31)</td>
<td>58 193</td>
<td>136 435</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>822 335</td>
<td>603 667</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fair value at the end of the year</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity investments designated at fair value through profit or loss consist of direct equity in ordinary shares and third party managed private equity funds.</td>
<td>5 000 376</td>
<td>4 503 876</td>
</tr>
</tbody>
</table>

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

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

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

The Bank ensures that these valuation techniques optimise the use of market inputs and rely as little as possible on entity-specific inputs, incorporate all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2015

11. EQUITY INVESTMENTS (CONTINUED)

11.1 EQUITY INVESTMENTS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTINUED)

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

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

11.2 EQUITY INVESTMENTS HELD-TO-MATURITY

Equity investments held-to-maturity consist of preference shares and debentures. The Bank has not, during the current financial year or three preceding financial years, sold or reclassified before maturity more than an insignificant amount of investments in relation to the total amount of hold-to-maturity investments.

in thousands of rands

<table>
<thead>
<tr>
<th>Year</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Held-to-maturity investments at fair value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the beginning of the year</td>
<td>106 572</td>
<td>111 591</td>
</tr>
<tr>
<td>Amortised interest on effective interest method (refer to note 32)</td>
<td>(14 887)</td>
<td>(5 019)</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>91 685</td>
<td>106 572</td>
</tr>
</tbody>
</table>

11.3 AGE ANALYSIS OF EQUITY INVESTMENTS

<table>
<thead>
<tr>
<th>Age of Investment</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (one) year</td>
<td>3 904</td>
<td>11 931</td>
</tr>
<tr>
<td>1 (one) year but within 2 (two) years</td>
<td>28 340</td>
<td>468 000</td>
</tr>
<tr>
<td>2 (two) years but within 3 (three) years</td>
<td>834 496</td>
<td>697 505</td>
</tr>
<tr>
<td>3 (three) years but within 4 (four) years</td>
<td>1 602 054</td>
<td>1 730 816</td>
</tr>
<tr>
<td>4 (four) years but within 9 (nine) years</td>
<td>2 730 706</td>
<td>1 575 594</td>
</tr>
<tr>
<td>10 (ten) years and older</td>
<td>112 521</td>
<td>136 802</td>
</tr>
</tbody>
</table>

| Total     | 5 092 061 | 4 610 448 |

11.4 SECTORAL ANALYSIS OF EQUITY INVESTMENTS

<table>
<thead>
<tr>
<th>Sector</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial infrastructure</td>
<td>2 379 611</td>
<td>1 923 553</td>
</tr>
<tr>
<td>Institutional infrastructure</td>
<td>810 948</td>
<td>843 468</td>
</tr>
<tr>
<td>Residential facilities</td>
<td>1 815 502</td>
<td>1 743 427</td>
</tr>
<tr>
<td>Social infrastructure</td>
<td>90 000</td>
<td>100 000</td>
</tr>
</tbody>
</table>

| Total     | 5 092 061 | 4 610 448 |

11.5 GEOGRAPHICAL ANALYSIS OF EQUITY INVESTMENTS

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>2 068 995</td>
<td>2 016 806</td>
</tr>
<tr>
<td>International</td>
<td>3 033 166</td>
<td>2 593 552</td>
</tr>
</tbody>
</table>

| Total     | 5 092 061 | 4 610 448 |

US dollar and euro amounts included in the above International equity investments:

<table>
<thead>
<tr>
<th>Currency</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>US dollar amount included</td>
<td>161 073</td>
<td>164 112</td>
</tr>
<tr>
<td>Euro amount included</td>
<td>28 560</td>
<td>27 057</td>
</tr>
</tbody>
</table>

12. FAIR VALUE HIERARCHY DISCLOSURES

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

<table>
<thead>
<tr>
<th>Valuations with reference to observable prices</th>
<th>Valuations based on observable input</th>
<th>Valuations based on unobservable input</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notes</td>
<td>Level 1</td>
<td>Level 2</td>
</tr>
</tbody>
</table>

March 2015

Available-for-sale financial assets

| Investment securities | 7 | 162 543 | 215 999 | – | 376 542 |
| Derivatives held for risk management | 8.1 | 1 531 382 | – | 1 531 382 |
| Equity investments | 11 | – | 4 568 386 | 431 990 | 5 000 376 |
| Total financial assets | 1 693 925 | 5 821 009 | 431 990 | 7 464 924 |

Financial liabilities designated at fair value through profit and loss

| Funding: debt securities | 20 | 6 622 145 | 214 950 | – | 6 837 095 |
| Derivatives liabilities held for risk management | 8.2 | – | 244 545 | – | 244 545 |
| Total financial liabilities | 6 622 145 | 459 495 | – | 7 081 640 |

Financial assets designated as at fair value through profit and loss

| Investment securities | 7 | 239 147 | 11 693 | – | 250 840 |
| Derivatives held for risk management | 8.1 | – | 1 308 325 | – | 1 308 325 |
| Equity investments | 11 | – | 4 064 745 | 439 131 | 4 503 876 |
| Total financial assets | 1 862 985 | 5 384 763 | 439 131 | 7 686 889 |

Financial liabilities designated as at fair value through profit and loss

| Funding: debt securities | 20 | 6 471 296 | 229 606 | – | 6 700 902 |
| Derivatives liabilities held for risk management | 8.2 | – | 63 899 | – | 63 899 |
| Total financial liabilities | 6 471 296 | 293 505 | – | 6 764 801 |

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

Level 1

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

Level 2

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

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

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

Level 3

Valuations are based on unobservable inputs.

Financial instruments valued using discounted cash flow analysis. This category includes only unlisted equity investments.
12. FAIR VALUE HIERARCHY DISCLOSURES (CONTINUED)

13. DEVELOPMENT BONDS

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross development bonds</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at the beginning of the year</td>
<td>1 290 390</td>
<td>1 290 608</td>
</tr>
<tr>
<td>Movement during the year</td>
<td>517 865</td>
<td>772 743</td>
</tr>
<tr>
<td>Gross development bonds</td>
<td>1 290 608</td>
<td>772 743</td>
</tr>
<tr>
<td>Allowance for impairment of development bonds</td>
<td>(218)</td>
<td>–</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>1 290 390</td>
<td>772 743</td>
</tr>
</tbody>
</table>

13.2 MOVEMENTS DURING THE YEAR

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bonds issued</td>
<td>502 000</td>
<td>750 000</td>
</tr>
<tr>
<td>Interest accrued (refer to note 28)</td>
<td>112 366</td>
<td>58 315</td>
</tr>
<tr>
<td>Gross repayments</td>
<td>(96 501)</td>
<td>(35 572)</td>
</tr>
<tr>
<td></td>
<td>517 865</td>
<td>772 743</td>
</tr>
</tbody>
</table>

13.3 ALLOWANCE FOR IMPAIRMENT OF DEVELOPMENT BONDS

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Impairment charge (refer to note 38)</td>
<td>218</td>
<td>–</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>218</td>
<td>–</td>
</tr>
</tbody>
</table>

14. DEVELOPMENT LOANS

14.1 ANALYSIS OF DEVELOPMENT LOANS

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>52 449 846</td>
<td>52 449 846</td>
</tr>
<tr>
<td>Movements during the year</td>
<td>2 543</td>
<td>4 226</td>
</tr>
<tr>
<td>Gross development loans</td>
<td>59 669 184</td>
<td>52 449 846</td>
</tr>
<tr>
<td>Allowance for impairment of development loans</td>
<td>(2 928 963)</td>
<td>(2 373 611)</td>
</tr>
<tr>
<td>Net development loans at the end of the year</td>
<td>56 740 219</td>
<td>50 076 235</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Movements during the period</td>
<td>2 543</td>
<td>4 226</td>
</tr>
</tbody>
</table>

14.2 MATURITY ANALYSIS OF DEVELOPMENT LOANS

Due within 1 (one) year:
- 8 024 744

Due after 1 (one) year but within 2 (two) years:
- 4 872 986

Due after 2 (two) years but within 3 (three) years:
- 3 963 629

Due after 3 (three) years but within 4 (four) years:
- 3 858 644

Due after 4 (four) years but within 9 (nine) years:
- 17 363 324

Due after 9 (nine) years but within 14 (fourteen) years:
- 19 188 172

Due after 14 (fourteen years):
- 5 609 670

14.3 SECTORAL ANALYSIS

Commercial – fund:
- 1 100 234

Commercial – manufacturing:
- 601 785

Commercial – mining:
- 789 651

Commercial – tourism:
- 388 403

Commercial – other:
- 322 250

Communication and transport infrastructure:
- 3 585 116

Energy – electricity:
- 26 315 401

Energy – non-grid standalone:
- 720 561

Human resources development:
- 1 127 457

Institutional infrastructure:
- 17 856

Residential facilities:
- 3 366 516

Roads and drainage:
- 12 651 626

Sanitation:
- 1 558 068

Social infrastructure:
- 3 624 828

Water:
- 3 296 430

14.4 GEOGRAPHICAL ANALYSIS

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gauteng</td>
<td>909 345</td>
<td>902 047</td>
</tr>
</tbody>
</table>

14.5 INVESTMENT BY GEOGRAPHICAL AREA

For the year ended 31 March 2015

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Development Bank of Southern Africa</td>
<td>14 183 952</td>
<td>14 284 110</td>
</tr>
</tbody>
</table>

14.6 INVESTMENT ANALYSIS OF DEVELOPMENT LOANS (CONTINUED)

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>SADC (excluding South Africa)</td>
<td>59 669 184</td>
<td>52 449 846</td>
</tr>
</tbody>
</table>

US dollar amounts included in the above SADC loans:
- 1 042 184

2015 Integrated Annual Report
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
in thousands of rands

14. DEVELOPMENT LOANS (CONTINUED)

14.7 SECTORAL ANALYSIS

14.7.1 SECTORAL ANALYSIS

Development finance institutions
864 990 1 352 606
Eduational institutions
802 150 882 871
Local government
18 212 131 14 964 419
National and provincial government
2 122 694 1 891 387
Private sector intermediaries
16 423 409 15 285 371
Public utilities
21 243 702 18 093 192

59 669 184 52 449 846

14.7.2 GEOGRAPHICAL ANALYSIS

Fixed interest rate loans
32 796 981 27 627 968
Variable interest rate loans
26 872 203 24 821 888

59 669 184 52 449 846

14.8 CLIENT CONCENTRATION OF TOTAL DEVELOPMENT LOANS
One client as percentage of total loan portfolio (%)
19.4 17.1
Seven clients as percentage of total loan portfolio (%)
53.6 44.0

14.9 ALLOWANCE FOR IMPAIRMENT OF DEVELOPMENT LOANS

RECONCILIATION
Balance at the beginning of the year
2 373 611 2 336 595
Impairment of current year interest (refer to note 14.1)
24 154 71 959
Loans written off during the year (refer to note 14.1)
(214 306) (755 700)
Impairment charge (refer to note 35)
745 526 720 757
Non-performing portfolio
387 050 583 931
Performing book portfolio
358 516 136 828

Balance at the end of the year
2 928 965 2 373 611

15. PROPERTY, PLANT AND EQUIPMENT

in thousands of rands

2015 2014

Cost/ Carrying value Cost/ Carrying value
valuation Accumulated depreciation value valuation Accumulated depreciation value

Revalued land
84 600 84 600 60 200 – 60 200
Revalued buildings
405 299 (21 299) 384 000 405 809 (17 363) 388 446
Furniture and fittings
18 915 (13 629) 5 286 18 930 (12 140) 6 790
Motor vehicles
1 448 (426) 1 022 1 886 (797) 1 089
Office equipment
17 149 (12 605) 4 544 15 807 (1 049) 4 035
Computer equipment
59 150 (35 626) 23 524 29 918 (27 605) 1 313
Total
586 561 (83 585) 502 976 531 550 (89 677) 461 873

Reconciliation of property, plant and equipment – March 2015

in thousands of rands

Opening balance Additions Disposals Revaluations Depreciation Closing balance

Revalued land
60 200 – – 24 400 – 38 600
Revalued buildings
388 446 8 121 (8 630) (3 937) 384 000
Furniture and fittings
6 790 38 (80) (1 462) 5 286
Motor vehicles
1 089 825 (684) (208) 1 022
Office equipment
4 544 1 315 (806) 4 035
Computer equipment
1 313 28 918 (27 605) 1 313

461 873 38 712 (764) 15 770 (12 615) 502 976

Reconciliation of property, plant and equipment – March 2014

in thousands of rands

Opening balance Additions Depreciation Closing balance

Revalued land
60 200 – – 60 200
Revalued buildings
392 312 – (3 866) 388 446
Furniture and fittings
8 316 – (1 526) 6 790
Motor vehicles
1 283 – (194) 1 089
Office equipment
5 084 – (1 049) 4 035
Computer equipment
3 102 86 (1 874) 1 313

470 297 85 (8 509) 461 873
15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

VALUATIONS

LAND

The land was valued at fair value of R215.2 million (2014: R206.0 million, by management). Land is measured at the revalued amount in accordance with the Bank’s revaluation policy.

BUILDINGS
The existing buildings were erected in 1987 at a cost of R35.2 million. Improvements of R8.1 million was effected during 2015 financial year (2014: Rnil). The buildings were valued at fair value of R384.0 million by an independent valuator on 31 March 2015 (2014: R392.2 million by management).

The historical carrying value of the existing buildings is R215.2 million (2014: R206.0 million).

16. INTANGIBLE ASSETS

<table>
<thead>
<tr>
<th></th>
<th>Cost/ valuation</th>
<th>Accumulated amortisation</th>
<th>Carrying value</th>
<th>Cost/ valuation</th>
<th>Accumulated amortisation</th>
<th>Carrying value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td>2014</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Computer software</td>
<td>140 676</td>
<td>(63 264)</td>
<td>77 412</td>
<td>133 631</td>
<td>(50 771)</td>
<td>82 860</td>
</tr>
</tbody>
</table>

Reconciliation of intangible assets – March 2015

<table>
<thead>
<tr>
<th></th>
<th>Opening balance</th>
<th>Additions</th>
<th>Amortisation</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer software</td>
<td>82 860</td>
<td>7 045</td>
<td>(12 493)</td>
<td>77 412</td>
</tr>
</tbody>
</table>

Reconciliation of intangible assets – March 2014

<table>
<thead>
<tr>
<th></th>
<th>Opening balance</th>
<th>Additions</th>
<th>Amortisation</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Computer software</td>
<td>86 499</td>
<td>6 479</td>
<td>(10 118)</td>
<td>82 860</td>
</tr>
</tbody>
</table>

17. TRADE AND OTHER PAYABLES

In thousands of rands

Included in trade and other payables is amounts due to third party managed funds and mandates comprising:

- African World Heritage Fund 30
- Department of Water Affairs 155
- Gauteng Cleaner Remedial Fund 34 820
- Gauteng Schools Programme 31
- Department of Rural Development and Land Reform 9 406
- Angola – Facility Agency fees 444
- Health PPP Programme 1 747
- Hospital Revitalisation Programme 237
- IUS$ Project with the National Department of Health 5 006
- Independent Power Producer Project 2 216
- National Department of Health: PPP Project 30
- Municipal Financial Improvement Programme 30
- Municipal Infrastructure Support Agency 200
- Pan African Capacitation Building Platform 1 353
- SAM Funding 51 026

Total other payables 811 755

18. PROVISIONS

Reconciliation of provisions – 2015

in thousands of rands

<table>
<thead>
<tr>
<th></th>
<th>Opening balance</th>
<th>Current year provision</th>
<th>Utilised during the period</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring</td>
<td>151 009</td>
<td>(13 229)</td>
<td>(96 590)</td>
<td>54 419</td>
</tr>
<tr>
<td>Developmental expenditure</td>
<td>1 579</td>
<td>30 750</td>
<td>(808)</td>
<td>50 000</td>
</tr>
<tr>
<td>Strategic initiatives</td>
<td>1 011</td>
<td>–</td>
<td>–</td>
<td>1 011</td>
</tr>
</tbody>
</table>

55 998 80 750 (14 037) 122 711

Reconciliation of provisions – 2014

in thousands of rands

<table>
<thead>
<tr>
<th></th>
<th>Opening balance</th>
<th>Current year provision</th>
<th>Utilised during the period</th>
<th>Closing balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restructuring</td>
<td>151 009</td>
<td>–</td>
<td>1 579</td>
<td>168 720</td>
</tr>
<tr>
<td>Developmental expenditure</td>
<td>1 011</td>
<td>1 579</td>
<td>–</td>
<td>1 011</td>
</tr>
<tr>
<td>Strategic initiatives</td>
<td>1 011</td>
<td>–</td>
<td>–</td>
<td>1 011</td>
</tr>
</tbody>
</table>

51 026 56 479

19. EMPLOYEE BENEFITS

19.1 LIABILITY FOR FUNERAL BENEFITS

This benefit covers all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon the death of an employee or retired employee. The obligation was valued by management on 31 March 2015.

Movement in liability for funeral benefits recognised in the statement of financial position

in thousands of rands

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>3 100</td>
<td>4 300</td>
</tr>
<tr>
<td>Decrease in liability</td>
<td>(1 200)</td>
<td>–</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>3 100</td>
<td>3 100</td>
</tr>
</tbody>
</table>
19. EMPLOYEE BENEFITS (CONTINUED)

19.2 POST-RETIREMENT MEDICAL BENEFITS

The Bank operates an unfunded defined benefit plan for qualifying employees. In terms of the plan, the Bank pays 100% of the medical aid contributions of qualifying pensioners. Pensioners include retired employees and their widow(er)s. The liability is in respect of pensioners who continue to belong to the medical aid after retirement. The investment in Medipref, as specified in note 9, has been set aside to fund this obligation. The amount recognised in the statement of financial position in respect of the Bank’s post-retirement medical benefit is detailed below:

in thousands of rands

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of unfunded obligation</td>
<td>165 051</td>
<td>148 421</td>
</tr>
<tr>
<td>Cost</td>
<td>14 846</td>
<td>13 668</td>
</tr>
<tr>
<td>Current service cost</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(10 239)</td>
<td>(9 200)</td>
</tr>
<tr>
<td>Actuarial (loss)/gain for the year</td>
<td>(9 200)</td>
<td>12 159</td>
</tr>
<tr>
<td>Present value of unfunded obligation at the end of the year</td>
<td>160 412</td>
<td>165 051</td>
</tr>
</tbody>
</table>

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

The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cost</td>
<td>14 846</td>
<td>13 668</td>
</tr>
<tr>
<td>Current service cost</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>Actuarial (loss)/gain for the year</td>
<td>(9 200)</td>
<td>12 159</td>
</tr>
<tr>
<td>Total charge for the period (includes in personnel expenses in the statement of comprehensive income – refer to note 36)</td>
<td>5 600</td>
<td>25 830</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discount rate (before taxation) (%)</td>
<td>8.7</td>
<td>9.3</td>
</tr>
<tr>
<td>Medical aid inflation rate (%)</td>
<td>7.9</td>
<td>8.3</td>
</tr>
</tbody>
</table>

Sensitivity analysis

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

<table>
<thead>
<tr>
<th></th>
<th>Central assumption</th>
<th>% point decrease</th>
<th>% point increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical aid inflation rate (%)</td>
<td>7</td>
<td>(1)</td>
<td>1</td>
</tr>
<tr>
<td>Accrued liability 31 March 2015 (R’000)</td>
<td>160 412</td>
<td>144 840</td>
<td>178 826</td>
</tr>
<tr>
<td>% change</td>
<td>(9)</td>
<td>11.5</td>
<td></td>
</tr>
<tr>
<td>Current service cost + interest cost 2015/16 (R’000)</td>
<td>13 517</td>
<td>12 155</td>
<td>15 129</td>
</tr>
<tr>
<td>% change</td>
<td>(10.1)</td>
<td>11.9</td>
<td></td>
</tr>
<tr>
<td>Sensitivity results from previous valuation: Medical aid inflation rate 2014 (%)</td>
<td>8.3</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Current service cost + interest cost 2014/15 (R’000)</td>
<td>14 880</td>
<td>13 296</td>
<td>16 800</td>
</tr>
<tr>
<td>% change</td>
<td>(10.6)</td>
<td>12.9</td>
<td></td>
</tr>
</tbody>
</table>

19.3 DEFINED CONTRIBUTION PLAN

in thousands of rands

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>The total amount expensed during the period (including group life assurance and income continuity benefits)</td>
<td>43 515</td>
<td>38 928</td>
</tr>
</tbody>
</table>

The Development Bank of Southern Africa Provident Fund (The Fund) was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members.

The number of employees covered by the plan for 2015 is 453 (2014: 431).

20. FUNDING: DEBT SECURITIES

Classification of debt securities

Held at fair value through profit or loss

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Held at amortised cost</td>
<td>6 837 095</td>
<td>6 700 902</td>
</tr>
<tr>
<td>Held at amortised cost</td>
<td>26 515 941</td>
<td>22 515 912</td>
</tr>
<tr>
<td>Held at amortised cost</td>
<td>33 353 036</td>
<td>29 216 814</td>
</tr>
</tbody>
</table>

Debt securities designated at fair value through profit or loss consists of listed and unlisted Dv bonds and private placements. The debt securities held at fair value through profit and loss are assessed upon credit rating review by rating agencies for own credit risk adjustment.

The Fund also issued several floating medium-term notes under instrument codes DVF. These instruments have a maturity of three to five years.

The Bank has elected to carry these floating rate notes at amortised cost.

In terms of the plan, the Bank pays 100% of the medical aid contributions of qualifying pensioners. Pensioners include retired employees and their widow(er)s. The liability is in respect of pensioners who continue to belong to the medical aid after retirement. The investment in Medipref, as specified in note 9, has been set aside to fund this obligation. The amount recognised in the statement of financial position in respect of the Bank’s post-retirement medical benefit is detailed below:

in thousands of rands

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of unfunded obligation</td>
<td>165 051</td>
<td>148 421</td>
</tr>
<tr>
<td>Cost</td>
<td>14 846</td>
<td>13 668</td>
</tr>
<tr>
<td>Current service cost</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>Benefits paid</td>
<td>(10 239)</td>
<td>(9 200)</td>
</tr>
<tr>
<td>Actuarial (loss)/gain for the year</td>
<td>(9 200)</td>
<td>12 159</td>
</tr>
<tr>
<td>Present value of unfunded obligation at the end of the year</td>
<td>160 412</td>
<td>165 051</td>
</tr>
</tbody>
</table>

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

The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest cost</td>
<td>14 846</td>
<td>13 668</td>
</tr>
<tr>
<td>Current service cost</td>
<td>34</td>
<td>33</td>
</tr>
<tr>
<td>Actuarial (loss)/gain for the year</td>
<td>(9 200)</td>
<td>12 159</td>
</tr>
<tr>
<td>Total charge for the period (includes in personnel expenses in the statement of comprehensive income – refer to note 36)</td>
<td>5 600</td>
<td>25 830</td>
</tr>
</tbody>
</table>

Market value of post-retirement medical benefit investment

| Market value of Medipref at the beginning of the year | 63 209   | 64 848   |
| Income                                               | 3 233    | 3 385    |
| Expenses                                             | (701)    | (780)    |
| Contributions (11 527)                               | (9 556)  |          |
| Increase in market value                             | 5 322    | 5 312    |

Market value of Medipref at the end of the year | 59 536    | 63 209   |

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

|                        | 2015     | 2014     |
| Discount rate (before taxation) (%) | 8.7      | 9.3      |
| Medical aid inflation rate (%) | 7.9      | 8.3      |

Sensitivity analysis

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

|                        | Central assumption | % point decrease | % point increase |
| Medical aid inflation rate (%) | 7                   | (1)              | 1               |
| Accrued liability 31 March 2015 (R’000) | 160 412             | 144 840          | 178 826         |
| % change               | (9)                | 11.5             |                 |
| Current service cost + interest cost 2015/16 (R’000) | 13 517             | 12 155           | 15 129          |
| % change               | (10.1)             | 11.9             |                 |
| Sensitivity results from previous valuation: Medical aid inflation rate 2014 (%) | 8.3               | 1                | 1               |
| Current service cost + interest cost 2014/15 (R’000) | 14 880             | 13 296           | 16 800          |
| % change               | (10.6)             | 12.9             |                 |
### 22. SHARE CAPITAL

<table>
<thead>
<tr>
<th></th>
<th>2015 (in thousands of rand)</th>
<th>2014 (in thousands of rand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authorised</td>
<td>2 020 000 ordinary shares</td>
<td>5 000 000 ordinary shares</td>
</tr>
<tr>
<td></td>
<td>at a par value of R10 000</td>
<td>at a par value of R10 000</td>
</tr>
<tr>
<td>Callable capital</td>
<td>2 000 000 ordinary shares</td>
<td>4 800 000 ordinary shares</td>
</tr>
<tr>
<td></td>
<td>at a par value of R10 000</td>
<td>at a par value of R10 000</td>
</tr>
</tbody>
</table>

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

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

The DBSA Act 13 of 1997 was amended during the year to amongst others increase the authorised share capital to R20.2 billion divided into 2 020 000 ordinary shares. In terms of section 13(2A) of the amended act, the Minister may, after consultation with the Board and notice in the Gazette, adjust the amount of the authorised share capital of the Bank and number of ordinary shares.

23. PERMANENT GOVERNMENT FUNDING

<table>
<thead>
<tr>
<th></th>
<th>2015 (in thousands of rand)</th>
<th>2014 (in thousands of rand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the end of the year</td>
<td>8 692 344</td>
<td>6 192 344</td>
</tr>
<tr>
<td>Government recapitalisation</td>
<td>2 500 000</td>
<td>2 400 000</td>
</tr>
</tbody>
</table>

During the current financial period, a capital injection of R2.5 billion was received from National Treasury.

24. REVALUATION RESERVE ON LAND AND BUILDINGS

<table>
<thead>
<tr>
<th></th>
<th>2015 (in thousands of rand)</th>
<th>2014 (in thousands of rand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>253 487</td>
<td>253 487</td>
</tr>
<tr>
<td>Gain on revaluation of land and buildings</td>
<td>15 769</td>
<td>–</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>269 256</td>
<td>253 487</td>
</tr>
</tbody>
</table>

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

25. HEDGING RESERVE

<table>
<thead>
<tr>
<th></th>
<th>2015 (in thousands of rand)</th>
<th>2014 (in thousands of rand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>61 958</td>
<td>40 617</td>
</tr>
<tr>
<td>Unrealised (loss)/gain on cash flow hedges</td>
<td>(88 253)</td>
<td>109 108</td>
</tr>
<tr>
<td>Gain/(loss) on cash flow hedges reclassified to the statement of comprehensive income</td>
<td>142 583</td>
<td>(87 767)</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>116 288</td>
<td>61 958</td>
</tr>
</tbody>
</table>

The net gain reclassified to the statement of comprehensive income was included in the net foreign exchange gain line item.

26. RESERVE FOR GENERAL LOAN RISKS

<table>
<thead>
<tr>
<th></th>
<th>2015 (in thousands of rand)</th>
<th>2014 (in thousands of rand)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>1 893 983</td>
<td>1 371 726</td>
</tr>
<tr>
<td>Transfer to general loan reserve</td>
<td>249 992</td>
<td>522 537</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>2 143 975</td>
<td>1 893 983</td>
</tr>
</tbody>
</table>

The reserve is maintained based on the risk grading of the borrowers as detailed in accounting policy note 1.6.5 and movements are recognised directly between the reserve for general loan risk and retained earnings.
30. NET FEE INCOME

<table>
<thead>
<tr>
<th>Service Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory fees</td>
<td>–</td>
<td>2 466</td>
</tr>
<tr>
<td>Appraisal fees</td>
<td>2 664</td>
<td>29 881</td>
</tr>
<tr>
<td>Arranging fees</td>
<td>26 518</td>
<td>32 005</td>
</tr>
<tr>
<td>Breakage costs</td>
<td>1 340</td>
<td>1 624</td>
</tr>
<tr>
<td>Commitment fees on lending</td>
<td>43 842</td>
<td>47 285</td>
</tr>
<tr>
<td>Consulting fees</td>
<td>–</td>
<td>3 345</td>
</tr>
<tr>
<td>Contract cancellation fees</td>
<td>500</td>
<td>8 520</td>
</tr>
<tr>
<td>Directors’ fees</td>
<td>99</td>
<td>220</td>
</tr>
<tr>
<td>Guarantee fees</td>
<td>4 997</td>
<td>220 451</td>
</tr>
<tr>
<td>Management fees</td>
<td>116 592</td>
<td>71 553</td>
</tr>
<tr>
<td>Prepayment fees</td>
<td>7 090</td>
<td>11 029</td>
</tr>
<tr>
<td>Restructuring fee</td>
<td>2 572</td>
<td>48</td>
</tr>
<tr>
<td>Unwinding costs</td>
<td>14 613</td>
<td>1 234</td>
</tr>
<tr>
<td>Upfront fees</td>
<td>20 756</td>
<td>27 582</td>
</tr>
<tr>
<td>Waiver fees</td>
<td>85</td>
<td>62</td>
</tr>
<tr>
<td><strong>Total fee income</strong></td>
<td>241 668</td>
<td>457 304</td>
</tr>
</tbody>
</table>

**Included in management fees are fees from third party managed funds:**

- Agence Francaise Development PPS Fund: 70
- African Capacity Building Foundation: –
- African Peer Review Mechanism: 1
- African World Heritage Fund: 1 114
- Anglo American South Africa: 3 345
- Angola Facility Agency: 680
- Department of Basic Education for Accelerated Infrastructure Schools Programme: 69 666
- Department of Rural Development and Land Reform: 1 319
- Department of Water Affairs: (284)
- Cities Preparation Facility: 1 500
- DOE – Renewable Energy Market Transformation: (129)
- Dryland Rehabilitation Programme: 22
- Energy and Environmental Programme: –
- Ethekwini Metropolitan Municipality: 14
- Elimotola Rural Human Settlement: 6 293
- Finland Ministry for Foreign Affairs: –
- Gauteng Health: 86
- Green Fund: 3 206
- Independent Power Producers Office: 1 966
- Infrastructure Investment Programme for South Africa: 877
- Infrastructure Delivery Improvement Programme: 2 770
- Jobs Fund: 3 428
- KFW HIV/VCT 2 Programme: 111
- KFW SADC Water Fund: 568
- Municipal Financial Improvement Programme: 3 500
- Limpopo Department of Health: 11 320
- Municipal Infrastructure Support Agency: –
- Myanmar Comprehensive Development: –
- National Rural Youth Services Corporation: 28
- National Department of Health: 3 544
- National Treasury – The PPP Unit: 3 544
- National Treasury Cities Support Programme: –
- National Treasury Municipal Capitalisation Fund: 493
- New Partnership for Africa’s Development: –
- Spatial Development Initiative: 905
- Tripartite Trust Account DFID: 330
- Ubungo: –

**Total fee income included in management fees**

| Management fees included in management fees                   | 116 592  | 71 553   |

**Net fee income**

| Management fees included in management fees                   | 232 928  | 334 630  |

31. NET FOREIGN EXCHANGE GAIN

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealised</td>
<td>33 541</td>
<td>(45 548)</td>
</tr>
<tr>
<td>Foreign exchange gain</td>
<td>(331 694)</td>
<td>371 984</td>
</tr>
<tr>
<td>Foreign exchange gain: Equity investments (refer to note 11.1)</td>
<td>160 475</td>
<td>194 970</td>
</tr>
<tr>
<td>Foreign exchange gain: Development loans and sundry</td>
<td>955 944</td>
<td>805 638</td>
</tr>
<tr>
<td>Foreign exchange loss: Hedging derivatives – development loans</td>
<td>(187 382)</td>
<td>(64 706)</td>
</tr>
<tr>
<td>Foreign exchange loss: Funding (Lines of Credit)</td>
<td>(1 140 097)</td>
<td>(1 470 789)</td>
</tr>
</tbody>
</table>

**Total net foreign exchange gain**

| Management fees included in management fees                   | (476 213)| (208 448)|

32. NET LOSS FROM FINANCIAL ASSETS AND FINANCIAL LIABILITIES

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrealised</td>
<td>43 148</td>
<td>78 590</td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>32 005</td>
<td>516 400</td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>3 157</td>
<td>(93 034)</td>
</tr>
<tr>
<td>Municipal bonds – unrealised</td>
<td>19 583</td>
<td>(64 140)</td>
</tr>
<tr>
<td>Foreign exchange gain: Funding (Lines of Credit)</td>
<td>861</td>
<td>(28 459)</td>
</tr>
<tr>
<td>Investment securities designated at fair value through profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government bonds – realised</td>
<td>(14 173)</td>
<td>(43 597)</td>
</tr>
<tr>
<td>Government bonds – realised</td>
<td>13 044</td>
<td>5 669</td>
</tr>
<tr>
<td>Corporate bonds – unrealated</td>
<td>(7 053)</td>
<td>(16 934)</td>
</tr>
<tr>
<td>Municipal bonds – unrealated</td>
<td>19 583</td>
<td>(64 140)</td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>3 157</td>
<td>(93 034)</td>
</tr>
<tr>
<td>Debentures</td>
<td>19 507</td>
<td>(119 002)</td>
</tr>
<tr>
<td>Debt securities</td>
<td>(114 538)</td>
<td>707 087</td>
</tr>
<tr>
<td>Foreign exchange gain: Funding (Lines of Credit)</td>
<td>(4 723)</td>
<td>7 506</td>
</tr>
<tr>
<td>Foreign exchange gain: Equity investments</td>
<td>(26 028)</td>
<td>(490 381)</td>
</tr>
<tr>
<td>Investment securities designated at fair value through profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government bonds – unrealated</td>
<td>(14 173)</td>
<td>(43 597)</td>
</tr>
<tr>
<td>Government bonds – realised</td>
<td>13 044</td>
<td>5 669</td>
</tr>
<tr>
<td>Corporate bonds – unrealated</td>
<td>(7 053)</td>
<td>(16 934)</td>
</tr>
<tr>
<td>Municipal bonds – unrealated</td>
<td>19 583</td>
<td>(64 140)</td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>3 157</td>
<td>(93 034)</td>
</tr>
<tr>
<td>Debt securities</td>
<td>19 507</td>
<td>(119 002)</td>
</tr>
<tr>
<td>Debt securities</td>
<td>(114 538)</td>
<td>707 087</td>
</tr>
<tr>
<td>Foreign exchange gain: Funding (Lines of Credit)</td>
<td>(4 723)</td>
<td>7 506</td>
</tr>
<tr>
<td>Foreign exchange gain: Equity investments</td>
<td>(26 028)</td>
<td>(490 381)</td>
</tr>
<tr>
<td>Investment securities designated at fair value through profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government bonds – unrealated</td>
<td>(14 173)</td>
<td>(43 597)</td>
</tr>
<tr>
<td>Government bonds – realised</td>
<td>13 044</td>
<td>5 669</td>
</tr>
<tr>
<td>Corporate bonds – unrealated</td>
<td>(7 053)</td>
<td>(16 934)</td>
</tr>
<tr>
<td>Municipal bonds – unrealated</td>
<td>19 583</td>
<td>(64 140)</td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>3 157</td>
<td>(93 034)</td>
</tr>
<tr>
<td>Debentures</td>
<td>19 507</td>
<td>(119 002)</td>
</tr>
<tr>
<td>Debt securities</td>
<td>(114 538)</td>
<td>707 087</td>
</tr>
<tr>
<td>Foreign exchange gain: Funding (Lines of Credit)</td>
<td>(4 723)</td>
<td>7 506</td>
</tr>
<tr>
<td>Foreign exchange gain: Equity investments</td>
<td>(26 028)</td>
<td>(490 381)</td>
</tr>
<tr>
<td>Investment securities designated at fair value through profit or loss</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government bonds – unrealated</td>
<td>(14 173)</td>
<td>(43 597)</td>
</tr>
<tr>
<td>Government bonds – realised</td>
<td>13 044</td>
<td>5 669</td>
</tr>
<tr>
<td>Corporate bonds – unrealated</td>
<td>(7 053)</td>
<td>(16 934)</td>
</tr>
<tr>
<td>Municipal bonds – unrealated</td>
<td>19 583</td>
<td>(64 140)</td>
</tr>
<tr>
<td>Foreign exchange derivatives</td>
<td>3 157</td>
<td>(93 034)</td>
</tr>
<tr>
<td>Debt securities</td>
<td>19 507</td>
<td>(119 002)</td>
</tr>
</tbody>
</table>

33. OTHER OPERATING INCOME

<table>
<thead>
<tr>
<th>Description</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-interest income</td>
<td>29 821</td>
<td>30 618</td>
</tr>
<tr>
<td>Gain on sale of equipment</td>
<td>70</td>
<td>17</td>
</tr>
<tr>
<td>Sundry income</td>
<td>110 080</td>
<td>213 439</td>
</tr>
<tr>
<td>Total net loss from financial assets and liabilities</td>
<td>299 823</td>
<td>(629 496)</td>
</tr>
</tbody>
</table>

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2015

in thousands of rands 2015 2014

34. DEVELOPMENT EXPENDITURE
Development expenditure to secondary and under-resourced municipalities 35 015 1 579

35. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS
Impairment of other receivables (refer to note 11.1) (4 019) 1 933
Impairment on equity investments (refer to note 14.9) 12 173
Impairment on development loans (refer to note 14.9) 745 526 720 759
Impairment on housing scheme loans 1 632 –
Impairment on development bonds (refer to note 13.3) 216 –

743 361 734 871

36. PERSONNEL EXPENSES
Post-retirement medical benefits liability movement (refer to note 19.2) 5 600 25 830
Personnel expenses 601 671 535 767

607 271 561 597

Included in other personnel expenses are the following:
Directors' emoluments (refer to note 45) 16 142 13 027
Executive members' remuneration (refer to note 45) 34 379 27 743

50 521 40 776

37. OTHER EXPENSES
Auditor's remuneration 6 274 6 649
Technical services 29 658 34 006
Communication costs 7 733 7 466
Information technology costs 39 146 32 498
Legal expenses 10 325 8 239
Public relations activities 9 372 7 375
Subsistence and travel 33 199 24 015
Loss on sale of assets 315 –
Strategic transformation initiatives 0 000 –
Low value assets 2 087 68
Other 65 068 57 281

253 175 177 597

38. DEPRECIATION AND AMORTISATION (refer to notes 15 and 16)
Revalued buildings 3 937 3 866
Furniture and fittings 1 462 1 526
Motor vehicles 258 194
Office equipment 806 1 049
Computer equipment 6 202 1 874
Intangible assets 12 493 10 118

25 158 19 627

39. GRANTS
Free State Department of Police Road and Transport 1 244 –
Jobs Fund – retention bonus – 2 366
National Treasury: BRICS 246 – 1 875
Municipal Infrastructure Support Agency 4 578
Presidency National Planning 365
Training assistance – Vufindela Academy 168 6 804
Social Responsibility Fund 294 –
Malawi DFI consulting fees 567 –

2 914 15 423

In the prior year an amount of R1.5 million for development expenditure was disclosed as a grant.

40. CONTINGENCIES
40.1 EMPLOYEE LOANS
Loan balances secured 103 103

The Bank has entered into agreements with financial institutions whereby it stand surety for housing and micro loans of its employees. Repayment terms vary at market rates which are at arm's length.

40.2 GUARANTEES
The Bank has approved and issued guarantees on behalf of borrowers amounting to:

172 625 288 036

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

The book debt to the credit provider

172 625 288 036

40.3 CONTINGENT LIABILITIES

The Bank operates in a legal and regulatory environment that exposes it to litigation risks. As a result the Bank is involved in disputes and legal proceedings which arise in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings to have a significant adverse effect on the financial position of the Bank. These claims cannot be reasonably estimated at this time.

41. RELATED PARTIES
41.1 RELATED PARTY RELATIONSHIPS

The DBSA is one of 21 Schedule 2 major public entities in terms of the PFMA and therefore falls within the national sphere of government. As a consequence, the Bank has a significant number of related parties that also fall within the national sphere of government.

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

The South African government, through the Ministry of Finance, is the parent of the Bank and exercises ultimate control. The DBSA has a 100% shareholding in Frandevco.

41.2 TRANSACTIONS WITH RELATED PARTIES

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

41.2.1 NATIONAL PUBLIC ENTITIES

The total book debt of loans extended to national public entities amounts to R13.1 billion (2014: R10.1 billion). None of these loans are non-performing.

41.2.2 NATIONAL MANDATES

The net amount advanced to national mandates at year-end amounted to R144.3 million (2014: R4.2 million).

41.2.3 FRANDEVCO

There were no transactions with Frandevco during the year (2014: Rnil). Refer to note 49.

41.2.4 RELATED PARTY TRANSACTIONS

There were no related party transactions with Directors and key management personnel during the year (2014: Rnil).

In thousands of rands 2015 2014

42. COMMITMENTS

At the reporting date, the Bank had the following commitments:

• Development loan commitments 10 572 339 6 931 264
• Development expenditure 33 754 17 357
• Grants 4 371 36 736
• Equity investments commitments 1 946 909 1 894 655
• Capital commitments 85 000 –

12 642 373 8 880 012
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2015

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

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

42.3 GRANTS
Grant commitments approved but not yet disbursed are to be financed from funds generated from operation and funds raised from local financial markets and foreign sources.

42.4 EQUITY INVESTMENT COMMITMENTS
Commitment relates to private equity funds approved but not yet disbursed.

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

43. FUNDS ADMINISTERED ON BEHALF OF THIRD PARTIES
in thousands of rands

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at the beginning of the year</td>
<td>2 072 450</td>
<td>2 092 076</td>
</tr>
<tr>
<td>Funds received</td>
<td>4 975 373</td>
<td>2 169 827</td>
</tr>
<tr>
<td>Interest, foreign and other exchange</td>
<td>143 372</td>
<td>141 833</td>
</tr>
<tr>
<td>Funds disbursed</td>
<td>(6 565 131)</td>
<td>(2 331 280)</td>
</tr>
<tr>
<td>Balance at the end of the year</td>
<td>628 064</td>
<td>2 072 450</td>
</tr>
</tbody>
</table>

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

45. SCHEDULE OF DIRECTORS’ AND PRESCRIBED OFFICERS’ EMOLUMENTS
45.1 EXECUTIVE MEMBERS’ REMUNERATION AND PRESCRIBED OFFICERS

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Basic salaries and fees</th>
<th>Medical aid, group life and provident fund contribution</th>
<th>Subsistence and travel</th>
<th>Cell costs</th>
<th>Bonus</th>
<th>Total March 2015 R</th>
<th>Total March 2014 R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr P Dlamini</td>
<td>Executive Officer and Managing Director</td>
<td>4 426 609</td>
<td>552 707</td>
<td>105 494</td>
<td>–</td>
<td>4 452 000</td>
<td>9 536 810</td>
<td>7 221 932</td>
</tr>
<tr>
<td>Mr P A Curnoe</td>
<td>Executive Managers</td>
<td>2 240 681</td>
<td>276 900</td>
<td>17 930</td>
<td>20 000</td>
<td>2 054 432</td>
<td>4 609 943</td>
<td>3 786 725</td>
</tr>
<tr>
<td>Mr M Hillary</td>
<td>Executive Managers</td>
<td>1 937 388</td>
<td>320 250</td>
<td>12 226</td>
<td>22 000</td>
<td>1 798 260</td>
<td>4 090 124</td>
<td>3 513 108</td>
</tr>
<tr>
<td>Mr E Ditshego</td>
<td>Executive Managers</td>
<td>348 987</td>
<td>86 160</td>
<td>–</td>
<td>6 000</td>
<td>–</td>
<td>439 147</td>
<td>–</td>
</tr>
<tr>
<td>Ms D Mshikazi</td>
<td>Executive Managers</td>
<td>2 026 295</td>
<td>272 991</td>
<td>3 667</td>
<td>22 000</td>
<td>1 798 260</td>
<td>4 123 113</td>
<td>3 608 830</td>
</tr>
<tr>
<td>Ms K Naidoo</td>
<td>Executive Managers</td>
<td>2 452 435</td>
<td>277 852</td>
<td>–</td>
<td>22 000</td>
<td>2 233 834</td>
<td>4 986 121</td>
<td>4 144 752</td>
</tr>
<tr>
<td>Mr T Nchocho</td>
<td>Executive Managers</td>
<td>1 560 249</td>
<td>362 506</td>
<td>40 505</td>
<td>45 000</td>
<td>2 148 678</td>
<td>4 156 938</td>
<td>4 007 491</td>
</tr>
<tr>
<td>Mr R Shaiw</td>
<td>Executive Managers</td>
<td>2 070 465</td>
<td>325 976</td>
<td>55 779</td>
<td>55 000</td>
<td>1 874 800</td>
<td>3 828 082</td>
<td>3 682 468</td>
</tr>
<tr>
<td>Ms S Sibisi</td>
<td>Executive Managers</td>
<td>2 073 898</td>
<td>269 864</td>
<td>18 308</td>
<td>55 000</td>
<td>1 874 544</td>
<td>4 275 814</td>
<td>3 510 291</td>
</tr>
<tr>
<td>Mr M Vivekanandan</td>
<td>Executive Managers</td>
<td>2 737 777</td>
<td>544 794</td>
<td>14 865</td>
<td>18 000</td>
<td>3 315 436</td>
<td>1 597 830</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>21 876 784</td>
<td>3 289 910</td>
<td>268 764</td>
<td>265 000</td>
<td>18 215 008</td>
<td>43 915 466</td>
<td>35 071 457</td>
</tr>
</tbody>
</table>

Notes:
1. Acting Group Executive from 1 February 2015.
2. Resigned 31 January 2015.

45.2 SCHEDULE OF DIRECTORS’ AND PRESCRIBED OFFICERS’ EMOLUMENTS (CONTINUED)

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Total March 2015 R</th>
<th>Total March 2014 R</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ms K Naidoo</td>
<td>2 452 435</td>
<td>865 868</td>
<td>862 261</td>
</tr>
<tr>
<td>Mr FM Baleni</td>
<td>590 250</td>
<td>595 815</td>
<td>361 064</td>
</tr>
<tr>
<td>Dr L Bhengu-Baloyi</td>
<td>444 200</td>
<td>418 902</td>
<td></td>
</tr>
<tr>
<td>Mr A Boraine</td>
<td>133 400</td>
<td>514 902</td>
<td></td>
</tr>
<tr>
<td>Ms T Dinga</td>
<td>731 700</td>
<td>617 100</td>
<td></td>
</tr>
<tr>
<td>Ms A Kekana</td>
<td>–</td>
<td>37 500</td>
<td></td>
</tr>
<tr>
<td>Mr OA Latiff</td>
<td>748 808</td>
<td>491 952</td>
<td></td>
</tr>
<tr>
<td>Ms B Matlala1</td>
<td>504 000</td>
<td>445 358</td>
<td></td>
</tr>
<tr>
<td>Dr C Manning2</td>
<td>194 350</td>
<td>509 138</td>
<td></td>
</tr>
<tr>
<td>Ms D Maroloi2</td>
<td>530 450</td>
<td>531 840</td>
<td></td>
</tr>
<tr>
<td>Ms M Vilakazi2</td>
<td>384 762</td>
<td>611 191</td>
<td></td>
</tr>
<tr>
<td>Mr A Moloto2</td>
<td>309 650</td>
<td>309 650</td>
<td></td>
</tr>
<tr>
<td>Ms G Matlala2</td>
<td>254 300</td>
<td>256 128</td>
<td></td>
</tr>
<tr>
<td>Ms A Sing2</td>
<td>14 104</td>
<td>207 150</td>
<td></td>
</tr>
<tr>
<td>Prof M Swilling3</td>
<td>207 150</td>
<td>466 864</td>
<td></td>
</tr>
<tr>
<td>Co-opted members</td>
<td>–</td>
<td>37 752</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6 580 310</td>
<td>6 604 763</td>
<td>5 906 424</td>
</tr>
</tbody>
</table>

Notes:
1. Re-appointed 1 August 2014.
2. Re-appointed 1 August 2014.

46. RISK MANAGEMENT

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

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

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

The Treasury unit, under oversight of the ALCO, is charged with managing and containing the Bank’s interest rate risk exposures within Board approved limits. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.
46. RISK MANAGEMENT (CONTINUED)

INTEREST RATE RISK (CONTINUED)

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

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

The Bank’s 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 R55.2 million (March 2014: R106.8 million).

HEDGING OF INTEREST RATE RISK ExPOSURE

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

The above analysis is based on performing assets only. Variable interest rate instruments are included in the maturity bucket in which the instrument matures, due to the assumption that it will be rolled at maturity or that it will be held as cash.

The following table shows the contractual repricing gap for 31 March 2015:

<table>
<thead>
<tr>
<th>DBSA contractual repricing gap in million of rands</th>
<th>&lt;1m</th>
<th>1-3m</th>
<th>3-12m</th>
<th>1-2 yrs</th>
<th>2-3 yrs</th>
<th>3-4 yrs</th>
<th>4-5 yrs</th>
<th>&gt;5 yrs</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>ZAR</td>
<td>3 276</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>3 276</td>
</tr>
<tr>
<td></td>
<td>EUR</td>
<td>1</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>625</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>625</td>
</tr>
<tr>
<td>Money market instruments</td>
<td>ZAR</td>
<td>50</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>106</td>
<td>–</td>
<td>121</td>
</tr>
<tr>
<td>Investment: government bonds</td>
<td>ZAR</td>
<td>–</td>
<td>–</td>
<td>272</td>
<td>272</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>272</td>
</tr>
<tr>
<td>Investment: municipal bonds</td>
<td>ZAR</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>100</td>
<td>100</td>
<td>–</td>
<td>–</td>
<td>1 017</td>
</tr>
<tr>
<td>Investment: corporate bonds</td>
<td>ZAR</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>75</td>
<td>–</td>
<td>75</td>
</tr>
<tr>
<td>Development loans</td>
<td>EUR</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>7</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>–</td>
<td>2 960</td>
<td>7 646</td>
<td>–</td>
<td>67</td>
<td>–</td>
<td>–</td>
<td>8 673</td>
</tr>
<tr>
<td>ZAR</td>
<td>3 627</td>
<td>3 697</td>
<td>7 070</td>
<td>274</td>
<td>571</td>
<td>1 029</td>
<td>779</td>
<td>27 122</td>
<td>44 169</td>
</tr>
<tr>
<td>Derivative: development loans</td>
<td>USD</td>
<td>(14)</td>
<td>(558)</td>
<td>(336)</td>
<td>(27)</td>
<td>35</td>
<td>–</td>
<td>–</td>
<td>(231)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>ZAR</td>
<td>11</td>
<td>658</td>
<td>35</td>
<td>22</td>
<td>11</td>
<td>–</td>
<td>–</td>
<td>(165)</td>
</tr>
<tr>
<td>Total financial market assets</td>
<td>ZAR</td>
<td>7 576</td>
<td>6 922</td>
<td>14 787</td>
<td>641</td>
<td>684</td>
<td>1 210</td>
<td>779</td>
<td>29 768</td>
</tr>
<tr>
<td>CCS: Lines of credit</td>
<td>EUR</td>
<td>–</td>
<td>–</td>
<td>73</td>
<td>31</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>186</td>
</tr>
<tr>
<td></td>
<td>USD</td>
<td>–</td>
<td>–</td>
<td>(780)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(780)</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>–</td>
<td>–</td>
<td>(845)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(845)</td>
</tr>
<tr>
<td>Funding bonds</td>
<td>ZAR</td>
<td>(215)</td>
<td>(1 571)</td>
<td>(1 295)</td>
<td>(1 000)</td>
<td>–</td>
<td>–</td>
<td>(9 228)</td>
<td>(15 025)</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>(73)</td>
<td>(33)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(198)</td>
<td>(2 055)</td>
</tr>
<tr>
<td>Funding: Lines of credit</td>
<td>ZAR</td>
<td>–</td>
<td>(4 190)</td>
<td>(5 064)</td>
<td>–</td>
<td>(61)</td>
<td>–</td>
<td>–</td>
<td>(2 311)</td>
</tr>
<tr>
<td></td>
<td>ZAR</td>
<td>(9)</td>
<td>(13)</td>
<td>(15)</td>
<td>(17)</td>
<td>(20)</td>
<td>(22)</td>
<td>(37)</td>
<td>(12)</td>
</tr>
<tr>
<td>Funding: Lines of credit</td>
<td>ZAR</td>
<td>–</td>
<td>(855)</td>
<td>(153)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(718)</td>
</tr>
<tr>
<td>IRIS: Funding bonds</td>
<td>ZAR</td>
<td>(2 350)</td>
<td>(2 000)</td>
<td>(1 000)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(4 350)</td>
</tr>
<tr>
<td>IRIS: Lines of credit</td>
<td>ZAR</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Funding: Money market debt</td>
<td>USD</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Funding: Money market debt</td>
<td>ZAR</td>
<td>–</td>
<td>(2 863)</td>
<td>(1 640)</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>(4 503)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>ZAR</td>
<td>(215)</td>
<td>(11 539)</td>
<td>(11 737)</td>
<td>(61)</td>
<td>3 350</td>
<td>(9 228)</td>
<td>(15 551)</td>
<td>(45 037)</td>
</tr>
<tr>
<td>Repricing gap</td>
<td>USD</td>
<td>7 361</td>
<td>(4 617)</td>
<td>3 091</td>
<td>641</td>
<td>624</td>
<td>4 560</td>
<td>(8 449)</td>
<td>14 217</td>
</tr>
<tr>
<td>Cumulative repricing gap</td>
<td>USD</td>
<td>7 361</td>
<td>3 764</td>
<td>5 764</td>
<td>6 385</td>
<td>7 008</td>
<td>11 569</td>
<td>3 119</td>
<td>17 336</td>
</tr>
</tbody>
</table>

For the year ended 31 March 2015

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

The above analysis is based on performing assets only. Variable interest rate instruments are included in the maturity bucket in which they wither. Fixed rate instruments, although not technically subject to repricing risk, are included in the maturity bucket in which they reprice. Fixed rate instruments, although not technically subject to repricing risk, are included in the maturity bucket in which they wither.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2015

46. RISK MANAGEMENT (CONTINUED)

HEDGING OF FOREIGN CURRENCY RISK EXPOSURE
The Bank uses cross-currency swaps and forward exchange contracts (FECS) to hedge its foreign currency risk. As at 31 March 2015, the Bank had FECS with a notional amount of R54 million (March 2014: R83.1 million) and cross-currency swaps with a notional amount of R2.35 billion (March 2014: R2.8 billion).

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

FOREIGN CURRENCY SENSITIVITY ANALYSIS
Potential impact of rand sensitivity on profitability based on current net open position/currency exposure.

<table>
<thead>
<tr>
<th>Currency (in thousands)</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>EUR USD</td>
<td>EUR USD</td>
<td></td>
</tr>
<tr>
<td>Cash at bank</td>
<td>66</td>
<td>51,545</td>
</tr>
<tr>
<td>Loan assets</td>
<td>550</td>
<td>929,396</td>
</tr>
<tr>
<td>Equity investments</td>
<td>28,563</td>
<td>160,436</td>
</tr>
<tr>
<td>Cross-currency swaps</td>
<td>176,395</td>
<td>(113,911)</td>
</tr>
<tr>
<td>Derivative foreign exchange contracts</td>
<td>(176,399)</td>
<td>(707,205)</td>
</tr>
<tr>
<td>Liabilities</td>
<td>–</td>
<td>(5,643)</td>
</tr>
<tr>
<td></td>
<td>29,165</td>
<td>234,618</td>
</tr>
</tbody>
</table>

FOREIGN CURRENCY EXCHANGE RATE (FX) SENSITIVITY ANALYSIS

<table>
<thead>
<tr>
<th>Sensitivity</th>
<th>%</th>
<th>EUR/USD potential impact</th>
<th>USD/JPY potential impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>(15)</td>
<td>11,059</td>
<td>(57) 10,3067</td>
<td>(426) (483)</td>
</tr>
<tr>
<td>(10)</td>
<td>11,7096</td>
<td>(38) 10,9310</td>
<td>(284) (322)</td>
</tr>
<tr>
<td>(5)</td>
<td>1,36,361</td>
<td>(19) 11,5192</td>
<td>(142) (161)</td>
</tr>
<tr>
<td></td>
<td>13,0197</td>
<td>– 12,1255</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>13,6612</td>
<td>19 12,7318</td>
<td>142 161</td>
</tr>
<tr>
<td></td>
<td>14,3117</td>
<td>38 13,3381</td>
<td>284 322</td>
</tr>
<tr>
<td></td>
<td>14,9623</td>
<td>57 13,9443</td>
<td>426 483</td>
</tr>
</tbody>
</table>

Spot exchange rate used: EUR/ZAR 13.0107, USD/ZAR 12.1255

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

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

Liquidity is held primarily in the form of market instruments such as call deposits, negotiable certificates of deposit, promissory notes as well as liquid debt issues from government, municipalities and other approved issuers. Total liquidity at 31 March 2015 was R5.9 billion (March 2014: R6.02 billion). This includes cash and cash equivalents of R3.9 billion (March 2014: R4.1 billion), money market instruments of R217 million (March 2014: Rnil), corporate and municipal bonds of R1.1 billion (March 2014: R1.02 billion), and government bonds amounting to R888 million (March 2014: R90.9 billion).

The table below analyses the contractual liquidity gap for 31 March 2015.

<table>
<thead>
<tr>
<th>Contractual liquidity gap</th>
</tr>
</thead>
<tbody>
<tr>
<td>in millions of rand</td>
</tr>
<tr>
<td>&lt;1m</td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
</tr>
<tr>
<td>– 3 326</td>
</tr>
<tr>
<td>USD</td>
</tr>
<tr>
<td>Money market instruments</td>
</tr>
<tr>
<td>– 7 901</td>
</tr>
<tr>
<td>USD</td>
</tr>
<tr>
<td>Investment: corporate bonds</td>
</tr>
<tr>
<td>– – 75</td>
</tr>
<tr>
<td>Development loans</td>
</tr>
<tr>
<td>USD</td>
</tr>
<tr>
<td>Derivatives: development bonds</td>
</tr>
<tr>
<td>– (1 155)</td>
</tr>
<tr>
<td>Total financial market assets</td>
</tr>
<tr>
<td>4 043</td>
</tr>
<tr>
<td>USD</td>
</tr>
</tbody>
</table>

The table above shows the total available liquidity as at 31 March 2015.
46. RISK MANAGEMENT (CONTINUED)

LIQUIDITY RISK (CONTINUED)

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

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

The table below analyses the contractual liquidity gap for 31 March 2014.

<table>
<thead>
<tr>
<th>Contractual liquidity gap</th>
<th>&lt;1yr</th>
<th>1-3yr</th>
<th>3-12yr</th>
<th>1-2 yrs</th>
<th>2-3 yrs</th>
<th>3-4 yrs</th>
<th>4-5 yrs</th>
<th>&gt;5 yrs</th>
<th>Grand total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and cash equivalents</td>
<td>ZAR 4 136</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>4 136</td>
</tr>
<tr>
<td>Investment: government bonds</td>
<td>ZAR –</td>
<td>–</td>
<td>–</td>
<td>817</td>
<td>–</td>
<td>–</td>
<td>106</td>
<td>–</td>
<td>923</td>
</tr>
<tr>
<td>Investment: municipal bonds</td>
<td>ZAR –</td>
<td>67</td>
<td>167</td>
<td>33</td>
<td>–</td>
<td>–</td>
<td>1 415</td>
<td>1 682</td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>ZAR –</td>
<td>12</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>–</td>
<td>75</td>
<td>75</td>
<td>162</td>
</tr>
<tr>
<td>Development loans</td>
<td>EUR 220</td>
<td>1 252</td>
<td>1 536</td>
<td>1 636</td>
<td>1 305</td>
<td>1 024</td>
<td>4 896</td>
<td>11 911</td>
<td></td>
</tr>
<tr>
<td>Derivatives: development bonds</td>
<td>USD (12)</td>
<td>(27)</td>
<td>(515)</td>
<td>(39)</td>
<td>(27)</td>
<td>–</td>
<td>–</td>
<td>(620)</td>
<td></td>
</tr>
<tr>
<td>ZAR 10</td>
<td>–</td>
<td>20</td>
<td>602</td>
<td>31</td>
<td>21</td>
<td>–</td>
<td>–</td>
<td>584</td>
<td></td>
</tr>
</tbody>
</table>

Total financial market assets

4 195 846 3 490 5 536 4 778 4 048 3 583 51 146 57 622

CREDIT RISK

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

46. RISK MANAGEMENT (CONTINUED)

MANAGEMENT OF CREDIT RISK

The DBSA, as a multi-lateral development finance institution, faces a unique challenge in maintaining a sustainable balance between maximising development returns and minimising financial loss in its lending and other investment operations. As a result, the performance of the Bank is to a large extent dependent on the Bank’s ability to take credit risk effectively. The following is a description of the process adopted by the Bank to ensure that it is appropriately rewarded and to manage the resultant exposure to credit risk effectively in the pursuance of its corporate objectives.

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

CREDIT RISK OVERSIGHT, GOVERNANCE AND ASSURANCE

Credit risk oversight: The Board of Directors, as part of its oversight duties, sets the tone for the management of risk and defines the level of risk that the Bank is willing to assume, as well as considers the granting of large credits and reviews the overall performance in the management of risk through its subcommittees.

Credit risk governance: The ongoing governance of the Bank’s risk-taking activities is devolved to management. For credit risk management, the Bank has in place a number of committees, at both corporate and divisional levels, mandated to maintain credit policies and standards, review and approve credits under delegated authority, as well as monitor and report the overall level of exposures to credit risk and performance in the management of these exposures.

Credit risk assurance: The quality of credit risk management is assured through the centralised Group Risk Assurance division, responsible for the development of policy, models and standards in support of the efficient and effective management of credit risk. As a further line of assurance, credit risk analysts are deployed at operational levels to provide an objective view of the quality of individual credits under consideration and monitor the performance of assets post-approval.

CREDIT RISK RATINGS

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

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

The Bank has developed a number of internal credit risk rating models for all of its major asset classes to calculate credit risk ratings. The criteria for assigning a probability of default is based on the credit risk rating models that are expected to validate the credit risk rating models at the point of origination of the credit and that have been subject to validation before implementation. The application of credit risk models has been system enabled and deployed to all business divisions.

The models are also subjected to performance monitoring and validation on an annual basis. The principal objective for this is to ensure that assumptions used in model development are still appropriate and ensure that any deficiencies are identified early and that the models produce the most accurate possible quantitative assessment of the credit risk to which the Bank is exposed, from the level of individual facilities up to the total portfolio.

Country risk ratings: The Bank has implemented a reputable methodology of country risk classification, sovereign risk rating and country risk pricing. In terms of the DBSA country risk policy, country risk is distinctively different from sovereign risk. Whereas country risk is more generic and takes cognisance of political, economic, legal, tax, security and operational factors to determine the risk profile of individual countries, sovereign risk has a clear credit, financial risk focus. The sovereign risk rating methodology considers solvency, liquidity, economic and political issues to risk rate countries and generate probability of default. The model inputs are continuously updated to reflect economic and political changes in individual countries. The model outputs are calculated using sovereign risk ratings in conjunction with debt absorption capacity of countries as measured by the gross domestic product. The limits therefore consider the economic strength of countries ensuring that country exposures are related to the degrees of perceived risk as well as the country’s debt absorption capacity. Using PD and LGD in the calculation of the risk limits per country, the limits set are also subject to the availability of capital and the number of simultaneous defaults that can be absorbed by that capital.

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

CREDIT RISK (CONTINUED)

CREDIT RISK RATINGS, PRICING AND MITIGATION (CONTINUED)

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

PRICING OF LOANS

The pricing of loans was enhanced through the development of a standard pricing model. The model was developed to take into account risk capital and deliver an accurate return on equity (ROE), net present value (NPV) and sustainability profit on an economic basis. The model has been applied since January 2013 and further improvements will be made to it.

The Bank has moved to the second version of this model in 2014 with updates to cost structure included. The risk ratings are used for both the calculation of expected loss in the cashflow of the model as well as the influence on risk capital held at the cost of capital and the hurdle rate of return required on the risk capital.

CREDIT RISK MITIGATION

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

CREDIT RISK MONITORING, MEASUREMENT AND REPORTING

The Bank dedicates considerable resources to monitor the quality of credit throughout the lifetime of assets and measure the above mentioned metrics on a quarterly basis in terms of key performance indicators (KPIs).

At individual level:
- Performance of credit is monitored and reported in terms of adherence to terms and conditions.
- Credit risk ratings are updated on an annual basis.
- Potential problems are identified based on early indications of distress and placed on a credit watch list.
- Non-performing accounts are transferred for independent workout and recovery.

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

CREDIT RISK EXPOSURE

Maximum exposure

<table>
<thead>
<tr>
<th>Activity</th>
<th>March 2015</th>
<th>March 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross amount</td>
<td>Allowance for impairment</td>
<td>Carrying amount</td>
</tr>
<tr>
<td>(a) Development loans Non-performing book Municipalities</td>
<td>433 916</td>
<td>188 035</td>
</tr>
<tr>
<td>Other</td>
<td>2 599 773</td>
<td>1 331 544</td>
</tr>
<tr>
<td>Total</td>
<td>3 033 689</td>
<td>1 519 579</td>
</tr>
<tr>
<td>Performing book Municipalities Low risk</td>
<td>11 920 098</td>
<td>11 783 748</td>
</tr>
<tr>
<td>Medium risk</td>
<td>1 781 916</td>
<td>1 771 433</td>
</tr>
<tr>
<td>Performing book Municipalities High risk</td>
<td>33 201 335</td>
<td>32 990 725</td>
</tr>
<tr>
<td>Total</td>
<td>56 635 495</td>
<td>55 922 255</td>
</tr>
</tbody>
</table>

The following types of collateral are held in respect of the above loans: guarantees, cession of debtors, cession of income obligations.

CREDIT RISK RATINGS, PRICING AND MITIGATION (CONTINUED)

Credit risk ratings are updated on an annual basis.

Overall performance of portfolios is measured and reported on a quarterly basis in terms of standard KPIs.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2015

46. RISK MANAGEMENT (CONTINUED)

CREDIT RISK (CONTINUED)
CREDIT RISK EXPOSURE (CONTINUED)

Maximum exposure (continued)

in thousands of rands

2015  2014

(d) Commitments (Loans signed, but not yet fully disbursed)

Low risk

Municipal  496 367  730 371

Other  890 000  539 901

Medium risk

Municipal  698 261  493 716

Other  8 063 319  4 816 856

High risk

Municipal  –  153 528

Other  424 392  196 653

10 572 339  6 931 264

in thousands of rands

2015  2014

(e) Guarantees

172 625  288 038

(f) Loans that are past due or individually impaired

Overdue amounts

166 928  24 418 550

138 179  72 526

1 079  144

282 964  269 644 (1 262)  13 738  844

13 817 285

–

24 585 478

14 100 249

The fair value of collateral held in respect of the above amounted to R206 million (2014: R206 million). For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

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

in thousands of rands

2015  2014

(f) Loans that are past due or individually impaired

Not yet due

3 3-6 6-12 >12

166 928  24 418 550  138 179  72 526  1 079

144

282 964  269 644 (1 262)  13 738

844

13 817 285

–

24 585 478

14 100 249

CAPITAL MANAGEMENT

During the period under review, the Bank complied with its regulatory leverage ratio requirement, as set out in the regulation made under section 17 of the Development Bank of Southern Africa Act (No 13 of 1997).

The Bank’s objectives when managing capital are:

• To safeguard the Bank’s ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank’s development finance activities.

• To maintain an adequate credit rating to ensure the Bank continued access to funds at optimal rates, in support of its mission to provide affordable development finance solutions.

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

The leverage ratio is calculated as total debt divided by shareholder’s capital, where total debt comprises total liabilities excluding other creditors (as shown on the statement of financial position). Capital comprises share capital, permanent government funding, retained earnings, and reserves. As at 31 March 2015, the debt to equity stood at 195.4% (2014: 216.3%). The capital ratio is calculated as shareholder’s capital divided by weighted assets, where weighted assets comprise total assets (as shown on the statement of financial position). Shareholder’s capital comprises share capital, permanent government funding, retained earnings, general provisions and the fair reserve. As at 31 March 2015, the capital ratio stood at 33.4% (2014: 31.2%).

47. THIRD PARTY MANAGED FUNDS COST RECOVERED

Third party funds and mandates

Agence Francaise Development Project Preparation and Feasibility Studies Fund  175 –

African Capacity Building Foundation  3 –

African Peer Review Mechanism  4 042  2 681

African World Heritage Fund  5 121  5 152

Anglo American  6 738 –

Aurecon  –  8

Cities Preparation Facility  2 570 –

Department of Basic Education for Accelerated Infrastructure Schools Programme  4 688 –

Department of Human Settlements – Western Cape  –  3 269

Department of Rural Development and Land Reform  2 421 –

Department of Water Affairs  –  1

Renevable Energy Market Transformation Programme  –  1 252

Dryland Rehabilitation Programme  4 –

Ekurhuleni Metropolitan Municipality  280 –

Eliotdale Human Rural Settlement  914 –

Energy Environment Partnership Programs  –  777

Gauteng Department of Health  816 –

Green Fund  14 741  11 061

GTAC – IPIC Office  9 562 –

Infrastructure Delivery Improvement Programme  3 225 –

Infrastructure Investment Programme for South Africa  2 687 –

Investment Climate Facility  153 –

Jobs Fund  28 800  26 571

KFW/VCT II – HIV prevention by voluntary counselling and testing Programme  1 310 –

National Treasury Municipal Financial Improvement Programme  3 889  3 146

Municipal Infrastructure Support Agency  2 011  3 776

National Rural Youth Services Corps  8 568  2 605

National Department of Health  12 760 –

National Treasury – The Power Producer Projects Unit  1 454 –

National Treasury Cities Support Programme  716 –

National Treasury Municipal Capitalization Fund  12 –

New Partnership for Africa Development  4 368  5 208

Pan African Capacity Building Platform  2 472  1 642

Renevable Energy Market Transformation Programme  –  2

Spatial Development Initiatives  2 997  869

Ticket Restoration Programme  4 –

Tripartite-Aid-for-Trade Pilot Programme  4 –

Unibye  –  12

131 844  70 931

Third party managed funds managed per division

Financing Operations  59 848  38 797

Finance  21 920  28 652

Infrastructure Delivery  47 507  3 482

South Africa Financing  2 569 –

131 844  70 931

Cost recovery for each division

Corporate Services  120 870  70 931

Financing Operations  582 –

Finance  2 159  1 310

Infrastructure Delivery  7 983 –

South Africa Financing  210 –

131 844  70 931

Corporate Service division includes the Human Capital unit.
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2015

48. EVENTS AFTER THE REPORTING PERIOD
The financial statements were authorised for issue by the Board on 1 July 2015. There were no adjusting events that occurred after the reporting date.

The Board approved the increase of the Domestic Medium-Term Programme limit from R35 million to R80 million.

49. NON-CURRENT ASSET HELD-FOR-SALE
During a previous financial year, as a result of calling on its security against the loan in default, the Bank obtained a 100% shareholding in a property investment company with a view to sell. This investment was classified as a non-current asset held-for-sale, as it is the Bank’s intention to dispose of the investment within 12 months. The value of the asset at the reporting date is R2 (2014: R2).

50. FINANCE LEASE OBLIGATION
in thousands of randa

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum lease payments due</td>
<td></td>
<td></td>
</tr>
<tr>
<td>– within one year</td>
<td>630</td>
<td>4 407</td>
</tr>
<tr>
<td>– in second to fifth year inclusive</td>
<td>–</td>
<td>630</td>
</tr>
<tr>
<td>Total</td>
<td>630</td>
<td>5 037</td>
</tr>
</tbody>
</table>

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

51. FRUITLESS AND WASTEFUL EXPENDITURE

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruitless and wasteful expenditure</td>
<td>21</td>
<td>113</td>
</tr>
<tr>
<td>Less: Amounts received</td>
<td>(9)</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>18</td>
<td>113</td>
</tr>
</tbody>
</table>

Details of fruitless and wasteful expenditure

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest on late payments</td>
<td>14</td>
<td>113</td>
</tr>
<tr>
<td>Catering order not collected</td>
<td>7</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>21</td>
<td>113</td>
</tr>
</tbody>
</table>

No disciplinary steps were taken.

52. COMPARATIVE FIGURES
Certain comparative figures have been reclassified.
FINANCIAL DEFINITIONS

Callable capital
Operating expenses, including personnel, other, depreciation and amortisation expenses, as a percentage of income from operations

Cost-to-income ratio
Net interest income, net fee income and other operating income

Income from operations
Interest income divided by interest expense

Interest cover

Long-term debt/equity ratio
Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, as a percentage of total equity

Long-term debt/equity ratio (including callable capital)
Total liabilities, excluding other payables, provisions and liabilities for funeral benefits, as a percentage of total equity and callable capital

Net interest margin
Net interest income as a percentage of interest income

Return on average assets
Net profit or loss for the year expressed as a percentage of average total assets

Return on average equity
Net profit or loss for the year expressed as a percentage of average total equity

Sustainable earnings
Profit or loss from operations before grants, net foreign exchange gain/(loss) and net gain/(loss) from financial assets and financial liabilities, but includes revaluation on equity investments