



A large, stylized map of the United Kingdom is formed by a dense collection of red line-art icons. The icons represent various aspects of the economy and society. In the top left, there are icons of a truck on a road, two construction workers in hard hats, a lightbulb inside a head profile, and a circuit board. The top center features a calculator, three solar panels, and a curved road. To the right, there are three stylized trees. The middle section includes a large upward-pointing arrow, a clock, a document with a paperclip, a speech bubble, and two people in business attire. On the right side, there is a profile of a head containing a pencil, a lightbulb, and a gear, next to a construction crane. The bottom left shows a person at a desk with a clock, a clipboard, and a person working at a computer. The bottom center features a person walking, a house, a wind turbine, and a bus. The bottom right includes a circuit board and a small house. The entire map is composed of these red line-art icons, with some areas filled with a solid red color.

2019 ANNUAL FINANCIAL STATEMENTS



Building Africa's Prosperity

REPORT NAVIGATION

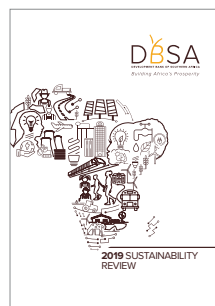
Our reporting suite for 2019 consists of three reports.



The **2019 Annual Integrated Report**, which is our primary communication with our stakeholders.



The **2019 Annual Financial Statements**, which includes the directors' report and the independent auditor's report.



The **2019 Sustainability Review**, which provides further information on our sustainability performance.

CONTENTS

Reports

1

Directors' responsibility for financial reporting	2
Report of the Auditor-General to parliament on the Development Bank of Southern Africa	3
Directors' report	11
Annual performance report	16

Statements

2

Statement of financial position as at 31 March 2019	19
Statement of comprehensive income for the year ended 31 March 2019	20
Statement of other comprehensive income for the year ended 31 March 2019	21
Statement of changes in equity for the year ended 31 March 2019	22
Statement of cash flows for the year ended 31 March 2019	24

Notes to the annual financial statements

3

Accounting policies	26
Notes to the annual financial statements	70

Reference information

4

Abbreviations and acronyms	180
Financial definitions	181
General information	181

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

FOR THE YEAR ENDED 31 MARCH 2019

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

In preparing the Annual Financial Statements, the following have been adhered to:

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

To enable the directors to meet their financial reporting responsibilities:

- Management designed and implemented standards and systems of internal control to provide reasonable assurance as to the integrity and reliability of the Annual Financial Statements and to safeguard, verify and maintain the accountability of the Bank's assets;
- Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, are applied on a consistent and going-concern basis;
- The Audit and Risk Committee, as well as the internal auditor's, review the financial and internal control systems, accounting policies, reporting and disclosure; and
- Internal audit performed a review on the adequacy and effectiveness of the internal controls and systems implemented by management in the financial reporting processes (month end and year end). The assessment included governance, risk management and control environment in the three process descriptions (other financial accounts, financial assets and liabilities, and development assets and liabilities), which that was mapped. Segregation of duties, management reviews, delegations of authority and appropriate approval committees' processes were also assessed. The review did not include the assessment of the financial statements assertions (accuracy, occurrence, completeness, cut-off, rights and obligations, disclosure, etc.) per the individual accounts in the trial balance. This was performed by the external auditor.

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

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

The Annual Financial Statements that appear on pages 19 to 179 were approved by the Board of Directors on 9 July 2019 and are signed on its behalf by:



Mark Swilling
Chairman of the Board



Patrick Khulekani Dlamini
Chief Executive Office



Gugu Mtetwa
Chairperson of the Audit and Risk Committee

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

FOR THE YEAR ENDED 31 MARCH 2019

Report on the audit of the Annual Financial Statements

Opinion

1. I have audited the Annual Financial Statements of the Development Bank of Southern Africa (DBSA) set out on pages 19 to 179, which comprise the statement of financial position as at 31 March 2019, the statement of comprehensive income and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, as well as the notes to the Annual Financial Statements, including a summary of significant accounting policies.
2. In my opinion, the Annual Financial Statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa as at 31 March 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act of South Africa, No. 1 of 1999 (PFMA), section 27 to 31 of the Companies Act of South Africa, No. 71 of 2008 (the Companies Act) and the Development Bank of Southern Africa Act, No. 13 of 1997 (Amended Act No. 41 of 2014) (DBSA Act).

Basis for opinion

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

Key audit matters

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

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

FOR THE YEAR ENDED 31 MARCH 2019

Key audit matter



How the matter was addressed in the audit

Expected credit losses on development loans

The Bank has adopted IFRS 9: Financial Instruments as issued in July 2014 with a date of initial application for the Bank on 1 April 2018.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The Bank uses various models and assumptions in estimating expected credit loss (ECL). Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

The Bank uses a series of quantitative and qualitative criteria to determine if a loan has experienced a significant increase in credit risk. The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

The ECL is measured as the probability weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original effective interest rate (EIR).

The mechanics of the ECL includes the probability of default (PD), which is an estimate of the likelihood of default over a given time horizon; the exposure at default (EAD) is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date; and the loss given default (LGD) is an estimate of the loss arising in the case where default occurs at a given time.

Due to the high degree of estimation, management judgement and magnitude of the development loans which constituted majority of total assets, the allowance for credit losses is considered a matter of most significance for my audit.

The disclosure associated to the allowance for credit losses on development loans is set out in the following notes:

Note 13 – Development loans

Note 36 – Net impairment loss on financial assets

Note 44 – Risk management

My audit procedures included assessing the appropriateness of the expected credit losses in terms of the requirements of IFRS 9. I evaluated the design, implementation and, where possible, the operating effectiveness of the following controls:

- The governance processes in place for credit models, inputs and overlays (addition or reduction in impairments that are over and above the numbers generated by the impairment models);
- The post-investment monitoring forums where key judgements are considered; and
- How the accounting authority ensured they have appropriate oversight over expected credit losses.

I assessed whether the controls relating to annual credit reviews were performed by management in accordance with the Business Support and Recovery Unit (BSRU) policy by comparing the policy requirements against what was applied during the year, and assessed whether the conclusions reached were appropriate. I have critically considered the significant increase in credit risk triggers and assumptions applied by management in determining expected credit losses for both performing and non-performing loans, and their assessment of the recoverability and supporting collateral. I found management's estimate to be within a reasonable range to my expectations. I engaged an auditor expert to assess the appropriateness and reasonableness of the credit risk models and assumptions used by management in determining the expected credit losses.

The expert's assessment included the following:

- The reasonableness of probability of default (PD), loss given default (LGD) and exposure at default (EAD);
- The reasonableness of the Bank's forward-looking economic scenarios, including identifying whether the Bank has appropriately considered reasonably available pertinent information and considered contradictory information; and
- Recalculation of the expected credit losses.

Based on work performed by the auditor's expert I found management's credit risk models and assumptions used to determine the expected credit losses to be reasonable and consistent with my expectations. I have determined management's estimate to be within a reasonable range to my expectations.

I have assessed the IFRS 9 transitional disclosures included in the Annual Financial Statements, and I am satisfied that the disclosures are consistent with the explicit requirements of IFRS 9.

Key audit matter

How the matter was addressed in the audit

Valuation of complex financial instruments

The valuation of complex financial instruments, such as derivatives and investment securities, requires significant judgement in determining the appropriate valuation techniques to apply.

Such assumptions include unobservable inputs, projected cash flows and the consideration of recent market developments in valuation methodologies relating to the impact of counterparty and own credit risk, and funding costs.

Due to the significance of the judgements made in determining the fair value of the complex financial instruments and the extent of work required to address this matter, this has been identified as a matter of most significance in the current year's audit of the Annual Financial Statements.

The disclosure associated with the valuation of complex financial instruments is set out in the following notes:

Note 7 – Investment securities

Note 8.1 – Derivative assets held for risk management

Note 8.2 – Derivative liabilities held for risk management

My audit procedures included assessing the appropriateness of the valuation technique used by management to value complex financial instruments.

I evaluated the design, implementation and, where possible, the operating effectiveness of the following controls:

- The governance processes in place to approve the valuation of complex financial instruments; and
- Controls over the appropriateness of data and inputs used in the valuation of complex financial instruments.

For a sample of financial instruments, and with the assistance of an auditor's expert, I assessed the valuation models against an independent model.

I assessed the appropriateness and sensitivity of unobservable market rates, projected cash flows and valuation adjustments with reference to the best available independent information.

I assessed the completeness, accuracy and adequacy of the disclosures.

I evaluated the competency and objectivity of the fund managers who provided the underlying valuations of the investments. Where available, I assessed the reasonableness of the fund statement by comparing the valuations to the audited fund Annual Financial Statements. I assessed the appropriateness of adjustments made by the Bank to the fund's statement values by conducting independent market research.

I found management's valuation of complex financial instruments to be reasonable and consistent with my expectations.

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

FOR THE YEAR ENDED 31 MARCH 2019



Key audit matter



How the matter was addressed in the audit

Valuation of equity investments held at fair value through profit or loss

The Bank measures equity investments at fair value through profit or loss.

The portfolio of equity investments held does not have an active market and as a result the bank uses valuation techniques to establish what the transaction price would be in the principal (or most advantageous) market between market participants at the measurement date.

The Bank uses the net asset values (NAV) in determining the fair value of the equity investments. Management further applies marketability discounts to adjust for risk attached to each investment.

The determination of net asset value using fair value techniques includes estimates that are susceptible to management judgement and bias that may result in risk of misstatement.

Due to the significance of the judgements made in determining the fair value of the equity investments and the extent of work required to address this matter, this has been identified as a matter of most significance in the current year's audit of the Annual Financial Statements.

The disclosure associated to the equity investments held at fair value through profit or loss is set out in the following note:

Note 10 – Equity investments held at fair value through profit or loss.

My audit procedures included assessing the appropriateness of the valuation technique used by management to value equity investments held at fair value through profit or loss.

I evaluated the design, implementation and, where possible, the operating effectiveness of the following controls:

- The governance processes in place to approve the valuation of equity investments; and
- The post-investment monitoring forums where key judgements are considered.

I obtained third-party confirmations from fund managers to confirm the participatory interest of the Bank in the fund.

I evaluated the applicability of the three methods that can be used to fair value private equity, namely the income approach, market approach and net asset approach. Based on the nature of the investments held by the Bank I concluded that the net asset value approach is appropriate to value the equity investments.

I evaluated the competency and objectivity of the fund managers who provided the underlying valuations of the investments. Where available, I assessed the reasonableness of the fund statement by comparing the valuations to the audited fund Annual Financial Statements. I assessed the appropriateness of adjustments made by the Bank to the fund's statement values by conducting independent market research.

I found management's valuation of equity investments and assumptions used to determine the valuation to be reasonable and consistent with my expectations.

Responsibilities of Accounting Authority for the Annual Financial Statements

7. The Board of Directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the Annual Financial Statements in accordance with the IFRS and the requirements of the PFMA and for such internal control as the accounting authority determines is necessary to enable the preparation of Annual Financial Statements that are free from material misstatement, whether due to fraud or error.
8. In preparing the Annual Financial Statements, the accounting authority is responsible for assessing the Development Bank of Southern Africa's ability to continue as a going concern, disclosing, as applicable, matters relating to a going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the entity or to cease-operations, or has no realistic alternative but to do so.

Auditor-General's responsibilities for the Annual Financial Statements

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

Report on the audit of the annual performance report

Introduction and scope

11. In accordance with the Public Audit Act of South Africa No. 25 of 2004 (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
12. My procedures address the reported performance information, which must be based on the approved performance planning documents of the entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
13. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the year ended 31 March 2019:

Objectives	Pages in the annual performance report
Objective 1 – Maintain financial sustainability	17
Objective 2 – Sustained growth in development impact	17 – 18

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

FOR THE YEAR ENDED 31 MARCH 2019

14. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
15. I did not raise any material findings on the usefulness and reliability of the reported performance information for these objectives:
 - Maintain financial sustainability
 - Sustained growth in development impact

Other matters

16. I draw attention to the matters below.

Achievement of planned targets

17. Refer to the annual performance report on pages 16 to 18 for information on the achievement of planned targets for the year.

Adjustment of material misstatements

18. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the usefulness of reported performance information for the 'Maintain financial sustainability' and 'Sustained growth in development impact' objectives. The misstatements related to indicators and targets descriptions in the annual performance report, which were not consistent with the approved corporate plan. As management subsequently corrected the misstatements, I did not raise any material findings on the usefulness and reliability of the reported performance information.

Report on the audit of compliance with legislation

Introduction and scope

19. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
20. The material findings on compliance with specific matters in key legislations are as follows:

Procurement and contract management

21. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by the 2017 preferential procurement regulation 8(2). The non-compliance was identified in procurement processes for the Infrastructure Delivery Division (IDD).
22. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by the 2017 preferential procurement regulation. The non-compliance was identified in procurement processes for the Infrastructure Delivery Division (IDD).

-
23. Due to the fact that the bid specification document to potential bidders and the declaration submitted by the bidders did not include the minimum threshold for local production and content; sufficient appropriate audit evidence could not be obtained that commodities designated for local content and production, were procured from suppliers who met the prescribed minimum threshold for local production and content, as required by the 2017 preferential procurement regulation 8(5). The non-compliance was identified in procurement processes for the Infrastructure Delivery Division (IDD).

Other information

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

Internal control deficiencies

29. I considered internal control relevant to my audit of the Annual Financial Statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it. The matter reported below is limited to the significant control deficiency that resulted in material non-compliance.
30. As a result of misinterpretation relating to the applicability of the prescripts for the Infrastructure Delivery Division (IDD), management did not implement adequate internal controls to ensure compliance with the preferential procurement requirements during bid specification and bid evaluation processes in relation to goods and services procured from designated sectors for local production and content.

Auditor General

Pretoria

29 August 2019



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

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

FOR THE YEAR ENDED 31 MARCH 2019

Annexure – Auditor-General’s responsibility for the audit

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

Annual Financial Statements

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

Communication with those charged with governance

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

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2019

The Directors have pleasure in presenting this report on the Annual Financial Statements of Development Bank of Southern Africa (DBSA) for the year ended 31 March 2019.

Nature of business

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

Corporate Governance

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

Financial results and activities

The financial results of the Bank are fully disclosed on pages 19 to 179. The key financial indicators for the year under review are:

- Profitability of R3.10 billion (31 March 2018: R2.28 billion).
- Sustainable earnings of R2.32 billion (31 March 2018: R2.76 billion).
- Net interest income increased by 17% to R4.49 billion (31 March 2018: R3.84 billion).
- Expected credit losses on financial assets at amortised cost R1.44 billion (31 March 2018: impairment of R623 million).
- Operating income increased by 47% to R5.64 billion (31 March 2018: R3.84 billion).
- Cost-to-income ratio increased to 23% (31 March 2018: 22%).
- Cash flow generated from operations decreased to R3.8 billion (31 March 2018: R4.0 billion).
- Total assets increased by 0.3% to R89.50 billion (31 March 2018: R89.20 billion).
- Development loans and equity disbursements amounted to R9.0 billion (31 March 2018: R12.20 billion).
- ROE on sustainable earnings 6.5% (31 March 2018: 8.3%).
- Debt-to-equity ratio excluding R20.0 billion callable capital of 138.1% (31 March 2018: 156.2%).
- Debt-to-equity ratio including R20.0 billion callable capital 89.8% (31 March 2018: 98.7%). Callable capital is authorised shares not yet issued. Debt-to-equity ratio is within the Bank's regulatory limit of 250%.

Summarised information on the financial performance of the Bank is included in the unaudited financial overview section on pages 84 to 91 of the Integrated Annual Report.

Dividend

No dividend has been declared for the current and prior years. The Bank is amending its dividend policy in consultation with its shareholder, National Treasury.

Share capital

Authorised capital amounts to R20.20 billion, which is divided into two million and twenty thousand ordinary shares of R10 000 each. The Board may from time to time, with the approval of the shareholders previously given at a meeting of shareholders, increase the issued share capital of the Bank. The Minister may, after consultation with the Board and by notice in the Gazette, adjust the amount of the authorised share capital of the Bank and the number of ordinary shares.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Authorised capital

2 020 000 ordinary shares (2018: 2 020 000) at a par value of R10 000 each.

Callable capital (authorised but unissued share capital)

2 000 000 ordinary shares (2018: 2 000 000) at a par value of R10 000 each.

Issued share capital

20 000 ordinary shares (2018: 20 000) at a par value of R10 000 each.

Going concern

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

Borrowing powers

As per Regulation 44 of the Regulations made under section 17 of the DBSA Act, the directors may in their discretion borrow or raise funding for the purposes of the Bank subject to the leverage ratio not exceeding 2.5 times the permanent capital, accumulated reserves and callable capital. 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's debt raised was within the approved programme, and the overall borrowings remained within the leverage ratio limit. DV 22 bond matures in February 2020 and is expected to be refinanced in the ordinary course of business.

Overall borrowing limit	Limit (R billion)	Borrowing (R billion)
Regulatory per DBSA Act	94	52
Annual borrowing programme	9	—*
Foreign currency borrowing	23	15
Domestic Medium Term Note Programme per JSE	80	30

* Net repayments of R5.5 billion were made during the year.

Directorate and Secretariat

Details pertaining to the names of Board members and the secretariat appear on pages 52 to 56 of the Annual Integrated Report.

Non-executive directors are subject to retirement by rotation. They hold office for a period of three years and are eligible for re-appointment. Non-executive directors are eligible for appointment for a maximum of three terms. Details of the directors' current service contracts are shown in the table on page 13.

		Number of terms served (including current term)	Current service contract	
Name	Position		From	To
Current year				
Mr P K Dlamini	Chief Executive Officer	2	1 September 2017	31 August 2022
Prof. M Swilling ¹	Independent Non-executive Director	2	1 August 2017	31 July 2020
Ms B Mosako ²	Chief Financial Officer	Not applicable	1 April 2018	Until such time as she ceases to hold the CFO office
Mr E Godongwana ³	Independent Non-executive Director	1	1 April 2019	31 March 2022
Ms M Janse Van Rensburg ⁴	Independent Non-executive Director	2	1 April 2019	31 March 2022
Ms Z Monnakgotla	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms G Mtetwa	Independent Non-executive Director	2	1 August 2017	31 July 2020
Mr B Mudavanhu	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms B Ndamase	Independent Non-executive Director	1	1 August 2017	31 July 2020
Mr L Nematswerane	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms L Noge-Tungamirai.	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms M Nqaleni ⁴	Non-executive Director (shareholder representative)	2	1 April 2019	31 March 2022
Ms P Nqeto	Independent Non-executive Director	1	1 August 2017	31 July 2020
Ms A Sing	Independent Non-executive Director	2	1 August 2017	31 July 2020
During the year				
Mr PJ Moleketi ⁵	Independent non-executive Chairperson	3	1 January 2016	31 December 2018
Mr F M Baleni ⁵	Independent non-executive Deputy Chairperson	3	1 January 2016	31 December 2018
Ms M Janse Van Rensburg ⁴	Independent Non-executive Director	2	1 January 2016	31 December 2018
Ms M Nqaleni ⁴	Non-executive Director (shareholder representative)	2	1 January 2016	31 December 2018

1. Appointed as Chairperson on 1 January 2019.
2. Ms B Mosako was appointed Chief Financial Officer on 1 April 2018 and Executive Director on 1 June 2018 until such time she ceases to hold the office of the CFO.
3. Appointed to the Board on 1 April 2019.
4. Term ended 31 December 2018. Re-appointed to the Board on 1 April 2019.
5. Term ended 31 December 2018.

The details of the directors' emoluments and related party transactions are set out in notes 43 and 46 of the Annual Financial Statements. The governance structure is detailed on page 47 of the integrated annual report.

DIRECTORS' REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Remuneration policy

The Human Resources and Nomination Committee ensures that employees are fairly rewarded for their contributions to the performance of the Bank and recommends bonuses to the Board for approval. Performance bonus distribution to employees including executives is made in line with the Bank's internal distribution model and is subject to final approval by the Chief Executive Officer. Executive directors' bonus distribution is subject to approval by the Shareholder, Ministry of Finance.

Business and registered address

The Bank's business and registered address details appear on page 181.

Taxation status

The Bank is exempt from normal taxation in terms of section 10(1)(t)(x) of the Income Tax Act No. 58 of 1962, as amended. The Bank is subject to and complies with all other South African taxes, including employees' tax and value added tax. The Bank paid net VAT amounting to R46 million (31 March 2018: R36 million).

Changes in accounting policies

The accounting policies – applied during the year ended 31 March 2019 are in all material respects consistent with those applied in the Annual Financial Statements for the year ended 31 March 2018, except for the adoption of IFRS 9: Financial Instruments, IFRS 7: Financial Instruments Disclosures relating to IFRS 9 disclosure requirements and IFRS 15: Revenue from Contracts with Customers. IFRS 15: Revenue from Contracts with Customers – did not affect the Bank's previously reported financial results, disclosures or accounting policies and did not impact the Bank's results upon transition. With effect from 1 January 2018 IFRS 9 replaced IAS 39. IFRS 9 introduced new requirements which, included an expected credit losses (ECL) impairment model and new requirements for the classification and measurement of financial assets. IFRS 9, adopted on 1 January 2018, impacted the Bank's results upon transition. The impact to the Bank's retained income upon transition to IFRS 9 materially relates to IFRS 9's ECL impairment requirements.

IFRS 9's classification and measurement requirements resulted in an immaterial impact to the Bank upon transition. Refer to note 1 for more details. In order to comply with best practice, the Bank has reclassified and presented some of its statement of financial position items differently when compared to the prior year.

Events after the reporting period

The directors are not aware of any matters or circumstances arising since the end of the financial year that will have a significant effect on the operations or the financial position of the Bank other than that disclosed in note 54 of the Annual Financial Statements on page 179.

Procurement and contract management

During the year under review, the Auditor General identified deemed non-compliance within the IDD procurement insofar as commodities designated for local content and production were procured from suppliers who had not submitted a declaration on local production and content. The deemed non-compliance has no financial impact on the Bank's financial performance and financial position. The deemed non-compliance arose from the manner in which the Bank interpreted the relevant National Treasury Instruction note 15 on procurement of steel products in construction contracts.

The Bank's interpretation has been supported by external legal opinion. Following the Bank's consultation with National Treasury, National Treasury has undertaken to review the relevant Practice Note, as it is not the intention of National Treasury to issue prescripts that are unclear with potential to expose institutions to audit finding and possible irregular expenditure. In the interim, management is reviewing the bid specification in relation to goods and services procured from designated sectors for local production and content to ensure there is interpretation alignment.

The Bank maintains an effective internal control environment, has a strong financial position and performance built on its exemplary record of good governance and oversight built on leadership characterised by the ethical values of responsibility, accountability, fairness and transparency. The good governance standard of the Bank has created value by guarding the good reputation of the Bank, providing assurance to stakeholders and clients, implementing development solutions while maintaining financial sustainability under difficult economic conditions, and ensuring that the Bank retains and attracts talent.

Litigation

The directors are not aware of any litigation against the Bank other than that disclosed under contingent liabilities in note 47 of the Annual Financial Statements on page 173.

Related party transactions

Details of the Bank's related party transactions are set out in note 46 of the Annual Financial Statements on page 172.

Information presented in terms of Section 55(2)(B) of the PFMA

1. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: there were no instances where the Bank sustained material losses. Refer to note 50 of the Annual Financial Statements on page 177;
2. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Bank sustained material losses;
3. Particulars of any losses recovered or written off: no material losses were recovered or written off other than in the ordinary course of business; and
4. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the Bank: refer to note 55 on page 179.

ANNUAL PERFORMANCE REPORT

FOR THE YEAR ENDED 31 MARCH 2019

The annual performance report and indicators for the Bank are set out below.

High-level performance overview

The DBSA's strategy highlights the importance of achieving development impact while maintaining financial sustainability. The balanced scorecard methodology is utilised to implement and monitor strategic objectives. To this end, corporate strategic objectives and targets are developed and approved by the Board of Directors. The table on pages 17 and 18 compares the planned and related actual performance on the high-level corporate strategic objectives for 2019.

The DBSA continued to achieve good results during 2019, meeting some of its strategic objectives while the targets for the following key performance indicators were not met:

- Disbursements to RSA Metros, RSA Small Metros and intermediate cities: The under-performance was largely attributed to anticipated disbursements that were delayed due to municipal processes and municipalities not coming to the market to seek funding.
- Disbursements to fund social and economic infrastructure: The under-performance was largely attributed to projects that the Bank is currently working on taking longer than anticipated and strong competition in the market. The delays in signing the Power Purchase Agreement of round 3.5 and 4 Independent Power Producers (IPP) by the Department of Energy resulted in the delays in concluding the IPP projects for funding and for the projects to start to disburse.
- Disbursement to the SADC region (excluding South Africa) and Rest of Africa (excluding South Africa): Infrastructure development and financing in the region is complex and time consuming and can take a number of years to reach financial close, thus impacting the ability to disburse. The conversion of approval to disbursement took longer than anticipated. The challenging macro-economic conditions impact the ability to provide cost effective funding.
- Value of projects prepared and committed by DBSA: The under-performance was mainly as the result of the delay in concluding the Power Purchase Agreements for the IPP programme and delays in regional projects due to complexity and the time taken to reach financial closure. Projects approved during the 2018/19 financial year amounted to R14 billion, but not all projects committed due to sponsor related delays.
- Value of funds third-party funds catalysed: The under-performance came from projects that the Bank is currently working on but took much longer than anticipated to conclude. This, coupled with strong competition in the market, made disbursements challenging. In addition, the challenging macroeconomic environment impacts the ability to provide cost effective funding.
- Value of infrastructure delivered: The under-performance was largely attributed to delays in finalising the procurement processes of some of the projects, which resulted in a delay in implementing and obtaining building permits for some of the projects.

Performance indicators

The table below compares the planned and related actual performance on the high-level corporate strategic objectives for 2019.

Objective	Key performance indicator	Target	Results
Maintain financial sustainability	Financial		
	ROE (calculated on sustainable earnings)	6.0%	6.5%
	Non-interest revenue (excluding IDD and equity)	R275 million	R153 million
	Cost-to-income ratio (financing business, excluding IDD)	30%	23%
	Net cash generated from operations	R3 400 million	R3 797 million
	Capital management	Board approval of the capital management strategy at Q1 review; full execution of strategy by the financial year end	Capital management strategy was approved by Board and capital management framework was implemented prior to financial year end
	Disbursements		
	Total disbursements	R16 000 million	R8 740 million
	RSA local government – top 5 metros	R4 000 million	R3 000 million
	RSA local government – small metros and intermediate cities	R700 million	R355 million
	RSA social	R1 400 million	R101 million
	RSA economic	R4 500 million	R3 581 million
	SADC countries	R3 200 million	R1 300 million
	Non-SADC countries	R2 200 million	R403 million
	Structured finance (included in disbursements)		
	• Structured finance	R2 000 million	Rnil
Sustained growth in development impact	Under-resourced municipalities		
	• Value of infrastructure unlocked for under-resourced municipalities	R500 million	R916 million
	Project preparation		
	• Value of projects prepared and committed	R7 000 million	R6 818 million

ANNUAL PERFORMANCE REPORT (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

Objective	Key performance indicator	Target	Results
Sustained growth in development impact	Infrastructure delivered		
	• Value of infrastructure delivered	R3 800 million	R3 475 million
	Third-party funds catalysed		
	• Total third-party funds catalysed	R27 700 million	R16 806 million
	Economic transformation		
	• Value of projects for black-owned entities (51%) approved for project preparation funding	R400 million	R3 236 million
	• Value of projects by black-owned entities (51%) committed for lending	R800 million	R1 863 million
Integrated infrastructure solution provider	Client satisfaction survey		
	• Client and partnership satisfaction	3	Rating of 3.9 out of 5
Continuous improvement of internal systems and processes	Improvement in the B-BBEE score	Level 3	Level 2
	Governance		
	• Number of outstanding significant audit findings past due	0	0
	• External audit outcomes	Clean audit	Unqualified audit
	• Percentage of unremedied risk policy breaches that have exceeded their risk appetite	0%	0%
	• % of fruitless, irregular, unauthorised and wasteful expenditure	0% of total expenditure	0% of total expenditure
	• % of fruitless, irregular, unauthorised and wasteful expenditure – IDD	0% of total expenditure	0% of total expenditure
Create and maintain a high performance culture	% retention of critical staff members	Lose less than 10% of critical skills list	Lost 2% of critical skills list
	Reduction in the Bank's entropy score	1% reduction on the entropy score	3% deterioration from 2017/18 results
	Adherence to critical training plan aligned to talent plan	90% of milestones completed (per project plan)	95% of milestones completed in line with project plan

STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2019

in thousands of rands	Notes	2019	2018
Assets			
Cash and cash equivalents at amortised cost	5	2 922 876	3 741 853
Trade receivables and other assets	6	365 579	399 621
Investment securities	7	1 880 502	1 420 920
Derivative assets held for risk management purposes	8.1	713 304	1 240 445
Other financial assets	9	43 732	45 446
Equity investments held at fair value through profit or loss	10	5 937 578	5 535 351
Development bonds at amortised cost	12	1 290 179	1 290 361
Development loans at amortised cost	13	75 816 506	75 047 479
Property and equipment	14	435 020	398 760
Intangible assets	15	83 133	91 710
Total assets		89 488 409	89 211 946
Equity and liabilities			
Liabilities			
Trade, other payables and accrued interest on debt funding	16	678 991	1 204 264
Derivative liabilities held for risk management purposes	8.2	297 798	59 240
Liability for funeral benefit	18.1	–	2 152
Post-employment medical benefit liability	18.2	–	44 604
Liability for funeral and post-employment medical benefits	18	44 484	–
Debt securities held at fair value through profit or loss	19	–	6 473 055
Debt securities held at amortised cost	19	–	33 363 703
Funding: lines of credit	20	–	13 677 213
Debt funding designated at fair value through profit or loss	22	6 469 451	–
Debt funding held at amortised cost	23	44 516 190	–
Provisions	17	309 010	66 640
Total liabilities		52 315 924	54 890 871
Equity			
Share capital	24	200 000	200 000
Retained income		22 717 877	19 472 969
Permanent government funding	25	11 692 344	11 692 344
Revaluation reserve on land and buildings	26.1	–	183 809
Cash flow hedge reserve	26.2	–	151 883
Available-for-sale reserve	26.3	–	8 094
Other reserves	26	293 808	–
Reserve for general loan risk	27	2 268 456	2 611 976
Total equity		37 172 485	34 321 075
Total equity and liabilities		89 488 409	89 211 946

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands	Notes	2019	2018
Interest income	28	–	7 750 606
Interest income calculated using the (EIR)*	28	8 157 805	–
Other interest income*	28	252 034	–
Interest expense	29	–	(3 905 259)
Interest expense calculated using the (EIR)*	29	(3 344 288)	–
Other interest expense*	29	(571 101)	–
Net interest income	29	4 494 450	3 845 347
Net fee income	30	193 380	190 196
Net foreign exchange gain/(loss)	31	743 713	(302 057)
Net gain/(loss) from financial assets and financial liabilities	32	69 945	(131 605)
Investment and other income	33	139 773	242 540
Other operating income/(loss)		1 146 811	(926)
Operating income		5 641 261	3 844 421
Project preparation expenditure	34	(1 405)	(7 094)
Development expenditure	35	(20 505)	(15 154)
Expected credit losses/impairments on financial assets held at amortised cost	36	(1 441 056)	(623 178)
Personnel expenses	37	(751 300)	(702 880)
General and administration expenses	38	(292 403)	(177 601)
Depreciation and amortisation	39	(19 579)	(25 871)
Profit from operations		3 115 013	2 292 643
Grants paid	40	(18 318)	(9 766)
Profit for the year		3 096 695	2 282 877

* An amendment was made to IAS 1: Presentation of Financial Statements, which was effective 1 January 2018. The amendment requires interest and similar income and expense, which is calculated using the EIR method, to be presented separately on the face of the statement of comprehensive income.

STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands	Notes	2019	2018
Profit for the year		3 096 695	2 282 877
Items that will not be reclassified to profit or loss			
Gain/(loss) on revaluation of land and buildings	26.1	19 947	(14 513)
Movement due to changes in own credit risk on financial liabilities designated at fair value through profit or loss	26.2	(12 852)	—
Remeasurement of post-employment medical benefit liability	18.2	2 750	—
		9 845	(14 513)
Items that may be reclassified subsequently to profit or loss			
Unrealised (loss)/gain on cash flow hedges	26.2	(143 346)	121 616
Loss/(gain) on cash flow hedges reclassified to profit or loss	26.2	94 367	(111 413)
Unrealised gain on available-for-sale financial assets	26.3	—	11 132
		(48 979)	21 335
Other comprehensive (loss)/profit		(39 134)	6 822
Total comprehensive income for the year		3 057 561	2 289 699

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands	Share Capital	Permanent government funding	Reserve for general loan risk	*Revaluation reserve on land and buildings
Balance at 1 April 2017	200 000	11 692 344	2 287 491	198 322
Profit for the year	—	—	—	—
Other comprehensive income/(loss)				
Loss on revaluation of land buildings	—	—	—	(14 513)
Unrealised gain on cash flow hedges	—	—	—	—
Gain on cash flow hedges reclassified to profit or loss	—	—	—	—
Unrealised gain on available-for-sale financial assets	—	—	—	—
Transfer to reserve for general loan risks	—	—	324 485	—
Total changes	—	—	324 485	(14 513)
Balance at 1 April 2018 (IAS 39)	200 000	11 692 344	2 611 976	183 809
Impact of adoption of IFRS 9				
- Increase in expected credit loss adjustment on development loans	—	—	—	—
- Increase in expected credit loss adjustment on loan commitments	—	—	—	—
- Reclassification of investments securities from available-for-sale to fair value through profit or loss-gain was transferred to retained earnings	—	—	—	—
- Transfer of own-credit-risk reserve from cash flow hedge reserve	—	—	—	—
Restated balance at 1 April 2018 (IFRS 9)	200 000	11 692 344	2 611 976	183 809
Profit for the year	—	—	—	—
Other comprehensive income/(loss)				
Gain on revaluation of land buildings	—	—	—	19 947
Unrealised loss on cash flow hedges	—	—	—	—
Loss on cash flow hedges reclassified to profit or loss	—	—	—	—
Movements due to changes in own credit risk	—	—	—	—
Transfer from general loan risk reserve	—	—	(343 520)	—
Remeasurement of post-employment benefit liability	—	—	—	—
Total changes	—	—	(343 520)	19 947
Balance at 31 March 2019	200 000	11 692 344	2 268 456	203 756
Notes	24	25	27	26.1

* Total of other reserves comprises revaluation reserve on land and buildings, cash flow hedge reserve, own-credit-risk reserve and available for sale reserve.

*Other reserves					
*Cash flow hedge reserve	*Own-credit-risk reserve	*Available-for-sale reserve	*Total of other reserves	Retained income	Total equity
141 680	—	(3 038)	336 964	17 514 577	32 031 376
—	—	—	—	2 282 877	2 282 877
—	—	—	(14 513)	—	(14 513)
121 616	—	—	121 616	—	121 616
(111 413)	—	—	(111 413)	—	(111 413)
—	—	11 132	11 132	—	11 132
—	—	—	—	(324 485)	—
10 203	—	11 132	6 822	1 958 392	2 289 699
151 883	—	8 094	343 786	19 472 969	34 321 075
—	—	—	—	(202 774)	(202 774)
—	—	—	—	(3 377)	(3 377)
—	—	(8 094)	(8 094)	8 094	—
(76 986)	76 986	—	—	—	—
74 897	76 986	—	335 692	19 274 912	34 114 924
—	—	—	—	3 096 695	3 096 695
—	—	—	19 947	—	19 947
(143 346)	—	—	(143 346)	—	(143 346)
94 367	—	—	94 367	—	94 367
—	(12 852)	—	(12 852)	—	(12 852)
—	—	—	—	343 520	—
—	—	—	—	2 750	2 750
(48 979)	(12 852)	—	(41 884)	3 442 965	3 057 561
25 918	64 134	—	293 808	22 717 877	37 172 485
26.2	26.4	26.3	26.5		

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands	Notes	2019	2018
Cash flows from operating activities			
Net (loss)/ profit adjusted for non-cash items and items separately disclosed	41	(745 769)	70 716
Interest received		8 178 603	7 498 264
Interest paid		(3 728 298)	(3 545 470)
Dividends received		92 241	15 956
Net cash generated from operating activities		3 796 777	4 039 466
Cash flows from development activities			
Development loan disbursements	13	(8 807 786)	(11 922 527)
Development loan principal repayments		9 967 309	5 981 190
Net cash flows from equity investments		134 856	398 151
Grants, development and project preparation expenditure paid		(19 723)	(16 860)
Advances to national mandates		(58 004)	(46 016)
Net cash generated from/(used in) development activities		1 216 652	(5 606 062)
Cash flows from investing activities			
Purchase of property and equipment	14	(26 667)	(11 759)
Disposal of property and equipment	14	528	90
Purchase of intangible assets	15	(1 176)	(15 818)
Purchase of financial market instruments		(317 923)	(416 692)
Net cash utilised by investing activities		(345 238)	(444 179)
Cash flows from financing activities			
Gross financial market liabilities repaid	42	(18 618 727)	(15 504 634)
Gross financial market liabilities raised	42	13 102 081	19 048 287
Net cash (utilised by)/generated from financing activities		(5 516 646)	3 543 653
Net (decrease)/increase in cash and cash equivalents		(848 455)	1 532 878
Effect of exchange rate movements on cash balances	31	29 478	(90 272)
Movement in cash and cash equivalents		(818 977)	1 442 606
Cash and cash equivalents at the beginning of the year	5	3 741 853	2 299 247
Cash and cash equivalents at the end of the year	5	2 922 876	3 741 853

NOTES TO THE ANNUAL FINANCIAL STATEMENTS



ACCOUNTING POLICIES

FOR THE YEAR ENDED 31 MARCH 2019

1. Statement of compliance

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), the requirements of the PFMA and sections 27 to 31 of the Companies Act, being the relevant and corresponding sections of those specified in the DBSA Act and Treasury Regulations. These Annual Financial Statements cover the individual entity (DBSA).

The Bank is not subject to the Banks Act. The Bank is a PFMA schedule 2 entity. The Bank applies the International Financial Reporting Standards (IFRS) framework in line with National Treasury approval.

1.1 Basis of preparation

1.1.1 Adoption of new standards

(a) IFRS 9: Financial Instruments

The Bank has adopted IFRS 9: Financial Instruments as issued in July 2014 with a date of initial application for the Bank on 1 April 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. The Bank elected to apply the hedge requirements of IFRS 9.

The Bank has, as permitted by IFRS 9, elected not to restate its comparative financial statements. Therefore, comparability will not be achieved by the fact that the comparative financial information has been prepared on an IAS 39 Financial Instruments: Recognition and Measurement basis. The Bank did, however, align certain disclosures to provide comparable data. The impact of adopting IFRS 9 has been applied retrospectively with an adjustment to the opening retained income as at 1 April 2018 as per note 1.

(i) Classification of financial assets and liabilities

Financial assets

IFRS 9 contains three principal classification categories for financial assets:

- measured at amortised cost;
- fair value through profit or loss (FVTPL) and;
- fair value through other comprehensive income (FVOCI).

IFRS 9 classification is generally based on the business model in which a financial asset is managed and the contractual cash flows characteristics of a financial instrument. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

Business model

The Bank's business model for the classification of financial assets is detailed in the table below:

Portfolio – Group of assets	Business model	Classification and measurement under IAS 39	Classification and measurement under IFRS 9
Cash and cash equivalents	To collect contractual cash flows	Loans and receivables held at amortised cost	Amortised cost
Investment securities	Held primarily for sale to manage liquidity needs	Fair value through profit or loss	Fair value through profit or loss
Development bonds – municipal bonds	To collect contractual cash flows	Held to maturity at amortised cost	Amortised cost
Development loans	To collect contractual cash flows	Loans and receivables held at amortised cost	Amortised cost
Trade receivables and other assets	To collect contractual cash flows	Loans and receivables held at amortised cost	Amortised cost
Derivative assets	Derivative asset held for risk management purposes	Fair value through profit or loss	Fair value through profit or loss

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- The amount of change in the fair value that is attributable to changes in the Bank's own credit risk of the liability is presented in other comprehensive income; and
- The remaining amount of the change in the fair value is presented in profit or loss.

The classification of financial liabilities is detailed below:

Portfolio – Group of assets	Business model	Classification and measurement under IAS 39	Classification and measurement under IFRS 9
Debt securities held at fair value	Forms part of the asset-liability management purpose	Fair value through profit or loss	Fair value through profit or loss
Debt instruments – debt securities and lines of credit	Forms part of the asset-liability management purpose	Held at amortised cost	Held at amortised cost
Trade, other payables and accrued interest	Sundry creditors – normal accruals for day-to-day operational expenses, accrued interest raised on financial market liabilities and amounts due to third-party managed funds	Held at amortised cost	Held at amortised cost
Derivative liabilities	Derivative liabilities held for risk management purposes	Fair value through profit or loss	Fair value through profit or loss

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.1 Basis of preparation (continued)

(ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments. The expected credit loss allowance is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss. For the measurement of expected credit loss, the Bank applies a three stage approach to the measuring of expected credit loss on financial instruments accounted for at amortised cost, financial guarantees and loan commitments. For an explanation of how the Bank applies the impairment requirements of IFRS 9, see note 44.

(iii) Transition

The Bank retrospectively adopted IFRS 9 on 1 April 2018 with an adjustment to the Bank's opening retained earnings at 1 April 2018 and, as permitted by IFRS 9, did not restate its comparative financial results. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 were recognised in retained earnings and reserves as at 1 April 2018. Accordingly, the information presented for 31 March 2018 is presented in accordance with the requirements of IAS 39.

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of fair value changes in the financial liability's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see note 1.

(b) IFRS 15: Revenue from contracts with customers

IFRS 15: Revenue from Contracts with Customers, with effect from 1 April 2018, replaces the existing revenue standards including IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes and the related interpretations. The standard sets out the requirements for recognising revenue that applies to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The five steps in the model are as follows:

- Identify the contract(s) with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price; and
- Recognise revenue when a performance obligation is satisfied.

The Bank adopted IFRS 15 on 1 April 2018 and, as permitted by IFRS 15, did not restate its comparative financial results. IFRS 15 does not impact the majority of the Bank's revenue as the Bank derives most of its revenue from financial instruments. The standard does not apply to revenue associated with financial instruments recognised in accordance with IFRS 9. The Bank elected the retrospective, cumulative effect transition method on the adoption of IFRS 15 for 1 April 2018 and therefore the Bank had to recognise the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings without restating the comparatives. This standard impacted the disclosures of the Bank's fee income and had no impact on the retained earnings and the statement of financial position of the Bank.

(c) IAS 1: Presentation of Financial Statements

An amendment was made to IAS 1: Presentation of Financial Statements, which was adopted by the Bank on 1 April 2018. The amendment requires interest and similar income, which is calculated using the EIR method, to be presented separately on the face of the statement of comprehensive income.

The Bank disclosed interest income calculated using the EIR and other interest income separately on the statement of comprehensive income. Refer to note 28.

1.1.2 Basis of measurement

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

- Financial instruments held at fair value through profit or loss;
- Financial instruments designated at fair value through profit or loss;
- Derivative financial instruments;
- Equity investments;
- Land and buildings;
- Post-retirement medical-aid-benefit investment; and
- Funeral benefit and post-retirement medical-aid liability.

The methods used to measure fair values are detailed in note 1.19.

The Annual Financial Statements were prepared on a going-concern basis.

1.1.3 Presentation of Annual Financial Statements

The Bank presents its statement of financial position in order of liquidity as it provides information that is more reliable and relevant to the users of the financial statements.

Financial assets and financial liabilities are generally reported at their net carrying amount in the statement of financial position. They are only offset when, in addition to having an unconditional legally enforceable right to offset the recognised amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- The normal course of business;
- The event of default; or
- The event of insolvency or bankruptcy of the Bank and/or its counterparties.

Income and expenses are presented on a net basis only when permitted under IFRS.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.1 Basis of preparation (continued)

1.1.4 Significant accounting judgements, estimates and assumptions

The preparation of the Annual Financial Statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions.

It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. The notes to the financial statements set out areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Bank. These policies have been consistently applied to all the years presented, unless otherwise stated.

The application of the Bank's accounting policies requires the use of judgements, estimates and assumptions. If different assumptions or estimates were applied, the resulting values would change, impacting the net assets and income of the Bank. Assumptions made at each reporting date are based on best estimates at that date. Although the Bank has internal control systems in place to ensure that estimates are reliably measured, actual amounts may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

The accounting policies that are most sensitive to the use of judgement, estimates and assumptions are specified in (a) judgements and (b) assumptions and estimates below.

(a) Judgements

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Bank's accounting policies and that have the most significant affect on the amounts recognised in financial statements:

Applicable from 1 April 2018 (IFRS 9)

(i) Business model assessment

The classification and measurement of financial assets depends on the results of the sole payments of principal and interest (SPPI) and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and measured, the risks that affect the performance of the assets and how these are managed, and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the history for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

(ii) Models and assumptions used

The Bank uses various models and assumptions in measuring the fair value of assets as well as in estimating expected credit losses. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. Refer to note 44 for more details on expected credit losses and note 11 for more details on fair value measurement.

(b) Assumptions and estimates

Information about assumptions and estimates applied that have significant risks of resulting in a material adjustment is detailed below:

(i) Going concern

The Bank's management has made an assessment of its ability to continue as a going concern based on forecast information and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going-concern basis.

(ii) Impairment testing for non-financial assets: Key assumptions underlying recoverable amounts

The recoverable amounts of assets have been determined based on the higher of value in use calculations and fair values. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change, which may then impact our estimates and may then require a material adjustment to the carrying value of the assets.

(iii) Depreciation and amortisation and the useful lives of property and equipment and intangible assets

Depreciation rates, depreciation methods adopted and residual values of assets requires judgements and estimates to be made. Changes in estimates are disclosed in the relevant notes where applicable.

(iv) Valuation of land and buildings

The fair value of land and buildings is determined by an independent valuator or by management. The valuation technique used makes use of significant unobservable inputs such as expected market rental growth and capitalisation market interest rates.

(v) Valuation of equity investments

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

(vi) Measurement of funeral benefit obligations and post-employment medical benefit

The cost of defined benefit post-employment medical benefits as well as the present value of the post-employment medical-aid obligation is determined using actuarial valuations.

The actuarial valuation involves making assumptions about discount rates, expected rates of return of assets, future salary increases, mortality rates and medical-cost trends. All assumptions are reviewed at each reporting date.

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

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.1 Basis of preparation (continued)

(vii) Debt securities

Debt securities that are designated at fair value through profit or loss consist of bonds that are listed. At initial recognition of the debt securities, the fair value is estimated to be the purchase price. Fair value of debt securities is estimated using market observable prices from the Johannesburg Stock Exchange (JSE). In determining the changes in fair value of debt securities designated at fair value through profit or loss that is due to changes in the Bank's own credit risk, judgement is used in determining which portion of the change in spread is due to credit risk.

Debt securities held at amortised cost consists of bonds, floating notes, commercial paper and bridging bonds. At initial recognition of the debt securities, the fair value is estimated to be the purchase price less transaction costs.

(viii) Investment securities

Fair value of investment securities is estimated using market observable prices from the JSE.

(ix) Derivative and hedge accounting

In measuring the fair value of the derivatives the Bank takes into account credit value adjustments (CVA) and debit value adjustments (DVA). CVA and DVA include, adjustments for the credit risk of the derivative counterparty (CVA) as well as the Bank's own credit risk (DVA). In estimating counterparty credit risks, the Bank makes use of credit spreads on credit default swaps and negotiable certificates of deposits (NCD curve).

(x) Provisions

Provisions are held in respect of a range of future obligations such as employee entitlements, restructuring costs and litigation provisions. Some of the provisions involve significant judgement about the likely outcome of various events and estimated future cash flows. The measurement of these provisions involves the exercise of management judgements about the ultimate outcomes of the transactions. Additional disclosure of these estimates of provisions is included in note 17.

Applicable from 1 April 2018 (IFRS 9)

(i) Measurement of expected credit losses (ECL)

Key assumptions in determining the impairment of financial assets:

- Assessment of whether credit risk on the financial asset has increased significantly since initial recognition and incorporation of forward-looking information in the measurement of expected credit losses.
- Forward-looking economic expectations are included in the ECL where adjustments are made based on the Bank's macroeconomic outlook, such as specific event risk, have been taken into account in ECL estimates.
- Establishing relative weightings of forward-looking information (best, base, and worst) for inclusion in the ECL calculation.

(ii) Loan commitments

To the extent that the amount of the expected credit losses on loan commitment exceeds the carrying amount of the associated financial asset recognised in the statement of financial position, the amount of the credit losses is presented as a provision. 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.

(iii) Loan restructures

The Bank may modify/restructure the terms of loans as a result of commercial renegotiations or distressed loans. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

(iv) Fair value

When measuring fair value, the Bank uses the assumptions that market participants would use when pricing the asset or the liability under current market conditions, including assumptions about risk. The Bank uses a fair value hierarchy that categorises assets and liabilities into three levels. The different levels are based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement. Where relevant inputs are not observable, inputs are developed to reflect the assumptions that market participants would use when determining an appropriate price for the asset or liability.

(v) IFRS 15: Revenue from Contracts with Customers

No significant assumptions and judgements were made for revenue from contracts with customers.

1.2 Financial instruments

Financial assets and financial liabilities are recognised in the Bank's statement of financial position when the Bank becomes a party to the contractual provisions of the instrument. Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Bank will account for such difference as follows:

- If fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- In all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

Financial instruments consist of cash and cash equivalents, investment securities, derivative assets and liabilities, equity investments, development loans and bonds, trade receivables and other assets, trade and other payables, debt securities, funding lines of credit and repurchase agreements.

1.2.1 Financial assets – initial recognition (IAS 39 and IFRS 9)

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.2 Financial instruments (continued)

1.2.2 Classification and subsequent measurement

(a) Policy applicable before 1 April 2018 (IAS 39)

Prior to 1 April 2018, the Bank classified its financial assets into the following categories:

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

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

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

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

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

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking or if so designated by management. Derivatives are also classified as held for trading, unless they are designated as hedges at inception. The Bank does not speculate in financial instruments and therefore 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; or
- A portfolio of financial assets is managed and its performance is evaluated on a fair-value basis, in accordance with a documented risk management or investment strategy and information about the Bank is provided internally on that basis to key management personnel. Under these criteria, the main classes of financial assets designated as fair value through profit or loss by the Bank are equity investments and investment securities.

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

(ii) 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 and trade receivables and other assets.

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

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

(iii) Held-to-maturity financial assets

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

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

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

(iv) 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.

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

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.2 Financial instruments (continued)

(b) Policy applicable from 1 April 2018 (IFRS 9)

On initial recognition, the Bank classifies its financial assets into one of the following measurement categories at:

- Amortised cost; and
- Fair value through profit or loss (FVTPL).

The classification depends on the Bank's business model for managing financial assets and the characteristics of contractual cash flows of the financial assets' cash flows.

(i) Financial assets at amortised cost

A debt instrument that meets both of the following conditions (other than those designated at fair value through profit or loss):

- held within a business model whose objective is to hold the debt instrument (financial asset) in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are subsequently measured at amortised cost using the EIR method. The financial assets at amortised cost include the following:

- Development loans;
- Development bonds;
- Cash and cash equivalents; and
- Trade receivables and other assets.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, or realising cash flows through the sale of the assets;
- How the performance of the portfolio is evaluated and reported to the Bank's management;
- The risks that affect the performance of the business (and the financial assets held within that business model) and how those risks are managed;
- How managers of the business are compensated such as whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- The frequency, volume and timing of income in prior periods, the reasons for such income and its expectations about future income activity. However, information about income activity is not considered in isolation but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

An assessment of whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (such as liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (such as non-recourse asset arrangements); and
- features that modify consideration of the time value of money such as the periodical reset of interest rates.

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

The classification of financial instruments at initial recognition depends on the characteristics of contractual cash flows and the business model for managing the instrument.

Debt instruments at FVTPL are:

- Assets with contractual cash flows that are not SPPI; and/or
- Assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 1.19. These assets consist of other financial assets, equity investments, investment securities and derivatives.

Investment in equity instruments

The Bank does not hold equity investments for trading and did not elect to designate the equity investments at fair value through other comprehensive income. The equity investments are held at fair value through profit and loss.

Financial assets held at fair value through profit and loss are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 1.19. These assets consist of equity investments, investment securities and derivatives.

1.2.3 Reclassifications of financial assets

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Bank holds financial assets and, therefore, no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described on page 38 and 39.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.2 Financial instruments (continued)

1.2.4 Foreign exchange gains and losses

The carrying amount of financial assets that are denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. Specifically:

- For financial assets measured at amortised cost that are not part of a designated hedging relationship, exchange differences are recognised in profit or loss in the 'other income' line item; and
- For financial assets measured at FVTPL that are not part of a designated hedge accounting relationship, exchange differences are recognised in profit or loss.

1.2.5 Modification of financial assets

(a) Policy applicable before 1 April 2018 (IAS 39)

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

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to loans.

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Bank renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants.

A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10%, the Bank deems the arrangement substantially different leading to derecognition.

(b) Policy applicable from 1 April 2018 (IFRS 9)

When a financial asset is modified, the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy, a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms, the Bank considers the following:

- Change in loan tenor;
- Change in interest;
- Changes in obligation;
- Issue of debt moratorium; and
- Debt consolidation.

A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest rate. If the difference in present value is greater than 10%, the Bank deems the arrangement substantially different leading to derecognition.

In the case where the financial asset is derecognised, the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The Bank derecognises a financial asset, such as development loans, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loan is monitored for a period of 6 months and maintained at lifetime expected credit losses, thereafter the newly recognised loan is classified as stage 1 for ECL measurement purposes (unless the new loan is deemed to be purchased or originated credit impaired) if the following conditions are met:

- The Bank's internal policies are complied with; and
- The move to stage 1 is approved by the Investment Committee.

If the modification does not result in terms that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

1.2.6 Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss. A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.2 Financial instruments (continued)

1.2.7 Financial liabilities

Debt that is issued is classified as either a financial liability or as equity in accordance with the substance of the contractual arrangement.

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank or a contract that will or may be settled in the Bank's own equity instruments and is a non-derivative contract for which the Bank is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash (or another financial asset) for a fixed number of the Bank's own equity instruments.

(a) Classification and measurement

The Bank accounts for its financial liabilities either as:

- Held at fair value through profit or loss or;
- Held at amortised cost.

The Bank initially recognises financial liabilities on the date at which they are originated (interest does not start to accrue on the asset and corresponding liability until the settlement date when title passes). The origination date for regular way purchases are recognised on the trade date at which the Bank commits to the purchase. All other financial liabilities (including liabilities designated at fair value through profit or loss) are initially recognised on the trade date on which the Bank becomes a party to the contractual provisions of the instrument. A financial liability is measured initially at fair value less transaction costs that are directly attributable to its issue.

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

(i) Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at FVTPL includes debt securities and derivatives held for risk management. The Bank has designated financial liabilities at FVTPL in the following circumstances:

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

Subsequent to initial recognition the financial liability held at FVTPL 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.

(ii) Financial liabilities held at amortised cost

Financial liabilities at amortised cost includes loans and borrowings, trade and other payables. All other financial liabilities not designated at FVTPL are classified 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 liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation, using the EIR method, of any difference between the initial amount recognised and the maturity amount.

(iii) Changes in fair value of liabilities due to changes in the Bank's own credit risk

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

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss.

Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Bank assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition.

(iv) Derivative financial instruments

The Bank enters into a variety of derivative financial instruments which are held to manage its exposure to interest rate risk and foreign exchange rate risk. Derivatives held include foreign exchange forward contracts, interest rate swaps, cross currency swaps, currency options, options and forward rate agreements. Further details of derivative financial instruments are disclosed in note 8.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain/loss is recognised in profit or loss immediately unless the derivative is designated effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability.

In measuring the fair value of the derivatives, the Bank takes into account CVA and DVA. CVA and DVA include adjustment for the credit risk of the derivative counterparty (credit value adjustment) as well as the Bank's own credit risk (debit value adjustment). Collateral is taken into account in calculating the CVA/DVA adjustments, if any.

(v) Embedded derivatives

Derivatives embedded in financial liabilities or other non-financial asset host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.2 Financial instruments (continued)

(b) Derecognition of a financial liability

Policy applicable before 1 April 2018 (IAS 39)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Policy applicable from 1 April 2018 (IFRS 9)

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Bank exchanges with the existing lender one debt instrument for another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

Similarly, the Bank accounts for substantial modification of the terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

(c) Offsetting of financial instruments

Financial assets and financial liabilities are off set and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to offset 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.

1.2.8 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:

- The recognition of an asset to be received and the liability to pay for it on the trade date; and
- 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:

- The recognition of an asset on the day it is received by the entity; and
- The derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the entity.

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

1.2.9 Repurchase and sale 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.

1.2.10 Impairment of financial instruments

(a) Policy applicable before 1 April 2018 (IAS 39)

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

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

(i) Loans and advances, receivables and held-to-maturity investments

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income.

An impairment loss in respect of loans and advances, receivables and held-to-maturity investments that are measured at amortised cost is reversed through profit or loss if the subsequent increase in the present value of estimated future cash flows can be related objectively to an event occurring after the impairment loss was recognised.

(ii) Available-for-sale financial assets

For available-for-sale financial investments, the Bank assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available for sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.2 Financial instruments (continued)

(iii) Calculation of the present value of estimated future cash flows

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable. Receivables with a short duration are not discounted, as the effect of discounting is not significant.

(iv) Impairment of development loans

Identified impairment

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

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

Unidentified impairment

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

(b) Policy applicable from 1 April 2018 (IFRS 9)

The Bank recognises expected credit losses on the following instruments:

- Financial assets held at amortised costs;
- Financial guarantees issued; and
- Fixed loan commitments issued.

(i) Expected credit losses (ECL)

For the measurement of ECL, the Bank applies a three stage approach to the measuring of ECL on debt instruments accounted for at amortised cost, financial guarantees and loan commitments.

Three stages

Assets migrate through the following three stages based on the change in credit quality since initial recognition:

Stage 1: 12-month ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the ECL associated for these financial assets is based on a 12-month ECL.

Stage 2: Lifetime ECL – not credit impaired

For credit exposures where there has been a significant increase in credit risk since initial recognition and that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and financial assets carried at FVOCI are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

A financial asset that is credit impaired and that has been renegotiated due to a deterioration in the borrower's condition, and results in the derecognition of the financial asset and recognition of a new financial asset is usually considered to be credit impaired at origination unless there is evidence that the risk of not receiving contractual cash flows, has reduced significantly and there are no other indicators of impairment.

Evidence that a financial asset is credit impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower;
- A breach of contract, such as a default or past due event after considering the Bank exception rules;
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, have granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Purchased or originated credit impaired loan (POCI): Lifetime ECL – credit impaired

For financial assets that are considered credit impaired on purchase or on origination, a lifetime ECL is recognised.

For POCI financial assets, the Bank calculates credit-adjusted EIR, which is calculated based on the amortised cost of the financial asset of its gross carrying amount and incorporates the impact of expected credit losses in the estimated future cash flows. On modification, a quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest rate. If the difference in present value is greater than 10%, the Bank deems the arrangement substantially different leading to derecognition, an assessment is performed to determine whether the new asset is considered credit impaired on origination.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.2 Financial instruments (continued)

(ii) Determining the stage for expected credit losses (ECL)

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk of the financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. In determining whether credit risk has increased significantly since initial recognition, the Bank uses its internal credit risk grading system, external risk ratings and forecast information to assess deterioration in the credit quality of a financial asset.

The Bank also considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also forward-looking analysis. Refer to note 44. The Bank assesses whether the credit risk on a financial asset has increased significantly on an individual-loan-level basis.

The Bank does not rely solely on past due information when determining whether credit risk has increased significantly since initial recognition. However, when information that is more forward-looking than past due status (either on an individual or a collective basis) is not available without undue cost or effort, the Bank uses past due information to determine whether there have been significant increases in credit risk since initial recognition.

Backstop measure

IFRS 9 requirement has a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 Days Past Due (DPD). Where applicable, the Bank has rebutted this presumption based on reasonable and supportable information, which is available without undue cost or effort. The backstop measure is applied, whereby a loan is considered to have experienced significant increase in credit risk (SICR) when a borrower is more than 30 DPD on its contractual payments.

This 30 DPD rebuttable presumption to exclude the following factors:

- Small balances of arrears more than 30 days past due.
- Arrears which consist of default interest that falls due within the current interest period (this arrear interest is payable at next interest payment date – which could be 1 month / 1 quarter / 1 semester).
- Arrears on mezzanine debt / junior debt / black-economic-empowerment debt funding where the loan payments are dependent on the receipt of a distribution from the holding company and the distribution is delayed due to administrative processes while the project is performing and the senior loan is not in arrears.
- Arrears due to timing mismatch between grant funding and borrower obligations/repayment schedule to the Bank.
- Arrears as a result of fees.
- Arrears due to foreign currency liquidity in the host country are referred to (the Bank's Investment Committee for a decision on a deal-by-deal basis).
- Loans with arrears as a result of repayments received where the repayments were not less than 95% of the repayment due amount.
- Any other technical arrears as approved by Investment Committee.

Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the accepted PD variation criteria, or which are less than 30 DPD are considered not to have an indication of a significant increase in credit risk and are considered to have low credit risk. The ECL for these financial assets is based on a 12-month ECL.

A financial asset will migrate through the ECL stages as asset quality deteriorates. If the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the financial asset has been cured, as per the curing policy of the Bank, the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

Although some financial assets within the Bank's portfolio might meet the definition of low credit risk, the Bank still performs an assessment of whether there has been a significant increase in credit risk between the reporting date and the date of initial recognition.

(iii) Measurement of ECLs

ECLs are derived from unbiased and probability weighted estimates of expected loss, and are measured as follows:

- Financial assets that are not credit impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the EIR. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive.
- Financial assets that are credit impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.
- Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

The Bank calculates ECLs based on three probability weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The mechanics of the ECL calculations are outlined below and the key elements are as follows:

- **PD:** The probability of default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in note 44.
- **EAD:** The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in note 44.
- **LGD:** The loss-given default is an estimate of the loss arising in the case where default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in note 44.

ECLs are recognised using a provision for impairment loss account in profit or loss. In case of financial guarantees, the measurement of ECLs is based on the three stage approach as applied to financial assets at amortised cost. The Bank recognises the provision for impairment loss charge in profit or loss. The corresponding amount is recognised in the statement of financial position, with no reduction in the carrying amount of the asset in the balance sheet.

When estimating the ECLs, the Bank considers three scenarios (base case, best case and worst case). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted loans are expected to be recovered, including the probability that the loans will cure and the value of collateral or the amount that might be received for selling the asset.

In its ECL models, the Bank relies on a broad range of forward-looking information as economic inputs relevant to Bank's loan book, such as:

- CPI;
- GDP;
- Central Bank base rates (JIBAR, Repo, Prime);
- Crude oil; and
- Exchange rates (ZAR/USD)

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.2 Financial instruments (continued)

For further details on how the Bank calculates ECLs, including the use of forward-looking information, and for details on the effect of modifications of loans on the measurement of ECL, refer to note 44.

When an asset is uncollectable, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

(iv) Modified financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECLs are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original EIR of the existing financial asset.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset.

The Bank monitors the subsequent performance of the modified assets. If the Bank determines that the credit risk has significantly improved after restructuring, the assets are moved from stage 3 or stage 2 (lifetime ECL) to stage 1 (12-month ECL). This is only the case for assets that have performed in accordance with the new terms for six consecutive months or more.

The Bank continues to monitor if there is a subsequent SICR in relation to such assets in accordance with the BSRU policy of the Bank.

(v) Trade receivables and other assets

For trade receivables and other assets only, the Bank applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from the initial recognition of the receivables if there is no significant financing component. Under this approach the tracking of changes in credit risk is not required; instead lifetime ECLs are recognised. Expected credit losses are recognised in profit or loss.

The provision matrix will be used to calculate the impairment for credit losses.

The Bank will use the historically observed default rates (actual write-off) over the expected life of the trade receivables and other assets adjusted as necessary to reflect current conditions to calculate the default rate in the provision matrix.

Adjustments will be made for forward-looking information based on economic conditions. The default rate calculated in the provision matrix will be adjusted for economic conditions. The total book debt is segregated into different ageing brackets and the default percentage is applied on the balance per bracket to calculate the expected credit loss allowance.

(vi) Loan commitments

The financial asset would be assessed for impairment quarterly based on the total value of the facility that has been made available to the counterparty.

The date that the Bank becomes a party to the irrevocable commitment shall be considered to be the date of initial recognition for the purposes of applying the impairment requirements.

To the extent that the amount of the ECL on a loan-commitment contract exceeds the carrying amount of the associated financial asset recognised in the statement of financial position, the impairment allowance is presented as a provision.

Where there has been a significant increase in the credit risk of that specified counterparty, the impairment allowance calculation would be based on the expected lifetime credit losses.

(vii) Financial guarantees

A financial guarantee is a contract to compensate the third parties for a financial loss when the financial guarantee counterparty does not pay a specified amount.

After initial recognition, the Bank measures the financial guarantees at the higher of:

- The amount of the credit loss allowance; and
- The amount initially recognised (fair value) less, when appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15.

The ECL on financial guarantees is based on the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

For financial guarantee contracts, the date that the Bank becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of applying the impairment requirements.

To the extent that the amount of the ECL on a financial guarantee contract exceeds the carrying amount of the associated financial asset recognised in the statement of financial position, the impairment allowance is presented as a provision in the statement of financial position.

(viii) Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Financial guarantee contracts: generally, as a provision where a financial instrument includes both a drawn and an undrawn component;
- The Bank does not identify the ECL on the loan-commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components;
- The combined amount is presented as a deduction from the gross carrying amount of the drawn component; and
- Where the financial instrument only includes the undrawn loan commitment resulting in excess of the loss allowance over the gross amount of the drawn component, the impairment allowance is presented as a provision.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.2 Financial instruments (continued)

(ix) Write-off policy

The Bank's accounting policy under IFRS 9 remains the same as it was under IAS 39. Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery of the financial asset.

Loan and equity investments, or portions thereof, that are classified as bad or deemed uncollectable may be written off. Facilities may only be written off when they are considered uncollectable and worthless, that is, action for recovery has been exhausted or it is no longer worthwhile in the foreseeable future. Partial write-offs of impaired loan accounts may be considered under the following circumstances:

- A partial write-off forms part of a restructuring or a negotiated settlement;
- The realisable value of security is less than the balance outstanding (including principal, accrued interest and other charges) and topping up of the security deficiency is not forthcoming;
- The shortfall in security value over the outstanding balance is uncollectable;
- The outstanding amount is to be written down to the value of the security (that is the shortfall in security value over the outstanding balance is written off) or agreement has been reached for the payment of a fixed amount as full and final settlement for the indebtedness to the Bank;
- In duplum interest where its recovery is no longer possible; or
- In terms of the delegated authority held by the chief executive officer.

All write-offs are recommended by the Investment Committee to the Audit and Risk Committee (ARC) for approval. Motivations for write-offs may be considered when one or more of the following applies:

- There is no probability of any (further) recoveries and no realisable security is held;
- All security held has been realised and the sale proceeds thereof appropriated towards reducing the outstanding debt;
- The borrower and guarantor(s) have no known means of repayment;
- The recovery process will be uneconomical;
- The in duplum rule applies; and/or
- It will take abnormally long to recover outstanding debt and the Bank will/has instituted legal action to recover.

(x) Collateral and other credit enhancements

In addition to pricing for the risk, the Bank uses collateral to enhance the quality of credit and/or to reduce the expected losses on its lending portfolio. The amount and type of credit risk mitigation depends on the asset quality and nature of each transaction. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at inception and reassessed on a yearly basis.

Collateral and guarantees are used by the Bank for credit risk mitigation. The main types of collateral taken comprise bank accounts, floating charge, guarantee, income stream, insurance, mortgage bond, notarial bond, surety and unit trust. The Bank also uses various forms of specialised legal agreement like guarantees and similar legal contracts in support of credit extension where necessary.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets, which do not have readily determinable market values, are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

1.3 Hedge accounting

(a) Policy applicable before 1 April 2018 (IAS 39)

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

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

A hedging relationship exists where:

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

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. The hedging instruments are carried at fair value on the statement of financial position and are reported as either positive or negative fair values. The treatment of any resultant gains and losses is set out below.

(i) Fair value hedge

When a derivative financial instrument hedges the changes in fair value of a recognised asset or liability, the hedged item is stated at fair value in respect of the risk being hedged. Gains or losses 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 EIR method is used is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life.

(ii) Cash flow hedge

When a derivative financial instrument is designated as a hedge to variability in the cash flows of recognised assets or liabilities, 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.

When a hedging instrument expires or is sold, terminated or exercised or the entity revokes designation of the hedged relationship, the discontinuation of accounted for prospectively. The cumulative unrealised gain or loss is recognised immediately in profit or loss.

(b) Policy applicable from 1 April 2018 (IFRS 9)

The Bank designates certain derivatives as hedging instruments in respect of foreign currency risk and interest rate risk in fair value hedges or cash flow hedges. The Bank applies fair value hedge accounting of portfolio hedges of interest rate risk by using the exemption to continue with IAS 39 hedge accounting rules for these portfolios hedges.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.3 Hedge accounting (continued)

At the inception of the hedge relationship, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank assesses whether the following effectiveness requirements are met:

- There is an economic relationship between the hedged item and the hedging instrument. Therefore, there must be an expectation that the value of the hedging instrument and the value of the hedged item would move in the opposite direction because of the common underlying or hedged risk. The Bank enters into hedge relationships where the critical terms of the hedging instrument match exactly with the terms of the hedged item;
- The effect of credit risk does not dominate the value changes that result from that economic relationship; and
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Bank actually hedges and the quantity of the hedging instrument that the Bank actually uses to hedge that quantity of hedged item. The Bank determines the hedge ratio by comparing the notional amount of the derivative with the principal of the debt issued or the loan granted. If the loan granted has an amortising principal the Bank enters into interest rate swaps with an equivalent amortising notional amounts.

The Bank rebalances a hedging relationship in order to comply with the hedge ratio requirements when necessary. In such cases, discontinuation may apply to only part of the hedging relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Bank adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

In some hedge relationships, the Bank designates only the intrinsic value of options. In this case, the change in fair value attributable to the time value of money component of the option contract is deferred to the statement of other comprehensive income. Over the term of the hedge if the hedged item is time related, the amount of the original time value of the option that relates to the hedged item is amortised from equity to profit or loss on a rational basis (e.g. straight line) over the term of the hedging relationship. The change in fair value attributable to the time value of money component of the option contract is capitalised to the carrying amount of the hedge if the hedged item is not recognised on a time accrual basis (transaction related) and reclassified back to the profit or loss when the option matures or is exercised.

Note 11 sets out details of the fair values of the derivative instruments used for hedging purposes and the movements in the hedging reserve in equity is set out in note 26.2.

(i) Fair value hedge

The fair value change on qualifying hedging instruments is recognised in profit or loss. The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss.

Where gains and losses are related to hedging instruments, they are recognised in profit or loss.

The Bank discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the hedge accounting requirements (after rebalancing if applicable). This includes instances where hedging instrument expires or is sold, terminated or exercised. 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 EIR method is used is amortised to profit or loss as part of the recalculated EIR of the item over its remaining life.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in the cash flow hedging reserve, a separate component of OCI, limited to the cumulative change in fair value of the hedged item from inception of the hedge less any amounts recycled to profit or loss.

Amounts previously recognised in OCI and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item.

The Bank discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the hedge accounting requirements (after rebalancing if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, the discontinuation is accounted for prospectively. The cumulative unrealised gain or loss is recognised immediately in profit or loss.

1.4 Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand, current accounts, 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.

1.5 Trade receivables and other assets

Trade receivables and other assets comprises trade debtors, third-party funds, staff loans and VAT.

Trade receivables are measured at amortised cost less an allowance for credit losses as they meet the objective of collecting cash flows over their life.

Trade receivables are carried at amortised cost less a loss allowance. They generally do not contain a significant financing component. The provision for ECL is determined by applying a simplified approach equaling the lifetime ECL.

The Bank shall only write off bad debt when all reasonable steps have been taken to recover the debt. Write-offs are presented under ECL on financial assets.

Any recoveries due to enforcement activities are treated as bad debt recovered in the year in which such recoveries are made.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.6 Investment securities

(a) Policy applicable before 1 April 2018 (IAS 39)

Investment securities were initially measured at fair value plus, in the case of investment securities not at FVTPL, incremental direct transaction costs, and subsequently accounted for depending on their classification as either held to maturity, FVTPL or available for sale.

(b) Policy applicable from 1 April 2018 (IFRS 9)

Investment securities consist of government bonds, municipal bonds, state -owned-entity bonds and segregated funds. These are held as part of the strategic liquidity portfolio.

Previously, investment securities (government bonds) were classified as available-for-sale financial assets as per the IAS 39 requirements but on transition to IFRS 9 these instruments will now be measured at FVTPL as the overall business model, is one where the main purpose for investment securities is that these are held as part of the strategic liquidity portfolio and can thus be redeemed at any time depending on the Bank's liquidity requirements. Any changes in the fair value will be recognised in profit or loss.

1.7 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.

1.8 Property and equipment

1.8.1 Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, except for land and buildings, which are measured at fair value less accumulated depreciation and impairment losses, in terms of the revaluation model.

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. 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. Changes in fair value are recognised in other comprehensive income and accumulated in the revaluation reserve except to the extent that any decrease in value in excess of the credit balance on the revaluation reserve, or reversal of such a transaction, is recognised in profit or loss. Leasehold improvements to buildings leased are capitalised and are amortised over the lease term.

1.8.2 Subsequent costs

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

1.8.3 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:

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

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

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.9 Intangible assets

1.9.1 Recognition and measurement

Intangible assets that are acquired by the Bank and which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses. Internally generated goodwill and brands, are recognised in profit or loss as incurred.

Expenditure on internally developed software is recognised as an asset when the Bank is able to demonstrate that the product is technically feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment.

1.9.2 Subsequent expenditure

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

1.9.3 Amortisation

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

Item	Estimated useful life
Software	3 – 15 years

1.10 Trade and other payables

Trade and other payables comprises trade creditors, third-party funds and agencies.

Trade and other payables are initially measured at fair value. Subsequently, they are measured at amortised cost using the EIR.

1.11 Employee benefits

(a) Defined contribution plan

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

(b) Defined benefit plan

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

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

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

The Bank recognises all actuarial gains and losses arising from defined benefit plans directly in other comprehensive income.

(c) 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.

(d) Short term employee benefits

Short term employee-benefit obligations including annual leave are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short term cash-bonus plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

1.12 Provisions

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

(a) Restructuring provision

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.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.12 Provisions (continued)

(b) Onerous contracts

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

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

1.13 Debt funding

Debt securities issued and lines of credit are the Bank's sources of debt funding.

Debt securities and lines of credit issued are initially measured at fair value less incremental direct transaction costs, and subsequently measured at their amortised cost using the EIR method, except where the Bank designates liabilities at FVTPL in which case it is measured at fair value with changes in fair value recognised in profit or loss. For the determination of the fair value, refer to note 1.19.

1.14 Share capital and reserves

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Ordinary shares are classified as equity.

If the Bank reacquires its own equity instruments, the consideration paid, including any directly attributable incremental costs (net of income taxes) on those instruments are deducted from equity until the shares are cancelled or reissued. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments. Consideration paid or received shall be recognised directly in equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Other reserves comprises available-for-sale reserve, cash flow hedges reserve and revaluation reserve on land and buildings.

1.14.1 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 permanent government funding and shares issued. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

1.14.2 Permanent government funding

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

1.14.3 Cash flow hedge reserve

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

1.14.4 Own-credit-risk reserve

The own-credit-risk reserve comprises movement in fair value of financial liabilities designated at fair value due to changes in the Bank's own credit risk.

1.14.5 Available-for-sale reserve

(a) Policy applicable before 1 April 2018 (IAS 39)

The fair value reserve comprises all fair value adjustments for available-for-sale investments, excluding impairment losses.

(b) Policy applicable from 1 April 2018 (IFRS 9)

This reserve will no longer be applicable according to IFRS 9, investment securities (government bonds) were reclassified from available for sale to investments securities at FVTPL.

1.14.6 Reserve for general loan risks

The reserve is maintained as part of the Bank's capital management purposes and is calculated based on the latest internal risk rating of borrowers. The reserve is reviewed quarterly. The reserve for each risk category is estimated by calculating each risk category as follows:

- Low risk – minimum of 3% (MS1-7)
- Medium risk – minimum of 5% (MS8-13)
- High risk – minimum of 7% (MS14-17)

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.

1.14.7 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.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.15 Financial guarantees

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

(a) Policy applicable before 1 April 2018 (IAS 39)

The Bank did not recognise ECLs on financial guarantees. Financial guarantees are measured at the higher of this amortised amount and the present value of any expected payment to settle the liability when a payment under the contract has become probable.

(b) Policy applicable from 1 April 2018 (IFRS 9)

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

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- The amount of the loss allowance determined in accordance with IFRS 9; and
- The amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position and the remeasurement is presented in other revenue. The Bank has not designated any financial guarantee contracts as at FVTPL.

1.16 Loan commitments

Loan commitments are recognised at the date that the Bank becomes a party to the irrevocable commitment (fixed commitment); at the date when all the conditions precedent (CPs) are met, and when the loan is at the implementation stage. We also assume this to be the date of origination of the loan.

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 assets at an amount less than the amount advanced.

(a) Policy applicable before 1 April 2018 (IAS 39)

The Bank did not recognise ECLs on loan commitments.

(b) Policy applicable from 1 April 2018 (IFRS 9)

On transition to IFRS 9, the Bank will recognise ECL on loan commitments. Refer to note 48 for the policy disclosure. ECLs arising from loan commitments are included within provisions; refer to note 17. Subsequently, they are measured at the higher of this amortised amount less the amount of ECL allowance.

The financial asset would be assessed for impairment annually based on the total value of the facility that has been made available to the debtor. Where there has been a significant increase in the credit risk of that specified debtor, the loss allowance calculation would be based on the lifetime ECLs.

1.17 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.

(a) Policy applicable before 1 April 2018 (IAS 39)

(i) Net interest income

Interest income and expenses are recognised in profit or loss using the effective interest method. The EIR 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 EIR is established on initial recognition of the financial asset or liability and is not revised subsequently. When calculating the EIR, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the EIR includes costs, discounts and premiums paid or received that are an integral part of the EIR. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability. Interest income and expenses 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 held at fair FVTPL, calculated on an effective interest basis; and
- The interest portion of the derivatives designated as fair value hedges.

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

(ii) Fee income

Unless included in the effective interest calculation, fees and commissions are recognised on an accrual basis when the service has been provided or on completion of the underlying transaction.

Fees charged for providing ongoing services are recognised as income over the period the service is provided.

Any commitment fees related to undrawn lending facilities are recognised as income over the commitment period. 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.

When the Bank acts in the capacity of an agent, revenue is recognised as the net amount of fees and commissions made by the Bank.

Other fee income, including account servicing fees, management fees, placement fees and syndication fees, is recognised as the related services are performed.

Raising/structuring fees are recognised immediately as the costs are incurred as they relate to the execution of a significant act.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.17 Revenue (continued)

Fee expenses other than those initially recognised on financial assets/liabilities and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received. Fee income and expenses that are integral to the EIR on a financial asset or liability are included in the measurement of the EIR.

(b) Policy applicable from 1 April 2018 (IFRS 9)

(i) Net interest income

Interest income and expenses for all financial instruments except for those classified as held for trading or those measured or designated as at FVTPL are recognised in 'Net interest income' as 'Interest income' and 'Interest expense' in the profit or loss account using the effective interest method. Interest on financial instruments measured as at FVTPL is included within the fair value movement during the year.

The EIR is the rate that exactly discounts estimated future cash flows of the financial instrument through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. The future cash flows are estimated taking into account all the contractual terms of the instrument.

The calculation of the EIR includes all fees and points paid or received between parties to the contract that are incremental and directly attributable to the specific lending arrangement, transaction costs, and all other premiums or discounts. For financial assets at FVTPL, transaction costs are recognised in profit or loss at initial recognition. Previously, lending fees on assets at amortised costs were included as part of the EIR and recognised on a straight line basis and presented separately in the statement of financial performance. As of 1 April 2018, upfront fees on assets at amortised cost are now recognised as part of the EIR on the reducing capital balance method.

The interest income/expense is calculated by applying the EIR to the gross carrying amount of non-credit impaired financial assets (i.e. at the amortised cost of the financial asset before adjusting for any ECL allowance), or to the amortised cost of financial liabilities. For credit impaired financial assets, the interest income is calculated by applying the EIR to the amortised cost of the credit-impaired financial assets (i.e. the gross carrying amount less the allowance for ECLs. For purchased or originated credit impaired (POCI) financial assets, the EIR reflects the ECLs in determining the future cash flows expected to be received from the financial asset.

ECL in the Bank's statement of profit or loss also includes the effective portion of fair value changes of derivatives designated as hedging instruments in cash flow hedges of interest rate-risk. For fair value hedges of interest rate risk interest income and expense, the effective portion of fair value changes of the designated derivatives as well as the fair value changes of the designated risk of the hedged item are also included in interest income and expense.

(ii) Fee income and expenses

Fee income and expenses include fees other than those that are an integral part of EIR (see above). The fees include, among other things, fees charged for servicing a loan, non-utilisation fees relating to loan commitments when it is unlikely that these will result in a specific lending arrangement, and loan syndication fees. Fee income and expenses with regards to services are accounted for as the services are received according to the five-step model. The five-step model includes:

- Identifying the contract with the customer;
- Identifying each of the performance obligations included in the contract;
- Determining the amount of consideration in the contract;
- Allocating the consideration to each of the identified performance obligations; and
- Recognising revenue as each performance obligation is satisfied.

Management fees

Management fees refers to fees earned by the Bank for acting as an implementing agent. The fees are earned for implementing the client's mandate, such as constructing infrastructure on behalf of clients. The fees are earned based on the stage of completion of the project. Management fees include administration fees.

Lending fees

Lending fees are fees charged by the Bank for processing and funding a loan. They can include application fees, attorney fees, recording fees and underwriting fees.

Non-lending fees

The fees relate to non-lending services provided to customers and are recognised when the service obligation is completed.

Other income

Other income includes cost recoveries, rental income and gains or losses on the disposal of assets or liabilities excluding equity instruments and those instruments recognised at FVTPL.

Other income is recognised when or as the entity satisfies a performance obligation.

1.18 Investment income

Investment income includes all income, loss, revaluation and foreign exchange gains and losses relating to equity investments.

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in investment income.

1.19 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.

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest-level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest-level input that is significant to the fair value measurement is unobservable

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.19 Determination of fair values (continued)

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest-level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

1.19.1 Property and equipment

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

1.19.2 Other financial assets

The fair value of other financial assets is based on the listed market price.

1.19.3 Financial instruments

Fair value measurements are categorised into three different levels in the fair-value hierarchy based on the inputs to the valuation techniques used. The hierarchy levels are defined as follows:

- (a) 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. The Bank does not adjust quoted prices obtained in active markets. The level 1 classification is made for all financial instruments where there is enough volume of trades and liquidity. Listed government bonds are classified as level 1. Listed municipal bonds, corporate bonds, state-owned entity bonds and own-issued bonds are disclosed as level 1 fair value hierarchy only in instances where there is evidence of sufficient volume of trades and number of trades in an active market. The criteria applied is shown in point (b) below.
- (b) There are two groups of Bank's financial instruments that are disclosed as fair value hierarchy level 2.
 - Group 1 instruments – Instruments where the valuation technique applied uses the 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.
 - Group 2 instruments – Listed instruments from an inactive market and whose trading volumes do not support a level 1 classification are shown as level 2 classification. These instruments include municipal, corporate, state-owned entity and own-issued bonds listed in an inactive market where there is no sufficient volume of trades and liquidity. No adjustments are made to quoted prices. However, should the market be inactive, such fair values do not qualify for level 1 classification. Financial instruments at fair value are disclosed as level 1 fair value hierarchy only if the instrument has a minimum weekly trade volume of 50 trades in the last trading week close to measurement date and cumulatively a minimum of 200 trade volume per month is achieved. The thresholds are reviewed annually and represent management's judgement (based on historical trade-volume analysis) in assessing the trading volumes which supports a level 1 fair value hierarchy-classification. No adjustments are made to listed or observable prices. Close to each measurement date, the Bank assesses whether instruments' trading volumes and number of trades support a level 1 classification.
- (c) Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as day one, profit or loss, is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The valuation techniques in (b) and (c) use as inputs interest rate yield curves, equity prices, commodity and currency prices/ yields, volatilities of underlyings and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and observable transaction prices where available. The Bank recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the transfers have occurred.

The Bank's policy for determining when transfers between levels in the hierarchy have occurred includes monitoring of the following factors:

- Changes in market and trading activity (e.g. significant increases/decreases in trading activity); and
- Changes in inputs used in valuation techniques (e.g. inputs becoming/ceasing to be observable in the market).

1.19.4 Equity investments

After initial recognition, the Bank measures equity investments at FVTPL.

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 orderly transaction in the principal (or most advantageous) market between market participants at the measurement date. Fair value is a market-based measurement and uses the assumptions that market participants would use when pricing an asset under current market conditions. When determining fair value it is presumed that the entity is a going concern and it is not an amount that represents a forced transaction, involuntary liquidation or a distressed sale.

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;
- Option pricing models;
- Net asset values; and
- Offer price as proxy to the fair value.

The Bank ensures that these valuation techniques:

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

Equity investments held at fair value consist of direct investments in equity and third-party managed funds.

1.19.5 Investment securities

In the case of instruments for which actively quoted market prices are available, the fair value of financial instruments is based on the quoted market price at reporting date, without any deduction for transaction costs. These market prices are based on capital and interest.

1.19.6 Debt securities

In the case of instruments for which actively quoted market prices are available, the fair value of financial instruments is based on the quoted market price at reporting date, without any deduction for transaction costs. These market prices are based on capital and interest.

1.19.7 Lines of credit

These market prices are based on capital and interest. 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.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.19 Determination of fair values (continued)

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

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

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

1.19.9 Interest bearing loans and borrowings

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

- The forecasted interest and capital cash flows are contractual and recorded in the SAP loan system;
- A flat probability of default curve for each loan is assumed across all loan maturities. A flat probability of default curve means a flat credit margin (being a product of loss-given default and probability of default) for each loan;
- The credit margin is added to an interpolated swap rate to determine the discount rate used in discounting the cash flows;
- The swap rates represent the base risk-free rate for all loans. The swap rates are downloaded from Reuters as at valuation date and contains market data of interest rate swaps;
- The interest cash flows from the SAP loan system including client credit margin and the discount rate applied, is adjusted to include the credit margin;
- The discount rate is used to calculate the present value of cash flows i.e. $\text{present value} = \text{cash flow} / (1 + \text{discount rate})^{\text{tenor}}$; and
- The valuation excludes non-performing loans due to cash flow being uncertain and this is consistent with prior years.

1.19.10 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. The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

1.20 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.

1.21 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.

1.22 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.

1.23 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 that 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.

Costs incurred under operating leases are recognised in profit or loss on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

ACCOUNTING POLICIES (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1.23 Leases (continued)

(a) Finance leases – lessee

Finance leases are recognised as assets and liabilities in the balance sheet at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of the remaining balance of the liability.

1.24 Non-current assets held for sale

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

Non-current assets held for sale (or disposal groups) are measured at the lower of their carrying amount and fair value less costs to sell. A non-current asset is not depreciated (or amortised) while it is classified as held for sale or while it is part of a disposal group classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in profit or loss.

1.25 Segmental reporting

An operating segment is a distinguishable component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's executive committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available. The Bank's operating segments and the compliance of the Bank's segment report to the reporting standards (IFRS) is reviewed yearly for any changes that might warrant updating the Bank's reportable segments. The prior year segment report was restated in line with the new operating model.

Segment	Key group of assets in the segment	Business model	Classification and measurement under IFRS 9
RSA Municipalities	Development bonds – municipal bonds	To collect contractual cash flows	Amortised cost
	Development loans	To collect contractual cash flows	Amortised cost
	Trade receivables and other assets	To collect contractual cash flows	Amortised cost
RSA Economic and Social	Development loans	To collect contractual cash flows	Amortised cost
	Trade receivables and other assets	To collect contractual cash flows	Amortised cost
Rest of Africa	Development loans	To collect contractual cash flows	Amortised cost
	Trade receivables and other assets	To collect contractual cash flows	Amortised cost
Treasury	Cash and cash equivalents	To collect contractual cash flows	Amortised cost
	Investment securities	Held primarily for sale to manage liquidity needs	FVTPL
	Derivative assets	Derivative assets held for risk management purposes	FVTPL
Infrastructure Delivery	Trade receivables and other assets	To collect contractual cash flows	Amortised cost

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2019

1. New Standards and Interpretations

1.1 IFRS 9: Financial Instruments

The Bank has adopted IFRS 9 Financial Instruments (IFRS 9) as issued in July 2014, which resulted in a change in accounting policy and adjustments to the amounts recognised in the financial statements. The Bank did not early adopt this standard. IFRS 9 introduced new requirements for the classification and measurement of financial instruments and a new ECL impairment model.

In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated and adjustments have been made to the opening retained earnings of the Bank as at 1 April 2018.

As at 1 April 2018, the Bank determined the classification of financial assets on the basis of the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. An assessment of the instrument's contractual terms was performed to determine whether the terms give rise on specified dates to cash flows that are solely payments of principal and interest of the principal amount outstanding. These financial assets continued to be held at FVTPL or amortised cost under IFRS 9. Refer to note 1.2 on page 71.

Financial liabilities are classified in a similar manner to under IAS 39, except for the measurement of an entity's own credit risk. According to IFRS 9, Changes in fair value that are attributable to changes in the credit risk of financial liabilities that have been designated at fair FVTPL shall be recognised in other comprehensive income with the remaining amount of the change in the fair value of the financial liability being presented in profit or loss. All changes in the fair value of financial liabilities that are designated at FVTPL due to changes in own credit risk were recognised within other comprehensive income. The Bank reassessed its financial liabilities based on the facts and circumstances at 1 April 2018. These financial liabilities are either continued to be designated as at FVTPL or at amortised cost under IFRS 9. Refer to the table on page 71.

For impairment, IFRS 9 introduces an ECL impairment model for the measurement of impairment on financial assets recorded at amortised cost or at fair value through other comprehensive income, loan commitments and guarantees. IFRS 9 contains a minimum 12-month ECL for exposures for which there has not been a SICR, whereas IAS 39 required credit impairments to be recognised only following the identification of objective evidence of impairment. A lifetime ECL is recognised for all exposures for which there has been a SICR, being a material change in the probability of default, since origination. IFRS 9 requires an adjustment for forward-looking economic expectations in the determination of SICR and in the measurement of the ECL.

IFRS 9 introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. The Bank has elected to apply the IFRS 9 hedge accounting requirements from the date of transition. IFRS 9: Financial Instruments added significant new disclosure requirements for hedge accounting to IFRS 7.

IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7: Financial Instruments – Disclosures.

1.2 Transition note – IFRS 9

(a) Reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as at 1 April 2018 is as follows:

Assets and liabilities in thousands of rands	IAS 39 Category	Carrying amount as at 31 March 2018 (IAS39)	Reclass- ification	Remeasure- ment	Carrying amount as at 1 April 2018 (IFRS 9)	IFRS 9 Category
Assets						
Cash and cash equivalents (Note ii)	Loans and receivable	3 741 853	–	–	3 741 853	Amortised cost
Trade receivables and other assets* (Note ii)	Loans and receivable	399 621	–	–	399 621	Amortised cost
Investment securities (Note i)	FVTPL	1 195 665	225 255	–	1 420 920	FVTPL
Investment securities (Note i)	Available for sale	225 255	(225 255)	–	–	
Derivative assets held for risk management purposes	FVTPL	1 240 445	–	–	1 240 445	FVTPL
Equity investment held at FVTPL	FVTPL	5 535 351	–	–	5 535 351	FVTPL
Development loans (Note ii)	Loans and receivable	75 047 479	–	(202 774)	74 844 705	Amortised cost
Development bonds (Note iii)	Held to maturity	1 290 361	–	–	1 290 361	Amortised cost
Total assets		88 676 030	–	(202 774)	88 473 256	
Liabilities						
Trade, other payables and accrued interest on debt funding** (Note iv)	Amortised cost	1 204 264	–	–	1 204 264	Amortised cost
Debt securities held at FVTPL	Designated at FVTPL	6 473 055	–	–	6 473 055	Designated at FVTPL
Debt securities held at amortised cost (Note iv)	Amortised cost	33 363 703	–	–	33 363 703	Debt securities at amortised cost
Lines of credit held at amortised cost (Note iv)	Amortised cost	13 677 213	–	–	13 677 213	Lines of credit at amortised cost
Derivative liabilities held for risk management purposes	Designated at FVTPL	59 240	–	–	59 240	Debt funding designated at FVTPL
Provision for loan commitments	–	–	–	3 377	3 377	Amortised cost
Total liabilities		54 777 475	–	3 377	54 780 852	

* Trade receivables and other assets includes non-financial assets.

** Trade, other payables and accrued interest on debt funding includes non-financial liabilities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1. New Standards and Interpretations (continued)

- (Note i) A portfolio of sovereign bonds previously classified as available-for-sale financial assets under IAS 39 have been reclassified to financial assets held at FVTPL under IFRS 9. The Bank's business model for the financial assets is achieved by realising cash flows through the sale of the assets. The fair value of the portfolio of sovereign bonds on 31 March 2018 was R225 million. If these financial assets were not reclassified to financial assets held at FVTPL, a loss of R8 million would have been recognised in other comprehensive income, and interest income of R21 million would have been recognised in profit or loss.
- (Note ii) Cash and cash equivalents, trade receivables, accrued interest, deposits, staff loans and development loans previously classified as loans and other receivables under IAS 39, have been reclassified as financial assets held at amortised cost under IFRS 9. These financial assets are still measured at amortised cost. Impairment was calculated using the ECL model, whereas under IAS 39, the incurred loss model was used to calculate impairment. Other assets are non-financial instruments and are held at cost. Refer to notes 5, 6 and 13.
- (Note iii) Development bonds previously classified as held to maturity under IAS 39, have been reclassified to financial assets held at amortised cost under IFRS 9. Development bonds are still measured at amortised cost and the gross carrying amount remained the same as it was under IAS 39. Impairment was calculated using the ECL model, whereas under IAS 39, the incurred loss model was used to calculate impairment.
- (Note iv) In line with IFRS 9: Financial Instruments, the Bank reclassified debt securities and lines of credit into debt funding designated at FVTPL and debt funding at amortised cost. The Bank already recognises changes in fair value of liabilities in its own-credit-risk adjustment in other comprehensive income and classifies it under items that will not be reclassified to profit or loss. Deferred upfront fees were reclassified to development loans. Refer to notes 13, 16, 19, 20, 22 and 23.

(b) The impact of transition to IFRS 9 on reserves and retained earnings is as follows:

in thousands of rands	Retained earnings	Cash flow hedge reserve	Own-credit-risk reserve	Available-for-sale reserve
Balance at 1 April 2018 (IAS 39)	19 472 969	151 883	–	8 094
Impact as a result of initial adoption of a new accounting standard – IFRS 9	–	–	–	–
• Increase in ECL adjustment on development loans	(202 774)	–	–	–
• Increase in ECL adjustment on commitments	(3 377)	–	–	–
• Reclassification of investments securities from available-for-sale to FVTPL	8 094	–	–	(8 094)
• Transfer of own-credit-risk reserve from cash flow hedge reserve	–	(76 986)	76 986	–
Restated balance at 1 April 2018 (IFRS 9)	19 274 912	74 897	76 986	–

(c) Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The table below reconciles the carrying amounts of provision for expected losses under IAS 39 to the balances reported under IFRS 9 as at 1 April 2018:

Financial instruments (In thousands of rands)	Loss provision Under IAS 39/IAS 37 at 31 March 2018	Remeasurement	ECLs under IFRS 9 at 1 April 2018
Financial assets			
Development bonds	246	–	246
Development loans (Note i)	4 823 167	202 774	5 025 941
Total financial assets	4 823 413	202 774	5 026 187
Financial liabilities			
Provision for loan commitments (Note iii)	–	3 377	3 377
Total financial liabilities	–	3 377	3 377

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1. New Standards and Interpretations (continued)

- (i) For development loans, the Bank determined that reliably assessing the probability of default at the initial recognition of each loan would have resulted in undue cost and effort. Therefore as, permitted by IFRS 9, the provision for ECLs were determined based on the credit quality of the financial asset at each reporting date. R202 million was recognised in retained earnings as at 1 April 2018 for those loans whose credit risk has been assessed as other than low. Note 13 reconciles the loan loss allowance as at 1 April 2018 to that at the end of the reporting year.
- (ii) At transition date, the Bank has assessed development loans individually to determine if there has a significant increase in credit risk. The Bank has not made an election to assume that some development loan financial instruments have low credit risk thereby requiring no assessment of significant increase in credit risk.
- (iii) R3 million was recognised in retained earnings as at 1 April 2018 for loan commitments whose credit risk has been assessed as other than low. Note 48 reconciles the loan loss allowance as at 1 April 2018 to that at the end of the reporting year.

(d) Reconciliation of ECLs reported in March 2018 Annual Financial Statements to actual amount calculated at 1 April 2018:

IFRS 9 transitional adjustment in thousands of rands

	Amount	%
Expected transitional adjustment (9% – 12% range)	216 413	8.93
Actual transitional adjustment for development loans and commitments	(206 151)	(8.52)
Difference between preliminary amount and final amount	10 262	0.41

(e) Statement of other comprehensive income

Movements due to changes in own credit risk on financial liabilities designated at FVTPL is now disclosed as a separate line item in the statement of other comprehensive statement under items that will not be reclassified to profit or loss.

1.3 IFRS 15: Revenue from contracts with customers

This standard replaced IAS 18, Revenue and sets out the requirements for recognising revenue that applies to all contracts with customers (except contracts that are within the scope of the standards on leases, insurance contracts or financial instruments). The standard provides a single principles-based five-step model to be applied to all contracts with customers (except for contracts that are within the scope of the standards on leases, insurance contracts or financial instruments).

The five steps in the model are as follows:

- Identify the contract(s) with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price; and
- Recognise revenue when a performance obligation is satisfied.

Impact assessment

The majority of the Bank's revenue is interest income, which is accounted for under IFRS 9. Any other fees and other income that is not part of EIR will be accounted according to IFRS 15.

The Bank elected the retrospective cumulative effect transition method on the adoption of IFRS 15 for 1 April 2018 and, therefore, the Bank had to recognise the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings without restating the comparatives. This standard impacted the disclosures of the Bank's fee income and had no impact of the retained earnings and the statement of financial position of the Bank.

1.4 Standards and Interpretations issued but not yet effective

1.4.1 IFRS 16: Leases (Applicable for annual periods beginning on or after 1 January 2019)

In January 2016 the IASB issued IFRS 16: Leases, and will replace IAS 17: Leases for periods beginning on or after 1 January 2019. IFRS 16 will apply to all leases with the exception of licences of intellectual property, rights held by licensing agreement within the scope of IAS 38: Intangible Assets, service concession arrangements, leases of biological assets within the scope of IAS 41: Agriculture, and leases of minerals, oil, natural gas and similar non-regenerative resources.

IFRS 16 provides revised guidance on what constitutes a lease and how to determine the lease term as well as requires enhanced disclosures from both the lessor and the lessee about their leasing activities and how exposure is managed. Below is a summary of changes that will be required by IFRS 16.

Classification

IFRS 16 will not result in a significant change to lessor accounting; however, for lessee accounting there will no longer be a distinction between operating and finance leases.

Initial recognition

Lessees will be required to recognise both: a 'lease liability' measured at the present value of remaining cash flows on the lease and a 'right-of-use' asset, measured at the amount of the initial measurement of the lease liability, plus any lease payments made prior to commencement date, initial direct costs, and estimated costs of restoring the underlying asset to the condition required by the lease, less any lease incentives received.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

1. New Standards and Interpretations (continued)

There is a recognition exception for leases with a term not exceeding 12 months which, allows the lessee to apply similar accounting as an operating lease under IAS 17 (recognising an expense as the amount becomes payable to a third party).

Subsequent measurement

Subsequently, the lease liability will increase for the accrual of interest, resulting in a constant rate of return throughout the life of the lease, and reduce when payments are made. The right-of-use asset will amortise/depreciate to the income statement over the life of the lease on a straight line basis. The Bank's IFRS 16 implementation has been led by the finance department with representation from all impacted departments. The project has identified the contracts impacted by IFRS 16, which are existing property leases and printer leases.

As permitted by the standard, the Bank elected to apply IFRS 16 on a modified retrospective basis starting from 1 April 2019 with the impacts of the adaptation of the new standards taken to opening retained earnings.

Estimated financial impact on the Bank's financial statements

The expected financial impact of adopting IFRS 16 is a R7.2 million increase in assets and a R7.2 million increase liabilities, which is immaterial to the Bank. This impact assessment has been estimated under current conditions and using the Bank's current incremental borrowing rate, and different conditions could exist at the time of adopting IFRS 16.

Amendment to IFRS 9: Financial Instruments (prepayment features)

The IASB published Prepayment Features with Negative Compensation (amendments to IFRS 9) to address the concerns about how IFRS 9: Financial Instruments classifies particular prepayable financial assets. In addition, the IASB clarified an aspect of the accounting for financial liabilities following a modification.

Changes regarding symmetric prepayment options: Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

Clarification regarding the modification of financial liabilities: It clarifies that an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may, therefore, become necessary if in the past the EIR was adjusted and not the amortised cost amount. There are no development loans or bonds with prepayment features with negative compensation. The Bank has no modified financial liabilities.

The standard is not applicable to date.

1.4.2 The following standards were also issued and have been assessed by the Bank.

These standards have been issued and have no impact on the Bank's Annual Financial Statements:

- IFRS 17: Insurance Contract
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- Amendments to IAS 28: Long term Interests in Associates and Joint Ventures
- IFRS 13: Business Combinations
- IFRS 11: Joint Arrangements
- IAS 12: Income Taxes
- IAS 23: Borrowings Costs
- IFRIC Interpretation 23: Uncertainty over Income Tax Treatments

2. Segmental information

There has been an realignment of the organisational structure and new operating model, to improve organisational efficiencies and: position of the Bank to be both more responsive to the growing need for its products and services, and more proactive in sculpting innovative solutions to the many development challenges encountered daily. The comparative segment information has been restated to align to the new operating model.

The Bank has five reportable segments, as listed below, which are the Bank's strategic business units. These business units are managed separately, based on the Bank's management and internal reporting structure for each of the strategic business units. The Bank's executive committee reviews internal management reports on at least a quarterly basis.

The following are the Bank's reportable segments:

- RSA municipalities;
- RSA economic and social;
- Rest of Africa;
- Infrastructure delivery division; and
- Treasury and balance sheet management.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

2. Segment information (continued)

	RSA municipalities		RSA economic and social		Rest of Africa	
in thousands of rands	2019	2018	2019	2018	2019	2018
Interest income on development loans	—	2 832 670	—	3 126 930	—	1 232 248
Interest income on development bonds	—	122 054	—	—	—	—
Interest income on investments	—	—	—	10 470	—	458
Interest income calculated using EIR	2 795 669	—	3 388 440	—	1 736 267	—
Other interest income	—	—	21 734	—	10 226	—
Total interest income	2 795 669	2 954 724	3 410 174	3 137 400	1 746 493	1 232 706
Interest expense	—	(1 753 159)	—	(1 583 716)	—	(338 615)
Interest expense calculated using EIR	(1 597 502)	—	(1 711 967)	—	(379 633)	—
Other interest expense	—	—	—	—	—	—
Total interest expense	(1 597 502)	(1 753 159)	(1 711 967)	(1 583 716)	(379 633)	(338 615)
Net interest income	1 198 167	1 201 565	1 698 207	1 553 684	1 366 860	894 091
Net fee income	1 540	2 801	75 259	38 021	13 714	43 088
Dividends ¹	—	—	27 468	1 892	64 773	14 064
Other operating income ¹	9 726	13 016	4 141	145 520	17 992	30 821
Non-interest income/(loss)	11 266	15 817	106 868	185 433	96 479	87 973
Operating income	1 209 433	1 217 382	1 805 075	1 739 117	1 463 339	982 064
Operating expenses ²	(111 369)	(80 171)	(85 487)	(77 175)	(65 412)	(55 888)
Depreciation and amortisation	—	—	—	—	—	—
ECLs/impairments on financial assets	74 409	91 210	(242 418)	(3 166)	(1 272 327)	(710 439)
Expenses	(36 960)	11 039	(327 905)	(80 341)	(1 337 739)	(766 327)
Development expenditure ³	(6 426)	(15 154)	—	—	—	—
Project preparation	—	—	—	—	—	—
Revaluation of equity investments ⁴	—	—	(20 005)	(118 825)	61 462	169 660
Grants	—	—	—	—	—	—
Sustainable earnings⁵	1 166 047	1 213 267	1 457 165	1 539 951	187 062	385 397
Net foreign exchange gain/(loss) ⁶	—	—	—	—	—	—
Net (loss)/gain from financial assets ⁴ and liabilities	—	—	—	—	—	—
Profit/(loss) for the year	1 166 047	1 213 267	1 457 165	1 539 951	187 062	385 397
Capital expenditure	—	—	—	—	—	—
Development loans	26 618 607	28 651 419	32 539 733	32 755 607	16 658 166	13 640 453
Development bonds	1 290 179	1 290 361	—	—	—	—
Equity investments	—	—	2 703 951	2 780 933	3 233 627	2 754 418
Other assets	—	—	339	437	1 598	941
Total assets	27 908 786	29 941 780	35 244 023	35 536 977	19 893 391	16 395 812
Total liabilities	15 075 081	18 207 599	21 285 673	22 030 135	10 167 588	7 723 101

There has been a realignment of the organisational structure and new operating model, to improve organisational efficiencies and the position of the Bank to be both more responsive to the growing need for its products and services, and more proactive in sculpting innovative solutions to the many development challenges encountered daily. The comparative segment information has been restated to align to the new operating model.

* The All Other segment includes the CEO, CIO, Corporate Services, Finance, Finance Operations, Project Preparation and Risk divisions.

1. Dividends (R92 241) and other operating income (R47 532) make up other income (R139 773) in the statement of comprehensive income.

2. Operating expenses (R1 043 703) comprises of personnel expenses (R751 300) and general and administration expenses (R292 403).

Infrastructure delivery		Treasury and balance Sheet management		*All other		Total	
2019	2018	2019	2018	2019	2018	2019	2018
—	—	—	—	—	—	—	7 191 848
—	—	—	—	—	—	—	122 054
—	—	—	425 776	—	—	—	436 704
—	—	237 124	—	305	—	8 157 805	—
—	—	220 074	—	—	—	252 034	—
—	—	457 198	425 776	305	—	8 409 839	7 750 606
—	(3)	—	(229 766)	—	—	—	(3 905 259)
—	—	344 814	—	—	—	(3 344 288)	—
—	—	(571 101)	—	—	—	(571 101)	—
—	(3)	(226 287)	(229 766)	—	—	(3 915 389)	(3 905 259)
—	(3)	230 911	196 010	305	—	4 494 450	3 845 347
164 493	148 340	(65 601)	(65 759)	3 975	23 705	193 380	190 196
—	—	—	—	—	—	92 241	15 956
14 150	20 517	—	—	1 523	16 710	47 532	226 584
178 643	168 857	(65 601)	(65 759)	5 498	40 415	333 153	432 736
178 643	168 854	165 310	130 251	5 803	40 415	4 827 603	4 278 083
(169 698)	(161 573)	21 590	(10 630)	(633 327)	(495 044)	(1 043 703)	(880 481)
(1 238)	(1 752)	—	—	(18 341)	(24 119)	(19 579)	(25 871)
855	(855)	—	—	(1 575)	72	(1 441 056)	(623 178)
(170 081)	(164 180)	21 590	(10 630)	(653 243)	(519 091)	(2 504 338)	(1 529 530)
—	—	—	—	(14 079)	—	(20 505)	(15 154)
—	—	—	—	(1 405)	(7 094)	(1 405)	(7 094)
—	—	—	—	—	—	41 457	50 835
—	—	—	—	(18 318)	(9 766)	(18 318)	(9 766)
8 562	4 674	186 900	119 621	(681 242)	(495 536)	2 324 494	2 767 374
—	—	743 713	(302 057)	—	—	743 713	(302 057)
—	—	30 202	(182 635)	(1 714)	195	28 488	(182 440)
8 562	4 674	960 815	(365 071)	(682 956)	(495 341)	3 096 695	2 282 877
—	—	—	—	27 843	27 577	27 843	27 577
—	—	—	—	—	—	75 816 506	75 047 479
—	—	—	—	—	—	1 290 179	1 290 361
—	—	—	—	—	—	5 937 578	5 535 351
186 885	136 594	5 690 160	6 609 207	565 164	591 576	6 444 146	7 338 755
186 885	136 594	5 690 160	6 609 207	565 164	591 576	89 488 409	89 211 946
158 186	116 457	1 386 259	3 204 291	4 243 137	3 609 288	52 315 924	54 890 871

3. Development expenditure relates to support to under-resourced municipalities.

4. Revaluation gains and losses have been split between equity investments and financial instruments for segment reporting purposes. Revaluation gain of equity investments (R41 457) and net gain from financial assets and liabilities (R28 488) make up the net loss from financial assets and financial liabilities (R69 945) in the statement of comprehensive income.

5. Sustainable earnings as outlined in the Bank's corporate plan means earnings (profit) before foreign currency exchange loss and financial instrument adjustments, but includes revaluation on equity instruments.

6. Treasury is responsible for foreign exchange management across the Bank and as such all foreign exchange gains and losses have been reallocated to Treasury.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

3. Financial assets by category

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

in thousands of rands	Notes	At amortised cost	FVTPL	Total carrying amount	Fair value
March 2019					
Cash and cash equivalents	5	2 922 876	–	2 922 876	2 922 876
Trade receivables and other assets	6	152 617	–	152 617	152 617
Investment securities*	7	–	1 880 502	1 880 502	1 880 502
Derivative assets held for risk management purposes*	8.1	–	713 304	713 304	713 304
Other financial asset	9	–	43 732	43 732	43 732
Equity investments	10	–	5 937 578	5 937 578	5 937 578
Development bonds	12	1 290 179	–	1 290 179	1 227 075
Development loans	13	75 816 506	–	75 816 506	86 423 383
		80 182 178	8 575 116	88 757 294	99 301 067

* Derivative assets held for risk management and investment securities are mandatorily held at FVTPL.

in thousands of rands	Level 1 Category	Level 2 Category	Level 3 Category	Total
Financial assets held at fair value				
Investment securities	586 507	1 293 995	–	1 880 502
Derivative assets held for risk management purposes	–	713 304	–	713 304
Other financial asset	–	43 732	–	43 732
Equity investments	–	3 715 782	2 221 796	5 937 578
	586 507	5 766 813	2 221 796	8 575 116
Financial assets held at amortised cost for which fair values are disclosed				
Cash and cash equivalents	–	2 922 876	–	2 922 876
Trade receivables and other assets	–	–	152 617	152 617
Development bonds	–	1 227 075	–	1 227 075
Development loans	–	–	86 423 383	86 423 383
	–	4 149 951	86 576 000	90 725 951
Total fair value of financial assets	586 507	9 916 764	88 797 796	99 301 067

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

4. Financial liabilities by category

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

in thousands of rands	Notes	At amortised cost	Fair value through profit or loss	Total carrying amount	Fair value
March 2019					
Derivative liabilities held for risk management purposes*	8.2	–	297 798	297 798	297 798
Trade, other payables and accrued interest on debt funding	16	483 264	–	483 264	483 264
Debt funding designated at FVTPL	22	–	6 469 451	6 469 451	6 469 451
Debt funding held at amortised cost**	23	44 516 190	–	44 516 190	46 905 569
		44 999 454	6 767 249	51 766 703	54 156 082

* Derivative liabilities held for risk management are mandatorily held at FVTPL.

** The accrued interest portion of R363 million on funding debt securities held at amortised cost is presented under trade, other payables and accrued interest line. Total debt funding at amortised cost inclusive of accrued interest of R44.88 billion is made up of accrued interest of R363 million plus principal of R44.5 billion. The total fair value of the Bank's funding is R53.8 billion.

in thousands of rands	Level 1 Category	Level 2 Category	Level 3 Category	Total
Financial assets held at fair value	–	6 469 451	–	6 469 451
Debt funding designated at FVTPL	–	6 469 451	–	6 469 451
Derivative liabilities held for risk management purposes	–	297 798	–	297 798
	–	6 767 249	–	6 767 249
Financial assets held at amortised cost for which fair values are disclosed				
Trade, other payables and accrued interest on debt funding	–	363 447	119 817	483 264
Debt funding held at amortised cost	–	46 905 569	–	46 905 569
	–	47 269 016	119 817	47 388 833
Total fair value of financial liabilities	–	54 036 265	119 817	54 156 082

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

* Derivative liabilities held for risk management are mandatorily held at FVTPL.

** The accrued interest portion of R450 million on funding debt securities held at amortised cost is presented under trade, other payables and accrued interest line. Total debt funding at amortised cost is made up of accrued interest of R40.3 million plus principal of R39.9 billion. The total fair value of the Bank's funding is R59.5 billion.

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

* 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 are therefore, disclosed as designated at FVTPL.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands

2019

2018

5. Cash and cash equivalents at amortised cost

Cash and cash equivalents consist of:

Call deposits	2 133 667	2 585 867
Cash in bank	789 209	1 155 986
Balance at the end of the year	2 922 876	3 741 853

The average interest rate earned on fixed and call deposits detailed above was 7.40% (March 2018: 7.70%). The Bank's exposure to interest rate risk and the sensitivity analysis for financial assets and financial liabilities is disclosed in note 44.

6. Trade receivables and other assets

Financial assets at amortised cost

Trade receivables	154 454	100 479
Less provision for ECL on trade receivables	(3 931)	(3 112)
Net carrying amount of trade receivables	150 523	97 367
Accrued interest	1 954	60 395
Deposits	4	88
Staff loans*	136	37
Total financial assets	152 617	157 887

Non-financial assets

Payroll expenses receivable	4	45
Prepayments	211 368	240 761
Subsistence and travel	883	321
VAT	707	607
Total non-financial assets	212 962	241 734

Balance at the end of the year

365 579	399 621
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Analysis of trade receivables and other assets

Current portion	154 207	158 735
Non-current portion	211 372	240 886
Balance at the end of the year	365 579	399 621

in thousands of rands

2019

2018

Reconciliation of provision for ECLs on trade receivables

Balance at beginning of the year	3 112	2 265
Increase in provision for ECLs and impairment on trade receivables (refer to note 36)	819	847
Balance at the end of the year	3 931	3 112

* Staff loans are for employees and are interest free. The interest that should have been payable on this account is R12 607 (March 2018: R3 379) at a rate of 9.25%.

Staff loans, deposits, accrued interest and trade receivables are held at amortised cost. Staff loans, deposits and accrued interest are not impaired.

Expected credit losses are provided on trade receivables based on the simplified approach. The Bank used historically observed default rates (actual write-off) over the expected life of the trade receivables adjusted as necessary to reflect current conditions to calculate the ECLs for trade receivables.

The default rate used for the calculation of ECLs for trade receivables is detailed below.

Default rates

	%	%
Infrastructure delivery trade receivables	0	0
Other trade receivables	17	17
Ex-employees receivables	100	100

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

6. Trade receivables and other assets (continued)

The table below provides information about the credit quality of trade receivables and other assets, where the ECL is measured at an amount equal to the lifetime ECLs (simplified approach).

	Days				
in thousands of rands	> 90	61–90	31–60	1–30	Total
Infrastructure delivery debtors – expected loss rate of 0%					
Gross carrying amount	2 538	3 016	2 837	131 190	139 581
Provision for lifetime ECLs	–	–	–	–	–
Net carrying amount at the end of the year	2 538	3 016	2 837	131 190	139 581
Other trade receivables – expected loss rate of 17%					
Gross carrying amount	5 231	597	321	6 957	13 106
Provision for lifetime ECLs	(842)	(101)	(54)	(1 167)	(2 164)
Net carrying amount at the end of the year	4 389	496	267	5 790	10 942
Ex-employees - expected loss rate of 100%					
Gross carrying amount	1 767	–	–	–	1 767
Provision for lifetime ECL	(1 767)	–	–	–	(1 767)
Net carrying amount at the end of the year	–	–	–	–	–
Total net carrying amount at the end of the year	6 927	3 512	3 104	136 980	150 523

The table below shows the reconciliation of the opening balance to the closing balance of the gross carrying amount of trade receivables and the provision for ECLs.

	Default rate			
in thousands of rands	0%	17%	100%	Total
Reconciliation of gross carrying amount				
Carrying amount as at 1 April 2018	83 967	14 716	1 796	100 479
Movements for the year	55 614	(1 610)	(29)	53 975
Gross carrying amount at the end of the year	139 581	13 106	1 767	154 454
Reconciliation of provision for ECLs				
Balance at 1 April 2018 (IAS 39)	(855)	(762)	(1 495)	(3 112)
IFRS 9 adjustment	–	–	–	–
Restated balance at 1 April 2018 (IFRS 9)	(855)	(762)	(1 495)	(3 112)
(Decrease)/increase in provision for ECLs	855	(1 402)	(272)	(819)
Provision for ECLs at the end of the year	–	(2 164)	(1 767)	(3 931)
Net carrying amount at the end of the year	139 581	10 942	–	150 523

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands

2019

2018

6. Trade receivables and other assets (continued)

Included in trade receivables and other assets are:

African Capacity Building Foundation (ACBF)	–	317
African World Heritage Fund (AWHF)	1	–
Department of Basic Education for Accelerated Infrastructure Schools Programme	4 150	9 467
Department of Energy – IPP Office	6 084	8 128
Department of Trade and Industry	322	1 057
Eastern Cape Department of Education	77 740	31 746
Ekurhuleni Metropolitan Municipality	13 573	14 329
Elliotdale Rural Human Settlement	–	1 530
Former employees	1 766	1 793
Green Fund	43	62
Infrastructure Investment Programme for South Africa (IIPSA)	482	7
Jobs Fund	418	401
KFW HIV/VCT 2 Programme	347	1 131
KFW SADC Water Fund	670	681
KwaZulu-Natal Department of Education	2 679	10 541
Limpopo Department of Economic Development	457	1 243
Limpopo Department of Education	1 281	1 349
Limpopo Department of Health	5 638	355
Limpopo Department of Public Works	660	494
National Department of Health	5 995	5 784
National Department of Public Works	24 727	3 170
National Treasury Cities Support Programme (NTCSP)	853	580
Other trade receivables	5 801	1 469
Pan African Capacitation Building Platform (PACBP)	277	270
SADC Project Preparation Development Fund	–	4 382
Sefako Makgatho Health Science University	490	193
Balance at the end of the year	154 454	100 479

7. Investment securities

Investment securities consist of the following:

Investment securities mandatorily held at FVTPL

Government bonds – listed	586 507	369 168
Investment in segregated funds	536 507	–
Municipal bonds – listed	670 441	664 647
State owned entity bonds – listed	87 047	161 850
Balance at the end of the year	1 880 502	1 195 665

Available-for-sale investment securities

Government bonds	–	225 255
Balance at the end of the year	–	225 255

Total investment securities

1 880 502	1 420 920
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Investments securities are held for sale as part of the strategic liquidity portfolio to manage the Bank's liquidity requirements. Accrued interest is now presented as part of the investment securities fair value movements and amounts to R38.2 million. Accrued interest for 31 March 2018 of R41.3 million is presented under trade receivables and other assets.

Investment securities reconciliation

Opening balance	1 420 920	1 069 085
Fair value movements	20 579	39 309
Additions, disposals and maturities	445 000	279 999
Amortisation of premium and discounts	(5 997)	32 527
Balance at the end of the year	1 880 502	1 420 920

Analysis of investment securities

Current portion	38 251	76 382
Non-current portion	1 842 251	1 344 538
Balance at the end of the year	1 880 502	1 420 920

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

In thousands of rands

2019

2018

8. Derivative assets and liabilities held for risk management purposes

8.1 Derivative assets held for risk management

Instrument type

Interest rate derivatives	69 204	162 232
Foreign exchange derivatives	644 100	1 078 213
Balance at the end of the year	713 304	1 240 445

Included in derivative assets is a credit valuation adjustment (CVA) of R10 million (March 2018: R14 million).

8.2 Derivative liabilities held for risk management

Instrument type

Interest rate derivatives	(22 050)	(24 893)
Foreign exchange derivatives	(275 748)	(34 347)
Balance at the end of the year	(297 798)	(59 240)

Included in derivative liabilities is a debit valuation adjustment (DVA) of R11 million (March 2018: R0.933 million).

8.3 Net derivatives held for risk management

Derivatives designated as fair value hedges	47 027	137 338
Derivatives designated as cash flow hedges	153 985	427 135
Derivatives held for risk management not designated hedges – economic hedges	214 494	616 732
Net derivatives at end of the year	415 506	1 181 205

Derivatives designated as fair value hedges

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

Derivatives designated as cash flow hedges

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

Derivatives held for risk management not designated hedges - economic hedges

This category consists of interest rate swaps, foreign exchange contracts, forward-rate agreements and cross currency swaps that are not designated for hedge accounting purposes. These derivative instruments are accounted for as held at FVTPL. Such derivatives are used for managing the exposures to foreign currency and interest rate risks.

Hedge accounting

The table below summarises the effect on financial position and performance – hedging instruments.

in thousands of rands		Carrying amount		Changes in fair value used for calculating hedge ineffectiveness	Line item in the financial statement
31 March 2019	Nominal amount	Assets	Liabilities		
Fair value hedges					
Interest rate risk					
Interest rate swap	4 245 000	47 027	–	(79 682)	Derivative financial instruments
Cash flow hedges					
Foreign exchange rate risk					
Cross currency swaps	869 812	246 943	(56 824)	(25 315)	Derivative financial instruments
Currency options	1 665 488	5 363	(41 497)	(79 650)	Derivative financial instruments
Total	2 535 300	252 306	(98 321)	(104 965)	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

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

in thousands of rands	Carrying amount of the hedge item		Accumulated amount of fair value hedge adjustments on the hedged item included in the carrying amount of the hedge item		Changes in fair value used for calculating hedge ineffectiveness	Cash flow hedge reserve	Line item in the financial statements
	Assets	Liabilities	Assets	Liabilities			
31 March 2019							
Fair value hedges							
Interest rate risk							
Net residual risk in fair value portfolio	–	(4 109 958)	–	–	79 682	–	Debt funding and investment securities
Cash flow hedges							
Foreign exchange risk rate							
Debt funding	–	–	–	–	25 190	(44 873)	Debt funding at amortised cost
							Debt funding and development loans at amortised cost and equity investments at FVTPL
Currency options	–	–	–	–	184 750	18 954	
Total	–	(4 109 958)	–	–	289 622	(25 919)	

in thousands of rands	Ineffectiveness recognised in profit or loss	Ineffectiveness recognised in OCI	Line item in the financial statement
31 March 2019			
Fair value hedges			
Interest rate risk	–	N/a	Net (gain)/loss from financial assets and financial liabilities

in thousands of rands	Change in the value of the hedging instrument recognised in OCI	Hedge ineffectiveness recognised in profit or loss	Line item in profit or loss that includes loss hedge ineffectiveness	Amount reclassified from cash flow hedge reserve to profit or loss	Line item affected in profit or loss because of the reclassification
31 March 2019					
Cash flow hedge					
Cross currency swaps	(33 432)	(125)	Net (gain)/loss from financial assets and financial liabilities	36 728	Net (gain)/loss from financial assets and financial liabilities
Options	(109 914)	105 100	Net (gain)/loss from financial assets and financial liabilities	57 639	Net (gain)/loss from financial assets and financial liabilities
Total	(143 346)	104 975		94 367	

in thousands of rands

2019

2018

9. Other financial assets

Market value of investments

43 732

45 446

This asset represents the fair value of the Medipref investment held with Sanlam.

Balance at beginning of the year

45 446

45 251

Income

2 178

2 243

Expenses

(320)

(326)

Contributions paid

(3 930)

(3 534)

Increase in market value

358

1 812

Balance at the end of the year

43 732

45 446

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands

2019

2018

10. Equity investments

Equity investments held at fair value through profit or loss (FVTPL)

5 937 578

5 535 351

Equity investments held at FVTPL consist of direct equity in ordinary shares and third-party managed private equity funds.

10.1 Equity investments held at FVTPL

Cost

Balance at beginning of the year

4 160 421

4 582 256

Acquisitions

143 102

286 288

Capital return

(303 822)

(708 123)

Balance at the end of the year
3 999 701
4 160 421

Fair value adjustment

Balance at beginning of the year

588 425

362 275

Current year fair value adjustment (refer to note 32)

41 457

50 835

Realised capital gain (refer to note 33)

22 020

175 315

Balance at the end of the year
651 902
588 425

Foreign exchange adjustments

Balance at beginning of the year

786 505

1 027 978

Unrealised gain/(loss) (refer to note 31)

473 606

(265 157)

Realised gain (refer to note 31)

25 864

23 684

Balance at the end of the year
1 285 975
786 505
Fair value at the end of the year
5 937 578
5 535 351

in thousands of rands

2019

2018

10.2 Period since initial investment

2 (two) years but within 3 (three) years	–	45 433
3 (three) years but within 4 (four) years	142 621	74 181
4 (four) years but within 9 (nine) years	3 526 189	3 600 958
10 (ten) years and older	2 268 768	1 814 779
Balance at the end of the year	5 937 578	5 535 351

10.3 Sectoral analysis of equity investments

Commercial infrastructure	3 342 675	2 817 927
Institutional infrastructure	828 210	734 127
Residential facilities	1 766 693	1 983 297
Balance at the end of the year	5 937 578	5 535 351

10.4 Geographical analysis of equity investments

South Africa	1 955 776	2 170 626
International (the rest of the African continent excluding South Africa)	3 981 802	3 364 725
Balance at the end of the year	5 937 578	5 535 351

10.5 US dollar and Euro amounts included in the above International equity investments

US dollar amount included	172 771	165 082
Euro amount included	32 066	32 255

10.6 Analysis of equity investments

Current portion	–	–
Non-current portion	5 937 578	5 535 351
Balance at the end of the year	5 937 578	5 535 351

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

11. Fair value of financial assets and liabilities

The Bank measures fair values in accordance with IFRS 13, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Bank also uses a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value, which gives highest priority to quoted prices.

Level 1

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

Level 2

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

- Quoted price for similar assets or liabilities in inactive markets;
- Quoted price for identical or similar assets or liabilities in inactive markets;
- Valuation model using observable inputs; and
- 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.

The table below shows the fair value hierarchy of the Bank's financial assets and financial liabilities.

In thousands of rands	Notes	Level 1	Level 2	Level 3	Total
31 March 2019					
Financial assets held at FVTPL					
Investment securities	3	586 507	1 293 995	–	1 880 502
Derivative assets held for risk management purposes	3	–	713 304	–	713 304
Other financial asset	3	–	43 732	–	43 732
Equity investments	3	–	3 715 782	2 221 796	5 937 578
Financial assets held at amortised cost for which fair values are disclosed					
Cash and cash equivalents	3	–	2 922 876	–	2 922 876
Trade receivables and other assets	3	–	–	152 617	152 617
Development bonds	3	–	1 227 075	–	1 227 075
Development loans	3	–	–	86 423 383	86 423 383
Total financial assets		586 507	9 916 764	88 797 796	99 301 067
Financial liabilities designated at FVTPL					
Derivative liabilities held for risk management purposes	4	–	297 798	–	297 798
Debt funding designated at FVTPL	4	–	6 469 451	–	6 469 451
Financial liabilities held at amortised cost for which fair values are disclosed					
Trade, other payables and accrued interest on debt funding	4	–	363 447	119 817	483 264
Debt funding held at amortised cost	4	–	46 905 569	–	46 905 569
Total financial liabilities		–	54 036 265	119 817	54 156 082

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

11. Fair value of financial assets and liabilities (continued)

The table below shows the fair value hierarchy of the Bank's financial assets and financial liabilities.

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

Transfers between level 1 and level 2 fair values are outlined in the table below.

in thousands of rands	Transfers from level 1 to level 2
31 March 2019	
Assets	
Investment securities	1 293 995
Development bonds	1 227 075
Total assets	2 521 070
Liabilities	
Debt funding designated at FVTPL	6 469 451
Debt funding held at amortised cost	23 387 778
Total liabilities	29 857 229

The Bank assesses each item for which fair value is disclosed at each reporting date and discloses transfers between levels should the assessment result in a change in level. Municipal bonds, state-owned entity bonds and funding: debt securities were transferred from level 1 to level 2 during the year due to the volume or level of activity close to measurement date not supporting a level 1 fair value classification.

Reconciliation of level 3 financial assets held at FVTPL:

Equity investments designated at FVTPL in thousands of rands	2019	2018
Balance at the beginning of year	2 343 219	534 270
Transfers into level 3	–	1 808 949
Decrease in fair value of equity investments (refer to note 32)	(121 423)	–
Balance at the end of the year	2 221 796	2 343 219

The table below shows the fair value hierarchy and valuation techniques used to determine their fair values:

Financial instruments in thousands of rands	2019		2018	
	Fair value	Hierarchy level	Fair value	Hierarchy level
Derivative assets (a)	713 304	2	1 240 445	2
Investment securities (b)	1 880 502	1 and 2	1 420 920	1
Equity investments (c)	5 937 578	2 and 3	5 535 351	2 and 3
Other financial asset (d)	43 732	2	–	–
Financial assets	8 575 116		8 196 716	
Derivative liabilities (a)	297 798	2	59 240	2
Debt funding designated at FVTPL (e)	6 469 451	2	6 473 055	1
Financial liabilities	6 767 249		6 532 295	

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

11. Fair value of financial assets and liabilities (continued)

Valuation techniques used to determine fair value

(a) Derivatives

Include discounted cash flow models, comparison with similar instruments for which observable market prices exist, Black-Scholes and polynomial-option pricing models and other valuation models. Input includes independently sourced market parameters (interest rate yield curves, equities and commodities prices, option volatilities and currency rates).

(b) Investment securities

Market observable bond prices from the Johannesburg Stock Exchange interest rate market.

(c) Equity investments

(i) Valuation techniques for 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 the 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, and option pricing models. The Bank ensures that these valuation techniques optimise the use of market inputs and rely as little as possible on entity specific inputs, incorporate all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments. In accordance with the best investment and valuation practice, a marketability and other discount is applied to direct equity investments. The guidelines provide that marketability and other discount in the range of 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.

(ii) Valuation techniques for third-party-managed private equity

Private equity funds are valued by fund managers periodically in accordance with international private equity and venture capital valuation guidelines. These guidelines have taken consideration of IFRS and set out recommendations that represent current-best practice on the valuation of a private equity and venture capital investments. The guidelines also set out the valuation methodologies that may be considered for use in estimating the fair value of underlying businesses and unquoted instruments in a private equity fund, namely price of recent investment, earnings multiple, discounted cash flows or earnings (of underlying businesses), discounted cash flows (from the investment) and industry valuation benchmarks. The guidelines also provide that in the case of unquoted equity investments, marketability and other discounts in the range of 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.

(d) Other financial asset

The fair value of other financial asset is based on the listed market price.

(e) Debt funding designated at FVTPL

Market observable bond prices from the interest rate market of the Johannesburg Stock Exchange. No adjustments are made to observable prices.

in thousands of rands

2019

2018

12. Development bonds at amortised cost

Municipal bonds

1 290 179

1 290 361

12.1 Analysis of development bonds

Balance at the beginning of the year

1 290 607

1 290 607

Movement during the year (refer to note 12.2)

–

–

Gross development bonds

1 290 607

1 290 607

Provision for ECLs on development bonds (refer to note 12.3)

(428)

(246)

Balance at the end of the year

1 290 179

1 290 361

12.2 Movements during the year

Interest accrued (refer to note 28)

122 054

122 054

Gross interest repayments

(122 054)

(122 054)

Net movements for the year

–

–

12.3 Reconciliation of provision for ECLs/impairments on development bonds

Balance at the beginning of the year

246

288

Increase/(decrease) in provision for ECLs/impairment on development bonds (refer to note 36)

182

(42)

Balance at the end of the year

428

246

Development bonds are bullet bonds with fixed interest rates and are held at amortised cost using the EIR method. The contractual rate is equal to the EIR.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

12. Development bonds at amortised cost (continued)

in thousands of rands	2019	2018
12.4 Analysis of development bonds		
Client classification		
Local government	1 290 607	1 290 607
Regional		
South Africa	1 290 607	1 290 607
Geography		
Gauteng	1 290 607	1 290 607
Sector		
Energy	1 290 607	1 290 607

12.5 Reconciliation of development bonds

The table below shows the reconciliation of the opening balance to the closing balance of development bonds gross carrying amount and the provision for ECL.

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
Reconciliation of gross carrying amount				
Balance at 1 April 2018	1 290 607	–	–	1 290 607
Movement during the year	–	–	–	–
Balance at the end of the year	1 290 607	–	–	1 290 607
Reconciliation of provision for ECL				
Balance at 1 April 2018 (IAS 39)	246	–	–	246
IFRS 9 adjustment	–	–	–	–
Restated balance at 1 April 2018 (IFRS 9)	246	–	–	246
Subsequent change in ECL due to changes in risk parameters (PDs, LGDs and EAD)	182	–	–	182
Balance at the end of the year	428	–	–	428

The increase in ECL for the year was due to changes in PDs, EADs and LGDs arising from the use of new data input.

in thousands of rands

2019

2018

12.6 Expected credit losses/impairment charges

ECLs charges/(impairment released) to the statement of comprehensive income (refer to note 36)

182

(42)

13. Development loans

13.1 Analysis of development loans

Balance at the beginning of the year

79 870 646

75 667 226

Movements during the year (refer to note 13.1.1)

2 503 134

4 203 420

Upfront fees integral to development loans (refer to note 13.15)

(361 530)

–

Gross development loans

82 012 250

79 870 646

Provision for ECLs on development loans (refer to note 13.9)

(6 195 744)

(4 823 167)

Net development loans at the end of the year

75 816 506

75 047 479

13.1.1 Movements during the year

Loans disbursed – current year

8 807 786

11 922 527

Interest accrued – statement of comprehensive income (refer to note 28)

7 725 762

7 191 847

Contractual interest on stage 3 (refer to 13.9)

230 957

118 319

Development loans written off (refer to 13.9)

(258 568)

(79 548)

Loans waiver (refer to note 13.9)

–

(25)

Foreign exchange adjustment

3 504 589

(1 968 313)

Gross loan repayments

(17 646 146)

(13 352 612)

Fees raised – current year

142 639

371 225

Transfer adjustments

(3 885)

–

Movements for the year

2 503 134

4 203 420

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

13. Development loans (continued)

in thousands of rands

2019

2018

13.2 Maturity analysis of gross development loans

Due within 1 (one) year	14 594 416	14 484 287
Due after 1 (one) year but within 2 (two) years	5 594 817	5 321 140
Due after 2 (two) years but within 3 (three) years	8 553 922	4 572 475
Due after 3 (three) years but within 4 (four) years	4 632 509	7 319 048
Due after 4 (four) years but within 9 (nine) years	23 483 103	17 214 567
Due after 9 (nine) years but within 14 (fourteen) years	17 548 242	23 469 653
Due after 14 (fourteen) years	7 605 241	7 489 476
Total	82 012 250	79 870 646

13.3 Sectoral analysis of gross development loans

Commercial – fund	361 586	414 167
Commercial – manufacturing	387 367	377 077
Commercial – mining	111 000	294 490
Commercial – tourism	288 392	237 742
Commercial – other	240 132	247 661
Communication and transport infrastructure	6 233 212	5 470 965
Energy – electricity	47 376 087	46 733 021
Energy – non-grid standalone	1 324 826	171 195
Human resources development	1 079 100	1 065 856
Institutional infrastructure	97	–
Residential facilities	2 593 726	4 216 186
Roads and drainage	12 396 289	11 986 198
Sanitation	1 489 591	1 398 689
Social infrastructure	4 470 418	4 658 372
Water	3 660 427	2 599 027
Total	82 012 250	79 870 646

in thousands of rands

2019

2018

13.4 Geographical analysis of gross development loans

Eastern Cape	1 609 615	1 924 163
Free State	1 954 349	2 057 689
Gauteng	36 653 936	37 632 913
KwaZulu-Natal	5 727 842	6 482 652
Limpopo	1 081 535	1 059 667
Mpumalanga	866 648	1 010 698
North West	663 396	727 250
Northern Cape	9 164 159	8 852 883
Western Cape	3 701 808	3 113 693
Rest of Africa	20 588 962	17 009 038
Total	82 012 250	79 870 646

Rest of Africa

Angola	3 758 399	2 462 581
Congo	1 192 263	1 032 777
Ethiopia	803 239	729 914
Ghana	2 652 254	1 999 422
Kenya	387 845	367 756
Lesotho	459 872	534 240
Madagascar	289 204	164 162
Mauritius	591 312	439 115
Mozambique	425 898	394 247
Namibia	83 918	83 919
Swaziland	230 968	235 599
Tanzania	119 646	91 234
Zambia	6 535 818	5 919 225
Zimbabwe	2 712 839	2 160 706
Multi-regional	345 487	394 141
Total	20 588 962	17 009 038

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

13. Development loans (continued)

in thousands of rands	2019	2018
Euro amount included in the Rest of Africa loans	17 811	11 383
US dollar amounts included in the above Rest of Africa loans	1 342 602	1 343 124

13.5 Client classification of gross development loans

Development finance institutions	352 162	402 680
Educational institutions	1 024 215	1 007 552
Local government	26 089 457	27 192 519
National and provincial government	2 617 355	2 514 490
Private sector intermediaries	23 880 309	21 025 834
Public utilities	28 048 752	27 727 571
Total	82 012 250	79 870 646

13.6 Fixed-and variable-interest rate gross development loans

Fixed-interest rate loans	40 392 397	39 445 658
Variable-interest rate loans	41 619 853	40 424 988
Total	82 012 250	79 870 646

13.7 Non-performing loans (included in total development loans)

13.7.1 Sectoral analysis of gross non-performing loans

Commercial – manufacturing	387 367	366 292
Commercial – mining	111 000	294 490
Commercial – tourism	288 392	237 742
Commercial – other	180 270	169 355
Communication and transport infrastructure	905 427	436 489
Energy	184 550	172 328
Human resources development	2 536	2 851
Institution building	–	3 000
Residential facilities	286 610	255 538
Roads and drainage	704 370	606 757
Sanitation	145 036	170 359
Social infrastructure	631 447	682 797
Water	184 408	197 113
Total	4 011 413	3 595 111

in thousands of rands

2019

2018

13.7.2 Geographical analysis of gross non-performing loans

Eastern Cape	26 932	214 728
Free State	59 905	45 881
Gauteng	264 794	248 654
KwaZulu-Natal	5 355	6 207
Limpopo	353 670	318 363
Mpumalanga	419 183	444 487
North West	143 260	154 012
Northern Cape	43 901	39 729
Western Cape	—	64 900
Rest of Africa	2 694 413	2 058 150
Total	4 011 413	3 595 111

Rest of Africa

Lesotho	431 218	497 822
Mauritius	591 312	182 617
Mozambique	329 743	248 362
Swaziland	179 031	179 183
Tanzania	119 646	91 234
Zambia	253 780	203 096
Zimbabwe	789 683	655 836
Total	2 694 413	2 058 150

13.7.3 Client classification on gross non-performing loans

Development financing institutions	6 675	—
Educational institutions	2 536	2 851
Local government	469 389	490 950
Private sector intermediaries	2 569 867	2 284 600
Public utilities	962 946	816 710
Total	4 011 413	3 595 111

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

13. Development loans (continued)

in thousands of rands

2019

2018

13.8 Client concentration of gross development loans

One client as percentage of total loan portfolio (%)	21.3	22.9
Seven clients as percentage of total loan portfolio (%)	54.0	56.2

13.9 Provision for ECLs on development loans reconciliation

Balance at 1 April 2018 (IAS 39)	4 823 167	4 162 048
IFRS 9 adjustments	202 774	–
Restated balance at 1 April 2018 (IFRS 9)	5 025 941	4 162 048
Impairment of current year interest (refer to note 13.1)	230 957	118 319
Loans written off during the year (refer to 13.1)	(258 568)	(79 548)
Loans waiver (refer to note 13.1)	–	(25)
ECLs/impairment charges (refer to note 36)	1 197 414	622 373
Stage 3/non-performing book	333 357	555 549
Stage 1 and 2/performing book	864 057	66 824
Balance at the end of the year	6 195 744	4 823 167

13.10 Analysis of impairment charge

Stage 3 loans		
Stage 3 ECLs	333 357	–
Stage 1 and 2 loans		
Stage 1 ECLs	(17 602)	–
Stage 2 ECLs	881 659	–
Balance at the end of the year	1 197 414	–
Identifiable impairments		
Non-performing book	–	555 549
Performing book	–	(150 329)
Unidentifiable impairments		
Model driven – performing book	–	217 153
Balance at the end of the year	–	622 373

13.11 Reconciliation of net carrying amount development loans

The table below shows the reconciliation of the opening balance to the closing balance of the net carrying amount of development loans:

Development loans in thousands of rands	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of the year	47 435 432	28 840 103	3 595 111	79 870 646
Transfer from Stage 1 to Stage 2	(2 579 521)	2 579 521	–	–
Transfer from Stage 2 to Stage 3	–	(371 930)	371 930	–
Transfer from Stage 2 to Stage 1	2 299 738	(2 299 738)	–	–
New disbursements	8 807 786	–	–	8 807 786
Repayments	(13 228 960)	(4 022 969)	(394 217)	(17 646 146)
Interest capitalised during the year	4 629 159	2 967 951	128 652	7 725 762
Contractual interest on stage 3	–	–	230 957	230 957
Write-offs	–	–	(258 568)	(258 568)
Foreign exchange movements	1 283 811	1 885 762	335 016	3 504 589
Movements in fees that are integral to the loan	(379 512)	16 448	1 534	(361 530)
Fees	130 546	9 025	3 068	142 639
Other transfers	(1 815)	–	(2 070)	(3 885)
Gross carrying amount	48 396 664	29 604 173	4 011 413	82 012 250
Less provision for ECLs	(197 946)	(3 288 607)	(2 709 191)	(6 195 744)
Balance at the end of the year	48 198 718	26 315 566	1 302 222	75 816 506

The total amount of undiscounted ECLs at initial recognition for purchased or credit impaired development loans recognised during the period amounted to Rnil. Development loans modified in the current year did not result in derecognition of development loans. Modified development loans remained within the same stage.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

13. Development loans (continued)

in thousands of rands	2019	2018
13.12 Maximum exposure to loss		
The gross carrying amount of development loans receivables and thus the maximum exposure to loss is as follows:		
Development loans receivable net of ECLs		
Stage 1 loans	48 396 664	—
Stage 2 loans	29 604 173	—
Stage 3 loans	4 011 413	—
Performing loans	—	76 275 535
Non-performing loans	—	3 595 111
Loss allowance	(6 195 744)	(4 823 167)
Development loans receivable net of expected loss	75 816 506	75 047 479

13.13 Reconciliation of expected credit losses of development loans

The table below shows the reconciliation of provision for ECLs of development loans:

in thousands of rands	Stage 1 12 month-ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Provision for ECL/impairments				
Balance at 1 April 2018 (IAS 39)	397 650	2 024 748	2 400 769	4 823 167
IFRS 9 adjustment	(182 102)	382 200	2 676	202 774
Restated balance at 1 April 2018 (IFRS 9)	215 548	2 406 948	2 403 445	5 025 941
Transfer from Stage 1 to Stage 2	(58 080)	482 006	—	423 926
Transfer from Stage 2 to Stage 3	—	(93 138)	273 885	180 747
Transfer from Stage 2 to Stage 1	47 701	(304 377)	—	(256 676)
New disbursements	8 985	—	—	8 985
Repayments	(750)	(2 281)	(4 806)	(7 837)
Modification of contractual cash flows of development loans	—	206 891	—	206 891
Impairment of interest	—	—	230 957	230 957
Write-offs	—	—	(258 568)	(258 568)
Foreign exchange movements	14 088	189 532	260 080	463 700
Subsequent changes in ECL due to changes in risk parameters (PDs, LGDs, EAD)	(29 546)	403 026	(195 802)	177 678
Balance at the end of the year	197 946	3 288 607	2 709 191	6 195 744
ECL allowance recognised in profit or loss	(17 602)	881 659	333 357	1 197 414

The impairment charge was mainly impacted by transfers between the stages and foreign exchange translations for development loans denominated in foreign currencies. Modifications in the current year did not lead to derecognition of development loans.

in thousands of rands

2019

2018

ECLs/ impairment charges

ECLs/impairment charged to the statement of comprehensive income
(refer to note 36)

1 197 414

622 373

13.14 Analysis of current and non-current portion of development loans

Development loans

Current

14 953 877

14 484 287

Non-current

67 419 903

65 386 359

Gross loan book

82 373 780

79 870 646

Deferred fees

(361 530)

–

Provision for ECLs

(6 195 744)

(4 823 167)

Amortised cost

75 816 506

75 047 479

13.15 Reclassification for presentation purposes

In the prior year, upfront fees as previously reported under deferred income on development loans were presented under trade and other payables. In the current year, upfront deferred fees were reclassified and presented net of development loans in line with banking best practice. This reclassification did not impact retained earnings, cash flows, profits or the net asset position of the Bank.

The table below shows the impact of the reclassification on prior year gross loan book reported.

Development loans

2018

2017

As previously reported – excluding deferred upfront fees

79 870 646

75 667 226

Upfront fees as previously reported under deferred income

(390 663)

(108 176)

Gross loan book

79 479 983

75 559 050

13.16 Modification of financial assets measured at amortised cost

Gross loan book

Stage 1

Stage 2

Stage 3

2019

Amortised

Net

Amortised

Net

Amortised

Net

in thousands

cost before

modification

cost before

modification

cost before

modification

of rands

modification

gain/loss

modification

gain/loss

modification

gain/loss

Development loans

–

–

1 130 937

–

–

–

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

14. Property and equipment

in thousands of rands	2019			2018		
	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
Land	94 000	–	94 000	94 000	–	94 000
Buildings	344 177	(38 177)	306 000	322 889	(33 865)	289 024
Furniture and fittings	16 061	(15 135)	926	19 907	(18 361)	1 546
Motor vehicles	3 329	(580)	2 749	3 130	(990)	2 140
Office equipment	21 077	(10 222)	10 855	15 393	(10 284)	5 109
Computer equipment	84 159	(63 669)	20 490	74 507	(67 801)	6 706
Leasehold improvements	770	(770)	–	770	(535)	235
Total	563 573	(128 553)	435 020	530 596	(131 836)	398 760

Reconciliation of property and equipment – 2019

in thousands of rands	Opening balance	Additions	Disposals	Revaluation	Depreciation	Closing balance
Land	94 000	–	–	–	–	94 000
Buildings	289 024	1 341	–	19 947	(4 312)	306 000
Furniture and fittings	1 546	148	–	–	(768)	926
Motor vehicles	2 140	1 454	(501)	–	(344)	2 749
Office equipment	5 109	6 726	–	–	(980)	10 855
Computer equipment	6 706	16 998	(27)	–	(3 187)	20 490
Leasehold improvements	235	–	–	–	(235)	–
	398 760	26 667	(528)	19 947	(9 826)	435 020

Reconciliation of property and equipment – 2018

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

Valuations

Land

Land constitutes Portion 465 (of Portion 442) of the Farm Randjesfontein 405 measuring 25 066 hectares donated by the South African government in 1985. The land was fair valued by an independent valuator at R94 million (March 2018: R94 million by management).

Buildings

The existing buildings were erected in 1987 at a cost of R35.2 million. There were improvements amounting to R1.3 million (March 2018: R3.3 million). The buildings were fair valued by an independent valuator at R306 million (March 2018: R289 million by management).

The historical carrying value of the existing buildings is R223 million (March 2018: R223 million).

15. Intangible assets

2019				2018		
in thousands of rands	Cost	Accumulated amortisation	Carrying value	Cost	Accumulated amortisation	Carrying value
Computer software	193 890	(110 757)	83 133	192 715	(101 005)	91 710

Reconciliation of intangible assets – 2019

in thousands of rands	Opening balance	Additions	Amortisation	Closing balance
Computer software	91 710	1 176	(9 753)	83 133

Reconciliation of intangible assets – 2018

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands

2019

2018

16. Trade, other payables and accrued interest on debt funding

Financial liabilities at amortised cost

Accrued interest (financial market liabilities – amortised cost)	363 447	530 026
Deferred income	16 179	428 655
Trade payables	103 638	62 450
Balance at the end of the year	483 264	1 021 131
Non-financial liabilities		
Bonus provision	188 795	178 904
PAYE, VAT and Compensation Commissioner	6 932	4 229
Balance at the end of the year	195 727	183 133
Total trade, other payables and accrued interest on debt funding	678 991	1 204 264

In line with best practice, accrued interest on financial market liabilities held at FVTPL has been presented together with debt funding at fair value. The reclassification did not have an impact on retained earnings.

Analysis of trade, other payables and accrued interest on debt funding

Current portion	662 812	775 609
Non-current portion	16 179	428 655
Balance at the end of the year	678 991	1 204 264

Included in trade payables

African World Heritage Fund (AWHF)	–	13
Former employees' creditors	3	2
Municipal Financial Improvement Programme (NT MFIP)	506	506
Municipal Infrastructure Support Agency (MISA)	201	201
National Rural Youth Service Corporation (NARYSEC)	115	115
Balance at the end of the year	825	837

Included in trade payables is the bonus provision as reconciled below:

in thousands of rands	Opening balance	Utilised during the year	Reversal of prior period provision	Current year provision	Closing balance
Bonus provision	178 904	(173 109)	–	183 000	188 795

Reconciliation of deferred income

in thousands of rands	Opening balance	Transferred to income statement	Current year capitalisation of deferred income	Reclassification to development loans	Closing balance
Deferred income	428 655	(95 665)	44 719	(361 530)	16 179

Transferred to income statement includes R73 million transferred to interest income.

17. Provision

Reconciliation of provisions – 2019

In thousands of rands	Opening balance	Current year provision	Utilised during the year	IFRS 9 adjustments	Closing balance
Developmental expenditure	66 640	5 358	(9 006)	–	62 992
Provision for expected losses on loan commitments	–	242 641	–	3 377	246 018
	66 640	247 999	(9 006)	3 377	309 010

Reconciliation of provisions – 2018

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

Provision for developmental expenditure

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

Provision for expected losses on loan commitments

The provision for development loans and commitments represents the ECLs on loan commitments. The ECLs is the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive. To the extent that the amount of the ECLs on loan commitment exceeds the carrying amount of the associated financial asset recognised in the statement of financial position, the amount of the credit losses is presented as a provision.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands

2019

2018

18. Liability for funeral and post-employment medical benefits

18.1 Liability for funeral benefits

This benefit covers all current and retired employees of the Bank. In respect of these employees, a gross amount of R20 000 is paid to the family upon the death of an employee or retired employee. The obligation was valued by Alexander Forbes on 31 March 2019.

Movement in liability for funeral benefits recognised in the statement of financial position

Balance at the beginning of the year	2 152	3 226
Decrease in liability	(84)	(1 074)
Balance at the end of the year	2 068	2 152

A portion of the actuarial gains for the year were due to changes in economic assumptions of R0.2 million and demographic assumptions of R0.2 million.

18.2 Liability for post-employment 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 and one active member.

Pensioners include retired employees and their spouses. The liability is in respect of pensioners who continue to belong to the medical aid after retirement and one active member currently employed by the Bank.

The amount recognised in the statement of financial position in respect of the Bank's post-employment medical benefit is detailed below.

Present value of obligation

Balance at the beginning of the year	44 604	40 712
Interest cost	4 140	3 974
Current service cost (includes interest to year-end)	49	50
Benefits paid	(3 627)	(3 303)
Actuarial (loss)/gain for the year	(2 750)	3 171
Balance at the end of the year	42 416	44 604
Total funeral and post-employment medical benefits liabilities	44 484	46 756

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

In thousands of rands

2019

2018

The amount recognised as an expense in the statement of comprehensive income in respect of the defined benefit plan is as follows:

Interest cost	4 140	3 974
Current service cost	49	50
Actuarial (loss)/gain for the year	(2 750)	3 171
Total charge for the year (included in personnel expenses in the statement of comprehensive income – refer to note 37)	1 439	7 195

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

Discount rate (before taxation (%))	10.4	9.7
Medical-aid inflation rate (%)	8.1	8.1

18.4 Sensitivity analysis

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

	Central assumption	% Point decrease	% Point increase
Medical-aid inflation rate (%)	8.1	-1.00	+1.00
Accrued liability 31 March 2019 (R'000)	42 416	38 939	46 525
% change	–	-8.2	+9.7
Current service cost + interest cost 2019/20 (R'000)	4 249	3 880	4 685
% change	-	-8.7	+10.3
Sensitivity results from previous valuation: Medical-aid inflation rate 2017/18 (%)	8.1	-1	+1
Current service cost + interest cost 2017/18 (R'000)	4 189	3 790	4 669
% change	–	-9.5	+11.5

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

18.5 The obligation for the three years prior to March 2018 is as follows:

In thousands of rands

March 2017	40 712
March 2016	239 289
March 2015	160 412
March 2014	165 051

In thousands of rands

2019

2018

18.6 Defined contribution plan

The total amount expensed during the period (including group life assurance and income-continuity benefits)

66 527

50 815

The Development Bank of Southern Africa Provident Fund (the Fund) was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members. The Fund, which is governed by the Pension Funds Act No. 24 of 1956 is a defined contribution plan for the employees of the Bank. The number of employees covered by the plan for March 2019 was 597 (2018: 583).

19. Debt securities*

Classification of debt securities

Held at FVTPL	—	6 473 055
Held at amortised cost	—	33 363 703
Balance per statement of financial position	—	39 836 758
Accrued interest (refer to note 16)	—	530 026
Balance at the end of the year including accrued interest	—	40 366 784

Medium- to long term debt securities reconciliation

Balance at beginning of the year	—	36 454 261
Bond issued	—	3 109 000
Bonds repaid	—	(230 000)
Fair value adjustments	—	106 938
Premiums, discounts and other transaction costs	—	396 559
Accrued interest (refer to note 16)	—	530 026
Balance at the end of the year including accrued interest	—	40 366 784

* In the current year debt securities were presented as debt funding designated at FVTPL and debt funding held at amortised cost. Refer to notes 22 and 23.

A R80 billion Domestic Medium Term Note Programme is currently registered and listed on the JSE Securities Exchange as at 31 March 2018. Debt securities designated at FVTPL consists of listed DV bond. The valuation of debt securities held at FVTPL incorporates an own-credit risk adjustment of R77 million (2017: R89 million). Debt securities carried at amortised cost consists of Eurorand bond issues, money market issuance (bridging bonds and short term commercial paper), medium-and long term fixed- and floating rate bonds.

Floating rate notes and commercial paper – nominal values

Commercial paper – short term notes	–	1 559 000
Floating rate notes – medium term notes	–	7 945 000
Balance at the end of the year	–	9 504 000

The Bank issued several floating commercial-paper notes during the financial year under instruments code DVC. These are commercial-paper instruments with a maturity of less than one year held at amortised cost. The Bank also issued several floating medium term notes under instrument code DVF. These are floating rate notes instruments and have a maturity of three-to-five years held at amortised cost.

20. Funding: lines of credit*

Held at amortised cost	–	13 677 213
Lines of credit reconciliation		
Balance at beginning of the year	–	14 015 426
Borrowings from lines of credit	–	6 867 229
Repayments on lines of credit	–	(5 768 094)
Forex adjustments on lines of credit	–	(1 437 348)
Balance at the end of the year	–	13 677 213

* In the current year funding, lines of credit were presented as debt funding held at amortised cost. Refer to note 23.

21. Analysis of debt securities and funding: lines of credit

The analysis below includes interest accrual amounts of debt securities and funding: lines of credit.

Funding at FVTPL

Current portion	–	80 250
Non-current portion	–	6 473 055
Balance at the end of the year	–	6 553 305

Funding at amortised cost

Current portion	–	15 103 518
Non-current portion	–	31 937 398
Balance at the end of the year	–	47 040 916

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

In thousands of rands

2019

2018

22. Debt funding designated at FVTPL*

Debt securities

6 469 451

–

Reconciliation of debt funding at FVTPL

Balance at beginning of the year

6 473 055

–

Amortisation of discounts and premiums

32 900

–

Fair value adjustments

565 355

–

Interest repayment

(601 859)

–

Balance at the end of the year**6 469 451****–**

Analysis of funding at FVTPL

Current portion

4 987 166

–

Non-current portion

1 482 285

–

Balance at the end of the year**6 469 451****–**

* In the prior year debt funding designated at FVTPL was presented as debt securities. Refer to note 19.

Debt securities designated at FVTPL consists of listed DV bonds. These instruments form part of a group of financial assets and liabilities that are managed and its performance is evaluated on a fair value basis. These instruments were irrevocably designated at FVTPL at initial recognition because in doing so the Bank is significantly reducing a measurement inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

The valuation of debt securities held at FVTPL incorporates an own-credit risk adjustment of R64 million (March 2018: R77 million). The change in fair value attributable to changes in credit risk on debt securities in issue is calculated using the credit spread observed for recent issuances of similar debt.

The carrying amount of the debt securities in issue at 31 March 2019 designated at FVTPL was R183 million higher than the contractual amount due at maturity of R6.28 billion.

Funding is presented by category, in the previous years, funding was presented under instrument types.

The carrying amount of debt funding held at FVTPL for 31 March 2019 is inclusive of accrued interest amounting to R80.25 million.

In thousands of rands

2019

2018

The table below provides information for the movement of the own-credit-risk reserve

Balance at beginning of the year	76 986	—
Changes in fair value of liabilities designated at FVTPL attributable to changes in own credit risk	(12 852)	—
Balance at the end of the year	64 134	—

23. Debt funding held at amortised cost*

Debt securities	28 666 528	—
Lines of credit	15 849 662	—
Balance per statement of financial position	44 516 190	—
Accrued interest (refer to note 16)	363 447	—
Balance at the end of the year including accrued interest	44 879 637	—

Reconciliation of debt funding at amortised cost

Balance at beginning of the year	47 040 916	—
Capital raised	13 102 081	—
Capital repaid	(18 618 727)	—
Amortisation of discounts, premiums and transaction costs	285 165	—
Foreign exchange adjustments on lines of credit	2 706 755	—
Accrued interest (refer to note 16)	363 447	—
Balance at the end of the year including accrued interest	44 879 637	—

Analysis of debt funding at amortised cost

Current portion	15 701 009	—
Non-current portion	28 815 181	—
Balance at the end of the year	44 516 190	—

* In the prior year debt funding held at amortised cost was presented as debt securities and funding: lines of credit. Refer to notes 19 and 20.

R80 billion Domestic Medium Term Note Programme is currently registered and listed on the JSE Securities Exchange as at 31 March 2019. DV22 bond, with the nominal value of R9.2 billion, is due on 7 February 2020.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

23. Debt funding held at amortised cost* (continued)

In thousands of rands	2019	2018
Debt securities carried at amortised cost consists of Eurorand bond issues, money market issuances (bridging bonds and short term commercial paper), medium- and long term fixed-rate and floating rate bonds. The Bank did not have any defaults of principal or interest or other breaches with respect to its debt securities during the years ended 31 March 2019 and 31 March 2018. Funding is now presented by category. In the previous years, funding was presented under instrument types. The total carrying amount of funding debt securities held at amortised cost inclusive of the accrued interest amount of R270.4 million is R28.94 billion. The total carrying amount of funding lines of credit held at amortised cost inclusive of the accrued interest amount of R93.1 million is R15.94 billion.		
Floating rate notes and commercial paper - nominal values		
Commercial paper – short term notes	555 000	–
Floating rate notes – medium term notes	7 650 000	–
Balance at the end of the year	8 205 000	–

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

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

24. Share capital

Authorised		
2 020 000 ordinary shares (31 March 2018: 2 020 000) at a par value of R10 000 each	20 200 000	20 200 000

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

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

Issued capital		
20 000 ordinary shares (31 March 2018: 20 000) at a par value of R10 000 each	200 000	200 000

All issued capital is fully paid for.

In thousands of rands

2019

2018

25. Permanent government funding

Balance at the end of the year

11 692 344

11 692 344

This represents capital provided by the South African government and remains part of the permanent capital of the Bank. There are no repayment terms and this funding is interest free. The total amount received equates to equity.

26. Other reserves

26.1 Revaluation reserve on land and buildings

Balance at the beginning of the year

183 809

198 322

Gain/(loss) on revaluation of land and buildings (refer to note 14)

19 947

(14 513)

Balance at the end of the year

203 756

183 809

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

26.2 Cash flow hedge reserve

Balance at 1 April (IAS 39)

151 883

141 680

Impact on initial recognition of IFRS 9 – transferred to own-credit-risk reserve

(76 986)

–

Restated balance at 1 April (IFRS 9)

74 897

141 680

Unrealised (loss)/gain on cash flow hedges

(143 346)

121 616

Loss/(gain) reclassified to profit or loss

94 367

(111 413)

Balance at the end of the year

25 918

151 883

The cash flow hedging reserve represents the cumulative effective portion of gains and losses arising on changes in fair value of hedging instruments designated as cash flow hedges. The cumulative gains and losses arising on changes in fair value of the hedging instruments will be reclassified to profit or loss when the hedged transaction affects the profit or loss or when it is determined that a hedged forecast transaction is no longer expected to occur.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

26. Other reserves (continued)

In thousands of rands	2019	2018
26.3 Available-for-sale reserve		
Balance under IAS 39	8 094	(3 038)
Impact on initial recognition of IFRS 9 – transferred to retained earnings	(8 094)	–
Balance at beginning of the year	–	(3 038)
Change in value of available-for-sale financial assets	–	11 132
Balance at the end of the year	–	8 094

The available-for-sale reserve comprises all fair value adjustments for financial-market instruments. On adoption of IFRS 9, available-for-sale-assets were reclassified to FVTPL and the gain was transferred to retained earnings.

26.4 Own-credit risk reserve

Balance at 1 April (IAS 39)	–	–
Impact on initial recognition of IFRS 9 – transferred from cash flow hedge reserve	76 986	–
Restated balance at 1 April (IFRS 9)	76 986	–
Movements due to own credit risk on financial liabilities designated at FVTPL	(12 852)	–
Balance at the end of the year	64 134	–

Own-credit risk reserve was previously presented as cash flow hedge reserve and is now presented separately in the statement of changes in equity.

26.5 Total of other reserves

Revaluation reserve on land and buildings	203 756	–
Cash flow hedge reserve	25 918	–
Available-for-sale reserves	–	–
Own-credit-risk reserve	64 134	–
Total other reserves	293 808	–

Total other reserves on land and buildings, cash flow hedge reserve, available-for-sale reserve and own-credit-risk reserve have been combined and presented as Other reserves in the statement of financial position.

27. Reserve for general loan risk

Balance at the beginning of the year	2 611 976	2 287 491
Transfer (from)/to general loan reserve	(343 520)	324 485
Balance at the end of the year	2 268 456	2 611 976

The reserve is maintained for capital-management purposes and is based on the risk grading of the borrowers, and movements are recognised directly between the reserve for general-loan risk and retained earnings. The general-loan reserve is a non-distributable reserve representing a transfer from/(to) retained earnings. The reserve is separate from ECL reserves calculated in terms of IFRS 9.

28. Interest income

Interest income calculated using the EIR

Cash and cash equivalents	237 124	—
Development bonds	122 054	—
Interest income on development loans	7 798 628	—
Amortisation of upfront fees – development loans	72 865	—
Development loans	7 725 762	—
Total interest income calculated using the effective interest rate	8 157 805	—

Interest income received on:

Cash and cash equivalents	—	265 911
Investment securities	—	129 489
Held at FVTPL	—	110 650
Available- for-sale	—	18 839
Equity investments	—	10 930
Development loans	—	7 191 847
Development bonds	—	122 054
Derivative assets held for risk management purposes	—	30 375
	—	7 750 606

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

28. Interest income (Continued)

In thousands of rands	2019	2018
Other interest income		
Interest received on financial assets held at FVTPL		
Derivative assets held for risk management purposes	70 935	—
Equity investments – interest received from mezzanine instruments	31 960	—
Investment securities	149 139	—
Total other interest income	252 034	—
Total interest income	8 409 859	7 750 606

28.1 Interest income on development loans

On performing loans	—	7 043 755
On non-performing loans	—	148 092
Stage 1 loans	4 641 419	—
Stage 2 loans	3 022 102	—
Stage 3 loans	135 107	—
Total interest income on EIR	7 798 628	7 191 847

28.2 Interest income including deferred upfront fees on development loans – client classification

Development-finance institutions	28 384	28 104
Educational institutions	101 705	94 787
Local government	2 662 086	2 677 622
National and provincial government	293 989	136 358
Private sector intermediaries	2 037 978	1 932 399
Public utilities	2 674 486	2 322 577
Total EIR interest income	7 798 628	7 191 847

Total effective interest income of R7.8 billion on development loans includes upfront fees of R73 million and contractual interest of R7.7 billion.

In thousands of rands

2019

2018

29. Interest expense

Interest expense on financial liabilities calculated using the EIR

Bank and other payables	9 971	—
Debt funding held at amortised cost	3 334 317	—
Total interest expense on financial liabilities calculated using the EIR	3 344 288	—

Other interest expense

Interest expense on financial liabilities held at FVTPL

Derivative liabilities held for risk management purposes	(63 658)	—
Funding: debt securities at FVTPL	634 759	—
Total other interest expense	571 101	—
Total interest expense	3 915 389	—

Interest expense incurred on:

Bank and payables	—	8 097
Funding: debt securities	—	3 593 206
Funding: lines of credit	—	365 140
Repurchase and resale agreement	—	191
Derivative liabilities held for risk management purposes*	—	(61 375)
Total interest expense	—	3 905 259

Total interest expense	3 951 389	3 905 259
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Net interest income (note 28 less note 29)	4 494 450	3 845 347
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* Current year derivative Interest savings has been reclassified to other interest income line in profit or loss to align with amendments to IAS 1 paragraph 82.

Included in interest expense on funding: debt securities for the year ended 31 March 2018 is R631 million relating to debt securities designated held at FVTPL. Included in interest expense on funding: debt securities for the year ended 31 March 2018 is R2.96 billion relating to debt securities held at amortised cost.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands

2019

2018

30. Net fee income

Gross fee income

Lending fees*	87 794	82 817
Management fees	169 177	168 769
Non-lending fees	3 399	4 369
Total fee income	260 370	255 955

Gross fee expense

Fees on funding	23 053	23 995
Guarantee fees	40 885	41 764
Other fees	3 052	–
Total fee expense	66 990	65 759
Net fee income	193 380	190 196

* In the prior year upfront fees amounting to R25 million were presented as a part of fee income. In the current year upfront fees are presented as interest income. The presentation has no impact on net earnings or cash flows of the Bank.

Disaggregation of gross fee income

Lending fees

RSA Municipalities	1 540	2 676
RSA Economic and Social	72 555	38 021
Rest of Africa	10 026	42 105
Infrastructure Delivery Division	–	15
Other divisions	3 673	–
Total lending fees	87 794	82 817

Management fees

RSA Municipalities	–	125
Rest of Africa	4 146	983
Infrastructure Delivery Division	161 243	144 699
Other divisions	3 788	22 962
Total management fees	169 177	168 769

in thousands of rands

2019

2018

Non-lending fees

Infrastructure Delivery Division

3 250

3 626

Other divisions

149

743

Total non-lending fees

3 399

4 369

Lending fees

Lending fees are fees that are earned in funding transactions that are not an integral part of the loan and therefore do not form part of the EIR calculation of the loan. The fees are recognised when the performance obligation is completed.

Management fees

Management fees refer to fees earned by the Bank for acting as an implementing agent. The fees are earned for implementing the client's mandate as per the agreement between the Bank and the client. The fees are earned based on the stage of completion of the project.

Non-lending fees

The fees relate to non-lending services provided to customers and are recognised when the service obligation is completed.

Contract assets and liabilities

As at 31 March 2019 the Bank had R39 million (31 March 2018: R64 million) in trade receivable assets as a result of contracts with customers relating to management fees and R12 million (31 March 2018: R2) relating to lending fees. As at 31 March 2019 the Bank had no trade payables as a result of contracts with customers.

Impairment on fee receivables and contract assets

During 2019, there were no material impairments recognised in relation to fees receivable and contract assets from management fees. Impairments relating to lending fees were recognised under development loans.

Remaining performance obligations

As at 31 March 2019, the Bank had no outstanding obligations emanating from contracts with customers for which a contract liability had been recognised.

Costs incurred in obtaining or fulfilling a contract

The Bank's incremental costs of fulfilling and obtaining a contract were immaterial for the year.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

30. Net income (continued)

In thousands of rands	2019	2018
Management fees comprise:		
Agence Française de Développement PPS Fund	464	28
African World Heritage Fund (AWHF)	1 426	1 170
African Capacity Building Programme	–	(9)
Cities Project Preparation Facility (CPPF)	–	125
Department of Basic Education for Accelerated Infrastructure Schools Programme	24 269	38 558
Department of Energy – Independent Power Producer Office	–	5 263
Department of Trade and Industry	4 978	8 456
Eastern Cape Department of Education	22 450	18 788
Ekurhuleni Metropolitan Municipality	44 272	27 539
Elliotdale Human Rural Settlement (EHRS)	(759)	–
European Investment Bank	–	139
Gauteng Schools Programme	–	27
Global Environment Facility	1 896	10 916
Green Fund	–	108
Infrastructure Investment Programme for South Africa (IIPSA)	–	877
KFW HIV/Voluntary Counselling and Testing Programme	172	1 013
KFW SADC Water Fund	18	–
KwaZulu-Natal Department of Education	20 113	8 073
Limpopo Department of Economic Development	3 241	2 980
Limpopo Department of Education	5 026	13 391
Limpopo Department of Health	138	1 326
Limpopo Department of Public Works	912	5 072
Municipal Infrastructure Support Agency (MISA)	–	35
National Department of Health	10 977	9 090
National Department of Public Works	23 341	7 026
National Treasury Cities Support Programme (NTCSP)	780	584
Other entities	4 146	846
SADC Project Preparation Development Fund	–	4 382
Sefako Makgatho University	1 316	2 802
Tripartite Aid for Trade Pilot (TTA DFID)	1	164
Total management fees	169 177	168 769

In thousands of rands

2019

2018

31. Net foreign exchange gain/(loss)

Unrealised – financial assets/liabilities at amortised cost

Cash and cash equivalents: gain/(loss)	29 478	(90 272)
Development loans: gain/(loss)	3 050 274	(2 356 076)
Funding lines of credit: (loss)/gain	(2 154 874)	1 437 348

Unrealised – financial assets/liabilities at FVTPL

Equity investments: gain/(loss) (refer to note 10.1)	473 606	(265 157)
Hedging derivatives – funding: (loss)/gain	(503 903)	432 271
Hedging derivatives development loans: (loss)/gain	(152 472)	94 390

Total unrealised foreign exchange gain/(loss)	742 109	(747 496)
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Realised – financial assets/liabilities at amortised cost

Development loans: gain	475 536	366 632
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Realised – financial assets/liabilities at FVTPL

Equity investments: gain (refer to note 10.1)	25 864	23 684
Funding and hedging (loss)/gain	(580 254)	55 123
Hedging derivatives: gain	80 458	–

Total realised foreign exchange gain	1 604	445 439
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Net foreign exchange gain/(loss)	743 713	(302 057)
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NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

In thousands of rands

2019

2018

32. Net gain/(loss) from financial assets and financial liabilities

Net gain/(loss) on derivatives held for risk management at FVTPL other than held for trading

Interest rate derivatives

Realised	3 250	(516)
Unrealised	(76 336)	(27 990)
Net loss from interest rate derivatives	(73 086)	(28 506)

Foreign exchange derivatives

Realised	(9 565)	(32 668)
Unrealised	15 990	(43 116)
Net gain/(loss) from foreign exchange derivatives	6 425	(75 784)

Investment securities at FVTPL - unrealised

Government bonds	(17 482)	6 364
Municipal bonds	(14 374)	20 826
Investment in segregated funds	1 516	–
State-owned entity bonds	(2 322)	988
Total investment securities at FVTPL – unrealised	(32 662)	28 178

Investment securities at FVTPL – realised

State-owned entities, government and municipal bonds – Treasury portfolio	–	(11 748)
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Debt securities

Designated at FVTPL – unrealised	129 526	(94 775)
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Equity investments

Designated at FVTPL – unrealised (refer to note 10.1)	41 457	50 835
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Other financial assets

Medipref investment designated at FVTPL – unrealised	(1 715)	195
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Total net gain/(loss) from financial assets and liabilities

69 945	(131 605)
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The total unrealised (losses)/gains for the year related to level 3 positions held at period end are set out below.

Equity investments (refer to note 11)	(121 423)	1 808 949
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Included in the net gain/(loss) on derivatives held for risk management at FVTPL is a CVA adjustment loss of R4 million (March 2018: loss of R2.2 million) and a DVA adjustment gain of R10 million (March 2018: gain of R1.7 million).

in thousands of rands

2019

2018

33. Investment and other income

Investment income

Dividend income	92 241	15 956
Realised gain on equity investments	22 020	175 315

Non-investment income

Profit on sale of property, plant and equipment	255	(16)
Sundry income	25 257	51 285
Total	139 773	242 540

34. Project preparation expenditure

Expenditure incurred on the planning, project definition, pre-feasibility, feasibility and structuring phase of projects	1 405	7 094
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35. Development expenditure

In support of secondary and under-resourced municipalities	20 505	15 154
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36. Expected credit losses/impairment on financial assets and commitments

Trade receivables and other assets (refer to note 6)	819	847
Development bonds (refer to note 12.3)	182	(42)
Development loans (refer to note 13.9)	1 197 414	622 373
Loan commitments (refer to note 48)	242 641	–
Total charge to profit or loss	1 441 056	623 178

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands

2019

2018

37. Personnel expenses

Post-retirement medical benefits liability movement (refer to note 18.2)	1 439	7 195
Personnel expenses	749 861	695 685
Total	751 300	702 880

Included in other personnel expenses are the following:

Non-executive directors' remuneration (refer to note 43)	–	8 677
Chief Executive Officer and Chief Financial Officer remuneration (refer to note 43)	16 535	14 476
Executive members' remuneration (refer to note 43)	39 410	34 317
Total executive remuneration	55 945	57 470

38. General and administration expenses

Auditor's remuneration	12 989	7 028
Consulting fees	22 946	18 607
Communication costs	8 417	6 768
Information technology costs	45 802	43 056
Legal expenses	11 164	16 905
Low-value assets	346	1 778
Non-executive directors fees paid (refer to note 43)*	9 753	–
Other expenses	99 247	25 007
Public relations activities	29 793	15 965
Subsistence and travel	51 946	42 487
Total	292 403	177 601

* In the current year, non-executive-directors' fees are presented and disclosed as general and administration expenses. In the prior year, non-executive-directors' fees were presented as personnel expenses. This change in presentation has no impact on earnings, cash flows and statement of financial position. Two legal binding general rulings, 40 and 41, were issued on 10 February 2017 confirming the interpretation as of 1 June 2017. Non-executive directors are regarded as 'independent contractors' and any directors fees paid or payable to a non-executive director for services rendered in that capacity are not regarded as remuneration in terms of the 4th schedule of the Income Tax Act No. 58 of 1962.

39. Depreciation and amortisation (refer to notes 14 and 15)

Revalued buildings	4 312	4 297
Furniture and fittings	768	1 211
Motor vehicles	344	242
Office equipment	980	647
Computer equipment	3 187	7 151
Leasehold improvements	235	257
Intangible assets	9 753	12 066
Total	19 579	25 871

40. Grants

African Union Foundation	–	97
Bontshe Inspirations Pty Ltd – scholar transport in Ukhanya District	161	–
Bright Kid Foundation	2 571	–
Business Engage Association NPC	–	73
Compensation Eastern Cape site	–	259
Emfuleni Municipality – sponsorship for clean-up services	83	–
Enterprise development programmes	149	182
Nelson Mandela Day Built Event	1 029	–
OR Tambo School	1 132	–
Pan African Capacity Building Platform (PACBF)	6 667	6 667
Procuresense (Pty) Ltd – incubation services	168	–
Rise against Hunger	290	–
SADC - Development Finance Resource Centre	–	1 276
SADC PPP Collaboration – Project preparation	165	–
South African National Defence Force Education Trust	–	1 000
Sizanani Business Coaches – Alex Hub Matric prize-giving	28	–
Sponsorship for former employee's school fees	–	96
Sponsorship for vulnerable children – Lefika Centre	–	42
Symphonia for South Africa	5 625	–
The Lickery Company (Pty) Ltd – CSI-sponsored company	250	–
World Resource Institute	–	74
Total	18 318	9 766

These grants are discretionary grants.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands

2019

2018

41. Net (loss)/profit adjusted for non-cash items and items separately disclosed

Net profit for the year	3 096 695	2 282 877
Dividends received (refer to note 33)	(92 241)	(15 956)
Depreciation and amortisation (refer to note 39)	19 579	25 871
Profit on sale of property, plant and equipment (refer to note 33)	(255)	16
Grants, development expenditure and project preparation expenditure paid	40 228	32 014
Unrealised gain (loss) from financial assets and liabilities	(76 261)	86 674
Upfront fees deferred	32 674	280 875
Fees (accrued)/received	(10 318)	34 164
Debt-guarantee fee raised	38 873	38 873
Unrealised foreign exchange gain/(loss) (refer to note 31)	(742 109)	747 496
Capital gain on equity investments (refer to note 33)	(22 020)	(175 315)
ECLs/impairment loss on financial assets (refer to note 36)	1 441 056	623 178
Change in liability for funeral benefits and post-retirement medical benefit	478	2 819
Net interest income (refer to note 29)	(4 494 450)	(3 845 347)
Movements in provisions	(20 505)	(75 144)
Decrease in trade receivables and other assets	8 904	8 492
Increase in trade, other payables and accrued interest on debt funding	33 903	19 129
Total	(745 769)	70 716

42. Reconciliation of financial liabilities from financing activities

Balance at beginning of the year	54 043 997	50 930 152
Financial market liabilities repaid	(18 618 727)	(5 998 094)
Financial market liabilities raised	13 102 081	9 976 229
Interest payment	(3 750 033)	(3 600 107)
Fair value movements	485 105	708 797
Interest accrual	3 024 926	3 048 154
Amortisation of premiums, discounts and transaction costs	318 065	396 559
Foreign exchange rate movement	2 743 674	(1 417 693)
Total	51 349 088	54 043 997

Included in the opening balance is debt securities held at FVTPL of R6 billion (March 2018: R6 billion), debt securities held at amortised cost of R33 billion (March 2018: R30 billion) and funding: lines of credit R14 billion (March 2018: R14 billion). Included in closing the balance for year ended March 2019 is debt funding designated at FVTPL of R6 billion and debt funding held at amortised cost of R45 billion.

43. Schedule of Directors' and prescribed officers' emoluments

43.1 Executive members' remuneration and prescribed officers

	Basic salaries and fees R	Medical aid, group life and provident-fund contributions R	Subsistence and travel R	Cell Costs R	Performance bonus R	Retention bonus R	Total 2019 R	Total 2018 R
Executive directors								
Mr P K Dlamini	5 289 368	1 010 632	152 156	—	2 250 000	3 000 000	11 702 156	9 549 078
Ms B Mosako ¹	2 442 849	419 400	56 645	26 400	—	1 888 013	4 833 307	—
Ms K Naidoo ²	—	—	—	—	—	—	—	4 927 418
Executive managers								
Mr P A Currie	3 635 184	459 816	100 904	39 600	977 340	1 755 000	6 967 844	6 099 810
Mr E Dietrich	2 414 983	590 373	89 379	66 000	727 374	1 240 313	5 128 422	4 650 882
Mr M Hillary	2 285 454	443 726	19 271	26 400	671 014	1 169 649	4 615 514	4 241 441
Mr M Kubelo	2 214 960	305 040	112 035	26 400	606 480	1 080 000	4 344 915	1 220 755
Ms D Mashishi	—	—	—	—	—	—	—	2 684 145
Ms N Mbele	2 286 183	443 817	33 271	26 400	658 840	1 170 000	4 618 511	1 812 311
Ms M S Motsepe ³	311 610	105 057	—	4 400	—	—	421 067	—
Mr M Rakgate	2 342 976	387 024	183 500	33 000	600 600	1 170 000	4 717 100	1 817 822
Mr C Ramphele ⁴	932 021	88 812	18 638	11 000	—	800 000	1 850 471	—
Mr R Shaik	—	—	—	—	—	—	—	4 713 771
Ms S Sibisi ⁵	418 331	—	—	—	—	—	418 331	1 288 987
Mr M Vivekanandan	2 976 902	704 346	174 435	39 600	854 049	1 577 678	6 327 010	5 786 239
Total	27 550 821	4 958 043	940 234	299 200	7 345 697	14 850 653	55 944 648	48 792 659

1. Appointed 1 April 2018.
2. Resigned 31 August 2018.
3. Appointed 1 February 2019.
4. Appointed 1 November 2018.
5. Resigned 22 August 2018.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

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

	Fees for services as directors R	Subsistence And travel R	Total 2019 R	Total 2018 R
Prof. M Swilling (Chairman) ¹	604 115	—	604 115	470 032
Mr PJ Moleketi (Former Chairman) ²	1 024 557	4 110	1 028 667	1 075 919
Mr FM Baleni ²	853 187	28 558	881 745	954 103
Dr L Bhengu-Baloyi	—	—	—	178 905
Ms M Janse Van Rensburg ³	896 979	216	897 195	933 177
Ms B Mabuza	—	—	—	246 574
Ms D Marole	—	—	—	249 452
Mr A Moloto	—	—	—	193 051
Ms Z Monnakgotla	845 085	4 981	850 066	442 628
Ms G Mtetwa	1 138 578	21 316	1 159 894	1 016 934
Mr B Mudavanhu	766 534	3 243	769 777	459 404
Ms B Ndamase	704 500	558	705 058	476 830
Mr L Nematswerane	595 816	3 245	599 061	386 275
Ms L Noge-Tungamirai	618 148	866	619 014	402 889
Ms P Nqeto	773 408	4 112	777 520	457 329
Ms A Sing	839 690	20 850	860 540	733 167
	9 660 597	92 055	9 752 652	8 676 669

1. Appointed as Chairman on 1 January 2019.

2. Contract term ended 31 December 2018.

3. Contract ended 31 December 2018. Reappointed 1 April 2019.

44. Risk management

44.1 Market Risk

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

Market-risk management in the Bank is centralised in the Treasury unit and is governed by the interest rate, currency and liquidity risk management policies. As with all risk management policies of the Bank, these policies reside under the authority of the Board of Directors. While 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 Division.

44.2 Interest rate risk

Interest rate risk refers to the susceptibility of the Bank's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the Bank through their net effect on interest rate sensitive assets and liabilities. At the same time, movements in interest rates impact on the Bank's capital through their net effect on the market value of assets and liabilities. Interest rate risk in the Bank arises naturally as a result of its funding and lending operations, and occurs primarily in the form of repricing risk caused by mismatches in the amount of assets and liabilities 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 Audit and Risk Committee, is charged with managing and containing the Bank's interest rate risk exposures within Board approved limits. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.

The Bank's primary interest rate risk management objective is to protect its net interest income from adverse fluctuations in market interest rates. To achieve this objective, it is the policy of the Bank to measure and manage its interest rate risk exposure both over the short and long term in order to protect the Bank's earnings stream and ensure its continued financial sustainability. Limits are set both with respect to short term net-interest-income 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 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 50 basis points parallel upward or downward shift in short term rates expected to result in an increase/(decrease) in net interest income over the projected 12-month period of approximately R32.09 million (March 2018: R58.36 million).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

The table below shows the contractual repricing gap for 31 March 2019:

In millions of rands		<1M	1–3M	3–12M	1–5 Yrs	>5 Yrs	Total
Cash and cash equivalents	ZAR	2 378	–	–	–	–	2 378
	USD	516	–	–	–	–	516
	EUR	17	–	–	–	–	17
Investment securities	ZAR	532	–	–	459	756	1 747
Development bonds	ZAR	–	–	–	–	1 252	1 252
Development loans	USD	1 465	5 347	8 225	1 005	583	16 625
	EUR	272	–	–	–	19	291
	ZAR	5 060	16 572	2 094	8 940	26 354	59 020
Derivatives held for risk management purposes – cross currency swaps	ZAR	1 798	–	–	–	–	1 798
	EUR	–	–	26	457	1 138	1 621
Derivative assets held for risk management – interest rate swaps	ZAR	250	505	–	3 850	–	4 605
	USD	–	–	–	138	–	138
Derivative assets held for risk management purposes - foreign exchange contracts	ZAR	255	116	392	–	–	763
Total financial market assets		12 543	22 540	10 737	14 849	30 102	90 771
Derivative liabilities held for risk management purposes – cross currency swaps	USD	(1 883)	(524)	–	–	–	(2 407)
	ZAR	–	(172)	–	–	(478)	(650)
Debt funding at amortised cost and FVTPL – funding bonds	ZAR	(1 196)	(6 454)	(8 971)	(12 613)	(4 020)	(33 254)
	EUR	–	–	(296)	(457)	(1 138)	(1 891)
Debt funding at amortised cost – funding lines of credit	USD	(2 549)	(3 702)	(6 516)	(138)	(737)	(13 642)
	ZAR	–	(254)	(87)	–	–	(341)
Derivative liabilities held for risk management purposes – interest rate swaps	ZAR	(250)	(4 175)	–	(180)	–	(4 605)
	USD	–	(138)	–	–	–	(138)
Debt funding at amortised cost – money market debt	ZAR	–	(655)	(725)	–	–	(1 380)
Derivative liabilities held for risk management purposes – forward-exchange contracts	USD	(290)	(130)	(434)	–	–	(854)
Total financial market liabilities		(6 168)	(16 204)	(17 029)	(13 388)	(6 373)	(59 162)
Repricing gap		6 375	6 336	(6 292)	1 461	23 729	
Cumulative repricing gap		6 375	12 711	6 419	7 880	31 609	

The above analysis excludes non-performing assets. Variable interest rate instruments are included in the maturity bucket in which they reprice. Fixed-rate instruments, although not subject to repricing risk, are included in the maturity bucket in which they mature, due to the assumption that it will be rolled at maturity or that it will convert to cash.

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

in millions of rands		<1M	1–3M	3–12M	1–5 Yrs	> 5 Yrs	Total
Cash and cash equivalents	ZAR	3 222	–	–	–	–	3 222
	USD	496	–	–	–	–	496
	EUR	24	–	–	–	–	24
Investment securities	ZAR	–	–	–	250	1 040	1 290
Development bonds	ZAR	–	–	–	–	1 252	1 252
Development loans	USD	689	5 574	6 681	502	676	14 122
	EUR	163	–	–	2	–	165
	ZAR	5 978	16 404	1 119	9 947	26 705	60 153
Cross currency swaps	ZAR	1 798	–	–	–	–	1 798
	EUR	–	157	55	983	520	1 715
Interest swaps	ZAR	–	1 505	–	5 100	–	6 605
	USD	–	–	–	141	–	141
Total financial market assets		12 370	23 640	7 855	16 925	30 193	90 983
Cross currency swaps	USD	(1 538)	(523)	–	–	–	(2 061)
	ZAR	–	(172)	(65)	(292)	(230)	(759)
Funding bonds	ZAR	(2 914)	(6 030)	–	(19 748)	(5 826)	(34 518)
Funding lines of credit	EUR	–	(76)	(238)	(1 015)	(570)	(1 899)
	USD	(3 613)	(1 150)	(5 819)	(412)	(346)	(11 340)
	ZAR	–	(107)	(329)	–	–	(436)
Interest rate swaps	ZAR	(250)	(5 175)	–	(1 000)	(180)	(6 605)
	USD	–	(141)	–	–	–	(141)
Money market debt	ZAR	(500)	(2 285)	(1 275)	(1 025)	–	(5 085)
Total financial market liabilities		(8 815)	(15 659)	(7 726)	(23 492)	(7 152)	(62 844)
Repricing gap		3 555	7 981	129	(6 567)	23 041	
Cumulative repricing gap		3 555	11 536	11 665	5 098	28 139	

The time buckets have been reviewed and new time buckets have been used in line with best industry practice for disclosure purposes. Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.27 billion.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

44.3 Hedging of interest rate risk

Desired changes to the Bank's interest rate risk profile are achieved primarily through the use of derivative instruments, particularly interest rate swaps, in line with the Bank's hedging guidelines. As at 31 March 2019, the Bank had a combined ZAR interest rate and USD interest rate swaps portfolio with a total notional contract amount of R4.7 billion (March 2018: R6.7 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to note 8). The net fair value of these swaps as at 31 March 2019 was R47.15 million (March 2018: R137 million), comprising assets of R69.2 million (March 2018: R162 million) and liabilities of R22.05 million (March 2018: R25 million). These amounts are recognised as fair value derivatives.

44.4 Foreign exchange risk

Foreign exchange risk is the risk of financial loss resulting from adverse movements in foreign-currency exchange rates. Currency risk in the Bank arises primarily as a result of foreign-currency-denominated borrowings, foreign-currency lending, equity investments, foreign-currency net interest income, expenditure and dividends. The Bank's primary currency risk management objective is to protect its net earnings against the impact of adverse exchange rate movements. Hedging of currency-exposures is effected either naturally through offsetting assets and liabilities of substantially similar size, maturities, currency, and repricing bases; or in the absence thereof, through the use of approved derivative instruments transacted with approved financial institutions.

44.5 Hedging of foreign-currency risk exposure

The Bank uses cross currency swaps, currency options and forward-exchange contracts to hedge its foreign-currency risk. As at 31 March 2019, the Bank had cross currency swaps with a notional amount of R2.97 billion (March 2018: R1.81 billion). In addition the Bank had foreign exchange contracts with notional amount of R762 million (March 2018: Rnil) and foreign exchange option, hedges with notional amount of R1.66 billion (March 2018: R4.5 billion). The notional amounts indicate the volume of currency hedges outstanding at the balance-sheet date and do not represent the amount at risk. 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 that 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.

44.6 Foreign currency sensitivity analysis

The following table details the cross currency interest rate swap contracts outstanding as at the year end that were designated in cash flow hedges of foreign-currency risk:

Currency in thousands of rands	2019		2018	
	EUR	USD	EUR	USD
Cash at bank	64	2 461	1 646	41 917
Loan assets	17 928	1 147 914	11 383	1 193 588
Equity Investments	32 067	174 028	32 255	165 082
Cross currency swaps	99 747	(166 191)	117 697	(174 234)
Foreign exchange contracts	–	(59 000)	–	–
Liabilities	(116 416)	(941 930)	(130 277)	(958 560)
Forex options	–	(115 000)	(30 000)	(240 000)
	33 390	42 282	2 704	27 793

44.7 Foreign-currency exchange rate (FX) sensitivity analysis

Sensitivity	%	EUR/ZAR	EUR potential impact	USD/ZAR	USD potential impact	FX sensitivity combined
	(15)%	13.8083	(81 360)	12.3101	(91 855)	(173 215)
	(10)%	14.6205	(54 240)	13.0343	(61 236)	(115 476)
	(5)%	15.4328	(27 120)	13.7584	(30 618)	(57 738)
	- %	16.2450	–	14.4825	–	–
	5%	17.0573	27 120	15.2066	30 618	57 738
	10%	17.8695	54 240	15.9308	61 236	115 476
	15%	18.6818	81 360	16.6549	91 855	173 215
Spot exchange rate used		16.2450		14.4825		

44.8 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 Bank, this risk specifically arises from the inability to honour obligations with, respect to commitments to borrowers, lenders and investors and operational expenditure. In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity-risk management policy requires the maintenance of prudential liquidity levels conservatively based on the level of actual disbursements for a rolling 12 months. In addition, in the interest of added prudence, the Bank has adopted the Basel III recommended liquidity-risk metrics (the liquidity coverage ratio and the net stable funding ratio as part of the liquidity-risk management policy). Liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificate of deposits, promissory notes as well as liquid debt issues from government, municipalities and other approved issuers. Total liquidity at 31 March 2019 was R4.67 billion (March 2018: R5.03 billion). This includes cash and cash equivalents of R2.92 billion (March 2018: R3.74 billion), segregated funds of R536.5 million (31 March 2018: Rnil), SOE and municipal bonds of R690 million (March 2018: R765 million), and government bonds amounting to R525 million (March 2018: R525 million).

44.9 Available liquidity

High quality liquid assets

Cash and cash equivalents	2 922 876	3 741 853
Government bonds – nominal value	525 000	525 000

Other less liquid assets

Investment in segregated funds	536 507	–
Municipal bonds – nominal value	615 000	615 000
SOE bonds – nominal value	75 000	150 000
Total available liquidity	4 674 383	5 031 853

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents (tradable market securities) as described above, the Bank has at its disposal a variety of funding sources should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development-finance institutions, money and capital securities issuance under the Bank's domestic medium term programme and capital market repurchase transactions. Total liquidity including undrawn credit facilities for the year amounted to approximately R6.3 billion (31 March 2018: R7.9 billion).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report which is reviewed and analysed by the ALCO on a periodic basis. Calculated on a nominal maturity basis, the 12-month cumulative liquidity gap as at 31 March 2019 was approximately R7.5 billion (31 March 2018: R3.8 billion).

The table below analyses the contractual liquidity gap for 31 March 2019.

in millions of rands		<1M	1–3M	3–12M	1–5 Yrs	> 5Yrs	Total
Cash and cash equivalents	ZAR	2 378	–	–	–	–	2 378
	USD	516	–	–	–	–	516
	EUR	17	–	–	–	–	17
Investment securities	ZAR	532	–	–	459	756	1 747
Development bonds	ZAR	–	–	–	–	1 252	1 252
Development loans	EUR	–	–	–	71	220	291
	USD	21	529	2 300	8 669	5 105	16 624
	ZAR	57	1 980	4 501	13 240	39 242	59 020
Derivative assets held for risk management purposes – cross currency swaps	EUR	–	84	182	909	446	1 621
Derivative assets held for risk management purposes – forward-exchange contracts	ZAR	255	116	392	–	–	763
Total financial market assets		3 776	2 709	7 375	23 348	47 021	84 229
Derivative liabilities held for risk management purposes – cross currency swaps	USD	–	(58)	(58)	(2 290)	–	(2 406)
	ZAR	–	(17)	(77)	1 479	(239)	1 146
Debt funding at amortised cost and FVTPL – funding bonds	ZAR	–	(1 950)	(9 609)	(17 437)	(4 258)	(33 254)
Debt funding at amortised cost – lines of credit	EUR	–	(84)	(182)	(909)	(716)	(1 891)
	USD	(159)	(875)	(5 990)	(3 378)	(3 239)	(13 641)
	ZAR	–	(7)	(88)	(216)	(31)	(342)
Debt funding at amortised cost – money market debt	ZAR	–	(655)	(725)	–	–	(1 380)
Derivative liabilities held for risk management purposes – forward-exchange contracts	USD	(290)	(130)	(434)	–	–	(854)
Total financial market liabilities		(449)	(3 776)	(17 163)	(22 751)	(8 483)	(52 622)
Liquidity gap		3 327	(1 067)	(9 788)	597	38 538	
Cumulative liquidity gap		3 327	2 260	(7 528)	(6 931)	31 607	

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.27 billion. As per the table above, the Bank has a positive cumulative liquidity gap where the contractual inflows exceed outflows across all time buckets. This profile is anticipated due to the nature of the business where the Bank has raised long-dated stable funding and generated short term amortising assets. There are no behavioural assumptions made on the liquidity gap and all assets and liabilities are disclosed with the underlying contractual maturity as determined by the cash flow profile for each record.

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

in millions of rands		<1M	1–3M	3–12M	1–5 Yrs	> 5 yrs	Total
Cash and cash equivalents	ZAR	3 222	–	–	–	–	3 222
	USD	496	–	–	–	–	496
	EUR	24	–	–	–	–	24
Investment securities	ZAR	–	–	–	250	1 040	1 290
Development bonds	ZAR	–	–	–	–	1 252	1 252
Development loans	EUR	–	–	–	42	122	164
	USD	–	390	499	8 212	5 021	14 122
	ZAR	30	3 363	3 603	14 375	38 782	60 153
Cross currency swaps	EUR	–	76	55	1 015	570	1 716
Total financial market assets		3 772	3 829	4 157	23 894	46 787	82 439
Cross currency swaps	USD	–	(48)	–	(1 966)	(48)	(2 062)
	ZAR	–	(17)	(37)	1 411	(318)	1 039
Funding bonds	ZAR	(1 395)	–	(576)	(26 483)	(6 064)	(34 518)
Lines of credit	EUR	–	(76)	(55)	(1 015)	(753)	(1 899)
	USD	–	(123)	(1 560)	(6 574)	(3 083)	(11 340)
	ZAR	–	(7)	(40)	(327)	(61)	(435)
Money market debt	ZAR	(500)	(2 285)	(1 275)	(1 025)	–	(5 085)
Total financial market liabilities		(1 895)	(2 556)	(3 543)	(35 979)	(10 327)	(54 300)
Liquidity gap		1 877	1 273	614	(12 085)	36 460	
Cumulative liquidity gap		1 877	3 150	3 764	(8 321)	28 139	

The time buckets have been reviewed and new time buckets have been used in line with best industry practice for disclosure purposes. Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually toward a maturity value of R7.27 billion.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

44.10 Cash flow hedges nominal values 2019

in millions of rands		<1M	1–3M	3–12M	1–5 YRS	> 5 YRS	Total
Cross currency swaps	EUR	–	69	69	505	244	887
Total financial market assets		–	69	69	505	244	887
Cross currency swaps	EUR	–	(69)	(69)	(505)	(244)	(887)
	USD	–	(58)	(58)	(408)	–	(524)
	ZAR	–	(9)	(9)	(76)	(134)	(228)
Total financial market liabilities		–	(136)	(136)	(989)	(378)	(1 639)
Liquidity gap		–	(67)	(67)	(484)	(134)	
Cumulative liquidity gap		–	(67)	(134)	(618)	(752)	

44.11 Cash flow hedges nominal values 2018

Cross currency swaps	ZAR	–	62	62	498	298	920
Total financial market assets		–	62	62	498	298	920
Cross currency swaps	EUR	–	(59)	(59)	(471)	(258)	(847)
	USD	–	(48)	(48)	(381)	(48)	(525)
	ZAR	–	(9)	(9)	(76)	(153)	(247)
Total financial market liabilities		–	(116)	(116)	(928)	(459)	(1 619)
Liquidity gap		–	(54)	(54)	(430)	(161)	
Cumulative liquidity gap		–	(54)	(108)	(538)	(699)	

	2019	2018
Concentration of debt funding		
Concentration of debt funding as per source of funding	%	%
Domestic bond markets	59	57
Domestic money markets	6	14
European bond markets	7	6
International Development Finance Institution	15	13
International money markets	13	10
	100	100
Concentration of debt funding per currency	%	%
USD	27	21
EUR	4	4
ZAR	69	75
	100	100

44.12 Credit risk

Definition of credit risk

Credit risk is the risk of economic loss should any of the Bank's clients or market counterparties fail to fulfil their contractual obligations and is mainly prevalent in the Bank's development financing and lending operations as a result of potential counterparty defaults on loan repayments. Credit risk may also arise in the equity investments of the Bank, where the downgrading of a client's rating causes the fair value of the investment in that entity to deteriorate. Country risk is taken into account when cross-border loans are evaluated and form part of the credit risk rating of these loans. Any movement in the risk profile of a country in which an exposure or counterparty is domiciled, could therefore result in a changed credit rating and lead to a change in the value of the affected assets.

Management of credit risk

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

Credit risk oversight, governance and assurance

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

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

Credit risk assurance: The quality of credit risk management is assured through a three-way approach. Firstly, the credit analysts report into the Financing Operations Division having been deployed as a first line of defence to provide an objective view of the quality of individual credits under consideration and work closely with the frontline to monitor the performance of assets post approval, on an ongoing basis. Secondly, the Credit Lab that runs the models forms part of the Financing Operations Division with an independent reporting line to the Investment Technical Committee to validate its models. Finally, the Group Risk Assurance Division is responsible for the development of policies and monitoring thereof to support an efficient and effective Credit Risk Management throughout the Bank.

Credit risk ratings

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

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

The Bank has developed a number of internal credit risk-rating models for all of its major asset classes to calculate credit risk ratings as a basis for assigning a PD. All credit ratings are confirmed through the credit committee process to ensure consistency and effective challenge. The credit risk rating models are all subjected to validation and review before implementation.

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

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

Rating Grade	Mid-joint PD (%)	Lower-bound PD (%)	Upper-bound PD (%)	Mapping to S&P	Mapping to Moody's
MS1	0.01%	-%	0.02%	AAA	Aaa
MS2	0.02%	0.02%	0.03%	AA+	Aa1
MS3	0.03%	0.03%	0.04%	AA	Aa2
MS4	0.04%	0.04%	0.05%	AA-	Aa3
MS5	0.05%	0.05%	0.06%	A+	A1
MS6	0.06%	0.06%	0.08%	A	A2
MS7	0.10%	0.08%	0.14%	A-	A3
MS8	0.17%	0.14%	0.24%	BBB+	Baa1
MS9	0.30%	0.24%	0.40%	BBB	Baa2
MS10	0.50%	0.40%	0.68%	BBB-	Baa3
MS11	0.85%	0.68%	1.13%	BB+	Ba1
MS12	1.40%	1.13%	1.90%	BB	Ba2
MS13	2.40%	1.90%	3.20%	BB-	Ba3
MS14	4.00%	3.20%	5.50%	B+	B1
MS15	7.00%	5.50%	9.50%	B	B2
MS16	12.00%	9.50%	16.00%	B-	B3
MS17	58.00%	16.00%	99.99%	CCC	Caa
Default	100.00%	99.99%	100.00%	Default	D

Pricing of loans

The pricing of loans has been stable and consistent through the use of a standardised pricing model applied since January 2013. The model was developed to take into account risk capital and deliver an accurate risk-adjusted return on capital (RAROC), net present value (NPV) and sustainability profit on an economic basis. The pricing model has been updated annually to take into account changes to cost structure and budget as well as credit risk performance. The risk ratings from credit risk models approved by the investment committee are used for both the calculation of expected loss in the cash flow of the model as well as the influence on risk capital held at the cost of capital and the hurdle rate of return required on the risk capital.

Credit risk models

The credit risk models (PD, LGD, and EAD) for all major portfolios of the Bank's loan book (Municipal, Balance Sheet Lending, Project Finance and Higher Education) were subjected to review and further development during the 2017/18 financial year. This is required to be carried out on a 3-year cycle for governance purposes and approved by the Risk Models Technical Committee which is a subcommittee of Investment Committee.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

The requirement to comply with IFRS 9 in 2018/19 called for further enhancements of the outputs of the credit risk models. The new versions of the models are more adaptable and predictive. The models were recalibrated to current performance of the Bank's loan book and larger benchmark portfolios. The new versions of the credit risk models were successfully approved by the Technical Committee for implementation in 2018/19 financial year. Performance of these models will be tracked as part of governance requirements. 12-month PDs and LGDs were transformed to lifetime measures in order to consider the term structure of loans and enable the calculation of lifetime ECL applicable to stage 2 classification loans contributing to the portfolio impairment. The results using the IFRS 9 compliant models for the calculation of ECL are included in the impairment of the loan book for the 2018/19 Annual Financial Statements. Further enhancements to the outputs of credit risk models for the purposes of IFRS 9 compliance will be subject to the review process that governs the credit risk models.

Country risk ratings

Country risk ratings: The Bank has implemented an internal country risk rating model, which uses external-rating-agency ratings as well as economic data from various sources such as the IMF and the World Bank combined with in-country visits by the Country Risk team. The Investment Committee reviews the country ratings on an annual basis or more frequently if adverse events take place. The country risk rating methodology considers solvency, liquidity, economic and political issues to risk-rate countries and generate PD. The model inputs are continuously updated to reflect economic and political changes in individual countries. The Bank's country risk limits are calculated using sovereign risk ratings in conjunction with debt absorption capacity of countries as measured by the gross domestic product. The limits therefore consider the economic strength of countries ensuring that country exposures are related to the degrees of perceived risk as well as the country's debt-absorption capacity. Using PD and LGD in the calculation of the risk limits per country, the limits set are also subject to the availability of capital and the number of simultaneous defaults that can be absorbed by that capital. All limits are set in line with the approved risk appetite.

Credit risk mitigation

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

Credit risk monitoring, measurement and reporting

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

At individual counterparty level:

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

At portfolio level:

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

44.13 Credit risk exposure

Maximum exposure

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

These reviews are conducted as part of and in complementing the Investment Committee process. The following factors are reviewed:

- Global and local economic factors;
- Observable and unobservable market factors;
- Asset-specific factors affecting portfolio impairment levels; and
- Fair values and discount rates with the objective of ensuring that risk in the asset portfolio is adequately, fairly and timeously reflected in the Bank's results.

The reviews include assessment of the impairment triggers and reversals within the asset portfolio, review of performance of the equity portfolio on a regular basis with the asset managers. In addition watch list meetings are held monthly.

The following table sets out the maximum exposure on financial instruments within the scope of IFRS 9's impairment model to credit risk as well as the impact of collateral and other credit enhancements on credit risk.

Credit exposure per class of financial instruments	Maximum exposure to credit risk	Provision for ECLs	Collateral held as security
Cash and cash equivalents	2 922 876	–	–
Development bonds	1 290 607	(428)	–
Development loans	82 012 250	(6 195 744)	1 327 085
Loan commitments	8 492 767	(246 018)	–
Trade receivables and other assets	156 548	(3 931)	–
	94 875 048	(6 446 121)	1 327 085

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

Credit quality analysis

The following table sets out risk composition of the gross loan book.

Internal rate grade in thousands of rands	Internal rate description	2019	2018
MS1	Low risk	–	–
MS2	Low risk	–	–
MS3	Low risk	295 901	364 596
MS4	Low risk	4 108 895	4 676 036
MS5	Low risk	176 736	128 371
MS6	Low risk	694 442	366 951
MS7	Low risk	6 270 954	14 464 839
MS8	Medium risk	8 181 741	7 981 237
MS9	Medium risk	1 932 589	2 544 423
MS10	Medium risk	31 386 379	21 092 245
MS11	Medium risk	4 090 514	4 957 952
MS12	Medium risk	3 154 886	2 886 933
MS13	Medium risk	6 323 487	3 058 133
MS14	High risk	782 951	9 935 931
MS15	High risk	2 877 234	3 483 666
MS16	High risk	7 733 424	57 176
MS17	High risk	4 002 117	3 872 157
		82 012 250	79 870 646

The following table sets out information about the credit quality of financial assets measured at amortised cost unless, specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

The total carrying amounts represent the maximum gross exposure to credit risk before collateral, ECLs and other securities at the reporting date.

in thousands of rands	Stage 1	Stage 2	Stage 3	2019	2018
Development loans at amortised cost					
Stage 3					
Municipalities	–	–	469 388	469 388	–
Other	–	–	3 542 025	3 542 025	–
Non-performing book					
Municipalities	–	–	–	–	490 950
Other	–	–	–	–	3 104 161
Allowance for ECLs					
Municipalities	–	–	(74 882)	(74 882)	(96 694)
Other	–	–	(2 634 309)	(2 634 309)	(1 701 075)
Net carrying amount	–	–	1 302 222	1 302 222	1 797 342
Low risk (MS1 – MS7)					
Stage 1 and 2					
Municipalities	5 683 709	–	–	5 683 709	–
Other	5 863 218	–	–	5 863 218	–
Performing book					
Municipalities	–	–	–	–	17 387 872
Other	–	–	–	–	2 601 721
Allowance for ECLs					
Municipalities	(476)	–	–	(476)	(7 056)
Other	(3 537)	–	–	(3 537)	(3 555)
Net carrying amount	11 542 914	–	–	11 542 914	19 978 982
Net carrying amount – municipalities	5 683 233	–	–	5 683 233	17 380 816
Net carrying amount – other	5 859 681	–	–	5 859 681	2 598 166
Net carrying amount	11 542 914	–	–	11 542 914	19 978 982

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

in thousands of rands	Stage 1	Stage 2	Stage 3	2019	2018
Medium risk (MS 8 – MS 13)					
Stage 1 and 2					
Municipalities	17 728 538	1 204 816	–	18 933 354	–
Other	19 069 938	17 066 305	–	36 136 243	–
Performing book					
Municipalities	–	–	–	–	8 887 114
Other	–	–	–	–	33 621 308
Allowance for ECLs					
Municipalities	(11 667)	(16 767)	–	(28 434)	(21 301)
Other	(181 550)	(823 811)	–	(1 005 361)	(108 174)
Net carrying amount	36 605 259	17 430 543	–	54 035 802	42 378 947
Net carrying amount – municipalities	17 716 871	1 188 049	–	18 904 920	8 865 813
Net carrying amount – other	18 888 388	16 242 494	–	35 130 882	33 513 134
Net carrying amount	36 605 259	17 430 543	–	54 035 802	42 378 947
High risk (MS 14 – MS 17)					
Stage 1 and 2					
Municipalities	46 991	956 015	–	1 003 006	–
Other	4 270	10 377 037	–	10 381 307	–
Performing book					
Municipalities	–	–	–	–	426 582
Other	–	–	–	–	13 350 938
Allowance for ECLs					
Municipalities	(599)	(34 198)	–	(34 797)	(2 918)
Other	(117)	(2 413 831)	–	(2 413 948)	(2 279 394)
Net carrying amount	50 545	8 885 023	–	8 935 568	11 495 208
Net carrying amount – municipalities	46 392	921 817	–	968 209	423 664
Net carrying amount – other	4 153	7 963 206	–	7 967 359	11 071 544
Net carrying amount	50 545	8 885 023	–	8 935 568	11 495 208
Gross carrying amount	48 396 664	29 604 173	4 011 413	82 012 250	77 268 925
Provision for ECLs/impairment	(197 946)	(3 288 607)	(2 709 191)	(6 195 744)	(4 220 167)
Net carrying amount	48 198 718	26 315 566	1 302 222	75 816 506	73 048 758

in thousands of rands	Stage 1	Stage 2	Stage 3	2019	2018
Development bonds at amortised cost					
Medium risk					
Stage 1					
Municipalities	1 290 607	–	–	1 290 607	–
Performing book					
Municipalities	–	–	–	–	1 290 607
Gross carrying amount	1 290 607	–	–	1 290 607	1 290 607
Provision for ECLs/impairment	(428)	–	–	(428)	(246)
Balance at the end of the year	1 290 179	–	–	1 290 179	1 290 361
Loan commitments					
Stage 3					
Municipalities	–	–	435 745	435 745	–
Low risk (MS 1 – MS 7)					
Stage 1 and 2					
Municipalities	–	–	–	–	–
Other	1 097 301	–	–	1 097 301	–
Performing book					
Municipalities	–	–	–	–	272 578
Other	–	–	–	–	2 033 698
Total	1 097 301	–	–	1 097 301	2 306 276
Medium risk (MS 8 – MS 13)					
Stage 1 and 2					
Municipalities	1 688 337	–	–	1 688 337	–
Other	4 627 612	–	–	4 627 612	–
Performing book					
Municipalities	–	–	–	–	42 647
Other	–	–	–	–	3 996 217
Total	6 315 949	–	–	6 315 949	4 038 864

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

in thousands of rands	Stage 1	Stage 2	Stage 3	2019	2018
High risk (MS 14 – MS 17)					
Stage 1 and 2					
Municipalities	50 000	–	–	50 000	–
Other	–	593 772	–	593 772	–
Performing book					
Other	–	–	–	–	950 817
Total	50 000	593 772	–	643 772	950 817
Carrying amount	7 463 250	593 772	435 745	8 492 767	7 295 957
Provision for ECLs/impairment	(1 933)	(244 085)	–	(246 018)	–
Balance at the end of the year	7 461 317	349 687	435 745	8 246 749	7 295 957
Financial guarantee contracts					
Low risk	–	–	–	–	28 217

Cash and cash equivalents

The Bank held cash and cash equivalents of R2.9 billion at 31 March 2019. The cash and cash equivalents are held with financial institution counterparties that are rated at least AA to AA+, based on a national scale credit rating.

Collateral held and other credit enhancements

The Bank holds collateral, which it is entitled to sell in the case of default by the owner of the collateral. The amount and type of collateral held for the exposure depends on an assessment of the credit risk of the counterparty. Guidelines have been implemented regarding the acceptability of the types of collateral. The value of the collaterals are determined with reference to the realisable value of security under forced-sale conditions. Because of the Bank's focus on corporate customers' creditworthiness, the Bank does not routinely update the valuation of collateral held against all loans to corporate customers. Valuation of collateral is updated when the loan is put on a watch list and the loan is monitored more closely.

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

The following table sets out the principal types of collateral held against different types of financial assets.

in thousands of rands	Nature of the collateral held	% of exposure that is subject to collateral requirements	2019	2018
Development loans	Bank account	20	636 601	699 337
Development loans	Floating charge	100	6 112	4 983
Development loans	Guarantee	90	199 982	287 244
Development loans	Insurance	0	–	5 600
Development loans	Mortgage bond	47	375 484	372 549
Development loans	Notarial bond	13	22 977	18 734
Development loans	Surety	34	85 929	70 059
Development loans	Unit trust	100	–	49 148
			1 327 085	1 507 654

The fair value of collateral held in respect of the above amounted to R1.3 billion (2018: R1.5 billion). For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

For credit impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions. At 31 March 2019, the gross carrying amount of credit impaired loans amounted to R4 billion (2018: R3.5 billion) and the value of identifiable collateral held against those loans amounted to R502 million (2018: R480 million).

The carrying amount of collateral taken in possession during the year is R22 million (2018: R244 million).

Credit impaired – Stage 3 in thousands of rands	Gross exposure	Provision for ECLs	Carrying amount	Fair value of collateral held
Development loans	4 011 413	(2 709 191)	1 302 222	501 674

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

Expected credit losses

The amount of ECL is measured as the probability weighted present value of all cash shortfalls over the expected life of the financial asset discounted at its original EIR. The cash shortfall is the difference between all contractual cash flows that are due to the Bank and all the cash flows that the Bank expects to receive.

Because ECLs consider the amount and timing of payments, a credit loss arises even if the entity expects to be paid in full but later than when contractually due.

Assessments of clients

The Bank assesses credit risk on loans on an individual basis using all relevant information about the loan and the borrower. The Bank individually assesses significantly large exposures. There are no amounts that have been written off for which enforcement activity is still being enforced. Further, any recoveries post write-off are accounted for in the income statement as bad debts recovered. The amounts written off under IAS 39 have had no impact on the IFRS 9 transition since there was no ongoing enforcement activity aimed at recovery.

12-Month ECLs

This represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime ECLs

Lifetime ECLs are the expected credit losses that result from all possible default events over the expected life of a financial instrument. Expected life is estimated by considering cash flows taking into account all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options).

The maximum period to consider when measuring ECLs is the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if that longer period is consistent with business practice.

There is a presumption that the expected life of a financial instrument can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the expected life of a financial instrument, the entity shall use the remaining contractual term (Maturity) of the financial instrument.

A collective assessment of impairment takes into account data from the loan portfolio such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios, etc.

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

- The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing: the remaining lifetime PD as at the reporting date; with
- The remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses the table below to determine significant increase in credit risk.

Grade at origination date	Notch movement	Grade at reporting date	Stage
MS 1	6	MS 7	Stage 2
MS 2	6	MS 8	Stage 2
MS 3	6	MS 9	Stage 2
MS 4	6	MS 10	Stage 2
MS 5	6	MS 11	Stage 2
MS 6	5	MS 11	Stage 2
MS 7	4	MS 11	Stage 2
MS 8	4	MS 12	Stage 2
MS 9	3	MS 12	Stage 2
MS 10	3	MS 13	Stage 2
MS 11	2	MS 13	Stage 2
MS 12	2	MS 14	Stage 2
MS 13	2	MS 15	Stage 2
MS 14	2	MS 16	Stage 2
MS 15	2	MS 17	Stage 2
MS 16	1	MS 17	Stage 2
MS 17	Default	MS 17	Stage3

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

Origination date and contractual life of loans

The Bank's development loans are mostly non-revolving credit facilities. The Bank defines the loan-origination date as the date of initial recognition when the Bank becomes party to an irrevocable commitment. Where applicable, this could be the date of signing of the lending agreement if conditions precedent are met or the date on which all remaining conditions precedent for disbursement are met and the Bank is irrevocably bound to the lending agreement. The tenor used in assessing significant increase in credit risk is the contractual tenor of the loan. The Bank assesses significant increase in credit risk from the origination date to date of transition and after transition date, assessments are done from origination date to date of reporting. The Bank lends long tenors sometimes extending up to 30 years and for some development loans that were very old at transition date, the Bank has assumed that the origination date is the first loan disbursement date and where applicable the Bank has used reasonable and supportable information without undue effort and costs in assessing origination date of some loans. The Bank currently has one revolving credit facility, the Bank has used the maximum contractual period, and the Bank has not applied the exception of using a shorter period for estimating ECLs.

The Bank uses the number of days past due (DPD) to determine significant increase in credit risk. The Bank assigns each facility a credit rating at initial recognition based on available information about the borrower. Credit risk is deemed to have increased significantly if the credit rating has significantly deteriorated at the reporting date relative to the credit rating at the date of initial recognition. In addition, as a backstop, the Bank considers that significant increase in credit risk occurs when an asset is more than 30 DPD.

The Bank uses a series of quantitative, qualitative and backstop criteria to determine if a loan has experienced significant increase in credit risk. The assessment of whether there has been SICR is to be based on both of the following:

- A significant downgrade of a loan through the Bank's internal credit-rating system where downgrade is not influenced by changes in the model but influenced by actual deterioration of a borrower's/project's credit risk. This will be measured by the increase in a loan's lifetime forward-looking PD at origination-rating date compared to the remaining lifetime PD at reporting-rating date; and
- Qualitative factors that are not captured through the Bank's internal credit-rating process. The qualitative criteria include the observation of specific adverse events in the economy/industry/market the borrower is operating in, which events may have an adverse impact on the ability of the borrower to fulfil its obligations.

A backstop will be applied, whereby a loan is considered to have experienced SICR when a borrower is more than 30 DPD on its contractual payments. The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular review.

Key factors considered in assessing whether there is significant increase in credit risk:

- Negative changes in credit risk pricing.
- Terms that would change if a loan were granted again at reporting date.
- Market indicators.
- External ratings.
- Internal ratings.
- Business/economic conditions.
- Operating results of the borrower.
- Risk on other lending products extended to the borrower.
- Regulatory, technical or other economic changes.
- Reduced value of collateral.
- Deterioration in the quality of guarantees.
- Financial support.
- Expected breach of terms.
- Performance of behaviour.
- Changes in lender credit risk management approach.
- Payments past due date.

Low credit risk assessment at reporting date

At reporting date, the Bank has assessed whether there has been significant increase in credit risk for all financial assets at amortised cost. The Bank has not made an election to assume that some financial instruments have low credit risk thereby requiring no assessment of significant increase in credit risk.

Lifetime PD

Lifetime PD is the probability of a default event when assessed over the lifetime of a financial asset.

There is no single method for estimating a lifetime PD measure as it applies to a very large variety of financial assets. The following dimensions are useful for classification:

- Referencing an individual entity versus collective assessment for pools.
- Model estimation based on market data or historical default data.
- Credit process assumptions based on hazard rate models, Markov chains and structural default models, etc.

Development loans	Company definition of category	Basis for recognition of ECL provision
Stage 1	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12-month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime
Stage 2	Loans for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 DPD except under certain circumstances	Lifetime expected losses
Stage 3	Interest and/or principal repayments are 90 DPD	Lifetime expected losses
Write-off	Interest and/or principal repayments where there is no reasonable expectation of recovery	Asset is written off
POCI loans	Loans that are credit impaired on initial recognition	Lifetime expected losses

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade.

The Monitoring typically involves the use of the following data:

- Information obtained during periodic review of customer files such as audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt-service coverage, compliance with covenants, quality of management, senior management changes;
- Data from credit-reference agencies, press articles, changes in external credit ratings; and
- Significant actual and expected changes in the political, regulatory and technological environment of the borrower or in its business activities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk-exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit-reference agencies is also used.

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time. This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macroeconomic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

Based on advice from the Bank Market Risk Committee and economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base-case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios (see discussion below on incorporation of forward-looking information). The Bank then uses these forecasts to adjust its estimates of PDs.

Modified financial assets

Generally, loan restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of a restructure may constitute evidence that an exposure is credit impaired or in default. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL.

Credit impaired

For financial assets that have become credit impaired, a lifetime ECL is recognised and interest revenue is calculated by applying the EIR to the amortised cost (net of provisions for doubtful debt) rather than the gross carrying amount. Unrecognised interest when a credit impaired (stage 3) financial asset is subsequently paid in full or is no longer credit impaired (cures) is recognised as a reversal of impairment losses.

Definition of default and credit impaired assets

In order to determine whether financial assets are credit impaired, the Bank considers:

- 90 DPD;
- Any bad debt write-off;
- Distressed restructuring of credit obligations;
- Obligor's bankruptcy or similar protection such as business rescue; and
- The borrower is insolvent.

A financial contract (loan, other credit product, derivative, etc.) is past due when a counterparty has failed to make a payment when that payment was contractually due.

The missed payment concerns any amount due under the contract (interest, principal, fee or other amount) that has not been paid in full at the date when it was due. An exposure should be considered past due from the first day of missed payment, even when the amount of the exposure or the past due amount, as applicable, is not considered material. The default definition has been applied consistently to model of a PD, EAD and LGD throughout the bank's ECL calculations.

A credit impaired asset is when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the economic experts and consideration of a variety of external actual and forecast information, the Bank formulates a 'base-case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome.

External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the OECD and the IMF, and selected private sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning, budgeting and capital management. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Bank carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 included the following ranges of key indicators for South Africa for the years ending 31 March 2019 and 2018.

The key indicators are:

- South African CPI;
- Sub-Saharan nominal GDP;
- Crude oil;
- 3-month Libor/Jibar; and
- ZAR/USD exchange rate.

In estimating the ECL, the Bank considers a range of possible outcomes with the respective risks of default as weights. The Bank does not rely on one economic scenario. The Bank uses at least three scenarios for the purposes of incorporating forward-looking information and the various inputs to the scenarios are relevant and appropriate to the classes of financial assets and off-balance-sheet items across the various geographies in which the Bank operates. In incorporating forward-looking information as well estimating the ECL assessment, the Bank uses reasonable and supportable information available without undue effort and costs.

In estimating the ECLs, the Bank considers the PD on a loan level over the lifetime of the assets, forward-looking information, which has an impact on the loan book and weightings for each of the scenarios based on the likelihood of each scenario. For the purposes of incorporating forward-looking information in the calculation of ECL, the Bank uses three macroeconomic scenarios. The Bank has considered the base-case scenario, which simulates the most expected economic conditions for the Bank's loan portfolio given current economic state i.e. conditions similar to what is known at year end. The best-case scenario represents the most favourable economic conditions for the performance of Bank's loan book. The worst case scenario represents unfavourable economic conditions for the performance of the Bank's loan book. The Bank considers several factors such as interest rates, GDP growth rates, exchange rate and inflation as macroeconomic drivers.

The ECLs are an estimate and, therefore, there is an inherent degree of subjectivity and that the current estimate of the ECLs may not perfectly predict the actual outcome in future. The Bank has applied the principles of unbiased probability weighted average, time value of money and has used reasonable and supportable information without undue effort and costs in the estimation process.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

In estimating the ECLs, the Bank has considered the base-case scenario, which simulates the most expected economic conditions for the Bank's loan portfolio given current economic state, i.e. conditions similar to what is known at year end. The best-case scenario represents the most favourable economic conditions for the performance of Bank's loan book. The worst case scenario represents unfavourable economic conditions for the performance of the Bank's loan book. The Bank considers several factors such interest rates such as GDP growth rates, exchange rate and inflation.

The Bank conducts back testing of macroeconomic forecasts. Further, the Bank has introduced a Financial Planning Working Group, which reports to ALCO and the Investment Committee, comprising of various specialists within the Bank. The Working Group reviews various sources of economic data (both internal and external) and formulates a house view of key macroeconomic variables for use in all models within the Bank. These scenarios are relevant and appropriate to the classes of financial assets and off-balance-sheet items across the various geographies in which the Bank operates. The Bank has applied regression analysis of the macroeconomic variables against the observed default rates. The Credit Lab performs a regression analysis at least annually and where applicable marginal adjustments are made to the PD curves to incorporate future-looking information. The PD and LGD used for the ECL calculation are produced from benchmarked credit risk models, which are reviewed and calibrated to performance. A regression analysis of PD against the forecasts of macro-variables informs the forecast change in PDs given the forecast of macro-variables. The outcome of the regression analysis is updated annually and, where applicable, marginal adjustments are made to the PD curves to incorporate future-looking information.

The Bank has applied the principles of unbiased probability weighted average, time value of money and has used reasonable and supportable information without undue effort and costs in the estimation process. Where applicable overlays are applied depending on various factors and considerations including the directionally relationship between changes in ECL and results of observable data. The overlays are subject to strict governance and an approval process by the Bank's Investment Committee and Board Audit and Risk Committees. The most significant period-end assumptions used in the ECL calculation are set out below:

Economic variable	2018	2019	2020	2021
South African CPI				
Mild case	4.62	5.50	6.96	6.72
Base case	4.62	4.80	5.37	5.30
Best case	4.62	4.06	4.29	3.77
Sub-Saharan nominal GDP				
Mild case	2.80	2.45	1.57	1.64
Base case	2.80	3.50	3.70	3.80
Best case	2.80	4.14	6.85	6.30
Crude oil				
Mild case	71.06	59.95	55.68	56.38
Base case	71.06	65.35	66.25	65.50
Best case	71.06	76.95	89.50	82.25
3-Month Libor				
Mild case	2.30	2.48	2.69	2.00
Base case	2.30	2.73	3.44	3.75
Best case	2.30	2.93	3.94	4.50
ZAR/USD exchange rate				
Mild case	13.24	15.35	18.37	17.97
Base case	13.24	14.53	15.43	16.00
Best case	13.24	13.00	12.38	12.70

Weightings of best, worst and base case

	Best case	Base case	Worst case
Weightings	5%	45%	50%

Macroeconomic factors

IFRS 9 introduced the use of macroeconomic factors when calculating ECL. To the extent that is relevant and practical, the Bank has used macroeconomic factors in the ECL methodology. Incorporating forward-looking information increases the level of judgement as to how changes in these macroeconomic factors will affect ECL. The methodology, assumptions and macro-indices, including any forecasts of future economic conditions are reviewed annually.

Measurement of ECLs

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss-given default (LGD);
- Exposure at default (EAD).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above. PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, LGD estimates are recalibrated for different economic scenarios. They are calculated on a discounted cash flow basis. EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount. For lending commitments and financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques. As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

In the current year, there have been changes in the probability weighting applied to the scenarios in determining the ECLs. There have been changes in the assumptions used, however, there have been no changes in the estimation techniques used to measure the ECL.

	31 March 2019 (Year end) %	30 September 2018 %	1 April 2018 (Transition) %
Best case	5	5	5
Base case	45	50	55
Worst case	50	45	40
	100	100	100

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

Methods used to determine	Method	Inputs	Assumptions	Estimation techniques
12-month and lifetime ECLs	Expected loss methods based on PD, LGD and EAD; ECLs are discounted to the reporting date using the EIR.	1 PD, LGD and EAD over current PD's survival rate and ECL	Current PDs are the output of the calibrated rating model; PDs in subsequent years are determined based on survival rate, seasoning and cyclicity effects. The current LGD is the output of the LGD model; analysis showed that the subsequent LGDs are the same as the first year's LGD. Lifetime is the contractual tenor of the loan; no prepayments assumed.	PDs: migration matrices for multi-year migration effects, term-structure analysis or seasoning effect, macroeconomic overlay for cyclicity. LGD: LGD model calibrated with own data history. EAD: inclusion of repayment schedules.
Whether a credit risk has increased significantly since initial recognition	According to the stage 2 definition; different Bank-specific identifiers including the minimum 30 DPD criteria (after relevant exclusion rules have been applied) have been selected for the identification of SICR.	Information on single loan level, such as loans management risk indicators, arrears information, etc.	While each loan is firstly considered on its own, the final classification is assessed at an individual loan level.	Stage classification is fact based using current flags and information available in the Bank's database.
Whether a financial asset is a credit impaired financial asset	Definition: in general, unlikeliest to pay as well as >90 DPD are the criteria considered; these criteria are interpreted in terms of the Bank's identifier e.g. for specific cases of unlikeliest to pay	Information on single loan level, such as loans management risk indicators, arrears information, etc.	While each loan is firstly considered on its own, the final classification is performed on a client level, i.e. if one loan is considered to be credit impaired (stage 3) then all loans of the same clients are considered to be so as well.	Stage classification is fact based using current flags and information available in the Bank's database. Maximum stage across all loans per client rule applies.

Sensitivity analysis

The most significant assumptions affecting ECL are GDP, crude oil prices, interest rate and ZAR/USD exchange rate. Detailed in the table below are changes to the ECL that will result from changes in the weightings applied due to changes in the economic indicators used in the Bank's economic variable assumption.

Loans	Weight %	Weight %	% Change	ECL R'000	ECL R'000	% Change ECL
Base case	45	50	5	1 824 694	1 824 694	–
Worst case	50	45	–5	2 213 497	2 213 497	–
Best case	5	5	–	1 197 218	1 197 218	–
Weighted ECL – Stage 1 and Stage 2				3 732 999	3 694 821	(1)
Stage 3 ECL				2 709 191	2 709 191	–
Total ECL				6 442 190	6 404 012	(1)

Concentrations of credit risk

The Bank monitors concentrations of credit risk by sector, region and by currency. An analysis of concentrations of credit risk from development loans, development bonds, trade receivables and other assets, loan commitments and financial guarantees

Concentration of risk in thousand of rands	Development loans		Loan commitments	
	2019	2018	2019	2018
Gross carrying amount /amount committed	82 012 250	79 870 646	8 492 767	7 295 957
Concentration by sector: energy %	58	59	54	35
Concentration by region: South Africa %	75	79	41	34
Concentration by location: currency (ZAR) %	76	80	94	87

Concentration by region for development loans, loan commitments and financial guarantees is based on the customer's country of domicile.

(A) Geographical analysis of Development loans

in thousand of rands	Stage 1	Stage 2	Stage 3	Total 2019	Total 2018
Stage 3					
South Africa	–	–	1 317 000	1 317 000	–
Rest of Africa	–	–	2 694 413	2 694 413	–
Non-performing loan book					
South Africa	–	–	–	–	1 536 961
Rest of Africa	–	–	–	–	2 058 150
Total	–	–	4 011 413	4 011 413	3 595 111
Allowance for ECLs					
South Africa	–	–	(736 937)	(736 937)	(656 364)
Rest of Africa	–	–	(1 972 254)	(1 972 254)	(1 141 405)
Total	–	–	(2 709 191)	(2 709 191)	(1 797 769)
Carrying amount: South Africa	–	–	580 063	580 063	880 597
Carrying amount: Rest of Africa	–	–	722 159	722 159	916 745
Carrying amount – stage 3	–	–	1 302 222	1 302 222	1 797 342

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

in thousand of rands	Stage 1	Stage 2	Stage 3	Total 2019	Total 2018
Stage 1 and 2					
South Africa	41 324 938	18 781 349	–	60 106 287	–
Rest of Africa	7 071 726	10 822 824	–	17 894 550	–
Performing book					
South Africa	–	–	–	–	61 324 647
Rest of Africa	–	–	–	–	14 950 888
Total	48 396 664	29 604 173	–	78 000 837	76 275 535
Allowance for credit losses					
South Africa	(146 419)	(2 081 144)	–	(2 227 563)	(464 593)
Rest of Africa	(51 527)	(1 207 463)	–	(1 258 990)	(1 957 805)
Total	(197 946)	(3 288 607)	–	(3 486 553)	(2 422 398)
Carrying amount: South Africa	41 178 519	16 700 205	–	57 878 724	60 860 054
Carrying amount: Rest of Africa	7 020 199	9 615 361	–	16 635 560	12 993 083
Carrying amount – stage 1, stage 2 and performing loan	48 198 718	26 315 566	–	74 514 284	73 853 137
Gross carrying amount	48 396 664	29 604 173	4 011 413	82 012 250	79 870 646
Allowance for credit losses	(197 946)	(3 288 607)	(2 709 191)	(6 195 744)	(4 220 167)
Carrying amount	48 198 718	26 315 566	1 302 222	75 816 506	75 650 479

Allowance for credit losses excluding interest in suspense of R230 million (2018: R602.9 million).

in thousands of rands

2019

2018

Expected credit losses

12 month ECL	197 946	–
Lifetime ECL – not credit impaired	3 288 607	–
Lifetime ECL – credit impaired	2 478 234	–
Total	5 964 787	–

Identified impairments

Performing loans	–	865 900
Non-performing loans	–	1 797 769
Total	–	2 663 669

Unidentified impairments

Model driven	–	1 556 498
Total	–	4 220 167

(B) Development bonds

in thousand of rands	12-Month ECL	Lifetime ECL – not credit impaired	Lifetime ECL – credit impaired	Total 2019	Total 2018
Performing					
Municipal	1 290 607	–	–	1 290 607	1 290 607
Provision for ECLs	(428)	–	–	(428)	(246)
Net carrying amount	1 290 179	–	–	1 290 179	1 290 361

The maximum exposure relating to development bond is R1.3 billion (March 2018: R1.3 billion).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

44. Risk management (continued)

(C) Trade receivables and other assets

in thousand of rands	Default rate 0%	Default rate 17%	Default rate 100%	2019	2018
Trade receivables					
Trade debtors	139 581	13 106	1 767	154 454	100 479
Provision for ECLs	—	(2 164)	(1 767)	(3 931)	(3 112)
Net carrying amount of trade receivables	139 581	10 942	—	150 523	97 367
Financial and other assets					
Deposits				4	88
Interest accrued				1 954	60 395
Prepayments				211 368	240 761
Payroll expenses receivable				4	45
Staff loans				136	37
Subsistence and travel				883	321
VAT receivable				707	607
Total other assets				215 056	302 254
Total				365 579	399 621

in thousands of rands		2019	2018
(D) Commitments (Loans signed, but not yet fully disbursed)			
Low risk	• Municipal	—	272 578
	• Other	1 097 301	2 033 698
Medium risk	• Municipal	1 688 337	42 647
	• Other	4 627 612	3 996 217
High risk	• Municipal	50 000	—
	• Other	1 029 517	950 817
Gross carrying amount		8 492 767	7 295 957
Provision for ECLs/IFRS 9 transitional adjustment		(246 018)	(3 377)
Net carrying amount		8 246 749	7 292 580
(E) Guarantees			
Guarantees		—	28 217

(F) Loans that are past due not individually impaired

	2019					2018				
	Total	3 Months	3–6 Months	6–12 Months	>12 Months	Total	3 Months	3–6 Months	6–12 Months	> 12 Months
Overdue amounts	1 676 020	731 688	9 457	521 342	413 533	781 698	460 107	95 016	210 985	15 590
Not yet due	12 699 947	–	–	–	–	11 840 184	–	–	–	–
Total	14 375 967	731 688	9 457	521 342	413 533	12 621 882	460 107	95 016	210 985	15 590

An amount of R128 million (March 2018: R274 million) was received after the reporting date but before the authorisation of the Annual Financial Statements. The fair value of collateral held in respect of the above amounted to R347 million (March 2018: R169 million). For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan. The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund-investments and insurance policies.

in thousands of rands	2019	2018
(G) Financial counterparty exposure		
Bonds	1 747 359	2 106 650
Cash and cash equivalents	2 922 876	3 741 853
Derivatives	409 600	1 183 181
Segregated funds	536 507	–
Total	5 616 342	7 031 684

Capital management

The Bank 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 that the Bank continues access to fund at optimal rates in support of its mission to provide affordable development-finance solutions.
- To align the returns on the Bank's assets to its associated risks.

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

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt comprises total liabilities excluding other creditors (as shown on the statement of financial position). Capital comprises share capital, permanent government funding, retained earnings, and reserves. As at 31 March 2019, the debt to equity stood at 138.1% (31 March 2018: 156.2%). The capital ratio is calculated as shareholder's capital divided by unweighted assets, where unweighted assets comprise total assets (as shown on the statement of financial position). Shareholder's capital comprises share capital, permanent government funding, retained earnings, reserve for general loan risk and other reserves. As at 31 March 2019, the capital ratio stood at 41.5 % (31 March 2018: 38.4%).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

45. Non-current asset held for sale

As a result of a calling on its security against a loan in default, the Bank obtained a 100% shareholding in a property investment company with a view to sell. All assets in the company have been sold and the amount due to the Bank is R0.28 million. Frandevco is in the process of being deregistered.

46. Related parties

46.1 Related party relationships

The Bank is a Schedule 2 public entity 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 National Treasury (the shareholder), is the parent of the Bank and exercises ultimate control. The Bank has a 100% shareholding in Frandevco (refer to 46.2.4).

46.2. 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 year.

46.2.1 National public entities

The total book debt of loans extended to national public entities amounts to R17.9 billion (March 2018: R18.7 billion). None of these loans are non-performing.

46.2.2. National mandates

The net amount outstanding at year end amounted to R145 million (March 2018: R87 million).

46.2.3. BRICS

There were no amounts paid to National Treasury for expenses relating to the BRICS programme during the year (March 2018: Rnil). The Bank incurred R5.4 million for BRICS-related expenditure.

46.2.4. Frandevco

The Bank has a 100% shareholding in Frandevco (March 2018: 100%). There were no transactions with Frandevco during the year (March 2018: Rnil). Frandevco is in the process of being deregistered.

in thousands of rands

2019

2018

47. Contingencies

47.1. Guarantees

The Bank issued guarantees on behalf of borrowers	–	28 217
Provision for ECLs	–	–
Total	–	28 217
Book debt	–	28 217

The table below shows the reconciliation from the opening to the closing balance of guarantees gross amount:

Gross guarantees in thousands of rands	Stage 1	Stage 2	Stage 3	Total
Balance at the beginning of the year	28 217	–	–	28 217
Lapsed	(28 217)	–	–	(28 217)
Balance at the end of the year	–	–	–	–

47.2. Contingent liabilities

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands

2019

2018

48. Commitments

At the reporting date, the Bank had the following commitments:

Development-loan commitments	8 492 767	7 295 957
Development expenditure	66 642	5 649
Project preparation expenditure	81 031	83 149
Equity-investments commitments	786 410	894 519
Capital commitments	125 204	98 473
Gross commitments	9 552 054	8 377 747
Provision for ECLs/IFRS 9 transitional adjustment	(246 018)	(3 377)
Net commitments at the end of the year	9 306 036	8 374 370

Client classification

Educational institutions	–	1 492 314
Local government	1 738 337	315 225
National and provincial government	–	1 077
Private sector intermediaries	6 503 160	4 888 617
Public utilities	251 270	598 724
Balance at the end of the year	8 492 767	7 295 957

Geography

Eastern Cape	–	4 000
Free State	2 079	2 313
Gauteng	3 860 257	2 838 965
KwaZulu-Natal	279 711	339 647
Limpopo	50 000	15 000
Northern Cape	2 217 919	746 708
Western Cape	1 484 103	2 157 902
Rest of Africa	598 698	1 191 422
	8 492 767	7 295 957

in thousands of rands

2019

2018

Rest of Africa

Angola	–	1 077
Congo	–	254 071
Ethiopia	47 868	39 104
Ghana	–	339 396
Madagascar	115 085	201 807
Mauritius	434 475	354 930
Zimbabwe	1 270	1 037
	598 698	1 191 422

Sector

Water	1 750 000	250 000
Roads and drainage	30 981	57 508
Energy-electricity	4 002 721	2 648 490
Energy – Non-grid standalone	122 825	123 248
Communication and transport	2 209 216	2 301 245
Social infrastructure	377 024	168 398
Education	–	1 492 314
Sanitation	–	254 754
	8 492 767	7 295 957

The table below shows the reconciliation of the opening balance to the closing balance of development loan commitments gross carrying amount and provision for ECLs:

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
Reconciliation of carrying amount				
Balance at the beginning of the year	7 295 957	-	-	7 295 957
Transfer from stage 1 to stage 2	(514 227)	514 227	-	-
Transfer from stage 1 to stage 3	(435 512)	-	435 512	-
New loan commitments issued	11 710 113	-	-	11 710 113
Disbursements	(8 807 363)	-	-	(8 807 363)
Withdrawals	(1 861 812)	-	-	(1 861 812)
Foreign exchange gains	76 094	79 545	233	155 872
Balance at the end of the year	7 463 250	593 772	435 745	8 492 767

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands	Stage 1	Stage 2	Stage 3	Total
Reconciliation of provision for ECLs				
Balance at 1 April 2018 (IAS 39)	3 377	–	–	3 377
Restated balance at 1 April 2018 (IFRS 9)	3 377	–	–	3 377
New loan commitments issued	–	244 085	–	244 085
Subsequent changes in ECLs due to changes in risk parameters (PDs, LGDs, EAD)	(1 460)	–	–	(1 460)
Foreign exchange movements	16	–	–	16
Balance at the end of the year	1 933	244 085	–	246 018
The loss allowance recognised for the year was impacted by transfers between stage 1 and stage 2.				
ECLs recognised in the income statement excluding interest in suspense and write off	–	(1 444)	244 085	242 641

48.1. 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.

48.2. Development expenditure, project preparation expenditure, equity investments and capital commitments

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

in thousands of rands

2019

2018

49. Operating lease obligations

Minimum lease payments due		
Within one year	1 323	508
In second to fifth year inclusive	1 648	–
Total	2 971	508

The Bank has entered into commercial leases on property. These leases have an average life of between one and three 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.

50. Irregular, fruitless and wasteful expenditure

50.1 Fruitless and Wasteful expenditure

Fruitless and wasteful expenditure	–	7
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Details of fruitless and wasteful expenditure

Interest on late payments	–	3
Lost foreign currency	–	4
Total	–	7

50.2 Irregular expenditure

Balance at beginning of the year	–	–
Incurred in the current year	394	–
Condoned	–	–
Removed	–	–
Balance at the end of the year	394	–

Details of irregular expenditure

Extension of the lease agreement for two years without prior approval from National Treasury, where a contract is varied or expanded by more than 15%	388	–
Appointment of a supplier for a three-year lease without following a competitive procurement process	6	–
Total	394	–

Two incidents of fruitless and wasteful expenditure occurred during the previous financial year. The interest on late payment was not received from the supplier and corrective action was taken to ensure that this does not happen again. No disciplinary action against the employee was taken regarding the lost foreign currency as there was no evidence of gross negligence. No debtor was raised and the amounts were expensed.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 MARCH 2019

in thousands of rands

2019

2018

51. Funds administered on behalf of third parties

Balance at beginning of the year	1 037 012	948 841
Funds received	3 691 178	2 563 653
Interest, foreign exchange and other movements	80 701	92 420
Funds disbursed	(3 271 054)	(2 567 902)
Balance at the end of the year	1 537 837	1 037 012

52. Third-party managed funds cost recovered

Third-party funds and mandates

African World Heritage Fund	3 613	5 203
Anglo American	120	604
Cities Project Preparation Facility (CPPF)	–	232
Department of Basic Education for Accelerated Infrastructure Schools Programme	2 111	5 521
Department of Energy – Independent Power Producer Office	75 113	83 532
Eastern Cape Department of Education	1 404	2 215
Ekurhuleni Metropolitan Municipality	172	7
Gautrain Management Agency	309	431
Green Fund	5 355	9 718
Infrastructure Investment Programme for South Africa (IIPSA)	5 330	5 235
Investment Climate Facility (Anglo)	(4)	1 247
Jobs Fund	4 874	–
KFW/HIV/VCT 2 by Voluntary Counselling and Testing Programme	1 297	1 764
KFW SADC Water Fund	1 331	2 681
Limpopo Department of Health	718	–
Limpopo Department of Public Works	1 013	1 691
Limpopo Department of Education	–	349
National Department of Health	7 005	5 605
National Treasury Cities Support Programme (NTCSP)	1 512	3 129
Pan African Capacity Building Platform (PACBP)	4 680	3 724
Total costs recovered	115 953	132 888

52. Third-party managed funds cost recovered (Continued)

in thousands of rands	2019	2018
Third-party managed funds managed per division		
Finance	8 293	8 927
Infrastructure Delivery	16 679	25 045
Project Preparation	90 981	98 916
Total	115 953	132 888
Cost recovery for each division		
Corporate Services	112 407	106 429
Finance	5	–
Infrastructure Delivery	3 492	26 301
Project Preparation	49	158
Total	115 953	132 888

53. Taxation

The Bank is exempt from South African normal taxation in terms of section 10(1)(t)(x) of the Income Tax 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.

54. Events after the reporting period

There were no material adjusting events after the reporting date.

Funding raised

R1.2 billion bond funding was raised after year end.

55. Minister of Finance Adjustment Budget

An allocation of R400 million has been earmarked for the development (preparation) of projects by National Treasury. Once the amount is approved by National Treasury, an independent governance structure will be established and a ring-fenced bank account will be opened to manage these projects. This will be audited.

The Bank's role will be the appraisal of project applications, implementation of projects and disbursements of funds for these projects.

ABBREVIATIONS AND ACRONYMS

ALCO	Assets & Liability Management Committee
B-BBEE	Broad-Based Black Economic Empowerment
BRICS	Brazil, Russia, India, China and South Africa
CPI	Consumer Price Index
CVA	Credit Value Adjustment
DBSA	Development Bank of Southern Africa Limited
DFID	The United Kingdom's Department for International Development
DFI	Development Finance Institution
DVA	Debit value adjustment
EAD	Exposure at default
ECL	Expected credit loss
EIR	Effective interest rate
FVTPL	Fair value through profit or loss
FVTOCI	Fair value through other comprehensive income
GDP	Gross domestic product
IASB	International Accounting Standards Board
ICT	Information and communications technology
IESBA	International Ethics Standard Board for Accountant
IFRS	International Financial Reporting Standards
IIPSA	Infrastructure Investment Programme for South Africa
IPP	Independent Power Producers
IRBA	Independent Regulatory Board for Auditors
ISA	International Standard on Auditing
JSE	Johannesburg stock Exchange
KfW	The German agency Kreditanstalt für Wiederaufbau
LGD	Loss given default
MIG	Municipal Infrastructure Grant
MISA	Municipal Infrastructure Support Agency
MTEF	Medium term Economic Framework
NAV	Net Asset Value
NDP	National Development Plan
NII	Net Interest Income
NTCSP	National Treasury Cities Support Programme
OCI	Other Comprehensive Income
PAA	Public Audit Act
PD	Probability of default
PFMA	Public Finance Management Act, No 1 of 1999
PPA	Purchase Power Agreement
POCI	Purchased or originated credit impaired loans
SADC	Southern African Development Community
SARB	South African Reserve Bank
SICR	Significant Increase in Credit Risk
SMME	Small, medium and micro-enterprise
SOC	State-owned company
SPPI	Solely Payment of Principal and Interest
SOE	State Owned Entity

FINANCIAL DEFINITIONS

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

GENERAL INFORMATION

Registered Office	Headway Hill 1258 Lever Road Midrand Johannesburg, South Africa
Postal Address	PO Box 1234 Halfway House 1685 South Africa
Banker	The Standard Bank of South Africa
Registered Auditor	Auditor-General of South Africa
Preparer	The Annual Financial Statements were compiled under the supervision of the Chief Financial Officer, Boitumelo Mosako CA(SA)
JSE Debt Sponsor	Nedbank
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