Annual Report 2005/06

SIYENZA MANJE

WE ARE DOING IT NOW

DBSA

Development Bank of Southern Africa Limited

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

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

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

SIYENZA MANJE

WE ARE DOING IT NOW

ISSN 1728-3213

Development Bank of Southern Africa Limited

Vision

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

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

Mission

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

Goals

To accelerate the sustainable reduction of poverty and inequity.

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

Strategy

The Development Bank's strategy is underpinned by the following themes:
- Generating investment in assets, including both hard (physical) assets and soft (human and institutional) assets, which serve the poor, directly and indirectly, and support broad-based wealth creation.
- Mobilising, developing, applying and managing knowledge in support of greater development effectiveness, innovation and an enabling developmental environment.

Given the size of the development challenge, limited resources and varying comparative advantages, the strategy focuses on acting as a catalyst, integrator, centre of excellence and strategic implementer, through the triple roles of financier, advisor and partner. Through these the Bank will differentiate itself, complementing other role players, especially where lending and financial markets are weak and uncompetitive, and delivery institutions are ineffective.

The Development Bank's five-pronged strategy involves:
- Delivering social and economic infrastructure, in collaboration with partners, and with a focus on identified sectors
- Building human and institutional capacity, with a focus on municipalities
- Promoting broad-based economic growth, job creation, cooperation, integration and prosperity, with a focus on identified sectors, geographical areas and projects
- Serving as a centre of excellence for development financing and effectiveness
- Engendering sustainability, both internally and externally

The strategy focuses strongly on building municipal capacity, and accelerating infrastructure development. This will require an increased focus on second- and third-tier municipalities, through the application of knowledge, skills and institutional resources aimed at increasing delivery capacity and reducing implementation risks in underdeveloped regions. It will also involve interventions to address persistent spatial development problems, such as the lack of integrated sustainable human settlements.

The strategy will be supported by a range of strategic thrusts, such as knowledge management, smart partnerships, responsible risk taking and management, innovation and corporate entrepreneurship, performance recognition and reward, and alignment. Key initiatives are Siyenza Manje (the project implementation task force), the Sustainable Communities programme, the DBSA Vulindlela Academy and the Local Investment Agency.

The Bank's investments in infrastructure will include non-traditional soft assets, such as human and institutional capital, which represent a major constraint on infrastructure and economic development in South Africa and the wider region. Attention will be paid to facilitating public and private investment in infrastructure and broad-based economic growth, as a means of accelerating the reduction of backlogs in basic services and helping to achieve the goal of reducing by 50% the number of people living in poverty. The emphasis will fall on the sectors and projects identified in the Accelerated and Shared Growth Initiative for South Africa, the SADC Regional Indicative Strategic Development Plan and the NEPAD Short Term Action Plan for Infrastructure. Over the ten-year period leading to 2014, the Bank plans to invest a total of R45 billion, of which R30 billion will be in South Africa and R15 billion in the rest of Southern Africa.

Development Bank profile

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

The *mandate* of the Bank is to:

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

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

Geographical area of operations: The Bank operates in the countries of the Southern African Development Community (SADC).

Its public sector operations in South Africa are executed through the following geographical Business Units:

- Gauteng, Free State and North West
- KwaZulu-Natal and Mpumalanga
- Western Cape and Northern Cape
- Eastern Cape
- Limpopo

The Corporate Finance Unit, as well as the Private Sector and International Investments and Knowledge Management Divisions provide products and services across South Africa and Southern Africa. The International Finance Unit provides support to countries such as Angola, Botswana, Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Swaziland, Tanzania, Zambia and Zimbabwe.

The Bank's triple role

Financier

The Bank's role is to provide development finance for sustainable development initiatives. Since inception, the Bank has approved loans and equity of R44 billion.

Advisor

Cumulatively to date, the Bank has approved grants of R192 million. In addition, the Bank's advisory role over the past year also included knowledge support and agency services:

Knowledge services

- The Bank published the 2005 *Development Report* on "Overcoming underdevelopment in South Africa's second economy" on 1 July 2005.
- The first *DBSA Infrastructure Barometer*, a comprehensive publication on the state of infrastructure, was launched in March 2006. It features comprehensive information about the state, spread and quality of economic infrastructure in South Africa, as well as data on infrastructure backlogs, the investment required to meet these backlogs, and innovative solutions for delivering infrastructure.
- The Bank provided financial and technical support to a University of the Witwatersrand conference entitled "Cities, planning and everyday life: A North-South, South-South dialogue", held on 2–4 September 2005; and to the Urban Development Conference of the South African Cities Network, held on 28–29 September 2005.
- The Bank conducted several Development Dialogues, encouraging debates on key issues of national policy, such as the national budget, the State of the Nation address, pertinent international reports, etc. Bank employees also participated in many external

policy initiatives, such as government task teams at national, provincial and local level; published articles in refereed journals; and presented papers at national and international conferences.
- In partnership with other institutions, the Bank contributed to several programmes, such as the NEPAD-SADC Tourism Investment Promotion programme (with NEPAD and RETOSA); an investigation of the infrastructure needs of emerging farmers (with Marketing Surveys and Statistical Analysis); studies of the human development indicators for Johannesburg and the effectiveness of SADC ports (both undertaken by the University of Johannesburg); a review of South Africa's urban policies in the last decade (with the Human Sciences Research Council); and a study of the causes of default among low-income housing clients (with the Finmark Trust).

Agency services

The Bank currently has 30 agency projects with a combined flow of funds amounting to some R300 million during 2005/06. These projects are diverse in nature and include:
- Joint ventures
- Independent contractor assignments
- Management contracts

Partner

The Bank enters into partnerships extensively to maximise the impact of development interventions, crowding in other development finance institutions and private sector players. As discussed in more detail later in the Annual Report, it draws in a wide spectrum of development stakeholders, including national, provincial and municipal governments, the private sector, bilateral institutions, multilateral development agencies, and community-based and non-governmental organisations, in addition to providing agency services to many of the same players.

Financial structure

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

The Bank has access to a callable capital facility of R4,8 billion, which is part of its capital structure. It is rated by three rating agencies: Fitch, Moody's Investors Service, and Standard and Poor's. In the year under review, Fitch and Moody's reaffirmed the Bank's investment grade ratings, while Standard and Poor's upgraded the Bank's rating:
- Fitch: AAA
- Moody's: Baa1
- Standard and Poor's: BBB+

Governance structure

- Sole owner: South African government
- Shareholder representative: Minister of Finance
- Chairman of the Board: Jayaseelan Naidoo
- Chief Executive Officer and Managing Director: Mandla Gantsho (until 30 June 2006; Paul Baloyi as from 1 July 2006)
- Board of 15 Directors; 14 non-executive, of whom 11 are independent and 3 are government officials

Business performance overview

Selected indicators	2005/06	5-year average (2002–2006)	2004/05	2003/04	2002/03	2001/02
Total capital cost of approvals (R million)	22 939	12 730	7 917	5 535	13 775	13 484
South Africa	20 491	10 114	7 396	3 929	10 278	8 477
Other SADC countries	2 449	2 616	521	1 606	3 497	5 007
Total DBSA contribution to approvals (R million)	8 052	4 466	3 947	3 348	3 833	3 151
% of total capital cost funded by others	64,8	65,8	50,1	65,3	72,2	76,6
Average value per approval (R million)	55,5	55,4	45,9	57,7	62,8	55,3
Number of investment approvals in period	145	81	86	58	61	57
Disbursements (R million)	3 077	2 849	2 999	2 729	3 661	1 781
Technical support disbursements (R million)	20,0	19,0	18,2	10,9	29,0	17,0
Total operating cost excluding interest paid (R million)	490,8	366,7	418,4*	382,3	286,9	255,0
Total operating cost as % of approvals	6,1	8,8	10,6	11,5	7,5	8,1
Number of employees (excluding contractors, etc.)	506	477	490	489	470	430
Net contribution per employee to disbursements (R million)	6,1	5,8	5,3	5,6	7,8	4,1
% of employment equity managers at year-end	68,4	76,5	70,0	77,0	86,0	81,0
Impact on households benefiting from operations (number of households)[1]	1 163 627	991 169	1 947 677	462 540	762 000	620 000
Direct impact on employment (number of jobs)	17 130	18 179	19 809	15 613	25 228	13 116
Impact on GDP (total SADC region) (R million)	2 354	2 401	2 457	2 181	3 270	1 745

** Restated*

1. Figures for 2001/02 – 2004/05 converted to 2005 prices by adjusting for inflation (CPI) to enable meaningful comparisons of the five years.

Financial performance overview

	2005/06	5-year average (2002–2006)	2004/05 (restated)	2003/04[3]	2002/03[3]	2001/02[3]
Financial results (R million)						
Operating income	1 591	1 355	1 168	1 446	1 651	920
Interest on development activities[1]	1 763	1 708	1 714	1 872	1 686	1 505
Interest on investments	592	607	607	663	597	579
Interest expense	1 069	1 069	1 061	1 101	967	1 150
Surplus for the year	928	863	749	763	1 284	593
Financial position (R million)						
Cash and cash equivalents	1 501	1 620	2 007	1 913	1 306	1 376
Financial market assets/investments in government bonds (prior to 2002)	6 617	5 366	6 132	5 723	5 107	3 253
Investment in development activities[1]	18 003	15 292	16 323	15 832	14 296	12 004
Other assets	359	611	258	216	210	2 010
Total assets	26 480	22 889	24 719	23 684	20 919	18 643
Issued share capital	200	200	200	200	200	200
Total capital and reserves	13 219	11 101	11 962	11 197	10 231	8 898
Financial market liabilities/ medium- and long-term financing (prior to 2002)	12 528	10 932	12 083	11 736	9 971	8 341
Other liabilities	733	856	674	751	717	1 404
Total liabilities	13 261	11 788	12 757	12 487	10 688	9 745
Financial ratios (%)						
Return on shareholder's funds	7,0	7,9	6,3	6,8	12,5	6,7
Return on assets	3,5	3,8	3,0	3,2	6,1	3,2
Operating costs to income	30,8	27,6	35,8	26,4	17,4	27,7
Interest cover (times)	2,2	2,2	2,2	2,3	2,4	1,8
Reserves to loans ratio	76,4	74,5	76,6	72,0	72,4	75,0
Long-term debt to equity	95,8	99,5	101,8	105,9	98,3	95,5
Cash and cash equivalents to total assets	5,7	7,1	8,1	8,1	6,2	7,4
Issued capital to assets	0,8	0,9	0,8	0,8	1,0	1,1
Total capital and reserves to assets	49,9	48,4	48,4	47,3	48,9	47,7
Financial market liabilities to investment in development activities[1]	69,6	71,4	74,0	74,1	69,7	69,5
Weighted average interest rate on development loans	11,1	11,9	11,1	11,0	13,5	12,8
Total impairment as percentage of development loans[2]	5,2	6,7	8,2	6,6	6,1	7,5
Impairment for loans considered irrecoverable as percentage of development loans	2,2	3,4	4,9	3,1	3,3	3,6

1. Development activities include development loans and investments.
2. Includes reserve for general loan risks.
3. Prepared in terms of South African Statements of Generally Accepted Accounting Practice.

Abbreviations

ADB	African Development Bank
AfD	Agence Française de Développement
APRM	African Peer Review Mechanism
AsgiSA	Accelerated and Shared Growth Initiative for South Africa
BEE	black economic empowerment
CFC	customer foreign currency
COMESA	Common Market for Eastern and Southern Africa
CSIR	Council for Scientific and Industrial Research
DBSA	Development Bank of Southern Africa Limited
DFID	Department for International Development (UK)
€	euro
ECCAS	Economic Community of Central African States
GDP	gross domestic product
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
HSRC	Human Sciences Research Council
ICT	information and communication technology
IDP	Integrated Development Plan
IFRS	International Financial Reporting Standards
ISDA	International Swaps and Derivatives Association
ISMA	International Securities Market Association
IT	information technology
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LGNet	Local Government Network
LGSETA	Local Government and Related Services Sector Education and Training Authority
MEC	Member of the Executive Council
NEPAD	New Partnership for Africa's Development
NGO	non-governmental organisation
PPP	public-private partnership
R	South African rand
RETOSA	Regional Tourism Organisation of Southern Africa
RISDP	Regional Indicative Strategic Development Plan
SADC	Southern African Development Community
SALGA	South African Local Government Association
SAM	social accounting matrix
SAPP	Southern African Power Pool
SAWiC	South African Women in Construction
UNEP	United Nations Environment Programme
US$	United States dollar

Exchange rate

On 31 March 2006 the R/US$ exchange rate was 6,1505 and the R/€ rate was 7,4696.

Financial year

The financial year of the Development Bank is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2005/06, are to the financial year ended 31 March.

Contents

Governor's foreword

Minister of Finance
Mr Trevor Manuel, MP

The year under review has seen a renewed commitment to addressing the challenge of infrastructure development, in South Africa and the region, and across the continent.

Long-term growth in the SADC has been slow relative to other developing countries. Current levels of investment in infrastructure are not high enough to sustain and increase growth and development sufficiently to improve the lives of all on the continent. Africa's investment needs are estimated to be approximately 9% of GDP per year, comprising 5% of new investment plus a further 4% for operation and maintenance. Today total expenditure is about 2,5% annually, and private investment only 0,3%.

The provision of more infrastructure across the continent is at the heart of the NEPAD initiative. Progress has been made on implementing the NEPAD Short Term Action Plan, with support from the Infrastructure Consortium for Africa, and this will accelerate significantly due to profound shifts made recently in the African Development Bank's approach to infrastructure provision.

Providing more infrastructure is in our collective interest as a region. Through its Regional Indicative Strategic Development Plan (RISDP), the SADC is working to promote regional integration through the provision of infrastructure. The SADC is also currently establishing a facility that will identify ways of catalysing private sector investment in infrastructure development.

In pursuing a higher growth path for South Africa, the government has developed and adopted the Accelerated and Shared Growth Initiative for South Africa (AsgiSA). This initiative has prioritised increased public investment in infrastructure, starting with an investment of R372 billion over the next three years.

Investment in infrastructure poses particular challenges. Projects tend to be large and expensive, and must be properly maintained to ensure that they remain effective. While mobilising financial resources is important, it is equally important to nurture the human capabilities – the teams of engineers, project managers, technicians and artisans – that make infrastructure development possible and sustainable.

The DBSA is well placed to provide the strategic financing, technical and other creative support that will enable its clients and partners to advance towards the Millennium Development Goals and the Bank's broader transformation objectives. The Bank has a mandate to reach out and help other Southern African economies generate higher levels of investment and economic growth, and thus also progress towards the Millennium Development Goals. The key challenge facing the DBSA is to identify and fulfil its supportive role in this broad process, not only in financing but in project preparation, project management and capacity building.

The DBSA has transformed itself from a tool of apartheid into the highly respected, self-sustaining development finance institution it is today. We are proud that it has developed a bold vision and strategy closely aligned with government's own ten-year strategic vision and plan, as well as with NEPAD and the Millennium Declaration.

I have no doubt that the Bank's renewed drive for deeper and broader development impact, greater outreach, an increased risk appetite, and strong, smart partnerships will help it to realise its widely shared vision of an integrated region, progressively free of poverty, inequity and dependency.

I have great pleasure in expressing my continued appreciation to the Chairman of the Board of Directors, Jay Naidoo, and indeed to all the Bank's development activists for their dedication and commitment to the agenda of poverty-reducing development and transformation.

I would like to commend the Bank's outgoing Chief Executive, Mandla Gantsho, for the instrumental role he has played in successfully transforming the Bank and guiding it to where it is today. At the same time, I extend a warm welcome to the new Chief Executive, Paul Baloyi. I am confident that he will lead the Bank to even greater heights.

Trevor Manuel

Board of Directors

Name and designation:	**Dr Iraj Abedian** (50) Chief Executive Officer and Chief Economist: Pan-African Advisory Services
Academic qualifications:	PhD (Economics), Simon Fraser University, Canada (1993) MA (Economics), University of Cape Town (1982) BA Hons (Economics), University of Cape Town (1980) BEcon, University of Tehran, Iran (1977)
DBSA Director as from:	1 August 2001

Name and designation:	**Mr Andrew Boraine** (47) Chief Executive Officer: Cape Town Partnership
Academic qualifications:	MA (Community Education and Resources), University of Cape Town (1987) BA Hons (Economic History), University of Cape Town (1987) BA (History), University of Cape Town (1983)
DBSA Director as from:	1 August 2005

Name and designation:	**Ms Thenjiwe Pamela Claudia Chikane** (40) Chief Executive Officer: MGO Consulting
Academic qualifications:	CA (SA) (1997) BCompt (Hons), University of South Africa (1995) BCompt, University of South Africa (1993) BCom, University of the North (1985)
DBSA Director as from:	1 August 2004

Name and designation:	**Prof. Brian de Lacy Figaji** (61) Company Director
Academic qualifications:	MEduc (Administration, Planning and Social Policy), Harvard University (1989) Diploma in Tertiary Education, University of South Africa (1987) Graduate Diploma (Engineering), University of Cape Town (1985) BSc (Engineering), University of Cape Town (1972) BSc (Science), University of the Western Cape (1969)
DBSA Director as from:	1 August 1997

Name and designation: **Mr Trevor Fowler** (55)
Chief Operating Officer: Office of the Presidency

Academic qualifications: Pr Eng (1982)
BSc (Civil Engineering), University of Manitoba, Canada (1979)

DBSA Director as from: 1 August 2004

Name and designation: **Ms Nomboniso Gasa** (38)
Independent gender and policy analyst

Academic qualifications: Certificate in Women's Studies, University of the Western Cape (1996)
BA (Political Science), University of the Western Cape (1990)
Certificate in Feminist Literacy and Criticism, Jesus College, Oxford University (1988)

DBSA Director as from: 1 August 2003

Name and designation: **Dr Lulu Gwagwa** (47)
Director: Lulu Gwagwa Development Consultants

Academic qualifications: PhD (Economics), University College London (2003)
MSc (Economics), London School of Economics and Political Science (cum laude) (1990)
Certificate in Gender Planning, University College London (1989)
BA (Geography), University of Fort Hare (1978)

DBSA Director as from: 1 August 2004

Name and designation: **Dr Deenadayalen Konar** (52)
Consultant

Academic qualifications: DCom, University of South Africa (1989)
MAS, University of Illinois (1981)
CA (SA) (1978)
Postgraduate Diploma in Accounting, University of Durban-Westville (1978)
BCom, University of Durban-Westville (1975)

DBSA Director as from: 1 August 2001 (co-opted to Audit Committee: 1 June 1995)

Name and designation:	**Mrs Wendy Lucas-Bull** (53) Director of Companies
Academic qualifications:	BSc, University of the Witwatersrand (1976)
DBSA Director as from:	1 August 2005

Name and designation:	**Dr Claudia Manning** (39) Executive Director: Sangena Investments
Academic qualifications:	DPhil, University of Sussex (1996) MPhil, University of Sussex (1992) BA Hons (Economic History), University of Natal (1988)
DBSA Director as from:	1 August 2005

Name and designation:	**Mr Ismail Momoniat** (46) Deputy Director-General: Intergovernmental Relations, National Treasury
Academic qualifications:	MSc (Economics), University of London (1995) BA Hons (Economics), University of South Africa (1992) MSc (Mathematics), University of the Witwatersrand (1990) BSc Hons (Mathematics), University of the Witwatersrand (1978) BSc (Mathematics), University of the Witwatersrand (1977)
DBSA Director as from:	1 July 2004

Name and designation:	**Ms Lindiwe Msengana-Ndlela** (40) Director-General: Provincial and Local Government
Academic qualifications:	MBL, University of South Africa (2002) BEd, University of South Africa (1995) Higher Education Diploma, Rhodes University (1988) BCom, Rhodes University (1987)
DBSA Director as from:	1 August 2004

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

Name and designation: **Mr Jayaseelan Naidoo** (51)
Director: J&J Group

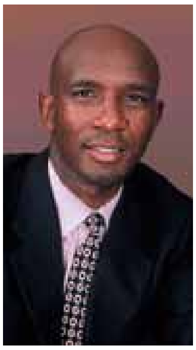
DBSA Director as from: 1 May 2000

Chairman of the DBSA Board as from: 24 August 2000

Name and designation: **Mr Silumko Nondwangu** (41)
General Secretary:
National Union of Metalworkers of South Africa (NUMSA)

DBSA Director as from: 1 August 2004

Outgoing Chief Executive Officer



Name and designation: **Mr Mandla Sizwe Vulindlela Gantsho** (44)
Chief Executive Officer, DBSA

Academic qualifications:
Senior Executive Programme, London Business School (2005)
MSc (Project Management), George Washington University (2002)
CA (SA) (1987)
BCom Hons (Financial Management), University of Cape Town (1986)
Certificate in Theory of Accountancy, University of Cape Town (1985)
BCom (Accountancy), University of Transkei (1983)

DBSA staff member between: 1 October 1995 and 30 June 2006

DBSA Director between: 1 February 2001 and 30 June 2006

Incoming Chief Executive Officer

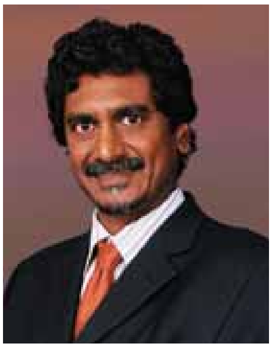
Name and designation: **Mr Paul Baloyi** (50)
Chief Executive Officer, DBSA

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

DBSA staff member as from: 1 July 2006

DBSA Director as from: 1 July 2006

Chairman's report



Chairman
Mr Jayaseelan Naidoo

The Development Bank's operating environment during 2005/06 proved to be an exciting one, characterised as it was by unprecedented economic growth and continued political stability, both in South Africa and the wider region.

In South Africa, another round of successful municipal elections took place, further consolidating democracy and resulting in broad continuity in the socio-economic policy framework. However, this occurred in a context of heightened local demands to speed up the pace of service delivery and the creation of jobs and opportunities. In response, there have been renewed efforts to accelerate shared economic growth, especially by boosting public investment in infrastructure, improving municipal management and more forcefully addressing constraints on the economy.

Nevertheless, the domestic economy remained as robust as ever, growing by an estimated 4,9% in 2005, the best level achieved since 1984, notably due to historically low interest rates and high consumer spending. At the same time, inflation was well within the target range of 3%–6% set by the South African Reserve Bank. However, the rand remained strong, resulting in a less favourable exchange rate for key industries such as mining, clothing and textiles, and helping to generate a current account deficit of just over 4,5%, the highest level in more than two decades.

With a sound mix of fiscal and monetary policies, contained inflation, higher public spending on infrastructure, continued microeconomic reforms, and buoyant international commodity demand driven by China and India, real economic growth is set to remain robust. This growth, coupled with new local delivery initiatives, should make it possible to provide more people with access to basic services, such as water, sanitation, electricity and housing. Sizeable pockets of poverty remain, in both rural and urban areas, notably in the Eastern Cape, Limpopo and KwaZulu-Natal, where a lack of economic activity is compounded by major human and institutional capacity constraints.

The year under review was also auspicious on the regional front. Africa's economic growth was over 5% in 2005, and is headed towards the 6% levels called for by NEPAD. This is the highest growth rate seen in decades, albeit in large part owing to higher commodity prices. Fiscal deficits and inflation appear to be contained well within the single-digit range, though there are troubling exceptions in certain countries in the region.

NEPAD, the Make Poverty History campaign and the Commission for Africa initiatives gathered momentum, and unprecedented debt cancellation took place in Africa's highly indebted and poor countries, as well as in Nigeria. Together with higher commodity prices and increased aid, reduced debt service augurs well for the region, as there is likely to be a steady growth in development and public finance, permitting more vigorous implementation of NEPAD and progress towards achieving the Millennium Development Goals.

The 2005/06 reporting period has been a strategic tipping point for the Bank. This was the first year of Vision 2014, the Bank's strategy trajectory. Vision 2014 envisages an empowered and integrated region, progressively free of poverty, inequity and dependency, and positions the Bank to be a leading change agent for socio-economic development in Southern Africa, and a strategic development partner to the wider African continent south of the Sahara.

Broadly, the Vision requires the Bank to play a more proactive role in unlocking the constraints on service delivery and local economic development. Building on the lessons of past experience, and rising to the Governor's challenge to pay special attention to the poorest quintile of the population, the Bank is now set to tackle the problems of poor spatial design and municipal capacity constraints more creatively.

The Bank's principal strategy is to invest in infrastructural assets, whether economic, social or institutional, which serve the poor, directly and indirectly, and help to create broad-based wealth. This includes not only traditional hard assets, but also softer assets such as human and social capital, which are in short supply in many parts of the country. The strategy seeks to raise overall investment levels in the national and regional economy from a current 16% of GDP towards 25%, the target to be achieved by 2014. There will be a strong focus on public investment and on crowding in the private sector, with special attention to promoting black economic empowerment. The Bank is acutely aware that higher investment levels are needed if South Africa and the region are to achieve and sustain the desired minimum 6% economic growth rate, which is a prerequisite for expanded job creation.

The leading strategic thrust is to broaden and deepen development impact, especially in areas with the highest development needs. This will be achieved through a combination of initiatives, notably the Siyenza Manje task force, the Sustainable Communities programme, the Local Investment Agency created in partnership with Old Mutual, and a targeted infrastructure development programme involving special development credits. These initiatives will be bolstered by an increased appetite for smaller projects, an emphasis on human resource development in the municipal and utility sectors, and continued support for targeted capacity building grants through the DBSA Development Fund.

This strategic thrust is evidence of our commitment to overcoming the development challenges facing poor people in the second economy. Building on its 2003 Hotspots Initiative in Limpopo and the Eastern Cape and on the 2001 Development Fund initiative, the Bank continues to sharpen its focus on more disadvantaged municipalities. The result will be a gradual shift in the shape of the Bank's portfolio, reflecting not only a growing number of smaller projects but also a more pro-poor distribution of financial and capacity investments in poor localities.

In future, the Bank's Vision 2014 will pursue greater synergies with government and regional authorities such as the SADC and the African Union, responding proactively to initiatives, programmes and projects set out in the Accelerated and Shared Growth Initiative for South Africa (AsgiSA), the SADC's Regional Indicative Strategic Development Plan (RISDP) and NEPAD.

Smart partnerships will be central as the Bank joins forces with the public and private sectors to tackle the massive infrastructure and human resource gaps facing the country and the region as a whole. During the past year, the Bank has entered into and fostered a number of partnerships in a quest to deepen and broaden our development impact. These partners include Project Consolidate, AsgiSA and the South African Football Association for the planning of the 2010 World Cup. Knowledge management and greater risk taking also remain important thrusts for the Bank.

With respect to its operations, the Bank continued to thrive, expanding its roles as partner and advisor to complement that as financier, while ensuring financial sustainability. As the Directors' report shows, most of the Bank's targets in promoting sustainable development and maintaining financial sustainability were met or exceeded, and a

Providing alternative energy sources to poor communities in the region has important socio-economic benefits.

majority of its business process and learning and growth targets were met. Once again, the efforts of the DBSA Development Fund were leveraged, and the Fund itself was reinvented and realigned with key initiatives to implement municipal projects and enhance local capacity. It was reassuring to take stock of the Bank's positive performance and contribution over the past year, as it showed growing support to smaller projects, which will have a more direct impact on the poor.

In the year ahead, we will build on our past successes and gear up our execution of key initiatives, while also ensuring a smooth transition of executive leadership. My thanks go to all the Bank's staff, development activists and managers for their contribution to the strong results achieved over the past year. This would not have been possible without their dedicated efforts.

I would also like to applaud Mandla Gantsho, our outgoing Chief Executive, who is passing on executive leadership responsibility after five years of exceptional stewardship. Paul Baloyi will take over the reins, and I have no doubt that he will lead this formidable development finance institution to even greater heights of excellence and development effectiveness.

Finally, I remain most grateful to Minister Trevor Manuel, Governor of the Bank, for his continued confidence and support, and to my fellow Board members for their unfailing commitment to taking the Bank forward.

Jayaseelan Naidoo

Executive management

Name and designation: **Mr Ernest Dietrich** (43)
Executive Manager: Treasury

Academic qualifications:
CFA Charter (2002)
MBA, University of Cape Town (1996)
MSc (Mathematics), University of the Western Cape (1992)
HDE, University of the Western Cape (1985)

DBSA staff member as from: 2 January 2001

Executive Manager as from: 1 April 2006

Name and designation: **Dr Snowy Joyce Khoza** (48)
Executive Manager: Knowledge Management

Academic qualifications:
Economics and Public Finance Certificate, University of South Africa (1999)
PhD (Social Policy), Brandeis University, USA (1996)
MA (Social Science), University of South Africa (1990)
BA Hons (Social Work), University of Fort Hare (1986)
BA (Social Work), University of the North (1981)

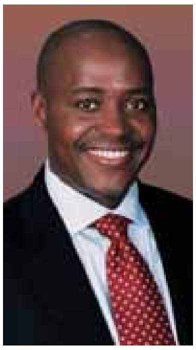
Executive Manager and DBSA staff member as from: 1 October 2002

Name and designation: **Mr Magare Luther Mashaba** (54)
Executive Manager: South Africa Operations

Academic qualifications:
MSc (Ag. Econ), Michigan State University (1993)
BSc Hons (Ag. Econ), University of Pretoria (1986)
BSc (Ag. Econ), University of Fort Hare (1981)

DBSA staff member as from: 14 January 1985

Executive Manager as from: 1 September 2001



Name and designation: **Mr Lewis Maxwell Musasike** (46)
Executive Manager: Private Sector and International Investments

Academic qualifications:
MBA, University of Warwick (1995)
AMCT (UK) (1995)
ACMA (CIMA-UK) (1987)
CA (Zimbabwe) (1985)
BAcc Hons, University of Zimbabwe (1982)

DBSA staff member as from: 1 April 1998

Executive Manager as from: 1 October 2001

Name and designation:	**Mrs Leonie van Leyleveld** (35) Chief Financial Officer
Academic qualifications:	CA (SA) (1997) Certificate in the Theory of Accounting, University of South Africa (1994) BCompt Hons (Accounting), University of Pretoria (1993) BCom (Accounting), University of Pretoria (1992)
DBSA staff member as from:	18 December 2000
Executive Manager as from:	1 January 2006

DBSA Development Fund

Name and designation:	**Ms Jeanette Nhlapo** (36) Chief Operating Officer: Development Fund
Academic qualifications:	BA Hons (Social Sciences), University of South Africa (1996)
DBSA staff member as from:	18 December 2000
Chief Operating Officer as from:	1 June 2004

Incoming executive manager

Name and designation:	**Mr Samson Gwede Mantashe** (51) Executive Manager: Strategic Initiatives
Academic qualifications:	BCom (Hons), University of South Africa (2002) Effective Directorship Programme, Kagiso Leadership School (1998) BCom, University of South Africa (1997)
Executive Manager and DBSA staff member as from:	1 July 2006

Outgoing executive managers

Name and designation:	**Mr Jacob Henry de Villiers Botha** (57) Executive Manager: Strategic Initiatives
Academic qualifications:	Pr Eng (1978) BSc (Eng) (Civil), University of Pretoria (1972) Advanced Management Programme, INSEAD (2002)
DBSA staff member between:	1 October 1988 and 31 May 2006
Executive Manager between:	1 October 1996 and 31 May 2006

Name and designation:	**Ms Zanele Joyce Matlala** (43) Chief Financial Officer
Academic qualifications:	Advanced Management Programme, INSEAD (2002) CA (SA) (1997) BCompt Hons, University of South Africa (1996) BCom (Accountancy), University of South Africa (1993)
Executive Manager and DBSA staff member between:	1 January 2002 and 31 December 2005

Name and designation:	**Ms Disebo Moephuli** (42) Executive Manager: Treasury
Academic qualifications:	MBA (Finance), Dalhousie University, Nova Scotia, Canada (1996) BA (Economics), National University of Lesotho (1986)
DBSA staff member between:	1 April 2000 and 31 January 2006
Executive Manager between:	1 June 2004 and 31 January 2006

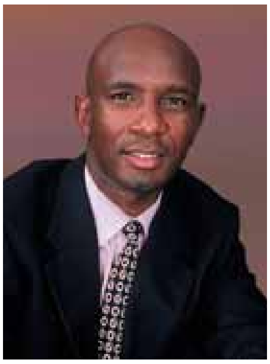
Organisational structure

- **Board of Directors**
  - **Chief Executive Officer and Managing Director** Mandla Gantsho[1]
    - **Development Fund** Jeanette Nhlapo
    - **Manager: Office of the CEO** Greg White[2]
    - **Corporate Strategy** Admassu Tadesse
    - **Internal Audit** Norman Weitz
    - **Corporate Secretariat** Paul Kibuuka
    - **Human Resources Management** Makgoshi Sindane
    - **Corporate Finance and Administration Cluster** Leonie van Leyleveld
      - Executive Coordinator Lindiwe Sibanda
      - Contracts Administration Saleh Coovadia
      - Financial Management Zodwa Mbele
      - Information Technology Graham Tate
      - Legal Services Rapulane Mogototoane
      - Portfolio Management Mlulami Manjezi
      - Procurement Administration and Facilities Management Tom Snyman
      - Risk Management Cynthia Anthony-Maistry
    - **Knowledge Management Division** Snowy Khoza
      - Executive Coordinator Rina Roothman
      - Applied Development Research Janine Thorne[5]
      - DBSA Vulindlela Academy Dennis Thabaneng
      - Development Information David Viljoen
      - Monitoring and Evaluation Landiwe Mahlangu
    - **Private Sector and International Investments Division** Lewis Musasike
      - Executive Coordinator Susan Visser
      - Africa Partnerships Bane Maleke
      - Corporate Finance Emile du Toit
      - International Finance Solomon Asamoah
      - Project Finance: South Africa TP Nchocho
    - **South Africa Operations Division** Luther Mashaba
      - Executive Coordinator Theo Jansen van Vuuren
      - Eastern Cape Oupa Mokuena
      - Gauteng, Free State and North West Bethuel Netshiswinzhe
      - Limpopo Pumla Mannya
      - Mpumalanga and KwaZulu-Natal James Ndlovu
      - Western and Northern Cape Loyiso Pityana
      - Workout Unit Bruce Berry
    - **Strategic Initiatives Cluster** De Villiers Botha[3]
      - Agencies Christina Golino
      - Change Management Enoch Gxwala
      - Corporate Communications and Marketing Nonnie Letsholo
      - Strategic Projects (Project Office) Alta Theron
    - **Treasury Division** Ernest Dietrich[4]
      - Deputy Treasurer Ernest Dietrich (A)
      - Head: Treasury Operations Stephen Mamabolo

1. *Mandla Gantsho until 30 June 2006; Paul Baloyi as from 1 July 2006.*
2. *Until 31 May 2006; Admassu Tadesse (A) as from 1 June 2006.*
3. *De Villiers Botha until 31 May 2006; Gwede Mantashe as from 1 July 2006.*
4. *Appointed on 1 April 2006; previously Disebo Moephuli.*
5. *Policy Research and Specialist Advisory Units merged on 1 April 2006.*

An estimated 1,16 million households will benefit from new and improved basic services.

Outgoing Chief Executive's report



Outgoing Chief Executive Mr Mandla Gantsho

The past financial year proved to be yet another challenging and eventful one for the Development Bank. I am pleased to report that the Bank continued to set new records of delivery measured against key development impact and business performance indicators, in line with the Vision 2014 strategy implemented in 2004/05 and commitments made to the shareholder in support of the People's Contract.

This has been the final year of my five-year term as Chief Executive Officer and Managing Director of the Bank. I look back with pride on the achievements of my colleagues during half a decade of transformation, innovation and sustained growth, as they have striven with tenacity and ingenuity to create a better life for all the people of the SADC region.

The strategic thrusts articulated in 2001 continued to underpin the goal of making a "quantum leap" in accelerating delivery, and broadening and deepening the development impact of the Bank. During 2005/06, further milestones were reached in this regard. The momentum in business growth was sustained. The value of new projects approved reached an all-time record of R8,1 billion, which bodes well for the future delivery of services to areas where they are currently lacking. The volume of new project approvals increased from a five-year annual average of 63 between 2000 and 2005 to 145 in 2005/06. More significantly, the number of project approvals below R10 million increased to 71 (49% of all approvals) in 2005/06, which attests to the progress made in extending the Bank's outreach to institutionally and financially challenged clients.

Total disbursements reached the target of R3,1 billion, indicating that projects are being delivered satisfactorily despite the many capacity challenges that remain, particularly in the local government sphere.

Sustained business growth was achieved in the Development Bank's operations in SADC countries beyond South Africa. Investments in 12 projects worth a total of R1,15 billion were approved during the year, representing an increase of R0,65 billion, or 130% over 2004/05. This included projects in Angola, Malawi, Mauritius, Mozambique, Swaziland, Tanzania and Zambia, in sectors such as energy, manufacturing, telecommunications, tourism and transportation.

Having recognised the pervasive constraints on project delivery at local government level, the DBSA group has refocused its capacity building support activities. The Siyenza Manje capacity deployment task force, which was announced by the Minister of Finance in his February 2006 Budget Speech, has already deployed experts to municipalities to facilitate the preparation, packaging and implementation of priority projects. The task force will reach targeted staffing levels of 90 during 2006, and will be deployed to 30 municipalities by the end of the year.

The Bank has a strategic imperative to broaden and deepen its development impact. In pursuit of this, a pilot Sustainable Communities programme has been implemented. This provides a comprehensive, integrated package of support to poor municipalities in their efforts to deliver social and economic infrastructure that promotes local economic development and sustainably improves the quality of life of residents. The physical implementation of projects will commence in five localities in the Eastern Cape, Gauteng, Limpopo, Mpumalanga and the Western Cape during 2006.

The DBSA Vulindlela Academy, now fully operational, provided various training programmes in areas such as risk management, project management, project appraisal methodologies, and monitoring and evaluation during the year under review. More than 500 training opportunities were created for internal staff, while more than 200 officials from municipalities and other development finance institutions attended the externally focused courses. A tripartite agreement concluded in October 2005 between the Bank, the NEPAD Secretariat and the Japan International Cooperation Agency (JICA) provides for the delivery of joint training programmes for SADC development finance institutions over a five-year period. The first training programme was delivered in February 2006 to 30 delegates from development finance institutions in the SADC, as well as Rwanda, Uganda and Sudan.

Further key knowledge initiatives included the launch of the fourth DBSA *Development Report* in July 2005, in partnership with the United Nations Development Programme (UNDP)

The DBSA Vulindlela Academy, now fully operational, is providing various external training programmes.

and the Human Sciences Research Council (HSRC). This report focuses on the challenges of South Africa's "second economy". The *DBSA Infrastructure Barometer*, the first publication in a new series, was released in March 2006. This provides a comprehensive overview of the current state of economic and municipal infrastructure in South Africa and the challenges faced in developing it.

The development challenges in the SADC region are massive and complex. In seeking new ways to support our clients, the Development Bank pursues the strategic thrusts of innovation, entrepreneurship and responsible risk taking. Good progress has been made in mainstreaming this approach within the Bank. Formal training provided to managers and senior professionals during the year led to the identification and implementation of a number of innovative products, including a new loan pricing policy and a new facility to promote the development and adoption of environmentally sound technologies in projects.

The ultimate measure of the Bank's performance is how it touches the lives of people. Through the Bank's operations in 2005/06, an estimated 1,16 million households will benefit from new and improved basic services. This is also expected to contribute R2,35 billion towards GDP in South Africa and other SADC countries, and to create 17 000 jobs based on direct disbursements associated with the implementation and management of projects supported by the Bank.

It is gratifying that the Bank has made such progress in pursuing its developmental goals, without compromising its financial sustainability. The Bank's financial position remains sound, with total assets having grown by R1,8 billion to R26,5 billion. The net surplus of R0,9 billion further strengthens the Bank's ability to allocate resources to key capacity building and knowledge functions. Market confidence in the Bank's financial strength was reaffirmed during the year: its AAA domestic credit rating was reconfirmed, and its international credit ratings remained on par with the sovereign ratings, which are currently set at Baa1 by Moody's Investors Service and BBB+ by Standard and Poor's.

After five years at the helm of the institution, I believe that the Bank has achieved a great deal on many fronts, as financier, advisor and partner. We have gone a long way towards realising the vision of being a leading change agent for socio-economic development and improving the quality of life of the region's people. The Bank's human capital base remains its greatest asset, and the major advances it has made would not have been possible without the dedication, ingenuity and commitment of its "development activists".

I would like to pay tribute to my predecessor, Dr Ian Goldin, with whom I had the privilege of serving for five years. He led the initial transformation of the Bank and was instrumental in establishing it as a financially sustainable development finance institution. This solid foundation enabled the unprecedented growth achieved over the past five years.

The ongoing support and guidance provided by the Bank's Governor, Minister Trevor Manuel, has been invaluable. Under the leadership of the Chairman, Mr Jay Naidoo, the Board of Directors has offered wisdom, oversight and direction to the Bank, for which I am deeply appreciative.

Looking ahead, I am confident that a sound platform has been established for a new growth trajectory, which will see the Bank contributing to the battle against poverty, dependency and underdevelopment, and helping to create an empowered, integrated region that offers a better life for all. I wish my successor, Mr Paul Baloyi, and all my colleagues everything of the best in executing the Bank's Vision 2014.

Mandla Gantsho

Incoming Chief Executive's statement

Incoming Chief Executive Mr Paul Baloyi

With economic growth at the highest levels seen in decades, there can be no doubt that South Africa and the region are about to enter a new era of broad-based growth and development. Given the enabling external environment, notably with regard to public finances, the time is ripe to close the infrastructure gap, which is arguably the single most binding constraint on our sustainable growth and development.

The Chairman of the Development Bank of Southern Africa, Mr Jay Naidoo, and our Governor, Minister Trevor Manuel, have highlighted the extent of the infrastructure gap in economic, social and spatial terms, and have called for a new level of public and private investment in infrastructure development. It is clear that the infrastructure gap is a function not simply of the lack of financial capital, but of the lack of critical human and institutional capital, in the form of engineers, spatial planners, project managers, and effective procurement systems. It follows that closing this gap is far more than just a financing challenge.

In this context, the Bank, with its infrastructure mandate and triple role as financier, partner and advisor, has an important role to play in building the foundations for the development of the country and the region. Over the past decade, the Bank has broken new ground in developing a robust, first-tier municipal debt market in South Africa, which now attracts substantial private sector interest. It has also helped to pioneer investments in Southern Africa, notably in Mozambique, which is now among the most promising emergent markets in the region.

In the years ahead, the Bank will leverage its capacity in order to expand its outreach and sharpen its focus on second- and third-tier municipal debt markets in South Africa. At the same time, it will continue to catalyse regional integration and economic development, in partnership with other development finance institutions and the private sector. The Bank will work closely with government, and intensify its partnership and advisory roles through key initiatives such as Siyenza Manje. Focused training interventions by the DBSA Vulindlela Academy will ensure that human capacity is not only mobilised but also enhanced.

This outreach represents a new level of development activism, one that will take the organisation beyond its established modus operandi. The Bank will delve deeper into the implementation process, actively applying its development knowledge and leveraging partnerships to originate and package projects to a point where they are bankable. Our way of working will be more actively engaged and aimed at catalysing new development ventures that seek to reconfigure the development space, promote innovation and open up new opportunities.

This expanded outreach, in the interests of broadening and deepening development impact and creating new and more competitive markets, will involve an unprecedented level of hands-on capacity building and knowledge integration, which will be instrumental in enabling the Bank to manage and mitigate the risks associated with greater engagement in less established, poor areas.

The Bank's role and mandate require it to be a natural repository for infrastructure development knowledge. It is imperative that the organisation maintains a current knowledge base, and uses it not only to inform discussions around its immediate business, but also to engender robust policy debates that influence development overall. A key feature of the Bank's outreach will therefore be the generation and application of quality knowledge, to ensure that the organisation can more proactively advance development effectiveness at both project and policy level. This will involve creative and evaluative thinking on socio-economic and spatial issues, as the basis for innovation, reform and constructive debate on development. The approach will rest on a combination of analysis, evaluation and applied research, with an emphasis on good practice, design and learning by doing. Advanced knowledge management will be pursued throughout the organisation in a more organic, rigorous and integrated manner.

These are key strategic directions that underpin the Bank's new Vision 2014. The accompanying strategy will be updated and sharpened over time, to ensure dynamic synergies with emergent programmes such as the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) and Joint Initiative on Priority Skills Acquisition initiatives. Special attention will be paid to key infrastructure and economic development projects in the country and the region, as identified in AsgiSA and the short-term infrastructure programme of NEPAD. Our vision will continue to reflect and support government's own 2014 development vision, which is premised in turn on the People's Contract, and the principles and goals underlying both NEPAD and the United Nations' Millennium Declaration.

These are exciting times for the country and the region, and the stakes are high for the Development Bank and its stakeholders. I feel both honoured and privileged to be the incoming Chief Executive of this fine development finance institution. In taking the reins, I will ensure that the organisation sustains the momentum it has built up. It will also be crucial to ensure that the Bank rapidly develops the necessary internal capacity and configuration to execute its multi-pronged strategy and fulfil its commitments. I am fortunate that I can rely on the collective guidance of an impressive Board of Directors, as well as the wisdom of an astute Governor, whose support will be indispensable as I strive to lead this organisation to make a greater impact.

In the months ahead, I look forward to a dynamic process of engaging the Bank's stakeholders, shareholders and partners, with a view to striking a current and appropriate balance between the various strategic objectives of the organisation. I am confident that with a collective effort, involving my fellow Directors, executive team and committed staff, the Bank's interventions will unlock even greater development value.

Paul Baloyi

Operations overview

South Africa Operations

Executive Manager: Luther Mashaba

Nature of business

The South Africa Operations Division confines its work to South Africa, dealing mainly with public sector clients or institutions that deliver infrastructure-related services to communities within the country. It also works closely with the Private Sector and International Investments Division on deals involving the private sector in South Africa. The South Africa Operations Division delivers its development support through various partners, including the provincial and local government sectors (local, district and metropolitan municipalities), public entities, regional development finance institutions, water boards, tourism authorities, further education and training institutions, non-government entities and private sector bodies.

The Division is organised into six Business Units, five of which service the needs in the nine provinces, while the sixth provides support across South Africa. The five Units that support the provinces do so mainly by providing a comprehensive package of technical and financial assistance to institutions responsible for infrastructure services. The provincial Business Units are designated as the Eastern Region (KwaZulu-Natal and Mpumalanga), Southern Region (Western Cape and Northern Cape), Western Region (Gauteng, Free State and North West), Eastern Cape and Limpopo. The latter two were established specifically to focus on the provinces identified as poverty hotspots, which are areas of national concern and strategic priority, requiring urgent and focused intervention. The Workout Unit attends to clients in distress within South Africa, but also provides this specialised service to clients of the Private Sector and International Investments Division in the rest of the SADC region, designing interventions and recovery plans aimed at putting these clients on a sustainable recovery path. The Office of the Executive Manager provides overall strategic direction, management and coordination services across the various Units.

Strategic overview

Vision and strategy

The South Africa Operations Division is the public sector arm of the Bank, and through its support to clients aims to further the sustainable delivery of services and provision of infrastructure in South Africa. The Division contributes to the Bank's vision of developing a region free of poverty, where all the inhabitants have adequate access to basic services and opportunities.

The Division seeks to maximise development impact by providing infrastructure investment loans, forming and enhancing strategic partnerships, and offering technical assistance and advice. It interprets and implements the Bank's comprehensive strategy, which is informed by national and provincial priorities and programmes, and by the development needs that communities express through the Integrated Municipal Planning Process, as reflected in Integrated Development Plans.

In addition, the Division's strategic thrusts are guided by various studies on infrastructure backlogs, the gearing up for the 2010 Soccer World Cup, and initiatives such as the Expanded Public Works Programme, Project Consolidate, and the Accelerated and Shared Growth Initiative for South Africa (AsgiSA).

During the year, the Bank re-emphasised the need to build sustainable communities, especially in under-resourced areas. The Division considers this a critical initiative, aimed at broadening development impact to include under-resourced communities, building delivery capacity, removing obstacles that prevent service delivery and growth, and establishing strategic partnerships with all levels of government, other development finance institutions, and, in particular, utilities and metropolitan councils.

Operations review for 2005/06

In the year under review, the Division supported the Bank's strategic thrusts by making a greater contribution to infrastructure provision. The lending and investment portfolio, as well as the technical support programme, grew markedly. The Division expanded its client base significantly and achieved development support outputs at meaningful levels in all nine provinces. The volume of funding contributed by other sources to the Division's funded projects has increased sharply, indicative of the progress made in leveraging strategic partnerships.

Performance and trends in the South African operating environment

Despite expectations that investment levels would be negatively affected by pre-election uncertainties at local government level, the Division succeeded, especially later in the year, in increasing its investment approvals from R3,2 billion in 2004/05 to R5,1 billion in 2005/06. As a result, the cumulative approvals in South Africa now stand at R33,7 billion, an increase of 26% from 2004/05.

Of particular importance was the broadening of the client base in this process, with 77 clients (38% of them first-time clients) receiving investment loans on 110 projects. Although the monetary value of these approvals is still dominated by metropolitan municipalities and utilities (56% of approved value), the programme spread was more balanced, with under-resourced municipal clients receiving 12,7% of the number of all approvals (up from 3% the previous year).

The main instrument utilised by the Division to achieve this shift in focus and to reach out to more rural areas was the Targeted Infrastructure programme. This programme was designed as a short-term intervention to provide loans in areas where development needs are acute and clients cannot afford loan finance from institutions at normal rates. As a result, approvals worth R439 million were made to such clients.

The Division also played a supportive role in the Bank's design and piloting of the Sustainable Communities programme, which will commence in 2006/07 and seek to address needs in these areas holistically.

As reported during 2004/05, the Division also applied the new risk profiling methodology, which aims to strengthen the delivery process by making funding more accessible to clients. As a result, the growth in lending to the municipal sector and mid-size municipalities was positive, with more than 82% of all approvals to clients categorised as Market 2.

Through public entities, such as water boards and development corporations, the Division continued to deliver investment support to both urban and rural areas, capitalising on these entities' abilities to deliver services to communities in a sustainable manner. The important role of water boards in delivering services to rural communities specifically came to the fore and 27% of total Bank approvals were to water-related infrastructure projects. Other utilities operational in the telecommunications, housing and entrepreneurial sectors also constituted important delivery channels for the Division during the year.

On a geographical basis, the Division was operational in all nine provinces, with the greatest demand for support from Gauteng, KwaZulu-Natal and the Western Cape. These areas also represent some of the biggest concentrations of people and backlogs, justifying the portfolio balance. Progress in the more rural and under-resourced provinces such as the Eastern Cape and Limpopo was encouraging. The Division has continued to support these provinces with both infrastructure and capacity building programmes, and clients such as the Alfred Nzo Municipality and the University of Fort Hare have benefited from the Targeted Infrastructure programme.

Capacity constraints regarding delivery, specifically in municipalities, remained an obstacle to accelerated development. Project Consolidate, which is led by the national government in partnership with the DBSA Development Fund and aims to overcome the acute capacity constraints in the worst affected municipalities, continued to play an

Eradication of the bucket system and the implementation of adequate sanitation has led to improved health in communities.

important role in Divisional activities. In addition to the support provided to Project Consolidate in its effort to strengthen institutional capacity at the municipal level, the Division increased its own technical assistance portfolio to stimulate the identification and implementation of development projects and to remove blockages in the delivery chain. In total, an amount of R20,3 million of technical assistance grants was approved for this purpose. In addition, the Division supported capacity building initiatives by the DBSA Development Fund to a value of R53 million in new approvals. These covered a wide range of support interventions and contributed significantly to the increase in the absorption capacity for investment loans. It is envisaged that this more focused technical assistance approach, where support is aimed at specific development initiatives, together with the activities and targeted focus of the DBSA Development Fund, will continue to build the capacities of municipalities to the level where they can engage the Bank's investment facility in order to address their infrastructure backlogs.

During the year, the impact of an increased focus on the municipal market by commercial banks as well as the entry into this market of international funding became much more apparent. This should be seen in the context of government's challenge to these funders to contribute more to the municipal market, while the regulatory framework for municipalities has also resulted in changes in the way they secure funding for development. The Division welcomed this approach, as it has significantly increased the funding available to the municipal sector for development projects. It is anticipated that to alleviate the current and projected backlogs in infrastructure, municipalities will have to source up to 22% of required funding for infrastructure from loan funding.

The changes described above have given rise to a more competitive environment, and in some instances banks have competed purely on interest rates to secure business, mainly from the larger, better capacitated clients. Many municipalities have employed the bidding process to mobilise funding. This posed great challenges to the Division, regarding its ability to respond to such requests on short notice and to approve funding without sacrificing the integrity of its assessment processes. The main challenge was to maintain the focus on development impact.

The Division is confident that it has adapted its processes to the new environment. It will continue to provide development support that is appropriate and loans that have a sustainable development impact, while successfully offering funding at appropriate and competitive rates. The Division foresees an increasing use of the bidding process to acquire development funding in the forthcoming years.

Gearing up for the 2010 Soccer World Cup was a central theme in discussions with authorities and a long-term plan of action in this respect is being implemented. Measures in support of the World Cup include capacity audits of the host cities and impact assessments of the proposed venues.

The development agenda is best served when institutions in the field cooperate and coordinate their activities to achieve mutually supportive objectives. Securing and maintaining strategic partnerships is therefore of critical importance. Through the Sustainable Communities programme, the Bank, national government and other parties have begun to address needs in a comprehensive and holistic way, thus jointly ensuring that development impact is maximised. Further formal cooperation agreements are in place with national government, a number of provincial governments, development institutions such as the Umsobomvu Youth Fund and sporting bodies such as the South African Football Association (SAFA).

After the 2006 municipal election, the Division commenced a review of its relationship and cooperation agreements with key partners on the municipal front. It will also continue to interact with utilities and the provincial governments on issues such as the provincial growth and development strategies. During the past year, such interaction has been instrumental in enabling the Division to focus its support initiatives, whether in the form of technical assistance or investment, on national, provincial and local priorities.

Equally important was the Division's ability to mobilise additional resources for its initiatives from other institutions. During the past year, in addition to the R5,1 billion funded by the Division, a further R9,8 billion was contributed by other sources. This represents a ratio of 1:1,91 (compared to 1:0,68 the previous year), showing the momentum that has built up in infrastructure delivery in South Africa. The Division will continue with this approach in the new year, striving to align strategies and form partnerships in order to carry this momentum through.

Clients in distress

During the year under review, the Workout Unit continued to assist municipalities in financial distress. The Division was fortunate that despite the institutional and financial difficulties experienced by some municipalities, the level of distress cases within South Africa remained stable from the previous year. The Unit has begun to capacitate itself further so that it is in a position to deal with these challenges. Several loan restructuring packages were put in place with clients in distress, leading to total recoveries of R145 million in 2005/06. The Unit continued to work closely with the DBSA Development Fund in providing technical assistance for capacity building to a number of struggling municipalities.

Prospects for the coming year

From national to local government level, accelerating service delivery remains at the heart of policy, and municipalities are expected to continue playing a leading role in this regard. They will require increased support. There will also be a demand for infrastructure to support the anticipated 6% growth rate in the economy. Activities related to the building of infrastructure required for the 2010 World Cup will make ever-increasing demands on all.

Helping to strengthen delivery capacity, through Project Consolidate and other programmes, will remain a high priority for the Division, one it will pursue in conjunction with the Development Fund, the government and other development partners. The Division will have to draw specifically on its human resources and will be required to refocus its support mechanisms, in partnership with the Knowledge Division.

Another challenge for the Division will be to realign itself with the municipal development priorities of the newly elected councils. In this process, it will be important to follow up on the national government's initiatives to review and assess the functioning of the Integrated Development Plans (IDPs) and their resourcing. The government's Five-Year Local Government Strategic Agenda will continue to guide the Division's activities.

Regarding investment funding, demand is expected to increase, mainly through the bidding process. The Division will be challenged to ensure that funding provided through this mechanism is sustainable and has development impact. Increased capital requirements, especially in cities hosting the World Cup, will necessitate the strengthening of strategic partnerships, while the piloting of the Sustainable Communities programme will provide valuable insights into development needs and delivery approaches.

Efforts to diversify the client base and identify delivery agents beyond the traditional municipalities and utilities will be pursued more rigorously in areas where capacity is weak. It is envisaged that more small-scale projects, run by the non-governmental organisations and private sector bodies operating in this domain, will be promoted. On the other hand, the important role of utilities and metropolitan municipalities in delivering services on a large scale will still be recognised.

Private Sector and International Investments

Executive Manager: Lewis Musasike

Nature of business

The Bank's Private Sector and International Investments Division comprises four operating Business Units, namely, Corporate Finance, Project Finance: South Africa, International Finance, and Africa Partnerships. The Corporate Finance Unit provides financial support to broad-based black economic empowerment (BEE) transactions, and invests in third-party funds, particularly private equity funds. It operates only in South Africa. The Project Finance Unit also operates only in South Africa, and provides financial support to project finance and public-private sector transactions (commonly known as public-private partnerships or PPPs). The International Finance Unit is the Bank's window for all its investments and lending activities in the rest of the SADC region (outside South Africa). Statutorily, the SADC operations are limited to one third of the Bank's total investment and lending operations. Finally, the Africa Partnerships Unit gives impetus to Africa's socio-economic development by facilitating the implementation of the NEPAD programme.

Strategic overview

Vision and strategy

In the context of the Bank's overall vision, the Division aims to be a champion in providing financial products and advisory services for commercially viable and sustainable infrastructure and economic development. The Division therefore focuses on commercially viable and economically sustainable transactions and activities, leading to economic growth and poverty eradication.

In South Africa, the strategy entails funding mainly greenfield or expansion projects with substantial empowerment credentials, within the guidelines of the various industry charters. The Bank seeks to align its investment strategy with national government's infrastructure initiatives, such as AsgiSA. In line with one of its strategic thrusts, the Bank also partners with private sector sponsors of infrastructure projects.

With respect to the SADC strategy, the Bank has identified those sectors that drive the economic growth and development of the target countries, and is thus focusing on countries where the enabling environment is improving, national priorities are defined and government is strongly committed to poverty eradication and economic development. The Bank aims to be a source of smart money in Southern Africa, which will improve the financial and operational efficiency of both public and private companies, so that the region can become further integrated, more competitive, better developed and ultimately wealthier.

With respect to NEPAD, the Bank aims to optimise contributions to the NEPAD strategy by providing appropriate finance, expertise and partnerships for infrastructure development. This is achieved mainly through undertaking an advocacy role, facilitating the preparation of projects and programmes, forging smart partnerships and mobilising resources.

Business environment and operational review

In South Africa, BEE transactions remained the key driver of corporate activity, as the government extended empowerment to all the sectors that are central to social transformation.

The charters that touch directly on the role of the Division in supporting infrastructure development are those in the following sectors:

- Financial services
- Energy
- Mining
- Information and communication technology (ICT)
- Tourism
- Transport

Information and communication technology has led to economic growth and poverty eradication.

These charters all require a significant level of equity ownership by previously disadvantaged individuals, and the equity transfer this entails provides funding opportunities for the Bank in line with its key strategic thrust of BEE. In the year ahead, an increased emphasis will be placed on broad-based empowerment, in line with the codes of good practice issued by the Department of Trade and Industry. The Bank's experience so far shows that the interest of other financial institutions in empowerment transactions still revolves mainly around the more developed projects with a proven track record. The funding of start-up and expansion empowerment projects remains a challenge. The main driver of empowerment projects is still the implementation of sector charters, supported by a vibrant economy and historically low funding costs that ease the structuring of transactions. Empowerment projects are evident in almost all sectors of the economy, except retail. The participation of second-tier, non-listed companies in empowerment, as opposed to the traditional listed or large unlisted companies, opens up a new strategic avenue for the Bank, allowing it to play a more prominent role in empowerment transactions of the start-up or expansion kind.

With respect to private equity investments, the Bank suspended new investments pending a review of the development effectiveness of this asset class. Through its representation on the funds in which it has invested and its partnerships with other development institutions that have substantial exposure to this asset class, the Bank has already begun to influence the investment strategies of the fund managers. The local private equity industry continues to experience high levels of activity on all fronts, outpacing the growth of other international private equity markets. In response to the challenges facing small and medium enterprises, the Corporate Finance Unit is developing a proposal to set up an entrepreneurial fund, which will spearhead investments in smaller entrepreneurial companies that are aligned with the Bank's broader mandate.

The project finance environment in South Africa remains constrained by the slow rollout of new PPPs and the long delays associated with putting together bankable transactions generally. Projects cannot be fast-tracked because of regulatory processes and the lack of appropriate capacity and equity funding, still evident among both project sponsors and government agencies. On the positive side, the government's commitment to improving the service delivery capacity of the municipal sector will contribute towards PPPs being viewed as serious procurement contenders for the delivery of services at this level of government in future. In the effort to reduce the transaction costs of deals, the Bank is well positioned to apply classical project finance principles on smaller projects and roll out commercially viable projects with significant development impact faster than would be possible in large transactions.

The Project Finance Unit will continue with its key strategic emphasis of supporting sustainable projects that are aligned with government's infrastructure development objectives, along with projects sponsored by the private sector. In this regard, several possibilities in the municipal sphere are already being considered, and some groundbreaking municipal PPPs should be brought to fruition soon. The Bank also expects to play a major role in funding certain infrastructure elements proposed under AsgiSA.

In the rest of the SADC region, the operating environment is progressively turning positive as peace, stability and good governance take hold in a number of countries. The SADC's Regional Indicative Strategic Development Plan (RISDP) has been mapped out, with the aim of allowing the economies of member countries to grow steadily over the years and reach the targeted 7% growth rate. This strategy rests on the twin pillars of good economic governance and good political governance. Already some member countries are emerging as continental leaders with regard to macroeconomic policies and poverty reduction strategies, as well as institution building. As far as economic performance in the region is concerned, Angola is leading the way with a 13,8% growth rate, followed by Mozambique with 8% and Tanzania with 6,2%. Growth rates have also improved in Lesotho, Namibia and Zambia. In 2004, economic growth in the SADC accelerated to 4,1%, against 3,2% in 2003. Significantly, the region is outperforming Africa south of the Sahara, which grew at 3,8% in 2004. GDP growth is attributable to a combination of factors, including the deepening of sound macroeconomic reforms, higher prices for major export commodities, improvements in agricultural production, and debt relief programmes that have benefited countries such as Mozambique, Tanzania and Zambia.

In addition, the NEPAD initiative is helping African countries to redirect their energies towards projects and programmes that promote economic growth and integration. The Bank continues to play a leading role in key regional NEPAD projects, by providing capacity building support and funding for project development activities. Increasingly, the Bank is also being asked to play the role of anchor financier for NEPAD projects. Although there is considerable political support for projects sponsored by NEPAD throughout the continent, closing the financial arrangements remains a challenge in many projects. By playing the anchor role in carefully selected NEPAD projects, the Bank should be able to unlock other sources of finance and finally enable NEPAD to achieve results on specific funded projects.

Drawing on its deep understanding and knowledge of key issues and trends in the region, the Bank is able to adapt its products and services continually so that they better reflect and support the ever-changing regional environment. Governments in the region have begun to move away from full privatisation of key infrastructure and to adopt alternative ways of developing infrastructure, for instance through PPPs and management contracts. The Bank has thus adopted a strategy which focuses on those public sector infrastructure providers that are moving towards commercialisation.

The economies of many countries, such as Angola and Zambia, are strongly influenced by the prices of oil, gold, platinum and other commodities, while power shortages are a growing problem. Furthermore, in the recent past China, and to a lesser extent India, has shown an increased appetite for investment in the region. The advantage is "cheap" financing to countries that normally might not have access to funding at these rates. However, the long-term sustainability of these projects is in doubt, as all the resources, including staff and materials, are part of the financing package, which does not lend itself to skills transfer or local economic development. In this situation, regional and continental players can make a more meaningful contribution and increase coordination between development finance institutions and commercial banks.

The Bank now offers to play a new role as financial arranger and advisor to its clients, in support of its key goal of developing local capital markets. A major constraint on private sector growth and investment remains the lack of access to appropriate medium- to long-term capital, while underdeveloped capital markets prevent available liquidity in individual countries from being allocated optimally. The Bank has thus expanded its product offering to include risk enhancement instruments such as guarantees, and is actively pursuing co-financing arrangements with local financial institutions.

Operational review

From an operational perspective, the Division has performed well during 2005/06. Levels of approvals and commitments have grown steadily over the last three years in each of the individual Business Units, and the effects of this should filter through to disbursements. In 2005/06, levels of approvals were exceptionally high. Total loan and equity approvals amounted to R2,9 billion, against a target of R1,5 billion and the previous year's figure of R1 billion. Of these approvals, the Corporate Finance Unit contributed R598 million, Project Finance: South Africa R1,2 billion and the International Finance Unit R1,1 billion. The high levels of approvals were due to a deliberate effort to build a sufficient pipeline of investments, as the turnaround times on some projects financed by the Division tend to stretch over more than one financial year.

Commitments for the year reached R1,2 billion, against a target of R1,2 billion and the previous year's figure of R1,7 billion. Of these commitments, the Corporate Finance Unit contributed R277 million, Project Finance: South Africa R123 million and the International Finance Unit R765 million.

Disbursement levels also met the target: an amount of R1,1 billion was disbursed, against a target of R1 billion and actual disbursements in the previous year of R1,6 billion. Of these disbursements, the Corporate Finance Unit contributed R267 million, Project Finance: South Africa R144 million and the International Finance Unit R651 million.

The approvals, commitments and disbursements represented about 37%, 30% and 35% of the Bank's achievements in these areas for the year. In addition, the Africa Partnerships Unit approved R8,9 million for project development and capacity building support. To date, total approvals stand at R18,3 million and disbursements at approximately R7,7 million.

Financial resource mobilisation was one of the Unit's major activities during the year. Co-funding arrangements are in place involving Agence Française de Développement (AfD) and the African Development Bank (ADB), and during the year new proposals were initiated involving key stakeholders such as Kreditanstalt für Wiederaufbau (KfW), the Japan International Cooperation Agency (JICA), the Japanese Bank for International Cooperation (JBIC) and the World Bank. Over US$200 million is expected to be mobilised from the new initiatives.

The total investment to date in the SADC region (excluding South Africa) amounts to R8,4 billion, comprising over 120 medium- to long-term projects for both public and private entities across a diverse range of sectors, such as energy, agro-industrial infrastructure, financial services, tourism, industry and telecommunications. Highlights for each Business Unit are outlined below.

For the *Corporate Finance Unit,* two highlights in the period under review can be mentioned. Firstly, the Bank approved and invested R85 million in a broad-based BEE venture to secure 25% of a company that is a major supplier of engineering services to the local infrastructure sector, including the rail and marine subsectors. Secondly, the Unit committed and disbursed R86 million on the One & Only Hotel at the V&A Waterfront in Cape Town. It is anticipated that the BEE shareholding in this hotel will amount to 80% once the Bank exits from the project. In general, the Bank's turnaround times on all the Unit's project approvals were ahead of the requirements of project sponsors as well as the responses from other co-funders.

The *Project Finance: South Africa Unit* made very significant progress in building an expanded pipeline of projects during the year under review. This performance has paved the way for future investment activity. Among the notable transactions concluded by the Project Finance Unit are the R175 million empowerment financing facility for the Strategic Partners Group (SPG) in the Gautrain Project; and the R300 million financing of the Blue Ridge Platinum mining project, which is to be located in the eastern limb of the Bushveld Complex near Groblersdal, Mpumalanga.

The *International Finance Unit* approved projects in seven out of the 13 SADC countries. Of the total approvals, 29% was for the public sector and 71% for the private sector, with products ranging from direct loans to guarantees, preference shares and equity. The Bank has also been active as an advisor and arranger, acting as joint lead arranger for the Celtel Tanzania medium-term syndicated lending facility. In addition, it has been shortlisted for other high-profile advisory and arranging mandates.

A number of unique initiatives show the Unit's "smart money" at work in the region. For instance, it has given significant support to national development finance institutions, such as the Development Bank of Zambia, by extending credit lines, investing in equity, and providing technical assistance and capacity building programmes. In response to a growing emphasis on the indigenisation of projects in the region, empowerment components have been included in transactions where appropriate, as in the Copperbelt Energy Corporation and David Livingstone transactions in Zambia.

The Bank has continued to play a prominent role in support of the Southern African Power Pool (SAPP), acting as financial advisor in identifying crucial projects that address the power shortage in the region. With 30% of its R4,56 billion portfolio invested in energy, the Bank has consolidated its position as a major player in energy financing.

During the year, the Africa Partnerships Unit continued to support the NEPAD initiative through advocacy, capacity building and project development assistance. Among other programmes, the Unit supported the East African Submarine Cable System (EASSy), which will improve the direct connectivity of Africa, between countries and regions, and decrease the cost of communication; and a power interconnector programme, the ultimate goal of which is to develop an energy transmission line connecting Zambia, Tanzania and Kenya.

Given the challenging operating environment, it is worth mentioning the performance of the Division's investments and loans. There were no defaults recorded in the Project Finance Unit, but certain investments and loans in other Units were classified as non-performing. The Corporate Finance Unit had a loan book value of R148 million in default (including R121 million in default from 2004/05), representing 16,7% of the Unit's total portfolio (including Private Equity Funds); and defaulting loans in the International Finance Unit had a value of R185 million (2004/05: R246,6 million), representing less than 4% of the Division's total portfolio. These loans are monitored closely and resolution has already been reached on some of them.

Prospects for the coming year

During the coming year, corporate financing activity will largely be driven by BEE transactions, while PPP-driven business is on the increase as the various spheres of government, including state-owned enterprises, step up capital expenditure programmes to accelerate delivery. The AsgiSA initiative is likely to give rise to a number of large infrastructure projects in South Africa, with municipalities directing more effort towards these areas.

Internationally, the Regional Investment Strategy is expected to allow the Bank to expand its operations. Promoting the aims of NEPAD – through advocacy, capacity building and project preparation – will continue to be a key goal of the Bank, which has already successfully mobilised international funds for allocation as technical assistance to regional projects in preparation with a high potential development impact. Increasingly, the Bank is being asked to act as anchor financier on NEPAD projects, thus unlocking other sources of finance and finally enabling NEPAD to achieve results with specific funded projects. This is especially critical for projects that transcend national borders and promote regional integration, and thence larger African markets.

Outside South Africa, the development and promotion of capital markets and financial systems will be an important area of focus for the Bank. Lack of access to appropriate medium- to long-term capital remains a key constraint on private sector growth and investment in the region. The Bank has thus expanded its product offering to include risk enhancement instruments such as guarantees, and is actively pursuing co-financing arrangements with local financial institutions. A related initiative is the support offered to key countries in the region to help them establish or strengthen their national development finance institutions.

The Bank is also exploring how best to assist in the establishment of viable mortgage financing, as a step towards resolving the vast housing backlog in the region. A successful mortgage financing mechanism could have a monumental development impact, as such financing is a key means for improving money circulation in a financial system. Housing investment is a crucial component of economic development, both because adequate shelter is a basic social need and because private home ownership is often an important source of capital for entrepreneurs.

The Bank is mandated to promote private sector participation in development, and supporting the private sector is therefore a focus for the International Finance Unit. Increasingly, the Unit is able to support the indigenisation of assets and facilitate the empowerment of local citizens in transactions where appropriate. The recent inclusion of Madagascar in the SADC provides an exciting new destination for Bank funds. The International Finance Unit has already identified key sectors and business opportunities in the country and is planning to accelerate its business development activities there. The Bank will continue to strengthen its partnerships in the region, particularly with other African development institutions and with the growing number of specialist funds available in the region. It will also continue to work with SAPP in the effort to resolve the regional power shortage.

The Africa Partnerships Unit will concentrate mainly on furthering cooperation among partners and coordinating efforts in the international donor market, through active interaction in the newly established Infrastructure Consortium under the guidance of NEPAD. The Unit will continue to build capacity at the level of regional economic communities – that is, in the SADC, the Economic Community of Central African States (ECCAS), the Common Market for Eastern and Southern Africa (COMESA), and East Africa – especially since there is an overlap in the membership of the SADC and these other regional communities.

The Unit intends to enhance its partnership with AfD and extend the current joint facility, as a means of ensuring that projects are taken through to legal and financial closure. The envisaged formal cooperation agreement between AfD and the ADB will be revised and implemented in 2006/07.

Strategic Initiatives

Executive Manager: De Villiers Botha[1]

Nature of business

Guided by the Bank's Vision 2014, the Strategic Initiatives Cluster manages organisational change by implementing strategic projects, pursuing communications strategies, and establishing and maintaining various strategic partnerships. The Cluster houses the following Units:

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

Strategic Projects

In the year under review, the Unit executed various strategic projects aimed at preparing the organisation for the changes required to achieve its Vision 2014 goals and objectives.

Strategic projects with an external focus were:

- Sustainable Communities programme
- Local Investment Agency project
- Local Government Resource Centre
- Soul of Africa art exhibition
- *Footprints of Development 2001–2005: The DBSA's contribution* (publication)

The aim of these projects was either to investigate and establish new ways of doing business or to serve as a branding and marketing tool for the Bank.

Projects that aimed to improve internal efficiencies were:

- Business Process Management programme
- Business Continuity project

1. Executive Manager until 31 May 2006; Gwede Mantashe as from 1 July 2006.

The Bank hosted the Soul of Africa art exhibition, at which 121 works by artists from previously disadvantaged groups were sold.

- Documents and Records Management project
- South African Excellence Model
- Monitoring the implementation of the recommendations of the 2004/05 Change Management programme

Some of the programmes and projects listed above are described in detail in the Activities Report.

By coordinating strategic projects, the Project Office is able to accelerate delivery on high-priority initiatives. The project management processes and methodologies employed by the Project Office have been improved to include the latest developments in the field, specifically around risk management, stakeholder management and the tracking of business benefits.

Agencies

The Agencies Unit was established in response to the Development Bank's awareness of the constraints on management and implementation capacity in developing areas. The Unit assists and acts on behalf of local and international development and funding agencies, with respect to the planning, programming and implementation of development initiatives. It operates in South Africa, the Southern African region, and the African continent south of the Sahara.

The Bank strives to be a leading change agent for socio-economic development in Southern Africa. To this end, one of its key strategic thrusts is to build and maintain strong partnerships. The Agencies Unit is central to the Bank's partnership programme, enabling it to broaden and deepen its reach and maximise its development impact. Partners, in turn, are able to realise and expand their own development objectives through the capacities existing in the Bank.

Through the Agencies Unit, the Bank provides a synchronised development implementation service, which is designed to build capacity. Agency services are offered in partnership with government, multilateral and bilateral funding agencies, and other stakeholders working to advance development delivery.

During the year, the Unit extended its strategic relationships with both the World Bank and the South African National Treasury. Firstly, the World Bank recently extended the Municipal Finance Management Technical Assistance programme for another two years, so that it is now due to end in July 2008. This programme, jointly funded by the World Bank and the National Treasury, is aimed at implementing financial management reforms in over 30 municipalities. Secondly, the Infrastructure Delivery Improvement programme, which was piloted in three provinces, has been extended to all nine provinces. This programme addresses the poor management of infrastructure delivery processes at provincial level and is funded by the European Union and the National Treasury.

The Unit's accomplishments during the year include the following:

- A memorandum of understanding was signed with the Swedish International Development Agency (SIDA) to host a conference on the Water Demand Management programme in the SADC region. The conference aimed to create awareness, build the capacity of country representatives and share information around the implementation of this programme.
- The Unit entered into an agreement with Conservation International to develop a programme of integrated conservation and economic development projects. These projects will receive funding and technical assistance from the Bank, a Conservation International partnership called the Critical Ecosystem Partnership Fund (CEPF) and the Succulent Karoo Ecosystem Programme (SKEP).
- The Unit entered into an agreement with the Southern African Trust, a non-governmental organisation funded by the British Department for International Development (DFID) to provide the Trust with agency services for 12 months.

The Southern African Trust was established as a grant-making mechanism to support public policy capacity development and innovation, and thus improve the lives of the poorest in Southern Africa. It is the first regional NGO seeking to create awareness of governance in civil society groupings in the SADC, and specifically of the role South Africa plays in supporting transparent governance as a national attribute and furthering the objectives of NEPAD's African Peer Review Mechanism (APRM).

- Finally, the Unit entered into an agreement with the Department of Environmental Affairs and Tourism to manage five large programmes of varying duration, focused on the Wild Coast, transfrontier parks, anti-desertification, social development and biodiversity.

Corporate Communications and Marketing

In November 2005, the Board approved the Bank's new brand strategy. The new brand, which is aimed at repositioning the Bank, will be launched in the coming year.

The Internal Communication Strategy has been successfully implemented. The first phase of the Video-net, an internal information and publicity service, has been completed, and the second phase will be implemented in 2006/07.

The Unit produced more than 20 publications on various topics, covering the different Divisions, Clusters and Units. A series of informative interviews was also conducted with the Bank's executive managers.

Market research on the DBSA was undertaken and Monitoring SA was engaged to monitor media coverage. Overall the Bank received favourable publicity. The Bank also participated in the *Sunday Times* and *Financial Mail* corporate surveys.

Extensive coverage was received on various Bank events, such as the Annual Report, Interim Report, *DBSA Infrastructure Barometer* and *Development Report* launches, as well as signing ceremonies. The Bank also participated in 11 major exhibitions throughout the country.

The Bank hosted the Soul of Africa art exhibition, at which 121 works by artists from previously disadvantaged groups were sold. Botswana participated in the exhibition, along with the provinces of Northern Cape, Free State and North West.

A total of 28 donations were made to charity organisations and 120 sponsorships provided to partner organisations as part of social responsibility initiatives.

In October 2005, the Bank received a Golden Arrow award in the category of Best State-Owned Enterprise.

Change Management

As indicated in the last Annual Report, change leadership, innovation and entrepreneurship, culture change and performance management were prioritised in order to support the strategic and operational changes the Bank is making to improve its development impact.

Core values and desired management behaviours were developed for the Bank and built into the performance measurement system for managers and executives. After the first round of implementation, the outcomes were audited by an independent consulting organisation and further refinements were incorporated to make the system more effective. The innovation and corporate entrepreneurship change initiatives were moved to the Corporate Strategy Unit to ensure more effective alignment with other corporate strategy initiatives. Change agents and the project managers of change initiatives have been exposed to a change navigation approach, which is now being developed to take the Bank's organisational context into account.

The corporate core values and a Leadership Charter have been incorporated into a baseline corporate culture and organisational climate survey, which will be run annually to measure progress made on change management.

Treasury

Executive Manager: Ernest Dietrich[1]

Market conditions

Economic growth in the period under review was notably strong, supported by robust consumer and business spending. The strength in domestic demand resulted in a widening of the current account deficit, which fuelled concerns about the sustainability of the rand's strength should global commodity prices soften. With inflation growth contained, however, domestic bond yields rallied as the inflation premium declined.

The South African economy grew by 4,9% in the 2005 calendar year, up from 4,5% in 2004. Real GDP growth in the five years to 2005 averaged 3,8%, a notable improvement from 2,8% recorded in the previous five-year period. The country benefited from the international surge in demand for precious metals (prices of which have risen to their highest levels in decades) and a healthy pace of consumer and fixed capital spending.

Despite the pickup in economic activity and stubbornly high international crude oil prices in the review period, CPIX inflation remained comfortably within the South African Reserve Bank's 3% to 6% target band. Growth in CPIX averaged 4,1% in the financial year 2005/06, matching the rate recorded in the previous financial year.

High commodity prices and foreign direct investment inflows bolstered the rand's performance against the currencies of our trading partners. On a trade-weighted basis, the currency strengthened by 6,0% in 2005/06 versus 5,0% in 2004/05. The rand ended at R/$6,15 on 31 March 2006 as against R/$6,23 on 31 March 2005.

In the absence of widespread inflationary pressures despite the surge in international oil prices, the Reserve Bank kept its repo rate at 7,0% in the review period. However, the Reserve Bank also remained on guard against excessive growth in domestic credit demand and the impact of a widening current account deficit. Contained inflationary pressures and a tight supply of bonds kept domestic yields well bid. The yield on the R157 (10-year long-term government bond) declined by 107 basis points to end the financial year at 7,51%.

During 2005/06, the new Treasury system (SunGard Quantum) and Asset and Liability Management system (SunGard Bancware) introduced during the first quarter of 2005 were fully implemented. While both systems are operational, a Quantum software upgrade to be released in mid-2006 is expected to bring about the full, straight-through processing desired. Both systems have already significantly improved the efficiency of the Treasury business processes, and should enhance the Bank's risk measurement and modelling capabilities in future, paving the way for even more proactive market risk management.

Overview of operations

Funds mobilisation

The approved borrowing programme for the financial year 2005/06 was between R500 million and R1,0 billion. A significant reduction in the anticipated net funding requirement for the financial year resulted from prepayments received on some of the Bank's development loans. As a result of the lower demand for new funding, new borrowing was limited to the tapping of an existing euro-denominated credit line to the amount of €10 million, swapped into rands. Total outstanding debt as at 31 March 2006 amounted to R12,5 billion.

Asset and liability management

Operating under the risk management policy approved by the Board, the Asset and Liability Management Committee periodically assesses the Bank's market risk exposure and considers the appropriate risk management strategies to pursue. In this respect, the Committee is responsible for monitoring and managing several risk factors stemming from the Bank's interest rate, foreign currency and liquidity risk exposures.

---

1. Executive Manager as from 1 April 2006; Disebo Moephuli until 31 January 2006.

The Bank makes use of interest rate derivatives, as well as repositioning of assets under Treasury management to adjust its interest rate risk exposure, as and when desired.

In line with the Bank's conservative currency risk policy, almost all currency exposures are hedged, either through cross-currency swaps with approved counterparties, or naturally through offsetting investments outside South Africa. However, residual risk remains, primarily in the form of US dollars held in the Bank's CFC account (US$36,4 million as at 31 March 2006). These funds are held in anticipation of drawdowns on existing investment commitments.

Investment and liquidity management

In addition to maintaining a minimum level of liquidity in the form of cash and tradable securities, the Bank also has at its disposal a variety of funding sources should the need arise. These include credit lines with reputable financial institutions; loan facilities with multilateral, bilateral and other development finance institutions; money and capital market securities issuance under the Bank's Domestic Medium-Term Note programme; capital market securities issuance under the Bank's existing bond issues, within the authorised issue amounts; and capital market repurchase (repo) transactions.

Total liquidity – comprising operational liquidity and strategic liquidity – averaged R1,86 billion in financial year 2005/06 (versus a financial year-end figure of R2,02 billion). The operational liquidity pool is primarily invested in cash and near-cash assets for management of the Bank's short-term cash requirements. Strategic liquidity consists of investments in longer-term assets and is aimed at reducing the cost of carry and enhancing the return on liquidity funds.

As at 31 March 2006, the Bank's portfolio of government bonds consisted of investments (in nominal terms) in the R194 (R790,3 million); R153 (R658,4 million); R157 (R1 086,7 million); and R204 (R306 million). The R204 bond was financed by a portion of the proceeds from the maturity of the R152 bond at the end of February 2006. The remaining R152 proceeds were used to increase the R157 holdings by R250 million.

In addition to the government bonds listed above, the Bank also holds R250 million nominal worth of City of Johannesburg (COJ) securities, consisting of R50 million COJ01 and R200 million COJ02 bonds.

Credit ratings

The Bank's credit ratings were retained on par with those of the Republic of South Africa in the financial year 2005/06. The Bank's long-term foreign currency rating with Moody's Investors Service was upheld at Baa1 with a stable outlook. Standard and Poor's raised its long-term foreign and local currency credit ratings to BBB+ from BBB and to A+ from A, respectively. At the same time, the short-term foreign currency rating was raised to A-2 from A-3, and the A-1 short-term local currency rating was reaffirmed. The outlook is stable. Fitch IBCA affirmed the Bank's AAA (long-term) and F1+ (short-term) national scale local currency ratings, with a stable outlook.

Corporate Finance and Administration

Executive Manager: Leonie van Leyleveld[2]

Nature of business

The Corporate Finance and Administration Cluster provides integrated and enabling services in pursuit of the Bank's vision and mission. The cluster comprises the following units:

- Contracts Administration
- Financial Management
- Information Technology
- Legal Services
- Portfolio Management
- Procurement Administration and Facilities Management
- Risk Management

2. Executive Manager as from 1 January 2006; Joyce Matlala until 31 December 2005.

Financial Management

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

During the past year, the Unit has remained focused on supporting the strategic directives of the Bank through the provision of its enabling services. This was achieved by constantly improving the efficiency of its service delivery, while promoting greater awareness of the principles and practices of good financial discipline and control.

The Unit has successfully inplemented the International Financial Reporting Standards (IFRS). This required a complete gap analysis between the South African Statements of Generally Accepted Accounting Practice and the IFRS. The current annual financial statements (see page 75) now comply fully with IFRS.

Contracts Administration

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

During the year under review, the Unit administered disbursements totalling R3,1 billion and repayments received totalling R3,3 billion (including capital and interest).

The Unit is also responsible for financial administration and reporting on the agencies administered by the Bank on behalf of third parties. The Bank administered 30 agencies as at 31 March 2006.

Information Technology

A new IT architecture strategy was approved in the previous financial year. In the year under review, a project was undertaken to align the various strategic business and business process initiatives with this new process-driven architecture. This was done using a Solution Migration Model, which shows the linkages and relationships between the IT architecture (data, application and infrastructure) and the business process architecture over time, in this case the three-year Corporate Balanced Scorecard cycle. The alignment was completed in July 2005, and then updated in February 2006, taking into account the new Balanced Scorecard for 2006/07 and all the new strategic thrusts.

The major focus in the past year – and it is likely to remain so for the next few years – has been on improving the level of IT governance. Four aspects have been addressed:

- Compliance
- Operational risk management
- Security management
- Operational best practice

In relation to compliance, many of the regulations associated with legislation promulgated in prior years have come into effect during the year. To ensure corporate compliance with these regulations, new technologies were deployed (e.g. email archiving systems) and the associated organisational policies updated (e.g. email policy).

As far as operational risk is concerned, a number of initiatives and projects were undertaken to improve the current level of corporate governance. Most notable was the organisation-wide business continuity initiative, which reviewed the operational risks and contingency arrangements from an organisational perspective. This has resulted in a new continuity strategy, which will require that a new hot recovery site be established for the Bank in the next financial year. The Unit also pursued the server and storage consolidation initiative started in the previous financial year, which will provide for a more fault-tolerant and resilient operating environment.

The security management aspect of the Unit's IT governance efforts has been most visible during the year, given the prevalence of viruses, malware and spyware on the Internet. A number of security measures were taken to protect the Bank and the users of its system from these threats and security risks. An intrusion defence system was implemented to monitor and control the devices that attach to the Bank's network, and a public key infrastructure certificate authority was established, which issues digital certificates and digitally signs or encrypts confidential electronically generated items such as email messages. The virus management system was upgraded to include tools for removing spyware and other malicious code, as well as a virus management and quarantining tool to deal with virus outbreaks. No outbreaks were experienced during the year, while the isolated incidents at individual workstations mainly involved notebooks that had been infected elsewhere.

During the previous financial year, the Bank adopted the Microsoft Operational Framework of best practice. This is based on the international IT Infrastructure Library (ITIL) framework of standards for service management, but focused specifically on Microsoft environments. The framework consists of 21 service management functions arranged in four quadrants. In 2004/05, an independent audit of the Bank's existing level of compliance with the Microsoft Operational Framework was undertaken, and this revealed the level of maturity of each service management function. A multi-year service improvement programme has subsequently been instituted to raise the maturity levels on all 21 of the service management functions to a minimum of two. In the year under review, six functions were prioritised for improvement, with the remaining 15 spread equally over the next three years.

The six service management functions completed were:

- Security management
- Service monitoring and control
- Service continuity management
- Configuration management
- Change management
- Release management

The Bank's network infrastructure has been extended to incorporate the new auditorium and Training Academy buildings. This includes a new server room and Internet café.

Considerable progress was made on LGNet, the Bank's local government wide-area network developed in partnership with the South African Local Government Association (SALGA) and the Department of Provincial and Local Government. During the year, 218 applications for connection were received from local government stakeholders, compared to 142 the previous year. New services introduced during the year included a website hosting facility using the local.gov.za domain name. This infrastructure

will be used to support other new strategic initiatives, such as the Sustainable Communities programme and the deployment of Siyenza Manje staff in connection with Project Consolidate.

Risk Management

The Risk Management Unit develops and refines risk management policies, procedures and methodologies, reviews risk exposures, and reports to the Board on risk-related matters. Importantly, it also undertakes reviews so as to provide an independent and objective opinion on risk arising from loan applications.

The risk reports that the Unit submitted to the Board of Directors and the Board's Audit and Credit Committees assisted these committee structures in their risk management accountabilities, thereby ensuring that sound risk management was followed in the Bank.

In the year under review, the Business Continuity Management project was completed. The project's aim is primarily to ensure that the Bank continues with business operations in the situation of sudden and unexpected risk events, e.g. disasters or destruction of fixed assets and systems.

The enterprise-wide risk management framework, as approved by the Board, spells out the Bank's approach and the roles and responsibilities of the different Units. Various presentations were made during the year to raise awareness of the framework and build a risk culture.

The Risk Management Unit continued to support the Bank in managing its significant risk exposures. During the year, the Unit undertook an exercise to identify the Bank's significant risk exposures, with the aim of providing inputs for internal audit planning purposes, and supporting sound management of risk exposures and good governance. This comprehensive listing of risks has enhanced management's capacity to manage the risk exposures within their Units. The Bank is now able to detail its significant risk exposures and provide assurance that they are being managed appropriately.

As part of the exercise to integrate the risk and compliance functions, the Unit facilitated risk identification workshops throughout the Bank. This was aimed at:

- Institutionalising and standardising risk assessment practices in the Bank
- Developing consistency in the application of the process across all Business Units
- Strengthening the Bank's Business Unit approach to risk management

Portfolio Management

In December 2004, executive management decided to establish a dedicated Portfolio Management Unit, which came into effect on 1 April 2005. This Unit is required to develop and implement portfolio and asset management processes and systems, strategies, policies and reporting mechanisms within the Bank.

Portfolio management focuses on the performance of the aggregated portfolio and the impact of new investment decisions on its quality. The Unit continuously evaluates the level of risk embedded in the assets of the total portfolio; establish the performance of the portfolio, in terms of both development impact and financial returns; analyse the historical growth and diversification trends by sector, province and country; assess the impact on returns of each asset before admitting to the portfolio; and advise management on the shape of the portfolio and the direction it needs to take so as to achieve the Bank's long-term vision and satisfy the shareholder's demands. Quarterly and annual performance reports are generated so that management and the Board are kept up to date on the state of the portfolio and the environment within which it is set.

Portfolio and asset management has an important value to add in the provision of development financing services, given the long-term nature of funding, with repayments of up to 15 years in some cases, and the dynamic political and institutional environment within which development finance institutions operate. While the risk embedded in each project or investment is assessed at the time of appraisal and mitigated accordingly, taking the current and anticipated future circumstances into consideration, the risk is also assessed continuously thereafter. A strong portfolio and asset management capacity has become critical as the Bank attempts to capture the riskier markets, namely the lower ends of Market 2 and Market 3, making it necessary to consider securitisation or other risk management methods of balancing risk and return in the portfolio.

Overview of financial results

Surplus from operations

The surplus generated from operations before transfer to the Development Fund increased to R1,1 billion, which represents an increase of 46,8% on 2004/05 (restated). This was mainly due to the following items:

- A credit of R56,1 million to the income statement in respect of impairment, compared to a charge of R236,4 million in the previous year
- Other income increased by R28,1 million, mainly due to realised capital gains from equity funds
- Increase of R72,5 million in revaluation of the financial instruments

After main offsetting items:

- Operating expenses increased by 17,3% year on year (R72,5 million), mainly as a result of an increase in staff costs of R71,1 million (partly due to an increase in the provision for post-retirement medical benefits and recruitment costs).

Unrealised profits and losses, resulting from revaluation adjustments made in terms of the accounting policies for derivative financial instruments and foreign loans have had some impact on the financial results.

There was an unrealised foreign exchange loss of R34 million reported for the current period, compared with a loss of R36 million (restated) in the previous financial year.

The ratio of operating costs to operating income decreased from 35,8% (restated) to 30,9%, which is mainly due to an increase of R423 million in operating income.

Other income statement items have not resulted into major swings from the previous years.

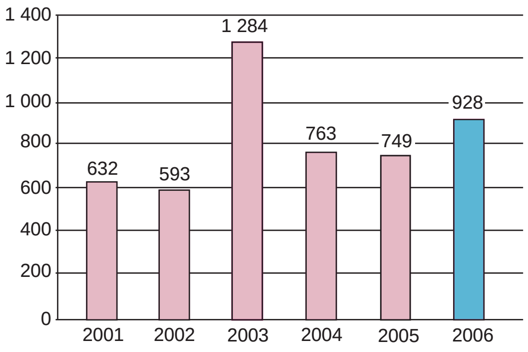
The transfer of R172 million to the Development Fund (nil in the previous year). This is made up of approximately 10% of current year surplus plus an interim transfer of R60 million calculated at 10% of the previous financial results.

Balance sheet growth

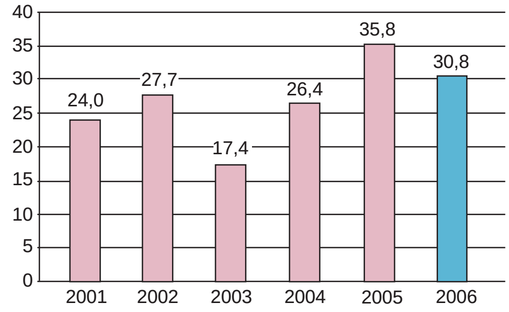
Total assets increased from R24,7 billion (restated) to R26,5 billion, and the return on average assets increased from 3% to 3,5%. This was largely due to improved surplus for the year.

The total book debt of loans considered to be non-performing decreased from R1,0 billion at 31 March 2005 (4,9% of total loan book debt) to R0,96 billion at 31 March 2006 (2,2% of total loan book debt).

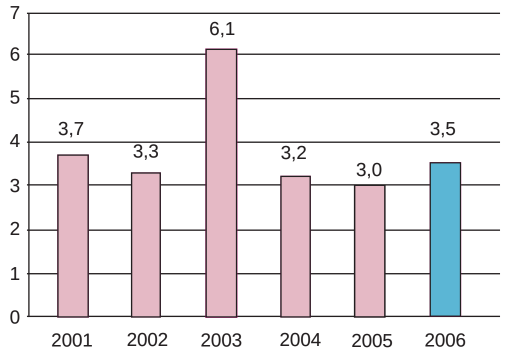
Surplus for the year (R million)



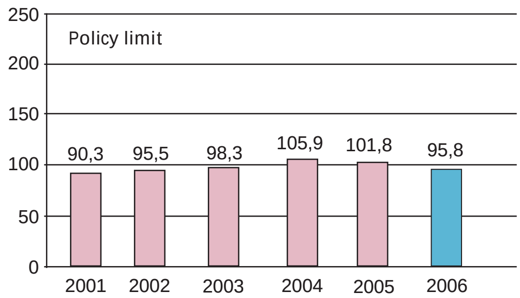
Operating costs to income (%)



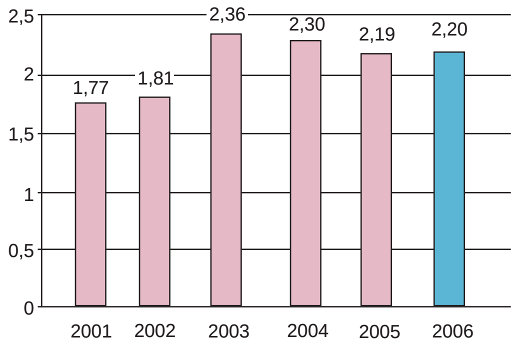
Return on assets (%)



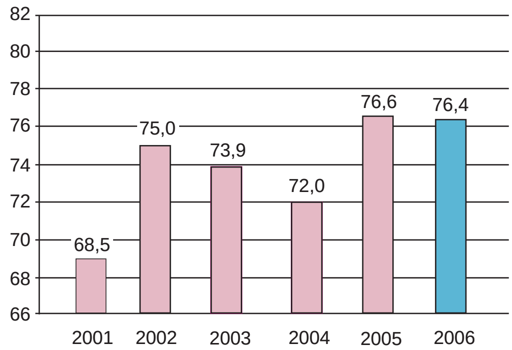
Long-term debt to equity (%)



Interest cover (%)



Reserves to loans ratio (%)



The total loan impairment decreased from 8,2% of total loan book debt as at 31 March 2005 (excluding IFRS adjustments) to 5,2% as at 31 March 2006. Had the IFRS adjustments been effected on 31 March 2005, the decrease in the loan impairment would have been from 2,6% at 31 March 2005 to 2,2% at 31 March 2006.

An increase in shareholder's funds (accumulated surplus) is mainly due to an increase in surplus for the year as well as the effects of IFRS implementation.

The overall decrease in the total loan impairment as a percentage of the total loan book is primarily due to the improvement in the recoverability rate and the increase in the loan book of R1,3 billion.

There was a net decrease in equity investments of R11,7 million. This was due to the fact that two new investments were acquired at a cost of R90,5 million and a further R61,4 million was disbursed against approvals for existing investments. There was also an amount of R35,1 million received as return on capital, and the Lepelle Northern Water Capital Project Bills were realised for an amount of R107,4 million. Furthermore, the downward fair value adjustments of R37,3 million arose from a decrease in the underlying values of the investments and are calculated as the difference between the net asset value and the cost of the investment.

Liabilities

Total liabilities increased by R504 million. This is mainly attributable to an increase of R445 million in financial market liabilities.

Knowledge Management overview

Executive Manager: Snowy Khoza

Nature of business

In 2005/06, the Knowledge Management Division has contributed towards knowledge sharing within the Bank, enabling it to improve its internal synergies and enhance partnerships with clients, stakeholders and other external role players.

The Division has strengthened the four pillars of its strategy, namely knowledge generation, knowledge accounting, knowledge application and knowledge sharing. These pillars support the Division's work in development research, data analysis, monitoring and evaluation, development training and advisory services, all of which are described in more detail below.

Focusing on development research

During the year, the Knowledge Management Division focused on applied research that will inform the national development debate and contribute towards the sustainable impact of development interventions by the Bank and its partners. The Policy Research Unit was tasked with drawing up a research agenda for the entire Bank, and this was approved by the Board towards the end of the year. Four research programmes were identified: infrastructure development, economic development, human development, and governance and finance. In addition, four multi-year flagship research programmes were approved, dealing with the role of infrastructure in promoting growth and development, the economic and social aspects of the second economy, building sustainable settlements, and the Millennium Development Goals.

Highlights of the Division's research work during the year include the publication of the 2005 *DBSA Development Report* on "Overcoming underdevelopment in South Africa's second economy" and the first *DBSA Infrastructure Barometer*. The latter publication, which was launched in March 2006, features comprehensive information about the state, spread and quality of economic infrastructure in South Africa, as well as data on infrastructure backlogs, the investment required to meet these backlogs, and innovative solutions for delivering infrastructure.

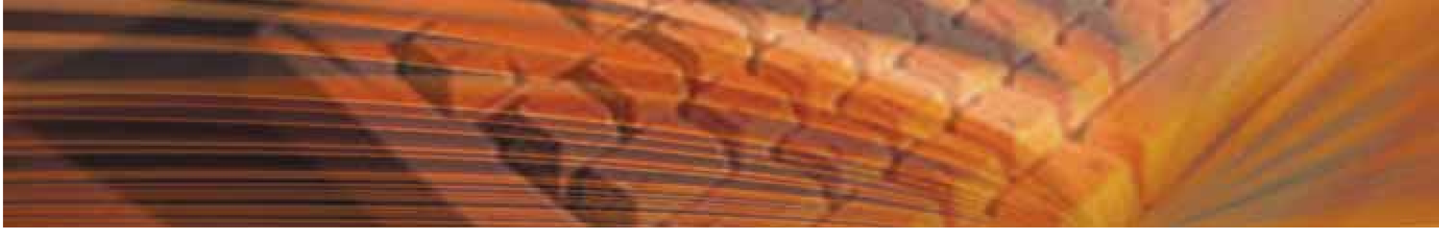
The Division provided financial and technical support to a University of the Witwatersrand conference entitled "Cities, planning and everyday life: A North-South, South-South dialogue", held on 2–4 September 2005; and to the Urban Development Conference of the South African Cities Network, held on 28–29 September 2005. Other joint research projects co-sponsored during the year included the research phase of the NEPAD-SADC Tourism Investment Promotion programme (with NEPAD and RETOSA); syndicated research on the infrastructure needs of emerging farmers (with Marketing Surveys and Statistical Analysis); studies on the human development indicators and the effectiveness of SADC ports (both undertaken by the University of Johannesburg); a review of South Africa's urban policies in the last decade (with the HSRC); and a study of the causes of default among low-income housing clients (with the Finmark Trust).

A variety of external clients, such as national and provincial government departments and related institutions, requested the Bank to develop, analyse and review policy activities. The Bank also facilitated a regional workshop on the implementation plan for the SADC Protocol on Health, which was approved by the SADC Integrated Committee of Ministers meeting in June 2005.

During 2005/06, the Knowledge Management Division reviewed its structure in relation to the four pillars of knowledge management – knowledge generation, accounting, application and sharing. It was decided to merge the Specialist Advisory and Policy Research Units into a single Applied Development Research Unit. The merger, effective as from 1 April 2006, will ensure better coordination between the various functions.

The mandate of the Applied Development Research Unit is firmly rooted in the knowledge management strategy. The Unit will be responsible for:

The Bank provided financial and technical support to the Urban Development Conference of the South African Cities Network.



- Applied research and design of development interventions, in line with the approved research agenda
- Specialised support to Operations Divisions
- Programme management support to internal and external clients

It is envisaged that the new structure will allow the Division to deliver a more comprehensive, integrated service to the Bank's operational Units, as well as to external clients and other stakeholders.

Providing development information

The Division's Development Information Unit provided products and services to the Bank's staff, clients and the wider development fraternity, ranging from single socio-economic indicator sheets to extended advisory services for all levels of government and other research institutions. The Unit prepared socio-economic maps for the CSIR and the Presidency, analysed socio-economic landscapes for the Departments of Treasury and Economic Development in the Western Cape and KwaZulu-Natal, developed social accounting matrices for three of South Africa's provinces and assessed the impact of HIV/AIDS on the labour force for the Department of Labour. In addition, the Unit produced a number of new publications and electronic services to provide data and information for effective development planning, internally and externally, as outlined below:

- Electronic socio-economic profiles were developed for all the municipalities. The profiles contain 30 socio-economic indicators, depicting trend data from 1996 to 2004, along with some budget information and a set of population projections to 2012. Municipalities that are connected to LGNet are able to access the profiles through the DBSA's Local Government Resource Centre.
- An internal infrastructure information portal was developed to provide a single port of access to all data and information required to do effective infrastructure investment planning.
- An internal SADC country information portal was developed, which provides a single port of access to all SADC country information in the DBSA, including key indicators, reports, profiles, perspectives, country risk reports and ratings, and projects managed by the Bank and other institutions.
- The *Economic structure and performance: A provincial and municipal perspective* report provides estimated gross value added (GVA) and gross geographical product (GGP) data and information for the newly demarcated municipalities. In all the current economic models such data is provided only according to the old municipal boundaries.
- The *SADC country profiles* report contains socio-economic and other relevant indicators for all the SADC countries. The report is structured to provide comparative information and formatted to serve as a quick reference to the main indicators.
- A *Regional socio-economic analysis* textbook was published, which is intended to serve as training material for the DBSA's course on regional socio-economic analysis.

Institutionalising and providing advisory services

Under the guidance of the Specialist Advisory Unit, Knowledge Management developed a business plan and full business model that operationalised new approaches to advisory services, including the required systems and processes. In accordance with the principles adopted for cost recovery, programme planning is now based on recovering about 20% of a Unit's expenditure. Implementation took effect on 1 April 2006.

Advisory services were provided on an ongoing basis, with external clients including the following: the Regional Spatial Development Initiative; the National Department of Education, and the Further Education and Training colleges; the National Advisory Committee of the Department of Health; and the National Municipal Infrastructure

Investment Framework. At the request of the Minister of Finance, the Unit also prepared an internal report for the CEO on the State of Municipal Public Services.

Kenya will host the next Knowledge Management Africa conference in 2007. The East Africa Regional Consultative Exercise took place in Nairobi on 22–24 November 2005, with strong participation and leadership from the Bank. The meeting also served as a symbolic handover to the Kenya Country Team preparing the conference. They are undertaking research to inform capacity building for policy development and reform, targeting institutions in government, academia and civil society. The South African Team will use the conference to showcase the outputs of its ongoing database project, detailing the nature and spread of skills throughout Africa for advancing development on the continent.

In December 2005, the Specialist Advisory Unit successfully hosted the Knowledge Week on the theme "Infrastructure for sustainable communities", which afforded an opportunity to debate and enrich the issues encapsulated in the inaugural *DBSA Infrastructure Barometer*.

The Unit continued to lead the development of papers to inform investment across all the sectors in which the Bank is active or plans to become active. Four more sector papers were finalised: water services, agriculture, waste management and ICT. In particular, the agriculture paper has been reviewed and updated to include fisheries and forestry.

At the provincial level, the Unit undertook a sectoral analysis of the economy of North West; and prepared a water services report on Mpumalanga to enhance understanding of the local sector dynamics, and the water supply and sanitation backlogs. Strong provincial interest in the latter led to its being presented to a specially convened meeting, which included all municipal managers and mayors, along with the Head of the Department of Local Government and Housing and the relevant MEC.

In November 2005, the Unit produced a critical decision-making tool for prioritising the Bank's investments in particular sectors. This tool – the resource allocation and sector attractiveness framework – was approved for implementation early in 2006.

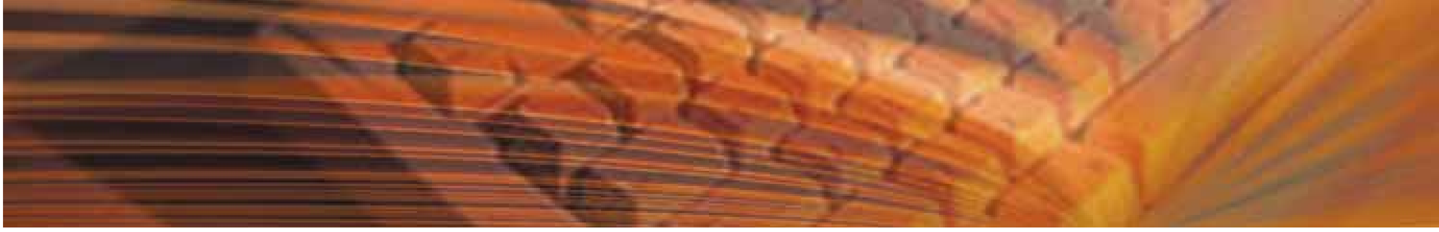
During the year, several articles on a variety of development issues were published in international, peer-reviewed journals. The topics ranged from waste management and the role of development finance institutions in clean development mechanisms, to the voices of women against violence, women leadership in construction, water resource pollution, and the policy dynamics in the water and sanitation sector.

Assessing the development effectiveness of projects funded by the Bank

The Monitoring and Evaluation Unit has continued to promote project monitoring in the Bank, particularly in relation to its South African and Private Sector operations. The Unit communicates primarily through its quarterly monitoring reports.

The Unit undertook a series of special subsector evaluations on Further Education and Training projects that were supported by the Bank and completed in the last five years. The report looked at changes in the funding of public further education and training by other development finance institutions, drawing on international, regional and local experience. Locally, it traced the way in which recent policy developments have shaped a new subsector landscape, detailing both gains and remaining challenges. The report was workshopped within the Bank and generated lively debate around some of the issues raised. The findings and recommendations complement the policy position paper on education recently adopted by the Bank. The final report will be shared with government departments that have expressed an interest in its findings.

Further, the Unit completed two thematic reviews, covering the tourism sector, and technical assistance and capacity building. The purpose of the tourism sector review was to assess the Bank's support to tourism, and in particular the compilation of local tourism sector plans by municipalities. The ten case studies covered by the review included all the sector plans that have received support from the DBSA Development Fund. The technical



capacity building thematic review, incorporating 23 capacity building evaluations conducted by the Bank, aims to support the Development Fund's Siyenza Manje initiative. During 2005/06, the Unit evaluated 25 projects in various sectors, including tourism, communications, infrastructure, capacity building, education, energy, water and sanitation. These evaluations document the lessons learned, which the Bank and its clients are then able to apply to new projects.

Building capacity of internal and external clients

The DBSA Vulindlela Academy focused on the strategic objective of transforming the Bank's Training Unit into a training academy with the capacity to deliver training programmes and knowledge-sharing events to an expanded external client base. The Vulindlela Academy is now a fully accredited service provider, with a curriculum of training programmes and world-class training and conference facilities.

The Academy's state-of-the-art premises have been completed. Now the focus is on accelerating delivery to achieve demonstrable impacts for the beneficiaries. The Academy has progressed from provisional to full accreditation with the Local Government Sector Training Authority (LGSETA), and some of the training programmes it has developed are also accredited. The Academy enjoys the support of strategic advisors with a background in local government and development matters.

The Academy has an integrated capacity building strategy, which includes formal training, advisory services, and knowledge-sharing initiatives through the Local Government Resource Centre. Its capacity building interventions range from short-term secondments to semi-formal training in the Bank, and should be seen as part of broader DBSA initiatives like the Siyenza Manje task force (described in the following overview). The Academy has directed a large number of interventions towards regional development finance institutions, and is also involved in developing a project management programme to support the AsgiSA initiative.

Municipalities received support, which mainly involved the training of officials and councillors, systems development and the development of planning capacity.

Development Fund overview

Chief Operating Officer: Jeanette Nhlapo

Nature of business

In 2005/06, the DBSA Development Fund continued to accelerate the implementation of capacity building programmes in poorly resourced municipalities. Despite exceptional performance over the past four years, it was felt that certain trends and shortcomings regarding capacity building in municipalities warranted a review of the Fund's mandate and approach. A new approach was developed which is encapsulated in the theme of this Annual Report: "Siyenza Manje – We are doing it now." Rather than making grant funding available for capacity building, the Fund has been tasked with acting as an implementing agent on behalf of the national government, by deploying experts to municipalities that lack the capacity to deliver services.

Overview of operations

Since January 2002, the Development Fund has committed funding to the value of R479 million. This has been supported by training, systems development, and integration and planning programmes. The beneficiaries of this capacity building have largely been municipalities, either directly from the Fund or indirectly through the national and provincial departments.

During the year under review, huge demands were placed on staff to restructure the operations of the Development Fund and prepare for the implementation of Siyenza Manje. Most of the strategic objectives set for 2005/06 were achieved. The focus was on implementing existing programmes rather than approving new projects. Accordingly, disbursements increased to R120 million (from R73,5 million in the previous year), while approvals decreased to R70 million (from R170 million in the previous year). A total of 59 municipalities received support, which mainly involved the training of officials and councillors, systems development and the development of planning capacity.

Leveraging funding

The Fund sought to leverage other sources of finance on its projects, including clients and third parties. Given that clients in rural areas often find it difficult to make significant contributions of their own, the initial target was for the Fund to provide 60% of the finance and the client or a third party the remaining 40%. During the year an amount of R26 million was leveraged, demonstrating the willingness of clients to contribute to their own capacity building.

Developing partnerships

Developing partnerships remains a strategic emphasis for the Fund as it moves to consolidate and strengthen synergies with key stakeholders. Appropriately, the Fund's renewed mandate, which is focused on improving municipal service delivery, meshes well with the aims of Project Consolidate.

In the year under review, the Fund aligned its strategies with the development priorities of government, which are to broaden capacity development and deepen development impact. Through a process involving mutual support, consultation, and the sharing of lessons and information, the Fund is collaborating with the National Treasury, the DPLG and SALGA. This collaboration has provided strategic direction and guidance during the process of transforming and refocusing the Fund.

In line with this strategic approach, the DBSA and the Development Fund are in the process of exploring options to strengthen their partnership with the National Productivity Institute aimed at enhancing the productive capacity of municipalities for service delivery, local economic development and the promotion of efficiency in local economies.

The Fund is in the process of harnessing partnerships with other government departments, development agencies and stakeholders.

Development impact

In its relatively short lifespan, the Fund's initiatives have been felt by nearly all municipalities around the country. Although the impact of capacity building only becomes visible in the long term, assessments indicate that the outcomes of these interventions have generally been satisfactory.

At the time of the Fund's inception, most municipalities were grappling with establishment issues, such as the development of plans, policies, strategies and systems appropriate to the new system of local government. When municipalities moved into the consolidation phase, they faced even greater challenges, and the support offered by the Fund – training, planning, the development of systems – were changed to suit that particular environment.

In many instances, capacitating staff and improving municipal systems and processes resulted in better service delivery. To take just one example, the revenue enhancement programme in the Mafikeng Local Municipality dramatically improved its revenue management and overall financial situation.

But there were also valuable lessons to be learned. Perhaps the major lesson is that providing financial resources is not always an effective way of building sustainable capacity in municipalities. The Department of Provincial and Local Government's impact study on grant funding interventions has shown that most municipalities are still struggling to deliver services to their communities, although millions of rands have been poured into resolving municipal capacity problems. In many cases, the final products of such interventions are not fully owned by the municipality, and sometimes they tend to benefit the consultants rather than the clients.

Other lessons are that capacity building initiatives are effective if they reach dedicated officials in the municipalities, the people who will be responsible for implementing and managing programmes and projects. Classroom training situations are not the best way to accomplish this.

It was in the light of lessons like these that a decision was taken in 2005 to review the Fund's capacity building strategies. The DBSA Board subsequently approved the establishment and deployment of a dedicated task force, which will facilitate service delivery from within the municipalities.

Deploying a dedicated task force

The task force represents a major shift in the strategy and outreach of the DBSA Development Fund, and is intended to realign the business processes and systems with the new development agenda. The purpose of the intervention is to engage capable human resources in low capacity municipalities, with the intention of developing their capacity to implement infrastructure projects. The approach is hands-on and practical.

The principles and practices underlying the task force strategy match those of Project Consolidate, which aims to provide hands-on support to municipalities that have the greatest need. In fact, the main objective of the task force will be to augment the efforts of Project Consolidate, by increasing the capacity of local governments to implement infrastructure projects. Task force teams will be deployed in municipalities for extended periods of time, thus bridging the immediate execution gaps and building institutional and human capacity in the longer term. Projects will be identified and prioritised in partnership with the National Treasury, the Department of Provincial and Local Government, SALGA, and other stakeholders.

During the first year of this strategy, the water and sanitation sector will be targeted. The skills complement and expertise of the appointed task teams will lie in project management, technical services and financial management.

In the first year, about 90 experts will be recruited on a fixed-term basis, and their services will be engaged in phases. The plan is to employ 30 experts during the first quarter of 2006/07; and to recruit 28 young professionals, who will work with the task force teams, during the first year. The teams will be deployed to selected municipalities in May 2006.

Regarding the recapitalisation of the Fund, 80% will be dedicated to the activities of the task force and 20% to grant funding, which will be targeted at building institutional capacity in municipalities.

Corporate governance

Governance principles

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

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

Strategic objectives and performance management

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

Although the South African government is the sole shareholder, the Bank enjoys operational autonomy in the management of its day-to-day operations. In terms of the Development Bank of Southern Africa Act, No. 13 of 1997, read together with the Public Finance Management Act, No. 1 of 1999, the Board is accountable to the shareholder for the implementation of the Bank's mandate. The Chief Executive and management team are responsible for the operational implementation of the mandate and strategy. To enhance accountability in line with the requirements of the Public Finance Management Act, the Board concluded a Shareholder Compact with the government of South Africa. This compact documents the key performance indicators, measures and targets against which organisational performance is assessed annually.

The Board, in consultation with management, embarked upon a process of reviewing the Bank's business model and mandate in June 2005. The review was aimed at meeting the continued expectations of the shareowner, especially regarding the Bank's support of local municipalities to enhance the pace and quality of basic services delivery and reduce the backlogs of basic infrastructural services in the country. As a result of this exercise, a business model was adopted in terms of which the Bank will maintain an enhanced development support role, while increasing its in-house practical capacity building task force and agency role for social infrastructure development. The implications of the new business model include an expanded focus on capacity building and a greater outreach to the poorer municipalities (social infrastructure) in order to increase development impact.

Business planning and performance assessment

The Board of Directors approved a three-year Corporate Balanced Scorecard in February 2005. This was used as a basis for compiling operational business plans. Between October 2004 and January 2005, business plans and activity-based budgets were prepared in succession. The business plans are further cascaded into individual performance contracts.

In terms of the Board Charter, the Board is required to conduct an annual self-evaluation exercise with respect to its effectiveness and that of its subcommittees, including performance evaluation. Accordingly, in July 2005, the Board carried out a self-evaluation exercise. The Board has accepted the results of this evaluation and those of its supporting Committees, and the implementation of action plans resulting from the exercise will be monitored continuously in the coming financial year.

The Bank uses the Balanced Scorecard methodology to implement, monitor and report on the performance of its strategy. Corporate performance assessment against predetermined objectives and targets contained in the Balanced Scorecard and the annual Corporate Plan submitted to National Treasury in February was conducted by executive management with the strategic guidance of the Board. Following such performance assessment, the Remuneration Committee of the Board evaluates the performance of the Managing Director and the executive management team.

Ethics management

The Bank undertook an annual review of the Code of Ethics, which was duly approved by the Audit Committee in June 2005. The code commits management and staff to high standards of ethical conduct in their dealings with the Bank's clients and stakeholders. In addition, a quality assurance review of the code was conducted by the Ethics Institute of South Africa during the year under consideration. The review exercise concluded that the Bank's Code of Ethics complied in many respects with international best practice. The code was given an overall satisfactory quality assurance rating, and the Bank consequently acquired corporate membership of the Ethics Institute of South Africa.

As part of the Bank's ethics management, training workshops were conducted for staff in order to emphasise the significance of complying with the ethical standards articulated in the Code of Ethics. Employee inductions included mandatory ethics training sessions for new members of staff. During 2005, the Bank conducted an ethics survey to determine employees' perceptions of the level of ethics and degree of compliance with ethical standards in the organisation. The survey was conducted by a reputable independent market research house. The results of the survey reflected a positive ethical climate in the Bank and highlighted the need for management to intensify training and provide other support systems necessary to inculcate an ethical culture.

In line with industry trends and corporate best practice, the Code of Ethics will continue to be reviewed annually to align with changes in legislation, and will be benchmarked against best practice obtaining in other development finance institutions. The code applies to the operations of the DBSA Development Fund and the Bank's contractors and suppliers of goods and services.

The Bank continued to administer and monitor the policy on declarations of outside interest in order to safeguard against reputational risks inherent in actual or perceived conflict of interest in business dealings on the part of the Board, executive management and employees, in line with the requirements of the Public Finance Management Act. In addition, the Bank's procurement policy contains a number of stringent control measures to avoid abuse, fraud and corruption, which are constantly monitored by the Internal Audit function.

Internal controls

Responsibility for the systems of internal financial and operational control rests with the Board. This responsibility has, without subrogation, been delegated to the Audit Committee. The foundations for internal control processes lie in the Bank's governance principles that incorporate and emphasise ethical behaviour, legislative compliance, and sound accounting practice. In addition, the Board has adopted an enterprise-wide risk management approach and a risk strategy to provide a framework for the internal control environment. Control systems include clearly defined lines of accountability and delegation of authority, and provide for full reporting and analysis against approved budgets and adherence to policies, processes and guidelines. Executive management is responsible and accountable for determining the adequacy, extent and operation of these systems. In addition, the Internal Audit function conducts periodic reviews across all functional

areas to provide independent assurance to the Board of Directors on the effectiveness of the Bank's internal control system. During the year under review, the Bank's Internal Audit Charter was reviewed in order to align with industry best practice and legislative requirements. Additionally, the Bank's Internal Audit function was subjected to a quality assurance review by the Institute of Internal Auditors (IIA) and was awarded a favourable assurance rating.

In order to inculcate a culture of effective risk management and internal control, the Bank has adopted a framework integrating the risk assurance business functions in line with international best practice. In terms of this framework, and as part of the performance assessment, executive and line management are required to declare that the system of internal control within their functional area is effective. In addition, a Bank-wide workshop to share best practices and latest corporate governance developments that affect the implementation of effective internal controls in an organisation was held, with the aim of sensitising members of staff on their contribution to creating an effective internal control environment.

Regulatory environment and statutory compliance

In line with the provisions of section 51(1)(h) of the Public Finance Management Act enjoining the Board of a public entity to ensure compliance with applicable legislation, the Bank established an independent compliance function in 2003 headed by the Group Compliance Officer. The function is aimed at ensuring that the Bank continuously manages its regulatory risk, through compliance with applicable laws and regulations. The Group Compliance Officer has direct access to the Chief Executive, the chairpersons of the Board and the Audit and Finance Committee.

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

The Bank conducted a compliance assessment to determine the extent and level of compliance with the Public Finance Management Act and identify any gaps requiring attention. The results of the assessment indicated a significant level of compliance with the Act. Following such reviews, an action plan outlining some of the mitigation controls and recommendations is being implemented by management in order to enhance institutional compliance. The same exercise was conducted with respect to the King II Report on Corporate Governance. Presentations on staff responsibilities on compliance were made to Business Units to enhance awareness and inculcate a culture of compliance.

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

Measures to counter money laundering

In line with international initiatives against money laundering, the South African government promulgated the Financial Intelligence Centre Act, No. 38 of 2001 ("FICA"). The Act established the Financial Intelligence Centre as the regulatory authority responsible for the collection, analysis and disclosure of information to assist the government in the detection and investigation of money laundering activities. In compliance with the legislation, the DBSA formulated and implemented a money laundering control policy and adopted internal rules to facilitate the implementation of the policy. A Money Laundering Control Officer has been appointed and an internal process for monitoring and reporting of unusual and suspicious transactions to the Financial Intelligence Centre as required by the Act has been set up. Additionally, as part of project due diligence, the Bank implemented Know Your Client (KYC) checklists to facilitate timely screening of clients during the writing of project deals.

Fraud prevention and whistle-blowing

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

In order to encourage members of staff to report impropriety, the Bank adopted a whistle-blowing policy in June 2005, articulating the procedures through which staff can raise concerns where they have reasonable grounds for believing that there is fraud, corruption, corporate crime or impropriety within the DBSA group. The policy underpins management's zero tolerance towards fraud and affirms its commitment to protecting employees against any reprisals as a result of reporting impropriety in compliance with the Bank's procedures. In addition, a number of internal roadshows were conducted to enhance awareness of the policy, especially on staff rights and obligations with respect to whistle-blowing.

The Board has oversight responsibility for the Bank's Fraud Prevention Plan and internal controls, through periodic reports from the Fraud Management Committee, a subcommittee of the Finance and Risk Management Committee. The Finance and Risk Management Committee reports directly to the Audit and Finance Committees. During the year under review, the terms of reference of the Fraud Management Committee were reviewed in order to give the Audit Committee greater oversight with respect to fraud, institutionalisation of ethics and whistle-blowing. All reports received through the fraud hotline were thoroughly investigated by management and corrective action was taken accordingly. No material breaches of internal controls were reported through the ethics and fraud hotline during the period under review.

Reporting and disclosure

The Bank is committed to transparent reporting and disclosure. Information provided to all stakeholders, including financial results and the Annual Report, is presented in a meaningful and relevant manner to enable users to gain a proper and objective perspective of the Bank.

Governance structures

Shareholder linkages

The Bank, through its Board, is accountable to its sole shareholder, the government of the Republic of South Africa, and to Parliament in terms of the Development Bank of Southern Africa Act. A Corporate Plan was submitted to the National Treasury in February 2005, as required in terms of section 52 of the Public Finance Management Act, No. 1 of 1999.

The Corporate Plan serves as an agreement between the Bank and the shareholder and documents the key performance measures and targets against which organisational performance is assessed. On 16 August 2005, the Bank's 2004/05 Annual Report was launched in the presence of the Director-General: National Treasury at the Bank's headquarters in Midrand, Johannesburg.

Minister of Finance

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

Board of Directors

The constitution and conduct of the business of the Board of Directors is primarily governed by the Development Bank of Southern Africa Act, and the regulations made pursuant to the Act. The Board is also subject to the obligations prescribed for boards of public entities by the Public Finance Management Act and the analogous provisions

affecting board members' responsibilities as provided in the Companies Act. The Board is appointed by the Minister of Finance in his capacity as the shareholder representative, and consists of a minimum of 10 and a maximum of 15 members. Currently, the Board consists of 15 members, of which 14 are non-executive. The Chief Executive Officer is the sole executive Director. Eleven members of the Board are independent Directors. The Board is chaired by Mr J Naidoo, an independent non-executive Director.

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

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

Representatives from the National Treasury, the Director-General: Department of Provincial and Local Government, as well as the Chief Operating Officer in the Office of the President serve on the Board. Based on best practice in corporate governance and the recommendations of the King II Report, the DBSA Board of Directors was reconstituted in July 2005, in terms of the Development Bank of Southern Africa Act. The reconstitution was done to provide for the introduction of the principle of rotation and continuity as set out in the Act, given that the three-year term of four Directors who joined the Board on 1 August 2002 expired at the end of July 2005. The tenure of office for the Chairman of the Board was also extended by the shareowner to July 2008. Brief résumés of the current Board members can be found on page 10.

During 2005, and with the oversight of the Audit Committee, the Board undertook an organisational compliance assessment against the requirements of the King II Report on Corporate Governance, and has accordingly implemented an action plan, which will be monitored regularly.

Directors' appointment and evaluation

In terms of section 7 of the Development Bank of Southern Africa Act, the Directors of the Board are appointed by the shareowner. Directors are appointed on the grounds of their ability and experience in relation to socio-economic development, development finance, business, finance, banking and administration. Nominations for appointments are invited by the Board and recommendations made to the Minister for approval. Appointments to the DBSA Board are made taking into account the need to ensure that the Board provides a diverse range of skills, knowledge and expertise, necessary to meet the Bank's strategic objectives, as well as the need to enhance demographic representivity.

Directors are appointed on a performance contract of three years, and are eligible for reappointment depending on performance.

A full assessment of the effectiveness of the Board and Board Committees took place during 2005, eliciting feedback from Board members so as to ensure constant refinement of the governance structure and responsibilities. The Chief Executive's performance is also evaluated, according to the Balanced Scorecard and his contract, by the Remuneration Committee with the input of the Chairman.

During the year under review, three new independent non-executive Directors were appointed to the Board and five members were co-opted to the various Board Committees. The composition of the Board is detailed on page 68.

Board Committees

In terms of the provisions of section 10 of the Development Bank of Southern Africa Act, the Board is mandated to form subcommittees necessary for carrying out its fiduciary responsibilities. In addition, in line with principles of good corporate governance set out in the King II Report, the Board is required to determine formal terms of reference for its subcommittees so as to ensure effective decision-making, monitoring and reporting. As the Board Committees are pivotal in assisting the Board to discharge its fiduciary responsibilities, the Board is required periodically to review the effectiveness and performance of its committees, including their terms of reference.

During the year under consideration, the Board reviewed the performance and effectiveness of its committees, including its committee structure. The review exercise resulted in the splitting of the erstwhile Audit and Finance Committee into two separate committees. The rationale for the split was to separate the internal control and risk management functions from treasury management and budgetary control (finance) functions. The review was intended to align with the compliance requirements of the provisions of the Public Finance Management Act and Treasury Regulations prescribing specific functions for audit committees of public entities. The review revealed that Board leadership is effective, both at board and committee level, but that improvements were required with regard to the continuous provision of information and training on business and accounting developments. As a result of the review, certain members with the requisite skills were also co-opted to Board Committees, as discussed below.

The Board now has five committees: Audit Committee, Finance Committee, Credit Committee, Knowledge Strategy Committee and Remuneration Committee. All the committees have formal, written terms of reference, which are reviewed periodically and updated as necessary, to take cognisance of business and regulatory developments and any specific requirements of the Board. In terms of the Development Bank of Southern Africa Act, all the committees established by the Board have power to transact on the Board's behalf. This notwithstanding, and in line with best practice, all the committees report to the subsequent meeting of the Board of Directors and resolutions of decisions taken at committee meetings are tabled and referred to the Board for ratification.

The Board Charter and the terms of reference of all the committees provide for the declaration of interest by members in any matter at the beginning of each meeting. In cases where Directors have actual or potential conflict of interest, they are required to recuse themselves and take no further part in the proceedings. In addition, a declaration of interest register is maintained by the Corporate Secretary and updated periodically. During the year under review, the Directors believe that, save as declared in the declarations register, the Bank has not undertaken any transaction in which the Directors had a material, financial or significant interest.

Audit Committee

The Audit Committee has eight members. Four are non-executive Directors, with the Chief Executive as the only executive Director. Since the review exercise conducted in the past year, two more members have been co-opted to the Committee in order to enhance its skills in treasury management and related matters. The Committee now has three co-opted members. Executive management and external auditors are invited to attend all meetings of the Committee. The Committee is chaired by an independent non-executive Director, Dr D Konar.

The Audit Committee is tasked with overseeing the Bank's internal control framework, which includes reviewing the integrity of financial and other statutory reporting; risk management processes; compliance with laws and regulations; ethics management; oversight of internal and external audit functions.

The Committee reviews internal and external auditing processes, and evaluates risk management, compliance reports, procurement policies and strategies. It reviews and approves the Internal Audit Plan and the annual significant risk exposure assessments.

The Committee is also responsible for considering annual and interim financial statements, and recommending their approval and adoption to the Board.

The Committee is supported by three management committees, namely, the Finance and Risk Management Committee, Fraud Management Committee and the Asset and Liability Management Committee.

Finance Committee

The Finance Committee has oversight responsibility for providing advice to the Board on income, expenditure and capital budget requirements; tax management issues; treasury arrangements and funds mobilisation strategies; appropriate transfer pricing policies; reviewing the adequacy of loan loss provisions (impairments); management of assets and liabilities, and overall evaluation of the Bank's financial health and sustainability. Generally, the Committee assists the Board in providing strategic direction on the Bank's asset and liability management activities within the defined risk appetite, in order to strengthen the Bank's financial position in pursuance of its development mandate.

The composition of the Committee is similar to that of the Audit Committee, and it is chaired by Dr D Konar, an independent non-executive Director. It is supported by two management committees, namely, the Asset and Liability Management Committee and the Finance and Risk Management Committee.

Credit Committee

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

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

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

Knowledge Strategy Committee

The Committee consists of four Directors and three co-opted members. Its primary purpose is human capital transformation, human resources development and knowledge management. The Committee serves as a sounding board to review all relevant knowledge management position papers and reports before submission to the Board. During 2005/06, the Committee's terms of reference were reviewed in order to include oversight responsibility with respect to the implementation of the strategy of the DBSA Vulindlela Academy. The Committee is chaired by Mr JB Magwaza, a non-executive Director.

The Committee is supported by the Knowledge Management Committee.

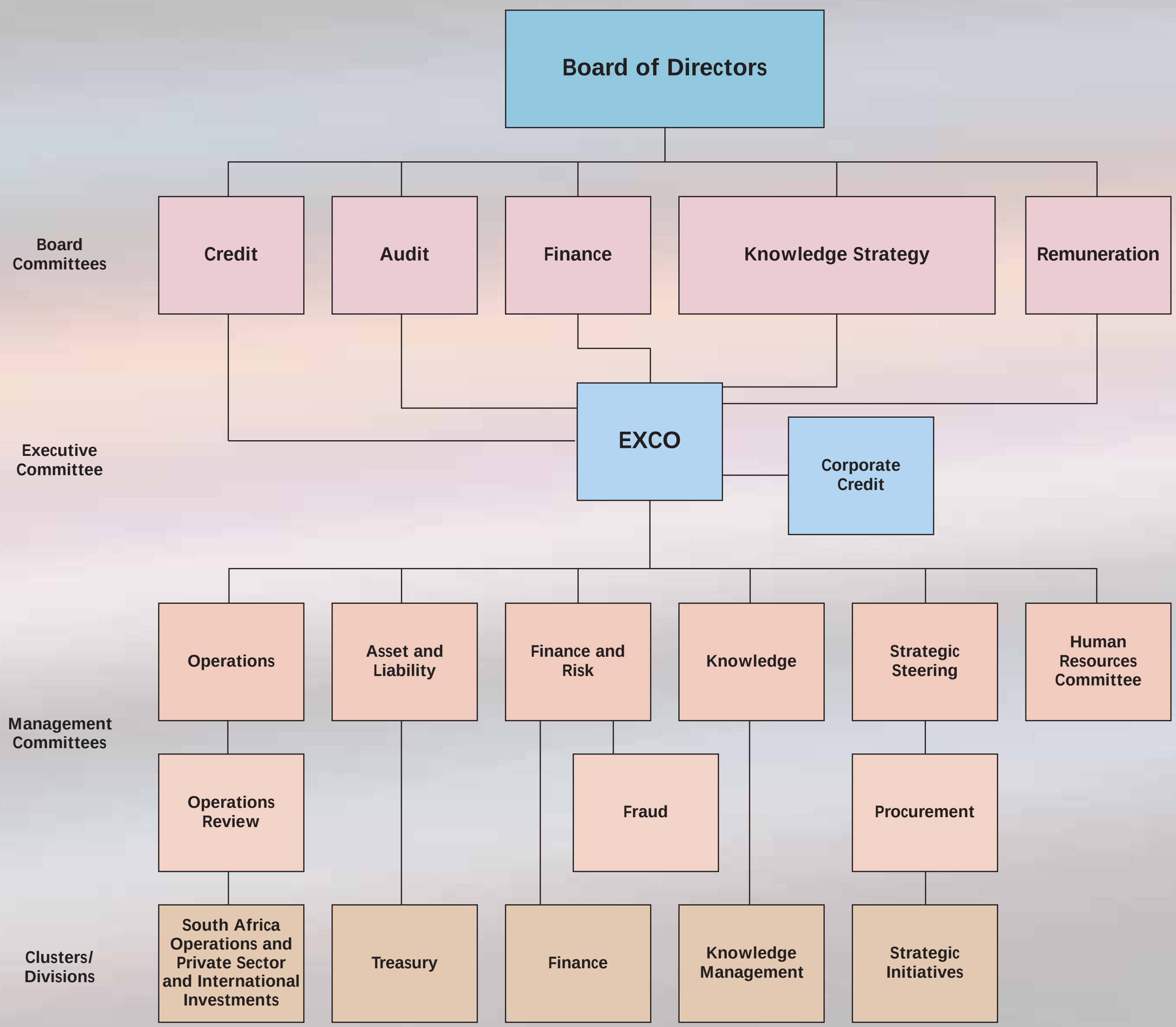
Remuneration Committee

This Committee is chaired by an independent non-executive Director, Mrs Wendy Lucas-Bull, and has four other members – three non-executive Directors and the Chief Executive Officer.

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

The composition of the Board and its Committees, together with the record of attendance of individual Directors, is depicted on page 68, while the Bank's committee decision-making tree is on page 66.

DBSA committee decision-making structure



Chief Executive Officer and Managing Director

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

Corporate Secretary

All Directors have access to the advice and services of the Bank's Corporate Secretary. In terms of the Development Bank of Southern Africa Act, the functions of the Corporate Secretary are in line with the provisions of the Companies Act, No. 61 of 1973. The Development Bank of Southern Africa submits that the Bank has lodged with National Treasury all such returns as are required of public entities in terms of the Public Finance Management Act, No. 1 of 1999, and further that such returns are accurate, correct and up to date.

The Corporate Secretary is responsible for ensuring that Board procedures and applicable rules are fully observed and comply with legislation and corporate governance tenets. During 2005/06, the terms of reference of all Board Committees were reviewed to ensure compliance with regulatory developments and best practice. In addition, the Board has adopted a procedure in terms of which Board members have access to and may obtain independent advice at the expense of the Bank.

New Directors are informed of their fiduciary duties and responsibilities by way of inductions organised by the Corporate Secretary. Executive management and senior Bank officials also brief Board members on matters of strategy and their respective functional operational areas. The Bank encourages Directors to identify and undergo training that will help them to keep abreast of industry, accounting and financial developments, and the training programme is constantly monitored by the Corporate Secretary.

Directors' remuneration policy

The remuneration of non-executive Directors is determined and approved by the Minister of Finance, in his capacity as the executive authority and shareholder representative, upon recommendation of the Remuneration Committee. With the exception of the Chairman of the Board and chairpersons of Board Committees, Board members are paid on the basis of their contribution and attendance of meetings. As prescribed by the Development Bank of Southern Africa Act, Board members are also remunerated for actual hours spent consulting and providing strategic guidance to management outside normal Board and Committee meetings. Additionally, Board members are compensated for all expenses actually incurred on account of the Bank's business, upon production of satisfactory proof as approved by the Corporate Secretary. The Chairman of the Board and the chairpersons of Board Committees are paid an approved monthly retainer fee in addition to meeting attendance fees. With respect to shareowner representative Directors (ex officio), no remuneration is payable. Board remuneration is benchmarked periodically against other reputable financial services organisations, in order to ensure that it is adequate to attract and retain the skills required to deliver on the mandate. Details of all the fees and expenses paid to Board members during the year under review are shown on page 133.

Committee composition and record of attendance at meetings

	DBSA Board		Audit Committee		Finance Committee		Credit Committee		Knowledge Strategy Committee		Remuneration Committee	
No. of meetings		**5**		**6**		**1**		**3**		**3**		**2**
Dr I Abedian	✓	3	✓	4	✓	1	Chair	3				
Ms L Abrahams[1]	✓	3					✓	2	Chair	2	✓	2
Ms T Chikane	✓	3	✓	4	✓	1						
Prof. B Figaji	✓	4					✓	2	✓	2		
Mr T Fowler	✓	3										
Mr M Gantsho	✓	5	✓	3	✓	1	✓	3	✓	2	✓	2
Ms N Gasa	✓	2										
Dr L Gwagwa	✓	2							✓	2		
Dr D Konar	✓	5	Chair	6	Chair	1					✓	2
Mr JB Magwaza[1]	✓	2					✓	1	✓	2	Chair	2
Mr I Momoniat	✓	3										
Ms L Msengana-Ndlela	✓	4										
Mr J Naidoo	Chair	5	✓	3	✓	1					✓	2
Mr S Nondwangu	✓	2										
Mrs H Nyasulu[1]	✓	1										
Mr Z Titus							✓	2				
Mr N Payne			✓	1								
Mr A Boraine[2]	✓	2							✓	1		
Mrs W Lucas-Bull[2]	✓	2										
Dr C Manning[2]	✓	3					✓	1				
Ms T Dingaan[3]			✓	2	✓	1						
Mr J Modise[3]			✓	2	✓	1						
Dr R Kfir[4]									✓	1		
Mr O Mlaba[4]									✓	0		
Mr M Silinga[4]									✓	0		

✓ *Membership of Board or Board Committees*
1. *Term of membership of the DBSA Board expired in October 2005.*
2. *Appointed to the DBSA Board on 1 August 2005.*
3. *Appointed to the Audit and Finance Committees as a co-opted member on 24 November 2005.*
4. *Appointed to the Knowledge Strategy Committee as a co-opted member on 24 November 2005.*

Risk management

The Bank needs to deliver on its mandate within an acceptable level of risk, so as to ensure its sustainability. To do this, the Bank needs to understand the risks involved in its mandate. These risks concern both long-term finance for development projects and funding for less developed areas, where the challenges are to intervene innovatively and to balance opportunities with risk responsibly and productively. Accordingly, the Bank employs sound risk management practices, which are guided by a number of strategic thrusts designed to broaden and deepen its development impact through responsible risk taking.

During 2005/06, the process of reviewing and updating business continuity plans was completed. Efforts to raise awareness of risk and create a risk culture within the organisation were also intensified. Members of staff were sensitised to these issues through enterprise-wide risk management and risk identification workshops at the level of Units or functions.

During 2005/06, the following policies were revised to guide responsible management of the Bank's concentration risk:

- The limit structure, including limits regarding country exposures, single obligors and equity
- The client credit rating methodology

In addition, a review of risk management policies in the following areas is under way:

- Pricing
- Security for loans
- Financial guarantees

Regarding the latter policy, the Risk Management Unit is developing a position paper on guarantees, with the aim of investigating other possible uses of this instrument.

A credit rating methodology is being developed for the Private Sector and International Investments Division. The first phase, the development of a risk rating methodology on brownfield projects for the International Finance Unit, is currently being implemented. The second phase, which deals with the Corporate and Project Finance Units, will be finalised in 2006/07.

Risk management governance structure

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

Risk management function

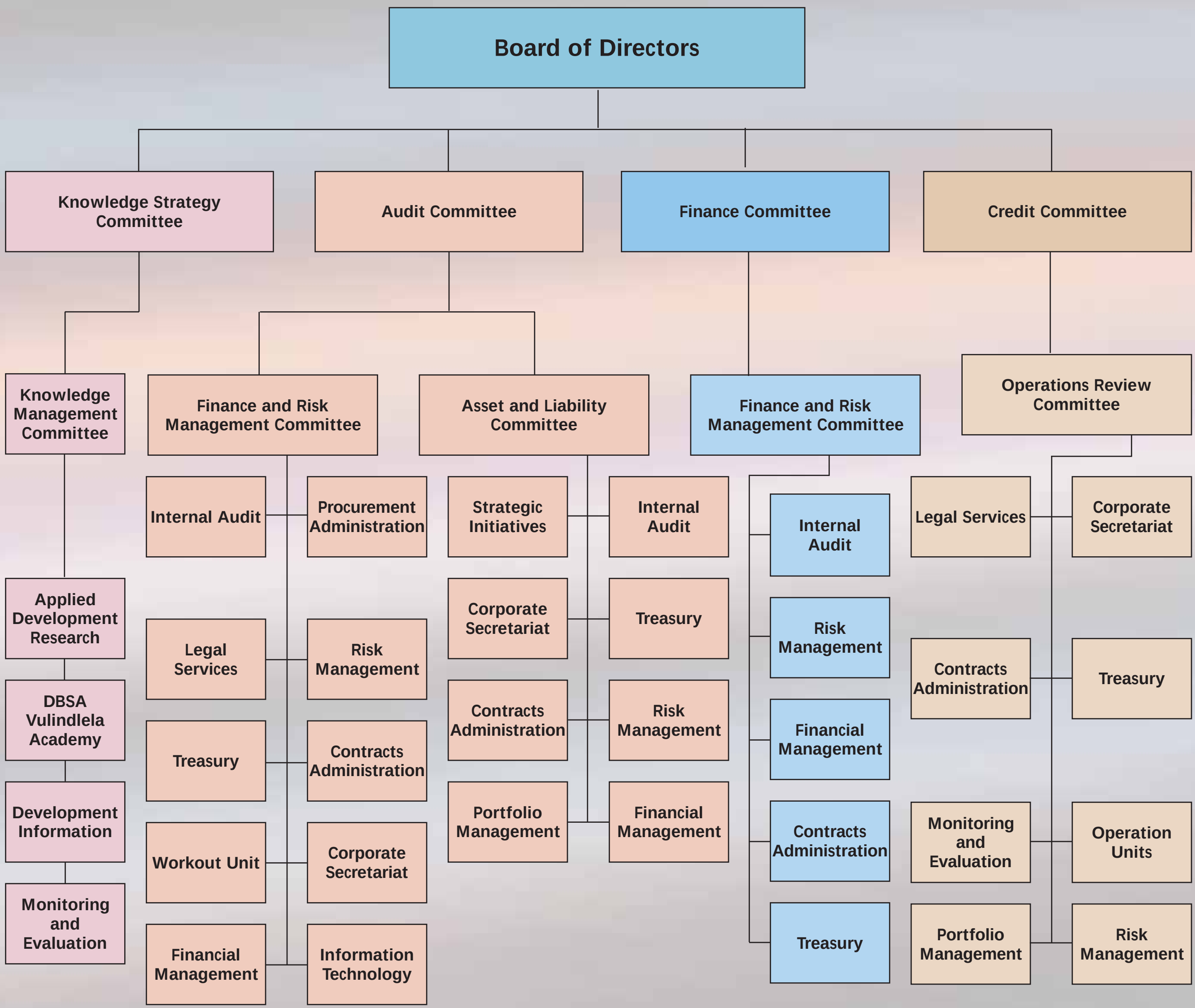
For effective risk management to occur, the potential impact of each risk must be assessed, and policies and procedures must be established to ensure that risks remain within the risk appetite boundaries approved by the Board of Directors. In line with the Generally Accepted Risk Principles (GARP), the Bank involves qualified risk management professionals, who are independent of the Business Units, in establishing the policy framework and defining the risk limits.

The accountability for risk lies with the Business Units, whose structures for managing risk are defined according to their business needs and governance standards. This is a disciplined process with appropriate reporting and escalation. The Risk Management Unit works with the Business Units to establish standards for managing risks, and to facilitate reporting and the development of mitigating measures.

Major risk exposures

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

Governance structure



Credit risk

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

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

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

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

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

Interest rate risk

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

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

Currency risk

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

Liquidity risk

Liquidity risk is the risk of failure to fund a cash shortfall as and when required, without incurring financial loss. It therefore encompasses both the risk of failing to borrow sufficient funds at prevailing market rates, and the risk of failing to liquidate an asset in a timely manner, and without significant deviation from the prevailing market price. Liquidity consists of two pools, namely, the operational liquidity pool and the strategic liquidity pool. The operational liquidity pool is calculated as 20% of the cash flow requirements, but subject to a maximum level of R1 billion. The strategic liquidity pool, which is the funds that the Bank's Treasury will invest in accordance with the approved investment policy and guidelines, is determined as a maximum of 1,5 times the maximum of the operational liquidity pool, i.e. R1,5 billion.

Integral to the Bank's asset and liability management, liquidity risk management is centralised in the Treasury Division and takes place under the oversight of the Asset and Liability Management Committee, which in turn reports to the Audit and Finance Committee of the Board.

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

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

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external sources. Operational risk is inherent in all business activities. It encompasses a broad range of risks, including transaction processing errors, fiduciary breaches, technology failures, business disruption, fraud, and damage to physical assets originating from internal or outsourced business activities. Its impact can result in financial loss or reputation risk.

The Risk Management Unit is responsible for establishing and coordinating the implementation of the Bank's global operational risk management framework, which consists of the policies and processes for identifying, assessing, mitigating and controlling risk.

Through this framework, corporate policies and standards are defined and reporting requirements are established. Primary responsibility for managing operational risk on a day-to-day basis lies with the management of the Business Units, supported by specialist Units such as Information Technology, Finance and Human Resources. Management must ensure that the Units comply with the operational risk management framework,

by establishing and maintaining the appropriate policies, procedures, internal controls and business continuity plans. Significant areas of risk addressed during the year included:

- Business continuity planning
- Reputation risk
- Regulation and compliance risk

Approved risk management policies

The following risk management policies are operational in the Bank:

- Capital adequacy
- Treasury counterparty limits
- Interest rate risk
- Approved financial instruments
- Foreign currency risk
- Liquidity risk
- Single obligor limits
- Equity/quasi-equity limits
- Country exposure limits
- Loans loss provisioning
- Loan risk spread and pricing
- Security for loans
- Country risk pricing
- Compliance framework
- Reputation risk framework
- Whistle-blowing policy

The Bank reviews its risk management policies and limits periodically to ensure that they remain relevant, appropriate and applicable. Market risk is managed under the auspices of the Bank's Asset and Liability Management Committee, and is governed by the asset and liability management policy approved by the Board, incorporating interest rate, currency and liquidity risk.

Annual financial statements

Directors’ responsibility for financial reporting

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

In preparing the financial statements:

- The Development Bank of Southern Africa Limited Act, No. 13 of 1997, has been adhered to
- The Public Finance Management Act, No. 1 of 1999, has been adhered to
- International Financial Reporting Standards have been adopted

To enable the Directors to meet their financial reporting responsibilities:

- Management designed and implemented standards and systems of internal control to provide reasonable assurance as to the integrity and reliability of the financial statements and to safeguard, verify and maintain the accountability of the 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 Committee and internal and external auditors review the financial and internal control systems, accounting policies, reporting and disclosure

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

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

The financial statements that appear on pages 78 to 143 were approved by the Board of Directors on 29 June 2006 and signed on its behalf by:

Jayaseelan Naidoo
Chairman of the Board

Mandla Gantsho
Managing Director

Deenadayalen Konar
Chairman of the Audit Committee

Report of the Audit Committee

Report of the Audit Committee in terms of regulations 27(1)(10)(b) and (c) of the Public Finance Management Act, No. 1 of 1999, as amended:

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

In the conduct of its duties, the Audit Committee has, inter alia, reviewed the following:

- The effectiveness of the internal control systems
- The effectiveness of the internal audit function
- The risk areas of the entity's operations covered in the scope of internal and external audits
- The adequacy, reliability and accuracy of financial information provided by management and other users of such information
- Accounting and auditing concerns identified as a result of internal and external audits
- The entity's compliance with legal and regulatory provisions
- The activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations
- The independence and objectivity of the internal and external auditors

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

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

The Audit Committee has evaluated the annual financial statements of the Development Bank of Southern Africa Limited for the year ended 31 March 2006 and, based on the information provided to the Audit Committee, considers that they comply, in all material respects, with the requirements of the Development Bank of Southern Africa Act, No. 13 of 1997 and the Public Finance Management Act, No. 1 of 1999, as amended, and International Financial Reporting Standards. The Audit Committee concurs that the adoption of the going-concern premise in the preparation of the annual financial statements is appropriate.

At their meeting held on 21 June 2006, the Audit Committee recommended the adoption of the annual financial statements by the Development Bank of Southern Africa Limited.

DKonar

Deenadayalen Konar
Chairman of the Audit Committee

Report of the independent auditors to the Minister of Finance

The financial statements of the Development Bank of Southern Africa Limited set out on pages 78 to 143 for the year ended 31 March 2006 have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996), read with section 28 of the Public Audit Act, 2004 (Act No. 25 of 2004) and the Companies Act of South Africa, sections 284 to 303 and schedule 4. These financial statements are the responsibility of the accounting authority. Our responsibility is to express an opinion on these financial statements based on our audit.

Scope

The audit was conducted in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

The audit was completed in terms of General Notice 544 of 2006, issued in Government Gazette no. 28723 of 10 April 2006.

We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa Limited at 31 March 2006 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Public Finance Management Act, 1999 (Act No.1 of 1999) and by the Companies Act of South Africa, sections 284 to 303 and schedule 4, as specified in the Development Bank of Southern Africa Act.

In our opinion, the performance information is fair in all material respects on a basis consistent with the preceding year with the guidance set out in General Notice 544 of 2006.

KPMG Inc.
Registered Auditor

Per ME Magondo
Chartered Accountant (SA)
Registered Auditor
Director
29 June 2006

KPMG Forum
1226 Schoeman Street
Hatfield
Pretoria

Gobodo Inc.
Registered Auditor

Per MP Mainganya
Chartered Accountant (SA)
Registered Auditor
Director
29 June 2006

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

Directors' report

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the Development Bank of Southern Africa Limited for the year ended 31 March 2006. The Directors' report is compiled in terms of the Public Finance Management Act, No. 1 of 1999, and the Development Bank of Southern Africa Act, No. 13 of 1997. Regulation 51 of the latter Act requires that the annual financial statements comply with sections 284 to 303 of the Companies Act, No. 61 of 1973, as amended. The report deals with the performance of the Bank and meets the relevant statutory information requirements.

The Directors subscribe to the principles of good corporate governance as espoused in relevant instruments, including the King II Report on Corporate Governance in South Africa, the Protocol on Corporate Governance in the Public Sector and the Public Finance Management Act. The Board operates in terms of a written Board Charter and is assisted in the discharge of its fiduciary responsibilities by five Board Committees. Each Board Committee has adopted formal written terms of reference. During the year under review, the Board conducted an evaluation of the Bank's compliance with the King II Report and the Public Finance Management Act, and the Board is satisfied that, in pursuing its mandate, the Bank's corporate practices significantly comply with the relevant corporate governance standards. Further details regarding the Bank's corporate governance structures and practices are provided on page 59 of the Annual Report.

The Directors draw attention to the fact that this report contains estimated performance information on the impact of the Bank's participation in the economies of South Africa and other SADC countries, through its funding in the region. This information is generated via social accounting matrix (SAM) economic models, which are accepted internationally as the best practice for macroeconomic impact analysis. A SAM was compiled for South Africa for 2004, based on official published data from Statistics South Africa and the South African Reserve Bank. SAMs for the SADC countries have been adjusted to reflect 2005 prices. Data on the Bank's investment portfolio, as supplied by its own information systems, was used as an input into the SAMs. The resulting performance information is therefore subject to any limitations of the data used in the models.

The financial year 2005/06 has been another successful one for the Bank, with the large majority of its strategic objectives achieved or exceeded. As the Bank intensifies its support to more disadvantaged municipalities in South Africa, the shape of its financial portfolio is changing and now contains a larger number of smaller projects. The Bank's total portfolio has also taken on more projects and initiatives involving capacity building, training and research.

In the area of sustainable development impact, the primary performance focus for the Bank, all but three of the performance targets were met or exceeded. Project financial approvals and commitments were exceeded, and the disbursements target was met. As part of the Bank's commitment to delivering on its vision of a region progressively free of poverty, inequity and dependence, accelerated development delivery is essential, and with a concomitant increase in a carefully managed risk appetite, larger numbers of project proposals are being put forward. This is reflected in the very substantial increase in approvals, which is a good lead indicator for the Bank's loan business. At the same time, the Bank's marketplace is changing substantially, with increased competition from private sector banks wanting to comply with the Financial Sector Charter. In addition, many municipalities are now inviting tenders for projects, even in cases where the Bank has been heavily involved in the preparatory stages. Whilst the Bank obviously intends converting this increased volume of approvals in the pipeline into the maximum volume of signed commitments and disbursements, it is possible that the conversion rate may decline because of the changing nature of the market.

The co-funding target was exceeded, as was the technical assistance target, the latter being one of the primary lead indicators that typically correlates well with future business.

The target for the Bank's BEE investments was exceeded comfortably, and all the non-financial, knowledge-based targets around "non-lending" products were met or exceeded. Targets for BEE procurement and new strategic relationships were both narrowly missed, while the percentage of successful projects as measured by clients may not have been met (the data for this metric was inadequate).

As far as *financial sustainability* is concerned, all the Bank's targets were met or exceeded. While performance has been good, it should be noted that several of these metrics were expressed as changes over the previous year. The Bank came into 2005/06 on a relatively low base, given that performance in this area had been limited in the previous year. As such, the substantial performance metrics registered in this area are less of an abnormal improvement than a return to the long-term trend.

In the area of *effective business processes*, three out of six metrics were achieved. However, it should be noted that there were several new targets with no historical benchmarks. Much effort is being invested in improving the metrics in this area. In the *learning and growth* performance area, more than half of the targets were met or exceeded. The exceptions concerned staff turnover and two measurements of improvement in corporate culture, where the required survey was not undertaken in good time.

The Directors look forward to another successful year in 2006/07, as key external initiatives, such as the Local Investment Agency and the Siyenza Manje and Sustainable Communities programmes, as well as internal initiatives, such as corporate entrepreneurship and business process modelling, continue to bear fruit and support more effective and efficient implementation of Vision 2014.

The functions of the Bank and nature of the business

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

The Bank seeks to supplement government and private finance through smart, knowledge-based partnerships with various role players in the public and private sectors, both nationally and internationally. It is one of several national development finance institutions tasked with promoting development.

Vision, strategy and objectives

The DBSA's Vision 2014 envisages an integrated region, progressively free of poverty, inequity and dependency. The DBSA is a knowledge bank, and a leading change agent for sustainable socio-economic development, and serves as a centre of excellence for development finance and activism. Its broad strategy over the 2005–2014 period is to invest in infrastructural assets, hard and soft, which serve the poor, directly and indirectly, and create broad-based wealth. The Bank's strategy is pursued through eight strategic thrusts and executed through various initiatives, programmes and projects.

The Bank's strategy has evolved in recent years to increase the emphasis on development impact, subject to financial sustainability. The Bank has also recognised that client capacity limitations are a significant constraint on achieving this, and is strengthening the knowledge component of its internal capacity accordingly. The Siyenza Manje initiative, reported on in detail in the accompanying Development Fund Annual Report, is an example of a significant, very specifically targeted, short-term (three-year) deployment of skilled resources to implement systems and projects. This programme has a distinct focus on direct development impact, rather than the indirect, slower effects of building client capacity and financing infrastructure. Similarly, the Sustainable Communities and Local Investment Agencies initiatives are targeted at more direct impact. Historically, the Bank's activities typically had a more indirect, longer term impact on realising the vision of a region progressively free of poverty; these new initiatives allow the Bank to contribute much more directly to the government's People's Contract, and to national and regional imperatives.

The major constraints foreseen in delivering on this strategy are two of those highlighted in AsgiSA: infrastructure deficiencies in state organisation, capacity and strategic leadership, and a shortage of suitably skilled labour. For some time, the Bank's strategy has clearly focused largely on the infrastructure deficiencies. Dealing with the others will require a two-pronged approach: the client capacity building already described above, and a very significant focus on acquiring, developing and retaining the necessary skilled staff within the Bank itself. The skills shortages in many areas in South Africa, and significant competition from private sector financial organisations in the employment market in which the Bank competes, this demands – and indeed receives – ongoing attention at the highest level.

The strategy is guided by an integrated strategic management and control framework, comprising belief and interactive systems as well as boundary and diagnostic systems. In addition to metrics, rules and regulations, these systems involve values, guiding principles, innovation and entrepreneurship. The strategic management process extends from the high-level Vision and Mission through a hierarchy of Balanced Scorecards that culminate in business plans and budgets. Feedback and control cycles throughout the year ensure effective implementation of plans, aided by regular monitoring and reporting against the budget.

The core strategic implementation system used is that of the Balanced Scorecard methodology, where corporate strategic objectives and targets for rolling three-year periods are developed and approved by the Board of Directors, updated annually and submitted to National Treasury as part of a Corporate Plan. The corporate strategic objectives and targets dealt with in this report were approved and submitted during the first quarter of 2005. Using the accepted methodology, each substructure of the body corporate developed corresponding Balanced Scorecards.

The following reporting of planned and actual performance focuses only on high-level corporate objectives for the year under review. These are shown in the table below. For comparison, performance in 2004/05 is also shown in the results column in brackets, unless the target is new, in which case "Not a target in 2004/05" is shown. Auditing of performance information is required in terms of Section 28(1)(c) of the Public Audit Act, No. 25 of 2004. This requires the Auditor-General to determine the standards to apply to the audits of the predetermined objectives. Gazette Notice 544 of 2006 gave notice that in the absence of any auditing standards at this stage, the Auditor-General has adopted a phase-in approach, which is detailed in the Notice, until such time as the necessary standards have been developed.

The DBSA's high-level performance in 2005/06

Balanced Scorecard perspective: Sustainable development impact

Targets	Results 2005/06	Comments
1. Strategic objective: Grow lending and investment businesses optimally		
Approvals: South Africa and SADC, DBSA only: R3,5 billion	R8,1 billion (2004/05: R3,9 billion)	Target exceeded
Commitments: R3,2 billion (Signed agreements)	R3,9 billion (2004/05: R3,5 billion)	Target exceeded

Targets	Results 2005/06	Comments
Disbursements: R3,1 billion	R3,1 billion (2004/05: R3,0 billion)	Target achieved
Number of projects approved: 105	145 (loans or equity approvals to 107 clients) (2004/05: 86)	Target exceeded
New clients as a percentage of approvals: 10%	50% (loans or equity approvals to 54 new clients) (Not a target in 2004/05)	Target exceeded
2. Strategic objective: Broaden the menu of products and services to customers		
Number of innovations institutionalised: 2	6 (Not a target in 2004/05)	Target exceeded
3. Strategic objective: Promote and forge smart partnerships		
Rand value of DBSA contribution to projects, relative to investment by others: 1:1	1:1,85 (for every R1 invested by the DBSA, a further R1,85 contributed by other co-funders) (2004/05: 1:1)	Target exceeded
Number of new corporate strategic relationships implemented: 5	4 (2004/05: 6)	Target not met
4. Strategic objective: Optimise the benefits of interventions		
Technical assistance – approvals: R15 million	R25 million (2004/05: R18 million)	Target exceeded
Technical assistance – disbursements: R12 million	R20 million (Not a target in 2004/05)	Target exceeded
Percentage of DBSA loan/equity investment in BEE: 10%	31% for approvals within South Africa (Not a target in 2004/05)	Target exceeded Public sector projects in SA: 20% of approval value Private Sector and International Investments: projects in South Africa 61% of approval value
BEE share of DBSA procurement spend (including Capex and Opex): 55%	52% (2004/05: 50%)	Target not met
Percentage of successful projects, as measured by the client: 80%	60% (estimated) (Not a target in 2004/05)	Target not met
5. Strategic objective: Become an advanced knowledge-based institution		
Number of major development dialogues, seminars, conferences and symposia organised or co-sponsored by the Bank: 8	23 (2004/05: 8)	Target exceeded

Targets	Results 2005/06	Comments
Number of development publications e.g. articles in referred journals or equivalent: 12	23 (2004/05: 11)	Target exceeded
Number of knowledge advisory interventions: 10	27 (2004/05: 19)	Target exceeded
Knowledge Management networks – new external Communities of Practice established: 1	1 (2004/05: 2)	Target achieved

Balanced Scorecard perspective: Financial sustainability

1. Strategic objective: Maintain sound financial health		
Growth in operating income (in line with disbursements growth rate): 3%	36,23% (Not a target in 2004/05; was -19,21%)	Target exceeded
Cost to income ratio: 34,6%	30,85% (2004/05: 35,82%)	Target exceeded
Impairments as % of loan book: 10%	5,2% (2004/05: 8%)	Target exceeded
Debt to equity ratio: 120%	95,8% (2004/05: 101,8%)	Target achieved
Capital adequacy ratio: 25%	49% (2004/05: 48%)	Target achieved
Local rating: AAA	AAA (2004/05: AAA)	Target achieved
International rating: Baa2/BBB, maintain sovereign credit rating	Baa1/BBB+ (2004/05: Baa1/BBB)	Target achieved

Balanced Scorecard perspective: Effective business processes

1. Strategic objective: Ensure that business processes deliver effectively and efficiently on strategic objectives		
Percentage of prioritised Business Process Management projects completed: 100%	95% (2004/05: 133%)	Target not met
Percentage of business processes documented: 75%	74% (Not a target in 2004/05)	Target not met
Business Process Management process in place: 100%	100% (Not a target in 2004/05)	Target achieved
Percentage of projects prepared with log frame to enable systematic monitoring and evaluation: 60%	61% (Not a target in 2004/05)	Target achieved
Project completion reports within three months of end of project: 100%	39% (Not a target in 2004/05)	Target not met

Targets	Results 2005/06	Comments
All business processes comply with statutory requirements and best practice for institutions: 60%	Business processes mostly comply with corporate governance and Public Finance Management Act requirements, the only ones tested so far (Not a target in 2004/05)	Target exceeded where measured; this is an ongoing exercise

Balanced Scorecard perspective: Learning and growth

1. Strategic objective: Attract, develop and retain core competencies in line with employment equity requirements		
Investment in training as percentage of budgeted payroll: 6%	6,1% (2004/05: 5%)	Target achieved
Turnover rate: 8%	9,3% (Not a target in 2004/05)	Target not met
Percentage of staff appraised using the My Journey system: 100%	100% (Not a target in 2004/05)	Target achieved
Grievances as a percentage of staff appraised: 3%	0,2% (Not a target in 2004/05)	Target exceeded
2. Strategic objective: Become an advanced knowledge-based institution		
Number of active internal Communities of Practice: 6	7 (Not a target in 2004/05)	Target exceeded
Culture survey performed: 1	0 (Not a target in 2004/05)	Target not met Survey being undertaken early in 2006/07
Percentage of people responding positively to question on culture survey, "Have we improved since the last survey?": 60%	Results not determined (Not a target in 2004/05)	Target not met Results will only be available in 2006/07

The Bank is committed to ensuring that the development activities it supports are enduring. Besides appraising the financial, economic, technical and institutional aspects of proposed projects, it therefore also appraises and reports on their environmental and social aspects. The Bank continues to follow the best practice guidelines on sustainability reporting put forward by the Global Reporting Initiative. This report therefore evaluates the Bank's performance in the economic, environmental and social spheres, with detailed comments on progress in relation to the "triple bottom line". As a development finance institution, most of the DBSA's activities have strong social and environmental dimensions. Accordingly, some of the Bank's activities of an economic nature are reported upon under social and environmental headings in a way that would not be used by a commercial bank.

Economic report

Intermediating finance for development

Investment loans and equity

In the year under review, the Bank made new approvals to a total value of R8,1 billion. This is 108% higher than the R3,9 billion of 2004/05 and includes R210 million (R250 million in 2004/05) of equity investments. Approvals within South Africa reached R6,9 billion, of which R5,1 billion was in respect of public sector projects (59% higher than in

2004/05). The total cumulative net approvals for South African clients reached R33,7 billion, up 26% from the R26,8 billion at the end of 2004/05. Approvals in the SADC region amounted to R1,15 billion, a growth of 130% from the R500 million during 2004/05. This represents 14% of total approvals during the year, versus 13% the previous year. The cumulative support programme in the SADC now amounts to R10 billion, a growth of 14% from the R8,8 billion at the end of the previous year. The total cumulative net approvals by the Bank now stands at R43,7 billion, up by 22% from 2004/05.

The continued growth in approvals within South Africa (up by 116% from 2004/05, on top of the 28% growth from 2003/04) is due to the Bank's greater emphasis on Market 3 clients, who grew to 13,6% of the total number of approvals; a sharp increase in approvals to Market 2 clients (mainly municipalities, with 89 approvals); and the effort to develop a sufficient pipeline of private sector and corporate clients (20 approvals). This may be compared with 2004/05, where the Bank approved 86 projects in total to all clients. In the current year, a total of 145 projects have been approved to 107 clients, of whom 54 (50%) were first-time clients in respect of loans and equity. The Bank's introduction of the Targeted Infrastructure programme, focusing on the lower end of the affordability market, resulted in R439 million approved in this special initiative alone. The prominence of a number of comprehensive metropolitan and rural water provision programmes, and successes in bringing large private sector and equity projects to a stage of finality, also contributed to this positive growth.

The growth in the number of approvals in the rest of the SADC region contributed to a diversification of the countries receiving project support from the Bank. Eight countries benefited from the Bank's interventions, mainly in commercial and communication projects. The transaction periods for SADC projects outside South Africa are also typically long, and most of these projects in the rest of the SADC had been initiated in the previous financial year. The turnaround time on approvals for projects now stands at 11 months, indicating the transactional and logistical difficulties with these programmes.

Regional and provincial focus

The Bank continues to support programmes and projects that promote sustainable development and integration in South Africa and the rest of the SADC region. The main focus of these is to support socio-economic development across the spectrum and, particularly where the lowest quintile of our population is concerned, to address the social, economic and environmental needs of communities in South Africa and the rest of the SADC. These communities are seen as the main beneficiaries of the support provided by the Bank. Their needs and interests are served via intermediaries, normally public and private sector institutions, which form the Bank's main customer base.

New investment and equity approvals benefited all nine provinces (86% of the value of total approvals) as well as eight countries outside South Africa (14%). Zambia (30% of this 14%), Tanzania (21%) and Mozambique (14%) were the main beneficiaries in the rest of the SADC, while Malawi, Angola, Mauritius, Swaziland and Uganda also received support. Given the situation in Zimbabwe, the Bank's approach there has been very cautious, entailing selective technical assistance and investments only in projects where foreign exchange is generated and repayments can be secured through offshore, ring-fenced structures.

Within South Africa, the dedicated business focus on the poorest provinces – Eastern Cape and Limpopo – continued to yield positive results, with these two provinces receiving a combined 19% (11% during 2004/05) of the new investment approvals in the country. This was a particularly encouraging development. Private sector projects played a prominent role, and the successful promotion of community-oriented small projects had a growing and sustainable development impact on poor communities in these areas. The newly instituted Sustainable Communities programme, the national government's Project Consolidate and the DBSA Development Fund's support for capacity building also contributed. It is envisaged that the Development Fund's new Siyenza Manje capacity deployment project (reported on in more detail in the Development Fund Annual Report) will build on this positive trend.

In the other provinces, the spatial distribution of investments broadly followed the patterns of the previous year in respect of public sector finance, with KwaZulu-Natal, Western Cape and Gauteng receiving a combined 62% of support. The increase in private sector, equity and corporate finance approvals was encouraging in all but three provinces. In total, 26% of new approvals within South Africa were to private sector projects and, taken together with public sector approvals, the provinces of Gauteng (25%), KwaZulu-Natal (21%), Western Cape (16%) and Mpumalanga (14%) received the bulk of new investments. The Bank approved projects in all nine provinces during the year, but approvals in the Free State (0,6%) and Northern Cape (0,7%) were lower than expected.

Sectoral focus

In sectoral terms, the Bank's funding portfolio in South Africa and Southern Africa was again dominated by water infrastructure (23% of total approvals, the same as in 2004/05) and commercial infrastructure (19%, also unchanged from the previous year). The sustained high levels of investment in water infrastructure demonstrate the Bank's support for the government's high-priority goals of increasing access to clean water and sanitation among the nation's poorest. The Bank's financing activity complements government grants for a basic level of service, by ensuring the timely provision of bulk infrastructure for all communities. While the total approved portfolio during the year reflects a decreased percentage of investment approvals for social infrastructure (18% versus 20% the previous year), this does not indicate a real rand decrease in this regard but rather a greater focus on other areas, such as community-oriented projects. Approvals became more diversified, with other important sectors being communications (12% versus zero in 2004/05), energy (8% versus 13%), residential infrastructure (6% versus 13%), sanitation (2% versus 5%), educational infrastructure (2% versus 5%) and roads infrastructure (4% versus 2%). In the SADC, the focus of approvals was on communications, including information technology and telecommunications (44%), commercial infrastructure (30%), energy-related infrastructure (19%) and transportation (7%).

Overall, this maintains the general focus of investment reported during 2004/05, with a greater emphasis on broader social infrastructure.

Black economic empowerment

Black economic empowerment remains a strategic imperative for the Bank. Corporate activity in the financing of BEE transactions has increased and the focus on broad-based BEE initiatives has improved. Such initiatives are crucial for the transformation of the country's socio-economic landscape and the creation of a future where the benefits of economic growth accrue equitably to all sectors of society. The Bank's investment policies support broad-based BEE, as indicated by recent transactions (reported above in the Private Sector and International Investments section of the Annual Report).

Disbursements

Disbursements to clients during the year, in accordance with the implementation of approved projects, are a key indicator of the impact of projects already under way. The Bank disbursed R3,1 billion in 2005/06, up slightly from the R3,0 billion of 2004/05. Given the impact of the local government elections on spending patterns in the Bank's markets, this is a very satisfactory performance.

There is a lead-time delay between approvals on investment projects and physical implementation, and the high levels of public sector approvals in the latter part of 2005/06 will probably only result in an increased rate of disbursements during 2006/07.

The increase in disbursements from 2004/05 to 2005/06 mainly resulted from public sector projects within South Africa. This was caused by increased approvals to public sector clients and the prominence of large programmes, especially towards the end of the financial year. This in turn may be put down to a surge in decisions taken after the municipal elections, following the slowdown in activities in the period leading up to them.

As lead times on SADC and private sector projects are normally longer, the low levels of approvals during 2004/05 resulted in a lower disbursement rate during 2005/06 (35% down on the previous year). However, the increased levels of approvals in the SADC and to private sector clients during 2005/06 should result in an equivalent increase in disbursement rates during the next financial year.

Technical assistance

The Bank has increased its technical assistance in support of the development of sustainable projects. Most of this assistance was to enable clients to plan and implement investment projects effectively. Grants with a value of R25 million were approved, an increase of 37% from the R18 million during 2004/05.

Technical assistance with a value of R0,7 million (2,7% of the total) was deployed in the SADC outside South Africa, while the balance within South Africa mainly supported public sector projects, covering 83% of approvals. At the provincial level, the Western Cape (with 37% of technical assistance approvals), KwaZulu-Natal (12%), Eastern Cape (11%) and Gauteng (15%) received the most support. This corresponds with the focus of investment approvals and reflects the continuing effort to strengthen the delivery capacity for investment projects in the provinces, particularly the Eastern Cape, where investment approvals grew from R150 million in 2004/05 to more than R900 million in 2005/06.

Leveraging

The Bank continued to facilitate and support the mobilisation of third-party investments for development projects during 2005/06. During 2004/05, it had mobilised an additional R3,9 billion on its funded projects, from both private sector clients and the public sector, at a ratio of 1:1; in other words, for every rand provided by the Bank, a further rand was contributed by another funder. Investments during 2005/06 succeeded in leveraging a further R14,9 billion at a ratio of 1:1,9 on top of the Bank's own approvals, an increase of 263% from the previous year. The highest leverage was achieved in respect of Corporate Finance projects (1:3,6), and within South Africa significant additional contributions were mobilised in public sector projects, especially in KwaZulu-Natal (1:2,0) and the Western Cape (1:3,8). This is an indication of an increasing ability to form partnerships with and crowd in the private and public sector and utilities in these areas. A leverage ratio of 1:1,1 was achieved for projects outside South Africa.

Managing risks to deliver sustainable services

The Bank's bid to deliver on its mandate and simultaneously maintain its financial viability remains a balancing act. Achieving the necessary balance requires responsible risk taking, and to this end the Bank employs sound risk management practices. These comply with the Generally Accepted Risk Principles (GARP), which place on the Board of Directors the responsibility for understanding the risks undertaken by the Bank and ensuring that they are appropriately managed. The Audit Committee considers these policies on delegated authority and recommends them to the Board of Directors for approval.

The Board of Directors is satisfied that the risk management processes used have enabled the Bank to manage its risk exposures appropriately. The Board is also not aware of any breakdown of risk management processes or controls. The risk profile of the Bank's total loan portfolio remained within acceptable levels in the year under review, with 1% (2% in 2004/05) considered as high risk, 18% (22%) as medium risk and 75% (71%) as low risk. The defaulter category has seen a slight deterioration from 5% in 2004/05 to 6% in the year under review.

Social report

As in recent years, the Bank follows the Global Reporting Initiative's guidelines for the financial industry in reporting on the social component.

Millennium Development Goals

In the SADC region, the Bank is well positioned to support governments and other development partners in their campaigns to achieve the Millennium Development Goals by 2015. The Bank prepared an initial report on the progress made by the SADC member states in this regard, examining the challenges they face and how the Bank's current interventions contribute towards the achievement of the Goals.

One of the key challenges in achieving the Millennium Development Goals is the lack of reliable baseline data. There is generally poor capturing and tracking of data for measuring progress towards these international development objectives. The assessment of progress is essential to ensuring that the requirements of the Millennium Development Goals are integrated into the activities of the various Units within the Bank. Further work in this area is ongoing.

Social infrastructure development

As it works to achieve the Millennium Development Goals and fulfil the South African government's People's Contract, the Bank places high value on creating social and human capital, by engaging in key social sectors, forming smart partnerships, conducting research, and constantly monitoring and evaluating its activities.

Education

A year ago, the Bank expanded its interest in education by creating a dedicated policy analysis capability. Skills, capacity for growth, and the poor quality of the schooling system have since become issues of national debate. The Bank's new education policy provides an ideal opportunity to become more involved in this area. There is a high level of awareness of the Bank's potential role in contributing to development of the country's human resources, and the institution can build on the credibility and respect it commands in this crucial area.

The Bank has entered into the national debate through major newspaper articles and publications; presentations or submissions to conferences and bodies, including the Human Rights Commission; and a range of other knowledge interventions, such as the hosting of a development dialogue in the course of developing and adopting the new education policy. There is a need to broaden the Bank's involvement in education beyond the traditional areas of Higher Education and the Further Education and Training colleges. A wider definition of social infrastructure will open up potential new areas, ranging from early childhood development to student loans and other school-based interventions.

Health

The Bank has approved a policy on health in the SADC that seeks to balance a pro-poor developmental approach with income generation. The Bank will support stakeholders and activities that make the greatest health and developmental impact on the poor, while at the same time pursuing investments that are financially viable and profitable.

One of the major elements of the National Health Act, No. 61 of 2003, is the district health system. As part of its contribution to improving knowledge and understanding on this subject, the Bank co-hosted a workshop with the Department of Health in October 2005. The workshop identified several challenges facing the implementation of the system and made proposals to the Department of Health and the Department of Provincial and Local Government. It also identified areas where the Bank could provide support.

As part of its regional activities, the DBSA developed the implementation plan for the SADC Protocol on Health, which was commissioned by the SADC Secretariat. The plan was approved by the SADC Integrated Committee of Ministers in July 2005 and will guide SADC countries as they implement the provisions of the Health Protocol, the main focus of which is regional integration in the area of health.

The Bank hosted Development Dialogues on a wide range of health topics. These have provided a platform for development finance institutions, municipalities, private sector groups, civil society and other stakeholders to discuss health issues and establish partnerships that work towards minimising health risks. For instance, the Bank's inputs on the Health Sector Charter were incorporated into the revised document.

Upgrading of voluntary counselling and testing facilities

The Development Bank is managing a programme to upgrade voluntary counselling and testing infrastructure. This is in support of national priorities, policies and programmes, which recognise the importance of voluntary counselling and testing as a preventive strategy and an entry point to a continuum of care, management and treatment for people living with HIV/AIDS.

The programme was made possible by a financial cooperation agreement between the German and South African governments. The German government, through its Development Bank, the Kreditanstalt für Wiederaufbau (KfW), made available a grant of €9 million to fund the improvement of voluntary counselling and testing facilities in Mpumalanga, KwaZulu-Natal and the Eastern Cape. The Bank is responsible for the overall management of the programme, in collaboration with the national and provincial Departments of Health. National and provincial steering committees have been formed to oversee the programme. Phase 1 focused on auditing the facilities and evaluating the performance of 100 clinics in each of the three provinces. Approximately 150 sites were selected for upgrading or rehabilitation, and this work has commenced in all three provinces, largely using emerging and BEE-compliant contractors.

The impact of HIV/AIDS on local government

The Bank is managing a study on the impact of HIV/AIDS on local government, made possible by a grant of R1,1 million from KfW. The Institute for Democracy in South Africa (IDASA) was appointed to work with 12 district municipalities and 12 local municipalities in the Eastern Cape, Free State, KwaZulu-Natal, Limpopo, Mpumalanga and North West. The study is focusing on the prevalence of HIV/AIDS; the impact on the municipality as an employer and its ability to render services effectively; the impact on the public's demand for services and ability to pay for them; the impact on the local economy; the impact on municipal finance; municipal responses to the pandemic; and the extent to which HIV/AIDS is taken into account in development planning. The study is also investigating the role the DBSA and other stakeholders could play to help municipalities mitigate the impact of HIV/AIDS in their area of jurisdiction.

Building social and human capital

Smart partnerships with the public and private sectors

The Bank and its shareholder are striving to overcome massive infrastructure delivery and human resource gaps in the country and the region, and neither the Bank, other public sector institutions, nor the private sector can tackle these challenges on their own. Smart partnerships therefore remain a key strategic thrust for the Bank.

Besides the imperative of bridging infrastructure and human resource gaps, the Bank faces growing pressures from a variety of national, regional and international social movements to join other development role players in addressing a complex set of interconnected socio-economic and environmental issues. Notable among these are local economic development, regional integration, job creation, urban renewal and environmental conservation.

As a publicly owned development finance institution, the Bank works closely with different levels of government, parastatals and public enterprises. It also cooperates with regional and continental institutions, such as the SADC, the African Union and the NEPAD Secretariat, to accelerate the development and implementation of infrastructure projects, build human and institutional capacity, and generate regional synergies.

In the year under review, the Bank maintained and strengthened existing strategic partnerships in South Africa, and established new ones. Notably, the Bank supported the government's Project Consolidate by introducing the Siyenza Manje programme, in close partnership with the Department of Provincial and Local Government and the National Treasury. Other initiatives included:

- The Bank and Old Mutual established a partnership to set up local investment agencies. A number of areas in South Africa remain economically depressed despite their strong potential for economic growth and job creation, and this potential can be unlocked by investing in sectors with location advantages. In such areas, a local investment agency can act as a catalyst for private and public sector investments. The DBSA uses its knowledge base, human resources and capital to reduce the risks associated with investment in designated localities, and through this unique partnership mobilises private sector resources for investment in poor communities. Ultimately, this PPP should crowd in other investors and financiers, and stimulate local economic development. The first local investment agency has been set up in the Eastern Cape.
- In partnership with JICA, a new capacity building programme is being implemented to improve the capabilities of development finance institutions in Southern Africa, as well as Kenya, Sudan and Uganda. This five-year programme is part of NEPAD's third Country Capacity Building programme and holds long-term strategic benefits for the Bank. By enabling other development finance institutions to improve their international credit ratings, it will reduce the Bank's risk in co-funding ventures with these institutions.
- The Bank has taken the lead in establishing and coordinating a network of South African development finance institutions, bringing them together in an open discussion forum with shareholder representatives on a regular basis throughout the year. The aim is to promote collaboration among the institutions, and to identify and close financing and capacity gaps, with a focus on AsgiSA.
- The Bank established a partnership with Conservation International, which is based in Washington and supported mainly by the Rockefeller Foundation. This is the first time the Foundation has partnered with a finance institution in a recipient country, and will link environmental improvements with economic and employment opportunities in mainly rural communities.
- The Bank and AfD continued to administer their joint project preparation fund of R25 million, contributing R18 million to feasibility studies on 15 projects in 2005/06. This included the East African Submarine Cable System (EASSy), the telecommunications link between Zambia and Tanzania (Com7), and a workshop on the ICT programmes of East and Southern Africa co-financed with the World Bank. The DBSA also rendered institutional support to the Lesotho/South Africa Joint Bilateral Coordinating Committee.
- The Bank supported the implementation of the NEPAD strategy in Africa south of the Sahara generally and in the SADC specifically. This entailed mobilising and engaging key stakeholders, building partnerships, strengthening implementation capacity, and helping to unlock constraints on investment projects and programmes.

- The Bank works very closely with various national and international funding and donor agencies, notably the World Bank, ADB, AfD and KfW, to realise the objectives of both AsgiSA and NEPAD.

Knowledge research and partnerships

The Bank produces significant research, knowledge and insights about development in South Africa, the region and the rest of Africa. It is of paramount importance that this collective knowledge is widely shared, both internally and externally with clients, including borrowers, policy-makers, academics, donors and students. Apart from ongoing advocacy, which is delivered through participation in different government and private forums, knowledge is also shared through publications, conferences and workshops, and by promoting greater cooperation and collaboration in knowledge management through memoranda of understanding.

Knowledge is disseminated through the Vulindlela Academy and initiatives such as Knowledge Management Africa. First introduced in 2004, Knowledge Management Africa has grown substantially in the past year. Kenya is leading the 2007 conference with support from the Bank. The Vulindlela Academy will also become a key vehicle for sharing knowledge, facilitating advisory services and building the capacity of potential borrowers.

In the year under review, the Bank published the 2005 *Development Report* on "Overcoming underdevelopment in South Africa's second economy" in partnership with the UNDP and the HSRC. It is now widely used as an important source of information on this very contentious subject. The first *DBSA Infrastructure Barometer* on economic and municipal infrastructure in South Africa was published in March 2006, and received high acclaim from its readers. Knowledge sharing through participation in conferences is increasing, with presentations delivered at agricultural, educational, transport, water regulation and civil society conferences during the year.

Memoranda of understanding are partnership tools used for identifying the willingness and commitment to cooperate and share knowledge. New memoranda of understanding were concluded with the South African Cities Network, the Woodrow Wilson International Center for Scholars in Washington DC and the United Nations Economic Commission for Africa (UNECA), among others.

Knowledge is shared internally through ongoing cross-functional interactions, and externally by serving as advisors to stakeholders, partners and potential borrowers. Examples of such advisory services during 2005/06 include support to the Western and Northern Cape provincial governments, the Cape Town Metro, the National Departments of Transport, Local Government and Treasury, and parastatals such as Spoornet, the National Housing Finance Corporation, the SADC Secretariat, the NEPAD Secretariat and the Global Alliance for Improved Nutrition.

Promoting development effectiveness through monitoring and evaluation

The Bank continues to monitor operational activities and funded projects and to evaluate completed interventions. During the period under review, it has pursued the twin tasks of assessing the development impact of the projects it funds and ensuring that monitoring arrangements are adhered to. In this regard, the Bank has started producing quarterly monitoring reports to provide an objective assessment of monitoring activities and interventions on all Bank-assisted projects under implementation.

In addition to conducting standard impact evaluations and rapid assessments, thematic reviews and studies are now carried out. These have included thematic reviews in the tourism sector, technical assistance and capacity building. Dissemination of findings through new publications such as the *Lessons Learnt Report* and the *Development Effectiveness Report* also received prominent attention during this financial year.

A total of 26 evaluations were conducted to determine development impact, sustainability and lessons learnt (25 in South Africa and 1 in the rest of the SADC). In addition, a policy framework was prepared for monitoring and evaluation in the Bank. This lays a sound basis for further development of quality standards, criteria and other implementation guidelines for monitoring and evaluation.

Gender equity

As in previous years, the Bank's gender equity programme focused mainly on support to South African Women in Construction (SAWiC), which forges strategic partnerships to attend to the needs of women in construction and their enterprises. SAWiC members have been involved in various training programmes, including a micro MBA course funded by Standard Bank on running profitable enterprises, registering businesses and developing business plans.

In the Technology for Women in Business Awards, SAWiC has been shortlisted for an award of excellence from the Gauteng provincial government. During the preparation of the Construction Transformation Charter, SAWiC and Women for Housing successfully negotiated on behalf of women in the industry. Members attended, participated as speakers and received training at the international NAWIC Convention in Texas and the IJburg Housing Expo in the Netherlands. The SAWiC programme leaders are involved in a series of workshops advising the Public Works portfolio committee on industry issues.

It is evident that this programme is equipping women to run their business enterprises successfully, and ensuring best practice in the building industry, with women in the forefront.

Social responsibility towards employees

Development of the Bank's human capital

The Bank continues to adhere to the principle that it has a major social responsibility towards its staff. The reviewing of its policies, to ensure compliance and best practice, is an ongoing process. The Bank also continues to provide staff with assistance through its Employee Assistance Programme, which includes HIV and AIDS.

A Human Resources Service model was implemented in October 2005. It includes an Advisory Centre that provides services to staff on matters relating to policies, procedures and benefits.

During 2005/06, the Bank completed a capability assessment exercise that:

- Assessed the abilities of employees in relation to their contracted work stream
- Identified employees who have developed new skills, thus allowing for their promotion within the work stream
- Enabled employees to contract on performance objectives appropriate to their skill level
- Remunerated employees according to their assessed level and performance

Employee turnover and job creation

As at 31 March 2006, the Bank had 506 employees, excluding those appointed on a contract basis. In the year under review, 47 permanent staff members left the Bank (the figure includes deaths), compared to 44 in the previous year. Once again, there was a high turnover in the management and professional categories and in the African group.

During 2005/06, the Bank's approved complement was increased from 570 to 597, including the Development Fund employees.

Executive management remuneration

The total remuneration for the Bank's executive managers is found in the notes to the financial statements on page 134.

Awards fostering sustainable success

The annual Chief Executive Awards recognise and reward behaviour, actions and contributions that go beyond the normal outputs of individuals and teams, and visibly link recognition and reward to performance and outputs.

The awards focused on four key areas which are closely aligned to the Bank's strategic thrusts: Quality, Empowerment, Environmental issues and Innovation. The standard of entries was high, as in previous years, and all recipients were very worthy of the awards they received.

Disabilities programme

The Bank recognises the important role played by people with disabilities within the employment context, as both contributors and beneficiaries of its development efforts. The Bank has accordingly implemented a recruitment and selection policy to promote the attraction and selection of talented people with disabilities.

The Bank is conducting research on the accessibility of the building and consulting people with disabilities on ways of eliminating physical barriers, with the aim of making the facilities more "user-friendly" for the disabled. It is also creating awareness programmes on disabilities.

Employee profile

The Bank's employee profile as at 31 March 2006 was as follows:

Permanent employees

Job category	Black		Asian		Coloured		White		Total
	Female	Male	Female	Male	Female	Male	Female	Male	
Executives/ Management	7	16	0	1	1	1	4	8	38
Professional	78	82	8	7	6	3	45	96	325
Support	76	27	3	0	3	3	28	3	143
Total	161	125	11	8	10	7	77	107	506
Percentages (%)	57		4		3		36		100

The Bank continues to strive for a balanced staff complement within the employment equity strategic framework.

Non-permanent employees

In addition to its permanent employees, the Bank has 63 contractors, 10 young professionals, 1 intern and 2 staff members seconded to other institutions. This brings the overall staff complement as at 31 March 2006 to 582.

Environmental report

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

Biodiversity

In-house measures: The biodiversity of the Bank's 27 hectare site remains of prime importance to management and staff, not only from a conservation point of view, but also because of its recreational value.

A portion of the site was used to construct the Vulindlela Academy, the Bank's training facility for clients. The training offered by the Academy will include courses on environmental management.

External measures: The Bank's commitment to biodiversity in the external environment has been demonstrated through its involvement in several initiatives.

- The Bank provided financial support and technical advice to KZN Wildlife in compiling a biodiversity strategy for KwaZulu-Natal. The strategy will ensure that decisions on land use in the province are based on a sound understanding of the value of biodiversity and made within a framework of agreed conservation goals and priorities.
- The Bank supported various national processes aimed at fulfilling commitments under international conventions, including the National Biodiversity Action Plan and the National Action Programme to Combat Desertification. The Bank also serves on national steering committees and national teams dealing with desertification and community-based natural resource management.

Emissions, effluents and waste

The veld grass around the office complex is cut three times a year, and the grass is composted and used in the Bank's gardens, or used by the garden contractor.

Paper is recycled via a BEE paper merchant.

Products and services

In the period under review, the Bank has provided various products and services in support of the natural environment, including the following:

- Management formally revised the organisation's environmental policy, which guides all its internal operations and external interactions with clients.
- The Bank provided technical assistance funding for the development of integrated waste management plans by local municipalities in the Free State, in Setsoto (Ficksburg), Nketoana (Reitz) and Maluti a Phofung.
- Programme funding was provided to North West province for eradicating backlogs in sanitation and removing the bucket system.
- The Bank financed the upgrading and refurbishment of a paper mill in Matsapa, Swaziland, enabling it to improve areas of poor environmental performance, particularly the lack of containment of oil spillages and poor quality of effluents.
- A state-of-the-art abattoir in Dar es Salaam, Tanzania, will replace the unhygienic slaughter slabs that are currently used in the city. The abattoir will provide meat slaughtered according to halaal requirements and allow for more humane treatment of animals.

The Bank has actively pursued several partnerships:

- It took part in the first national workshop on payments for catchment management services and improved livelihoods in South Africa, and may become involved in further phases of this project.
- The Bank is involved in several provincial and regional programmes to raise awareness about the conservation of ecosystems.
- A memorandum of understanding was signed with the Critical Ecosystem Partnership Fund and the Succulent Karoo Ecosystem Programme to support projects in the rural areas of the Northern and Western Cape that will promote conservation as a land use.
- The Bank was part of the official South African delegation that negotiated on issues concerning the Convention to Combat Desertification, at the seventh conference of parties to the Convention held in Nairobi, Kenya.
- In partnership with the Endangered Wildlife Trust and environmental lawyers, the Bank developed and piloted an updating course on environmental law for municipalities, which was run in March 2006.

Environmental compliance

The Bank prides itself on complying with international best practice in the environmental sphere. It was a member of the observer group in the joint project between the UNEP Financial Institutions and the Global Reporting Initiative to develop environmental indicators for the banking and financial sector.

DBSA clients are encouraged and supported financially to implement best practice in their organisations. For example, the Bank supported the Bitou (Plettenberg Bay) and Knysna municipalities in implementing environmental management systems.

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

Suppliers

The Bank has for many years supported government's procurement policy of promoting broad-based BEE and greater black involvement in the mainstream of the economy. It has both an internal procurement policy and a procurement committee to oversee this aspect of service suppliers. The Procurement Support Office continues to monitor and improve interaction with suppliers.

Development impact of the Bank's operations during 2005/06

The Bank participates indirectly in the economy through the funding of infrastructure projects, with one specific objective being the alleviation of poverty. Its focus thus falls on development dynamics that enhance economic and social benefits, and improve the quality of human life. As part of the broader public sector, the Bank wants to know that it is deploying public funds cost-effectively, in a way that reflects society's preferences.

To assess this, the development impact of the Bank's activities is estimated on an annual basis through the application of social accounting matrix models (SAMs). These models take into account the linkages of the Bank's activities with other economic participants, for instance through the purchasing of materials, or through salaries and profits that are ploughed back into the economy in the form of additional spending.

The analysis for 2005/06 indicates that the impact of funding portfolio activities, in real terms, was significantly higher than the previous year, except for disbursements and signed agreements. Approvals by the Bank plus co-funders increased by 167% in South Africa and 349% in other SADC countries. Signed agreements by the Bank increased by 7% overall, with South Africa investments increasing by 50%, while investments in other SADC countries decreased by 51%.

Total funds disbursed by the Bank remained constant in real terms; South Africa investments increased by 13% and investment in other SADC countries, excluding South Africa, decreased by 31%. The South African share of the portfolio therefore increased from 71% in 2004/05 to 80% in 2005/06.

The following table compares the estimated economic impact in the SADC region in 2005/06 with that of 2004/05, at 2005 prices.

Estimated economic impacts of DBSA funding

Funding portfolio and indicator[1]	Estimated impact 2005/06	Estimated impact 2004/05[2]
Total funds approved by the Bank and co-funders		
Total	R23,0 billion	R8,2 billion (R8,0 billion)
South Africa	R20,6 billion	R7,7 billion (R7,5 billion)
SADC excluding South Africa	R2,4 billion	R0,5 billion (R0,5 billion)

Funding portfolio and indicator[1]	Estimated impact 2005/06	Estimated impact 2004/05[2]
Impact on GDP		
Total	R21,0 billion	R7,1 billion
South Africa	R18,0 billion	R6,7 billion
SADC excluding South Africa	R3,0 billion	R0,4 billion
Impact on employment (numbers)		
Total	156 500	53 800
South Africa	141 500	51 400
SADC excluding South Africa	15 000	2 400
Impact on capital utilisation		
Total	R46,4 billion	R17,5 billion
South Africa	R41,6 billion	R16,7 billion
SADC excluding South Africa	R4,8 billion	R0,8 billion
Total disbursements by the Bank		
Total	R3,1 billion	R3,1 billion (R3,0 billion)
South Africa	R2,5 billion	R2,2 billion (R2,1 billion)
SADC excluding South Africa	R0,6 billion	R0,9 billion (R0,9 billion)
Impact on GDP		
Total	R2,4 billion	R2,4 billion
South Africa	R1,9 billion	R1,9 billion
SADC excluding South Africa	R0,5 billion	R0,5 billion
Impact on employment (numbers)		
Total	17 100	19 800
South Africa	14 100	16 200
SADC excluding South Africa	3 000	3 600
Impact on low-income households		
Total	R0,4 billion	R0,4 billion
South Africa	R0,3 billion	R0,3 billion
SADC excluding South Africa	R0,1 billion	R0,1 billion
Impact on capital utilisation		
Total	R5,9 billion	R6,1 billion
South Africa	R4,9 billion	R4,6 billion
SADC excluding South Africa	R1,0 billion	R1,5 billion

1. *Estimates of the development impacts in South Africa for the two years were based on the recently compiled SAM for South Africa. Development impact in the other SADC countries was estimated using the SAMs for the various countries. For more information on the economic model, contact the Chief Information Officer of the DBSA.*
2. *Figures for 2004/05 converted to 2005 prices by adjusting for inflation (CPI) to enable meaningful comparisons of the two financial years. Figures shown in brackets are without these inflation adjustments.*

It is estimated that the total funding approved by the Bank and its co-funders in the year under review will create an additional 156 500 employment opportunities in the SADC (including South Africa), which is 191% higher than the previous year. The direct impact of this will clearly only be felt as the projects are implemented. It should also be noted that even if some of these approved projects are ultimately funded by the Bank's competitors, as discussed in the opening section of this Directors' Report, the same impact will be delivered. Of the total number of employment opportunities created, 141 500 will be in South Africa. The Bank's own disbursements will create an estimated 17 100 employment opportunities (19 800 in 2004/05), of which 14 100 (83%) will be in South Africa.

The impact of funds approved by the DBSA and its co-funders on the total GDP of the SADC region is estimated at R21 billion, of which R18 billion is in South Africa. This constitutes approximately 1,3% of South Africa's GDP[3] in 2005/06 (0,5% in 2004/05).

Capital is one of the basic production factors required for a functioning economy. To support the economic activity initiated by the Bank and its co-funders in the year under review, a capital amount of an additional R46,4 billion (of which R41,6 billion is in South Africa) will be employed directly and indirectly in the SADC. Indirect use refers to capital required to produce materials and other inputs supplied to projects funded by the Bank. The direct and indirect capital employed in South Africa constitutes 16% of South Africa's total gross fixed capital formation in 2005/06 (7% in 2004/05).

The development impact of the funding portfolio changed from 2004/05 to 2005/06, not only in magnitude but also in sectoral composition. The share of total disbursements in the Bank's entrepreneurial, equity and manufacturing sectors in South Africa declined from 22% in 2004/05 to 11% in 2005/06. Similarly, the share of funds disbursed on residential facilities declined from 18% to 4%. The sectors that experienced the largest increases in relative share are the social infrastructure and water sectors. Any changes in the sectoral composition of a funding portfolio can impact on the overall performance indicators. The sectors that received less funding compared to 2004/05 have an average labour multiplier of 11,8, while the sectors that received more funding have an average labour multiplier of 9,7, which accounts for impacts on GDP and employment in South Africa that are respectively 1% and 13% lower than the previous year, despite the fact that disbursements have increased by 13%.

Performance indicators for the Bank, such as the GDP to capital ratio and employment per R1 million capital employed, were compared to the national averages. The GDP to capital ratio for the portfolio funds approved (DBSA and co-funders in South Africa) is 0,43, slightly higher than the previous year, compared to the national ratio of 0,46.[4] The employment per R1 million capital employed is 3,4 (3,1 in the previous year), compared to the national figure of 3,5. The relatively lower ratios of the DBSA and co-funders' investments can be ascribed to the fact that the Bank's investments are in economic sectors with relatively low GDP and labour multipliers. The focus of the Bank's investments is determined by many factors. The Bank's mandate is to direct funds to basic infrastructure rather than to directly productive sectors. This supporting infrastructure facilitates the functioning of the productive sectors and enables economic growth and job creation to occur.

3. *Gross value added at basic prices.*
4. *Based on a total employment estimate of 10,1 million, which includes an estimate of almost 1 million for agriculture.*

In addition, the implementation of projects funded by the Bank produces increased economic activity, from which the government derives additional tax revenue. The additional income that the South African government derives from projects approved by the Bank and its co-funders is estimated at R5 billion. Making the broad assumption in the model that the spending of this revenue follows the same pattern as the national budget, it is estimated that the Bank's projects during 2005/06 will, over the medium term, produce the following simultaneous, social benefits in South Africa:

- 7 200 additional educators appointed
- 1 200 additional hospital beds fully serviced
- 130 new doctors appointed by government
- R250 additional grant per beneficiary paid per annum
- 7 000 low-cost houses constructed

Information required under Schedule 4 of the Companies Act

Share capital and dividends: The callable capital of the Bank is R4,8 billion and the paid-up capital R200 million. A nil dividend has been declared for the current financial year (2004/05: nil).

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

Board Committee memberships: Details appear in the corporate governance statement on page 68.

Directors' emoluments: Details appear on pages 133 and 134.

Balance sheet

at 31 March 2006

in thousands of rand	Notes	**2006**	2005
Assets			
Cash and cash equivalents	4	**1 500 835**	2 006 530
Trade and other receivables	5	**53 496**	17 780
Non-current assets held for sale	6	**3 187**	–
Financial market assets	7	**6 616 927**	6 131 881
Post-retirement medical benefits investment	8	**68 643**	59 083
Home ownership scheme loans	9	**22 697**	19 715
Equity investments	10	**704 069**	715 805
Development loans	11	**17 299 175**	15 606 714
Intangible assets	12	**5 490**	–
Property and equipment	13	**205 205**	160 800
Total assets		**26 479 724**	24 718 308
Equity and liabilities			
Equity		**13 218 656**	11 961 624
Share capital	14	**200 000**	200 000
Permanent government funding	15	**3 792 344**	3 792 344
Revaluation reserve on land and buildings	16	**115 109**	87 422
Hedging reserve	17	**19 511**	47 994
Reserve for general loan risks	18	**531 775**	554 915
Fair value reserve	19	**14 275**	55 123
Accumulated surplus		**8 545 642**	7 223 826
Liabilities		**13 261 068**	12 756 684
Trade and other payables	20	**598 724**	574 426
Liability for funeral benefits	21	**3 253**	2 925
Liability for post-retirement medical benefits	22	**130 902**	96 452
Financial market liabilities	23	**12 528 189**	12 082 881
Total equity and liabilities		**26 479 724**	24 718 308

Income statement

for the year ended 31 March 2006

in thousands of rand	Notes	2006	2005
Operating income		**1 591 205**	1 167 855
Interest income	24	**2 355 454**	2 321 337
Interest expense	25	**(1 068 610)**	(1 061 482)
Net interest income		**1 286 844**	1 259 855
Movements in impairment	26	**56 118**	(236 362)
		1 342 962	1 023 493
Other operating income	27	**120 931**	92 851
Foreign exchange loss	28	**(33 608)**	(36 305)
Revaluation of financial instruments	29	**160 920**	87 816
Operating expenses	30	**(490 823)**	(418 366)
Technical assistance grants		**(32 980)**	(34 242)
Staff costs	30.1	**(315 644)**	(244 534)
General and administration expenses	30.2	**(135 396)**	(130 558)
Depreciation and amortisation	30.3	**(6 803)**	(9 032)
Surplus from operations		**1 100 382**	749 489
Grant to DBSA Development Fund	37.2.3	**(172 000)**	–
Surplus for the year		**928 382**	749 489

Statement of cash flows

for the year ended 31 March 2006

in thousands of rand	Notes	2006	2005
Cash flows from operating activities		**1 035 035**	1 807 111
Interest received from development loans	33.1	**1 741 958**	1 643 280
Interest received from equity investments	33.1	**8 195**	30 438
Interest received from investments	33.2	**597 948**	600 999
Interest paid	33.3	**(1 068 556)**	(994 467)
Cash (utilised by) / generated from other operations	33.4	**(244 510)**	526 861
Cash flows from development activities		**(1 259 335)**	(659 721)
Development loan disbursements		**(2 924 652)**	(2 590 651)
Development loan principal repayments		**1 597 232**	2 330 179
Development investments		**101 065**	(365 007)
Technical assistance grants paid		**(32 980)**	(34 242)
Cash flows from investment activities		**(35 181)**	(29 039)
Replacement of property and equipment		**(32 199)**	(28 255)
Home ownership scheme advances to employees		**(2 982)**	(784)
Cash flows from financing activities		**(246 214)**	(1 025 231)
Decrease in long-term liabilities		**(2 135)**	550
Financial market liabilities repaid		**(326 156)**	(1 489 108)
Financial market liabilities raised		**82 077**	463 327
Movement in cash and cash equivalents		**(505 695)**	93 120
Cash and cash equivalents at the beginning of the year		**2 006 530**	1 913 410
Cash and cash equivalents at the end of the year		**1 500 835**	2 006 530

Statement of changes in equity

for the year ended 31 March 2006

in thousands of rand	Notes	2006	2005
Share capital	14	**200 000**	200 000
Permanent government funding	15	**3 792 344**	3 792 344
Revaluation reserve on land and buildings	16	**115 109**	87 422
Opening balance		**87 422**	87 422
Surplus on revaluation of buildings		**27 687**	–
Hedging reserve	17	**19 511**	47 994
Opening balance		**47 994**	59 904
Adoption of IFRS and other adjustments	3.2	**–**	(79 056)
Restated opening balance		**47 994**	(19 152)
Fair value adjustments of cash flow hedges		**(28 483)**	67 146
Reserve for general loan risks	18	**531 775**	554 915
Opening balance		**554 915**	556 693
Transfer to accumulated surplus		**(23 140)**	(1 778)
Fair value reserve	19	**14 275**	55 123
Opening balance		**55 123**	39 807
Adoption of IFRS and other adjustments	3.2	**(5 660)**	1 054
Restated opening balance		**49 463**	40 861
Movement in valuation of financial instruments:			
– fair value adjustment of available-for-sale financial market instruments		**(35 188)**	(50 681)
– fair value adjustment of available-for-sale equity investments		**–**	64 943
Accumulated surplus		**8 545 642**	7 223 826
Opening balance		**7 223 826**	6 460 875
Adoption of IFRS and other adjustments	3.2	**370 294**	11 684
Restated opening balance		**7 594 120**	6 472 559
Surplus for the year		**928 382**	749 489
Transfer from reserve for general loan risks		**23 140**	1 778
Total capital and reserves at the end of the year		**13 218 656**	11 961 624

1. Significant accounting policies

The Development Bank of Southern Africa Limited ("the Bank") is a development finance institution domiciled in South Africa.

The financial statements were authorised for issue by the Directors on 29 June 2006.

1.1 Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and their interpretations adopted by the International Accounting Standards Board (IASB). These are the Bank's first financial statements prepared in terms of IFRSs, and IFRS 1 has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Bank is provided in note 3.

1.2 Basis of preparation

The financial statements are presented in South African rands, rounded to the nearest thousand, unless otherwise stated. They are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments held for trading, financial instruments classified as available-for-sale, and land and buildings.

Non-current assets held for sale are stated at the lower of carrying amount and fair value less costs to sell.

1.2.1 Use of estimates, judgements and assumptions made in the preparation of the financial statements

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

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

The accounting policies have been applied consistently to all periods presented in the annual financial statements, and in preparing an opening IFRS balance sheet except for IAS 32 and IAS 39, as these standards are implemented with effect from 1 April 2005 in line with the IFRS 1 exemption.

1.3 Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Bank's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

1.4 Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

1.5 Non-current assets held for sale

Non-current assets held for sale are recognised at the lower of carrying value and fair value less costs to sell. Impairment losses or profits on initial classification as held for sale are included in profit or loss.

1.6 Financial instruments

Financial instruments recognised on the balance sheet include derivative instruments, investments in debt securities, loans and accounts receivable, cash and cash equivalents, liabilities, accounts payable and interest bearing debt. Financial instruments are initially measured at fair value including transaction costs except those at fair value through profit and loss, when the Bank becomes a party to contractual arrangements. The subsequent measurement of financial instruments is dealt with in subsequent notes. Where the Bank can legally do so and the Bank intends to settle on a net basis, or simultaneously, related positive and negative values of financial instruments are offset within the balance sheet amounts.

1.6.1 Classification

Management determines the appropriate classification of financial assets at initial recognition.

The Bank classifies its financial assets in the following categories: financial assets held at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets.

Financial assets at fair value through profit or loss

All trading assets are carried at fair value through profit or loss. These are assets acquired principally for short-term profit motive. Derivative instruments that do not form part of an effective hedging relationship are classified as held for trading and default into this category.

Assets carried at fair value through profit or loss consist of money market and capital market instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are created by the Bank by providing money to a debtor other than those created with the intention of short-term profit taking. Loans and receivables comprise development loans and advances to customers as well as bonds purchased and collateralised debt transactions.

Held-to-maturity investments

Held-to-maturity assets are non-derivative financial assets which include investment securities with fixed or determinable payments and fixed maturity that the Bank has the intent and ability to hold to maturity. Were the Bank to sell more than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale assets and the difference between amortised cost and fair value will be accounted for in equity.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are not loans and receivables, held at fair value through profit and loss or held-to-maturity. They are held for an indefinite period of time and may be sold in response to needs for liquidity. Available-for-sale assets consist of money market placements and certain debt and equity investments.

Cash and cash equivalents

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

Financial liabilities

Upon initial recognition, financial liabilities are designated as either liabilities held at amortised cost or held at fair value through profit or loss. The latter applies to liabilities that form part of an effective hedge relationship (fair value hedges), including derivative liabilities.

Financial liabilities that do not form part of an effective hedging relationship are classified as either liabilities held at amortised cost or liabilities carried at fair value through profit or loss, depending on the Bank's designation election.

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

Derivative financial instruments

The Bank uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Bank does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, derivative financial instruments are remeasured at their fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see accounting policy on hedge accounting).

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

1.6.2 Recognition and measurement of financial instruments

Regular way purchase and sale transactions in respect of financial assets that require delivery of financial instruments within the timeframe established by market convention are recorded at trade date.

The Bank recognises financial assets held at fair value through profit or loss and available-for-sale assets on the date it commits (trade date) to purchase the assets. From this date any gains and losses arising from changes in the fair value of the assets are recognised.

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

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

Held-to-maturity loans and loans and receivables are recognised on the day they are transferred to the Bank (settlement date).

Financial instruments are measured initially at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset, except for those carried at fair value through profit or loss.

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

All loans and receivables, held-to-maturity investments and all financial liabilities, except for those held at fair value through profit or loss and those that form part of an effective fair value hedge, are measured at amortised cost less impairment losses, where applicable. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

Impairments of financial assets are recognised in separate impairment accounts (refer to impairment policy below).

1.6.3 Fair value

The fair value of the quoted investments in active markets is based on current bid prices, whilst liabilities are based on offer prices. The best evidence of the fair value on initial recognition is the transaction prices, 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 and option pricing valuation techniques whose variables include only data from observable markets.

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments as reflected in the table under note 40.

Capital market securities

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

Derivatives

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

If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market observable indicators at the balance sheet date and profit or losses are only recognised to the extent that they relate to changes in factors that market participants will consider in setting prices.

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

Interest-bearing loans and borrowings

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

Interest rates used for determining fair value

The entity uses the government yield curve as at 31 March 2006 plus an adequate constant spread to discount financial instruments.

1.6.4 Hedge accounting

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

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

A hedging relationship exists where:

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

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

The fair value of derivative hedging instruments is calculated in the same way as the fair value of instruments held at fair value through profit or loss (refer to accounting note 1.6.3 above).

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

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

The Bank applies either fair value or cash flow hedge accounting to transactions that comply with the hedge accounting criteria and are classified as hedging instruments. The hedging instruments are carried at fair value on the balance sheet and are reported as either positive or negative fair values.

Fair value hedges

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

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

Cash flow hedges

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

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

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

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

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

Hedge of monetary assets and liabilities

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

1.6.5 Financial liabilities

Financial liabilities are recognised at amortised cost, namely original debt less principal payments and amortisations, using the effective interest rate method, except for derivatives and hedged liabilities that are part of an effective fair value hedge, which are stated at fair value.

Financial liabilities that do not form part of an effective hedging relationship are classified as either liabilities held at amortised cost or liabilities carried at fair value through profit or loss depending on the Bank's designation election.

These include capital market bonds, euro-rand bonds, lines of credit, accrued finance charges and other accounts payables.

Loans that are payable within twelve months are classified as short-term.

1.6.6 Repurchase and resale agreements

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

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

1.6.7 Derecognition

A financial asset is derecognised when the Bank transfers substantially all the risks and rewards of ownership or it loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered.

A financial liability is derecognised when it is extinguished.

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

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

1.6.8 Offsetting of financial instruments

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

1.6.9 Impairment of financial instruments

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

Financial assets remeasured to fair value through equity

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

Available-for-sale financial instruments

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

Loans and advances and held-to-maturity investments

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

Calculation of recoverable amount

The recoverable amount of the held-to-maturity investments, loans and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Reversals of impairment

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

An impairment loss in respect of an investment in an equity instrument classified as available-for-sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

1.6.10 Financial guarantee contracts

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

These financial guarantee contracts are classified as insurance contracts as defined in IFRS 4: Insurance contracts. A liability is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the contract and a reliable estimate can be made of the amount of the obligation. The amount recognised is the best estimate of the expenditure required to settle the contract at the balance sheet date.

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

1.7 Home ownership scheme loans

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

The loans are held at amortised cost less impairment losses.

1.8 Equity investments

Equity investments represents equity extended to unlisted institutions for the financing of development programmes or projects and are initially rercognised at cost. Upon initial recognition these investments are designated at fair value through profit or loss in line with similar venture capital organisations.

1.9 Development loans

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

Development loans are classified on initial recognition as loans and advances. These loans are financial assets with fixed or determinable payments that are not quoted in an active market and include purchased loans. Loans and advances are accounted for at amortised cost, less impairment losses using the effective interest method. Origination transaction costs and origination fees received are capitalised to the value of the loan and amortised through interest income.

Impairment of development loans

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

When a loan carried at amortised cost has been identified as impaired, the carrying amount of the loan is reduced to an amount equal to the present value of expected future cash flows, including the recoverable amount of any collateral, discounted at the instrument's original effective interest rate. The resulting loss is accounted for as a credit impairment of a financial asset in the income statement.

Subsequent to impairment, the effects of discounting unwind over time as interest income.

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

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired, are reflected in the income statement. Advances impaired are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts.

In addition, a reserve for general loan risks is maintained based on the risk grading of the applicable borrowers, in the following categories:
3% – Low risk
5% – Medium risk
7% – High risk

This reserve is recognised directly in equity.

1.10 Intangible assets

Intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The current estimated useful lives are as follows:

– computer software 3 years

1.11 Property and equipment

All items of property and equipment which qualify for recognition as an asset are initially measured at cost. Equipment, furniture and motor vehicles are subsequently measured at cost less accumulated depreciation and impairment losses, while land and buildings are stated at fair value less accumulated depreciation and impairment losses.

Buildings, equipment and vehicles are depreciated over their useful lives taking into account any residual values where appropriate. The actual useful life of these assets is assessed annually and could vary as a result of technological innovations and maintenance programmes. In addition, where applicable, residual values are reviewed annually after considering future market conditions, the remaining life of the asset and projected disposal values.

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

Subsequent costs

The Bank recognises in the carrying amount of an item of property and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied in the item will flow to the Bank and the cost of the item can be reliably measured. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged on the straight-line basis over the estimated useful lives of each part of property and equipment. Land is not depreciated. The estimated useful lives are as follows:

– buildings	40 years	– furniture and fittings	10 years
– office equipment	5 years	– motor vehicles	4 years
– computer equipment	3 years		

The residual value (if not insignificant), current estimated useful life and depreciation method, are reassessed annually.

1.12 Impairment of property, equipment and intangible assets

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment, and where the carrying amounts of assets are greater than their recoverable amounts, the assets are written down to these recoverable amounts. The recoverable amount is the greater of the fair value of the asset less costs to sell or the value in use.

Impairment losses are recognised in the income statement, unless the relevant asset is carried at the revalued amount, in which case the impairment loss is treated as a revaluation decrease.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

1.13 Trade and other payables

Trade and other payables are stated at amortised cost.

1.14 Provisions

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

1.15 Employee benefits

Post-employment benefits

Retirement

Obligations for contributions to the defined contribution provident fund are recognised as an expense in the income statement as incurred.

Medical

The Bank contributes to a defined benefit plan for post-retirement medical aid benefits for a closed group of eligible employees and pensioners. The present value of the post-retirement medical aid obligation is actuarially determined annually on the projected unit credit method and any actuarial gains or losses are immediately recognised in the income statement.

The Bank currently holds an investment that is used to fund the liability for the post-retirement medical benefit. This investment does not meet the definition of a "Plan Asset" and is not offset against the post-retirement obligation.

1.16 Contingent liabilities and commitments

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank, or a present obligation that arises from past events but is not recognised due to lack of probable cash outflow or the amount of the obligation cannot be measured with sufficient reliability.

Contingent liabilities are not recognised in the balance sheet but disclosed in the notes.

Commitments

Items are classified as commitments where the Bank has committed itself to future transactions.

Commitments are not recognised in the balance sheet, but disclosed in the notes.

1.17 Revenue and expenditure

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

Net interest income

Interest income and expenses are recognised in the income statement for all interest-bearing instruments using the effective interest method. In terms of the effective interest method, interest is recognised at a rate that approximately discounts estimated future cash payments or receipts through the expected life of the financial instrument to the carrying amount on the financial statements. Direct incremental transaction costs incurred and origination fees received as a result of bringing margin-yielding assets on balance sheet, are capitalised to the carrying amount of financial instruments (excluding financial instruments at fair value through profit or loss) and amortised as interest income over the life of the asset. Where financial assets have been impaired, interest income continues to be recognised on the impaired value based on the original effective interest rate.

Financing costs

Financing costs are recognised in the income statement in the period in which they are incurred.

1.18 Other income

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

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

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

1.19 Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to South African rands at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to South African rands at foreign exchange rates ruling at the dates the fair value was determined.

1.20 Segment reporting

A segment is a distinguishable component of the Bank that is engaged in providing products, which is subject to risks and rewards that are different to those of other segments. The Bank's only business segment is development loans and is based on the Bank's internal structure used for reporting. The Bank has no geographical segments. Details regarding development loan activities are disclosed in notes 11 and 24 to the annual financial statements.

1.21 DBSA Development Fund

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

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

1.22 Events after balance sheet date

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

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

1.23 Funds administered on behalf of third parties

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

These funds are not included in the balance sheet of the Bank. Refer to note 36.

1.24 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 entity. All individuals from executive management up to the Board of Directors are key management individuals in their dealings with the entity.

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 entity.

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

1.25 Comparative figures

Where necessary, comparative figures within notes have been reclassified to conform to changes in presentation in the current year and for changes relating to the implementation of IFRS and prior year adjustments as described in note 3.

1.26 Standards and interpretations not yet effective

A number of standards and interpretations have been issued but are not yet effective and have not been applied in these financials. Of these, the following are expected to be the most relevant for the Bank, and Management will be assessing their potential impact in due course.

IFRS 7: Financial Instruments: Disclosure

IAS 39: Financial Instruments: Recognition and Measurement (amendment for financial guarantee contracts)

2. Key assumptions concerning the future, and key sources of estimation uncertainty

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRSs) and their interpretation adopted by the International Accounting Standards Board. In the preparation of the financial statements the Bank has assumed certain key sources of estimation in recording various assets and liabilities as set out below.

2.1 Credit impairment of loans and advances

The credit impairment methodology has been described in the significant accounting policy note under impairment for development loans and impairment for financial instruments.

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

2.2 Equity investment valuations

Equity investment valuations are based on the underlying value of the net assets within the investment vehicles concerned. These values are established based on the financial statements provided by directors of investee companies.

2.3 Fair value of financial instruments

The major methods and assumptions used in estimating the fair values of financial instruments are discussed in 1.6.3 above.

2.4 Held-to-maturity

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires judgement of the Bank's ability to hold such investments to maturity.

2.5 Financial risk management

The Bank's risk management policies and procedures are disclosed in the risk management section starting on page 69 of the Annual Report.

3. IFRS and other adjustments reconciliation for assets, liabilities and equity

3.1 Implementation of IFRS

For the year ended 31 March 2005, the Bank prepared financial statements in accordance with SA GAAP. The company has adopted International Financial Reporting Standards (IFRSs) with effect from 1 April 2005.

As the Bank publishes comparative information for one year in its financial statements, the date of transition to IFRS is effectively 1 April 2004, which represents the start of the earliest period of comparative information presented. The opening balance sheets at 1 April 2004 and 1 April 2005 have been restated accordingly.

Comparative information for 2005 is restated to take into account the requirements of all the standards except for IAS 32 – Financial Instruments: Disclosure and Presentation and IAS 39 – Financial Instruments: Recognition and Measurement. These standards are implemented with effect from 1 April 2005 (in line with IFRS 1 exception, comparative figures are not restated). Amounts relating to IAS 32 and IAS 39 prior to this date, have been prepared in accordance with SA GAAP.

The adjustments to the published company accounts required to comply with IFRS are set out below:

3.2 IFRS and other adjustments reconciliation of assets, liabilities, equity and income statement

in thousands of rand	Notes	1 April 2005	31 March 2005	1 April 2004
Assets				
Restated / as previously reported		**24 718 308**	**24 779 197**	**23 684 458**
IFRS adjustments		364 634	4 058	11 684
IAS 16 – Revaluation of residual values in property and equipment	3.3.1	–	4 058	11 684
IAS 39 – Credit impairments	3.4.1	364 634	–	–
Other adjustments		–	(64 947)	–
Revaluation of financial instruments	3.5.1	–	(24 312)	–
Foreign exchange effects	3.5.3	–	(40 635)	–
Restated under IFRS and other adjustments		**25 082 942**	**24 718 308**	**23 696 142**
Liabilities				
Restated / as previously reported		**12 756 684**	**12 885 390**	**12 487 413**
Other adjustments		–	(128 706)	–
Interest duplicated	3.5.2	–	(88 071)	–
Foreign exchange effects	3.5.3	–	(40 635)	–
Restated under IFRS and other adjustments		**12 756 684**	**12 756 684**	**12 487 413**
Equity				
Restated / as previously reported		**11 961 624**	**11 893 807**	**11 197 045**
IFRS adjustments		364 634	4 058	11 684
IAS 16 – Revaluation of residual values in property and equipment	3.3.1	–	4 058	11 684
IAS 39 – Credit impairments	3.4.1	364 634	–	–
IAS 39 – Accounting for equity investments	3.4.2	–	–	–
Other adjustments		–	63 759	–
Interest duplicated	3.5.2	–	88 071	–
Revaluation of financial instruments	3.5.1	–	(24 312)	–
Restated under IFRS and other adjustments		**12 326 258**	**11 961 624**	**11 208 729**

3.2 IFRS and other adjustments reconciliation of assets, liabilities, equity and income statement (continued)

in thousands of rand	Notes	1 April 2005	31 March 2005	1 April 2004
Income statement				
Restated / as previously reported		–	**603 670**	**763 414**
IFRS adjustments				
IAS 16 – Revaluation of residual values in property and equipment	3.3.1	–	4 058	11 684
Other adjustments		–	141 761	–
Revaluation of financial instruments	3.5.1	–	(27 580)	–
Interest duplicated	3.5.2	–	88 071	–
Foreign exchange effects	3.5.3	–	81 270	–
Restated under IFRS and other adjustments		**–**	**749 489**	**775 098**

3.3 IFRS adjustments implemented with effect from 1 April 2004

3.3.1 IAS 16 – Revaluation of residual values in property and equipment

In calculating its depreciation charge, an entity reduces the depreciable amount of an asset by its residual value. Previously under SA GAAP, the estimated residual value was fixed on recognition of the asset and was not subject to reassessment. IAS 16, revised, requires that the residual value of the assets should be reassessed at each balance sheet date. Annual increases in asset values may result in annual upward adjustments of residual values. The continuous reassessment of residual values typically leads to a reduction in depreciation charges and depreciation charges cease when the carrying value of an asset equals the residual value. Buildings' carrying values that were previously fully depreciated are now partially reinstated to reflect the applicable residual value.

Where buildings are not fully depreciated, there has generally been a reduction in depreciation as residual values are reassessed. The depreciation previously recognised in the income statement has accordingly been reversed or reduced, resulting in a corresponding increase in equity.

3.4 IFRS adjustments implemented with effect from 1 April 2005

3.4.1 IAS 39 – Credit impairments

Previously the Bank raised an impairment for credit losses on loans as the shortfall between the carrying value of a loan and the present value of expected future cash flows discounted at the original effective interest rate of loans, taking changes in expected cash flows and the average maturity of loans into account. Under IFRS an impairment loss can only be accounted for if there is objective evidence that a loss event has occurred after the initial recognition of the financial asset but before the balance sheet date. IFRS also allows for the creation of a credit impairment for incurred but not reported losses in order to provide for latent losses in a portfolio of loans that have not yet been individually identified as impaired. This change results in a net release of credit impairments and a consequent increase in the opening April 2005 equity.

3.4.2 IAS 39 – Accounting for equity investments

Previously under SA GAAP, the Bank elected to account for equity investments where the Bank has significant influence in terms of AC 133 and not equity account the investment in terms of AC 110 in its separate financial statements. These investments were previously classified as either available-for-sale or held-to-maturity assets. Annual fair value adjustments on the assets classified as available-for-sale were recorded directly in equity. Under IFRS, IAS 28 does not allow entities to elect to apply IAS 39 except if the investments are held by a venture capital organisation. In assessing the equity portfolio, management assessed the portfolio to meet the definition of a venture capital organisation and the equity investment portfolio is treated in line with IAS 39. Fair value adjustments are recognised in profit and loss. This change results in an increase in the retained income opening balance.

3.5 Other adjustments

As detailed below, during the year the Bank discovered the following errors which have been corrected retrospectively.

3.5.1 Revaluation of financial instruments

In accordance with the provisions of IFRS the appropriate quoted price for an asset held or liability to be issued is the current bid price and, for an asset to be acquired or liability held, the asking price. For practical reasons all financial instruments were previously valued using mid prices. In order to achieve consistency with the valuation required by IFRS, adjustments were made to adjust these mid prices to the bid or offer prices on the respective financial assets and liabilities. This change results in a decrease in opening equity.

The periods prior to 2005 have not been restated as it is deemed to be impractical to determine the effect on prior periods.

3.5.2 Interest duplicated

With the implementation of hedge accounting during the 2004 financial year, management changed the valuation of various financial liabilities from amortised cost to fair value, in line with its hedge accounting policy. As part of the valuation of these instruments for the year ended 31 March 2004, the Bank used the related all-in prices to reflect the instruments at fair value. However, interest was also separately accrued in sundry creditors which resulted in the duplication of the interest portion, amounting to R88 million.

3.5.3 Foreign exchange effects

The AFD 1 loan is a 20-year loan raised in 1995. The original capital was received in French francs, which have now been converted into euro. In order to hedge the loan, a 10-year FEC was entered into as well as a forward starting 20-year cross-currency swap, on which the pay ZAR leg was settled on a PV basis at transaction date. The computations of the fair value of the cross-currency swap and the FEC have always been accurate in total. However, the foreign currency portion of the value of the cross-currency swap has to be calculated and transferred to the income statement to match the marking to spot of the underlying loan at each reporting period. This split has always been accurately determined until valuation methodologies were changed in the middle of the 2005 financial year. This change in methodology led to a change in this currency split, from a gain historically to a loss during the 2005 financial year. The loss of R41 million arising from this calculated currency portion of the cross-currency swap was debited to profit and loss during the 2005 financial year (2004: R35 million profit) and an amount of R149 million, which qualifies as a future cash flow hedge was credited to equity, making the net fair value of the swap R109 million. This change from positive to negative was incorrect. The R41 million foreign exchange effects should have been posted as a gain rather than a loss in order to offset the loss as reflected on the underlying loan.

The above has resulted in the understatement of 2005 profits by R81 million.

in thousands of rand	**2006**	2005
4. Cash and cash equivalents		
Fixed deposits	**10 000**	434 764
Call deposits	**907 108**	913 723
Cash at bank	**536 889**	605 436
Accrued income on cash and cash equivalents	**46 838**	52 607
	1 500 835	2 006 530
The average annual interest rate on cash and cash equivalents detailed above was 7,78% (2005: 12,62%).		
5. Trade and other receivables		
Staff loans	**922**	1 008
Other trade receivables and prepayments	**57 674**	21 861
Less impairment	**(5 100)**	(5 089)
	53 496	17 780
6. Non-current assets held for sale		
Property and movable assets is presented as held for sale following a decision by management to dispose of the assets held as security to recover funds advanced to Serious Mills (Pty) Limited (Sebowana Mills). Sebowana Mills was placed under provisional liquidation during 2005 and an amount of R7,2 million is due to the Bank. The sale of the assets is expected to be finalised in the next financial year. At 31 March 2006, the disposal group comprised assets with a carrying value of R3,2 million and a fair value of R4,5 million.	**3 187**	–

in thousands of rand	**2006**	2005
7. Financial market assets		
Held-to-maturity	**1 049 622**	1 053 063
Loans and receivables	**210 818**	139 938
Available-for-sale	**1 209 528**	1 172 910
Assets carried at fair value through profit or loss	**2 972 712**	2 735 312
Hedging instruments	**1 174 247**	1 030 658
	6 616 927	6 131 881

Full details of the financial market assets are contained in the schedule provided under note 40.

8. Post-retirement medical benefits investment

Medipref Management Limited	**68 643**	59 083

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

Details of the post-retirement medical benefit liability are contained in note 22.

This investment does not meet the definition of a "Plan Asset" and is therefore not offset against the liability.

9. Home ownership scheme loans

9. Home ownership scheme loans	**22 697**	19 715

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

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

At 31 March 2006, the effective interest rate was 9,5% per year (2005: 9,5%).

10. Equity investments

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

10.1 American International Group African Infrastructure Fund (AIG)	**120 965**	175 707
Total contributions at cost	**124 347**	132 365
Plus fair value adjustment	**2 048**	46 676
Less foreign exchange adjustment	**(5 430)**	(3 334)

The Bank has contributed US$19 667 491 (2005: US$17 864 753) to the AIG Infrastructure Fund, which represents 7,025% of the total shareholding.

10.2 Commonwealth Africa Investments Limited	**–**	24 183
900 ordinary shares at cost	**–**	5
900 redeemable preference shares at cost, which represents 15,75% of the total preference shareholding	**–**	52 518
Less impairment	**–**	(26 661)
Less foreign exchange adjustment	**–**	(1 679)

The investment in Commonwealth Africa Investments Limited is denominated in US$. All capital contributions made by the Bank had been fully repaid at year-end.

in thousands of rand	**2006**	2005
10.3 Continuity SA (Pty) Ltd	**1**	642
200 ordinary shares at cost	**600**	600
Less fair value adjustment	**(599)**	42
The Bank's shareholding in Continuity SA represents 20% of the total shareholding.		
10.4 Development Bank of Zambia		
670 shares at cost	**4 136**	–
The Bank has made a commitment of $670 000 to Development Bank of Zambia, which represents 10% of the total shareholding.		
10.5 Durban Marine Theme Park (Pty) Ltd	**41 948**	35 113
1 unsecured, convertible debenture at cost	**50 000**	50 000
Less fair value adjustment	**(8 052)**	(14 887)
The debenture accrues interest at a non-compounding rate of 13% per annum, which will be accumulated and paid on redemption date.		
10.6 Ethos Technology Fund	**10 512**	6 139
Capital contributions at cost	**16 028**	10 838
Less fair value adjustment	**(5 516)**	(4 699)
The Bank has made a commitment of R25 million to the Ethos Technology Fund 1 Partnership SA. The Bank's shareholding in Ethos Technology Fund is 9,36% of the total shareholding.		
10.7 Franchise Fund	**–**	1
50 000 ordinary shares at cost	**–**	50
1 700 000 8% redeemable cumulative preference shares at cost	**–**	1 700
650 000 15% redeemable debentures at cost	**–**	650
Less fair value adjustment	**–**	(2 399)
The 8% redeemable cumulative preference shares and the 15% redeemable debentures were redeemed on 28 April 2005.		
10.8 Kunene Finance Company (Pty) Limited		
6 411 ordinary shares at cost	**2 564**	–
The ordinary shares were issued to the Bank as a part settlement of the redemption of the preference shares and debentures of the Franchise Fund (see above).		
10.9 Lepelle Northern Water Capital Project Bills	**–**	99 150
Capital project bills at cost	**–**	28 351
Unamortised discount	**–**	70 799
Discount capitalised	**–**	102 564
Less discount recognised	**–**	(31 765)
The Capital Project Bills matured fully on 31 October 2005.		

in thousands of rand	**2006**	2005
10.10 New Africa Mining Fund	**43 339**	30 370
Capital contributions at cost	**43 577**	32 357
Less fair value adjustment	**(238)**	(1 987)

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

10.11 One & Only Cape Town Holdings		
20 000 shares at cost	**86 400**	–

The Bank has made an investment of R86,4 million to One & Only V&A Waterfront Hotel (Pty) Limited, which represents 20% of the total shareholding.

10.12 Pan-African Investment Partners Limited / Pan-Commonwealth African Partners Limited	**47 438**	44 555
Capital contributions at cost	**51 892**	41 731
Less fair value adjustment	**(3 764)**	–
Less foreign exchange adjustment	**(690)**	2 824

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

10.13 Proparco Investments	**7 026**	7 337
49 500 shares at cost	**4 891**	4 891
Plus fair value adjustment	**2 724**	2 363
(Less)/plus foreign exchange adjustment	**(589)**	83

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

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

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

10.15 Chuma Platinum SPV (Pty) Ltd	**77 048**	63 612
18 043 ordinary shares	**3 248**	3 248
Plus fair value adjustment	**22 854**	–
Shareholder's loan	**8 535**	8 535
Less impairment adjustment on shareholder's loan	**(9 418)**	–
51 829 preference shares at cost	**51 829**	51 829

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

in thousands of rand	**2006**	2005
10.16 Malibongwe Platinum SPV (Pty) Ltd	**28 792**	25 370
18 043 ordinary shares	**3 248**	3 248
Plus fair value adjustment	**7 248**	–
Shareholder's loan	**1 451**	1 451
Less impairment adjustment on shareholder's loan	**(3 826)**	–
20 671 preference shares at cost	**20 671**	20 671

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

10.17 Savannah Platinum SPV (Pty) Ltd	**158 442**	159 018
18 043 ordinary shares	**3 248**	3 248
Plus fair value adjustment	**895**	–
Shareholder's loan	**26 208**	26 208
Less impairment adjustment on shareholder's loan	**(1 471)**	–
129 562 preference shares at cost	**129 562**	129 562

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

10.18 Shanduka Value Partners Fund 1 (formerly Millennium Consolidated Investments Equity)	**50 750**	38 993
Capital contributions at cost	**46 704**	44 117
Plus/(less) fair value adjustment	**4 046**	(5 124)

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

10.19 Women's Private Equity Fund 1	**24 707**	5 415
Total investment at cost	**14 998**	10 015
Plus/(less) fair value adjustment	**9 709**	(4 600)

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

	704 069	715 805

in thousands of rand	**2006**	2005

11. Development loans

11.1 Analysis of development loans

Balance at the beginning of the year	**16 402 763**	16 048 602
Movements during the year:	**1 293 398**	354 161
– Loans disbursed	**2 924 652**	2 590 651
– Interest accrued	**1 792 617**	1 771 523
Interest per income statement	**1 755 080**	1 699 010
Impairment of current year interest	**37 537**	72 513
– Development loans written off	**(42 508)**	(10 781)
– Revaluation of foreign loans	**(42 173)**	(23 773)
– Gross repayments	**(3 339 190)**	(3 973 459)
Gross development loans	**17 696 161**	16 402 763
Impairment against development loans (per note 11.9)	**(396 986)**	(796 049)
Net development loans	**17 299 175**	15 606 714

11.2 Maturity analysis of development loans

2006	**–**	1 978 934
2007	**1 926 261**	850 812
2008	**1 734 006**	1 521 273
2009	**1 392 602**	1 248 522
2010	**1 422 037**	1 255 240
2011–2015	**6 459 751**	5 617 829
2016–2020	**3 993 711**	3 362 290
2021 and thereafter	**767 793**	567 863
	17 696 161	16 402 763

11.3 Sectoral analysis

Commercial infrastructure	**2 449 728**	2 130 172
Communication and transport infrastructure	**562 716**	799 526
Energy	**3 494 982**	3 395 333
Human resources development	**454 357**	476 433
Institutional infrastructure	**10 274**	12 343
Residential facilities	**773 823**	742 162
Roads and drainage	**2 196 289**	2 062 177
Sanitation	**954 398**	953 070
Social infrastructure	**1 428 695**	753 558
Water	**5 370 899**	5 077 989
	17 696 161	16 402 763

in thousands of rand	**2006**	2005
11.4 Geographical analysis		
Eastern Cape	**845 660**	849 324
Free State	**660 035**	675 015
Gauteng	**3 344 850**	3 250 710
KwaZulu-Natal	**4 448 465**	3 649 425
Limpopo	**698 818**	598 580
Mpumalanga	**809 777**	815 454
North West	**601 945**	591 570
Northern Cape	**227 467**	202 007
Western Cape	**1 746 299**	1 520 988
Multi-regional – South Africa	**225 198**	215 576
SADC (excluding South Africa)*	**4 087 647**	4 034 114
Botswana	**233 396**	251 875
Lesotho	**490 272**	543 762
Malawi	**246 392**	134 258
Mauritius	**271 736**	255 444
Mozambique	**1 334 116**	1 255 207
Namibia	**585 062**	620 424
Swaziland	**203 623**	189 280
Zambia	**686 938**	549 994
Multinational	**36 112**	233 870
	17 696 161	16 402 763
*Amount in US$ included in the above SADC loans	**276 971**	212 352
11.5 Client classification		
Development finance institutions	**142 569**	148 763
Educational institutions	**367 157**	416 028
Local government	**8 245 384**	7 576 247
National and provincial government	**505 073**	476 851
Private sector	**3 427 658**	3 442 717
Public utilities	**5 008 320**	4 342 157
	17 696 161	16 402 763
11.6 Fixed and variable interest rate loans		
Fixed interest rate loans	**11 606 499**	10 504 221
Variable interest rate loans	**6 089 662**	5 898 542
	17 696 161	16 402 763
11.7 Non-performing loans (included in total development loans)		
11.7.1 Sectoral analysis		
Commercial infrastructure	**497 904**	452 882
Communication and transport infrastructure	**127 301**	168 773
Energy	**30 439**	75 990
Human resources development	**12 015**	9 048
Institutional infrastructure	**92**	907
Roads and drainage	**59 409**	47 958
Sanitation	**116 158**	134 334
Social infrastructure	**23 085**	25 930
Water	**92 354**	100 990
	958 757	1 016 812

in thousands of rand	2006	2005
11.7.2 Geographical analysis		
Eastern Cape	**59 110**	49 767
Free State	**100 598**	154 295
Gauteng	**167 461**	144 979
KwaZulu-Natal	**11 210**	18 761
Mpumalanga	**30 035**	44 631
North West	**245 069**	242 508
Northern Cape	**35 566**	31 089
Northern Province	**53 726**	42 650
Western Cape	**14 380**	12 445
Multi-regional – South Africa	**32 672**	29 102
SADC (excluding South Africa)	**208 930**	232 234
Malawi	**69 366**	72 077
Mozambique	**6 224**	5 639
Swaziland	**133 340**	154 518
Botswana	**–**	14 351
	958 757	1 016 812
11.7.3 Client classification		
Development finance institutions	**56 586**	60 770
Educational institutions	**12 016**	8 365
Local government	**298 524**	354 534
Private sector	**291 648**	219 200
Public utilities	**299 983**	373 943
	958 757	1 016 812
11.8 Client concentration		
One client as percentage of total loan portfolio	**12,2%**	11,8%
Seven clients as percentage of total loan portfolio	**38,7%**	35,7%
11.9 Impairment against development loans		
Balance at the beginning of the year	**796 049**	496 786
Impact of adoption of IFRS	**(364 634)**	–
Restated balance at the beginning of the year	**431 415**	496 786
Impairment of current year interest	**37 537**	72 513
Loans written off during the year	**(42 508)**	(10 781)
Income statement movement	**(29 458)**	237 531
Balance at the end of the year	**396 986**	796 049

12. Intangible assets

	2006	2005
Computer software at 31 March 2006		
Cost		
At the beginning of the year	**–**	–
Additions	**6 412**	–
At the end of the year	**6 412**	–
Accumulated amortisation		
At the beginning of the year	**–**	–
Amortisation	**922**	–
At the end of the year	**922**	–
Net carrying value	**5 490**	–

13. Property and equipment

13.1 Reconciliation of property and equipment

in thousands of rand	Revalued land	Revalued buildings	Computer equipment	Furniture and fittings	Motor vehicles	Office equipment	Total
At 31 March 2006							
Cost or revaluation							
At the beginning of the year	18 800	132 705	39 015	3 335	1 022	3 810	198 687
Revaluation	–	27 687	–	–	–	–	27 687
Additions and improvements	–	23 915	375	865	–	632	25 787
Transfer to non-current assets held for sale	–	(3 187)	–	–	–	–	(3 187)
Assets written off	–	–	(29 578)	–	–	–	(29 578)
At the end of the year	18 800	181 120	9 812	4 200	1 022	4 442	219 396
Accumulated depreciation							
At the beginning of the year	–	–	32 436	2 138	489	2 824	37 887
Depreciation	–	1 574	3 145	592	263	308	5 882
Assets written off	–	–	(29 578)	–	–	–	(29 578)
At the end of the year	–	1 574	6 003	2 730	752	3 132	14 191
Net carrying value	18 800	179 546	3 809	1 470	270	1 310	205 205
At 31 March 2005							
Cost or revaluation							
At the beginning of the year	18 800	110 127	35 162	2 250	663	3 430	170 432
Additions and improvements	–	22 578	3 853	1 085	359	380	28 255
At the end of the year	18 800	132 705	39 015	3 335	1 022	3 810	198 687
Accumulated depreciation							
At the beginning of the year	–	11 664	25 703	608	378	2 166	40 539
Impact of IFRS adoption	–	(11 684)	–	–	–	–	(11 684)
Restated opening balance	–	–	25 703	608	378	2 166	28 855
Total depreciation for the year	–	–	6 733	1 530	111	658	9 032
At the end of the year	–	–	32 436	2 138	489	2 824	37 887
Net carrying value	18 800	132 705	6 579	1 197	533	986	160 800

in thousands of rand	2006	2005

13.2 Valuation

13.2.1 Land

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

The land was valued at a fair value of R18,8 million by Davis Langdon Farrow Laing, an independent quantity surveyor, on 31 March 2006, using the income capitalisation approach. This valuation did not change from the previous valuation, which was also performed by Davis Langdon Farrow Laing on 31 March 2004. The land is raised at the revalued amount, as the cost was nil.

13.2.2 Buildings

The existing buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R4,0 million were effected during the 2006 financial year (2005: R22,6 million).

The existing buildings were valued at a fair value of R161,2 million by Davis Langdon Farrow Laing, an independent quantity surveyor, on 31 March 2006, using the income capitalisation approach.

The historical book value of the existing buildings is R73,711 million (2005: R58,368 million).

During the current financial year, new buildings were erected to the value of R19,9 million. These buildings have not been included in the valuation of R161,2 million, as the cost is deemed to be fair value.
The buildings are not let out for business purposes as they are used mainly for staff training.

14. Share capital

	2006	2005
Authorised		
500 000 ordinary shares (2005: 500 000) at a par value of R10 000 each	**5 000 000**	5 000 000
Issued capital		
20 000 ordinary shares (2005: 20 000) at a par value of R10 000 each	**200 000**	200 000
Callable capital		
480 000 ordinary shares (2005: 480 000) at a par value of R10 000 each	**4 800 000**	4 800 000

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

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

15. Permanent government funding

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

There are no repayment terms and this funding is interest-free. There is no requirement for the Bank to make repayment.

	2006	2005
Received to date	**3 792 344**	3 792 344

in thousands of rand	**2006**	2005
16. Revaluation reserve on land and buildings		
This reserve represents the valuation surplus recognised on the revaluation of the land and buildings.	**115 109**	87 422
17. Hedging reserve		
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments where the hedge transaction has not yet occurred.	**19 511**	47 994
18. Reserve for general loan risks		
The reserve is maintained based on the risk grading of the borrowers as detailed in accounting policy note 1.9 and movements are recognised directly between reserve for general loan risk and accumulated surplus.	**531 775**	554 915
19. Fair value reserve		
The reserve comprises all fair value adjustments for available-for-sale financial market instruments.	**14 275**	55 123
20. Trade and other payables		
Trade and sundry payables	**62 919**	70 893
DBSA Development Fund	**332 225**	301 237
Sundry accruals	**53 568**	52 338
Accrued interest	**150 012**	149 958
	598 724	574 426
21. Liability for funeral benefits	**3 253**	2 925

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

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

The obligation was actuarially valued on 31 March 2006.

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

	2006	2005
Discount rate (before taxation)	**7,5%**	8,5%
Inflation rate	**4,5%**	6,5%

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

Movement in liability for funeral benefits recognised in the balance sheet

	2006	2005
Balance at 1 April 2005	**2 925**	–
Initial liability raised	**–**	2 925
Increase in the liability	**460**	–
Company contributions	**(132)**	–
Balance at 31 March 2006	**3 253**	2 925

in thousands of rand	2006	2005

22. Liability for post-retirement medical benefits

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

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

The investment in Medipref, as specified in note 8, has been set aside to fund this obligation.

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

	2006	2005
Present value of unfunded obligation at the beginning of the year	**96 452**	105 086
Interest cost	**8 079**	9 563
Current service cost	**3 804**	7 327
Benefits paid	**(2 817)**	(2 339)
Actuarial loss/(gain) for the year	**25 384**	(23 185)
Present value of unfunded obligation at the end of the year	**130 902**	96 452

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

	2006	2005
Interest cost	**8 079**	9 563
Current service cost	**3 804**	7 327
Benefits paid	**(2 817)**	(2 339)
Actuarial loss/(gain) for the year	**25 384**	(23 185)
	34 450	(8 634)

The total charge for the year is included in staff costs in the income statement.

	2006	2005
Market value of Medipref at the beginning of the year	**59 083**	53 142
Increase in market value for the year	**9 560**	5 941
Market value of Medipref at the end of the year	**68 643**	59 083

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

	2006	2005
Discount rate (before taxation)	**7,5%**	8,5%
Medical aid inflation rate	**6,5%**	6,5%

The projected unit credit method has been used in determining the actuarial valuation.

in thousands of rand	2006	2005
23. Financial market liabilities		
Liabilities carried at fair value through profit and loss	**1 387 492**	917 445
Hedge accounted activities	**72 928**	41 134
Hedged items	**4 258 702**	4 134 468
Liabilities carried at amortised cost	**6 293 519**	6 474 496
Non-qualifying hedged items	**515 548**	515 338
	12 528 189	12 082 881

Full details of the financial market liabilities are contained in the schedule provided under note 40.

24. Interest income

	2006	2005
Development loans (refer to note 24.1)	**1 755 080**	1 699 010
Equity investments	**8 195**	21 333
Government stock	**75 444**	142 011
Money market	**420 134**	388 306
Capital market	**92 981**	66 783
Home ownership	**1 900**	1 882
Other interest received	**1 720**	2 012
	2 355 454	2 321 337

24.1 Client classification

	2006	2005
Development finance institutions	**10 870**	5 204
Educational institutions	**36 334**	43 883
Local government	**908 307**	864 089
National and provincial government	**58 040**	53 559
Private sector	**302 188**	322 746
Public utilities	**439 341**	409 529
	1 755 080	1 699 010

25. Interest expense

	2006	2005
Registered bonds	**484 260**	515 845
Foreign loans	**334 634**	304 644
Other	**249 716**	240 993
	1 068 610	1 061 482

26. Movement in impairments

	2006	2005
Other debtors, including sundry write-offs (refer to note 5)	**11**	(5 972)
Equity investments	**(26 671)**	4 803
Development loans	**(29 458)**	237 531
	(56 118)	236 362

in thousands of rand	**2006**	2005

27. Other operating income

Non-interest income:		
– Fee income	**56 181**	45 237
– Realised capital gains on equity investments	**60 753**	32 186
– Dividend income	**199**	703
Less recovered expenses:	**(209)**	(871)
– Consultants	**(57)**	(603)
– Travel and subsistence	**(152)**	(268)
	116 924	77 255
Sundry income	**4 007**	15 596
	120 931	92 851

28. Foreign exchange loss

Realised:	**(35 960)**	(18 289)
Foreign exchange loss on development loans	**(36 628)**	(7 586)
Foreign exchange gain/(loss) on funding	**668**	(10 703)
Unrealised:	**2 352**	(18 016)
Foreign exchange (loss)/gain on development investments	**(8 864)**	9 633
Foreign exchange gain/(loss) on funding	**17 190**	(36 436)
Foreign exchange gain/(loss) on hedging derivatives	**(5 974)**	8 787
	(33 608)	(36 305)

29. Revaluation of financial instruments

Revaluation of currency hedging derivatives	**18 007**	77 179
Revaluation of "held for trading" capital market financial instruments	**16 363**	5 543
Revaluation of "held for trading" money market financial instruments	**7 155**	(4 828)
Revaluation of hedged funding	**(141 641)**	(349 206)
Revaluation of equity investments (adjusted through profit and loss)	**10 779**	–
Revaluation of ZAR interest hedging derivatives	**250 257**	359 128
	160 920	87 816

30. Operating expenses

30.1 Staff costs

Post-retirement medical benefits liability movement (refer to note 30.1.1)	**24 890**	(14 575)
Other staff costs	**290 754**	259 109
	315 644	244 534

Included in other staff costs are Directors' emoluments and executive management remuneration as detailed below:

Directors' emoluments	**7 412**	3 736
Executive management remuneration	**13 789**	10 720
	21 201	14 456

Full details are provided in the schedule of Directors' emoluments, note 39.

in thousands of rand	**2006**	2005
30.1.1 Movement in post-retirement medical benefits liability		
Medipref investment	**(9 560)**	(5 941)
Present value of obligation	**34 450**	(8 634)
	24 890	(14 575)

Details are included in note 22.

30.2 General and administration expenses

are arrived at after taking into account:

Auditors' remuneration	**5 448**	4 776
– audit fee	**5 337**	4 670
– expenses	**111**	106
Technical services	**12 662**	20 418
Communication costs	**4 936**	5 140
Information technology	**33 188**	28 344
Regional Service Council levies	**4 275**	4 457
Subsistence and travel	**18 547**	17 219
Other	**56 340**	50 204
	135 396	130 558

30.3 Depreciation and amortisation	**6 803**	9 032
Buildings	**1 573**	–
Computer equipment	**3 145**	6 733
Furniture and fittings	**592**	1 530
Motor vehicles	**263**	111
Office equipment	**308**	658
Intangible assets	**922**	–

31. Taxation

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

32. Retirement benefits

32.1 Defined contribution plan

The Development Bank of Southern Africa Provident Fund was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members.

The fund, which is governed by the Pension Fund Act, No. 24 of 1956, is a defined contribution plan for employees on the permanent staff of the Bank.

The number of employees covered by the plan is: 527 (2005: 498).

Total amount expensed during the year (including Group Life Assurance and Income Continuity Benefits) amounted to	**27 851**	28 155

in thousands of rand	**2006**	2005
32.2 Medical aid		
Bank contributions	**14 231**	15 425
The number of employees belonging to the medical aid is: 488 (2005: 494).		

33. Cash flow statement

33.1 Interest received from development activities		
Gross development loan repayments (refer to note 11.1)	**3 339 190**	3 973 459
Principal repayments	**(1 597 232)**	(2 330 179)
Interest received from development loans	**1 741 958**	1 643 280
Interest received from equity investments	**8 195**	30 438
	1 750 153	1 673 718
33.2 Interest received from investments		
Accrued interest at the beginning of the year	**52 607**	46 656
Accrued interest	**52 607**	61 719
Accrued interest on equity investments	**–**	(15 063)
Credited to income statement for the year	**592 179**	606 950
Accrued interest at the end of the year	**(46 838)**	(52 607)
	597 948	600 999
33.3 Interest paid		
Accrued interest at the beginning of the year		
Other creditors (refer to note 20)	**149 958**	153 105
Charged to income statement for the year		
Interest expense (excluding unrealised foreign exchange gains and losses)	**1 068 610**	991 320
Accrued interest at the end of the year		
Other creditors (refer to note 20)	**(150 012)**	(149 958)
	1 068 556	994 467
33.4 Cash (utilised by) / generated from other operations		
Surplus for the year	**928 382**	749 489
Adjustments for:		
Movement in provisions	**34 450**	293 649
Technical assistance grants paid	**32 980**	34 242
Interest expensed	**1 068 610**	752 382
Revaluation of development loans	**42 173**	23 773
Interest income	**(2 355 454)**	(2 321 337)
Depreciation and amortisation	**6 803**	9 032
Foreign exchange revaluation	**(2 352)**	18 016
Revaluation of financial instruments	**(160 920)**	(87 816)
Increase in financial market instruments	**240 403**	952 918
(Increase)/decrease in accounts receivable	**(35 716)**	24 174
Increase in accounts payable	**26 444**	84 010
Increase in post-retirement medical benefits investment	**(9 560)**	(5 671)
Capital gain realised on equity investment	**(60 753)**	–
	(244 510)	526 861

in thousands of rand	**2006**	2005
34. Commitments		
At the date of the balance sheet, the Bank had the following commitments:		
34.1 Loan commitments		
Loans approved by the Board of Directors but not signed	**6 103 137**	3 841 863
Loans signed but not disbursed	**3 647 338**	3 197 456
	9 750 475	7 039 319
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.		
34.2 Technical assistance grants		
Grants approved by the Board of Directors but not signed	**16 178**	27 240
Grants signed but not disbursed	**42 209**	31 734
	58 387	58 974
The above loan and grant commitments are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.		
34.3 Capital commitments		
Capital expenditure in respect of property and equipment authorised but not contracted for	**27 058**	61 592
These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity. These commitments are expected to be settled in the following financial year.		
34.4 Commitments to the DBSA Development Fund		
The Bank has committed 10% of its surplus from operations to be transferred to the DBSA Development Fund.		
35. Contingent liabilities		
35.1 Employee loans		
The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees.		
Loan balances secured	**426**	483
35.2 Guarantees		
The Bank has approved and issued guarantees on behalf of borrowers amounting to	**420 000**	220 000
It is the opinion of management that these borrowers are unlikely to default, and therefore these guarantee were not recognised in the balance sheet as a liability.		
Total value of credit line (principal amount) and current exposure	**400 000**	200 000
The Bank guarantees the payment of any sum of principal, interest, commission, damages, expenses and any other sum to a maximum aggregate of 110% of the principal amount. These guarantees are uncollateralised.		
35.3 Regional Services Council	**–**	1 091

in thousands of rand	**2006**	2005
36. Funds administered on behalf of third parties		
Balance at the beginning of the year	**125 879**	150 159
Funds received	**422 474**	339 589
Funds disbursed	**(386 332)**	(363 869)
Funds at the end of the year	**162 021**	125 879

37. Related parties

The DBSA is one of 19 schedule 2 major public entities in terms of the Public Finance Management Act and therefore falls within the national sphere of government. As a consequence, a significant number of the Bank's related parties also fall within the national sphere.

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

The South African government, through the Ministry of Finance, is the ultimate controlling body of the Bank.

37.1 Transactions with related parties

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

37.2 Major public entities

37.2.1 Government departments

The total book debt for loans extended to government departments amounts to R253 510 029.
None of the loans are non-performing.

37.2.2 National public entities

The total book debt for loans extended to national public entities amounts to R2 097 855 498.
None of the loans are non-performing.

37.2.3 DBSA Development Fund

In September 2005, the Bank made a grant to the DBSA Development Fund of R60 million based on 10% of the previous financial year results. A further grant of R112 million was transferred at year-end, giving a total of R172 million.

In addition, in order for the Fund to carry out its functions, it utilises the offices, staff, services and facilities of the Bank, for which it pays a management fee. This fee is charged at a market-related rate of 4% of disbursements made.

At year-end R332,2 million was due by the Bank to the DBSA Development Fund.

37.2.4 Related party transactions with key management personnel funded by DBSA 2005/2006 financial year

in thousands of rand	Project company	Nature of investment	Financing approved	Specific impairment	Interest rate	Nature of interest
Executive Management						
MSV Gantsho	One & Only V&A Hotel via Piton Capital	Debt funding	3 450	None	6 month Jibar + 2%	Non-executive Director of Piton Capital which is one of the BEE shareholders in One & Only V&A Hotel. The Bank has further participated through direct equity of R86 400.
	DCD Dorbyl	Debt funding	85 000	None	15%	Shareholder of BEE company invested in DCD Dorbyl
	Rural Housing Forum	Debt funding	50 000	None	3 month Jibar + 1,6%	Nominee Director (co-opted Audit Committee member) on behalf of DBSA
JH de V Botha	Rural Housing Forum	Debt funding	50 000	None	3 month Jibar + 1,6%	Nominee Directorship on behalf of DBSA
LM Musasike	Pan-African Investment Partners Limited / Pan-Commonwealth African Partners Limited	Private equity	51 893	None	N/A	Nominee Directorship on behalf of DBSA
	Proparco	Equity investment	4 891	None	N/A	Nominee Directorship on behalf of DBSA
	One & Only V&A Hotel	Equity investment	86 400	None	6 month Jibar + 2%	Nominee Directorship on behalf of DBSA
	Local Investment Agency (LIA)	Equity investment	4 000	None	N/A	Nominee Directorship on behalf of DBSA
	American International Group African Infrastructure Fund (AIG)	Private equity investment	124 347	None	N/A	Nominee Directorship on behalf of DBSA
Non-Executive Management						
J Naidoo	Gautrain	Debt funding	175 000	None	6 month Jibar + 2,25%	Director of J&J Group; a shareholder in Murray & Roberts. Murray & Roberts in turn has 25% equity in the Gautrain project
	Independent Power Project	Grant funding	5 000	N/A	N/A	Director and shareholder of J&J BEE Group. Thata J&J Consortium intends to participate in the IPP tender, for which the DBSA has set aside R5 million funding package for a BEE consortium.
D Konar	Glocomm Broad Band Wireless Network	Debt and equity funding	350 000	None	*3 month Jibar + 3%	Non-executive Director of Sentech, a company which is a shareholder in Glocomm
C Manning	Local Investment Agency (LIA)	Equity	4 000	None	N/A	Performed consultancy services for the concept of LIA. Director of Sangena Investments, a joint consortium member with J&J group, which intends to participate in the IPP tender. In relation to this tender, the DBSA has set aside R5 million funding package for a BEE consortium.

* *Not yet finalised*

38. Events after balance sheet date

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

39. Schedule of Directors' emoluments

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

in rand	Fees for services as Directors	Subsistence and travel	Total 2006	Total 2005
I Abedian	190 360	1 260	191 620	174 630
L Abrahams	102 860	1 290	104 150	186 387
A Boraine	30 000	6 731	36 731	–
T Chikane	65 000	900	65 900	38 280
T Dingaan	7 500	108	7 608	–
B Figaji	60 000	5 223	65 224	42 225
N Gasa	15 000	210	15 210	44 505
L Gwagwa	7 500	3 528	11 028	8 088
R Kfir	7 500	–	7 500	–
D Konar	200 000	1 080	201 080	188 940
W Lucas-Bull	35 000	–	35 000	–
JB Magwaza	150 000	–	150 000	172 500
C Manning	15 000	180	15 180	–
J Modise	7 500	180	7 680	–
J Naidoo (Chair)	280 180	14 496	294 676	316 800
S Nondwangu	15 000	225	15 225	23 145
H Nyasulu	7 500	3 050	10 550	19 725
N Payne	7 500	360	7 860	–
I Sehoole	–	–	–	28 305
M Silinga	7 500	–	7 500	–
N Sowazi	–	–	–	15 300
M Vilakazi	–	–	–	22 995
	1 210 900	38 821	1 249 721	1 281 825

Fees for services as Directors of the DBSA Development Fund

H Nyasulu	247 500
M Vilakazi	23 445

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

39.2 Executive management remuneration

in rand	Basic salaries	Medical aid, group life and provident fund contributions	Other allowances and benefits	Performance incentives	Total 2006	Total 2005
Chief Executive Officer						
and Managing Director						
MSV Gantsho	2 025 893	105 755	121 637	3 908 929	6 162 214	2 454 458
Executive managers	6 056 977	963 195	3 613 177	3 155 395	13 788 744	10 719 606
JH de V Botha[1]	1 335 210	35 476	3 090 320	830 862	5 291 868	2 086 983
SJ Khoza	1 037 731	214 830	90 321	820 906	2 163 788	1 811 788
L Mashaba	935 144	181 173	90 320	707 642	1 914 279	1 413 662
ZJ Matlala[2]	805 700	162 937	150 477	–	1 119 114	1 865 914
D Moephuli[3]	716 452	108 158	101 419	39 804	965 833	1 236 021
AK Mohammed[4]	–	–	–	–	–	251 138
LM Musasike	1 034 140	228 221	90 320	756 181	2 108 862	1 838 000
J Nhlapo[5]	–	–	–	–	–	216 100
L van Leyleveld[6]	192 600	32 400	–	–	225 000	–
Total	8 082 870	1 068 950	3 734 814	7 064 324	19 950 958	13 174 064

1. Other allowances and benefits includes severance pay of R3 000 000.

2. Resigned 31 December 2005.

3. Resigned 31 January 2006.

4. Resigned 30 June 2004.

5. Transferred to Development Fund 1 June 2004.

6. Appointed to position 1 January 2006 and will qualify for an executive bonus in the 2006/07 financial year.

40. Financial instruments

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

40.1 Derivatives

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

40.1.1 Derivatives designated as fair value hedges

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

40.1.2 Derivatives designated as cash flow hedges

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

40.2 Interest rate risk

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

The Treasury Division, under oversight of the Asset and Liability Management Committee, is charged with managing and containing the Bank's interest rate risk within acceptable boundaries. The Bank makes use of a variety of analytical techniques to measure and monitor interest rate risk exposures. These include static and dynamic repricing gap analyses, as well as duration-based rate sensitivity analysis aimed at measuring the impact of interest rate movements on the Bank's economic value of equity (EVE). The repricing profile as at financial year-end is encapsulated in the table overleaf. As reflected in the 12-month cumulative repricing gap, the Bank is asset-sensitive, with an immediate 100 basis points parallel upward/(downward) shift in the yield curve expected to result in an increase/(decrease) in net interest income over the projected 12-month period of approximately R14 million.

40.2.1 Hedging of exposure to interest rate risk

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

At 31 March 2006, the Bank had interest rate swaps with a total notional contract amount of R2 807 000 (2005: R2 755 000).

The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to accounting policy note 1.6.4).

The net fair value of swaps at 31 March 2006 was R1 019 076 (2005: R863 769), comprising assets of R1 029 375 (2005: R866 555) and liabilities of R10 299 (2005: R2 786). These amounts are recognised as fair value derivatives.

40.2.2 Interest rate sensitivity gap

The table on the following page reflects the repricing periods in respect of both the interest-bearing financial assets and liabilities.

Interest rate sensitivity gap

At 31 March 2006 (R million)	Currency	<1 month	1–3 months	3–12 months	1–2 years	2–3 years	3–4 years	4–5 years	>5 years	Total
Financial market assets		2 507,87	1 703,09	5 040,97	1 500,69	864,71	804,93	1 567,21	9 632,97	23 622,44
Cash and cash equivalents	ZAR	1 601,59	266,61	–	–	–	–	–	–	1 868,20
Repo assets	ZAR	565,26	–	–	–	–	–	–	–	565,26
Investment: government bonds	ZAR	–	–	–	790,28	–	–	658,40	1 392,70	2 841,38
Investment: corporate bonds	ZAR	–	25,00	6,00	–	139,00	–	50,00	180,00	400,00
Investment: municipal bonds	ZAR	–	–	–	–	–	–	50,00	199,98	249,98
Development loans	ZAR	285,44	1 391,48	3 290,56	709,52	728,21	787,43	791,09	7 817,95	15 801,68
	EURO	55,58	–	35,41	0,89	0,89	0,89	1,11	9,14	103,91
	USD	–	–	1 707,72	–	16,61	16,61	16,61	33,21	1 790,76
Cross-currency swaps: development loans	EURO	–	–	(55,21)	0,11	0,22	0,22	0,22	0,87	(53,57)
	USD	–	–	56,49	(0,11)	(0,22)	(0,22)	(0,22)	(0,88)	54,84
Interest rate swaps: development loans	ZAR	–	20,00	–	–	(20,00)	–	–	–	–
Financial market liabilities		(1 680,69)	(2 667,71)	(1 332,58)	(157,81)	(129,57)	(122,74)	(2 123,97)	(3 130,19)	(11 345,26)
Funding: lines of credit	ZAR	–	–	(541,90)	(91,90)	(141,90)	(141,90)	(189,90)	(340,70)	(1 448,20)
	EURO	(38,50)	–	(24,31)	(48,62)	(59,48)	(50,10)	(54,76)	(606,24)	(882,01)
	USD	–	(837,10)	(89,91)	(62,24)	(77,62)	(77,62)	(77,62)	(275,93)	(1 498,04)
Cross-currrency swaps: lines of credit	ZAR	(167,12)	(382,61)	(5,49)	(8,28)	(12,12)	(7,74)	(13,53)	(218,91)	(815,80)
	EURO	38,50	–	24,31	48,62	57,06	50,24	54,90	608,38	882,01
	USD	–	–	4,72	4,61	4,49	4,38	4,26	14,21	36,67
Interest rate swaps: lines of credit	ZAR	(215,00)	(448,00)	300,00	–	100,00	100,00	48,00	215,00	100,00
	EURO	–	–	–	–	–	–	–	–	–
	USD	–	–	–	–	–	–	–	–	–
Funding: bonds	ZAR	–	–	–	–	–	–	(1 895,32)	(4 526,00)[1]	(6 421,32)
	EURO	–	–	–	–	–	–	–	–	–
	USD	–	–	–	–	–	–	–	–	–
Interest rate swaps: funding bonds	ZAR	–	(1 000,00)	(1 000,00)	–	–	–	–	2 000,00	–
	EURO	–	–	–	–	–	–	–	–	–
	USD	–	–	–	–	–	–	–	–	–
Repo liability	ZAR	(1 298,57)	–	–	–	–	–	–	–	(1 298,57)
Interest rate repricing gap		**827,18**	**(964,62)**	**3 708,39**	**1 342,88**	**735,14**	**682,19**	**(556,76)**	**6 502,78**	**12 277,18**
Cumulative repricing gap		**827,18**	**(137,44)**	**3 570,95**	**4 913,83**	**5 648,97**	**6 331,16**	**5 774,40**	**12 277,18**	**–**

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

40.3 Foreign currency risk

Foreign currency risk is the risk of financial loss resulting from adverse movements in foreign currency exchange rates. Currency risk in the DBSA arises primarily from the Bank's foreign currency funding and lending activities. The Bank employs a conservative policy that forbids the assumption of speculative foreign currency positions. As such all major currency exposures are hedged, either naturally through offsetting assets and liabilities of substantially similar nominal size, maturities, currency, and repricing bases, or in the absence thereof, through the use of approved derivative instruments transacted with reputable financial institutions. However, manageable residual risk remains in the form of US dollars and euros held in the Bank's customer foreign currency (CFC) accounts. These funds are held in anticipation of draw-downs on existing investment commitments. As at end 31 March 2006, the credit balances in the Bank's USD and euro accounts amounted to R224 million and R357 million, respectively.

40.3.1 Hedging of exposure to foreign currency risk

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

At 31 March 2006, the Bank had cross-currency swaps with a total notional contract amount of R1 018 921 (2005: R946 025).

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

40.3.2 Cash flow and fair value hedges

The Bank classifies its cross-currency swap contracts as either fixed-to-floating or fixed-to-fixed. The fixed rate foreign currency to floating rate domestic currency contracts are classified as fair value hedges and their changes in fair values are recognised in profit or loss. However, the fixed rate foreign currency to fixed rate domestic are classified as cash flow hedges of forecasted transactions and are therefore accounted for in terms of accounting policy note 1.6.4.

The total net fair value of cross-currency swap contracts employed as cash flow hedges at 31 March 2006 amounted to R19 539 (2005: R45 783), encompassing assets of R79 792 (2005: R74 883) and liabilities of R60 253 (2005: R29 100) recognised in cash flow derivatives.

The total net fair value of cross-currency swap contracts employed as fair value hedges at 31 March 2006 amounted to R52 404 (2005: R102 985), encompassing assets of R65 080 (2005: R115 019) and liabilities of R12 675 (2005: R12 034) recognised in fair value derivatives.

40.3.3 Economic hedges

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

As at 31 March 2006, the total net fair value recognised as economic hedges of foreign currency monetary assets and liabilities amounted to R25 694 (2005: R74 286), encompassing assets of R74 029 (2005: R102 523) and liabilities of R48 334 (2005: R28 327) recognised in fair value derivatives.

40.3.4 Fair values

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

Financial market assets and liabilities

Classification	Currency	Nature of risk being hedged	2006 Carrying value R 000	2006 Fair value R 000	2006 <1 year R 000	2006 1–5 years R 000	2006 >5 years R 000	Weighted average rate %	2005 Carrying value R 000	2005 Fair value R 000	2005 Current R 000	2005 Non-current R 000
Financial market assets			**6 616 927**	**6 689 897**	**1 637 097**	**1 813 608**	**3 166 223**		**6 130 096**	**6 184 532**	**2 554 411**	**3 575 685**
Held to maturity			**1 049 622**	**1 122 592**	**–**	**849 680**	**199 942**		**1 053 062**	**1 107 498**	**249 972**	**803 090**
Capital market instruments			799 649	829 510	–	799 649	–		803 090	832 705	–	803 090
Government bonds												
R194			799 649	829 510	–	799 649	–	10,00	803 090	832 705	–	803 090
Municipal investments			249 973	293 082	–	50 031	199 942		249 972	274 793	249 972	–
COJ01			50 031	55 812	–	50 031	–	11,95	50 034	50 026	50 034	–
COJ02			199 942	237 270	–	–	199 942	11,90	199 938	224 767	199 938	–
Loans and receivables			**210 818**	**210 818**	**210 818**	**–**	**–**		**139 938**	**139 938**	**139 938**	**–**
Funds under management			210 818	210 818	210 818	–	–	11,53	139 938	139 938	139 938	–
Available for sale investments			**1 209 527**	**1 209 527**	**368 083**	**265 490**	**575 954**		**1 172 910**	**1 172 910**	**945 677**	**227 233**
Capital market instruments			856 430	856 430	14 986	265 490	575 954		1 023 142	1 023 142	795 909	227 233
Government bonds			381 458	381 458	–	–	381 458		732 431	732 431	714 334	18 097
R157			278 921	278 921	–	–	278 921	13,50	–	–	–	–
R204			102 537	102 537	–	–	102 537	8,00	714 334	714 334	714 334	–
R153			–	–	–	–	–	13,00	18 097	18 097	–	18 097
Corporate bonds			474 972	474 972	14 986	265 490	194 496		290 711	290 711	81 575	209 136
AB02			80 955	80 955	–	80 955	–	14,50	81 741	81 741	–	81 741
DCF02			14 986	14 986	14 986	–	–	7,45	30 000	30 000	30 000	–
IV01			13 435	13 435	–	–	13 435	16,00	13 031	13 031	–	13 031
IV02			37 852	37 852	–	37 852	–	12,55	37 969	37 969	–	37 969
LB01			58 351	58 351	–	58 351	–	11,50	38 641	38 641	–	38 641
SBK3			37 696	37 696	–	37 696	–	11,25	–	–	–	–
RW01			–	–	–	–	–		20 390	20 390	20 390	–
SBK7			108 204	108 204	–	–	108 204	9,63	–	–	–	–
CAL01			50 636	50 636	–	50 636	–	8,00	37 754	37 754	–	37 754
AB05			31 321	31 321	–	–	31 321	8,75	–	–	–	–
LGL1			41 536	41 536	–	–	41 536	8,93	31 185	31 185	31 185	–
Money market instruments			353 097	353 097	353 097	–	–		149 768	149 768	149 768	–
Negotiable certificates of deposit			353 097	353 097	353 097	–	–	7,19	50 160	50 160	50 160	–
Promissory notes discount			–	–	–	–	–		49 241	49 241	49 241	–
Promissory notes yield			–	–	–	–	–		50 367	50 367	50 367	–

Financial market assets and liabilities (continued)

Classification	Currency	Nature of risk being hedged	2006 Carrying value R 000	2006 Fair value R 000	2006 <1 year R 000	2006 1–5 years R 000	2006 >5 years R 000	Weighted average rate %	2005 Carrying value R 000	2005 Fair value R 000	2005 Current R 000	2005 Non-current R 000
Assets carried at fair value through profit or loss			**2 972 713**	**2 972 713**	**655 363**	**50 837**	**2 266 513**		**2 728 267**	**2 728 267**	**705 119**	**2 023 148**
Capital market instruments			2 254 449	2 254 449	–	9 987	2 244 462		1 931 398	1 931 398	–	1 931 398
Government bonds			2 244 462	2 244 462	–	–	2 244 462		1 921 398	1 921 398	–	1 921 398
R153			796 638	796 638	–	–	796 638	13,00	794 324	794 324	–	794 324
R157			1 236 597	1 236 597	–	–	1 236 597	13,50	1 117 333	1 117 333	–	1 117 333
R153 funds under management			–	–	–	–	–	13,00	9 741	9 741	–	9 741
R204			211 227	211 227	–	–	211 227		–	–	–	–
Corporate bonds			9 987	9 987	–	9 987	–		10 000	10 000	–	10 000
AB04			9 987	9 987	–	9 987	–	7,84	10 000	10 000	–	10 000
Money market instruments			644 235	644 235	644 235	–	–		699 908	699 908	699 908	–
Negotiable certificates of deposit			45 554	45 554	45 554	–	–	7,19	67 482	67 482	67 482	–
Promissory notes discount			20 455	20 455	20 455	–	–		–	–	–	–
Promissory notes yield			–	–	–	–	–	–	–	–	–	–
Funds under management			12 969	12 969	12 969	–	–	6,85	177 646	177 646	177 646	–
Repurchase agreements			565 257	565 257	565 257	–	–	6,75	454 780	454 780	454 780	–
Positive economic hedges			**74 029**	**74 029**	**11 128**	**40 850**	**22 051**		**96 961**	**96 961**	**5 211**	**91 750**
Agence Française de Développement 3.1 – cross-currency swap[2]		currency/ interest	2 334	2 334	555	1 779	–	7,67	7 079	7 079	848	6 231
Salt Lake cross-currency swap[3]		currency/ interest	1 663	1 663	1 613	1 413	(1 363)	4,70	(2 289)	(2 289)	382	(2 671)
Agence Française de Développement 3.3 – cross-currency swap[4]		currency/ interest	2 168	2 168	183	1 985	–	7,51	2 102	2 102	(1 843)	3 945
Kreditanstalt für Wiederaufbau 1.2 – cross-currency swap		currency/ interest	20 980	20 980	629	3 986	16 364	0,82	27 063	27 063	687	26 376
Kreditanstalt für Wiederaufbau 1.4		currency/ interest	16 758	16 758	503	3 016	13 239	0,75	21 990	21 990	597	21 393
Kreditanstalt für Wiederaufbau 2.1 – cross-currency swap		currency/ interest	5 984	5 984	180	957	4 847	0,75	7 982	7 982	206	7 776
Kreditanstalt für Wiederaufbau 4.1 – cross-currency swap		currency/ interest	9 159	9 159	2 875	5 587	697	3,63	16 074	16 074	5 046	11 028
Kreditanstalt für Wiederaufbau 2.3		currency/ interest	4 651	4 651	1 163	3 488	–	2,43	5 203	5 203	(227)	5 430
Kreditanstalt für Wiederaufbau 1.6		currency/ interest	4 062	4 062	731	4 469	(1 137)	2,53	4 790	4 790	(226)	5 016
Kreditanstalt für Wiederaufbau 3.1		currency/ interest	6 270	6 270	2 696	14 170	(10 596)	2,34	6 967	6 967	(259)	7 226

Financial market assets and liabilities (continued)

Classification	Currency	Nature of risk being hedged	2006 Carrying value R 000	2006 Fair value R 000	2006 <1 year R 000	2006 1–5 years R 000	2006 >5 years R 000	Weighted average rate %	2005 Carrying value R 000	2005 Fair value R 000	2005 Current R 000	2005 Non-current R 000
Hedge accounted activities			**1 174 247**	**1 174 247**	**402 831**	**647 600**	**123 815**		**1 035 919**	**1 035 919**	**513 705**	**522 214**
Cash flow hedges – assets			79 792	79 792	10 782	36 269	32 741		70 870	70 870	8 305	62 565
Chiao Tung Bank Co Ltd		currency	17 229	17 229	3 274	9 991	3 964	2,61	2 490	2 490	476	2 014
Agence Française de Développement 1 – cross-currency swap		currency	62 563	62 563	7 508	26 278	28 777		68 380	68 380	7 829	60 551
Fair value hedges – assets			1 094 455	1 094 455	392 049	611 332	91 074		965 049	965 049	505 400	459 649
13,5% coupon note interest rate swap		interest rate	81 180	81 180	12 382	37 740	31 059	7,58	68 718	68 718	32 364	36 354
Agence Française de Développement 1 – cross-currency swap[1]		currency	33 323	33 323	15 662	16 995	666		40 634	40 634	1 826	38 808
Agence Française de Développement 2 – cross-currency swap		currency	4 377	4 377	4 377	–	–	12,13	16 844	16 844	11 229	5 615
Agence Française de Développement 3.2 – cross-currency swap		currency	3 587	3 587	179	3 408	–	11,64	7 254	7 254	1 814	5 440
DV21 interest rate swap		interest rate	483 720	483 720	38 698	430 511	14 511	8,04	420 337	420 337	169 268	251 069
DV23		interest rate	109 061	109 061	21 812	59 984	27 265	7,82	55 554	55 554	36 708	18 846
European Investment Bank 2.2		interest rate	30 924	30 924	7 731	23 193	–	6,05	32 848	32 848	23 646	9 202
European Investment Bank 2.3		interest rate	22 015	22 015	8 146	13 869	–	6,20	24 910	24 910	15 475	9 435
European Investment Bank 3.2		interest rate	26 726	26 726	6 414	20 312	–	7,23	25 756	25 756	14 807	10 949
Kreditanstalt für Wiederaufbau 1.1		currency	6 957	6 957	–	696	6 261	11,24	5 351	5 351	–	5 351
Kreditanstalt für Wiederaufbau 1.3		currency	8 282	8 282	–	828	7 454	7,57	12 584	12 584	–	12 584
Kreditanstalt für Wiederaufbau 1.5 and 2.2		currency	8 553	8 553	899	3 796	3 858	6,88	15 827	15 827	–	15 827
Private placement interest rate swap		interest rate	275 749	275 749	275 749	–	–	7,66	238 432	238 432	198 264	40 168
Financial market liabilities			**(12 528 188)**	**(14 764 556)**	**(2 156 391)**	**(3 584 837)**	**(6 786 960)**		**(12 056 783)**	**(13 849 833)**	**(2 985 826)**	**(9 070 957)**
Liabilities carried at fair value through profit or loss			**(1 387 492)**	**(1 387 492)**	**(1 325 715)**	**34 636**	**(96 413)**		**(911 885)**	**(911 885)**	**(901 276)**	**(10 609)**
Money market instruments			(1 328 858)	(1 328 858)	(1 328 858)	–	–		(886 422)	(886 422)	(886 422)	–
Repurchase agreements			(1 328 858)	(1 328 858)	(1 328 858)	–	–	6,45	(886 422)	(886 422)	(886 422)	–
Derivatives			(10 299)	(10 299)	(2 814)	(7 485)	–		(2 786)	(2 786)	(2 209)	(577)
Interest rate swaps – AB04		interest rate	(2 393)	(2 393)	(838)	(1 556)	–	11,88	(2 786)	(2 786)	(2 209)	(577)
Interest rate swaps – LB01		interest rate	(7 906)	(7 906)	(1 976)	(5 929)	–	11,50	–	–	–	–
Negative economic hedges			(48 334)	(48 334)	5 957	42 122	(96 413)		(22 677)	(22 677)	(12 645)	(10 032)
Agence Française de Développement 4.1		currency/ interest	(9 736)	(9 736)	(4 771)	(3 602)	(1 363)	7,56	(4 011)	(4 011)	(4 720)	709
Agence Française de Développement 5		currency/ interest	(6 319)	(6 319)	(3 349)	(2 528)	(442)	6,74	–	–	–	–
Kreditanstalt für Wiederaufbau 2.3		currency/ interest	(5 534)	(5 534)	(1 384)	(9 685)	5 534	2,43	(4 071)	(4 071)	–	(4 071)
Agence Française de Développement 4.2		currency/ interest	(5 308)	(5 308)	(1 911)	(3 397)	–	7,50	(3 039)	(3 039)	(1 749)	(1 290)
Kreditanstalt für Wiederaufbau 4.1 – cross-currency swap		currency/ interest	(9 186)	(9 186)	21 313	82 862	(113 361)	3,63	(2 543)	(2 543)	(6 176)	3 633
Kreditanstalt für Wiederaufbau 1.6		currency/ interest	(5 309)	(5 309)	(956)	(5 840)	1 487	2,53	(3 906)	(3 906)	–	(3 906)
Kreditanstalt für Wiederaufbau 3.1		currency/ interest	(6 942)	(6 942)	(2 985)	(15 688)	11 732	2,34	(5 107)	(5 107)	–	(5 107)

Financial market assets and liabilities (continued)

Classification	Currency	Nature of risk being hedged	2006 Carrying value R 000	2006 Fair value R 000	2006 <1 year R 000	2006 1–5 years R 000	2006 >5 years R 000	Weighted average rate %	2005 Carrying value R 000	2005 Fair value R 000	2005 Current R 000	2005 Non-current R 000
Hedge accounted activities			**(72 928)**	**(72 928)**	**(34 116)**	**(83 261)**	**44 450**		**(20 596)**	**(20 596)**	**(7 732)**	**(12 864)**
Cash flow hedges – liabilities			(60 252)	(60 252)	(32 233)	(77 056)	49 037		(25 087)	(25 087)	(4 585)	(20 502)
Agence Française de Développement 2 – cross-currency swap		currency	(316)	(316)	(316)	–	–	12,13	(1 187)	(1 187)	(1 285)	98
Agence Française de Développement 3.2 – cross-currency swap		currency	(1 471)	(1 471)	(74)	(1 398)	–	5,97	(1 634)	(1 634)	(1 411)	(223)
Kreditanstalt für Wiederaufbau 3.2 – cross-currency swap[5]		currency	(11 466)	(11 466)	(1 949)	(6 421)	(3 096)	5,97	4 013	4 013	1 351	2 662
Kreditanstalt für Wiederaufbau 1.1		currency	(23 741)	(23 741)	(4 511)	(13 532)	(5 698)	11,24	(14 163)	(14 163)	(2 980)	(11 183)
Kreditanstalt für Wiederaufbau 1.3		currency	(10 361)	(10 361)	(12 744)	(28 493)	30 876	7,57	(5 320)	(5 320)	2 496	(7 816)
Kreditanstalt für Wiederaufbau 1.5 and 2.2		currency	(12 897)	(12 897)	(12 639)	(27 212)	26 955	6,88	(6 796)	(6 796)	(2 756)	(4 040)
Fair value hedges – liabilities			(12 676)	(12 676)	(1 884)	(6 205)	(4 587)		4 491	4 491	(3 147)	7 638
Chiao Tung Bank Co Ltd[6]		currency	(1 596)	(1 596)	–	–	(1 596)	2,61	16 525	16 525	1 738	14 787
Kreditanstalt für Wiederaufbau 3.2 – cross-currency swap		currency	(11 080)	(11 080)	(1 884)	(6 205)	(2 991)	5,97	(12 034)	(12 034)	(4 885)	(7 149)
Hedged items			**(4 258 702)**	**(4 233 145)**	**(510 905)**	**(417 248)**	**(3 330 549)**		**(4 134 468)**	**(4 094 363)**	**(51 905)**	**(4 082 563)**
Local – Capital market instruments			(3 506 628)	(3 506 905)	(478 526)	–	(3 028 102)		(3 295 992)	(3 295 992)	–	(3 295 992)
Public			(2 732 898)	(2 732 898)	–	–	(2 732 898)		(2 572 300)	(2 572 300)	–	(2 572 300)
DV21			(1 507 954)	(1 507 954)	–	–	(1 507 954)	15,00	(1 438 811)	(1 438 811)	–	(1 438 811)
DV23			(1 224 944)	(1 224 944)	–	–	(1 224 944)	10,00	(1 133 489)	(1 133 489)	–	(1 133 489)
Local – Private			(773 730)	(773 730)	(478 526)	–	(295 204)		(723 692)	(723 692)	–	(723 692)
Private placement			(478 526)	(478 526)	(478 526)	–	–		(441 550)	(441 550)	–	(441 550)
13,5% coupon note			(295 204)	(295 204)	–	–	(295 204)		(282 142)	(282 142)	–	(282 142)
Foreign – Other funding liabilities			(752 074)	(726 517)	(32 379)	(417 248)	(302 447)		(838 436)	(798 371)	(51 905)	(786 591)
Agence Française de Développement 2	1 905		(14 186)	(14 472)	(14 186)	–	–	3,50	(46 280)	(47 275)	(30 854)	(15 426)
Agence Française de Développement 3.2	2 855		(21 256)	(21 586)	(14 242)	(7 014)	–	3,50	(30 819)	(31 698)	(7 704)	(23 115)
European Investment Bank 2.2			(116 594)	(128 630)	–	(116 594)	–	13,75	(117 502)	(117 502)	–	(117 502)
European Investment Bank 2.3			(118 593)	(120 322)	–	(118 593)	–	15,00	(120 867)	(120 867)	–	(120 867)
European Investment Bank 3.2			(120 060)	(128 001)	–	(120 060)	–	13,25	(118 896)	(118 896)	–	(118 896)
Kreditanstalt für Wiederaufbau 1.1	5 155		(38 379)	(31 489)	–	(7 676)	(30 703)	2,00	(41 733)	(35 302)	–	(41 733)
Agence Française de Développement 1	14 072		(96 032)	(96 045)	–	–	(96 032)	3,50	(113 920)	(116 500)	(9 493)	(104 427)
Kreditanstalt für Wiederaufbau 1.3	6 628		(49 340)	(40 483)	–	(9 868)	(39 472)	2,00	(53 654)	(45 387)	–	(53 654)
Kreditanstalt für Wiederaufbau 1.5 and 2.2	10 106		(75 233)	(60 705)	–	(15 047)	(60 186)	2,00	(81 810)	(68 287)	–	(81 810)
Kreditanstalt für Wiederaufbau 3.2	9 673		(72 011)	(57 068)	–	(7 201)	(64 810)	2,00	(78 306)	(64 435)	–	(78 306)
Chiao Tung Bank Co Ltd	5 559		(30 390)	(27 786)	(3 951)	(15 195)	(11 244)	3,00	(34 689)	(32 222)	(3 854)	(30 835)

Financial market assets and liabilities (continued)

Classification	Currency	Nature of risk being hedged	2006 Carrying value R 000	2006 Fair value R 000	2006 <1 year R 000	2006 1–5 years R 000	2006 >5 years R 000	Weighted average rate %	2005 Carrying value R 000	2005 Fair value R 000	2005 Current R 000	2005 Non-current R 000
Liabilities carried at amortised cost			**(6 293 519)**	**(8 845 743)**	**(238 715)**	**(2 829 193)**	**(3 225 611)**		**(6 474 496)**	**(8 354 706)**	**(1 989 240)**	**(485 256)**
Local			**(2 853 434)**	**(3 613 611)**	**–**	**(1 848 075)**	**(1 005 359)**		**(2 857 400)**	**(3 390 024)**	**(1 852 104)**	**(1 005 296)**
Capital market instruments			(2 853 434)	(3 613 611)	–	(1 848 075)	(1 005 359)		(2 857 400)	(3 390 024)	(1 852 104)	(1 005 296)
Public			(2 853 434)	(3 613 611)	–	(1 848 075)	(1 005 359)		(2 857 400)	(3 390 024)	(1 852 104)	(1 005 296)
DV07			(1 848 075)	(2 386 780)	–	(1 848 075)	–	14,50	(1 852 104)	(2 384 728)	(1 852 104)	–
DV23			(1 005 359)	(1 226 831)	–	–	(1 005 359)	10,00	(1 005 296)	(1 005 296)	–	(1 005 296)
Foreign			**(3 440 085)**	**(5 232 132)**	**(238 715)**	**(981 118)**	**(2 220 252)**		**(3 617 096)**	**(4 964 682)**	**(137 136)**	**(3 479 960)**
Capital market instruments			(1 478 262)	(3 243 044)	–	–	(1 478 262)		(1 443 827)	(2 736 610)	–	(1 443 827)
Public			(1 478 262)	(3 243 044)	–	–	(1 478 262)		(1 443 827)	(2 736 610)	–	(1 443 827)
Euro-rand 0%			(526 059)	(1 613 042)	–	–	(526 059)	0,00	(491 496)	(1 241 116)	–	(491 496)
Euro-rand 30-year			(952 203)	(1 630 002)	–	–	(952 203)	13,50	(952 331)	(1 495 494)	–	(952 331)
Other liabilities			(1 961 823)	(1 989 088)	(238 715)	(981 118)	(741 990)		(2 173 269)	(2 228 072)	(137 136)	(2 036 133)
African Development Bank 3 $	$50 000		(307 500)	(320 514)	–	(128 206)	(179 294)	5,32	(312 000)	(324 638)	–	(312 000)
African Development Bank			(335 201)	(349 992)	(41 900)	(167 600)	(125 701)	7,63	(450 000)	(484 502)	(50 000)	(400 000)
African Development Bank $	$45 500		(279 825)	(286 560)	(43 050)	(172 200)	(64 575)	5,32	(327 600)	(333 158)	(43 680)	(283 920)
European Investment Bank 1.2			(49 809)	(58 927)	(49 809)	–	–	14,61	(49 704)	(61 010)	–	(49 704)
European Investment Bank 3.1			(95 423)	(127 622)	–	(95 423)	–	14,72	(94 891)	(126 592)	–	(94 891)
European Investment Bank 3.3	$14 535		(89 393)	(90 111)	(13 409)	(35 757)	(40 227)	4,76	(99 771)	(100 300)	(9 070)	(90 701)
European Investment Bank 4A	$13 342		(82 056)	(82 900)	(20 514)	(41 028)	(20 514)	5,16	(83 257)	(84 007)	–	(83 257)
European Investment Bank 4B.1	$9 260		(56 947)	(53 973)	(11 389)	(30 182)	(15 376)	5,16	(57 781)	(58 351)	(2 583)	(55 198)
European Investment Bank 4B.2	$22 421		(137 890)	(130 683)	(27 578)	(73 082)	(37 230)	5,16	(139 908)	(141 289)	(8 772)	(131 136)
European Investment Bank 5.1	$62 438		(383 995)	(345 440)	–	(153 598)	(230 397)	5,16	(389 614)	(349 150)	–	(389 614)
Nordic Investment Bank 1	$7 000		(43 050)	(44 083)	(8 610)	(25 830)	(8 610)	5,26	(49 920)	(50 999)	(6 400)	(43 520)
Nordic Investment Bank 1.2	$6 470		(39 794)	(41 039)	(14 326)	(25 468)	–	4,31	(47 718)	(49 018)	(7 341)	(40 377)
Nordic Investment Bank 1.3	$7 647		(47 029)	(46 449)	(7 235)	(28 941)	(10 853)	4,31	(55 059)	(55 554)	(8 320)	(46 739)
Natexis Banque	1 143		(8 540)	(6 016)	–	(222)	(8 318)	0,10	(9 256)	(4 164)	–	(9 256)
Société Générale	719		(5 370)	(4 777)	(895)	(3 580)	(895)	4,67	(6 790)	(5 340)	(970)	(5 820)

Financial market assets and liabilities (continued)

Classification	Currency	Nature of risk being hedged	2006 Carrying value R 000	2006 Fair value R 000	2006 <1 year R 000	2006 1–5 years R 000	2006 >5 years R 000	Weighted average rate %	2005 Carrying value R 000	2005 Fair value R 000	2005 Current R 000	2005 Non-current R 000
Non-qualifying hedged items			**(515 548)**	**(369 779)**	**(46 941)**	**(289 771)**	**(178 835)**		**(515 338)**	**(468 283)**	**(35 673)**	**(479 665)**
Foreign – other liabilities			(515 548)	(369 779)	(46 941)	(289 771)	(178 835)		(515 338)	(468 283)	(35 673)	(479 665)
Agence Française de Développement 4.1	11 625		(86 543)	(84 169)	(28 559)	(57 984)	–	3,50	(109 794)	(113 230)	(15 685)	(94 109)
Agence Française de Développement 5	10 000		(74 446)	(72 404)	–	(27 039)	(47 407)	3,00	–	–	–	–
Kreditanstalt für Wiederaufbau 1.2	7 942		(59 125)	(48 506)	–	(11 825)	(47 300)	2,00	(64 294)	(54 381)	–	(64 294)
Kreditanstalt für Wiederaufbau 1.4	6 536		(48 656)	(39 922)	–	(9 731)	(38 925)	2,00	(52 909)	(44 757)	–	(52 909)
Kreditanstalt für Wiederaufbau 1.6	2 162		(16 097)	(13 207)	–	(3 219)	(12 877)	2,00	(17 504)	(14 807)	–	(17 504)
Kreditanstalt für Wiederaufbau 2.1	2 239		(16 667)	(13 438)	–	(2 500)	(14 167)	2,00	(18 124)	(15 117)	–	(18 124)
Kreditanstalt für Wiederaufbau 2.3	2 254		(16 779)	(13 530)	–	(2 517)	(14 262)	2,00	(18 246)	(15 221)	–	(18 246)
Kreditanstalt für Wiederaufbau 3.1	2 827		(21 047)	(16 682)	–	(2 105)	(18 942)	2,00	(22 887)	(18 835)	–	(22 887)
Kreditanstalt für Wiederaufbau 4.1	14 572		(108 481)	–	–	(108 481)	–	2,00	(117 964)	(95 562)	–	(117 964)
Agence Française de Développement 3.3	2 460		(13 735)	(13 948)	(4 578)	(9 157)	–	3,50	(19 914)	(20 482)	(4 978)	(14 936)
Agence Française de Développement 4.2	3 938		(25 125)	(25 125)	(4 188)	(16 750)	(4 188)	3,50	(31 875)	(32 873)	(4 554)	(27 321)
Agence Française de Développement 3.1	5 167		(28 848)	(28 848)	(9 616)	(38 464)	19 232	3,50	(41 827)	(43 018)	(10 456)	(31 371)

Hedges are classified as either assets or liabilities depending on the credit or debit closing balance. Thus classification between assets and liabilities may change from year to year.

Below is a reconciliation of the financial assets and liabilities between the 2005 and 2006 Annual Financial Reports, as certain hedges have changed categories.

Instrument	Category	Disclosure R 000
Financial market assets as per 2005 disclosure		**6 196 828**
1. Agence Française de Développement 1 – cross-currency swap (prior year adjustment)	Positive cash flow hedge	(40 634)
Prior year adjustments (refer to IFRS and other adjustments on page 112)		(24 313)
Restated financial market assets (exclusive of reclassifications)		6 131 881
Reclassifications		(26 098)
2. Agence Française de Développement 3.1 – cross-currency swap	Positive economic hedge	(1 837)
3. Salt Lake – cross-currency swap	Positive economic hedge	(2 289)
4. Agence Française de Développement 3.3 – cross-currency swap	Positive economic hedge	(1 434)
5. Kreditanstalt für Wiederaufbau 3.2 – cross-currency swap	Negative cash flow hedge	(4 013)
6. Chiao Tung Bank Co Ltd	Negative fair value hedge	(16 525)
Prior year adjustment not reflected in detail disclosure		24 313
Financial market assets as per 2006 disclosure (inclusive of prior year adjustments and reclassifications)		**6 130 096**
Financial market liabilities as per 2005 disclosure		**(12 211 587)**
1. Agence Française de Développement 1 – cross-currency swap (prior year adjustment)	Positive cash flow hedge	40 634
Hedge funding (prior year adjustments, refer to page 112)		88 072
Restated financial market liabilities (exclusive of reclassifications)		(12 082 881)
Reclassifications		26 098
2. Agence Française de Développement 3.1 – cross-currency swap	Positive economic hedge	1 837
3. Salt Lake – cross-currency swap	Positive economic hedge	2 289
4. Agence Française de Développement 3.3 – cross-currency swap	Positive economic hedge	1 434
5. Kreditanstalt für Wiederaufbau 3.2 – cross-currency swap	Negative cash flow hedge	4 013
6. Chiao Tung Bank Co Ltd	Negative fair value hedge	16 525
Financial market liabilities as per 2006 disclosure (inclusive of prior year adjustments and reclassifications)		**(12 056 783)**

For further disclosure on other risks, please refer to risk management section on page 69 of this Report.

Development Bank of Southern Africa Limited

Registration number	1600157FN
Registered office	Headway Hill 1258 Lever Road Midrand South Africa
Postal address	PO Box 1234 Halfway House 1685 South Africa
Telephone	+27 11 313 3911
Fax	+27 11 313 3086
Home page	www.dbsa.org

Annual Report team

Project sponsor: Dr Snowy Khoza

Core team: Prudence Cupido; Dave Evans; Donovan Govender; Theo Jansen van Vuuren; Mathanda Mathenjwa; Thapelo Mokoena; Zak Nanabhay; Saphira Patel; Janet Perch; Rina Roothman; Lyn Sumners; Alta Theron; Janine Thorne; Susan Visser

Assisted by: Linda Cilliers; MaryAnne de Beer; Ernest Dietrich; Gerrie Geringer; Suretha Hamman-Naude; Germaine Janse van Rensburg; Likeleli Komane; Bontle Mafuna; Evodia Malefane; Stephen Mamabolo; Phuti Matlala; Reuben Matlala; Matiase Matlali; Zodwa Mbele; Bernhard Mhango; Helen Moatshe; Booye Rossouw; Leo Sibanda; Admassu Tadesse; Simron Tigerls; Dries Van Niekerk; Greg White