DBSA

Development Bank of Southern Africa

Development Fund

ANNUAL REPORTS 2010/11

Vision

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

BANK

Financier, advisor, partner, integrator, implementer.

1983

The DBSA is established to perform a broad economic development function within the homeland constitutional dispensation that prevailed at the time.

1994

South Africa introduces a new constitutional and economic dispensation, which leads to the transformation of the Bank's role and function.

1997

The DBSA is reconstituted as a development finance institution, now governed by the DBSA Act (No. 13 of 1997), the Public Finance Management Act (No. 1 of 1999) and the Companies Act (No. 61 of 1973).

2011

Our mandate is to provide financial, technical and other assistance to achieve the objectives of the Bank as provided for in section 3 of the DBSA Act. The focus of our investment activities is on infrastructure funding, broadly defined, and we seek to act as a catalyst to maximise private sector access to opportunities in the provision of public funding.

We aim to promote economic development and growth, the development of human resources, institutional capacity building and the support of regional development projects. We also assist other initiatives to achieve an integrated finance system for development, and assist provincial, national, regional and international bodies in the public and private sectors with the management of specific funds.

Our strategic objectives are to:
- Catalyse, expand and enable the delivery of basic social services
- Provide and build human and institutional capacity
- Promote broad-based economic growth (job creation, efficiency, fixed capital formation and regional integration)
- Engender sustainability externally (environmental, social and economic) and internally (organisational)

While we focus on infrastructure investment in these broad segments:
- Social development and integration: Support the creation of sustainable living environments and alleviate basic services backlogs
- Economic development: Support the growth of the economic base and employment opportunities
- Institutional capacity building: Strengthen the institutional capability to deliver on national priorities

Future

Our mission is to advance development impact in the region by expanding access to development finance and effectively integrating and implementing sustainable development.

We are writing a new history in a responsible and sustainable way, integrating our mandate and business with those of the industrial and regional sectors we serve, in order to create a future free of poverty and dependency.

We are writing a new history

DBSA ANNUAL REPORT

CHALLENGES results

DBSA ANNUAL REPORT

2010/11

Contents

Abbreviations

ACSA	Airports Company South Africa
AFD	Agence Française de Développement
BBBEE	broad-based black economic empowerment
BRICS	Brazil, Russia, India, China and South Africa
BSC	Balanced Scorecard
CPI	Consumer Price Index
DBSA	Development Bank of Southern Africa Limited
DFID	UK Department for International Development
EIB	European Investment Bank
FICA	Financial Intelligence Centre Act
GDP	gross domestic product
GRI	Global Reporting Initiative
HIV/Aids	human immunodeficiency virus/acquired immune deficiency syndrome
ICT	information and communication technology
IDC	Industrial Development Corporation
IT	information technology
JIBAR	Johannesburg Interbank Agreed Rate
MEGA	Mpumalanga Economic Growth Agency
MIG	Municipal Infrastructure Grant
NEPAD	New Partnership for Africa's Development
PFMA	Public Finance Management Act
SADC	Southern African Development Community
SAFCOL	South African Forestry Company Limited
SAM	social accounting matrix
TCTA	Trans-Caledon Tunnel Authority
UNOPS	United Nations Office for Project Services

The financial year of the DBSA is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2010/11, are to the financial year ended 31 March.

What is the Development Bank of Southern Africa about?

The Development Bank of Southern Africa (DBSA) was established in 1983 to perform a broad economic development function within the homeland constitutional dispensation that prevailed at the time. In 1994, the new constitutional and economic dispensation in South Africa led to the transformation of the Bank's role and function.

In 1997, the DBSA was reconstituted as a development finance institution in terms of the Development Bank of Southern Africa Act, No. 13 of 1997. The constitution and conduct of the DBSA Board of Directors are primarily governed by the DBSA Act and further regulated by the Public Finance Management Act, No. 1 of 1999, and sections 284 to 303 of the Companies Act, No. 61 of 1973.

Mandate

The DBSA's mandate is to provide financial, technical and other assistance to achieve the objects of the Bank as provided for in section 3 of the DBSA Act. The focus of its investment activities is on infrastructure funding, broadly defined, and it aims to act as a catalyst to maximise private sector access to opportunities in the provision of public funding.

Objectives of the Bank

The main objectives of the Bank are the promotion of economic development and growth, human resource development, institutional capacity building and the support of development projects in the region. Its ancillary objectives are to assist other international, national, regional and provincial initiatives in order to achieve an integrated finance system for development, and to assist national, international and private sector bodies in the management of specific funds.

Vision

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

Mission

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

Strategic objectives

- Catalyse, expand and enable the delivery of basic social services
- Provide and build human and institutional capacity
- Promote broad-based economic growth (job creation, efficiency, fixed capital formation and regional integration)
- Engender sustainability externally (environmental, social and economic) and internally (organisational)

In support of the DBSA's strategy, investments in infrastructure assets are made in the following three broad segments:

- Social development and integration: Support the creation of sustainable living environments and alleviate basic services backlogs
- Economic development: Support the growth of the economic base and employment opportunities
- Institutional capacity building: Strengthen the institutional capability to deliver on national priorities

Roles

Financier

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

- Loans
- Equity investments
- Co-funding
- Grants
- Development expenditure

Advisor

To build institutional, financial and knowledge capacity for development:

- External training
- Subsidised lending
- Technical assistance grants

Partner

To leverage private, public and community stakeholders in the development process:

- Co-funding
- Mobilise funding for clients

Integrator

To originate and facilitate key interventions for building capacity and providing development solutions.

Implementer

To mobilise and link stakeholders, resources and initiatives for sustainable development outcomes.

Business performance overview

	5-year average	2010/11	2009/10	2008/09	2007/08	2006/07
Total DBSA contribution to approvals (R million)[1]	17 723	**34 101**	15 000	20 480	10 767	8 265
Average value per approval (R million)	168,9	**509.0**	110,1	87,1	87,5	50,7
Number of investment approvals in period	145	**67**	137	235	123	163
Disbursements (R million)	7 152	**8 336**	8 257	9 306	6 160	3 703
Technical assistance grants disbursed (R million)	58,7	**65,2**	67,5	82,5	46,3	32,1
Number of employees (excluding contractors, etc)	617	**703**	680	608	578	514
Net contribution per employee to disbursements (R million)	11,4	**11,8**	12,2	15,3	10,7	7,2
% of employment equity managers at year-end	75,3	**73,8**	74,6	76,9	74,0	77,1
Impact on employment (thousands of jobs)[2]	27,4	**22,2**	31,6	31,2	32,8	19,0
Impact on GDP (R million)[3]	5 531	**4 503**	7 242	7 387	5 341	3 183

1. *Excludes technical assistance grants and terminations.*
2. *Based on the DBSA's disbursements within South Africa only.*
3. *Based on the DBSA's disbursements within South Africa only, at constant 2010/11 prices.*

Financial performance overview

	5-year average	2010/11	2009/10	2008/09	2007/08	2006/07
Financial position (R million)						
Cash and cash equivalents	1 913	**1 180**	2 707	2 475	2 314	890
Financial market assets	5 059	**4 159**	5 521	5 321	5 078	5 217
Investment in development activities[1]	31 201	**41 323**	36 133*	31 997	25 330	21 223
Other assets	619	**736**	695	589	525	548
Total assets	38 792	**47 397**	45 056*	40 382	33 246	27 878
Financial market liabilities[2]	21 354	**28 588**	26 327	22 405	16 781	12 667
Other liabilities	784	**896**	927	741	686	673
Total liabilities	22 138	**29 484**	27 254	23 146	17 466	13 340
Total equity	16 654	**17 913**	17 802*	17 236	15 780	14 538
Financial performance (R million)						
Interest on development loans	2 655	**3 119**	3 077	2 784	2 312	1 982
Interest on investments	555	**469**	525	677	542	564
Total interest received	3 210	**3 588**	3 602	3 461	2 854	2 546
Interest expense	1 641	**1 945**	1 971	1 705	1 338	1 243
Net interest income	1 570	**1 642**	1 631	1 756	1 516	1 303
Operating income[3]	1 720	**1 840**	1 767	1 857	1 643	1 492
Operating expense[4]	640	**758**	716	669	556	504
Sustainable earnings	855	**853**	823	871	757	970
Profit for the year (before transfer to Development Fund)	1 074	**332**	875*	1 586	1 293	1 283
Financial ratios (%)						
Total capital and reserves to loans	59,9	**47,3**	54,0*	58,5	67,8	72,0
Long-term debt to equity	127,4	**161,1**	148,5	131,3	107,6	88,3
Debt to equity (including callable capital)	102,0	**87,7**	95,2	131,3	107,6	88,3
Cash and cash equivalents to total assets	5,0	**2,5**	6,0	6,1	7,0	3,2
Total capital and reserves to assets	43,9	**37,8**	39,5*	42,7	47,5	52,1
Financial market liabilities to investment in development activities	67,6	**69,2**	72,9*	70,0	66,2	59,7
Non-performing book debt as a % of total book debt	4,9	**4,2**	4,9	5,4	5,2	4,9
Non-performing arrears as a % of total book debt	2,2	**2,1**	2,3	2,2	2,1	2,3
Return on average equity	6,8	**1,9**	5,0*	9,6	8,5	9,2
Return on average assets	3,2	**0,7**	2,1*	4,3	4,2	4,7
Interest cover (times)	2,0	**1,8**	1,8	2,0	2,1	2,0
Net interest income margin (income statement)[5]	49,2	**45,8**	45,3	50,7	53,1	51,2
Operating costs to income	37,1	**41,2**	40,5	36,0	33,8	33,8

1. *Development activities include development loans and equity investments.*
2. *Financial market liabilities comprise medium- to long-term funding debt securities, medium- to long-term funding lines of credit, funding under repurchase agreements and derivative liabilities held for risk management.*
3. *Operating income excludes net foreign exchange gain/(loss), net gain from financial assets and liabilities, and impairments.*
4. *Operating expense comprises personnel expenses, general and administration expenses, and depreciation.*
5. *This ratio is calculated as net interest income (interest income less interest expense) over interest income.*

* *Restated for prior year adjustment.*

Governor's foreword

The past year has seen a concerted reaffirmation of government's commitment to realising its vision of a better life for all South Africa's people, through equitable and sustained economic growth, accelerated delivery of social services, job creation and the reduction of poverty. The five priorities of government, articulated in 2010, embraces this vision and outlines the framework and strategic priorities to be pursued over the short, medium and long term.

The five priorities of government emphasises the pivotal support role of national development finance institutions in giving effect to its strategic goals and objectives in areas such as infrastructure development, leveraging private sector investment, facilitating investment in the green economy and promoting regional integration. A cross-cutting imperative is the creation of sustainable jobs, which presents special challenges with regard to the selection, design and implementation of projects, in order to leverage the optimal job creating potential of investments.

As a major development finance institution, the DBSA has an important role to play in advancing the country along the five priorities of government. I am pleased that during 2010 it has established itself as a centre of excellence for infrastructure development, pursuing new initiatives and partnerships with select national departments to accelerate and deepen delivery in key priority sectors. As such, the Bank is harnessing its human and financial capital in new and innovative ways, in order to expand the scope of its activities and enhance the impact of its interventions in support of national development priorities. Becoming a centre of excellence for infrastructure development entails becoming the preferred source of innovative, integrated and workable infrastructure solutions.

It is encouraging that the DBSA has risen to this challenge and I am confident that the Bank will now focus its attention on addressing market failure, with more focus on rural development and in areas that are underperforming. Its engagement with government departments will help to accelerate the rollout of priority infrastructure projects in the health and education sectors. In the health sector, the Bank is participating in initiatives to facilitate public-private partnerships in the provision of hospital infrastructure. The Bank has collaborated with the Departments of Environmental Affairs and Economic Development to identify and prioritise projects that would facilitate the transition towards a green economy. This is in line with the imperative to adopt a coordinated approach to infrastructure and service delivery, one that aligns government bodies and institutions as well as industry.

The design of implementation plans and processes under the direction of the Departments of Health and Education has been completed; subject to final sign-off by the respective Ministries, implementation should start during the second half of the calendar year. Similarly, the Bank is working in collaboration with the Departments of Water Affairs, Energy and Transport towards the implementation of national delivery frameworks, which will improve coordination in the delivery of major infrastructure.

If the DBSA is to deliver on these and other initiatives, its capacity must be reviewed and strengthened. I have mandated the National Treasury to work with the Bank to seek alternative options for increasing the Bank's capacity, and I look forward to seeing these initiatives gain momentum and produce concrete results in the near future.

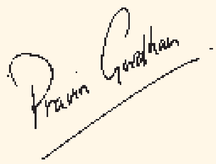
The Bank's new positioning is not limited to the domestic arena. South Africa's influence on the continent and in the wider world is growing. The international community and other African countries increasingly rely on South Africa for the role it plays in the development of the continent and the contribution it makes towards a more balanced global economic order. At the Presidential level, South Africa is championing cross-border infrastructure along the North-South Corridor. The country has also joined the BRIC grouping of emerging economic powers, and continues to strengthen its bilateral and multilateral relations with African countries and institutions through bi-national commissions, among other avenues.

In this context, the DBSA's international engagements are evolving. The DBSA has been appointed as South Africa's representative bank in the BRICS Banking Mechanism, which will enable it to further champion infrastructure development and regional integration in Africa. The Bank is encouraged to continue playing a pivotal role in driving development and integration on the continent. The past 18 months have seen extensive consultation and planning in this regard, which has helped to ensure that the international repositioning and institutional innovation are being carried out in partnership with government as a whole.

It is pleasing to note that the strong operational momentum established during recent years is being maintained. Despite having made significant progress, the Bank still faces the challenge of implementing its new initiatives to work more closely with government departments, and thus accelerate delivery and improve capacity to manage infrastructure and public monies.

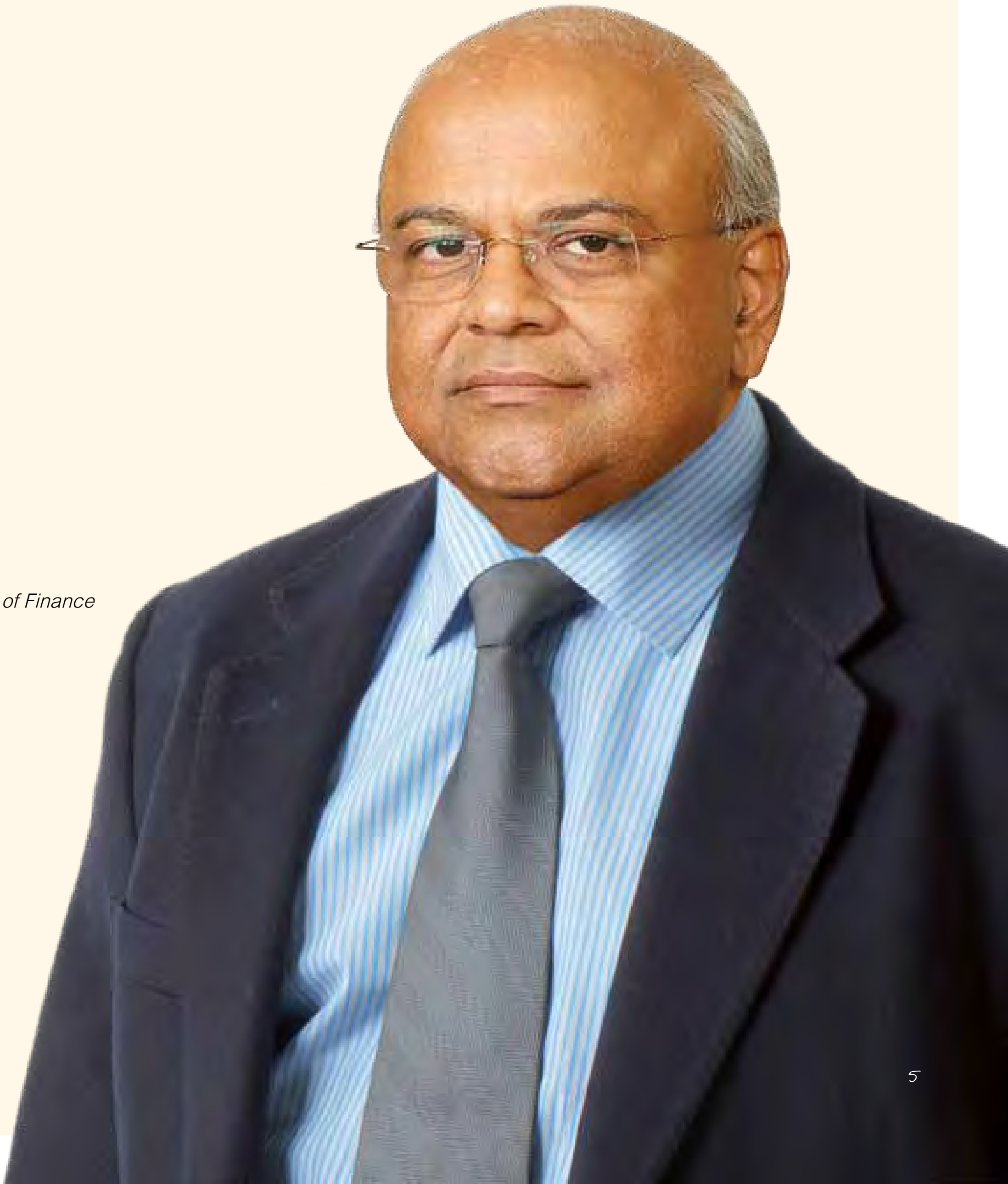
The ability to combine its local and international roles offers a significant growth opportunity for the Bank, especially as a catalyst for the government's key objectives, such as job creation. The Bank's new role as manager of the national Jobs Fund will add impetus to its broader developmental goals of reducing unemployment, inequality and poverty.

The drive to establish the Bank as a centre of excellence for infrastructure development is showing tangible results and I will continue to play an active role in ensuring that the Bank fulfils its expanded mandate. I would like to thank the Chairman and the Board, the Chief Executive Officer and executive management, along with the dedicated staff of the Development Bank for their continued active support of the government's mandated delivery objectives.



Pravin Gordhan

". . . the Bank is harnessing its human and financial capital in new and innovative ways, in order to expand the scope of its activities and enhance the impact of its interventions in support of national development priorities."



Pravin Gordhan
Governor of the DBSA and Minister of Finance

Board of Directors

1. MR PHILLIP JABULANI MOLEKETI (54)
Director of Companies

DBSA Director as from: 1 January 2010

Chairman of the Board as from:
1 September 2010

Academic qualifications:
- Advanced Management Programme, Harvard Business School (2003)
- MSc (Financial Economics), University of London (2001)
- Postgraduate Diploma in Economic Principles, University of London (1996)
- Senior Military Management Course, Moscow and Kiev (1983)

Other directorships:
- Brait Société Anonyme: Chairman of the Board (non-executive)
- Harith Fund Managers (Pty) Ltd: Non-executive Director
- MMI Holdings: Non-executive Director
- Remgro (Pty) Ltd: Non-executive Director
- Vodacom: Non-executive Director

2. MR FRANS MSOKOLI BALENI (51)
General Secretary: National Union of Mineworkers

DBSA Director as from: 1 January 2010

Deputy Chairman of the Board as from:
1 September 2010

Academic qualifications:
- BA (Social Science Development Studies), University of Johannesburg (2006)
- Diploma in Political Science and Trade Unionism, Whitehall College, Dublin (1990)

Other directorships:
- DBSA Development Fund: Non-executive Director
- Elijah Barayi Memorial Training Centre: Non-executive Director
- Eskom: Non-executive Director and Chairman of Tender Committee
- International Federation of Chemical, Energy, Mine and General Workers' Unions: Executive Member
- JB Marks Bursary Trust Fund: Trustee
- Mineworkers Investment Trust: Chairman (non-executive)
- Rand Mutual Assurance: Non-executive Director
- University of Johannesburg: Deputy Chairman of Council (non-executive)

3. MR PAUL CAMBO BALOYI (55)
Chief Executive Officer and Managing Director: DBSA

DBSA Director and Managing Director as from: 1 July 2006

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)

Other directorships:
- African Capacity Building Foundation: Chairman (non-executive)
- Block II Waterford (Pty) Ltd: Executive Director and Shareholder
- Business Ventures: Non-executive Director
- Chrometco Ltd: Non-executive Director
- DBSA Development Fund: Chief Executive Officer
- Harith Fund Managers (Pty) Ltd: Non-executive Director (DBSA Nominee)
- Nulane Investment Holdings (Pty) Ltd: Non-executive Director
- Old Mutual Life Assurance Company (SA) Ltd: Non-executive Director
- Old Mutual Life Holdings (SA) Ltd: Non-executive Director
- Pan-African Investment Fund: Non-executive Director (DBSA Nominee)
- Platinum Hi Tech Park Development (Pty) Ltd: Non-executive Director
- TCX Investment Management Company: Non-executive Director (DBSA Nominee)

1. Mr Phillip Jabulani Moleketi

2. Mr Frans Msokoli Baleni

3. Mr Paul Cambo Baloyi

4. MR ANDREW BORAINE (52)
Chief Executive: Cape Town Partnership; Adjunct Professor, African Centre for Cities: University of Cape Town

DBSA Director as from:
1 August 2005

Academic qualifications:
- BA Hons (Economic History), University of Cape Town (1987)
- BA (History), University of Cape Town (1983)

Other directorships:
- Accelerate Cape Town: Non-executive Director
- Cape Town City Hall Redevelopment and Management Company: Non-executive Director
- Cape Town International Convention Centre Company (Pty) Ltd (Convenco): Chairman of the Board (non-executive)
- DBSA Development Fund: Non-executive Director
- International Downtown Association: Non-executive Director

5. MR KENNETH BROWN (49)
Deputy Director-General: Intergovernmental Relations, National Treasury

DBSA Director as from:
1 January 2010

Academic qualifications:
- MSc (Economics), University of Illinois at Urbana-Champaign (2000)
- BA Hons (Economics), University of the Western Cape (1997)
- BA, University of the Western Cape (1995)
- Primary Teacher's Diploma, Perseverance Training College (1982)

Other directorships:
- DBSA Development Fund: Non-executive Director

6. MRS THEMBISA DINGAAN (38)
Consultant and Director of Companies

DBSA Director as from:
1 August 2007

Academic qualifications:
- H Dip Tax, University of the Witwatersrand (2000)
- LLM, Harvard University (1997)
- LLB, University of KwaZulu-Natal (1995)
- BProc, University of KwaZulu-Natal (1994)

Other directorships:
- Export Credit Insurance Corporation of SA: Non-executive Director
- Goscor (Pty) Ltd: Non-executive Director
- Identity Corporate Advisors (Pty) Ltd: Executive Director
- Mustek Ltd: Non-executive Director
- Skweyiya Investment Holdings (Pty) Ltd: Executive Director
- Ukhamba Holdings: Non-executive Director

7. MR OMAR ABOOBAKER LATIFF (57)
Director and Partner: PricewaterhouseCoopers

DBSA Director as from: 1 August 2007

Academic qualifications:
- Financing Infrastructure in a Market Economy, Harvard Kennedy School, Harvard University (2000)
- H Dip Tax, University of Natal (1992)
- CA (SA) (1981)
- BCompt (Hons), University of South Africa (1979)
- BCom (Accounting), University of Durban-Westville (1976)

Other directorships:
- Bellewan (Pty) Ltd: Non-executive Director
- DBSA Development Fund: Non-executive Director

4. Mr Andrew Boraine

5. Mr Kenneth Brown

6. Mrs Thembisa Dingaan

- HASMA Investments (Pty) Ltd: Non-executive Director
- Jodya cc: Member
- LMD Africa Chartered Accountants Inc: Non-executive Director
- LMD Africa Forensics (Pty) Ltd: Non-executive Director
- Mlando Investments (Pty) Ltd: Non-executive Director
- Omar Aboobaker Latiff Family Trust: Trustee
- PricewaterhouseCoopers Advisory Services (Pty) Ltd: Director
- PricewaterhouseCoopers Incorporated: Director
- PricewaterhouseCoopers Partnership: Partner
- Project Preparation Trust: Trustee

8. MRS WENDY LUCAS-BULL (58)
Executive Director: Peotona Group Holdings (Pty) Ltd

DBSA Director as from: 1 August 2005

Academic qualifications:
- BSc, University of the Witwatersrand (1976)

Other directorships:
- Anglo-Platinum (Pty) Ltd: Non-executive Director
- Eskom Holdings Ltd: Non-executive Director
- IQ Group (Pty) Ltd: Non-executive Director
- Nedbank Group Ltd: Non-executive Director

9. DR CLAUDIA MANNING (44)
Executive Director: Sangena Investments

DBSA Director as from: 1 August 2005

Academic qualifications:
- DPhil, University of Sussex (1996)
- MPhil, University of Sussex (1992)
- BA Hons (Economic History), University of Natal (1988)
- BA (Economic History; English), University of Natal (1987)

Other directorships:
- DBSA Development Fund: Non-executive Director
- ECIAfrica: Managing Director
- Roadcrete Africa (Pty) Ltd: Non-executive Director

DBSA CORPORATE SECRETARY
Mrs Bathobile Sowazi

Company Secretary, DBSA, PO Box 1234, Halfway House, 1685

DBSA Board members during the year under review

10. MR JAYASEELAN NAIDOO (56)
Director: J&J Group

Chairman of the DBSA Board between:
24 August 2000 and 31 August 2010

11. DR LULU GWAGWA (52)
Chief Operating Officer: Lereko Investment Holdings

DBSA Director between:
1 August 2004 and 21 October 2010

12. PROF. EDWARD CHARLES WEBSTER (68)
Professor of Sociology, University of the Witwatersrand

DBSA Director between:
1 August 2007 and 31 January 2011

13. MR IVAN MZIMELA (49)
Chairman: Hollard Risk Capital

Executive Director: Capricorn Ventures International

DBSA Director between:
1 August 2007 and 31 January 2011

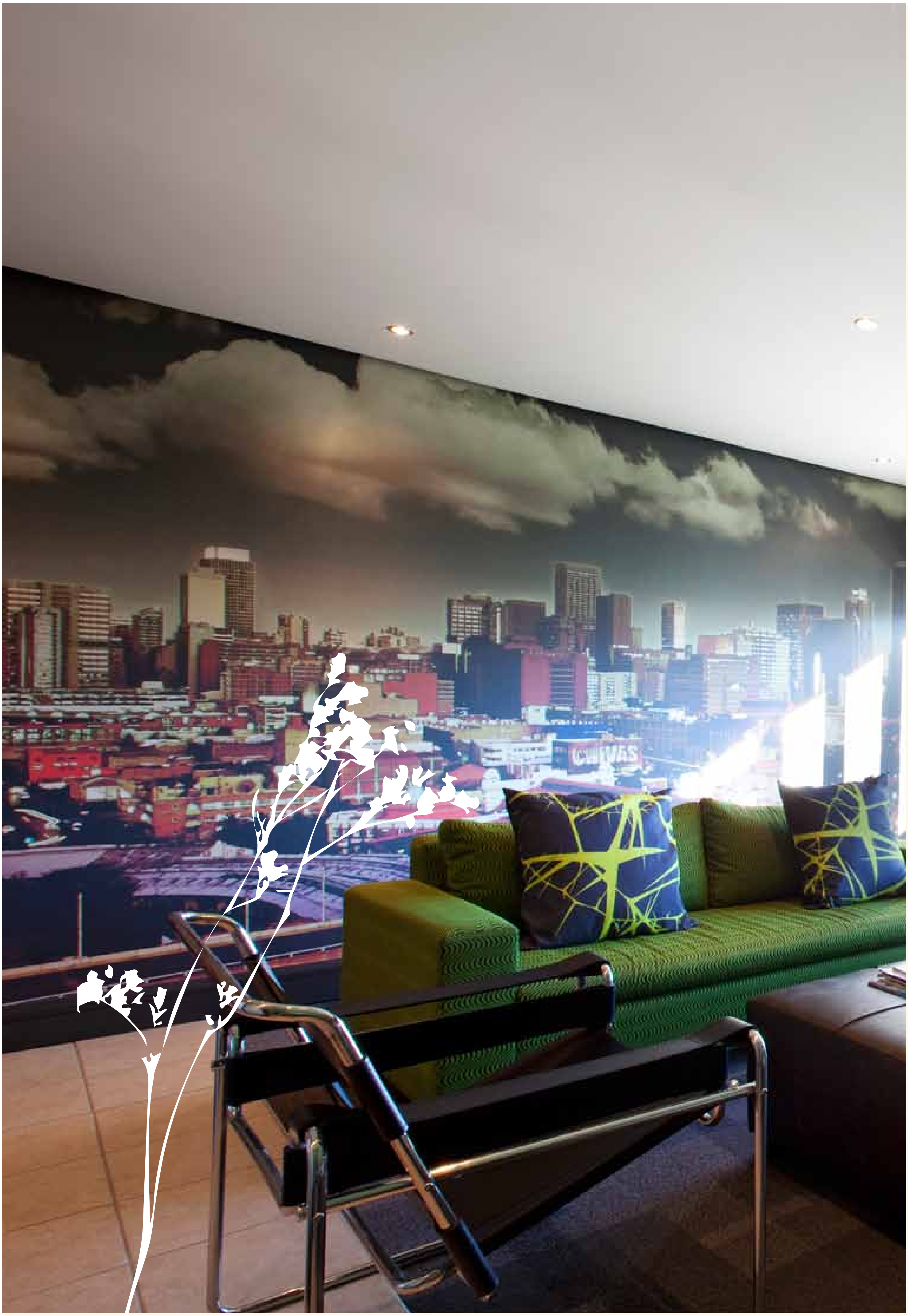
14. MS T RAMANO (39)
Chief Financial Officer: WIPHOLD Group

DBSA Director between:
1 August 2007 and 21 April 2010

7. Mr Omar Aboobaker Latiff

8. Mrs Wendy Lucas-Bull

9. Dr Claudia Manning


CHIVAS

Chairman's report

During the year under review, the Bank began to reposition itself as a centre of excellence for the development and financing of infrastructure.

In line with our renewed compact with the shareholder, the DBSA Board approved a revised corporate strategy and new strategic initiatives that herald a new level of engagement and a new approach to infrastructure development. This new approach is coordinated with national departments in government, state-owned enterprises and industry. It is set to accelerate and scale up infrastructure delivery in a way that is integrated, programmatic and sustainable, and also yields value for money. This represents a move away from a historically more passive and fragmented approach, where the focus was on individual projects, mostly at local level.

I am pleased to report that we are already gaining traction on our new path: levels of new investment approvals and commitments increased dramatically from the previous year, rising by 97,3% and 86,4% respectively. The record levels of approvals and commitments feature landmark Bank support for priority infrastructure projects in key sectors such as energy and transport, in close partnership with Eskom and other state-owned enterprises, both in the country and the wider region. This traction is being achieved despite the uncertain global economic and business environment, which continues to generate volatility in capital flows and foreign exchange markets, among others.

Our new strategy is informed by the five priorities of government, which is shaping the future strategies, programmes and modus operandi of government departments, state-owned enterprises and development finance institutions. It will see the Bank play a central role in expanding and accelerating socio-economic infrastructure delivery and job creation in the country. The Bank will be a key facilitator and co-financier of public infrastructure worth hundreds of billions of rands to be developed in the medium and longer term.

Towards this end, the Bank has embarked on new partnerships with several national departments to assist in identifying, implementing and financing infrastructure and other development solutions. Specific agreements have been concluded with the Department of Energy and the Department of Health on new investment programmes in the areas of green energy and the refurbishment or development of hospitals. Other agreements are being negotiated in the areas of water and sanitation, education and human settlements. Already, in the past year, the Bank approved a landmark loan facility of R15 billion to support Eskom's multi-year expansion plan; of this amount, R3 billion has been committed and R1 billion disbursed.

Importantly, the Bank has concluded an agreement with government to manage the newly announced national Jobs Fund, which is a cornerstone of the five priorities of government. It is well known that job creation is an overarching goal of government strategy, and the new fund will play an instrumental role in this regard, in partnership with the private sector and other key role players. The Bank is honoured to have been entrusted with such an important initiative.

Our national thrusts have in no way diverted the Bank's attention and focus from its crucially important role in facilitating the delivery of municipal infrastructure and services. We recognise that institutional capacity and governance constraints in the local sphere of government remain a major challenge and continue to impact negatively on the delivery of services. The DBSA is ready to sustain the ongoing financial and technical support it provides to local government structures.

Our repositioning is not confined to the domestic arena; it also extends to the Bank's international engagement. Our recent appointment as South Africa's representative bank in the BRICS Banking Mechanism has paved the way for new international partnerships that will enable the DBSA to strengthen its role and increase its contribution to infrastructure development in Africa. In addition to new development finance partners from the BRIC countries, new partnerships are also being forged with the Public Investment Corporation and the Pan-African Infrastructure Development Fund. At the same time, existing partnerships with the Industrial Development Corporation and the African Development Bank are being strengthened, alongside our traditional international development finance partners in Europe and Japan. This network of international partnerships will enable the Bank to establish its new institutional positioning in the Africa region.

As regards our overall business performance in 2010/11, I am pleased to note that the DBSA has yet again achieved admirable results, despite the many challenges in its operating environment. Project approvals for the year reached an all-time record of R37,1 billion, of which 83% is attributable to projects in South Africa.

However, several factors, including the uneven economic recovery and the structurally weak position of many municipalities, put a brake on the pace at which infrastructure projects were implemented, particularly at local government level. This served to limit the full potential of DBSA loan disbursements to municipal infrastructure projects. Nevertheless, the concerted efforts of the Bank and its partners within government expedited the targeted

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Phillip Jabulani Moleketi
DBSA Chairman

Chairman's report continued

disbursement of municipal infrastructure grants, with R8,7 billion invested in local infrastructure in this respect. The overall beneficiation of DBSA interventions amounted to R17 billion, similar to the levels achieved during 2009/10. This is a remarkable achievement given the challenging operating conditions.

The Bank's Africa operations in particular built up strong momentum in 2010/11, which saw unprecedented year-on-year growth in new project approvals, commitments and disbursements. Disbursements and commitments more than doubled compared to the previous year on the back of resumed infrastructure investments in the region. Two ground-breaking major road investments were approved in Zambia and Zimbabwe, robustly advancing priority regional initiatives such as the North-South Corridor, which is championed by South African President Jacob Zuma on behalf of the African Union.

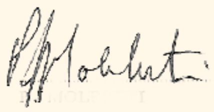
In line with government's emphasis on promoting regional integration through infrastructure, the DBSA will continue to target programmes and projects strategically, not only in SADC but in other sub-regions, in support of interregional integration and the New Partnership for Africa's Development (NEPAD). In the year ahead, a new regionally dedicated institutional vehicle will be established within the DBSA Group to enable the organisation to strengthen its positioning in the region and leverage additional risk capital from strategic partners.

The Bank's overall financial position remains sound and allows for step-change growth in its lending and investment portfolio over the medium term. However, increased financial and other support for the rollout of anticipated national programmes, among other considerations, will generate increased requirements for appropriately priced funding; the Bank and the National Treasury are taking specific measures in this respect.

The sheer magnitude and complexity of the development challenges confronting South Africa and the continent at large demand that we work harder and smarter, build strong partnerships, and infuse a culture of excellence in all facets of the DBSA's operations. Auspiciously, the Bank's achievements were recognised during the year when it received the prestigious "Best Development Bank in Africa" award, which is presented annually during the International Monetary Fund/World Bank annual meetings. There is no room for complacency, however, and the Board will continue to challenge the Bank's management and staff to push the boundaries of the possible in seeking new, innovative and scalable solutions to the many challenges that lie ahead.

The Governor of the Bank, Minister Pravin Gordhan, has provided invaluable strategic guidance and support to the Bank during the year, for which we are sincerely grateful. I wish to express my heartfelt appreciation to the Chief Executive Officer, Paul Baloyi, and his competent and committed management team and staff for the hard work and dedication over the year.

I am confident that even more will be achieved during the year ahead. My colleagues on the Board have fulfilled their fiduciary responsibilities with strong commitment and provided valuable direction and support to the Bank. Last but not least, my deep appreciation to my predecessor, Jay Naidoo, who served this organisation with unwavering commitment and left a legacy that not just the Bank but our country can be proud of.



Phillip Jabulani Moleketi

The Moses Kotane Community Water Supply Project

Group executive management

1. MR PAUL CURRIE (49)
Group Chief Risk Officer

DBSA staff member and Group Executive as from: 17 May 2010

Academic qualifications:
- Advanced Management Programme, INSEAD (2007)
- MBA (with distinction), Institute of Financial Management, Manchester Business School and University of Wales (2000)
- CA (SA) (1994)
- Postgraduate Diploma in Accountancy, University of Port Elizabeth (1991)
- BCom (Accounting), University of Port Elizabeth (1990)
- BSc (Physiology), University of Cape Town (1983)

2. MR PIETER DE LA REY (47)
Group Chief Financial Officer

Acting Group Executive: Business Technologies and Facilities

DBSA staff member and Group Executive as from: 1 August 2007

Academic qualifications:
- MCom (Business Management), University of Johannesburg (2004)
- CA (SA) (1993)
- BCompt (Hons), University of South Africa (1989)
- BCompt, University of South Africa (1987)

3. MR ERNEST DIETRICH (48)
Group Executive: Treasury

DBSA staff member as from:
2 January 2001

Group Executive as from:
1 April 2006

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)

4. DR PAUL KIYINGI KIBUUKA (50)
Group Executive and Managing Director: DBSA Development Fund

DBSA staff member as from:
1 August 1994

Group Executive as from: 1 July 2009

Academic qualifications:
- DPhil (Demography), University of Pretoria (1999)
- MA (Demography) (cum laude), University of Pretoria (1996)
- BA Hons (Demography), University of Pretoria (1994)
- BStat, Makerere University, Kampala (1984)

Other directorships:
- Mphato Investments: Non-executive Director
- Lincoln Consultants Ltd: Non-executive Director

5. MR MAGARE LUTHER MASHABA (59)
Group Executive: South Africa Operations

DBSA staff member as from:
14 January 1985

Group Executive as from:
1 September 2001

Academic qualifications:
- Advanced Management Programme, INSEAD Executive Education (2004)
- Treasury Management Training, New York Institute of Finance (2002)
- Financial Markets and Instruments, University of Pretoria (2000)
- Capital Markets Explained, International Faculty of Finance (1999)
- Diploma in Economics, Economics Institute, University of Colorado (1993)
- MSc (Ag. Econ), Michigan State University (1993)
- BSc Hons (Ag. Econ), University of Pretoria (1986)
- BSc (Ag. Econ), University of Fort Hare (1981)

6. MR RAVINDRA NAIDOO (40)
Group Executive: Development Planning

DBSA staff member and Group Executive as from: 1 May 2008

Academic qualifications:
- Certificate in South African Executive Leadership Programme (Rethinking the Role of State-Owned Enterprises), University of London (SOAS) (2011)
- Certificate in Management Consulting, Wits Business School, University of the Witwatersrand (2010)

1. Mr Paul Currie 2. Mr Pieter de la Rey 3. Mr Ernest Dietrich 4. Dr Paul Kiyingi Kibuuka 5. Mr Magare Luther Mashaba

- MPA, Harvard Kennedy School, Harvard University (2004)
- Certificate in Managing Policy NGOs, Institute for Development Policy and Management, University of Manchester (1998)
- BCom (Law), University of KwaZulu-Natal (1991)

Other directorships:
- Economic Transformation Committee: Member
- National Human Resources Development Council: Council Member
- Orange Farm Community Development Trust: Trustee
- Foundation for Social Justice: Founding Member
- Element Investment Managers: Advisory Board Member
- Trade and Industrial Policy Strategies: Board Member

7. MR TSHOKOLO PETRUS NCHOCHO (43)
Group Executive: Investment Banking

DBSA staff member as from:
1 February 2002

Group Executive as from: 1 April 2010

Academic qualifications:
- MSc (Development Finance), London School of Economics (2007)
- Programme for Venture Capital and Private Equity, Wits Business School (2003)
- MBL, Graduate School of Business Leadership, University of South Africa (2001)
- BCom, University of the North (1989)

Other directorships:
- Seroto Investment Holdings Limited: Non-executive Director

8. MR ADMASSU YILMA TADESSE (42)
Group Executive: International Division

Group Executive: Group Strategy, Marketing and Communication

DBSA staff member as from:
1 June 2002

Group Executive as from:
11 September 2006

Academic qualifications:
- Private Equity Investments Euromoney (2006)
- Senior Executive Programme, Harvard Business School (2003)
- MBA, Strategy and Finance, Wits Business School (2002)
- MSc (Policy & Planning), London School of Economics (1994)
- BA (Economics), University of Western Ontario (1991)

Other directorships:
- Association of African Development Finance Institutions and Exim Banks: Vice-Chairman
- Investment and Support Fund for Businesses in Africa (FISEA): Non-executive Director
- Promotion et Participation pour la Coopération économique (Proparco): Non-executive Director (DBSA Nominee)
- SADC Project Preparation Development Fund: Trustee (DBSA Nominee)
- SADC-EAC-COMESA Tripartite Account: Trustee (DBSA Nominee)

9. MRS LEONIE VAN LELYVELD (40)
Group Chief Operating Officer

Acting Group Executive: Human Capital

DBSA staff member as from:
1 April 1998

Group Executive as from:
1 January 2006

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)

Group executive management during the year under review

DR SNOWY JOYCE KHOZA (53)
Group Executive: Business Technologies and Facilities

DBSA staff member and Group Executive between: 1 October 2002 and 30 September 2010

MR HEINZ MARIA WEILERT (47)
Group Executive: Special Projects

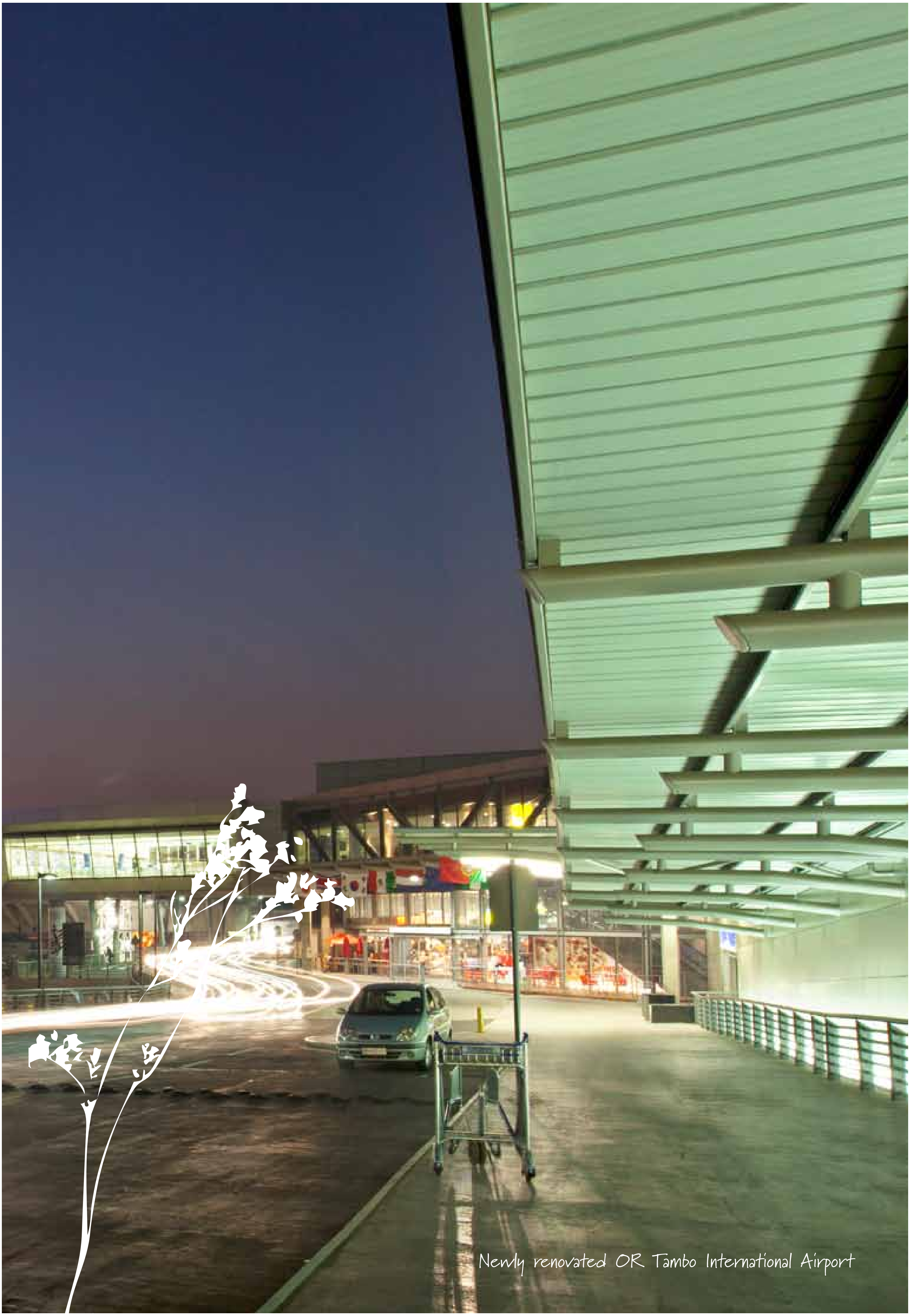
DBSA staff member and Group Executive between: 1 October 2007 and 1 August 2010

6. Mr Ravindra Naidoo 7. Mr Tshokolo Petrus Nchocho 8. Mr Admassu Yilma Tadesse 9. Mrs Leonie van Lelyveld

Organisational structure

Paul Baloyi
Chief Executive Officer and Managing Director

- **Leonie van Lelyveld** – Group Chief Operating Officer
- **Pieter de la Rey** – Group Chief Financial Officer
- **Ernest Dietrich** – Group Executive: Treasury
- **Paul Currie** – Group Chief Risk Officer
- **Paul Kibuuka** – Group Executive and Managing Director: DBSA Development Fund
- **Luther Mashaba** – Group Executive: South Africa Operations
- **TP Nchocho** – Group Executive: Investment Banking
- **Admassu Tadesse** – Group Executive: International Division
- **Ravi Naidoo** – Group Executive: Development Planning
- **Pieter de la Rey** – Acting Group Executive: Business Technologies and Facilities
- **Leonie van Lelyveld** – Acting Group Executive: Human Capital
- **Admassu Tadesse** – Group Executive: Group Strategy, Marketing and Communication

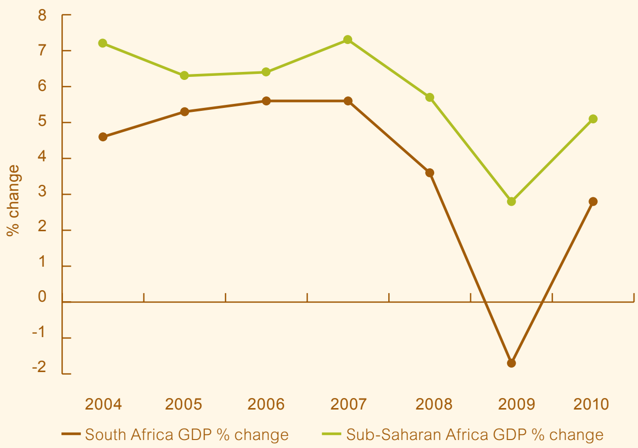


Newly renovated OR Tambo International Airport

Chief Executive Officer's report

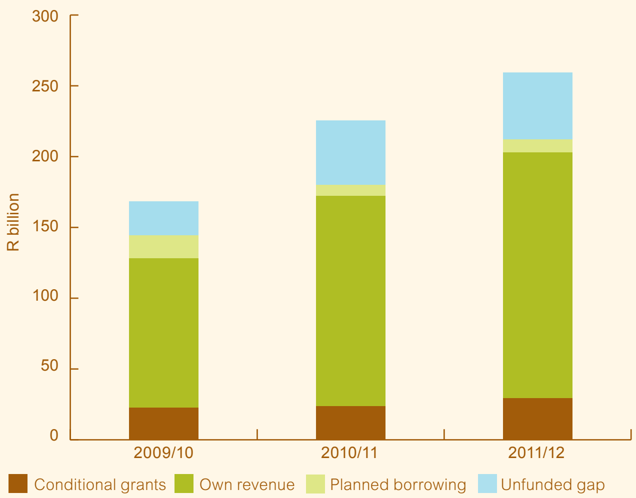
I am pleased to report that the DBSA has once again exceeded most of its developmental and operational targets for the year, with record investment approvals of R37,1 billion in 2010/11. This is even more impressive considering that conditions in the Bank's mandate space made meeting ambitious performance targets a challenge. In South Africa, these challenges included a hesitant and uneven economic recovery, which affected the income of many public and private sector entities; structurally weak finances in many municipalities; the low level of interest rates, which affected the Bank's interest income from investments; and institutional capacity challenges in government, which limited its ability to accelerate infrastructure project delivery and thus take up developmental loans. As a result, a proportion of capital requirements remains unfunded.

Real economic growth



Source: South African Reserve Bank and IMF, June 2011

Municipal infrastructure funding gap, 2009 to 2011



Sources: Division of Revenue Act, 2011; National Budget Review, National Treasury, 2011; Municipal Infrastructure Investment Framework 7, 2011

The Bank makes a considerable non-funding effort in the areas of research, capacity building and assistance with programme development and project management. Much of this is directly or indirectly geared to building the institutional capacity of government to plan and deliver infrastructure projects and improve the delivery of services to communities.

On a regional level, improved economic performance by many SADC countries in the year under review and the re-emergence of positive regional fundamentals after a difficult 2009/10 improved the climate for the Bank's regional investment activities. Improved liquidity in global financial markets also made for better access to capital markets, although there were more competitive issuance dynamics in the primary capital markets.

However, the Bank's favourable performance over the past year must be seen in context. The developmental needs in South Africa and the region are massive. The outbreak of violence in some parts of the continent, including labour agitation in South Africa, is an expression of the pent-up demand for services. Economic growth and job creation, as well as the eradication of backlogs in household service provision, lie at the heart of reducing poverty and inequality and improving the quality of life of the people of South Africa and the region. Meeting these challenges has become imperative and urgent, and government is conscious of the risk posed by poor delivery and lethargic bureaucracy and their impact on continued political stability.

The government's plan to spend R800 billion on infrastructure over the next five years has been on the table for some time. This has now increased to well over a trillion rand, owing to escalations and the formulation of additional plans for transport, roads and so forth. However, during the year much of government's focus, and by extension that of the DBSA, has remained on the difficult task of translating agreements on National Priorities into key initiatives within sector departments, with a view to increased, visible delivery on commitments across the country. Mandates from the Governor and the Board directed the Bank to support various national and provincial departments in these initiatives as an advisor, implementer and financier. Key focus sectors included health, education, water and sanitation, and energy. While great work has been done in this regard, we are painfully aware that at year-end there is very little to show by way of visible, demonstrable results on the major infrastructure developments. There are valid reasons for this: the plans that have been concluded entail a dramatically different approach to infrastructure delivery, requiring significant changes in both policy and the constitutional mandates of government departments. Aligning the bureaucracy and institutional capacity has been a tedious but necessary process, and if government stays the course and follows through on the adopted resolutions, the results should be evident over the ensuing year.

"Economic growth and job creation, as well as the eradication of backlogs in household service provision, lie at the heart of reducing poverty and inequality and improving the quality of life of the people of South Africa and the region."

Paul Cambo Baloyi
DBSA Chief Executive Officer
and Managing Director

Chief Executive Officer's report continued

Regrettably, this preparatory work does not make for good news in an environment where delivery is long overdue. This has been compounded by poor communication concerning the work that is being done and the changes that are being made.

The fortunes of the DBSA are inextricably linked to those of its shareholder, the South African government, and the ties have strengthened progressively over the past 18 months. However, we are acutely conscious of the growing anxiety in South African society, given what on the surface appears to be lethargy within the bureaucracy. The DBSA has virtually placed its resources at the disposal of government, though strategically so. A huge investment has been made in crafting a delivery framework, as desired by the shareholder, that should change the government's approach in this regard, and we are convinced that this will relieve most of the anxiety and alleviate the current negative discourse on government performance. While this investment has entailed a huge, unfunded cost on the part of the Bank, both directly and in terms of opportunity, the Minister and the Board concur that the shift is worthwhile in light of the challenges the country faces. A comforting factor in relation to financial sustainability is that much of the cost incurred is recoverable over the medium term (three years) from the robust investment pipeline that is emerging.

Operations review

Overall, the Bank performed well in 2010/11, with record investment approvals of R37,1 billion. Of these, 83% were on projects in South Africa. Commitments were also high, at R13,9 billion. Disbursements of R8,3 billion were on par with the previous financial year, but are considered satisfactory given the unfavourable economic conditions and the underspend on the public sector infrastructure budget.

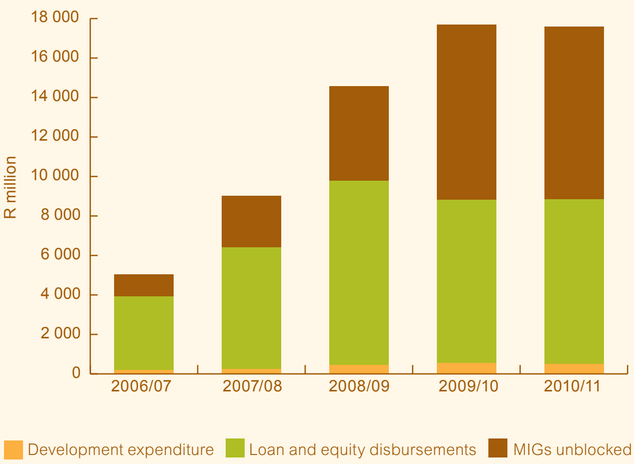
The performance of the International Division was marked by strong growth in the Bank's mandated origination activities, both locally and into the region. A concerted business focus on driving investments in key strategic priority sectors in the region, such as transport infrastructure, financial intermediation, ICT and healthcare, resulted in significant business growth. Project approvals of R6,3 billion were achieved, compared to R4,9 billion for 2009/10. Commitments of R4,4 billion were achieved, while disbursements increased more than threefold over 2009/10 to R3 billion. There should be further significant growth as the Bank's bold strategy on larger mandates in the region unfolds. A more exciting development has been on the local front, where a closer collaboration with government saw the Bank formally adopting infrastructure mandates well in excess of R100 billion. The segmental reports provide more details on the various initiatives under way.

Our non-financial assistance to local government focused largely on maintaining our investment in building the institutional capacity of municipalities to deliver services to households and the business community. This entailed identifying and addressing the bottlenecks and constraints which hamper the ability of municipalities to scale up service delivery and to provide services more efficiently and effectively. The DBSA's initiatives and programmes in this regard are an integral component of its developmental business model. They include the Siyenza Manje programme, training interventions by the DBSA Vulindlela Academy, the Rural Development programme, and a new Operations and Maintenance support programme.

The Siyenza Manje programme remains the Bank's flagship capacity building intervention. In the year under review, through Siyenza Manje the Bank deployed 826 professionals to 186 municipalities and 20 provincial departments; helped to complete 1 114 technical and 1 994 non-technical projects; and expedited Municipal Infrastructure Grants (MIGs) to the value of R8,7 billion.

If total direct disbursements of R8,3 billion by the Bank in South Africa and elsewhere in the region are added to this amount, overall funding "beneficiation" totalled R17 billion, which significantly exceeds the target of R15,2 billion for 2010/11.

Total financial value of DBSA interventions (including MIGs), 2006/07 to 2010/11



Regarding the outcomes of the Bank's core capacity building interventions, it is estimated that some 746 764 households benefited from improved access to water and some 585 204 households from improved access to sanitation. Of the municipalities to which financial specialists were deployed, some 64% recorded improvements in audit outcomes. More than 11 381 external learners were trained through the Vulindlela Academy, significantly above the target of 10 000 for 2010/11.

Although the bulk of these interventions are unfunded, the Bank remains financially sound. Its investment-grade credit rating has been maintained and the net interest margin has improved over the previous year. Operating costs are being managed responsibly within the prudent limits set by the

Board, while disbursements yielded a net 5,2% growth in total assets for the year. Proactive risk management ensured that the Bank's portfolio risk profile remained sound. However, the negative effects of a strong rand weighed heavily on our translation gains, and fair value losses on equity investments and financial market instruments contributed to a negligible return when reduced to a monetary equation.

Although there are no immediate concerns about the institution's sustainability, the DBSA has considered it prudent to call on a portion of the callable capital, along with a liquidity guarantee to the value of R100 billion over the next five years. This is intended to:

- Enable the Bank to continue its subsidisation of Siyenza Manje and other programmes in anticipation of volume growth and revenues as planned
- Enable the Bank to fund the national infrastructure programme within the key priority sectors of health, energy and water, as agreed with the Ministers of these sectors and the Minister of Finance

Equally, agreements concluded with the sector departments provide for cost recovery mechanisms on the implementation of the respective programmes. All necessary plans have been finalised and await formal endorsement by the National Treasury.

The Bank remained committed to non-revenue-generating development expenditure during the year. Support to various programmes at local and provincial government level, including Siyenza Manje, amounted to R519 million (net of opportunity cost) for the year, compared to R550 million in 2009/10. The diminution in value is largely due to the currency factor and is likely to be reversed significantly over the next financial year, while coverage of non-revenue-generating costs should also improve. The cost-to-income ratio, which remains well within the self-imposed guideline of 45%, should improve further as the Bank's cost recovery strategy kicks in during the coming years.

The Bank's performance for 2010/11 is described in more detail in the different sections of this Annual Report.

The year ahead

The Governor and the Board are committed to aligning the DBSA's core functions with the government's national priorities. To this end, the Bank and the Department of Health have submitted joint strategic implementation plans for building new hospitals and revitalising existing infrastructure in the health sector. These plans have been accepted and, subject to overall government support, will be rolled out in the coming year. The Bank is also committed to underwriting upfront the private sector portion of this investment, which amounts to about R25 billion, to enable quicker financial closure.

A similar strategy has been adopted for the Department of Basic Education. In partnership with the DBSA, the Department has made an initial undertaking to create school infrastructure to the value of R8 billion. The Bank will participate in the implementation to provide government with a turnkey solution, but is not expected to play a funding role.

Significant work plans have been developed on green energy initiatives in partnership with the Department of Energy. The Bank underestimated the complexity of enacting enabling legislation, especially in relation to the tariff regime. Even so, there should be rapid progress on the development of independent power producers in the year ahead.

Details on the various programmes are provided in the Investment Banking section of this Annual Report.

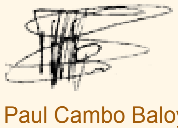
The Minister and the Director-General of the National Treasury have been apprised of the resources required to improve the Bank's access to liquidity, and comprehensive submissions are under review by the National Treasury.

Cabinet has confirmed the appointment of the DBSA to manage the R9 billion Jobs Fund announced by the Minister of Finance in the 2011 National Budget. The Bank's response to this added challenge was admirable and we were able to operationalise the Fund within one month of the appointment. A new Division has been established in this connection, along with a dedicated website setting out the guidelines for applying. We are optimistic that the Fund will have a material impact on the stated job creation objectives.

We are equally proud of our appointment as the reference bank to represent Africa in the BRICS economic bloc. The Bank has duly executed an agreement of accession to the BRICS Interbank Cooperation Mechanism. Among other things, this entails providing finance to public and private sector entities in member countries, in cooperation with the reference banks of Brazil (Brazilian National Development Bank), Russia (Vnesheconombank), India (Export-Import Bank of India) and China (China Development Bank Corporation).

The DBSA's enterprise-wide risk framework is being enhanced and broadened to cover risks that are likely to emanate from the envisaged lending portfolio and the expanded infrastructure implementation role. Cost recovery mechanisms have been included in the various mandates adopted thus far to ensure that any growth in the Bank's unfunded programme does not impair its financial sustainability.

In conclusion, I would like to express my sincere appreciation to the Governor, Minister Gordhan, for his strategic guidance and support. I am also grateful to the Chairman of the Board, Mr Jabu Moleketi, and fellow Board members for their active support and direction, which I will continue to rely on in the coming year. Last but not least, the executive management and staff have shown unwavering commitment in achieving these remarkable results during a challenging year. I gratefully acknowledge their contributions and look forward to another year in which we reach new milestones in realising the Bank's vision.



Paul Cambo Baloyi

Macroeconomic overview

Rehabilitating Spekboom in the Eastern Cape.

In the past year, the global economy began to recover but conditions remained challenging around the world. The sources of the challenge varied from country to country. In some, it was the economic and financial aftermath of the global crisis and the ensuing recession. Others were affected by long-running structural macro-economic problems and resulting imbalances. Still others faced the legacy of uneven socio-economic development, poverty and inequality on both a country and a global level.

For the DBSA, 2010/11 was equally challenging. South Africa and the SADC region experienced both favourable and adverse economic conditions, as they continued to confront formidable challenges in the economic, financial and institutional realms.

Global conditions

After the sharp contraction in what has been called the "Great Recession" of 2009, the global economy stabilised in the latter part of 2009 and then rebounded surprisingly strongly in the early part of 2010. Although the recovery continued, it ebbed somewhat during the year, as various limiting factors came into play.

Driven by internal forces, the rapidly industrialising and urbanising developing countries of Asia – China and India in particular – had weathered the global recession particularly well and were pulling the global economy out of recession. However, many of the advanced economies of North America and Europe were mired in structural problems, with economic recovery at best tentative and, at worst, still some way off. The deep economic problems that affected their recovery included high fiscal deficits, high levels of personal debt, poor international competitiveness, high levels of unemployment, and public austerity measures implemented in an effort to rectify an untenable fiscal situation.

Superimposed on this pattern, two factors in particular slowed the pace of the global recovery. The first was signs of overheating in the fast-growing Asian economies and in other countries not hard hit by recession, which led to policy measures to moderate the rate of growth. Some countries raised interest rates, reversing the direction of monetary policy. The second factor was renewed financial problems in Europe, where looming sovereign debt crises and the resulting bank problems in a number of Eurozone countries affected global financial markets and business confidence as fears of contagion increased. Austerity measures in the affected countries also took their toll on economic performance.

Despite the slower global recovery, the largest and most populous economies of Asia, specifically China and India, continued to grow at a rapid albeit lower rate. With their large appetite for raw materials to fuel growing industries and feed expanding urban populations, these countries continued to drive the demand for commodities worldwide. This, together with climate-induced problems in commodity markets, saw mineral, energy and food prices coming under significant upward pressure. Strong commodity demand and the resultant high prices played a major role in supporting economic recovery in commodity-exporting countries. In the latter stages of the financial year, political instability in North Africa and the Middle East added further tightness to oil markets. The subsequent sharp increase in the oil price fed additional cost pressures into the global economy, raising further concerns about the pace of the global recovery. The economic disruption wreaked by the March earthquake in Japan postponed the recovery of the world's third largest economy and has had some short-term negative effects on its financial and trading partners.

Significant challenges remained in the global financial sector, such as the sovereign debt problems in Europe and high levels of bank balance sheet leverage. Still, conditions in the global financial markets improved over the year. Economic recovery and greater business confidence, abundant liquidity and returning appetite for risk among investors saw equity markets rise and access to capital in financial markets improve. Portfolio and direct investment flows into the main emerging markets rose once again and, in some cases, placed unwelcome upward pressure on the recipients' currencies.

Conditions in southern Africa

Having quickly emerged from the financial crisis, much of the African continent, both commodity-producing and low-income countries, returned to the solid levels of growth seen before the crisis.

Strong international demand for commodities and high commodity prices provided substantial impetus to commodity exporters. Better macroeconomic management, rising foreign investment, improved access to foreign funding and better infrastructure helped many other countries to improve their economic performance. In the SADC region, nine of 15 member countries experienced output growth of 5% or more during the year.

The South African economy

South Africa's economy made progress over the financial year, but the early recovery soon encountered constraints. Economic growth, which had turned positive in the third quarter of 2009, accelerated strongly at first in 2010 but then eased as limiting factors came into play. Two particular factors boosted the economic recovery: the strength of demand for mineral and energy commodities from the rapidly growing economies of Asia and an improvement in the financial circumstances and confidence of the household sector. The former led to a strong performance by the mining sector, while the latter led to a significant rebound in consumer spending. This lent support to the manufacturing sector, in particular the automotive and other transport equipment sector. Furthermore, agricultural output recovered somewhat after setbacks in 2009. However, the performance of both the mining industry and other secondary and service sectors was negatively affected by industrial action in mid-year and, in the case of mining, a temporary loss of platinum production capacity added to the underperformance.

Given the emerging constraints on the global recovery and the continued vulnerability of the local consumer sector, there were concerns about the sustainability of recovery. To sustain growth, demand in the economy would need to gain enough strength to trigger and sustain a broad-based rise in capital expenditure in the public and private sectors. The bulge in public infrastructure spending for the FIFA World Cup, which had supported the construction industry, was rapidly passing and major new projects were slow in coming on stream. Although capital expenditure in the mining sector had underpinned private sector fixed investment, excess capacity and a lack of business confidence in the private sector resulted in a significant real decline in capital expenditure. In the public sector too, capital expenditure by public corporations in the energy and transport sectors grew as infrastructure upgrading and expansion continued, but capital expenditure by the general government continued to slow in real terms. This partly reflected weaknesses in institutional capacity for project planning, management and execution at various levels of government, which inhibited the flow of new projects. In some cases, cost overruns and the lagged impact of the recession on cyclically sensitive components of revenue also played a role in delaying new projects.

Although public policy continued to be supportive – with both counter-cyclical fiscal stimulation and accommodative monetary policy – the recovery did not gain domestic-driven momentum as the year progressed. Other constraining factors were the strong currency, which affected the competitiveness of the local industry in general; weak economic conditions in Europe, an important trading partner; and poor employment growth after substantial job shedding since 2009, which added to the high levels of structural unemployment. This underscored the contrasting conditions between those in formal employment who were able to secure significant real wage increases and those without jobs who experienced increased financial stress and deepening poverty. It underlines the need for a growth path for the economy that can deliver faster and more inclusive growth on a sustained basis. It is only through greater job creation that sustainable incomes can be generated to reduce poverty and inequality. In this context, the five priorities of government target massive job creation in the next ten years, through a number of mechanisms, to raise the rate of growth and labour absorption.

Significant increases in global commodity prices, combined with above-inflation wage settlements and increases in administered prices for fuel, electricity and other local government services potentially posed inflation dangers to the economy. In the event, however, the strong rand, underpinned by strong inflows of portfolio investment from abroad, effectively shielded the domestic economy from the worst of the offshore cost pressures. A lack of demand pressures in the domestic economy further supported low inflation, enabling the monetary authorities to continue to facilitate the economic recovery through low interest rates. However, if the rand weakens, fuel prices remain high and the mooted administered price increases go ahead, the economy faces significant inflation dangers; the monetary authorities might well raise interest rates sooner than would otherwise have been the case.

The DBSA

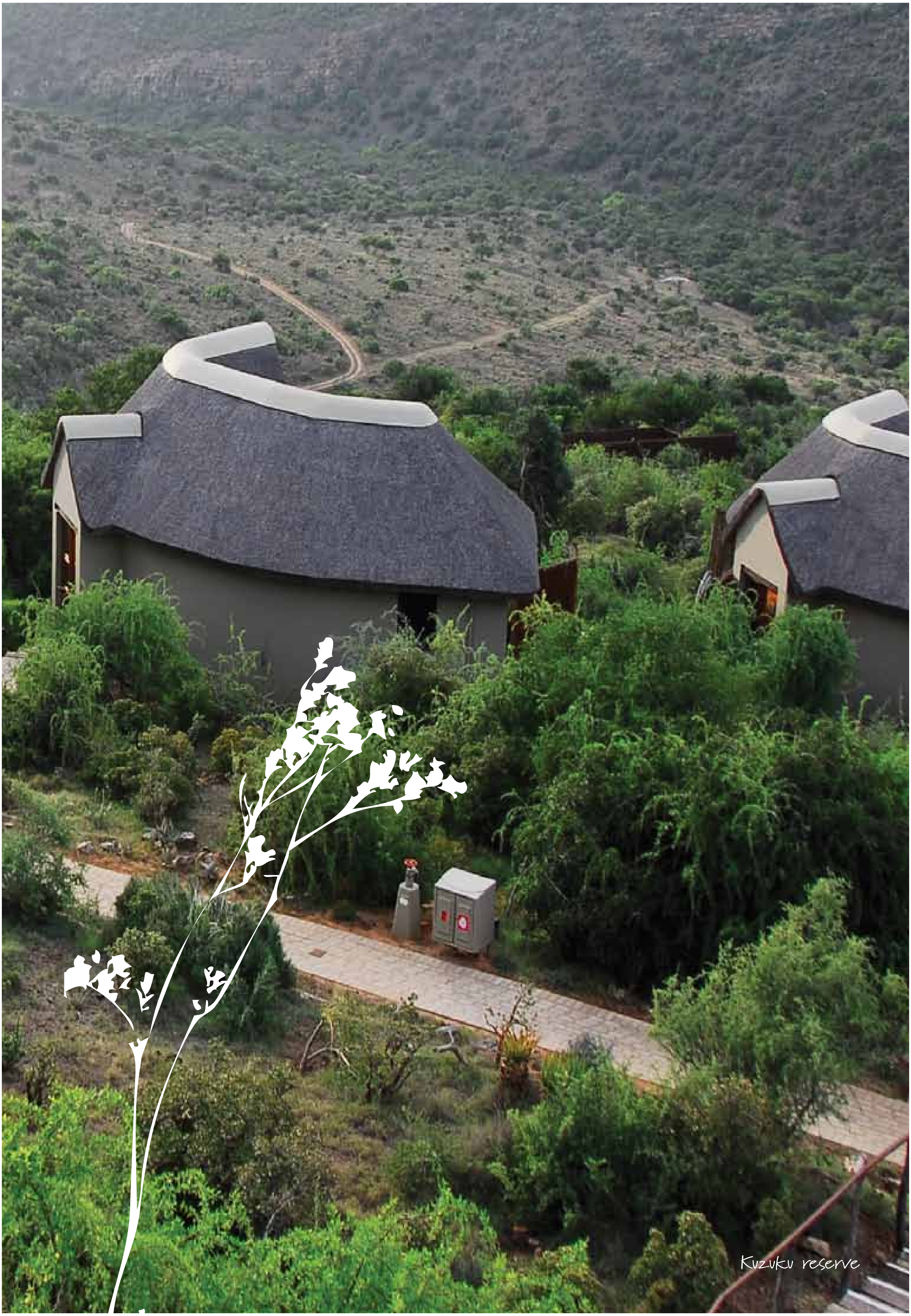
The DBSA's operating environment continued to present substantial challenges. In some respects, the global recovery and better economic conditions in South Africa and the region assisted the Bank. However, the sectorally and spatially unbalanced nature of the recovery in South Africa and deeply rooted structural challenges in the DBSA's mandate space made for a difficult environment in which to achieve ambitious objectives.

On the positive side, the better performance of many SADC economies and the favourable regional fundamentals after a difficult 2009/10 improved the climate for the Bank's regional investment activities. Returning risk appetite among global investors and a positive outlook for emerging markets and commodity-producing countries improved investment inflows to the region. Significantly improved liquidity in global financial markets assisted with access to capital markets, although the return of the corporate sector to the global markets widened the investment options for investors and introduced more competitive issuance dynamics into the primary capital markets.

In South Africa, the need for accelerated investment in social and economic infrastructure remained pressing. However, the Bank's performance was constrained by a number of factors. These included the uneven economic recovery, which affected the financial position of many public and private sector clients; the structurally weak financial position of many municipalities; low interest rates, which negatively affected interest income from the Bank's investments; and, most importantly, the lack of institutional capacity at various levels of government to plan, fund and execute infrastructure projects. This last factor in particular contributed to the operational challenges faced by the Bank in accelerating its public sector lending. As a result, the Bank made a considerable effort to address these problems through research, capacity building and assistance with programme development and project management.

In the year ahead, the global economic recovery should continue, but in all likelihood, at reduced momentum. Recently, downside risks to the recovery have been rising owing to escalating sovereign debt and fiscal difficulties in Europe and the United States. Business and investor confidence are being impacted in the process, governments are facing further difficult policy and political dilemmas and the resilience of the global financial system is being tested once again. This in a situation where high commodity prices, in particular energy and food, have already impacted negatively on global growth, and overheating risks in the key economies driving the global recovery have elicited policy tightening and resultant easing growth. Global financial markets remain fragile and over the next two years will be tested by a series of large, crisis-related debt rollover thresholds. In this setting, economic performance in sub-Saharan Africa is nevertheless expected to remain favourable, but in South Africa it is likely that the economic recovery will be slow to gain progressive traction.

For the DBSA, operating conditions in South Africa will remain difficult, given the challenges of securing a flow of bankable infrastructure projects from the public sector. The Bank will continue to support the government in policy and strategy development, project and programme development and management, and skills development in the public sector. Continued low interest rates will affect interest income for much of the year, although rates are likely to rise before the end of the financial year. Furthermore, the Bank's operating expenses are likely to remain under pressure as administered prices, in particular energy prices, contribute to higher input costs.



Kuzuku reserve

Development impact overview

The section highlights key development impact initiatives during the year under review, starting with an overview of the macroeconomic impact of the Bank's operations. This is followed by a review of initiatives carried out by the Bank's capacity building arm, the Development Fund, which comprises three divisions: Capacity Development and Deployment; Community Development Facilitation; and Rural Development.

Macroeconomic impact

The DBSA uses a partial general macroeconomic equilibrium model based on a social accounting matrix (SAM) to calculate the socio-economic impact of its projects. The model specifically incorporates the sectoral investment focus of the Bank. The model, which has 2006 as a base year, has been adjusted to 2010 prices, and the discussion below is in real (inflation-adjusted) terms.

In 2010/11, the DBSA approved projects to the value of R34,2 billion. The value of the Bank's signed agreements with clients was R13,9 billion and the disbursements were R8,3 billion. The bulk of the disbursements (70%) in South Africa went to energy (28,7%), transportation (19,3%), communication (14,1%) and entrepreneurial and manufacturing (7,9%).

The SAM models were used to calculate the impacts of the DBSA's funding, and these were compared to the previous year's results. The findings are shown in the graphs below. Note that the approved funding portfolio is generally only disbursed in future years. This portfolio will therefore have only a potential impact, which will come into effect once the funds are actually disbursed. The same holds for signed agreements. Hence, only the disbursed funding portfolio can be said to have an actual development impact. The graphs below show the impact of all three of the portfolios. These figures are estimates of the average annual impact on the economy over the medium term and not specifically for the year ahead.

It is estimated that the total funding approved by the Bank has a potential impact of R28,3 billion on the GDP, of which R20 billion will be in South Africa. This constitutes approximately 0,75% of South Africa's GDP in 2010/11 (2009/10: 0,49%). The actual impact of the Bank's disbursements on the GDP of the African region is estimated at R7,8 billion, of which R4,5 billion is in South Africa.

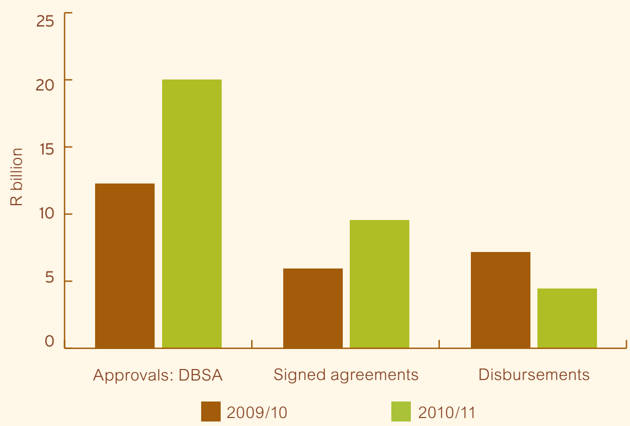
The total funding approved by the DBSA in 2010/11 has an estimated potential impact on employment creation of over 147 100 employment opportunities in the African region.[1] Of these, 95 300 employment opportunities could be created in South Africa. The Bank's own disbursements will create an estimated 42 600 employment opportunities, of which 22 200 (52%) will be in South Africa (down from the 2009/10 figure of 31 600).

To support the economic activity initiated by these disbursements, a capital amount of R22,5 billion will be employed, directly and indirectly, in the African region. Over R14,7 billion of this will be in South Africa, made up of R5,4 billion in DBSA disbursements and R9,3 billion in capital invested by other industries to supply the additional materials and goods required. This amounts to 2,8% of South Africa's total gross fixed capital formation in 2010/11.

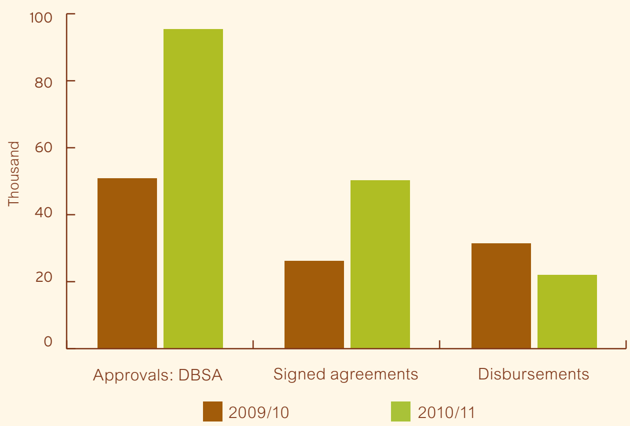
Every investment results in additional income to households through economic linkages. The total funding approved by the DBSA has the potential to create additional household income of R13,2 billion in South Africa. Of this amount, R2,2 billion will be to the benefit of low-income households earning less than R33 120 a year. The Bank's disbursements will create additional total household income of R3 billion in South Africa, of which R0,5 billion will accrue to low-income households.

The investments also contribute to government revenue for all three spheres of government (national, provincial and local) through the taxes paid on additional economic activity. This additional tax revenue as a result of the Bank's disbursements in South Africa is estimated at R1,4 billion.

Estimated impact on GDP in South Africa, 2009/10 and 2010/11

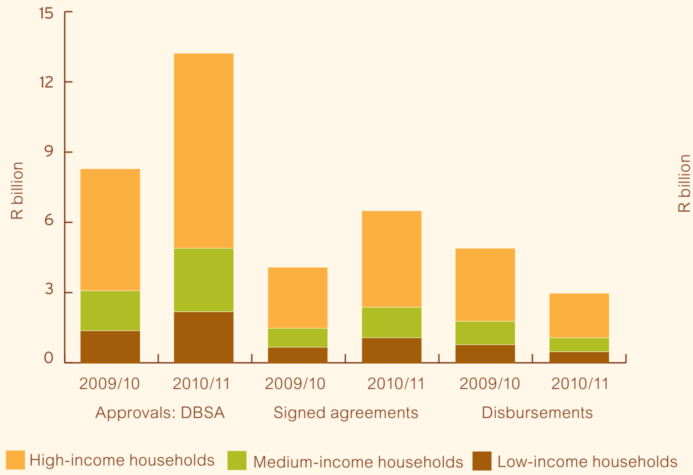


Estimated impact on employment in South Africa, 2009/10 and 2010/11

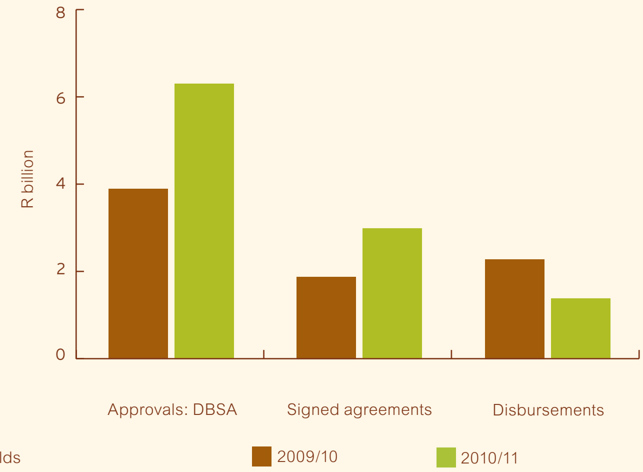


1. Labour and capital impacts on countries outside South Africa were estimated through SAMs of the relevant countries, but based on South African direct labour and capital multipliers.

Estimated impact on household income in South Africa, 2009/10 and 2010/11



Estimated impact on government revenue in South Africa, 2009/10 and 2010/11



Capacity Development and Deployment

This Division of the DBSA Development Fund comprises the Siyenza Manje programme, the Vulindlela Academy, the Pan-African Capacity Building Programme and the Agencies Unit.

Siyenza Manje

Siyenza Manje provides hands-on capacity support to the government in order to accelerate service delivery at municipal level. By year-end, a cumulative total of 163 engineers and technicians, 72 finance experts, 26 planners, 135 young professionals and 430 apprentices had been employed on a contract basis and deployed in low-capacity municipalities across the country.

The deployees assisted 186 municipalities and 20 government departments, and facilitated almost 2 984 MIG and capital expenditure projects to the value of R8,7 billion. This year, 1 114 projects were completed, a 10% decrease from 2009/10. This decrease was due to the fall in the number of deployments and municipalities supported, which was attributable in turn to the reduction in allocations to the programme under the Medium-Term Expenditure Framework (MTEF). These projects provided over 152 772 households with access to sanitation and 432 432 with access to bulk sanitation services. Another 129 858 households gained access to reticulation services and 616 906 to bulk water services. Over 105 276 job opportunities were created. The deployees also facilitated the development and review of 1 927 systems, policies and plans, a 60% increase on the 2009/10 figure.

Vulindlela Academy

The DBSA Vulindlela Academy is a platform for capacity building, knowledge sharing and skills transfer at the local government level. The Academy is accredited by the Local Government Sector Education and Training Authority (LGSETA) and has a suite of eight accredited qualifications and training programmes. It has established strategic partnerships with a range of national and international partners, as set out elsewhere in this Annual Report.

During 2010/11, the Academy trained 11 381 external learners in the priority skills areas of planning, finance, management and leadership. Of these, 9 772 delegates were from local municipalities identified by Siyenza Manje deployees.

Pan-African Capacity Building Programme

This programme is a partnership between the DBSA, Agence Française de Développement (AFD) and the Industrial Development Corporation (IDC). It seeks to improve the quality of professional skills in infrastructure development on the continent. The programme has three pillars: an Executive Masters degree in Infrastructure Management, short courses and the Young Professionals internship programme.

In the year under review, the programme delivered short courses to 154 participants in East and West Africa. Its experiential learning initiative placed 15 young professionals in medium-sized municipalities in France for three months. The Executive Masters Water-for-All pilot initiative commenced with the enrolment of four officials as students from Johannesburg Water, Bushbuckridge Water and Polokwane Municipality.

Development impact overview continued

Agency Services

The Agencies Unit was established in October 2002 to help alleviate the development implementation and management constraints in the SADC region. The DBSA acts as an agent for government and donor organisations that do not have an institutional presence in the region. The Unit attracted 11 new agencies this year and supported a total of 35 agencies, with R1,1 billion cumulative funds under management.

Community Development Facilitation

This Division of the DBSA Development Fund consists of the Sustainable Communities programme and the Project Development and Project Management Units.

Sustainable Communities

The Sustainable Communities programme brings together different stakeholders to design a comprehensive plan to address the short-, medium- and long-term development needs of an area. In the process of establishing a Development Charter or Social Compact, a contract is created between the community and other stakeholders, which articulates a common development vision, rules of engagement and priorities for future development. This is translated into a community-based, integrated development planning process that deals with issues of space, the built environment, infrastructure, the economy, social assets and human capital assets.

During the year, the programme leveraged funding amounting to R267 million and concluded Development Charters in three sites. It also established partnerships with public and private sector entities to support the development of sustainable communities.

Project Development Unit

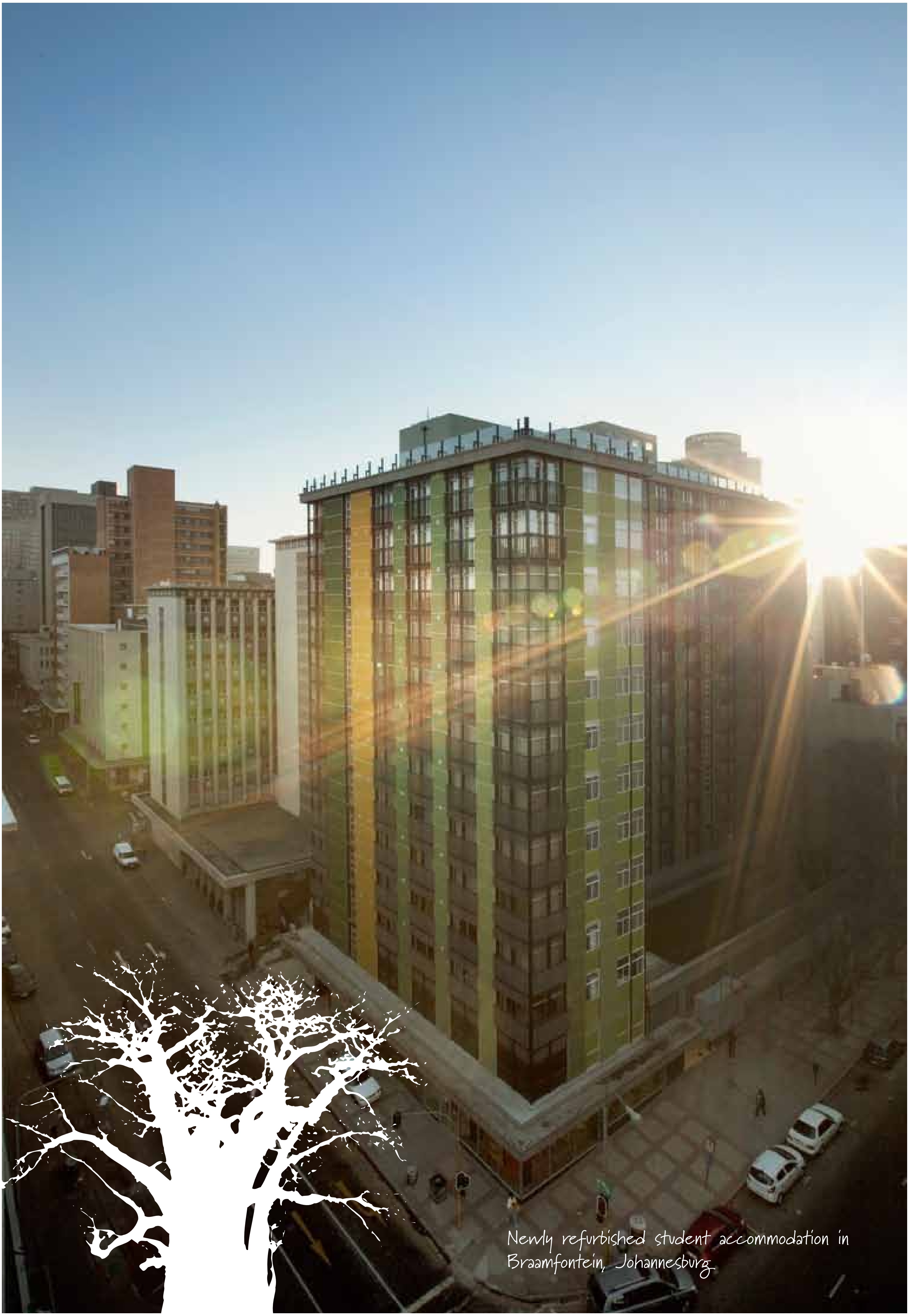
The Project Development Unit focuses on the conceptualisation, pre-feasibility, feasibility and structuring stages of project development. It also raises funds for qualifying projects. During the year, the Unit conceptualised and structured six development projects, and referred projects to the value of R481 million to the investment divisions of the DBSA.

Project Management Unit

The Project Management Unit provides project management support to the different programmes in the Division. It focuses on developing systems, plans and frameworks. During the year, the Unit prepared 25 project management plans for projects and programmes at the Sustainable Communities sites. It also undertook five planning interventions on behalf of other divisions of the DBSA.

Rural Development

This Division of the DBSA Development Fund aims to integrate development interventions in poor regions and municipalities to catalyse and diversify economic growth through improved infrastructure and service delivery. In collaboration with the South Africa Operations Division of the DBSA, it has leveraged MIGs to the value of R278 million for project implementation. The Division supported 47 rural municipalities in identifying and packaging socio-economic infrastructure projects. In addition, 17 turnaround strategies were developed and approved by municipal councils.



Newly refurbished student accommodation in Braamfontein, Johannesburg

Financial and development investment overview

"The balance sheet is robust, and with the support of the shareholder, the Bank will maintain its strong financial sustainability into the future."

Pieter de la Rey
DBSA Group Chief Financial Officer

The year under review was once again dominated by challenging economic and market conditions. Compared to the previous year, it has been characterised by lower short-term and higher long-term interest rates on investments. Consumer debt levels remain low, which resulted in above-normal liquidity levels in the market. As a result, the commercial financial services sector could increase its investments in infrastructure development, at cost-effective rates for both borrowers and lenders. As the Treasurer's report indicates, government bonds consistently traded at rates above JIBAR, especially in the medium- to long-term range, while short-term paper traded at significantly lower levels.

This allowed the DBSA's new investments in South Africa and the region to stabilise. The Bank made a significant internal investment in preparation for the coming phase of development, in line with the revised strategy. While the financial position of the Bank remains exceptionally strong, as evidenced by the low debt-to-equity ratio and healthy earnings ratios, the current strategy will rely on continued support from its shareholder.

During the year, the equity market showed great cyclical variability, with a general downturn in the last quarter. This is evident from the unrealised revaluations reflected in the financial position. The Bank's equity investments are strategic, not speculative, supporting its development role and the risk management of the larger investments, where applicable. While equity movements do create volatility in the statement of comprehensive income owing to the classification, they do not create instability in the Bank's financial position.

The Bank managed its financial operations well; it realised expense savings of around 10%, which allowed it to maintain its spending on social and economic development. The investment book remains well managed and non-performing loans are well within acceptable limits.

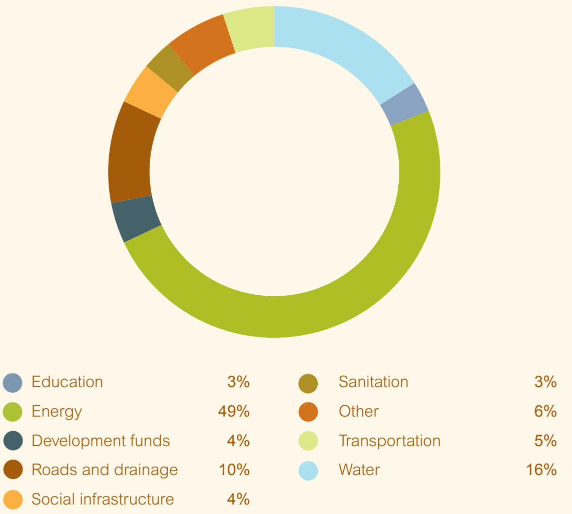
In the course of the year, the financial systems were successfully migrated to a SAP platform, without any impact on the Bank's accounting or audit results.

Much of the year was invested in financial planning and strategy to prepare for the scaling up of the Bank's infrastructure investments. The balance sheet is robust, and with the support of the shareholder, the Bank will maintain its strong financial sustainability into the future.

Development investment

A record level of approvals of R37,1 billion (2009/10: R18,8 billion) was achieved during the year. In the year ahead, the focus will be on converting the approvals to signed agreements and disbursements. The sector breakdown of the approvals is shown in the figure below.

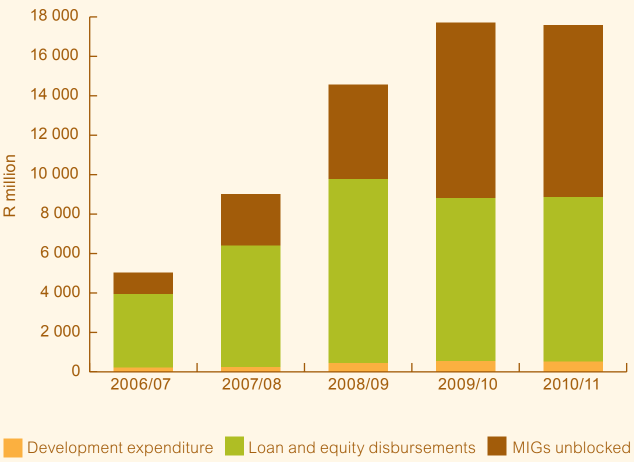
Value of loan approvals by sector, 31 March 2011



At R8,34 billion, disbursements were moderately higher than in the previous year (R8,26 billion). The level was influenced by the challenging environment and the reduced ability of clients to take up funding.

The DBSA also assisted in unblocking MIGs to the value of R8,7 billion (2009/10: R8,9 billion) as a source of funding for municipal clients, as shown in the figure below.

Total financial value of DBSA interventions (including MIGs), 2006/07 to 2010/11



Financial and development investment overview continued

Development expenditure

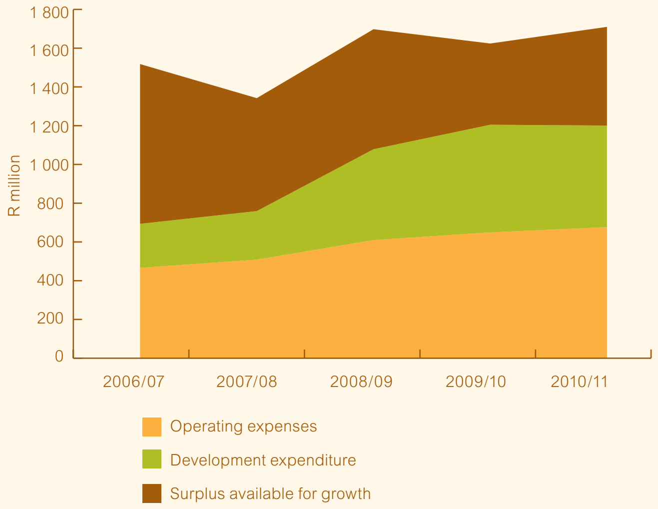
The Bank allocated R518,9 million (2009/10: R550,2 million) to development expenditure, directly through the transfer to the Development Fund (used in Siyenza Manje and for other grants), and indirectly for research and development and the Targeted Infrastructure Programme. This expenditure represented 60,8% (2009/10: 66,9%) of sustainable earnings for the year, as shown in the table below.

Expenditure on development initiatives, 2006/07 to 2010/11

In thousands of rand	5-year average	2010/11	2009/10	2008/09	2007/08	2006/07
Profit from operations	1 074 000	**332 114**	875 228	1 586 120	1 293 764	1 282 772
Add back:	(203 519)	**521 263**	(52 470)	(636 284)	(537 217)	(312 888)
– Foreign exchange and financial (gains)/losses	(262 221)	**456 071**	(119 922)	(718 752)	(583 512)	(344 991)
– Technical assistance grants	58 702	**65 192**	67 452	82 468	46 295	32 102
Sustainable earnings	870 480	**853 377**	822 758	949 836	756 547	969 883
Add back: Development expenditure included in sustainable earnings	115 610	**170 002**	141 949	127 401	68 202	70 494
Distributable surplus	986 090	**1 023 379**	964 707	1 077 237	824 749	1 040 377
Total development expenditure	(401 201)	**(518 993)**	(550 173)	(464 151)	(248 169)	(224 519)
DBSA direct development expenditure included in sustainable earnings	(187 848)	**(235 194)**	(209 402)	(249 673)	(142 372)	(102 596)
Cost of Targeted Infrastructure Programme	(51 721)	**(85 410)**	(72 872)	(65 273)	(19 832)	(15 218)
Research expenditure	(60 681)	**(84 592)**	(69 077)	(62 128)	(48 370)	(39 240)
Capacity deployment and development expenditure*	(16 743)	**–**	–	(39 805)	(27 876)	(16 036)
Technical assistance grants	(58 702)	**(65 192)**	(67 452)	(82 468)	(46 295)	(32 102)
Application of grant to Development Fund	(213 353)	**(283 799)**	(340 771)	(214 477)	(105 796)	(121 923)
Capacity building grants	(83 633)	**(69 799)**	(120 122)	(101 049)	(59 846)	(67 349)
Siyenza Manje costs	(86 626)	**(123 615)**	(136 980)	(93 983)	(36 397)	(42 156)
Other capacity deployment and development expenditure	(43 094)	**(90 385)**	(83 668)	(19 445)	(9 554)	(12 418)
Surplus available for growth	584 889	**504 386**	414 535	613 086	576 580	815 858
Development expenditure as % of distributable surplus	40,7	**50,7**	57,0	43,1	30,1	21,6
Development expenditure as % of sustainable earnings	46,1	**60,8**	66,9	48,9	32,8	23,1

* *Transferred to the Development Fund.*

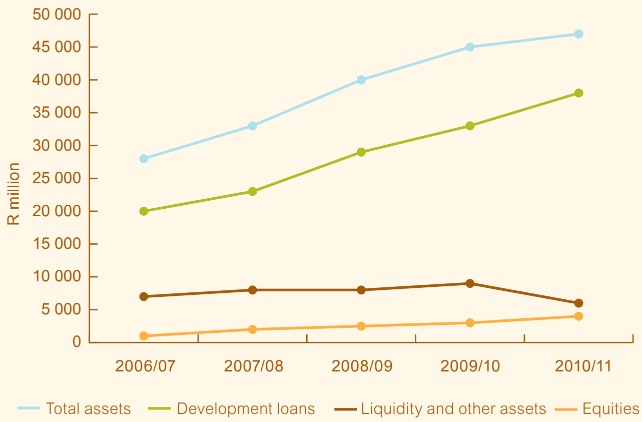
Operating and development expenses, 2006/07 to 2010/11



Financial position

Total assets grew marginally (by 5,2%) to R47,4 billion (2009/10: R45,1 billion), with the main contributors, development loans and equity investments, growing by 14,8% and 9,9% respectively.

Growth of the balance sheet, 2006/07 to 2010/11



Key financial indicators

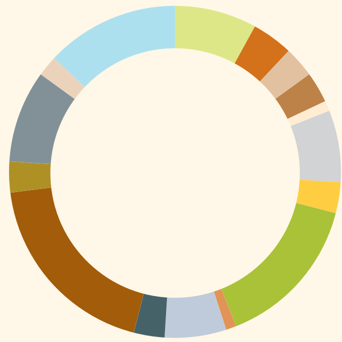
	2010/11 R million	Variance %	2009/10 R million
Loans and equity disbursements	8 336	1	8 257
Total assets	47 397	5,2	45 056
Development loans	37 845	14,8	32 969
Equity investments	3 478	9,9	3 165
Net interest income	1 642	0,7	1 631
Net foreign exchange (loss)	(57)		(261)
Net (loss)/gain from financial assets and liabilities	(399)		381
Operating expenses	758	(5,9)	716
Impairment charge	229	(0,4)	228
Sustainable earnings	853	3,7	823
Profit before distributions (grants and transfer to Development Fund)	397	(57,9)	943
Debt-to-equity ratio (excluding callable capital) (%)	161,1		148,5
Debt-to-equity ratio (including callable capital) (%)	87,7		95,2
Net interest income margin (%)	45,8		45,3
Cost to income (%)	41,2		40,5
Return on average assets (%)	0,7		2,3
Return on average equity (%)	1,9		5,5
Net interest income over average interest-bearing assets (%)	4,0		4,3

Financial and development investment overview continued

The strength and quality of the loan book remain acceptable; the percentage of the non-performing loan book is 4,2% (2009/10: 4,9%), as shown in the figure below.

Quality of the loan book, 31 March 2011

Sector split of loan book, 31 March 2011



Entrepreneurial	4%	Residential facilities	6%
Manufacturing	3%	Development funds	3%
Mining	3%	Roads and drainage	19%
Tourism	1%	Sanitation	3%
Communications	7%	Community facilities	9%
Education	3%	Health	2%
Energy	15%	Water	13%
Agriculture	1%	Transportation	8%

Equity investments comprise equities that have a developmental impact, are strategically positioned in areas where the Bank has experience and are with similar development institutions. These investments are in two broad categories: private equity funds and direct equity investments. The value of the equity portfolio increased by R313 million to R3,5 billion as at 31 March 2011 (31 March 2010: R3,2 billion). The movement is attributed to:

- Disbursements of R671 million during the year
- Repayments of R118 million
- Capital returned of R57 million
- Foreign exchange loss of R92 million
- Fair value adjustment loss of R204 million

The debt-to-equity ratio (excluding callable capital) ended the year at 161,1% (2009/10: 148,5%). This ratio is influenced by the disbursement levels, which are funded mainly from the borrowings for the year. The prudential limit, set at 250%, now allows callable capital to be included in the equity component of the ratio.

Financial performance

The net interest income margin (net interest income over interest income) is managed at 45,8% (2009/10: 45,3%). A higher level of debt is required to support the Bank's future disbursements; increasing the gearing levels of the Bank is likely to see a corresponding move in the net interest income margin to progressively lower levels. The reduction in short-term interest rates, together with the increased cost of borrowing due to the decline in liquidity in the market, further contributes to the lower margin.

Net foreign exchange and revaluation loss of financial assets and liabilities

R million	Hedging	Funding	Loans and customer foreign currency accounts	Lending business	Equity	Capital market	Forex and revaluations	Net interest income	Total gains/ (losses)
Foreign exchange gains/(losses)	17,9	342,7	(324,9)	35,7	(92,9)	–	(57,2)	–	(57,2)
Revaluation of currency hedging derivatives	(36,0)	–	–	(36,0)	–	–	(36,0)	75,0	39,0
Net foreign currency effects	(18,1)	342,7	(324,9)	(0,3)	(92,9)	–	(93,2)	75,0	(18,2)
Capital market instruments	–	–	–	–	–	(4,8)	(4,8)	–	(4,8)
ZAR interest hedging derivatives	(70,4)	–	–	(70,4)	–	–	(70,4)	214,0	143,6
Investment and funding	–	(83,5)	–	(83,5)	(204,1)	–	(287,6)	–	(287,6)
Other revaluation gains and losses	(70,4)	(83,5)	–	(153,9)	(204,1)	(4,8)	(362,8)	214,0	(148,8)
Total foreign exchange and revaluation gains and losses	(88,5)	259,2	(324,9)	(154,2)	(297,0)	(4,8)	(456,0)	289,0	(167,0)

Financial and development investment overview continued

The net foreign exchange loss (R57,2 million) and net revaluation loss of financial assets and liabilities held at fair value (R398,9 million), totalling net losses of R456,1 million, are mainly attributable to the following:

- The USD open position on equity investments (R92,9 million foreign exchange loss, and R204,1 million revaluation loss, totalling a R297,0 million loss).
- A R158,7 million revaluation loss on fair valuing of funding (R83,5 million), ZAR interest rate hedging (R70,4 million) and capital market instruments (R4,8 million). Normally, the revaluation of funding would be offset approximately by the revaluation of the corresponding hedging derivatives. However, hedging usually protects against parallel shifts of the bond curve relative to the swap curve.
  This year, the swap curve steepened relative to the bond curve, compared to last year. This means that the derivatives were valued at a discount rate that is relatively lower than the corresponding capital market instruments.

The rest of the foreign exchange and revaluation losses (R0,4 million) are attributable to the net result of the foreign currency hedging. The Bank does not speculate on interest rates and foreign exchange rates but manages these risks by aligning, as far as possible, the interest rate and foreign currency profiles of borrowing and lending through the application of interest rate swaps and cross-currency interest rate swaps.

The protection that the hedging provided during the year can be seen from the fact that the foreign exchange and revaluation gains and losses relating to loans, funding and hedging approximately net off:

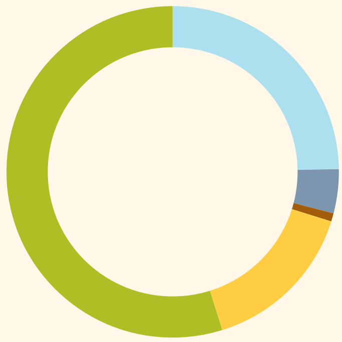
R million	Gains/(losses)
Foreign exchange: Development loans	(310,3)
Foreign exchange: Funding and hedging	345,9
Revaluations: Currency hedging derivatives	(36,0)
Remaining net loss	(0,4)

Furthermore, in the current environment of low interest rates, the hedges also provided a R289,0 million benefit on the net interest income line. This was achieved because the declining interest income on the floating rate lending was matched by a decline in the interest expense, through the application of interest rate swaps on the funding.

Therefore, despite the R70,4 million loss on ZAR interest rate hedging, the Bank would have been worse off by another R200,5 million had the hedging not been in place. This would have resulted in a net loss for the year of R125,4 million. The net benefit that the hedging achieved during the financial year is detailed in the table below.

R million	Benefit/(loss)
Foreign exchange	17,9
Revaluations: Currency hedging derivatives	(36,0)
Revaluations: ZAR hedging derivatives	(70,4)
Net interest income benefit	289,0
Net benefit of derivatives	200,5

Equity portfolio impact on income statement, 2010/11

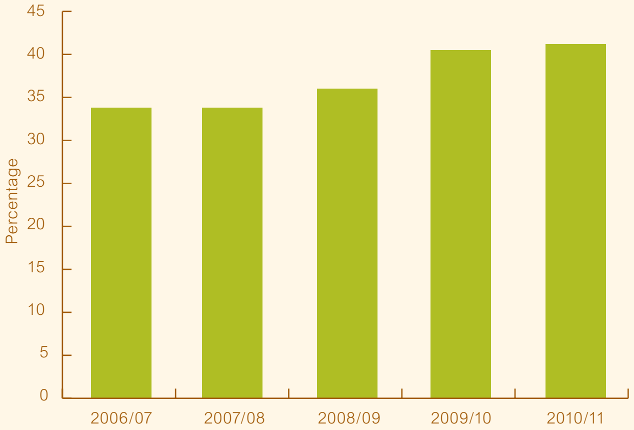


Foreign exchange adjustment	R92,9 million
Dividends received	R16,2 million
Interest received	R2,8 million
Fair value adjustment – realised	R57,6 million
Fair value adjustment – unrealised	R204,2 million
Impairment	R0 million

The net impairment charge of R228,7 million (2009/10: R228,4 million) to the income statement is managed in line with the overall increase in the loan book. The non-performing book debt ratios remain within acceptable norms (2010/11: 4,2%; 2009/10: 4,9%).

The cost-to-income ratio of 41,2% (2009/10: 40,5%) is below the prudential limit of 45%, owing to the active management of the income and expense components.

Cost-to-income ratio, 2006/07 to 2010/11



Sustainable earnings (earnings before the effect of foreign exchange, revaluations, grants and the transfer to the Development Fund) are managed at R853,4 million (2009/10: R822,8 million). The moderate increase in net interest income and the active management of expenses assisted in achieving sustainable earnings closer to the planned amount.

Financial strategy and sustainability

The Bank's financial strategy processes are aimed at protecting its financial sustainability, while seeking innovative financial solutions that support the drive for development. With net interest income still the Bank's main source of revenue, one of the major challenges is to provide cost-effective funding to infrastructure projects, despite the challenging market conditions. In the market, the cost of long-term funding remains high, a strong currency reduces revenue from foreign sources, and low interest rates further reduce the endowment effect of the Bank's capital.

The DBSA's financial planning and realignment initiative aims to anticipate the effect of strategic decisions on its financial status through continuous scenario analyses of market and other business drivers. It also aims to find proactive solutions to challenges arising in the short, medium and long term. These processes include the annual budgeting process, continuous monitoring and "course corrections" through the monthly variance analyses, and rolling financial projections, ranging from three to ten years. (The three-year financial projections are incorporated into the annual Corporate Plan submitted to the National Treasury.)

The key ratios, which are actively managed as part of the financial strategy, are reflected in the table of key financial indicators on page 33. As is evident from the results and ratios, the Bank is still financially sound, which provides a sufficient base for future growth.

The year ahead

The effort to align the DBSA with the government's infrastructure plans by accelerating its investments in infrastructure development will require access to cost-effective funding. To this end, the following important interventions are being explored:

- Strengthening capital further through the support of the shareholder
- Issuing preference shares as a more cost-effective source of financing
- Increasing access to credit and funding lines, both domestic and international
- Initiating co-funding arrangements with partners

Treasury overview

“The Bank maintains a flexible and balanced funding strategy to capitalise on changing market conditions and to diversify its funding sources.”

Ernest Dietrich
Group Treasurer

Market conditions

The South African Reserve Bank lowered the repo rate by 100 basis points during the financial year under review, culminating in 650 basis points worth of monetary policy expansion since the start of the easing cycle in December 2008. Short-term interest rates remain at levels not seen since the late 1970s and early 1980s.

Real GDP growth moved into positive territory (2,8% in the 2010 calendar year), rebounding from the dip of 1,7% in 2009. Consumer price index (CPI) inflation was range-bound between 3% and 5%, helped by a strong currency for most of the period. However, rising food and oil prices stoked fears of inflation towards the end of the financial year.

On a trade-weighted basis, the rand gained 1,4% in 2010/11. This gain paled in comparison to the 25% rally recorded in the previous financial year. The rand’s performance was supported by continued robust investor risk appetite for emerging market assets, against a backdrop of sovereign debt concerns that kept the US dollar and the euro on a weak footing.

Once again, the steady strength of the currency had a negative effect on the valuation of the Bank’s equity investments that are denominated in foreign currency (predominantly in US dollar), albeit to a lesser extent than in the previous financial year. With the Bank’s foreign currency equity investments not hedged against adverse currency fluctuations, the rand value of these investments fell, in contrast to prior periods when a depreciation of the rand resulted in an increase in valuations.

Relative to the end of the previous financial year, the short end of the South African yield curve moved down during the year, while maturities beyond five years picked up. At the short end, this reflected the easing of monetary policy, while the steady rise in government debt after a period of dormancy put pressure on yields at the long end.

Although the swap curve continued to trade through the government curve, the spread narrowed in the year under review, resulting in a significant negative fair value movement in the Bank’s portfolio of fixed-coupon bond liabilities hedged through interest rate swaps. While further normalisation of the bond-swap spread should continue in the longer term as monetary policy tightens and hedging activity among corporates increases, this could potentially be countered by increased government borrowing.

The yield on the R157 benchmark government bond dipped by 2 basis points to 7,82% at the end of the financial year, while the yield on the longer-dated R186 bond increased by 29 basis points to 8,97%.

Funding

The Bank maintains a flexible and balanced funding strategy to capitalise on changing market conditions and to diversify its funding sources. Over the course of the year, despite bouts of volatility and uncertainty, credit market conditions continued to improve, allowing the Bank to raise new funding on increasingly favourable terms.

Excluding the refinancing of money market paper, new debt raised amounted to R7,9 billion, over 80% of which was sourced from the domestic market, with the balance obtained from committed foreign credit lines.

In the domestic bond market, the Bank issued a total nominal amount of R3,6 billion in the financial year. It tapped the DV22 (maturing in 2020) and DV23 (2023) fixed-rate bonds, as well as the DVF12 (2012) floating-rate bond via the regular monthly auctions. The taps were done at increasingly lower spreads, moving from 125 basis points above the government benchmark at the start of the financial year to 91 basis points by the end of the period (this compares to a peak of 170 basis points in February/March 2009, during the global financial crisis). The balance of the DV07 bond remaining after the buy-back in December 2009 was fully redeemed on 30 September 2010.

The table below shows the Bank's outstanding domestic bond issues at the end of 2010/11, while the chart depicts the distribution of the Bank's debt portfolio by source.

Domestic bonds in issue, 31 March 2011

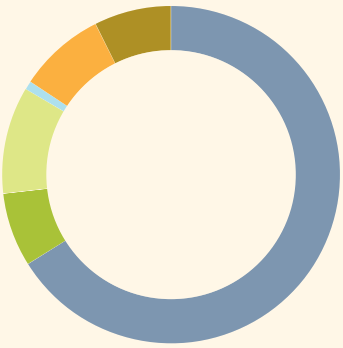
Bond	Issue date	Maturity date	Years to maturity	Authorised amount (R billion)	Outstanding issued amount (R billion)	Spread to government benchmark (basis points)
DV13	25 Aug 2008	25 Aug 2013	2,4	2,0	1,8	90
DV21	31 May 2000	15 Jun 2016	5,2	4,0	1,0	90
DV22	7 Feb 2008	7 Feb 2020	8,9	10,0	7,8	91
DV23	21 Feb 2003	27 Feb 2023	11,9	6,0	5,7	91
DVF12*	13 Oct 2009	13 Oct 2012	1,5	4,0	2,2	80**

Source: JSE, DBSA

* *Floating-rate note*

** *Spread to 3-month JIBAR*

Distribution of funding sources, 31 March 2011



- Domestic capital markets 66,1%
- International capital markets 7,1%
- Domestic money market 10,3%
- Other 0,8%
- Bilateral 8,3%
- Supranational 7,4%

Liquidity

The Bank maintained a sufficient level of liquidity to meet its disbursement requirements and fulfil all payment obligations.

The decline in short-term interest rates continued to exert pressure on the Bank's interest-yielding short-term liquidity holdings. Liquidity was nevertheless conservatively managed, averaging R4,8 billion during the financial year (2009/10: R4,7 billion), invested primarily in cash, money market instruments, government bonds, and municipal and corporate bonds.

Credit ratings

The three main rating agencies maintained their ratings and outlook views for most of the financial year. In January 2011, S&P lowered its long-term local currency rating for the country to A from A+, while reaffirming the long-term foreign currency rating of BBB+. It also raised its outlook to "stable" from "negative". In accordance with the agency's methodology for government-owned entities, these changes were also made to the DBSA's rating. The local currency rating of A remains in the upper investment-grade category. The ratings are summarised in the table below.

Credit ratings, 31 March 2011

Agency	Type	Short term	Long term	Outlook
Fitch	National	F1+(zaf)	AAA(zaf)	Stable
Moody's	Foreign currency issuer	Not rated	A3	Stable
Standard and Poor's	Foreign currency	A-2	BBB+	Stable
	Local currency	A-1	A	Stable

Operations overview - South Africa Operations

“. . . the Division also helps to alleviate poverty by creating job opportunities . . .”

Luther Mashaba
Group Executive

Strategic overview

Nature of business

The South Africa Operations Division supports the development of socio-economic infrastructure by providing financial and non-financial offerings to public sector intermediaries at the municipal and provincial levels. Financial support includes the use of various instruments, such as debt and grants, whereas non-financial offerings encompass project support, advice and development facilitation. These offerings are targeted at provincial departments, municipalities, utilities and a range of other entities, including educational institutions, to assist them in accelerating service delivery to communities.

The objective of this support is to achieve social transformation and community upliftment by eradicating infrastructure backlogs, promoting economic development and growth, and developing human resources. The Division accomplishes this mainly by targeting sectors that are national, provincial or local priorities and have the greatest development needs, such as health, education, water and sanitation, human settlements, energy, road transportation and various forms of municipal infrastructure.

Through its development support, the Division also helps to alleviate poverty by creating job opportunities, mainly during the construction of the infrastructure but also over its lifespan. In addition, by providing the infrastructure required for service delivery, the programmes and projects supported by the Division increase the number of households with access to basic services.

The Division also addresses market failure and institutional weaknesses within the intermediaries. It does so by packaging its products and services in a holistic, integrated and collaborative way, with the assistance of other divisions of the Bank and external development partners in its value chain. The DBSA Development Fund contributes resources towards capacity building and implementation capacity, whereas the Development Planning Division provides market information and development planning interventions.

Delivery structure

The Division is structured into clusters of provinces. This serves to focus the support the Division provides to meet the development needs of its clients, which differ from province to province in both nature and level of complexity. The Division has three client-facing clusters, through which it serves clients throughout South Africa by developing, packaging, financing and managing infrastructure projects. This differentiation of clients allows for the delivery of tailor-made products and services according to specific community needs and functional specialisation. A central portfolio management cluster supports the frontline clusters by coordinating portfolio planning, risk monitoring and reporting in the Division.

Operating environment

Drivers of infrastructure delivery

The main drivers of infrastructure delivery are poverty alleviation, the eradication of backlogs and the need for economic growth to reduce unemployment. The provision of socio-economic infrastructure in South Africa remains a critical challenge. There are still huge backlogs in the access to basic infrastructure, as some five million households have inadequate basic services. About half the backlogs are in poorly resourced areas, where around a third of the population resides. In the economic centres of the country, housing needs are the highest priority, while in rural areas the services are all equally undersupplied.

This problem is exacerbated by the fact that the main implementers of national government initiatives, namely provincial governments and municipalities, lack sufficient institutional and financial capacity to reduce these backlogs alone. There is thus a strong need for greater cooperation between various players within the development space. To this end, the Division strengthened its links with government departments, municipalities and state utilities in the year under review.

Extent of investment requirements and provision

Capital expenditure summary 2011 to 2015: Financing requirements and gaps

Social infrastructure Main intermediaries: National and provincial government state-owned enterprises, utilities and municipalities	• Health • Housing • Education • Municipal infrastructure	Planned: R617 billion Financing gap: R419 billion
Enabling infrastructure Main intermediaries: State-owned enterprises (e.g. Eskom, TCTA, Transnet, ACSA), government and private institutions	• Energy • Water • Transport, ports, air and roads • ICT	Planned: R883 billion Financing gap: R600 billion
Economic infrastructure Main intermediaries: Private sector, public-private partnerships and state-owned enterprises	• Entrepreneurial • Agriculture • Mining • Manufacturing • Tourism	Planned: R380 billion Financing gap: R360 billion

Asset management

- R312 billion maintenance backlog
- If R845,6 billion is spent over next five years as planned, operations and maintenance gap will still widen
- Estimated operations and maintenance expenditure over lifetime of asset = five times the original asset value
- 92% of all South African municipalities spend <5% of OPEX on maintenance

Infrastructure funding requirements and gaps

The government and its utilities plan to invest about R1,9 trillion in infrastructure over the next five years, as shown in the table above. This is still not sufficient to cover the total needs, which are estimated at R3,3 trillion over the same period. Many of the planned investments depend on the mobilisation of funding through various debt instruments, estimated at R1,4 trillion, and on the development of sustainable delivery approaches, including the capacity to plan and deliver development solutions at scale.

In the medium term, the Division identified health, education, energy, human settlements and, especially, water and sanitation as priority sectors, in addition to municipal infrastructure. It has therefore embarked on packaging comprehensive support for these sectors, in coordination with other divisions of the Bank and stakeholders in the development environment. This is in line with the government's national priorities, which aim to reduce infrastructure backlogs and thereby improve service delivery and accelerate economic growth.

Provincial and municipal environment

The year under review was challenging for service delivery at provincial level and especially at municipal level. While the country made rapid progress in delivering infrastructure on many fronts, especially for the 2010 FIFA World Cup, municipalities continued to struggle with service delivery. The main reason was strained institutional capacity in many smaller entities, which led to a rise in service delivery protests in many provinces. Another reason was that some communities found it increasingly difficult to afford services, while the DBSA's funding costs continued to increase and unemployment levels escalated after the international financial crisis. Other issues that emerged throughout the year were concerns over water quality and the poor state of education and health services. The Division responded by exploring various innovative approaches to leveraging Municipal Infrastructure Grants (MIGs), thereby fast-tracking the delivery of MIG-linked infrastructure.

A critical issue that emerged in this period is the inadequate maintenance of established infrastructure. As shown in the diagram on the previous page, maintenance requirements are growing, and a significant part of the current discourse on service delivery is concerned with the deterioration of the established asset base.

Another concern was poor governance in some municipalities, as reflected in qualified audits, and a lack of decisive action by many in the run-up to the 2011 municipal elections. This negatively affected a number of investment initiatives.

The ability to mobilise resources at a municipal level varies, with larger, better-endowed municipalities finding it easier to attract both skills and funding. Commercial banks entered 2010 with excessive liquidity, following conservative lending practices during the global financial crisis. This resulted in significant competition to fund the top 40 municipalities, which have good credit ratings. The remainder, especially under-resourced and rural municipalities, struggled to raise capital because of their less attractive risk profiles.

Divisional approach to development support

It is evident from the above that the operating environment posed various challenges to the Division as it worked to support infrastructure service delivery. After the record results achieved in 2009/10, the market contracted. While needs increased, price-based competition at the higher end of the municipal market left many poorer municipalities unsupported. Recognising the institutional constraints faced by these municipalities, the pressures on service delivery and the problems of uncoordinated development initiatives, the Division found innovative ways of extending support.

Whereas the Division used to focus on additionality, only intervening in cases of market or institutional failure and adopting a demand-led stance, a new, more proactive approach is now required to accelerate the delivery of sustainable solutions at scale.

The Division's approach during 2010/11 evolved around four main pillars:

- **Innovative, high-impact development interventions to an expanded client base of intermediaries**
  In the context of market failure and institutional weaknesses, a focused, high-impact approach with innovative support packages across the full value chain was required. The Division continued to work in close coordination with the DBSA Development Fund and the Development Planning Division to provide clients with integrated and comprehensive development solutions. The Division also drew in other role players from the public and private sectors to enhance project development and implementation.
- **Strengthened portfolio management**
  To counteract the effects of financial failure and institutional weaknesses in intermediaries, the Division intensified the management of its asset and client base. All clients with potential problems were identified and monitored, and specific turnaround interventions were implemented. This required close cooperation with national government departments, the Development Fund, the Group Risk Assurance Division and the Bank's Workout and Recovery Unit.

  These interventions yielded positive results, as the value of defaulting clients decreased to 3,8% of the book against a target of 4,5%. Write-offs were limited to R45 million (0,2% of the book). In total, provisions for impairments of R120 million were made, in line with the Bank's provisioning principles. The Division also improved its internal processes to enable the conversion of commitments of R3,7 billion to disbursements of R3,1 billion. This reflects a conversion ratio of 75%, which exceeded the historical norm of 60% by 15 percentage points.
- **Prudent financial management**
  Given the rising cost pressures and lower income levels, the Division focused on optimising operational expenditure and achieved a budget saving of 12%. The cost-to-income ratio was within 5% of the budget, despite disbursement levels being 15% lower. To counteract the impact of the price sensitivity in the market, new deals were managed at margins that could result in conversions and disbursements. The establishment of the Pricing Committee within the DBSA created more flexibility in terms of the Bank's ability to manage pricing issues in a specific deal.
- **Focus on priority sectors with interventions across the full value chain**
  The traditional business approaches of client engagement, bilateral arrangements and open tender for business remained central to divisional activities. However, given the price sensitivity in the market and the increasingly apparent weaknesses revealed by clients in identifying, packaging and implementing development interventions, the Division, in collaboration with the DBSA Development Fund and the Development Planning Division, explored additional ways to evolve the value offering. This is illustrated in the diagram on the opposite page.

Points of engagement

Traditional approaches			Proactive and value-driven approaches	
Bilateral engagements	Municipal bids/ tenders	Unsolicited bids	Pledging of conditional grants	Partnerships: Government's national programmes
Technical assistance and advisory services	The Division engages in a competitive bidding process, involving metros and secondary cities, with a current success rate of 20%	Clients directly request intervention, i.e. financial and non-financial support	Pipeline of R4 billion developed to provide bridging finance in line with National Treasury's Circular 51 requirements	The Division makes use of mandate agreements in order to act as: planner, advisor, lead arranger and financier, and participate across value chain. Also acting as development facilitator, integrator and implementer

(GRI 2.7) Evolving value offerings and market engagements

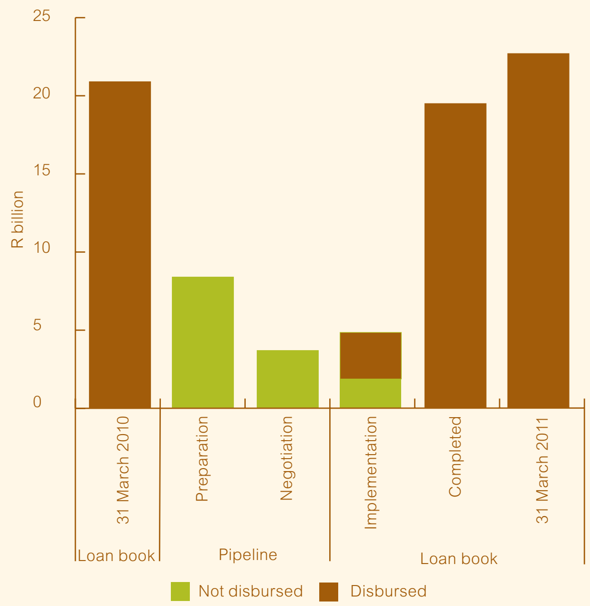
Through this renewed business approach, the Division was able to achieve the following:

- Proactive engagement through an integrated value proposition
- Better coordination internally across various divisions
- More resources and funding for project planning and preparation

Operations overview - South Africa Operations continued

Operations results

South Africa Operations portfolio, 31 March 2011



By the end of 2010/11, the Division's loan portfolio had grown to a book debt of R22,7 billion (2009/10: R20,9 billion), an increase of 8,6%.

The divisional pipeline of new projects was low at the start of the year, following the high levels of implementation and disbursements achieved in 2009/10. The Division continued with normal operations, providing funding to municipalities mainly through open tenders, but also broadened its value offerings and client base, and delivered investment support through technical and financial instruments. Initially, upward pricing pressures resulted in a low conversion of approvals to commitments for the highly contested top 40 municipalities that went to market. Nevertheless, significant progress was made in developing sustainable solutions for provincial and under-resourced municipal clients.

The implementation of these strategies generated a pipeline of over R12,1 billion, which will form the basis of increased investment levels from 2011/12. The state of the portfolio per phase of the project cycle is reflected in the figure above: despite a challenging environment, the total asset base grew by 9% year-on-year. At year-end, projects in implementation stood at R4,9 billion, with a further R8,4 billion in various stages of preparation and appraisal.

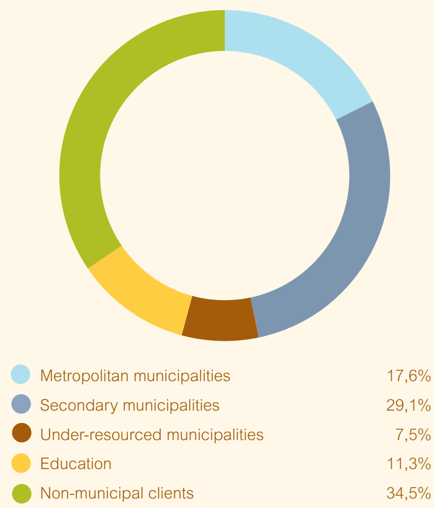
The achievements recorded here were made possible by increased approvals, amounting to R11,3 billion, to a diversified client base. As most of the approved projects have a long preparation and lead time, disbursements were generally low; only R3,1 billion was disbursed over this period. Still, positive results, such as the reduction of the default rate noted above, were realised despite difficult economic conditions.

Some of the specific highlights are discussed in more detail below.

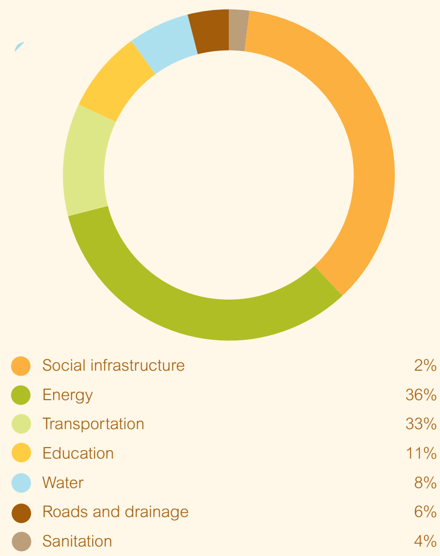
- **Investment focus on infrastructure categories and sectors**

The Division sought to balance its support for the different categories of infrastructure in order to maximise the development impact of its investment. The multi-sectoral nature of development requires that investments in social infrastructure be supported by corresponding investments in bulk enabling infrastructure and in the development of energy, water and road networks. Such investments should also be aligned with those that build the economic sustainability of an area. The figures below show the percentage value of disbursements for 2010/11 by client and by sector.

Disbursements by type of client, 2010/11



Disbursements per sector, 2010/11



The total value of loans disbursed on committed projects reached R3,1 billion by the end of 2010/11. This figure was lower than the targeted R3,5 billion for two reasons: slow progress in converting approvals for tenders to commitments, and the prolonged preparation required for new investments in under-resourced municipalities and in priority sector programmes. Overall, the disbursements resulted in the creation of an estimated 12 800 jobs and provided access to basic services for an estimated 135 000 people.

Loans were disbursed to metropolitan municipalities (17%), secondary municipalities (29%), under-resourced municipalities (7%), educational institutions (11%) and other non-municipal clients (34%). The bulk of the disbursement was in Gauteng: the strong presence of metropolitan municipalities and utilities in this province allows programmes to be prepared much more rapidly.

In terms of disbursements per sector, energy received the most (36%), followed by transportation (33%), education (11%), water (8%), roads and drainage (6%) and sanitation (4%). Social infrastructure (2%) received the least.

- **Accelerating infrastructure delivery to under-resourced municipalities**

A new opportunity to accelerate service delivery in under-resourced municipal areas was developed during this year, with guidance from the National Treasury's Circular 51, which allows for the pledging of MIG transfers. After consultation with the National Treasury, the DBSA packaged pilot projects for their consideration. These included a support programme for Dipaleseng Municipality in Mpumalanga and two provincial water and sanitation programmes in the Free State and North West. Further projects worth more than R4 billion have been identified and are at various stages of development. In addition to funding, the identified programmes require a high level of technical support, and they have therefore been conceived and will be implemented in close cooperation with the municipalities, provincial governments, the National Treasury and the relevant national departments.

- **Providing technical and financial support in an integrated manner**

Further to identifying, defining and developing new infrastructure project proposals, the Division has signed mandate agreements with four public sector intermediaries, which will support the conducting of detailed diagnostic studies to establish infrastructure gaps and formulate plans for future needs (see table below). In the year ahead, the Division is expected to sign further mandate agreements with provinces and municipalities, enabling it to play a central role in originating projects, as a lead arranger and financier of high-impact programmes.

Mandate agreements

Client	Sphere of government	Focus of support
Department of Human Settlements	National	Housing
Department of Water Affairs	National	Water and sanitation
Mpumalanga Economic Growth Agency (MEGA)	Provincial	Education, transport, health, human settlements, and water and sanitation
Gauteng Provincial Government	Provincial	Education, roads, housing and health

Focus for the year ahead

The coming year promises to be decisive for the delivery of development support in South Africa. Service delivery and job creation will need to accelerate, even though many of the challenges described above are likely to persist. Issues of service delivery and employment creation will be central to investment decisions.

The 2011 municipal elections have brought new leadership, yet issues of service delivery and employment creation will remain central to investment decisions.

The national programmes in priority sectors will be pivotal to the initiatives of both government departments and the private sector. The Division will increase its support for developing and rolling out national programmes in the energy, water and sanitation, human settlements, health, education and transport sectors. This support will cover the full range of the value chain, and close cooperation between all stakeholders will be critical.

The Division will also pursue its core business of developing infrastructure at municipal and provincial level through its current client base. At municipal level, attention will be focused on under-resourced municipalities, where service delivery challenges are increasingly apparent. With regard to secondary and metropolitan municipalities, the principle of additionality will remain central to the support provided, whether to build the enabling economic base or address backlogs at scale.

Significantly more partnership arrangements are envisaged between the different spheres of government and institutions, enabling them to deliver integrated support programmes at scale. Under these circumstances, significantly higher disbursement levels are projected for the new year.

Operations overview – Investment Banking

"The Division's value offering is end-to-end project origination and execution, which includes providing advice on project development, structuring projects and raising capital by way of underwriting, arranging, financing and syndications."

Tshokolo Petrus Nchocho
Group Executive

Strategic focus

The DBSA has embarked on an unprecedented growth trajectory, which is expressed not only in terms of assets but, more importantly, in terms of development impact. In this context, the Investment Banking Division contributes to the Bank's operations by providing a full spectrum of advisory and financing solutions for projects. The Division's business coverage encompasses private sector companies, state-owned enterprises and public-private partnerships, and entails banking activities in support of the DBSA's infrastructure and enterprise development mandate.

The Investment Banking Division has the following business mandate:

- Large-scale infrastructure projects to eradicate backlogs and expedite the delivery of essential social services that promote sustainable living conditions and improve the quality of life in communities. These projects support the delivery of social services in sectors such as health, water and sanitation, human settlements and passenger transportation
- Large-scale infrastructure projects to address capacity constraints and unlock potential for economic growth: These projects support growth in sectors such as industrial transportation, telecommunications, mining, tourism and renewable energy

The Division's value offering is end-to-end project origination and execution, which includes providing advice on project development, structuring projects and raising capital by way of underwriting, arranging, financing and syndications.

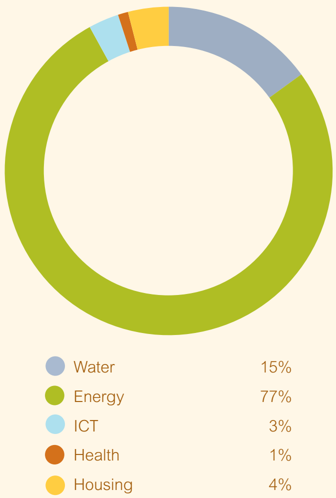
Operational overview

The year under review was a particularly challenging one for the Investment Banking Division, in the aftermath of the 2008/09 global financial and economic crises. In general, corporate growth and credit demand were depressed, and this resulted in low levels of project financing activity.

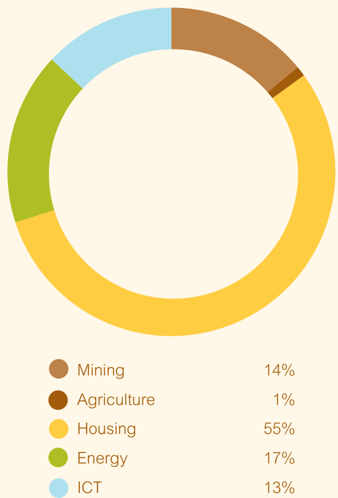
On the positive side, the public sector segment of the market was relatively buoyant owing to counter-cyclical fiscal investment in infrastructure. The Division also brought several project finance transactions that had been in the pipeline to a successful close.

Regarding approvals, transactions with a total value of R19,4 billion were granted credit approval. The mix of projects included a broad spectrum of private enterprises and public sector entities, and covered a range of sectors.

Value of approvals per sector, 2010/11



Value of commitments per sector, 2010/11



As noted, several important transactions were successfully closed during the year. Once financial closure is achieved, the transactions are classified as "committed" to indicate the unconditional availability of funds for drawdown. Total funding commitments during the year amounted to R5,3 billion in a variety of sectors.

The Division's financing outflows in the form of disbursed funds amounted to R2,4 billion for the year. Notably, an aggregate amount of about R1,5 billion was held back from disbursement for reasons related to clients' project schedules and changes to terms and conditions.

Products

Project development advisory

- Project identification and scoping
- Feasibility assessment
- Technical assistance
- Development funding
- Institutional modelling
- Financial structuring

Project financing

- Debt
- Mezzanine finance
- Equity
- Limited/non-recourse lending
- Development funding
- Technical assistance

Corporate lending

- Debt
- Mezzanine finance
- Equity
- Development funding
- Technical assistance

Equity investing

- Private equity
- DBSA investments
- Empowerment financing

Underwriting | Arranging | Lending | Syndication | Transaction management

Services

(GRI 2.7) Key sector programmes and investments

Health

The DBSA signed a Memorandum of Understanding with the National Treasury to promote cooperation in various areas suited to public-private partnerships, including funding requirements, capacity building, programme management and the origination of project support. The Health Public-Private Partnership programme is among the initiatives to be pursued under the Memorandum.

Once the Memorandum of Understanding had been concluded, the DBSA signed project-specific Joint Implementation Agreements with the Departments of Health in Gauteng and Limpopo, the national Department of Health and the National Treasury. Under these agreements, the Bank will assist with planning, financing and implementing public-private partnership projects in the health sector. Similar agreements are being finalised with the Departments of Health in KwaZulu-Natal and the Eastern Cape. The scope of work covered by such agreements includes feasibility studies, procurement processes, funding, construction, commissioning, and monitoring and evaluation.

Five academic hospitals in four provinces were identified as flagship projects under the Health Public-Private Partnership programme:

- Chris Hani Baragwanath Hospital, Gauteng
- Dr George Mukhari Hospital, Gauteng
- Limpopo Academic Hospital, Limpopo
- King Edward VIII Hospital, KwaZulu-Natal
- Nelson Mandela Academic Hospital Complex, Eastern Cape

In addition, a Joint Implementation Agreement was concluded with the Limpopo Department of Health to plan, fund and build five nursing colleges in the five districts of the province, using public-private partnerships. These colleges will help to alleviate the shortage of nurses in the province.

During 2010/11, a R20 million project preparation facility was approved to co-fund feasibility studies with the National Treasury and the national Department of Health regarding new hospitals in Gauteng and Limpopo.

Energy

Generation

During the latter part of 2010, the Division announced a landmark deal with Eskom that solidifies the DBSA's long-term commitment to the energy sector. The Division obtained approval for debt finance of R15 billion to be disbursed over the next five years for the construction of the Medupi and Kusile power stations. These projects will support Eskom by commissioning additional capacity of about 16 000 MW by 2017. This deal demonstrates the Bank's commitment to ensuring the security of the country's energy supply, which underpins development and growth.

Independent power producers

The DBSA, together with the National Treasury, is supporting the Department of Energy in the creation of an enabling environment for private sector investment in energy generation, with a specific focus on renewable energy from independent power producers as part of the Integrated Resource Plan. The programme involves contracting and managing transaction advisors, who will help to design and develop documentation and related inputs for procuring at least 1 025 MW of renewable energy from independent power producers, in line with international best practice. The total capital cost of the programme is estimated at between R25 billion and R30 billion, and financial closure on the first projects under the programme should be reached in late 2011 or early 2012.

The Department of Energy and the National Treasury seek to optimise the involvement of BBBEE parties and, in particular, to ensure that their capacity is built to participate competitively in future programmes in the energy sector. In support of these objectives, and those of the government more broadly, the DBSA structured a funding package targeted at BBBEE parties. It aims to ensure the optimal and effective participation of eligible BBBEE parties in mainstream projects through the provision of equity loan finance.

Water

During 2010/11, the Division actively pitched for new business with the Trans-Caledon Tunnel Authority (TCTA) to unlock various financing opportunities related to large-scale bulk infrastructure projects in the water sector. In line with its strategy, the Department of Water Affairs has directed the TCTA to procure project finance to develop important bulk water projects for municipalities and industry. The Division has secured Bank approval for financing two projects: the Mooi-Mgeni Water Augmentation Scheme (R250 million) and the Komati Water Supply Augmentation Scheme (R828 million).

The Division has agreed to assist the National Treasury in the bankable feasibility study of the Mogalakwena Water Master Plan, which is to be implemented through a public-private partnership. The study will determine the feasibility of delivering bulk water from Pruissen to Mokopane, the rural villages of the Mogalakwena Local Municipality and the surrounding mines.

The DBSA is in the process of signing a mandate letter with the Department of Water Affairs. In terms of this letter, the Investment Banking Division will assist with the planning, feasibility, funding and implementation of regional bulk infrastructure projects. Solutions to the problem of acid mine drainage in mining areas form part of this draft mandate. Under the mandate, the Bank and the Department will engage with local and district municipalities to create effective institutional models. They will also unlock opportunities for identifying, scoping and developing new projects to upgrade and expand existing bulk regional water infrastructure.

During the year under review, the DBSA considered project debt financing and empowerment equity regarding an open cycle gas turbine project for an independent power producer. The Bank is considering funding of around R2 billion for this peaking power project, which will be located in KwaZulu-Natal and the Eastern Cape.

Human settlements

Given the housing backlog in South Africa, the Division invested in a variety of human settlement projects during the year. These included investment approvals for new and existing clients in student accommodation and affordable housing schemes, and for externally managed funds with a mandate congruent to that of the DBSA.

To accelerate development in this sector, the Bank committed R3 billion to the establishment of the Housing Impact Fund by Old Mutual. The Fund has an aggregate capital commitment of R10 billion from a number of investors. Its mandate is to provide funding for housing in the affordable housing market. About 150 000 households are expected to benefit from this project.

Equity investments

The Division currently invests in equity in three formats: direct equity in projects, indirect equity via black economic empowerment structures, and private equity funds managed by third parties. Private equity investments are vital to the Division's efforts to optimise infrastructure investments through active and committed partnerships with other investors on a co-funding basis. Since 1999, the DBSA has committed approximately R2,8 billion to 15 private equity funds in South Africa and throughout the SADC region, which are largely focused on infrastructure in sectors aligned to the Bank's priorities. The Division is therefore a hub of expertise for equity investments within the Bank.

During the year, the Division considered several proposals to invest in newly launched funds. Approximately R600 million was approved for investments in externally managed private equity funds. The remaining approved funds are currently in commercial negotiations, and further commitments are expected in the coming year.

The funds in which the DBSA has invested have a combined capital of R22,6 billion. The total commitment is 7,8 times the Bank's portion, which is attractive as far as leveraging is concerned. It also has an important development impact in critical economic sectors, stimulating job creation, enterprise development and empowerment. The Division is currently considering a strategic repositioning to expand investment activities in this asset class, targeting investments of around R2 billion per year over the next five years in sectors such as health, infrastructure and regional integration initiatives.

Environmental finance

Over the past year, there has been an unprecedented demand by stakeholders and clients for the Bank to intensify its environmental work. This imperative is echoed in the strategic intent of the South African government to advance economic growth in an environmentally sound way and to create a competitive, low-carbon economy. In June 2010, the DBSA decided to establish an Environmental Finance Unit to strengthen the execution of its environmental strategy (sustainable and renewable energy, natural resource management, and so forth) and to mainstream environmentally sustainable practices into its development interventions. The specific roles of the Environmental Finance Unit will be to:

- Support individual business units in the packaging of projects, and in mainstreaming and facilitating sources of environmental finance
- Attract collaborative partnerships focused on the environment in support of the Bank's programmes of action
- Coordinate the execution of all relevant programmes internally
- Position the DBSA as a leading contributor to a greener growth path in the execution of programmes

The Environmental Finance Unit is housed in the Investment Banking Division. This strategic business unit will establish the enabling institutional framework within which to concentrate development and further "carbonproof" the Bank's infrastructure projects.

Year ahead

In the coming year, the Division will focus on increasing its project development support to government programmes. The main objective is to expand and deepen the formal partnerships established in the areas of health, energy, water, housing and transportation. To this end, the Division will collaborate with other development finance institutions, such as the IDC, and with state-owned enterprises. The Division intends to pursue major project initiatives aggressively, guided by the national imperatives of job creation, enterprise development and economic development, as set out in the five priorities of government.

The South African energy sector should see the advent of independent power producers in the coming year, and the DBSA is supporting the government programme in this regard. Significant progress will also be made in bringing to fruition the flagship public-private partnerships for tertiary hospitals in four provinces. The Departments of Public Enterprises and Transport are leading the efforts to invest in transportation infrastructure, particularly in rail and road.

In summary, the Investment Banking Division's strategic theme for the year ahead will be major national infrastructure programmes.

Operations overview – International Division

"The economies in the region have rebounded . . . and returned to the robust growth path of the past decade."

Admassu Tadesse
Group Executive

Nature and scope of the DBSA's regional operations

The International Division is the strategic business unit responsible for the Bank's international financing, investments and project development operations in the region outside of South Africa. It is also the custodian of the Bank's international relations and strategic partnerships, including the African Financing Partnership and the recently formed BRICS Banking Mechanism. The Division provides a mix of financial and non-financial products and services to a range of public and private sector clients and partners in the region, and performs a thought leadership function on regional development strategies and initiatives.

The Division's direct financing and investment operations outside South Africa have always been focused on the southern African sub-region, especially on transformative sub-regional projects such as the Lesotho Highlands Water Project, the Maputo and Walvis Bay port expansions, and the Mozal aluminium smelter in Mozambique. However, after the establishment of the African Union's New Partnership for Africa's Development (NEPAD) in 2001, the Division began extending its mandate to other sub-regions of the continent. This was in line with South Africa's commitment to NEPAD, which was incubated and hosted by the DBSA on behalf of the South African government for almost a decade.

The Division has provided pre-investment project development support to regional power projects. Hydro-power and regional transmission projects have been targeted in an effort to expand and interconnect the power pools of southern, eastern, central and western Africa. The aim is to reduce power shortages and inefficiencies across the region, a priority area in the NEPAD infrastructure action plans. Similarly, the Division has contributed to several pan-African investment funds focused on infrastructure in order to extend and leverage risk capital in infrastructure across the continent. This has been done in close partnership with other African and global financial institutions, notably the Public Investment Corporation and the African Development Bank.

This expanded geographic focus on the wider region is now being consolidated, as economic, trade and investment relations between southern Africa, especially South Africa, and the rest of the continent continue to grow, and as the DBSA's role as South Africa's representative bank in the BRICS Banking Mechanism gains ground. In this regard, a tripartite agreement was signed in Johannesburg on 12 June 2011 between the Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) to establish a new expanded free trade area of 26 countries, stretching from South Africa to Libya and Egypt in the north. This agreement embodies a new developmental approach based on market integration and the joint development of infrastructure across the 26 countries. Accordingly, SADC, COMESA and the EAC will be developing a new common infrastructure master plan for the expanded free trade area, which has a GDP of US$1 trillion and a population of 600 million. This initiative is underpinned by the North-South Corridor Initiative, which is being championed by South African President Jacob Zuma on behalf of the African Union and the three regional economic communities. The DBSA hosts the Tripartite Trust Account, which holds a grant facility with an amount equivalent to US$100 million to support infrastructure development along the Corridor.

The Division's strategy draws on the guiding principles of the African Union's NEPAD and is informed by the initiatives and priority projects of the regional economic communities, bi-national commissions and national development plans of the governments in the region. The DBSA's Board of Directors provides strategic direction, sets priorities and approves investments. In the case of regional funds under management by the DBSA, these functions are performed by special purpose investment committees, which include representatives of SADC, COMESA and the EAC, and contributing donors.

Regional context and operating environment

The economies in the region have rebounded from the slump caused by the global recession and returned to the robust growth path of the past decade. In 2010, the region's economic growth rate recovered to 4,9%, from 3,1% in 2009. Growth was set to climb higher in 2011, but this is no longer likely given the political events that have caused economic shocks in North Africa.

Auspiciously, the recovery in southern Africa has not been significantly affected by any economic shocks. In 2010, several countries registered growth above 6%, notably Mozambique, Tanzania, Zimbabwe, Zambia and Botswana, with Angola set to follow in 2011. The sub-region will be aided by renewed growth momentum in its two largest economies, namely South Africa and Angola.

Despite the recovery, however, the higher cost of funding in capital and lending markets brought about by the financial crisis has persisted, and continues to make it more difficult for projects to meet the required hurdle rates. This is particularly challenging for infrastructure sectors and projects that have long-term goals and offer relatively low financial returns.

Operations review

Despite the higher cost of funding in capital and lending markets, which has raised interest rates for all borrowers, including the DBSA, the International Division managed to grow its investment operations dramatically. As such, 2010/11 was a remarkable year for new project approvals and asset growth. The Division exceeded all targets and recorded substantial year-on-year asset growth.

The Board approved a record level of new regional projects in the amount of R6,3 billion (US$924 million), up from R4,9 billion (US$675 million) in 2009/10, a 29% year-on-year increase. The high levels of approvals were backed up with record commitments of R4,4 billion (US$649 million) as against R1,0 billion (US$137 million) in 2009/10, a 440% increase. Disbursements for 2010/11 were also at record levels of R3,0 billion (US$441 million), 321% higher than the previous year's R936 million (US$129 million). The Division is moving close to endorsing projects in excess of US$1 billion per annum. Terminations, where projects were approved by the Bank but not taken up by clients, amounted to R500 million (US$74 million).

The Division targeted its support at priority regional infrastructure, particularly in the transport and renewable energy sectors, and at landmark public-private partnership projects. The Division has been a lead financier of and strategic development partner for a number of such partnerships, notably the pioneering and award-winning Lesotho National Hospital and Feeder Clinics and the Kasumbalesa Border Post in Zambia.

Promoting clean and alternative energy in the region

In line with its commitment to environmental sustainability and innovation, the DBSA's International Division supported three clean or alternative energy projects during the year under review.

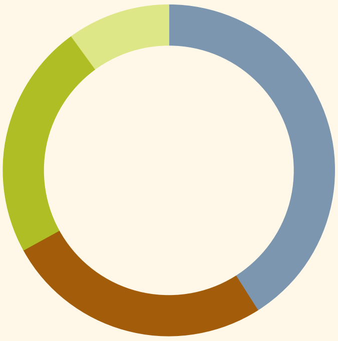
The first is a public-private partnership project in Zambia. The Lunsemfwa Hydro Power Company is the first indigenous independent power producer in the region. The DBSA initially provided support of US$3 million in 2004 to enable the company to acquire two power stations and expand power production from 38,5 MW to 52,5 MW. In 2006, the Bank provided an additional loan of US$8,5 million for the rehabilitation of the Mulungushi power station, which created 300 construction and other jobs for local people. In 2011, the Bank approved and disbursed an additional loan of US$8 million to enable the company to introduce a fourth power-generating unit and increase power production further.

The second energy project is the Kariba North Bank Extension hydro-power project. The Division has committed US$105,5 million to the project, of which US$43,3 million was disbursed during the year under review. This hydro-power expansion will add 360 MW of peaking power to the Zambian and Namibian grids. The Division and AFD developed this project together several years ago with grant co-funding, as part of a joint NEPAD Project Preparation Facility.

The third project, Energy for the Future, is an innovative alternative energy project in Namibia. This will enable the Ohorongo Cement Plant, a newly built, state-of-the-art facility 435 km north of the capital city Windhoek, to use alternative biomass fuel to meet its energy demand. The alternative renewable energy solution involves the use of encroacher bush that grows abundantly in the area, and allows the plant to reduce its coal consumption by about 78%. The project

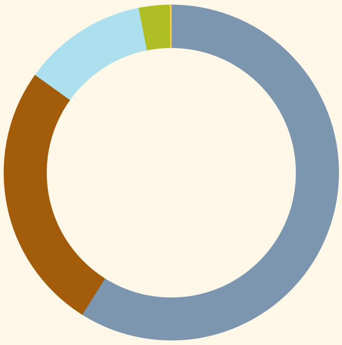
Operations overview – International Division continued

Approvals by country, 2010/11



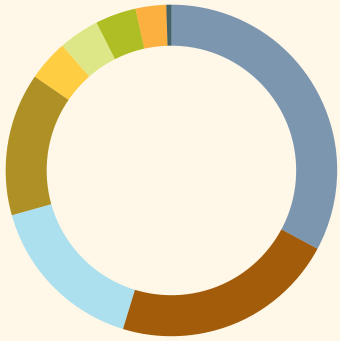
Zambia	41%
Regional	26%
Zimbabwe	23%
Namibia	10%

Commitments by country, 2010/11



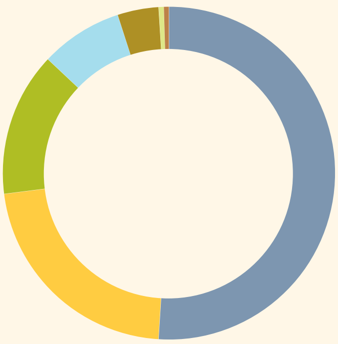
Zambia	59%
Regional	26%
Mozambique	12%
Zimbabwe	2,9%
Mauritius	0,1%

Disbursements by country, 2010/11



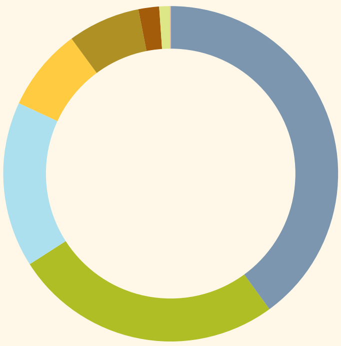
Zambia	33%
Regional	22%
Mozambique	16%
Lesotho	14%
Mauritius	4%
Namibia	4%
Zimbabwe	3,5%
Tanzania	3%
Malawi	0,5%

Approvals by sector, 2010/11



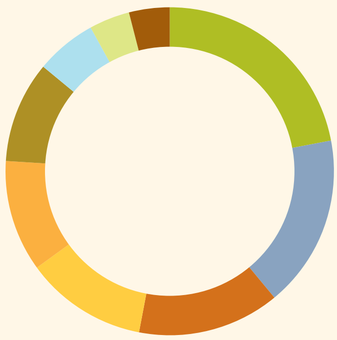
Roads	51%
Financial services	22%
Energy	14%
ICT	8%
Funds	4%
Transport	0,5%
Mining	0,5%

Commitments by sector, 2010/11



Roads	40%
Energy	26%
ICT	16%
Financial services	8%
Funds	7%
Agribusiness	2%
Transport	0,9%
Manufacturing	0,1%

Disbursements by sector, 2010/11



Energy	22%
Roads	17%
Health	14%
Financial services	12%
Manufacturing	11%
Funds	10%
ICT	6%
Transport	4%
Agribusiness	4%

entails a win-win partnership with the local community and indigenous farmers, who regularly have to clear this fast-growing invader bush from their farmland. During the year under review, the Bank approved a loan of €12,3 million in support of this project.

Over the past two years, the DBSA has provided a blend of debt and equity finance to the Ohorongo Cement Plant amounting to €25,6 million, about 25% of the total investment amount in the project. The plant has an annual production capacity of 700 000 tonnes and represents one of the biggest single investments in Namibia's economic history. The plant includes a grinding mill, access roads, a railway track and housing facilities for the workforce. It complies with strict emission and safety standards, and will supply the growing construction sectors of Angola and Botswana as well as Namibia.

Notably, the average size of investment deals approved by the Division increased to R483 million (US$71 million) per project, substantially higher than the previous year's average of R323 million (US$44 million). The continued strength of the DBSA's balance sheet enabled the Division to make these substantial contributions to regional projects and position itself as one of the front-runners in lead arranging and underwriting large-scale infrastructure projects in the region.

The road rehabilitation project in Zambia described below is a good example of the Bank's ability to lead arrange large projects.

Advancing the North-South and Western Corridors: Support to key Zambian roads

In the year under review, the DBSA signed a landmark loan agreement in the amount of US$262 million with the National Road Fund Agency of Zambia for the rehabilitation of five priority roads. Disbursements have begun and construction is well under way.

Three of the roads to be rehabilitated form part of the Trans-African Highway route running from Cape Town to the DRC's Katanga Province and onwards to Kinshasa. They link up parts of western, north-western and southern Zambia to the western side of the North-South Corridor and open up economic trade routes with Angola, Botswana, DRC and Namibia. By developing the road infrastructure in Zambia, areas of high economic potential that are now out of reach will become accessible, attract potential investors in agriculture, mining and tourism, and provide new opportunities for industrial developments.

Zambia is a key transit country in the North-South Corridor, as it borders on eight other countries. The rehabilitation of the Western Corridor will fit into the wider corridor network programme for the region, which will help to unlock the vast unrealised economic potential inland and attract the necessary investment.

Zambia has an investor-friendly climate and the government has renewed its focus on infrastructure development. As a result, Zambia was a significant recipient of DBSA investments during 2010/11. In addition to the road rehabilitation project mentioned above, the Division committed R726 million (US$106 million) to the Kariba North Bank Extension hydro-power project and a further R55 million (US$8 million) to the Lunsemfwa hydro-power expansion project, both of which are crucial in securing reliable, clean-energy sources for southern Africa. Nevertheless, as shown in the diagrams opposite and overleaf, the Division continued to diversify its loan portfolio, with disbursements in Lesotho, Malawi, Mauritius, Mozambique, Namibia, Tanzania and Zimbabwe.

In the year under review, as part of the Division's concerted effort to support reconstruction and turnaround efforts in Zimbabwe, a pioneering R206,6 million approval was made for road rehabilitation along the key east-west route from Mutare on the Mozambique border to Plumtree on the Botswana border. This highlights the DBSA's growing willingness to lead large-scale transactions in countries with the greatest need for development financing.

A further R404 million (US$59 million) was injected into the development of healthcare in Lesotho as part of the ongoing support for the new Lesotho National Hospital and feeder clinics project.

The Division continued to support the expansion of ICT networks in Africa, providing debt finance in excess of R175 million (US$25 million) to the Mozambican cellular service provider mCel. The Bank has also committed R514 million (US$76 million) to the development of the O3b satellite network, which will deliver broadband connectivity to emerging and insufficiently connected markets in Africa, Latin America, the Middle East and Asia, areas with a collective population of over 3 billion. In another unique project for the DBSA, the Division disbursed R127 million (US$17 million) towards the construction of a fuel tanker that will give Mauritius greater independence in securing its energy supply.

Importantly, the DBSA is assisting regional financial institutions and development finance institutions as part of a strategy to provide counter-cyclical support in an environment that is still feeling the effects of the financial crisis, specifically high funding costs. The International Division disbursed R344 million (US$50 million) to the African Export-Import Bank (Afrexim Bank), a crucial player in the African import-export market. The Division also approved a R500 million (US$74 million) line of credit to the Development Bank of Namibia and a R510 million (US$75 million) line of credit to PTA Bank in East Africa in an effort to strengthen these regional institutions.

Operations overview – International Division continued

At the end of the financial year, the net loan portfolio stood at R7,6 billion (US$1,1 billion), 29% higher than the R5,9 billion (US$819 million) recorded at the end of the previous year.

The DBSA is still a provider of senior debt, as in the past. However, the Division continued to make equity investments on a case-by-case basis in order to provide a capital base for viable projects. In the year under review, the equity portfolio remained stable at R1,5 billion (US$222 million), rising only marginally from R1,49 billion (US$205 million) in 2009/10, with continued investment in private equity funds focusing on regional infrastructure development, such as the Pan-African Infrastructure Development Fund, the Emerging Africa Infrastructure Fund and the Emerging Capital Partners Africa Fund III.

Project preparation through partnership support

In the past year, the Division continued to focus on project origination and development as a key initiative, with both business and development impact rationales. While the initiative has to do with championing infrastructure solutions for the region, it is also a competitive business strategy, which should enable the Division to play a leadership role in shaping projects and securing financing opportunities. Decisions in this regard are informed by business and financial criteria, related to the bankability and attractiveness of development projects, and by considerations of the scale, sustainability and strategic importance of the potential development impact.

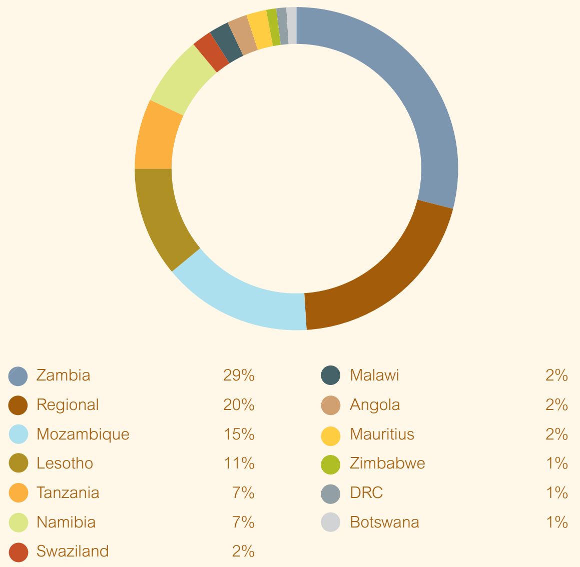
The essence of the initiative is to unlock key cross-border and regional infrastructure projects, by selectively using the Bank's own risk capital and mobilising funding from partners, while opening up and securing attractive financing opportunities. In this vein, the Division continued to lead the management of several multi-partner technical and grant assistance facilities involving Agence Française de Développement (AFD), the UK Department for International Development (DFID), the European Investment Bank (EIB) and the United Nations Office for Project Services (UNOPS).

The seminal Project Preparation and Feasibility Study (PPFS) facility co-funded by the DBSA and AFD entered its third phase with a €1,5 million commitment by each institution. It is anticipated that these grant contributions will facilitate up to R13,4 billion (US$2,0 billion) in investments in years to come, in addition to the R18,7 billion (US$2,8 billion) in projects being developed through the first two phases of the fund.

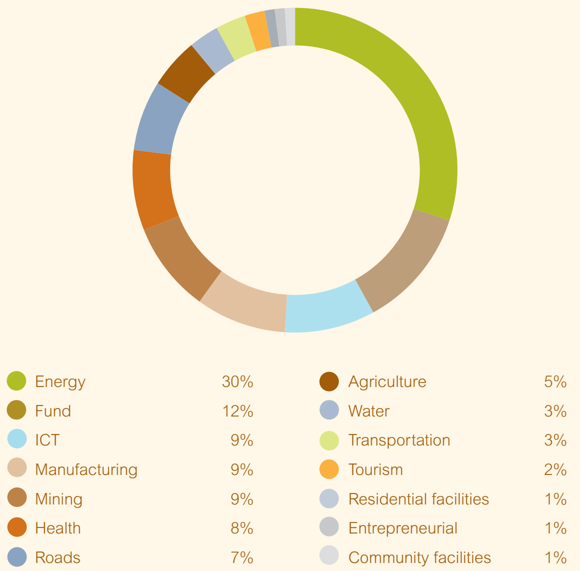
DFID has contributed £67 million to the Tripartite Trust Account established by SADC, COMESA and the EAC. There is a strong pipeline of projects at the appraisal or commitment stage of the project cycle, and this will result in rapid disbursements in the next year.

(GRI 2.7)

Loan portfolio by country, 2010/11



Loan portfolio by sector, 2010/11



Similarly, the €6 million Project Preparation and Development Facility (PPDF), which was established through equal contributions by the DBSA and the EIB, was operationalised during 2010/11. This facility will enable the development of significant regional, national and local infrastructure projects in eastern and southern Africa in years to come.

The region lacks the institutional and human resource capacity to promote and implement the public infrastructure upon which effective economic development depends. This is especially true of public infrastructure enterprises, municipalities, regulators and development finance intermediaries. The SADC Regional Technical Assistance Facility, which is managed by the DBSA and UNOPS in partnership with the SADC Development Finance Resource Centre (SADC-DFRC), has funds of US$1 million. The aim of the facility is to build capacity in partner development finance institutions in the region. During the year, the facility deployed technical assistance to the Development Bank of Zambia (DBZ) and the Infrastructure Development Bank of Zimbabwe (IDBZ), and two senior technical experts will also be deployed to the Tanzania Investment Bank (TIB). In the second phase of this initiative, experts will be sent to development finance institutions in Angola, Namibia and the DRC.

The DBSA's partnership with the government of Finland continues through the Energy and Environment Partnership Programme. With additional funding of €1 million from the Austrian Development Corporation, the programme now has €9,5 million in grant funds available to provide project preparation assistance for clean energy projects in southern Africa and East Africa. The programme had two calls for proposals during the year and has approved more than 40 projects for implementation, based on technical evaluations and the national policy priorities of the eight participating economies. By the end of 2010/11, project commitments had reached about €5 million.

The year ahead

Many of the Division's existing strategies, programmes and initiatives are in line with the repositioning of the DBSA as a centre of excellence. Over time, and through successive corporate plans, the Division's operations will be streamlined and enhanced to align them more closely with the new vision, and to reposition the Division as a specialised, ring-fenced vehicle for advancing regional infrastructure.

The Division will continue to give due consideration to projects ready for bankable financing and countries providing strong support to key national stakeholders and financiers. However, the Division will also place a strong emphasis on reconstruction and low-income countries with viable projects. To this end, it will continue to focus attention on countries such as Zimbabwe, Angola and the DRC, where development impact can be particularly high, given the context and opportunities. The Division is well aware that its operations need to remain sustainable, and it will therefore also continue to support sectors and countries that provide its portfolio with diversification benefits and sustainable returns.

Finally, the Division will continue to invest selectively in multi-country infrastructure projects physically located outside southern Africa, as such projects have significant development impact in the region. Through its support, the Division will advance the integration of southern Africa with adjacent sub-regions and the expansion of related markets and regional trade flows.

Development planning overview

"The Development Planning Division has played a pivotal role in integrating and managing knowledge to enhance investment decisions."

Ravindra Naidoo
Group Executive

The Development Planning Division has a strong internal focus, functioning as an embedded advisory component of Bank-wide operational teams. However, the Division is also responsible for breaking new ground for the DBSA. The Division locates the Bank's activities within the imperatives of a wider development agenda, and as such extends the development impact of the DBSA beyond its own investment programmes and helps the state to spend more efficiently and effectively.

The DBSA has accumulated extensive knowledge on infrastructure and the implementation of sector strategies. In applying this knowledge as a "trusted advisor", the Bank has shown a distinctive competency as a facilitator and integrator within the state. Besides drawing up the health and basic education roadmaps for the government, the Bank has convened solution-seeking processes in several other priority sectors: human settlements, higher education and skills, transport, green energy, water and sanitation. The DBSA's knowledge work is related to the government's Medium-Term Strategic Framework and the national infrastructure plans.

Strategic overview

The Development Planning Division has played a pivotal role in integrating and managing knowledge to enhance investment decisions, deepen the DBSA's development impact, support national development planning and decision-making, and contribute to the policy discourse on development.

The Division contributes to achieving the Bank's mandate in several important ways. First, it supports the government in terms of the Action Plan agreed to with the Minister of Finance and addresses systemic risks in the Bank's priority areas. This strengthens the impact and sustainability of long-term development interventions by both the state and the DBSA. Second, the Division enhances and supports the Bank's investment portfolio through its programme origination and project advisory functions, which expedite the delivery of infrastructure in priority sectors. Third, it develops strategic local and international networks of knowledge institutions and decision-makers to promote new development insights and practical collaboration. Lastly, it assists with positioning the DBSA as a centre of excellence on national infrastructure and long-term development planning.

Operational review

Highlights of the Division's knowledge work over the past 12 months are outlined below.

Supporting improvements in state performance

The Division worked closely with the Department of Performance Monitoring and Evaluation in the Presidency to define critical elements of "an efficient, competitive and responsive economic infrastructure network" (Outcome 6 of the performance agreements). The performance contracts and delivery agreements thus defined will have an important impact on the delivery of transport, energy, communications and water infrastructure in the period to 2014. The Division produced a user-friendly draft report on the *State of infrastructure* as a commonly accepted single source of baseline data for infrastructure planning. It has also been working with the National Planning Commission to develop a spatial vision for South Africa.

The Division's work with Parliament was focused on providing policy support. Parliament has the power to amend the budget, and it is therefore crucial that its decision-making processes are technically competent. The DBSA was asked to conduct a brief study on parliamentary budget offices and held a successful workshop on the topic in November 2010. Parliament proposed a multiparty study tour of relevant countries before deciding how to proceed on this matter, and the Division was part of the parliamentary delegation that visited Japan and South Korea in January 2011. To build capacity among parliamentarians, the Bank organised a joint workshop with the National Assembly and the National Council of Provinces on behalf of the Presiding Officers of Parliament.

After the adoption of the health roadmap, the Division's work in the health sector gained momentum during the year, through initiatives to revitalise health infrastructure and improve healthcare management. The Division completed a competency assessment of the Chief Executive Officers and district managers of all public hospitals, and the findings are expected to feed into turnaround strategies in the health sector. The project was used to pilot potential new product offerings for assessing management competencies within government and could provide a model for reviewing competencies in other critical areas of public service. In addition, guided by the Memorandum of Understanding concluded between the Bank and the Department of Health, the Division established an Infrastructure Unit within the Department to coordinate collaborative work on infrastructure development.

As a follow-up to the roadmap on basic education, the Department of Higher Education and Training asked the DBSA to formulate a Ten-Point Plan for skills development in a growing economy. Several of the recommendations arising from this plan are being taken forward through various channels, including the Human Resources Development Council chaired by Deputy President Kgalema Motlanthe. The DBSA is also working with the national Department of Basic Education to pursue the Action Plan 2014, which outlines a particular supporting role for the Bank.

With regard to network infrastructure, the Division worked closely with the line departments in the transport and water sectors, and is currently finalising mandates with both. In the energy sector, it acted as the secretariat and technical advisor to the Inter-Ministerial Committee on Energy.

At the request of the Departments of Environmental Affairs and Economic Development, the Division was tasked with identifying programmes for moving South Africa towards a "green" economy. The project has three phases. Phase 1 (completed in 2010/11) focused on identifying high-level green economy programmes and prioritising them according to criteria for environmental, social and economic sustainability. It also identified the resource requirements of these programmes and proposed the establishment of a funding mechanism for green economy initiatives. This work resulted in a report that presents ideas for high-level programmes to be considered by the lead departments (Environmental Affairs and Economic Development) and the Cabinet subcommittee on the green economy. The programmes are in the areas of energy, agriculture and resource management, waste, water, buildings and cities, and transport. Phase 2 will describe specific programmes in detail and assess the feasibility of implementing them.

Local government is a central focus of the Bank. The Division held a number of engagements with the Presidency and selected national departments on the challenges facing local government and the strategies required to address them. This culminated in the development of a Ten-Point Plan to improve the performance of the sector. Many points raised in this plan, such as competency requirements for local government officials, a new differentiation model and a new dispensation for dysfunctional municipalities, found resonance in the turnaround plan of the national Department of Cooperative Governance and Traditional Affairs and in the Municipal Systems Amendment Act. The Division is currently supporting the Presidential Review Committee on State Owned Enterprises by assessing the service delivery potential of municipal entities. Extensive work has also been done to improve geographic information systems and municipal data and portals, resulting in more granular and accessible information for decision-making.

Supporting and enhancing DBSA investment and capacity

Another important offering of the Division is advisory support to the DBSA's internal operations. During the year, the Division developed three priority sector strategies to guide DBSA investment. The first is a Climate Change Strategy, which will help the Bank to assume its environmental responsibilities and take up emerging opportunities related to the green economy and green infrastructure. A corollary of this strategy is the Guideline for Energy Projects. This allows the Bank to assess the impact of a project on greenhouse gas emissions, determine any specific effects or risks from predicted climate change, and consider possible climate change financing options that can be exploited to benefit the project.

Development planning overview continued

The second is a Wastewater Services Strategy, which addresses the looming water crisis by strengthening the planning and implementing capacity at all levels of government. The strategy ensures a proactive approach to the national crisis in wastewater services, the poor state of infrastructure and the associated challenges related to skills, institutional conditions and infrastructure planning and management. It guides the DBSA in critical areas that will improve municipal collection and treatment of wastewater and encourage effluent quality compliance in the medium to longer term. The strategy is aligned with the Bank's Water Sector Strategy, which calls for the development of sector-specific operational strategies, including those for wastewater treatment. After extensive consultations, the following strategic roles were proposed for the DBSA with regard to the provision and management of sustainable wastewater services:

- Unlock funding for green projects, appropriate technology, the productive use of wastewater and the elimination of maintenance backlogs
- Strengthen cost-reflective financial systems for providing sustainable services
- Raise management and technical competency in the municipalities
- Strengthen knowledge of and access to support for sustainable management
- Reinforce asset management for sustainable delivery

The third strategy is the Human Settlements Strategy, which specifies methodologies, priorities and implementation focus areas for this sector. Two issues are of critical interest to the DBSA: the creation of integrated, sustainable human settlements in South Africa and the region; and the support the Bank can offer as a delivery partner for prioritised programmes in social housing and rental stock, as well as bulk infrastructure.

The Division has a data collection and information synthesis function. A range of data and information is provided across the Bank to ensure that its business and broader development planning, largely in relation to municipalities, is informed by the social and economic context. During the year, the function supported internal publications (e.g. the *Development Report*), provided information to municipalities through web-based databases and the Local Government Nerve Centre, and offered internal support to the operations divisions for investment decision-making.

In line with the DBSA's role as a knowledge bank, the Knowledge Management Integration function in the Division continued to integrate learning from different parts of the organisation through hosting dialogues, compiling case studies and producing lessons learnt reports. Related to these activities, the Corporate Knowledge Management Committee convened thematic sessions, most recently on economic network infrastructure (August 2010) and regional integration (November 2010). The resulting conclusions are already proving useful in shaping the Bank's engagements in these areas. The work of the Division permeates different aspects of the DBSA's operations to improve the quality of advice, implementation and decision-making, thus furthering the institution's aim of becoming a centre of excellence.

Creating and maintaining strategic networks

The 2010 Knowledge Week, with the theme "South African human settlements 2030 – Rethinking the spatial development trajectory", was held from 20 to 22 October 2010 at the DBSA. This successful event attracted more than 450 participants, including municipal officials, national and provincial government officials, development institutions, finance institutions, and representatives of civil society and interest groups. The Minister of Human Settlements delivered the keynote address. The Knowledge Week identified the following important levers required for change in human settlements:

- Accountability mechanisms to ensure coherence between policy and delivery
- Financial instruments, such as intergovernmental transfers and the associated conditions and enforcement procedures, that can provide an effective set of incentives and disincentives
- A more flexible subsidy regime that supports incremental settlement options and provides a clear articulation between transport, housing and service subsidies
- More effective bridging mechanisms for the low-income market segment, as well as end-user mortgage finance
- Innovative infrastructure funding instruments to ensure a better mix between debt and equity products
- The facilitation of efforts by the National Treasury and development finance institutions to provide solutions to problems of bulk infrastructure funding

Since the event, the Division has continued to engage with the Department of Human Settlements and is currently confirming a mandate to assist them in rolling out appropriate interventions.

Although developing countries have made significant economic progress, about 1,4 billion of the world's 7 billion people still live in extreme poverty, and most developing countries will not meet the targets of the Millennium Development Goals. These facts were highlighted at the Division's 2010 conference on "Poverty Reduction, Equity and Growth Network". The conference, which focused on policies to foster and sustain equitable development in times of crisis, was co-organised with the Kiel Institute for the World Economy and the German Agency for Technical Cooperation (GTZ), and attracted 133 local and international delegates. It provided a platform for practitioners, development researchers and policy-makers to present research and innovative ideas on the socio-economic challenges facing developing countries.

The Division also contributed to building the DBSA's profile as a knowledge bank. The year saw the publication of five issues of the DBSA's *Development Southern Africa* journal (hosted by Taylor & Francis), the production of eight working papers, the introduction of a quarterly *Policy Brief* series, and the launch of a divisional e-magazine titled *Sector Insights*, targeting external stakeholders. All non-subscription-based publications are available on the DBSA website (www.dbsa.org).

Finally, with the consent of the other development finance institutions, the DBSA convenes the DFI Forum. This Forum includes all major national and provincial development finance institutions in South Africa and creates a platform for these institutions to explore common challenges and find solutions. The DFI Forum currently operates through five working groups, namely long-term planning, policy architecture, funding mobilisation, development impact and risk management, each chaired by a different institution.

Prospects and main risks for the year ahead

The Division's partnership arrangements, driven by existing commitments and the new memoranda of understanding, will define its core work in the next year. The various priority sectors of the Bank face enormous challenges, but addressing these through partnerships will bolster efforts to promote economic and social development in South Africa and the region. The work of the Division will continue to locate the DBSA's activities strategically within the state's development agenda. This means that the Bank, as a strategic partner to the state, will have a larger and more meaningful development impact in South Africa and the rest of the region.

In the year ahead, the DBSA will produce two of its flagship publications, the *Development Report* and the *Infrastructure Barometer*. Much of the research and analytical work for these reports was completed in 2010/11 and the final reports will be published in 2011/12. They are intended to contribute to the policy discourse on development, infrastructure provision and employment targets, as well as national planning debates and related decision-making.

Governance and management overview – Corporate governance

"The Directors are committed to full compliance with the spirit and principles embodied in appropriate international corporate governance codes and strive to align the Bank's corporate governance with national and international best practice."

Bathobile Sowazi
Corporate Secretary

Governance principles

The governance landscape has shifted significantly in the last few years. Among a substantial number of new governance measures are the review of the voluntary code of good governance (King III) and the codification and restatement of the common law principles in the Companies Act, No. 71 of 2008. In line with its mandate, the Board of Directors embraces the principles of the King III Code and endeavours to comply with these recommendations in so far as they are not in conflict with the DBSA Act, No. 13 of 1997.

The Board of Directors assessed the governance landscape of the Bank during the year under review and is satisfied that it has discharged its responsibilities with regard to the main recommendations of the King III Report. The DBSA is required to comply with various pieces of legislation that set out governance requirements, chief among these being the Public Finance Management Act (PFMA), No. 1 of 1999. All the relevant legislation was considered and the Bank was found to be in substantive compliance. Where the requirements differed from one piece of legislation to another, as a rule the Bank complied with the harsher requirement. The Directors are committed to full compliance with the spirit and principles embodied in appropriate international corporate governance codes and strive to align the Bank's corporate governance with national and international best practice. The Bank endeavours to maintain the highest standards of integrity and ethical conduct, and keeps abreast of new developments in the field of governance. To this end, the Board is on course to implement the principal recommendations of the King III Report on Corporate Governance and continues to monitor progress with the Companies Act. During 2010/11, the Board discharged its responsibilities and performed its activities in accordance with its approved annual programme.

Shareholder linkages

The DBSA is a state-owned entity, and the South African government is the sole shareholder. In his capacity as Governor and shareholder representative, the Minister of Finance determines the Bank's mandate and holds the Board of Directors accountable for managing the Bank to deliver on this mandate. The DBSA is regulated in terms of the PFMA and its accompanying Treasury Regulations, and is classified as a Schedule 2 public entity under the Act.

Strategic objectives and performance management

In line with section 52 of the PFMA, the Bank submitted a Corporate Plan to the National Treasury in February 2010. This serves as an agreement between the Bank and the shareholder, and documents the key performance measures and targets against which organisational performance is assessed.

The Board reports on performance and related matters to the shareholder by way of annual and interim reports, and regular meetings are held between the Chairperson, the Chief Executive Officer and the Governor.

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

The DBSA uses the Balanced Scorecard (BSC) methodology to implement its strategy and to monitor and report on performance against predetermined targets. The Bank has reviewed its key performance indicators and the results of this evaluation are shown in the Directors' report on pages 79 to 81. The Finance Committee of the Board evaluated the organisational performance, while its Human Resources and Nominations Committee oversaw the assessment of the performance of the Managing Director and the executive management team.

Governance structures

Board of Directors

The constitution and business of the Board of Directors are governed by the DBSA Act and its Regulations, and the relevant provisions in the PFMA and the Companies Act. The constitution of the DBSA Board changed in 2010/11, following the resignation of four members.

In line with the recommendations of the King III Code, the Group has a unitary board structure. The Board currently consists of nine members out of a complement of 15. There are seven independent, non-executive Directors, and the Chief Executive Officer is the sole executive Director. A representative from the National Treasury serves on the Board as a shareholder representative Director. In terms of the Board Charter, no distinction is made with respect to the fiduciary responsibility of shareholder representatives and other non-executive Directors.

During the year, the Board took leave of Mr Jayaseelan Naidoo. He resigned on 31 August 2010, having served as Chairman of the Board since August 2000. Mr Jabulani Moleketi was appointed as Chairman of the Board with effect from 1 September 2010. The Directors have diverse backgrounds and bring to the Board wide-ranging experience in socio-economic development, development finance, business, banking, finance and administration.

The current composition of the Board and brief résumés of the Board members can be found on pages 6 to 8.

Directors' appointment and induction

The DBSA Act regulates the appointment of Directors to the DBSA Board. The Act charges the shareholder with appointing Directors based on their abilities in relation to socio-economic development, finance, business, banking or administration. The Human Resources and Nominations Committee of the Board nominates candidates and makes recommendations to the Minister for approval. Directors are appointed on a performance contract of three years and are eligible for reappointment depending on satisfactory performance. The Act further allows the Board to co-opt persons with special knowledge to its committees.

The DBSA Board is committed to the advancement of new and existing Directors and accordingly organises periodic induction and orientation sessions, in addition to training courses related to the business of the Bank.

Board Charter

The DBSA Board is governed by a Board Charter, which outlines the principal provisions of the DBSA Act, the fiduciary responsibilities of Directors, the relationship with executive management, and matters of policy that the shareholder and the Board ought to follow in order to ensure good corporate governance. In line with best practice, the Board Charter was reviewed during 2010/11. The revised Charter re-examined issues such as the procedure for the appointment of Board members; this procedure was streamlined in line with the recommendations of the Handbook for appointment of persons to Boards of state-owned entities. Issues of succession planning at Board level and performance assessment of the Board were also reviewed. The Board regards the Charter as a living document that will be updated periodically to align with changes required by the King III Report and the Companies Act.

Board Committees

The DBSA Board has five committees: the Audit and Risk Committee, the Development Planning Committee, the Finance Committee, the Human Resources and Nominations Committee, and the Board Credit and Investment Committee. The DBSA Act mandates the Board to appoint any subcommittees necessary for carrying out its fiduciary responsibilities. Establishing and delegating some of the technical work to specialist subcommittees does not relieve the Board of its legal responsibilities. The Board has therefore sought to strengthen its monitoring mechanisms by enhancing the reporting done by the different committees at Board meetings to facilitate timely feedback on their work. In addition, the committees table any resolutions taken at their meetings for ratification by the subsequent Board meeting.

In line with principles of the King III Report, all committees of the Board have formal terms of reference to ensure effective decision-making, monitoring and reporting. The terms of reference are reviewed periodically, along with the overall effectiveness and performance of the committees. The committees are discussed individually below and the Bank's committee decision-making structure is reflected on page 63.

Audit and Risk Committee

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

The Committee has five members. The Chief Executive Officer is the only executive Director and all the remaining members are independent non-executive Directors. The Board has taken note of the recommendations of the King III Report that all members at a holding company level should be independent non-executive Directors. However, the Board is confident that the current constitution of the Committee does not impair its independence. The Committee is chaired by Mr Omar Latiff, an independent non-executive Director. The external auditors have a standing invitation to attend the meetings of the Committee.

Finance Committee

The Committee has five members, four of whom are independent non-executive Directors. The Chief Executive Officer is the only executive Director on the Committee. Mrs Thembisa Dingaan, an independent non-executive Director, chairs the Committee. The Committee oversees and advises the Board on income, expenditure and capital budget requirements; tax management; treasury arrangements and funds mobilisation strategies; transfer pricing policies; development loan impairments; the management of assets and liabilities; and the Bank's overall financial health and sustainability. The Committee provides strategic direction on the Bank's asset and liability management activities within the defined risk appetite in order to strengthen the Bank's financial position in pursuance of its development mandate. The Committee also reviews the performance targets recommended by management. The management committees that support the Finance Committee are the Financial Management Committee and the Asset and Liability Committee.

Board Credit and Investment Committee

The Committee has six members and is chaired by Mrs Wendy Lucas-Bull, an independent non-executive Director. The Committee is responsible for the consideration and approval of credit and investment proposals. In addition, it reviews the Bank's credit strategy; credit risk management programme; trends in portfolio quality; the adequacy of provision for credit losses; new products and financial instruments; and the credit risk management policies approved by the Board.

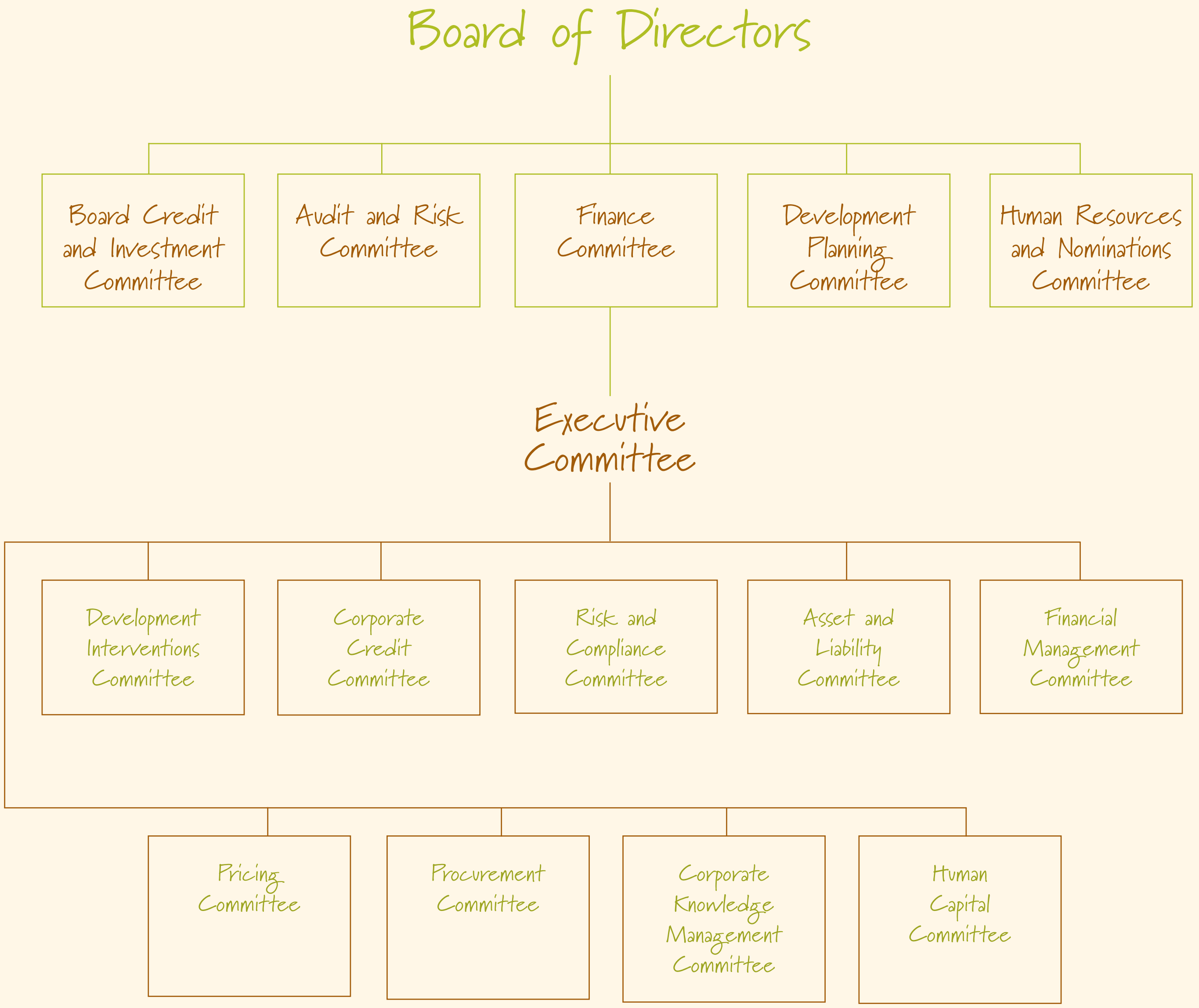
Development Planning Committee

The Committee currently consists of four Directors and three co-opted members. Until her resignation on 31 October 2010, Dr Lulu Gwagwa, an independent non-executive Director, chaired the Committee. Mr Andrew Boraine is currently acting as Chairperson. The Committee oversees the implementation of the knowledge management strategy approved in 2001 to ensure the integration of knowledge management products within the Bank. It serves as a sounding board for corporate knowledge publications, and development policy and research products. To assist it in this function, the Committee has appointed a review board composed of specialists in the different sectors to provide guidance on the flagship publications of the DBSA.

Human Resources and Nominations Committee

The Committee has four main responsibilities: oversight of the implementation of the Bank's human capital strategy; oversight of remuneration practices; the vetting of key appointments and nominations, including those of Directors; and oversight of governance and issues related to Directors. The membership of the Committee changed during the year with the retirement of two Directors and the resignation of the Chairperson. The Committee has five members, all of whom are independent non-executive Directors. The Board has appointed Mr Frans Baleni to chair the Committee, and two new Directors were appointed during the year under review. The Chief Executive Officer is an invited member of the Committee.

DBSA decision-making structure



Board and committee composition and record of attendance

The Board met six times during 2010/11. The composition of the Board and its committees, together with the record of attendance of individual Directors, is shown in the table below.

DBSA Board and committee composition and record of attendance at meetings, 2010/11

	DBSA Board	Audit and Risk Committee	Finance Committee	Credit and Investment Committee	Development Planning Committee	Human Resources and Nominations Committee
Number of meetings	6	4	4	10	4	4
Directors						
Mr J Naidoo[1]	2/6					1/4
Mr J Moleketi*[2]	6/6			7/10		2/4
Mr P Baloyi**	5/6	4/4	4/4	7/10	4/4	3/4
Mr F Baleni	6/6					3/4
Mr A Boraine	6/6	2/4	2/4		3/4	
Mr K Brown[3]	4/6					
Mrs T Dingaan[+]	6/6	4/4	4/4	9/10		
Dr L Gwagwa[4]	4/6	1/4	2/4		2/4	
Mr O Latiff[+]	5/6	4/4	4/4			
Mrs W Lucas-Bull[+]	5/6	3/4	3/4	10/10		
Dr C Manning	5/6			9/10		3/4
Mr I Mzimela[5]	5/6					3/4
Prof. E Webster[5]	3/6				1/4	
Members co-opted to Board Committees						
Prof. D Everatt					4/4	
Prof. B Figaji				9/10		2/4
Dr R Kfir					3/4	
Prof. V Taylor					3/4	

* *Chairperson*
** *Executive*
\+ *Chairperson of a Committee*
1. *Retired as Chairperson of the Board with effect from 31 August 2010.*
2. *Appointed as Chairperson of the Board with effect from 1 September 2010.*
3. *Shareholder representative.*
4. *Resigned as Director with effect from 21 October 2010.*
5. *End of contract and resigned as Director on 31 January 2011.*

Corporate Secretary

All Directors have access to the advice and services of the Bank's Corporate Secretary. In terms of the DBSA Act, the functions of the Corporate Secretary are in line with the provisions of the Companies Act. The DBSA has lodged with the National Treasury all such returns as are required of public entities in terms of the PFMA and gives assurance that such returns are accurate, correct and up to date.

Directors' remuneration policy

The Board is remunerated for services in line with the policy in this regard approved in March 2009, which introduced a combination of an annual retainer and attendance fees for members of the Board and its subcommittees.

The Board members are remunerated for providing strategic guidance to management both in formal Board and committee meetings and outside them. They are also compensated for expenses incurred on the Bank's business.

Details of all the fees and expenses paid to Board members during the year under review are shown on page 132.

Ethics management

The Bank sets a high value on the ethical behaviour of the organisation and its employees. During 2010/11, the Code of Ethics was reviewed and aligned with best practice. Awareness of the code among employees is a primary focus area and programmes have been established to reinforce this in 2011/12. The ethics officer played a critical role in offering counsel on request to staff members to ensure that ethical principles are clearly understood. A dedicated ethics helpline was launched to encourage staff to seek advice on ethical issues and report any concerns in this regard.

The Bank also reviewed its conflict of interest procedures to ensure compliance and alignment with best practice, in keeping with the obligations imposed by the PFMA, the DBSA Act and other relevant legislation.

Apart from declarations in the register, the Bank did not undertake any transactions during the year in which the Directors had a financial or significant interest. A list of prior related-party transactions involving Board members is provided on page 129.

Internal control environment

Responsibility for the systems of internal financial and operational control rests with the Board and has, without subrogation, been delegated to the Audit and Risk Committee. The Bank's governance principles on ethical behaviour, legislative compliance and sound accounting practice lay the foundation for its internal control processes, while the enterprise-wide risk management approach and risk strategy adopted by the Board form the framework for internal control. Executive management is accountable for determining the adequacy, extent and operation of control systems.

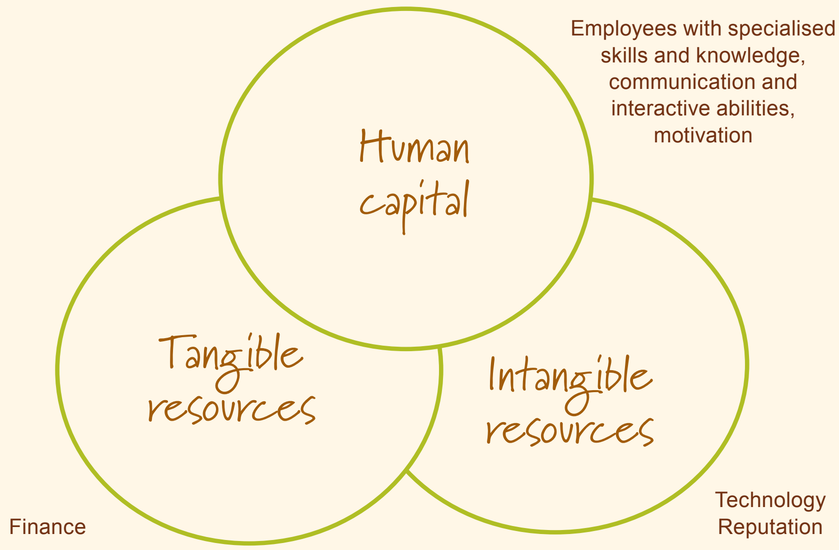
The Internal Audit function conducts periodic reviews of any functional area to provide independent assurance to the Board and management on the effectiveness of the internal control system. Members of the Audit and Risk Committee review the work of Internal Audit, and the Head of Internal Audit has unfettered access to the Chairpersons of the Audit and Risk Committee and the Board to ensure the escalation of any significant audit matters requiring immediate Board attention. During the year under review, the Internal Audit function performed its work in accordance with the approved internal audit plan.

Fraud prevention and whistle-blowing

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

Governance and management overview – Human Capital

The Human Capital Division seeks to develop the DBSA's organisational capability and its ability to use its resources in a coordinated way to achieve a given result. These resources are shown in the figure below.



In the light of new thinking around core and key capabilities, the Division's focus has shifted. Whereas in the past, the focus was outside the organisation, on understanding the external or environmental factors of strategy, now it is on the internal organisation, on understanding the enablers of capability, systems and work processes, organisational structure, culture and resource combinations. This new perspective allows for the determination of organisational needs in terms of skills, processes and systems, and is a key part of the drive to establish the Bank as a centre of excellence in development finance.

In 2010/11, the Human Capital Division concentrated on organisational capability in relation to people, processes and systems.

Leveraging human capital (people)

During the past year, the Bank strengthened its capabilities in the management of human capital in several ways:

- The Division's service delivery model was refined
- The divisional structure was aligned with the service delivery model
- Divisional governance processes were implemented to ensure that the model is continuously reviewed and refined, and that service delivery is actively managed and monitored
- The ongoing relevance of the human capital strategy in relation to the strategic direction of the Bank was validated

The refined service delivery model has three tiers:

- Administrative and transactional services, working "on the business" through the Human Capital Operations Unit
- The development of products and services related to human capital, working "with the business" through the Human Capital Solutions Management Unit
- Strategic business partnering, working "in the business" through the Human Capital Business Partner Units in the DBSA and the DBSA Development Fund

The realignment and restructuring of the Division enabled it to concentrate on building capability within the Bank.

During 2010/11, a total of R14,2 million was spent on training, against a target of R14,8 million. The Bank trained 694 employees in the following skills:

- Primary: Finance, economics, commerce, development planning, administrative and secretarial skills
- Specialist: Information technology, legislation and compliance, risk management, corporate and project finance, and social analysis
- Foundational: Business communications, report writing, research, investment, skills development, process skills, technical and personal growth
- Leadership and management: Personal growth, management and leadership development

In addition to building internal capabilities, there was a focus on maintaining the required levels of skilled staff. A vacancy rate of 7,97% was achieved, against a target of 10%. In future, the Division plans to emphasise talent management and the retention of core skills as a means of boosting organisational capacity.

In the year under review, as an important part of developing the DBSA's Employee Value Proposition, the Division conducted a survey to determine employee satisfaction levels. While the primary intention of the survey was not to measure the current level of engagement among employees, the rating with regard to satisfaction level was 3,5 (against a target of 3,6). The survey is the first of its kind and will serve as the baseline for 2011/12.

In line with the Bank's commitment to people as a strategic asset, the Division launched innovative initiatives for the employee wellness programme. A healthy work environment is an important factor in optimising individual and organisational performance, and promotes healthy employee relations. This aspect of the business was further strengthened through a more proactive, progressive approach to the management of discipline.

Leveraging intangible resources (processes and systems)

The Division seeks to balance strategic partnering with operational efficiency. Strategic partnering can best be achieved when operational efficiency and effectiveness are optimised, which in turn requires sound business processes. In the year under review, the Division re-engineered the current business processes to align with the service delivery model and the newly implemented SAP management information system for human resources. This allows for a clear segregation of duties and delineation of roles and responsibilities in the three areas of the Division's work. During the year, the SAP Human Capital Module was implemented as part of the overall IT strategy to provide the Bank with an integrated, enterprise-wide platform. This new platform eliminated several labour-intensive processes, thus reducing the risk of human error.

The year ahead

In 2011/12, the Division will adopt a focused approach to interventions, as opposed to the broad-ranging approach of the past. The emphasis will be on interventions that drive delivery on the strategy and on the effective management of productive employees through the relevant managers, with the assistance of their Human Capital Business partnering team. Human capital will be leveraged to strengthen the organisation's capability to deliver on its strategy. There will also be a concerted effort to maintain efficient and effective human capital processes and to improve decision-making through monitoring and reporting.

Award-winning green economy project at 3 Crowns School in Chris Hani District Municipality.

Risk management overview

"As part of the strategic planning, a rigorous risk assessment process is followed to ensure that the Bank's top risks are identified and managed."

Paul Currie
Group Chief Risk Officer

As a development finance institution, the DBSA plays an important role in the development of South Africa and the region, especially in addressing institutional and market failure. Risk management is therefore fundamental to the Bank's activities. It has a crucial part in ensuring that the Bank delivers on its mandate while remaining financially viable and sustainable in its interventions.

Enterprise-wide risk management framework

The DBSA's enterprise-wide risk management framework involves risk governance, risk assurance, risk control and risk oversight.

In line with the principles of best practice and good corporate governance, the Board of Directors is accountable for the management of risk in the DBSA. The Board's Audit and Risk Committee is mandated to oversee the implementation of the Bank's enterprise-wide risk management framework.

As part of the strategic planning, a rigorous risk assessment process is followed to ensure that the Bank's top risks are identified and managed. The process involves extensive consultations with Board members and executive management, as well as benchmarking against reputable external sources. The top risks are reviewed regularly and reported on through various operational, management and Board subcommittees.

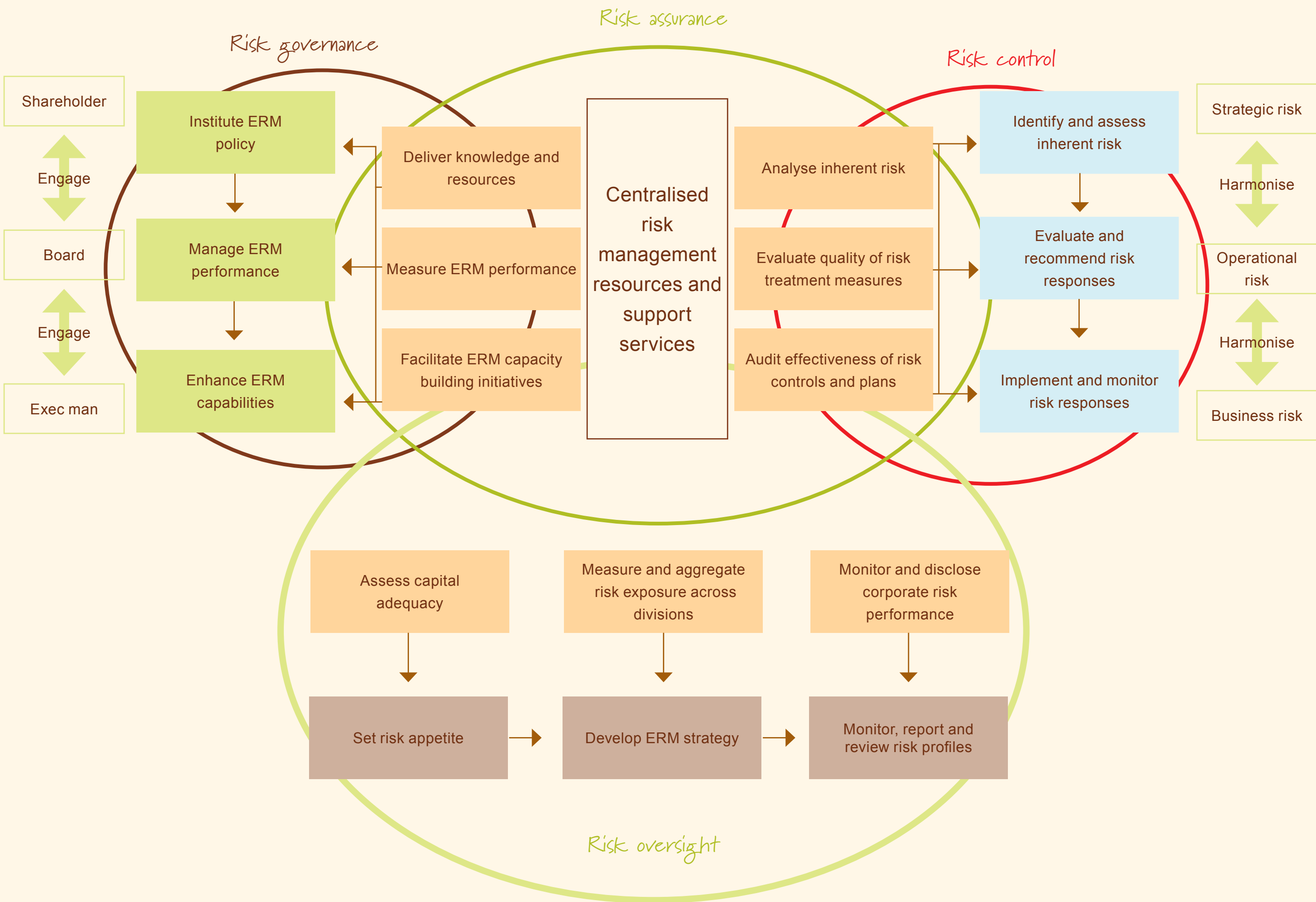
Each business division is accountable for managing risks arising in its area of operation. To assist in this, the Group Risk Assurance Division deploys expertise in different risk disciplines via a shared-services model and develops risk management tools for adoption.

The Group Risk Assurance Division is responsible for assisting the Board and its Committees in managing risk on a day-to-day basis. The Division also assists management in improving the system of internal controls and ensuring that the Bank applies responsible risk-taking in line with the tolerance levels and delegations approved by the Board, and within the enterprise-wide risk management framework.

The Internal Audit function provides independent assurance to the Board on the effectiveness of systems of internal control and risk management within the Bank. It reports operationally to the Chief Risk Officer and is functionally accountable to the Chief Executive Officer and the Board, through the Audit and Risk Committee.

The Bank categorises its risk exposures broadly into credit and investment risk, operational risk and market risk. The Treasury function is responsible for managing market risk. An overview of the credit and investment and operational risks is provided below.

The DBSA's enterprise-wide risk management (ERM) framework



Credit and investment risk management

Governance

The Board has delegated the responsibility for the management of credit and investment risk to its Credit and Investment Committee, supported by the management-level Corporate Credit Committee. The Board Credit and Investment Committee is responsible for the approval of all transactions that would result in the Bank's aggregate exposure to a single obligor exceeding R100 million. The Corporate Credit Committee, which is chaired by the Chief Risk Officer, is responsible for approving all transactions that would result in the Bank's aggregate exposure to a single obligor exceeding R25 million but not reaching R100 million. The Committee is also responsible for recommending aggregate exposures of more than R100 million to the Board Credit and Investment Committee. Aggregate exposures between R10 million and R25 million are jointly approved by the Chief Risk Officer and the Group Executive of the division making the application, while those below R10 million are jointly approved by the Head of Risk responsible for the division and the Group Executive of that division. Each division reports all approvals within its mandate to the Corporate Credit Committee on a monthly basis, while the Committee reports all approvals up to R100 million to the Board Credit and Investment Committee on a quarterly basis.

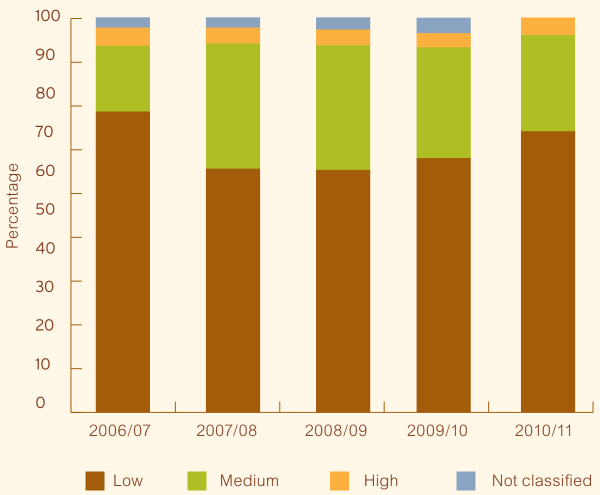
Risk management overview continued

In this past year, the Bank continued to strengthen the policies and processes related to its credit and investment risk management. The Board Credit and Investment Committee approved an enhanced country risk policy, which was implemented at the beginning of the year. In terms of this policy, the Bank takes a differentiated approach to risk appetite in other SADC countries, based on the country risk rating of each country.

Quality of the credit portfolio

The improvement in the credit environment over the last year has had a positive impact on the overall quality of the Bank's loan book. Loans classified as low risk increased compared to 2009/10, while loans classified as medium risk decreased, as some migrated to the low-risk category. High-risk loans increased slightly, mostly owing to the reclassification of non-performing loans into the high-risk category. In previous years, the Bank included non-performing loans in the non-classified category. However, improvements in the risk classification methodology resulted in the non-performing loans being included in the high-risk category in 2010/11.

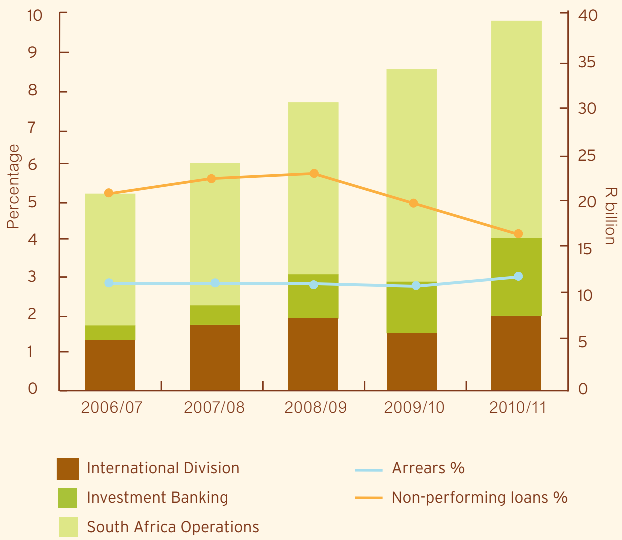
Risk classification of total loan book by value, 2006/07 to 2010/11



The total loan book increased by 15% to R38,8 billion from R33,7 billion in 2009/10. The loan books of the International Division and the Investment Banking Division grew by 28% each, while the loan book of South Africa Operations grew by 7%. The significant increases in the first two loan books resulted from the partial disbursement of a number of large loans to clients such as Eskom and the Zambian Road Fund Agency.

The level of non-performing loans as a percentage of the gross loan book improved from 4,8% in 2009/10 to 4,2% in 2010/11. This resulted from good recoveries on non-performing loans, as well as the quality of clients added to the book during the year. By year-end, the non-performing loans coverage ratio (provisions held against non-performing loans divided by the amount of non-performing loans) was 43%, as against 35% at the end of 2009/10. Arrears as a percentage of the gross loan book increased from 2,8% to 3,1%. By the end of April 2011, arrears had declined to 2,5% (2010: 2,6%) of the gross loan book, as some clients only paid during April. After adjusting for technical arrears, 82% (2010: 88%) of the arrears are attributable to the non-performing book.

Credit performance of total loan book, 2006/07 to 2010/11



Operational risk management

Operational risk management includes the management of risks related to people, systems and processes; regulatory compliance; and legal and business continuity.

During the year, the operational risk function continued to assist the Board and executive management in managing operational risks through enhanced reporting to the Board and management committees. The function also continued to provide support for the identification and management of the Bank's top risks. This included the provision of Bank-wide training through operational risk workshops. A new internal loss database was implemented and the risk management software was updated to strengthen the Bank's risk-reporting capabilities.

The top risks identified and managed include the following:

- The sustainability of the Bank
- The appropriateness of the business model
- The management and engagement of stakeholders
- Coordination of divisional efforts to deliver on the mandate
- The management of talent and organisational capability
- Business disruptions and systems failures
- Fraud and corruption

- Non-compliance with applicable legislation, regulations and statutory requirements
- A decrease in asset quality
- Brand management and damage to the reputation

Regulatory compliance risk management

The compliance risk function provides ongoing support to business units and management on the regulatory environment of the DBSA. The Bank's compliance governance framework was reviewed during the year, resulting in the adoption of a Compliance Charter and manual, as well as a policy statement on the Bank's position on effecting compliance risk management across the organisation.

This year, the focus of the function was twofold. First, it managed adherence to compliance requirements at a transactional level through the effective implementation of important regulatory requirements such as the Financial Intelligence Centre Act (FICA), No. 38 of 2001. Second, it drove staff adherence to anti-money-laundering practices. Ongoing training has been conducted to ensure that the staff understand and fully comply with the increased responsibilities imposed by the Act. The Bank also implemented a software system for checking counterparty principals against the sanctions lists, as part of the credit-granting processes.

The function submits quarterly reports on compliance-related matters and periodically provides advice on proposed legislation and amendments to current practice as part of the ongoing compliance process. In view of the increasing drive to regularise state-owned entities, the DBSA continuously engages with other development finance institutions to develop compliance efficiencies based on best practice.

The year ahead

The DBSA plays a major role in the development of the country and the region. The shareholder expects the Bank to do more to deliver development impact, while remaining financially self-sustaining and viable. During the past year, the Bank was given mandates to play a leading role in the delivery of several major national infrastructure programmes. This will result in a significant change in the size and nature of the transactions the DBSA will co-finance with the private sector. The national support provided to these programmes is likely to result in improvements in the overall quality and risk profile of the Bank's loan book.

The Board and management of the Bank recognise the increased implementation risks that accompany these mandates. The Group Risk Assurance Division is implementing appropriate risk management strategies to strengthen the Bank's ability to take on these risks.

Some of these risk management initiatives include:

- Further integration of risk management into the various divisions of the Bank: This initiative involves the decentralisation of risk control from the Group Risk Assurance Division to the various divisions. Each division will strengthen its capability to manage risk at source while risk specialists will enhance their understanding of the risks undertaken by the divisions with which they work. Group Risk Assurance will retain a central, Bank-wide assurance function, which will include setting policies and standards for risk management, as well as monitoring and reporting on risk across the organisation.
- Review and enhancement of risk measurement tools: All the credit-rating tools used in the Bank will be reviewed and validated to ensure that credit risk is appropriately measured. An independent credit models technical committee has been established to ensure the proper evaluation and validation of credit risk models used in the Bank.
- Delivery of a Bank-wide credit risk training programme: A globally respected service provider has been appointed to deliver a training programme on credit risk, tailored specifically to the needs of the Bank. Each employee involved in the Bank's credit processes will be required to receive the training.
- Enhanced credit risk reporting: Divisionalised structures for credit risk management are currently being piloted in one of the lending divisions of the Bank and will be rolled out to other lending divisions in the year ahead. The divisionalisation involves strengthening the divisional credit committees and setting up divisional portfolio management committees. The Group Risk Assurance Division will be represented on each of the divisional portfolio management and credit committees, and will be responsible for aggregating credit risk across the Bank and reporting to senior management and the Board.
- Enhanced enterprise-wide risk management: A divisional enterprise-wide risk management committee was piloted in the Group Risk Assurance Division during the year. Similar committees are to be set up in each division in the year ahead. The Group Executive of each division will be responsible for the division's committee and for ensuring that risks are reported in line with the enterprise-wide risk management framework. The Group Risk Assurance Division will be represented in each division's committee and will be responsible for aggregating enterprise-wide risks and for reporting to senior management and the Board. Enterprise-wide risks are defined as all risks that the Bank faces excluding credit risk, which is managed through separate committee structures.
- Enhanced risk management coordination: Risk management coordination across the Bank is being enhanced to ensure that the implementation risks of the national mandates are properly identified and managed. The Group Risk Assurance Division will act as a central coordination point for monitoring and reporting risks across the entire Bank.


Rehabilitating Spekboom in the Eastern Cape

Annual financial statements

Contents

Directors' responsibility for financial reporting
for the year ended 31 March 2011

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 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 adhered to
- Sections 284 to 303 of the Companies Act of South Africa have been adhered to

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

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

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

The financial statements that appear on pages 78 to 147 were approved by the Board of Directors on 30 June 2011 and signed on its behalf by:

Phillip Jabulani Moleketi
Chairman of the Board

Paul Cambo Baloyi
Managing Director

Omar Aboobaker Latiff
Chairman of the Audit Committee

Report of the Audit Committee

for the year ended 31 March 2011

We are pleased to present our report for the financial year ended 31 March 2011.

The Audit Committee members and attendance are reflected in the governance and management overview on page 64 in the corporate governance statement.

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the PFMA and Treasury Regulations 27.1.7 and 27.1.10(b) and (c).

Section 51(1)(a)(ii) of the PFMA states the following:

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

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

The effectiveness of internal control

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

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

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

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

Evaluation of financial statements

The Audit Committee has:

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

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

Omar Aboobaker Latiff
Chairman of the Audit Committee

Independent auditors' report to Parliament
for the year ended 31 March 2011

Report on the financial statements

We have audited the annual financial statements of the Development Bank of Southern Africa Limited, which comprise the statement of financial position at 31 March 2011, and the income statement and statements of comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements which contain a summary of significant accounting policies and other explanatory notes and the Directors' Report as set out on pages 78 to 147, excluding the performance information on pages 79 to 81.

Accounting Authority's responsibility for the financial statements

The Board of Directors, which constitute the Accounting Authority, are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, the requirements of the Public Finance Management Act of South Africa, and sections 284 to 303 of the Companies Act of South Africa as specified in the Development Bank of Southern Africa Act, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Development Bank of Southern Africa Limited at 31 March 2011, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, the requirements of the Public Finance Management Act of South Africa and sections 284 to 303 of the Companies Act of South Africa as specified in the Development Bank of Southern Africa Act.

Report on other legal and regulatory requirements

In terms of the Public Audit Act of South Africa and General Notice 1111 of 2010, issued in Government Gazette No. 33872 of 15 December 2010, we report on the following:

Predetermined objectives

We are required by the Auditor-General to undertake a limited assurance engagement on the "Performance against the shareholder compact", as set out on pages 79 to 81 of the Annual Financial Statements in the section headed Performance information, in which the actual performance of the Bank for the year ended 31 March 2011 is compared with target key performance indicators (predetermined objectives), and report thereon to those charged with governance. In this Report we are required to report our findings from our engagement relating to non-compliance with regulatory requirements, where the reported information was inadequately presented or not received timeously, and where we have evaluated reported information to be not useful or reliable. We report that there are no material findings on the performance against the shareholder compact.

Compliance with laws and regulations

We are required to report on compliance with laws and regulations in accordance with the guidance contained in the applicable R3: Reporting Guide of the Auditor-General. We report that there were no material findings on non-compliance with laws and regulations on the basis set out in the Guide.

Internal control

We considered internal control relevant to our audit of the financial statements, and the reports on predetermined objectives and compliance with laws and regulations, but not for the purpose of expressing an opinion on the effectiveness of internal control. We report that there were no deficiencies identified during our audit that resulted in a modification of the auditors' opinion on the financial statements and material findings on predetermined objectives and compliance with laws and regulations.

KPMG Inc.
Registered Auditor

Per: S van den Boogaard
Chartered Accountant (SA)
Registered Auditor
Director
30 June 2011

KPMG Forum
1226 Schoeman Street
Hatfield
Pretoria

Gobodo Inc.
Registered Auditor

Per: L Govender
Chartered Accountant (SA)
Registered Auditor
Director
30 June 2011

41 West Street
Houghton
Johannesburg

Directors' report
for the year ended 31 March 2011

The Directors have pleasure in presenting this report as part of the annual financial statements of the Development Bank of Southern Africa (DBSA), for the year ended 31 March 2011.

Nature of business

The DBSA is a development finance institution wholly owned by the South African government. The Bank aims to deepen its development impact in South Africa and the rest of the Southern African Development Community (SADC) by expanding access to development finance while effectively integrating and implementing sustainable development solutions. Since its founding in 1983, the DBSA has expanded its roles to serve as financier, advisor, partner, implementer and integrator to the benefit of its clients.

Financial results and activities

The financial results of the Bank are fully disclosed on pages 84 to 147. The key financial indicators for the year under review are:

- Net interest income increased by 0,7% to R1,64 billion (2009/10: R1,63 billion) and realised operating income of R1,38 billion (2009/10: R1,89 billion).
- The cost-to-income ratio increased from 40,5% to 41,2%.
- The Bank earned a profit from operations of R332 million in the year under review (2009/10: R875 million).
- During the year under review, the Bank disbursed development loans and equity investments amounting to R8,3 billion (2009/10: R8,3 billion).
- The quality of the loan book remains within acceptable parameters, with non-performing loans at 4,2% of the total loan book (2009/10: 4,9%), while the provision for loan impairment is R909 million (2009/10: R732 million).
- The long-term debt-to-equity ratio increased to 161,1% (2009/10: 148,5%).

High-level performance overview

The DBSA's strategy stresses the importance of achieving development impact while maintaining financial sustainability. The Balanced Scorecard (BSC) methodology is used to implement and monitor strategy. To this end, corporate strategic objectives and targets are developed and approved by the Board of Directors. The tables below compare the targets set for 2010/11 and the actual performance on the high-level corporate strategic objectives. The Bank achieved satisfactory results during 2010/11, meeting a large majority of its strategic objectives. This is indicative of its commitment to delivering on its vision of an "integrated region progressively free of poverty and dependence".

The Directors draw attention to the fact that this report contains the performance information on the average annual impact of the Bank's funding participation in the economies of South Africa and other SADC countries. The impact is estimated using social accounting matrix (SAM) models, which are internationally accepted as good practice for macroeconomic impact analysis. The models are based on published data obtained from Statistics South Africa, the South African Reserve Bank and available sources for other SADC countries, and are adjusted to reflect current prices. Where data for other countries is unavailable, the data for South Africa is used as a proxy. The resulting performance information is therefore subject to any limitation of the data used in the models.

Performance information

Balanced Scorecard perspective: Development impact

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Co-deliver social and economic infrastructure and promote broad-based economic growth, job creation, regional integration and prosperity	Provide assistance for clients' social and economic infrastructure projects	DBSA Development Fund		
		• Siyenza Manje:		
		– Municipal infrastructure grant/capital expenditure	R7 billion	R8,7 billion
		– Number of projects completed	1 000	3 108
		• Vulindlela Academy: Number of external learners trained	10 000	11 381
		• Agencies:		
		– Effective compliance with Agency Programme life cycle	90%	99%
		– Value of infrastructure facilitated	R115 million	R2,6 billion
		Results driven by unexpected growth in the IDIP programme led by education (R998 million) and health (R1,6 billion) projects		
		• Sustainable Communities: Value of projects referred for funding	R900 million	R2,9 billion
		Conceptualised and structured development projects, including Mud Schools Eradication Programme (R2,5 billion)		
		• Operations and maintenance:		
		– Operations and maintenance plans developed and implemented	12	19
		– Number of small, medium and microenterprises benefiting from operations and maintenance	15	17
		Customer and Partner satisfaction with the value, quality and relevance of the expertise offered by the DBSA	Rating of 4 out of 5	Rating of 3,8 out of 5
		Disbursements: Total rand value of lending and investment activities	R8,2 billion (Note 1)	R8,3 billion

Note 1: During the year, the Board revised the disbursement target from R13,6 billion to R8,2 billion, owing to the continued impact of the difficult economic environment and the challenge of accessing cost-effective liquidity. Other derived key performance indicators were amended accordingly.

Directors' report continued
for the year ended 31 March 2011

Performance information (continued)

Balanced Scorecard perspective: Development impact (continued)

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Co-deliver social and economic infrastructure and promote broad-based economic growth, job creation, regional integration and prosperity	Provide assistance for clients' social and economic infrastructure projects	Share of rand value of disbursements in South Africa to identified public sector intermediaries:		
		• Municipalities: High capacity	36%	11%
		• Municipalities: Medium capacity	15%	17%
		• Municipalities: Low capacity	3%	1%
		• Non-municipal clients	11%	46%
		Planned investments in various client categories were negatively affected by the continued difficult economic environment and slower than expected implementation of key new infrastructure initiatives		
		Number of projects committed in favour of low-capacity municipalities	20%	17%
		Planned commitments in favour of low-capacity municipalities were lower owing to the slower than expected implementation of key new infrastructure initiatives specifically targeted at these municipalities		
		Total rand value of grants disbursed	R165 million	R113 million
		Grants disbursed were lower owing to the more effective use of third-party resources for development initiatives and the DBSA's overall cost management strategy		
		Projects originated in South Africa		
		• Number of projects originated approved	6	6
		• Number of projects originated launched	3	3
		Estimated number of jobs facilitated, both temporary and permanent	94 630	147 362
		Estimated number of households benefiting from access to basic services	442 583	1 443 713

Balanced Scorecard perspective: Sustainability

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Serve as a centre of excellence for effective development finance, knowledge and governance	Be a leading model in the African development finance scene, in the areas of development expertise, development effectiveness and sustainability; effective corporate governance; and financial sustainability	Quality of policy engagement and research:		
		• Quality of research	Rating of 4 out of 5	Rating of 3,9 out of 5
		• Dissemination of recommendation to key stakeholders	Rating of 4 out of 5	Rating of 4,4 out of 5
		• Adoption of recommendation	Rating of 4 out of 5	Rating of 4,5 out of 5
Engender internal financial sustainability	Secure financial sustainability by managing income and its direct costs	Sustainable earnings (defined as earnings before adjustments for foreign exchange, revaluations, technical assistance grants and grants to the DBSA Development Fund)	R797 million	R853 million
		Cost-to-income ratio	42,7%	41,2%
	Maintain financial health	Maintain corporate credit rating in line with sovereign rating	Maintain rating in line with sovereign rating	Rating maintained
	Apply integrated risk management to mitigate business risk	Non-performing book debt as a % of total book debt	Below 6%	4,2%

Balanced Scorecard perspective: Organisational capability

Strategic goal	Strategic objective	Key performance indicator	Target	Results
Serve as a centre of excellence for effective development finance, knowledge and governance	Be a leading model in the African development finance scene, in the areas of development expertise, development effectiveness and sustainability; effective corporate governance; and financial sustainability	Market perception of the DBSA's image in the development finance scene	Rating of 4 out of 5	Rating of 4,2 out of 5
Engender internal financial sustainability	Appropriate levels of competent, motivated and empowered staff to achieve strategic objectives	Value of spending on staff training	R14,8 million	R14,2 million
		Level of staff engagement (employee value proposition)	Rating of 3,6 out of 5	Rating of 3,5 out of 5
		% of unfilled vacancies at year-end as a % of total staff (corporate-wide)	10%	8%
	Optimise and leverage knowledge and intellectual capital to add value to clients, partners and stakeholders	Staff satisfaction with internal knowledge management	Satisfaction level of 4 out of 5	Satisfaction level of 3,9 out of 5

Directors' report continued
for the year ended 31 March 2011

Dividend
No dividend has been declared for the current and previous financial year.

Share capital
No changes were made to the authorised and issued share capital of the Bank. However, the Minister of Finance has agreed to recommend to Parliament that the DBSA Act be amended to increase the callable capital of the Bank from the current R4,8 billion to R20 billion. The Minister has also agreed to issue an interim Letter of Undertaking amounting to R15,2 billion in favour of the DBSA, which may be accessed as at the reporting date. This Letter of Undertaking will lapse when the Minister gives final approval for the increase in callable capital.

Going concern
The Directors have no reason to believe that the DBSA will not be a going concern in the foreseeable future, based on forecasts and available cash resources.

Borrowing power
The borrowing power of the Bank is limited to 2,5 times the permanent capital and accumulated reserves. It should be noted that the regulated leverage ratio has been amended to include the callable capital as equity.

Directorate and Secretariat
Details pertaining to the names of Board members and the Secretariat appear on pages 82 to 83.

Non-executive Directors are subject to retirement by rotation. They hold office for a period of three years, but are eligible for reappointment. The Chief Executive Officer may be appointed for a period not exceeding five years, but is eligible for reappointment.

Details of the Directors' service contracts are as follows:

Name	Position	Period	
Current		From	To
Mr J Moleketi	Independent non-executive Chairperson	1 January 2010	31 December 2012
Mr F Baleni[1]	Independent non-executive Deputy Chairperson	1 January 2010	31 December 2012
Mr P Baloyi[2]	Chief Executive Officer and Managing Director	1 July 2006	30 June 2011
Mr A Boraine	Independent non-executive Director	1 August 2008	31 July 2011
Mr K Brown	Non-executive Director	1 January 2010	31 December 2012
Mrs T Dingaan[3]	Independent non-executive Director	1 August 2007	31 July 2010
Mr O Latiff[3]	Independent non-executive Director	1 August 2007	31 July 2010
Mrs W Lucas-Bull	Independent non-executive Director	1 August 2008	31 July 2011
Dr C Manning	Independent non-executive Director	1 August 2008	31 July 2011

1. *Appointed as Deputy Chairperson on 1 September 2010.*
2. *After the year-end, Mr P Baloyi's contract was renewed for a further period from 1 July 2011 to 30 June 2016.*
3. *Contract ended. It is common practice to continue as Director until the Minister has appointed a replacement Director. In the interim, these members have been co-opted on to the Board.*

Name	Position	Period	
During the year		From	To
Dr L Gwagwa[4]	Independent non-executive Director	1 August 2007	31 October 2010
Mr I Mzimela[4]	Independent non-executive Director	1 August 2007	31 January 2011
Mr J Naidoo[5]	Independent non-executive Chairperson	1 August 2008	31 August 2010
Ms T Ramano[4]	Independent non-executive Director	1 August 2007	21 April 2010
Prof. E Webster[4]	Independent non-executive Director	1 August 2007	31 January 2011

4. Resigned.
5. Retired.

The details of the Directors' interests in related party transactions and Directors' emoluments are set out in notes 40 and 44 respectively of the financial statements.

Business and registered address

The Bank's business and registered address details are:

Company 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 3993

Events after the reporting period

The Directors are not aware of any matters or circumstances arising since the end of the financial year, not dealt with in the annual financial statements, which will have a significant effect on the operations of the Bank, the results of the operations or the financial position of the Bank.

Information presented in terms of section 55(2)(b) of the PFMA

I. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: there were no instances where the Bank sustained material losses.

II. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Bank sustained material losses.

III. Particulars of any losses recovered or written off: no material losses were recovered or written off other than in the ordinary course of business.

IV. Particulars of any financial assistance received from the state and commitments made by the state on behalf of DBSA: no such financial assistance was received.

Statement of financial position

as at 31 March 2011

in thousands of rand	Notes	2011	Restated 2010
Assets			
Cash and cash equivalents	16	**1 179 562**	2 706 788
Other receivables	17	**108 007**	139 043
Investment securities	18	**2 794 904**	3 090 286
Investments under resale agreements	19	**218 022**	1 167 750
Derivative assets held for risk management	20.1	**1 145 848**	1 263 236
Post-retirement medical benefits investment	21	**68 066**	68 724
Home ownership scheme loans	22	**13 094**	15 517
Equity investments	23	**3 477 848**	3 164 845
Development loans	25	**37 845 148**	32 968 542
Property and equipment	26	**469 837**	412 139
Intangible assets	27	**76 780**	59 083
Total assets		**47 397 116**	45 055 953
Liabilities			
Other payables	28	**628 420**	689 051
Liability for funeral benefits	29.1	**4 526**	4 036
Liability for post-retirement medical benefits	29.2	**262 788**	233 913
Medium- to long-term funding debt securities	30	**23 344 779**	21 334 430
Medium- to long-term funding lines of credit	31	**4 952 475**	4 539 441
Funding under repurchase agreements	32	**219 422**	370 674
Derivative liabilities held for risk management	20.2	**71 684**	82 093
Total liabilities		**29 484 094**	27 253 638
Equity			
Share capital	33	**200 000**	200 000
Retained earnings		**12 542 008**	12 564 575
Permanent government funding	34	**3 792 344**	3 792 344
Revaluation reserve on land and buildings	35	**245 730**	206 145
Hedging reserve	36	**15 318**	32 249
Reserve for general loan risks	37	**1 119 827**	1 022 146
Fair value reserve	38	**(2 205)**	(15 144)
Total equity		**17 913 022**	17 802 315
Total liabilities and equity		**47 397 116**	45 055 953

Income statement

for the year ended 31 March 2011

in thousands of rand	Notes	2011	Restated 2010
Interest income	5	3 587 673	3 602 473
Interest expense	6	(1 945 482)	(1 971 314)
Net interest income		1 642 191	1 631 159
Net fee income	7	114 142	88 644
Net foreign exchange loss	8	(57 168)	(260 649)
Net (loss)/gain from financial assets and liabilities	9	(398 903)	380 571
Other operating income	10	83 579	46 919
		(258 350)	255 485
Operating income		1 383 841	1 886 644
Grants		(65 192)	(67 452)
Net impairment loss on financial assets	11	(228 716)	(228 436)
Personnel expenses	12	(566 059)	(493 037)
Other expenses	13	(176 235)	(205 502)
Depreciation and amortisation	15	(15 525)	(16 990)
Profit from operations		332 114	875 227
Grant to Development Fund	40.2.2	(257 000)	(340 900)
Profit for the year		75 114	534 327

Statement of comprehensive income

for the year ended 31 March 2011

in thousands of rand	Notes	2011	Restated 2010
Profit for the year		75 114	534 327
Fair value adjustment of revaluation reserve on land and buildings	35	39 585	7 744
Fair value movement of cash flow hedges	36	(16 931)	14 720
Fair value adjustment of available-for-sale financial market instruments	38	12 939	10 021
Other comprehensive income		35 593	32 485
Total comprehensive income for the year		110 707	566 812

Statement of changes in equity

for the year ended 31 March 2011

in thousands of rand	Share capital	Permanent government funding	Revaluation reserve on land and buildings
Balance at 01 April 2009	200 000	3 792 344	198 401
Profit for the year	–	–	–
Other comprehensive income			
Transfer to revaluation reserve on land and buildings	–	–	7 744
Fair value movements of cash flow hedges	–	–	–
Fair value adjustment of available-for-sale financial market instruments	–	–	–
Transfer to reserve for general loan risks	–	–	–
Total changes	–	–	7 744
Opening balance as previously reported	200 000	3 792 344	206 145
Prior period adjustments	–	–	–
Balance at 01 April 2010 as restated	**200 000**	**3 792 344**	**206 145**
Profit for the year	–	–	–
Other comprehensive income			
Fair value adjustment to revaluation reserve on land and buildings	–	–	39 585
Fair value movements of cash flow hedges	–	–	–
Fair value adjustment of available-for-sale financial market instruments	–	–	–
Transfer to reserve for general loan risks	–	–	–
Total changes	–	–	39 585
Balance at 31 March 2011	**200 000**	**3 792 344**	**245 730**
Notes	33	34	35

	Hedging reserve	Reserve for general loan risks	Fair value reserve	Retained earnings	Total capital and reserves at the end of the year
	17 529	935 083	(25 165)	12 117 311	17 235 503
	–	–	–	534 327	534 327
	–	–	–	–	7 744
	14 720	–	–	–	14 720
	–	–	10 021	–	10 021
	–	87 063	–	(87 063)	–
	14 720	87 063	10 021	447 264	566 812
	32 249	1 022 146	(15 144)	12 652 543	17 890 283
	–	–	–	(87 968)	(87 968)
	32 249	**1 022 146**	**(15 144)**	**12 564 575**	**17 802 315**
	–	**–**	**–**	**75 114**	**75 114**
	–	**–**	**–**	**–**	**39 585**
	(16 931)	**–**	**–**	**–**	**(16 931)**
	–	**–**	**12 939**	**–**	**12 939**
	–	**97 681**	**–**	**(97 681)**	**–**
	(16 931)	**97 681**	**12 939**	**(22 567)**	**110 707**
	15 318	**1 119 827**	**(2 205)**	**12 542 008**	**17 913 022**
	36	37	38		

Statement of cash flows

for the year ended 31 March 2011

in thousands of rand	Notes	2011	Restated 2010
Cash flows from operating activities			
Profit for the year		**75 114**	534 327
Adjustments for:			
Depreciation and amortisation		**15 525**	16 990
Grants paid		**65 192**	67 452
Dividends received		**(16 168)**	(23 911)
Retirement of assets		**125**	–
Fees raised (development loans)		**(48 890)**	–
Realised capital gain on equity investment		**(57 643)**	(16 802)
Profit on sale of property and equipment		**–**	(117)
Net foreign exchange loss		**57 168**	260 649
Net loss/(gain) from financial assets and liabilities		**398 903**	(380 571)
Net impairment loss on financial assets		**228 716**	228 436
Net interest income		**(1 642 191)**	(1 631 159)
		(924 149)	(944 706)
Decrease/(increase) in other receivables		**17 913**	(20 678)
Decrease in home ownership scheme loans		**2 423**	1 180
Increase in other payables		**63 257**	17 801
Change in liability for funeral benefits and post-retirement medical benefits		**29 365**	7 671
		(811 191)	(938 732)
Interest and dividends received		**3 170 685**	3 344 700
Interest paid		**(2 266 411)**	(1 954 829)
Net cash generated from operating activities		**93 083**	451 139
Cash flows used in development activities			
Development loan disbursements		**(7 665 147)**	(7 838 807)
Development loan principal repayments		**2 672 829**	3 152 166
Net increase in equity investments		**(552 321)**	(394 395)
Grants paid		**(81 636)**	(44 243)
Net cash used in development activities		**(5 626 275)**	(5 125 279)
Cash flows from investing activities			
Purchase of property and equipment	26	**(28 328)**	(42 616)
Proceeds from the sale of property and equipment		**–**	187
Purchase of intangible assets	27	**(23 132)**	(48 951)
Movement in financial market assets		**1 694 341**	116 469
Net cash generated from investing activities		**1 642 881**	25 089
Cash flows from financing activities			
Financial market liabilities repaid		**(5 576 351)**	(1 461 000)
Financial market liabilities raised		**7 954 028**	6 411 337
Net cash generated from financing activities		**2 377 677**	4 950 337
Net (decrease)/increase in cash and cash equivalents		**(1 512 634)**	301 286
Effect of exchange rate movement on cash balances		**(14 592)**	(69 593)
Movement in cash and cash equivalents		**(1 527 226)**	231 693
Cash and cash equivalents at the beginning of the year		**2 706 788**	2 475 095
Cash and cash equivalents at the end of the year	16	**1 179 562**	2 706 788

Accounting policies

for the year ended 31 March 2011

1. Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and AC 500 series as published by the Accounting Practices Board, the requirements of the Public Finance Management Act of South Africa, and sections 284 to 303 of the Companies Act of South Africa as specified in the Development Bank of Southern Africa Act.

The financial statements were approved by the Board of Directors on 30 June 2011.

The financial statements have been prepared in accordance with IFRS (with consent from National Treasury for all Schedule 2 entities) and the interpretations issued.

1.1 Reporting entity

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

1.2 Basis of preparation

1.2.1 Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Derivative financial instruments are measured at fair value.
- Financial instruments at fair value through profit or loss are measured at fair value.
- Available-for-sale financial assets are measured at fair value.
- Land and buildings are measured at fair value.
- Post-retirement medical benefit and funeral benefit obligations are measured at actuarial values.
- Equity investments are measured at fair value.

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

1.2.2 Functional and presentation currency

These financial statements are presented in South African rands, which is the Bank's functional currency. All financial information presented in rands has been rounded to the nearest thousand, unless otherwise stated.

1.2.3 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements is given in the following notes:

- Note 1.3.5 – Hedge accounting
- Note 1.5.3 – Depreciation and the useful lives of property and equipment
- Notes 18, 19, 20, 30, 31 and 32 – Valuation of financial instruments
- Note 23 – Valuation of equity investments
- Note 25 – Measurement of the recoverable amounts of development loans
- Note 26 – Valuation of land and buildings
- Note 29 – Measurement of funeral benefit obligations and post-retirement medical benefit

Management discussed with the Audit Committee the development, selection and disclosure of the Bank's critical accounting policies and estimates, and the application of these policies and estimates.

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

1.3 Financial instruments

1.3.1 Financial assets

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

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

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

All financial assets are initially recognised on the trade date at which the Bank commits to buy or sell the instruments, except for loans, advances and the regular way purchases and sales transactions that require delivery within the timeframe established by market convention, which are recorded at settlement date.

Financial assets are initially measured at fair value plus, in the case of all financial assets not measured at fair value through profit or loss, transaction costs that are directly attributable to their acquisition.

Subsequent to initial recognition, the fair values of financial assets are measured as below, excluding transaction costs (refer to note 1.10.3).

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

A financial asset is classified as held-for-trading if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short-term profit-taking or if so designated by management. Derivatives are also classified as held-for-trading, unless they are designated as hedges at inception. Due to the non-speculative nature of business of the Bank, there are no financial assets classified as held-for-trading.

A financial asset is designated as at fair value through profit or loss because it either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the asset or recognising the gains or losses on a different basis; or a portfolio of financial assets is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel. Under these criteria, the main classes of financial assets designated by the Bank are equity investments and debt securities.

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

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include purchased loans. This category does not include those loans and receivables that the Bank intends to sell in the short term or that it has designated as at fair value through profit or loss or available-for-sale. Origination transaction costs and origination fees are capitalised to the value of the loan and amortised through interest income. The Bank does not believe that there is a comparable market for its targeted infrastructure programme loans.

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

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any allowance for impairment as per note 1.3.8.

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

Held-to-maturity financial assets

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

Financial assets classified as held-to-maturity include equity investments and investments in municipal and government bonds.

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

Available-for-sale financial assets

Available-for-sale financial assets are those intended to be held for an indefinite period of time and may be sold in response to liquidity needs or changes in interest rates, exchange rates or equity prices. Financial assets that are either designated in this category or not classified in any of the other categories are classified as available-for-sale financial assets. The main classes of financial assets classified as available-for-sale are money market placements and certain debt and equity investments, as well as government and corporate bonds.

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

1.3.2 Financial liabilities

The Bank classifies its financial liabilities into the following categories: financial liabilities at fair value through profit or loss; and other financial liabilities. The classification depends on the purpose for which the financial liabilities were acquired. Management determines the classification of financial liabilities on initial recognition and re-evaluates this classification at every reporting date.

Financial liabilities are recognised when the Bank becomes a party to the contractual provisions of the instrument. Financial liabilities are initially recognised at fair value, generally being their issue proceeds, net of transaction costs incurred. The best evidence of fair value on initial recognition is the transaction price, unless the fair value is evidenced by comparison with other observable current market transactions in the same instrument or based on discounted cash flow models and option pricing valuation techniques whose variables include only data from observable markets.

Financial liabilities at fair value through profit or loss

This category has two sub-categories: financial liabilities held-for-trading and those designated at fair value through profit or loss at inception.

A financial liability is classified as held-for-trading if the linked financial asset associated with this liability is acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial instruments in which there is evidence of short-term profit-taking or if so designated by management. Derivative liabilities are also classified as held-for-trading, unless they are designated as hedges at inception. Due to the non-speculative nature of business of the Bank there are no financial liabilities classified as held-for-trading.

A financial liability is designated as at fair value through profit or loss because it either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring the liability or recognising the gains or losses on it on a different basis; or a portfolio of financial liabilities is linked to a portfolio of financial instruments which is managed and its performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the Bank is provided internally on that basis to key management personnel. Under these criteria, the main class of financial liabilities designated by the Bank are debt securities.

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value recognised in the income statement. Changes in the fair value of derivatives used to hedge the interest rate risk are recognised in net interest income in the income statement. Changes in cross-currency derivatives is split between net interest income and net gain from financial assets and liabilities.

1.3 Financial instruments (continued)

1.3.2 Financial liabilities (continued)

Financial liabilities at amortised cost

Financial liabilities at amortised cost are non-derivative financial liabilities with fixed or determinable payments and fixed maturities.

Financial liabilities classified as other financial liabilities comprise debt securities, lines of credit, funding under repurchase agreements and trade and other payables.

Loans that are payable within twelve months are classified as short-term and are included under other payables.

Subsequent to initial recognition, these financial liabilities are measured at amortised cost and any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the income statement over the period of the borrowings, using the effective interest rate method.

1.3.3 Derivative financial instruments

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

Qualifying derivatives

Derivatives qualifying for hedge accounting are accounted for in terms of hedge accounting (refer to note 1.3.5).

Non-qualifying derivatives

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

Embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

1.3.4 Derecognition

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

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

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

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

1.3.5 Hedge accounting

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

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

A hedging relationship exists where:

- At the inception of the hedge there is formal documentation of the hedge
- The hedge is expected to be highly effective
- The effectiveness of the hedge can be 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 note 1.10).

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

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

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

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

If the hedge no longer meets the criteria for fair value 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 retained earnings until disposal of the equity security.

Cash flow hedge
When a derivative financial instrument is designated as a hedge to variability in the cash flows of recognised assets or liabilities, or a highly probable forecast transaction, the effective part of any gain or loss on remeasurement of the hedging instrument is recognised directly in other comprehensive income and presented in the hedging reserve in equity. The ineffective part of any gain or loss is recognised in profit or loss.

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

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

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

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

1.3 Financial instruments (continued)

1.3.5 Hedge accounting (continued)

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.

1.3.6 Repurchase and resale agreements

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

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

1.3.7 Offsetting of financial instruments

Financial assets and financial liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and there is an intention to settle on a net basis, or to realise the financial asset and settle the financial liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

1.3.8 Impairment of financial instruments

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

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

Available-for-sale financial assets

Where an available-for-sale financial asset remeasured to fair value 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, receivables and held-to-maturity investments

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

Calculation of recoverable amount

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

Reversals of impairment
An impairment loss in respect of a held-to-maturity financial asset or loans and receivables measured at amortised cost is reversed through profit or loss if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

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

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

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

The performing book is impaired in order to provide for latent losses in the portfolio that have not yet been individually identified as impaired. An impairment for incurred but not reported losses is calculated based on historic loss patterns, estimated emergence periods and the Bank's internal credit risk rating system. (Refer to note 1.7.5.)

1.3.9 Cash and cash equivalents
Cash and cash equivalents include notes and coins on hand, callable on demand and highly liquid financial assets with original maturities of less than three months which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

1.3.10 Loans to shareholders, directors, managers and employees
These financial assets are initially recognised at fair value plus direct transaction costs.

Subsequently these loans are measured at amortised cost using the effective interest method, less any impairment loss recognised to reflect irrecoverable amounts.

1.4 Impairment of non-financial assets
The company assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

Intangible assets that have an indefinite useful life, are not subject to amortisation, or intangible assets that are not yet available for use, are tested annually for impairment at each reporting date. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less costs to sell and value in use. Value in use is the present value of projected cash flows covering the remaining useful life of the asset.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase to the extent that it exceeds the amount of impairment previously recognised in profit or loss.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

1.5 Property and equipment

1.5.1 Recognition and measurement

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

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

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

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised in profit or loss. When revalued land and buildings are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

1.5.2 Subsequent costs

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

1.5.3 Depreciation

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

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

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

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

1.6 Intangible assets

1.6.1 Recognition and measurement

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

Purchased computer software and the direct costs associated with the customisation and installation thereof are capitalised and amortised over the estimated useful lives of the assets from the date that they are available for use.

1.6.2 Subsequent expenditure

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

1.6.3 Amortisation

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

Item	Estimated useful life
Software	3 – 15 years

1.7 Share capital and reserves

1.7.1 Share capital

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

1.7.2 Permanent government funding

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

1.7.3 Hedging reserve

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

1.7.4 Fair value reserve

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

1.7.5 Reserve for general loan risks

The general loan risk reserve is maintained based on the latest internal risk rating of borrowers. A risk review process for all clients is conducted twice per annum. The reserve for each risk category is calculated as follows:

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

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

1.7.6 Revaluation reserve on land and buildings

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

1.8 Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised. Revenue is derived substantially from the business of development activities and comprises interest income.

1.8.1 Interest

Interest income and interest expense are recognised in the income statement using the effective interest rate method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument but not future credit losses.

The calculation of the effective interest rate includes all fees, transaction costs and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortised cost on an effective interest basis
- Interest on available-for-sale investment securities on an effective interest basis
- The effective portion of qualifying hedge derivatives designated in a cash flow hedge if the hedged item is recorded in interest income/expense

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

Accounting policies continued
for the year ended 31 March 2011

1.8 Revenue (continued)

1.8.2 Fees and commission

Fees and other income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fee income, including account servicing fees, investment management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the drawdown of a loan, loan commitment fees are recognised on a straight line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

1.9 Net income from other financial instruments at fair value

Net income from other financial instruments at fair value relates to non-qualifying derivatives held for risk management purposes and financial assets and liabilities designated at fair value through profit or loss, and includes all realised and unrealised fair value changes and foreign exchange differences.

1.10 Determination of fair values

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

1.10.1 Property and equipment

The fair value of land and buildings is based on an annual valuation performed by an independent quantity surveyor using the income capitalisation approach, which is calculated using an average market-related rental per square metre, discounted by a capitalisation rate.

1.10.2 Post-retirement medical benefits investment

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

1.10.3 Financial instruments

Some of the Bank's financial instruments are carried at fair value, such as those that are designated by management under the fair value option, available-for-sale option and derivative financial instruments.

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The method of determining the fair value of financial instruments can be analysed into the following categories:

(a) Level 1 – Unadjusted quoted prices in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

(b) Level 2 – Valuation techniques using market observable inputs. Such techniques may include: using recent arm's length market transactions, reference to the current fair value of similar instruments, and discounted cash flow analysis, pricing models or other techniques commonly used by market participants.

(c) Level 3 – Valuation techniques, as described in (b) above, for which not all inputs are market observable prices or rates. Such a financial instrument is initially recognised at the transaction price, which is the best indicator of fair value, although the value obtained from the relevant valuation model may differ. The difference between the transaction price and the model value, commonly referred to as day one profit and loss, is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

The valuation techniques in (b) and (c) use inputs such as interest rate yield curves, equity prices, commodity and currency prices/yields, volatilities of underlyings and correlations between inputs. The models used in these valuation techniques are calibrated against industry standards, economic models and observable transaction prices where available.

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

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments, as reflected in the table under notes 3 and 4.

Equity investments
After initial recognition, the Bank measures equity financial assets at fair value through profit or loss as follows:
- Unquoted equity instruments whose fair values cannot be reliably measured are held at cost.
- If the market for an equity financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length transaction motivated by normal business considerations.

The Bank uses valuation techniques in measuring equity instruments, including price of recent investment, if available; discounted cash flow analysis based on free cash flows, earnings or dividends using market-related adjusted discount rates; price earnings growth (PEG) or option pricing models.

The Bank ensures that these valuation techniques:
- Make maximum use of market inputs and rely as little as possible on entity specific inputs
- Incorporate all factors that market participants would consider in setting a price
- Are consistent with accepted economic methodologies for pricing financial instruments

Capital market securities
In the case of instruments for which actively quoted market prices are available, the fair value of financial instruments is based on the quoted market price at reporting date, without any deduction for transaction costs. Where actively quoted market prices are not available, the fair value is determined through discounted cash flow techniques, using market interest rates taking into account the credit quality and duration of the instrument.

Derivatives
The fair value of forward exchange contracts is determined through discounting the contractual future cash flows at the relevant market curves and netting off at the rand spot exchange rate as at the reporting date.

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

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

Interest-bearing loans and borrowings
The fair value of interest-bearing loans is determined through discounted cash flow analyses using market-derived discount rates as at the reporting date.

Interest rates used for determining fair value
The Bank uses market-derived discount curves as at the reporting date. Future cash flows are based on contractual cash flows, and where market observable inputs are not available, management makes use of best estimates to determine the appropriate credit spread to apply.

1.11 Provisions

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

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

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

1.12 Financial guarantees

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

Financial guarantee liabilities are initially recognised at their fair value, and the initial fair value is amortised over the life of the financial guarantee. The guarantee liability is subsequently carried at the higher of this amortised amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

1.13 Employee benefits

1.13.1 Defined contribution plan

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

1.13.2 Defined benefit plan

The Bank contributes to a defined benefit plan for post-retirement medical benefits for a closed group of eligible employees and pensioners. 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.

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

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

The Bank recognises all actuarial gains and losses arising from defined benefit plans directly in profit and loss immediately.

1.13.3 Termination benefits

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

1.13.4 Short-term employee benefits

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

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

1.13.5 Home ownership scheme

The Bank operates a home ownership scheme. In terms of this scheme, mortgage bonds are provided to the Bank employees at reduced interest rates. The Bank and Nedbank Ltd have entered into an agreement whereby Nedbank Ltd administers the loan scheme on behalf of the Bank. The loans are measured at amortised cost less any impairment losses.

1.14 Contingent liabilities and commitments

Transactions are classified as contingencies when the Bank's obligations depend on uncertain future events not within the Bank's control. Items are classified as commitments when the Bank commits itself to future transactions with external parties.

1.15 Other operating income

Fees that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate. Other fee income (appraisal, commitment, guarantee and penalty fees) is recognised as the related services are performed.

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

1.16 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 requirements of IAS 27 have not been met.

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

1.17 Events after reporting date

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

Those events that are indicative of conditions that came into existence subsequent to reporting date have not been adjusted for.

1.18 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 statement of financial position of the Bank.

1.19 Related parties

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

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

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

1.19 Related parties (continued)

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.

1.20 Non-current assets held-for-sale

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

Non-current assets held for sale (or disposal groups) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held-for-sale, or while it is part of a disposal group classified as held-for-sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held-for-sale are recognised in profit or loss.

1.21 IFRS 7 Financial instruments

The amended standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by observability and significance of source of inputs using a three-level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and the ending balance for level 3 fair value measurements is required, as well as significant transfers between level 1 and level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The fair value measurement disclosures are presented in note 46, and the liquidity risk disclosures are not significantly impacted by the amendments.

1.22 Segment reporting

An operating segment is a component of the Bank that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Bank's other components, whose operating results are reviewed regularly by the Bank's Management Committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

1.23 Prior year adjustment

The March 2010 figures have been restated as a result of a prior year error. This error was due to the lack of information being provided by external parties timeously, which related to the dilution of DBSA shareholding in a direct equity investment, in the previous financial period. Senior management have agreed to readdress and regroup the Portfolio Monitoring function specifically related to equity investments.

The effect of the prior year adjustment is as follows:

in thousands of rand	2011	Restated 2010
Decrease in fair value adjustment (unrealised)		
Decrease in profit for the year	–	(87 968)
Fair value through profit and loss		
Decrease in equity investments	–	(87 968)
Adjustment against retained earnings at the beginning of 2011	**(87 968)**	–

Notes to the annual financial statements
for the year ended 31 March 2011

1. New standards and interpretations not yet effective

The following new standards, some of which are not yet effective, have been issued by the IASB, and their applicability to the Bank must still be assessed:

- IAS 24 (revised) – Related-party Disclosures (1 January 2011)
- 11 Individual amendments to six standards – Improvements to International Financial Reporting Standards 2010
- IFRS 7 amendment – Disclosures – Transfers of Financial Assets
- IFRS 9 (2013) – Financial Instruments
- IFRIC 14 amendment – Prepayments of a Minimum Funding Requirement
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments (1 April 2010)

2. Segment reporting

The Bank has four reportable segments, as listed below, which are the Bank's strategic business units. These business units are managed separately based on the Bank's management and internal reporting structure. For each of the strategic business units, the Bank's Management Committee reviews internal management reports on at least a quarterly basis. The following are the Bank's reportable segments:

- South Africa
- SADC countries
- Investment Banking
- Treasury

Information regarding the results of each reportable segment is included below. Segment profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

Notes to the annual financial statements continued
for the year ended 31 March 2011

2. Segment reporting (continued)

Operating reportable segments

in thousands of rand	South Africa 2011	South Africa 2010	SADC (excluding South Africa) 2011	SADC (excluding South Africa) 2010
Interest income on development loans	1 999 076	1 905 737	428 978	461 740
Interest income on investments	–	–	–	–
Total interest income	1 999 076	1 905 737	428 978	461 740
Interest expense	(1 329 420)	(1 145 143)	(182 928)	(191 078)
Net interest income	669 656	760 594	246 050	270 662
Non-interest income	5 916	5 151	92 430	45 768
Net fee income	5 083	5 151	49 715	21 836
Dividend income	–	–	8 001	8 233
Sundry income	833	–	34 714	15 699
Operating income	675 572	765 745	338 480	316 430
Expenses	(222 839)	(201 603)	(130 056)	(95 828)
Operating expenses	(119 475)	(101 066)	(42 367)	(46 332)
Depreciation and amortisation	–	–	–	–
Net impairment (loss)/gain on financial assets	(103 364)	(100 537)	(87 689)	(49 496)
Sustainable earnings	452 733	564 142	208 424	220 602
Net foreign exchange (loss)/gain	–	–	(95 605)	(336 259)
Net (loss)/gain from financial assets and liabilities	3 415	–	(103 790)	126 237
Profit from operations	456 148	564 142	9 029	10 580
Grants	(17 578)	(19 580)	(36 798)	(31 699)
Transfer to Development Fund	–	–	–	–
Profit for the year	438 570	544 562	(27 769)	(21 119)
Capital expenditure	–	–	–	–
Total assets	23 138 860	21 099 612	10 131 448	8 757 263
Total liabilities	14 235 150	12 963 514	5 363 499	4 764 571
Key ratios by segment				
Cost to income (%)	18	13	13	15
Debt to assets ratio (%)	62	61	53	54
Net interest income (%)	33	40	57	59
Return on assets (%)	4	3	0	1

* *Reconciling item includes Human Capital; Finance; Group Risk Assurance; Development Planning; Office of the CE; Group Strategy, Marketing and Communication; and Business Technologies and Facilities.*

Note on the annual financial statements
The above figures reflect the split of the SA Operations division into SA Operations and Investment Banking. This occurred in 2010 and the prior year figures have been adjusted accordingly.

Investment Banking		Treasury		Reconciling item*		Total	
2011	2010	2011	2010	2011	2010	2011	2010
691 096	710 019	–	–	–	–	3 119 150	3 077 496
2 842	639	464 449	522 785	1 232	1 553	468 523	524 977
693 938	710 658	464 449	522 785	1 232	1 553	3 587 673	3 602 473
(426 941)	(348 073)	(6 060)	(286 997)	(133)	(23)	(1 945 482)	(1 971 314)
266 997	362 585	458 389	235 788	1 099	1 530	1 642 191	1 631 159
75 491	56 121	(11 055)	(7 251)	34 939	35 774	197 721	135 563
44 389	37 896	(11 098)	(10 051)	26 053	33 812	114 142	88 644
8 167	15 678	–	–	–	–	16 168	23 911
22 935	2 547	43	2 800	8 886	1 962	67 411	23 008
342 488	418 706	447 334	228 537	36 038	37 304	1 839 912	1 766 722
(78 430)	(104 383)	(27 671)	(23 416)	(527 539)	(518 735)	(986 535)	(943 965)
(37 963)	(28 973)	(27 671)	(23 416)	(514 818)	(498 752)	(742 294)	(698 539)
–	–	–	–	(15 525)	(16 990)	(15 525)	(16 990)
(40 467)	(75 410)	–	–	2 804	(2 993)	(228 716)	(228 436)
264 058	314 323	419 663	205 121	(491 501)	(481 431)	853 377	822 757
2 583	–	36 311	75 610	(457)	–	(57 168)	(260 649)
(103 725)	428 565	(194 145)	(179 708)	(658)	5 477	(398 903)	380 571
162 916	742 888	261 829	101 023	(492 616)	(475 954)	397 306	942 679
(2 506)	(500)	–	–	(8 310)	(15 673)	(65 192)	(67 452)
–	–	–	–	(257 000)	(340 900)	(257 000)	(340 900)
160 410	742 388	261 829	101 023	(757 926)	(832 527)	75 114	534 327
–	–	–	–	51 460	91 567	51 460	91 567
10 084 492	8 330 689	3 357 430	6 239 156	684 886	629 233	47 397 116	45 055 953
5 097 235	5 118 341	4 217 879	3 898 128	570 331	509 084	29 484 094	27 253 638
11	7	6	10			41	41
51	61	121	62			62	60
38	51	99	45			46	45
3	9	16	2			1	1

3. Financial assets by category

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

in thousands of rand	Notes	Loans and receivables	Designated at fair value through profit or loss*	Held-to-maturity	Available-for-sale	Total carrying amount	Fair value
2011							
Cash and cash equivalents	16	**1 179 562**	**–**	**–**	**–**	**1 179 562**	**1 179 562**
Other receivables	17	**108 007**	**–**	**–**	**–**	**108 007**	**108 007**
Investment securities	18	**–**	**1 762 727**	**199 970**	**832 207**	**2 794 904**	**2 806 376**
Investments under resale agreements	19	**218 022**	**–**	**–**	**–**	**218 022**	**218 022**
Derivative assets held for risk management	20.1	**–**	**1 145 848**	**–**	**–**	**1 145 848**	**1 145 848**
Home ownership scheme loans	22	**13 094**	**–**	**–**	**–**	**13 094**	**13 094**
Equity investments	23	**–**	**2 977 143**	**500 705**	**–**	**3 477 848**	**3 477 848**
Development loans	25	**37 845 148**	**–**	**–**	**–**	**37 845 148**	**39 468 864**
		39 363 833	**5 885 718**	**700 675**	**832 207**	**46 782 433**	**48 417 621**
Restated 2010							
Cash and cash equivalents	16	2 706 788	–	–	–	2 706 788	2 706 788
Other receivables	17	139 043	–	–	–	139 043	139 043
Investment securities	18	–	1 683 623	249 965	1 156 698	3 090 286	3 102 453
Investments under resale agreements	19	1 167 750	–	–	–	1 167 750	1 167 750
Derivative assets held for risk management	20.1	–	1 263 236	–	–	1 263 236	1 263 236
Home ownership scheme loans	22	15 517	–	–	–	15 517	15 517
Equity investments	23	–	2 732 965	431 880	–	3 164 845	3 164 845
Development loans	25	32 968 542	–	–	–	32 968 542	34 056 968
		36 997 640	5 679 824	681 845	1 156 698	44 516 007	45 616 600

** The Bank does not speculate, hence the held-for-trading classification is not used. All derivative instruments concluded by the Bank are for risk management purposes and therefore disclosed as designated at fair value through profit or loss.*

4. Financial liabilities by category

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

in thousands of rand	Notes	At amortised cost	Designated at fair value through profit or loss*	Total carrying amount	Fair value
2011					
Other payables	28	628 420	–	628 420	628 420
Medium- to long-term funding debt securities	30	15 786 374	7 558 405	23 344 779	22 395 457
Medium- to long-term funding lines of credit	31	4 952 475	–	4 952 475	4 937 629
Funding under repurchase agreements	32	219 422	–	219 422	219 422
Derivative liabilities held for risk management	20.2	–	71 684	71 684	71 684
		21 586 691	7 630 089	29 216 780	28 252 612
Restated 2010					
Other payables	28	689 051	–	689 051	689 051
Medium- to long-term funding debt securities	30	13 869 577	7 464 853	21 334 430	19 354 043
Medium- to long-term funding lines of credit	31	4 539 441	–	4 539 441	4 526 797
Funding under repurchase agreements	32	370 674	–	370 674	370 674
Derivative liabilities held for risk management	20.2	–	82 093	82 093	82 093
		19 468 743	7 546 946	27 015 689	25 022 658

* *The Bank does not speculate, hence the held-for-trading classification is not used. All derivative instruments concluded by the Bank are for risk management purposes and therefore disclosed as designated at fair value through profit or loss.*

in thousands of rand	2011	Restated 2010
5. Interest income		
Interest income received on:		
Cash and cash equivalents	146 821	158 635
Investment securities	215 767	220 959
Held at fair value through profit and loss	157 754	184 999
Held-to-maturity	25 457	29 981
Available-for-sale	32 556	5 979
Repurchase agreements	25 818	74 341
Development loans (performing and non-performing) refer to note 5.1	3 119 150	3 077 496
Equity investments	2 842	639
Home ownership scheme	1 246	1 552
Derivatives	76 029	68 851
Total interest income	3 587 673	3 602 473

Notes to the annual financial statements continued
for the year ended 31 March 2011

in thousands of rand	2011	Restated 2010
5. Interest income (continued)		
5.1 Development loans		
Performing	3 021 265	2 968 069
Non-performing	97 885	109 427
	3 119 150	3 077 496
5.2 Client classification for development loans		
Development finance institutions	19 813	21 061
Educational institutions	70 135	56 061
Local government	1 660 874	1 573 484
National and provincial government	27 743	97 110
Private sector intermediaries	778 479	702 184
Public utilities	562 106	627 596
	3 119 150	3 077 496
6. Interest expense		
Medium- to long-term funding debt securities	2 025 149	1 881 052
Medium- to long-term funding lines of credit	122 538	153 273
Resale agreements	10 329	58 039
Other interest expense	946	24
Derivatives	(213 480)	(121 074)
Total interest expense	1 945 482	1 971 314
Net interest income	1 642 191	1 631 159

Included within interest income on investment securities for the year ended 31 March 2011 is R158 million (2010: R185 million) relating to investment securities designated at fair value through profit or loss.

Included within interest income on investment securities for the year ended 31 March 2011 is R25 million (2010: R30 million) relating to investment securities held-to-maturity.

Interest income is increased by derivative interest income for the year ended 31 March 2011 of R76 million (2010: R69 million) earned as a result of hedging interest-earning assets.

Included within interest expense on medium- to long-term funding debt securities for the year ended 31 March 2011 is R715 million (2010: R617 million) relating to debt securities designated at fair value through profit or loss.

Included within interest expense on medium- to long-term funding debt securities for the year ended 31 March 2011 is R1,310 billion (2010: R1,264 billion) relating to debt securities held at amortised cost.

Included within interest expense on medium- to long-term funding lines of credit for the year ended 31 March 2011 is R123 million (2010: R154 million) relating to credit lines held at amortised cost.

Interest expense is reduced by derivative interest income for the year ended 31 March 2011 of R213 million (2010: R121 million) earned as a result of hedging interest expense from funding liabilities.

in thousands of rand	2011	Restated 2010
7. Net fee income		
Fee income		
Guarantee fees	**2 661**	7 689
Management fees	**28 942**	31 112
Commitment fees on funding	**20 882**	17 082
Upfront fees	**65 099**	35 058
Appraisal fees	**4 505**	35
Other	**6 138**	10 077
Total fee and commission income	**128 227**	101 053
Fee expense		
Guarantee fees	**5 300**	8 386
Brokerage fees	**23**	105
Commitment fees on funding	**8 762**	1 834
Appraisal fees	**–**	2 084
Total fee and commission expense	**14 085**	12 409
Net fee income	**114 142**	88 644
8. Net foreign exchange loss		
Unrealised		
Foreign exchange loss: Development loans and sundry	**(291 718)**	(1 038 802)
Foreign exchange gain: Hedging derivatives – development loans	**70 594**	549 040
Foreign exchange loss: Cash and cash equivalents (CFCs)	**(14 592)**	(69 593)
Foreign exchange loss: Equity investments	**(94 569)**	(337 666)
Foreign exchange gain: Funding	**285 483**	1 205 431
Foreign exchange loss: Hedging derivatives – funding	**(52 665)**	(481 166)
	(97 467)	(172 756)
Realised		
Foreign exchange loss: Development loans	**(18 583)**	(122 941)
Foreign exchange gain: Equity investments	**1 708**	1 395
Foreign exchange gain: Funding and hedging	**57 174**	33 653
	40 299	(87 893)
Net foreign exchange loss	**(57 168)**	(260 649)

Notes to the annual financial statements continued
for the year ended 31 March 2011

	in thousands of rand	2011	Restated 2010
9.	**Net (loss)/gain from financial assets and liabilities**		
	Net (loss)/gain on derivatives held for risk management		
	Interest rate		
	Unrealised	(67 013)	55 227
	Realised	(3 390)	22 505
		(70 403)	77 732
	Foreign exchange		
	Unrealised	(25 707)	11 272
	Realised	(10 324)	(1 197)
		(36 031)	10 075
	Investment securities designated at fair value through profit or loss		
	Government bonds – unrealised	1 361	8 988
	Corporate bonds – unrealised	(399)	6 225
	Municipal bonds – unrealised	3 658	(24)
		4 620	15 189
	Debt securities		
	Designated at fair value through profit or loss – unrealised	(83 539)	(220 182)
	Early settlement realised	–	(66 034)
		(83 539)	(286 216)
	Equity investments		
	Designated at fair value through profit or loss – unrealised	(260 425)	548 591
	Held-to-maturity – unrealised	56 325	6 211
		(204 100)	554 802
	Other		
	Investment securities – realised	(8 792)	–
	Post-retirement medical benefits investment designated at fair value through profit or loss – unrealised	(658)	5 478
	Qualifying hedged funding designated at fair value through profit or loss – unrealised	–	3 511
	Total net (loss)/gain from financial assets and liabilities	(398 903)	380 571
10.	**Other operating income**		
	Non-interest income:		
	Dividend income	16 168	23 911
	Profit on sale of property and equipment	–	117
	Sundry income	67 411	22 891
		83 579	46 919

in thousands of rand	2011	Restated 2010
11. Net impairment loss on financial assets		
Impairment on development loans	231 198	213 497
Impairment on equity investments	–	11 265
Impairment of other receivables (decrease)/increase (note 17)	(2 482)	3 674
	228 716	228 436
12. Personnel expenses		
Post-retirement medical benefits liability movement (refer to note 29.2)	36 021	13 224
Other personnel expenses	530 038	479 813
	566 059	493 037
Included in other personnel expenses are Directors' emoluments and Executive management remuneration as detailed below:		
Directors' emoluments	7 123	10 095
Executive members' remuneration	15 791	21 942
	22 914	32 037
Full details are provided in the Schedule of Directors' emoluments (refer to note 44).		
13. Other expenses		
Auditors' remuneration	8 185	7 474
Technical services	23 874	21 268
Communication costs	10 274	13 682
Information technology	36 140	45 958
Legal expenses	4 939	7 946
Public relations activities	15 083	12 469
Subsistence and travel	20 614	28 850
Low value assets	507	429
Other	56 619	67 426
	176 235	205 502
14. Auditors' remuneration		
Audit fees	8 142	7 474
Fees for other services	43	–
	8 185	7 474
15. Depreciation and amortisation (refer to notes 26 and 27)		
Revalued buildings	3 186	1 317
Computer equipment	4 182	4 377
Furniture and fittings	909	1 445
Motor vehicles	22	38
Office equipment	1 791	1 753
Intangible assets	5 435	8 060
	15 525	16 990

in thousands of rand	2011	Restated 2010
16. Cash and cash equivalents		
Fixed deposits	–	100 000
Call deposits	1 320 957	2 025 187
Cash at bank	(141 395)	581 601
	1 179 562	2 706 788

The average annual interest rate earned on fixed and call deposits detailed above was 5,80% (2010: 7,00%). The Bank's exposure to interest rate risk and sensitivity analysis for financial assets and liabilities are disclosed in note 46.

in thousands of rand	2011	Restated 2010
17. Other receivables		
Other trade receivables	59 044	74 708
Accrued interest income	49 841	65 452
Staff loans	935	794
Prepayments	691	3 789
Impairment provision	(2 504)	(5 700)
	108 007	139 043

The Bank's exposure to credit and currency risks related to other receivables is disclosed in note 46.

Impairment provision reconciliation	2011	Restated 2010
Balance at 1 April	(5 700)	(3 078)
Decrease/(increase) in provision	2 482	(3 674)
Amounts written off	714	1 052
Balance at 31 March	(2 504)	(5 700)

in thousands of rand	2011	Restated 2010
18. Investment securities		
Investment securities consist of the following:		
Investment securities designated at fair value through profit or loss	1 762 727	1 683 623
Held-to-maturity investment securities	199 970	249 965
Available-for-sale investment securities	832 207	1 156 698
	2 794 904	3 090 286
Investment securities designated at fair value through profit or loss		
Government bonds	972 073	995 500
Municipal bonds	619 389	515 731
Corporate bonds	171 265	172 392
	1 762 727	1 683 623

Investment securities are designated at fair value through profit or loss upon initial recognition, when they form part of a group of financial assets managed and evaluated on a fair value basis in accordance with a documented investment strategy. These investments are held as part of a strategic liquidity portfolio and can thus be redeemed at any time depending on the Bank's liquidity requirements.

in thousands of rand	2011	Restated 2010
18. Investment securities (continued)		
Held-to-maturity investment securities		
Municipal bonds	**199 970**	249 965
Available-for-sale investment securities		
Government bonds	**261 084**	267 438
Corporate bonds	**191 984**	127 769
Money market instruments	**379 139**	761 491
	832 207	1 156 698
19. Investments under resale agreements		
Investments under resale agreements	**218 022**	1 167 750

In the ordinary course of business, the Bank places additional funds or raises short-term funding through the repurchase market. This entails the transfer of financial assets in such a way that all or part of the assets do not qualify for derecognition. The essence of such a transaction is either to place additional cash or raise short-term funding through the repo market.

The assets that are received as collateral include government and corporate bonds. The Bank does not retain the risks and rewards associated with the transferred assets, hence such assets are not recognised, whereas corresponding financial asset considerations are recognised in investments under resale agreements.

At 31 March 2011, the fair value of assets received as collateral was R218 million (2010: R1,2 billion).

20. Derivative assets and liabilities held for risk management

	2011	Restated 2010
20.1 Derivative assets held for risk management		
Instrument type:		
Interest rate	**542 966**	614 179
Foreign exchange	**602 882**	649 057
	1 145 848	1 263 236
20.2 Derivative liabilities held for risk management		
Instrument type:		
Interest rate	**25 890**	30 090
Foreign exchange	**45 794**	52 003
	71 684	82 093
20.3 Net derivatives held for risk management		
Fair value hedges of interest rate risk	**517 076**	584 089
Cash flow hedges of foreign exchange risk	**73 409**	117 246
Economic hedges	**483 679**	479 808
	1 074 164	1 181 143

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

20.3 Net derivatives held for risk management (continued)

Fair value hedges of interest rate risk

This category consists of interest rate swaps used to hedge the exposure to fair value changes of financial instruments which are due to changes in market interest rates. This category consists of both qualifying and non-qualifying hedges.

Cash flow hedges of foreign currency debt securities issued

The Bank uses cross-currency interest rate swaps to hedge both the foreign currency and interest rate risks arising from the euro and US dollar funding raised to finance operational activities. All cash flow hedges were effective for the year under review (refer to note 20.4).

Economic hedges

This category consists of forward foreign exchange contracts and cross-currency swaps that are designated as derivative components of the held at fair value through profit or loss classification. Such derivatives are used for managing the exposures to foreign currency and interest rate risks.

20.4 Timing of cash flows for designated cash flow hedges

in thousands of rand Class	Currency	Description	Cash <1 month	Cash 1-3 months	Cash 3-12 months	Cash 1-2 years	Cash 2-3 years	Cash 3-4 years	Cash 4-5 years	Cash > 5 years
Cross-currency	EUR	Principal	5 619	34 515	40 134	80 269	80 269	83 199	86 129	317 784
swaps		Interest	1 187	7 330	8 042	14 531	12 411	10 351	8 199	48 605
			6 806	41 845	48 176	94 800	92 680	93 550	94 328	366 389
Cross-currency	USD	Principal	–	–	4 561	4 433	4 306	–	–	–
swaps		Interest	–	–	–	–	–	–	–	–
			–	–	4 561	4 433	4 306	–	–	–
Cross-currency	ZAR	Principal	–	(34 998)	(36 749)	(71 586)	(71 425)	(73 294)	(76 590)	(276 445)
swaps		Interest	–	(23 182)	(21 928)	(39 753)	(33 974)	(28 482)	(22 664)	(144 535)
			–	(58 180)	(58 677)	(111 339)	(105 399)	(101 776)	(99 254)	(420 980)

in thousands of rand	2011	Restated 2010
21. Post-retirement medical benefits investment		
Market value of plan assets	68 066	68 724

This asset represents the market value of the Bank's contribution to Medipref Management Ltd to fund the post-retirement medical benefits for eligible employees and pensioners.

Details of the post-retirement medical benefit liability are contained in note 29.2. This investment does not meet the definition of a "Plan Asset" and is therefore not offset against the liability.

in thousands of rand	2011	Restated 2010
22. Home ownership scheme loans		
Home ownership scheme loans	13 094	15 517
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 Nedbank Ltd have entered into an agreement whereby Nedbank Ltd administers the loan scheme on behalf of the Bank.		
All loans are secured by fixed property. Loans are provided to a maximum of 108% of the market value of the fixed property to allow for transfer fees to be capitalised.		
At 31 March 2011 the effective interest rate was 7,5% per year (2010: 8,5%).		
23. Equity investments		
Equity investments designated at fair value through profit or loss	2 977 143	2 732 965
Equity investments held-to-maturity	500 705	431 880
	3 477 848	3 164 845
Equity investments represent strategic investments by the Bank and are long-term in nature. As the Bank has more than five investments, a register is maintained in terms of paragraph 27 of Schedule 4 of the South African Companies Act. The register is available for inspection at the registered office of the Development Bank of Southern Africa Limited.		
23.1 Equity investments designated at fair value through profit or loss		
Cost		
Balance at 1 April	1 625 870	1 234 284
Acquisitions	658 638	400 772
Capital return	(118 817)	(9 186)
Balance at 31 March	2 165 691	1 625 870
Fair value adjustment and impairment		
Balance at 1 April	1 203 668	659 077
Current year fair value adjustment	(260 425)	531 789
Realised gain	57 643	16 802
Impairment loss	–	(4 000)
Balance at 31 March	1 000 886	1 203 668
Foreign exchange adjustments		
Balance at 1 April	(96 573)	238 841
Unrealised loss	(94 569)	(336 809)
Realised gain	1 708	1 395
Balance at 31 March	(189 434)	(96 573)
Fair value at the end of the year	2 977 143	2 732 965

23. Equity investments (continued)

23.1 Equity investments designated at fair value through profit or loss (continued)

Equity investments designated at fair value through profit and loss consist of direct equity in ordinary shares, embedded derivatives and third party managed private equity.

Direct equity in ordinary shares:
If the market for a financial instrument is not active, the Bank uses a valuation technique to establish what the transaction price would be in an arm's length exchange motivated by normal business considerations.

The Bank uses valuation techniques that include price of recent investments, if available, discounted cash flow analysis based on free cash flows, earnings or dividends using a market-related adjusted discount rate, long-term valuation (rule of thumb price earnings growth (PEG)), and option pricing models.

The Bank ensures that these valuation techniques optimise the use of market inputs and rely as little as possible on entity-specific inputs, incorporate all factors that market participants would consider in setting a price, and are consistent with accepted economic methodologies for pricing financial instruments.

In accordance with the best investment and valuation practice, a marketability discount is taken on direct equity investments. For South African listed equity investments, a 5% marketability discount is taken and on foreign listed investments, a 10% discount is taken. For all unquoted equity instruments, a 10% to 30% discount is taken depending on the additional marketability discounts considered in determining valuation parameters.

Third party managed private equity
Private equity funds are valued by fund managers periodically in accordance with international private equity and venture capital valuation guidelines. These guidelines have taken consideration of IFRS and US GAAP, and set out recommendations that represent current best practice on the valuation of private equity and venture capital investments. The guidelines also set out the valuation methodologies that may be considered for use in estimating the fair value of underlying businesses and unquoted instruments in a private equity fund, namely price of recent investment, earnings multiple, discounted cash flows or earnings (of underlying businesses), discounted cash flows (from the investment) and industry valuation benchmarks. The guidelines also provide that in case of unquoted equity investments, marketability discounts in the range of 10% to 30% should be factored into the valuation. Different factors are considered in setting the marketability discounts and it is possible for the marketability discount for a particular instrument to be outside the guideline range.

in thousands of rand	2011	Restated 2010
23.2 Equity investments held-to-maturity		
Amortised cost		
Balance at 1 April	**431 880**	415 576
Amortised interest on effective interest method	**56 325**	6 211
Foreign exchange adjustment	**–**	(2 254)
Additions	**12 500**	19 612
Impairment loss	**–**	(7 265)
Balance at 31 March	**500 705**	431 880

These equity investments have fixed or determinable payments and fixed maturity, and the Bank has the positive intent to hold them to maturity. The Bank has not, during the current financial year or three preceding financial years, sold or reclassified before maturity more than an insignificant amount of investments in relation to the total amount of held-to-maturity investments.

24. Fair value hierarchy disclosures

The table below shows the Bank's financial assets and liabilities that are recognised and subsequently measured at fair value analysed by valuation technique. The classification of instruments is based on the lowest level input that is significant to the fair value measurement in its entirety. A description of the nature of the techniques used to calculate valuations based on observable inputs and valuations based on unobservable inputs is detailed in the table below.

in thousands of rand	Notes	Valuations with reference to observable prices Level 1	Valuations based on observable input Level 2	Valuations based on unobservable input Level 3*	Total
2011					
Available-for-sale financial assets					
Investment securities	18	**453 068**	**379 139**	**–**	**832 207**
Financial market assets designated at fair value through profit and loss					
Investment securities	18	**1 762 727**	**–**	**–**	**1 762 727**
Derivative assets held for risk management	20.1	**–**	**1 145 848**	**–**	**1 145 848**
Equity investments	23.1	**462 791**	**1 987 513**	**526 839**	**2 977 143**
Total financial market assets		**2 678 586**	**3 512 500**	**526 839**	**6 717 925**
Financial market liabilities designated at fair value through profit and loss					
Medium- to long-term funding debt securities	30.1	**7 301 470**	**256 935**	**–**	**7 558 405**
Derivative liabilities held for risk management	20.2	**–**	**71 684**	**–**	**71 684**
Total financial market liabilities		**7 301 470**	**328 619**	**–**	**7 630 089**

** Level 3 – movements are all due to fair value adjustments*

in thousands of rand	Notes	Level 1	Level 2	Level 3*	Total
Restated 2010					
Available-for-sale financial assets					
Investment securities	18	395 207	761 491	–	1 156 698
Financial market assets designated at fair value through profit and loss					
Investment securities	18	1 683 623	–	–	1 683 623
Derivative assets held for risk management	20.1	–	1 263 236	–	1 263 236
Equity investments	23.1	586 556	1 705 996	440 413	2 732 965
Total financial market assets		2 665 386	3 730 723	440 413	6 836 522
Financial market liabilities designated at fair value through profit and loss					
Medium- to long-term funding debt securities	30.1	7 200 955	263 898	–	7 464 853
Derivative liabilities held for risk management	20.2	–	82 093	–	82 093
Total financial market liabilities		7 200 955	345 991	–	7 546 946

24. Fair value hierarchy disclosures (continued)

Level 1
Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. This category includes bond investments, equity investments and debt securities.

Level 2
Financial instruments valued using inputs other than quoted prices as described above for level 1 but that are observable for the asset or liability, either directly or indirectly, such as:
- Quoted price for similar assets or liabilities in inactive markets
- Quoted price for identical or similar assets or liabilities in inactive markets
- Valuation model using observable inputs
- Valuation model using inputs derived from or corroborated by observable market data

This category includes deposits, derivatives, equity investments and debt securities.

Level 3
Valuations based on unobservable inputs.
FInancial instruments valued using discounted cash flow analysis. This category includes only equity investments.

24.1 Equity investments

Beginning balance of equity portfolio investments at fair value.

For investments within level 3 of the fair value hierarchy, valued at R526,8 million at 31 March 2011, the methods described previously may produce a fair value measurement that may not be indicative of ultimate realisable value. Furthermore, while management believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

25. Development loans

25.1 Analysis of development loans

in thousands of rand	2011	Restated 2010
Balance at 1 April	33 700 108	30 202 192
Movements during the year	5 053 741	3 497 916
Gross development loans	38 753 849	33 700 108
Impairment against development loans (refer to note 25.9)	(908 701)	(731 566)
Net development loans at 31 March	37 845 148	32 968 542
Movements during the year		
Loans disbursed	7 665 147	7 838 807
Interest accrued – income statement	3 119 150	3 077 496
Interest accrued – impairment	57 604	46 072
Development loans written off	(111 667)	(281 438)
Foreign exchange adjustment	(306 140)	(1 165 706)
Gross repayments	(5 419 242)	(6 017 315)
Fees raised	48 889	–
	5 053 741	3 497 916

in thousands of rand		2011	Restated 2010
25.2	**Maturity analysis of development loans**		
	2011	–	4 103 842
	2012	4 928 443	2 282 642
	2013	3 217 881	2 899 107
	2014	4 208 973	3 615 667
	2015	3 642 425	3 071 260
	2016-2020	12 338 652	10 288 872
	2021-2025	6 947 114	4 768 665
	2026 and thereafter	3 470 361	2 670 053
		38 753 849	33 700 108
25.3	**Sectoral analysis**		
	Commercial infrastructure	5 632 375	5 432 436
	Communication and transport infrastructure	5 864 424	3 892 408
	Energy	5 909 691	4 718 217
	Human resources development	1 121 864	805 570
	Institutional infrastructure	16 514	31 895
	Residential facilities	2 430 865	2 444 265
	Roads and drainage	7 355 172	6 803 328
	Sanitation	1 187 712	1 016 593
	Social infrastructure	4 210 226	4 164 790
	Water	5 025 006	4 390 606
		38 753 849	33 700 108
25.4	**Geographical analysis**		
	Eastern Cape	1 633 061	1 367 170
	Free State	596 862	618 525
	Gauteng	12 337 559	10 169 702
	KwaZulu-Natal	8 114 384	8 292 358
	Limpopo	1 923 778	716 360
	Mpumalanga	1 595 982	1 543 738
	North West	609 056	657 021
	Northern Cape	413 676	396 458
	Western Cape	3 585 434	3 571 681
	Multi-regional – South Africa	9 300	175 038
	SADC (excluding South Africa) and multinationals*	7 934 757	6 192 057
		38 753 849	33 700 108

** Amount of US$ included in the above SADC loans*

Notes to the annual financial statements continued
for the year ended 31 March 2011

in thousands of rand	2011	Restated 2010
25. Development loans (continued)		
25.4 Geographical analysis (continued)		
SADC (excluding South Africa) and multinationals*		
Angola	**175 199**	221 951
Botswana	**59 479**	65 897
Democratic Republic of Congo	**62 997**	73 428
Lesotho	**841 805**	443 476
Malawi	**198 027**	223 530
Mauritius	**137 983**	28 677
Mozambique	**1 165 733**	945 955
Namibia	**517 330**	496 923
Swaziland	**202 264**	192 108
Tanzania	**568 158**	619 587
Zambia	**2 277 841**	1 483 262
Zimbabwe	**104 721**	–
Multinationals	**1 623 220**	1 397 263
	7 934 757	6 192 057
** Amount in US$ included in the above SADC loans*	**688 394**	461 095
25.5 Client classification		
Development finance institutions	**712 081**	392 343
Educational institutions	**1 092 728**	767 964
Local government	**17 542 297**	16 998 658
National and provincial government	**1 642 291**	872 410
Private sector intermediaries	**9 875 355**	8 135 893
Public utilities	**7 889 097**	6 532 840
	38 753 849	33 700 108
25.6 Fixed and variable interest rate loans		
Fixed interest rate loans	**23 713 939**	19 632 729
Variable interest rate loans	**15 039 910**	14 067 379
	38 753 849	33 700 108
25.7 Non-performing loans (included in total development loans)		
25.7.1 Sectoral analysis		
Commercial infrastructure	**673 951**	769 687
Communication and transport infrastructure	**149 075**	151 702
Energy	**296 602**	264 602
Human resources development	**12 081**	18 473
Institutional infrastructure	**–**	17 812
Residential facilities	**106 349**	46 381
Roads and drainage	**47 398**	46 112
Sanitation	**96 296**	95 433
Social infrastructure	**143 477**	112 960
Water	**94 239**	132 883
	1 619 468	1 656 045

in thousands of rand		2011	Restated 2010
25.7	**Non-performing loans (included in total development loans) (continued)**		
25.7.2	Geographical analysis		
	Eastern Cape	**50 169**	47 226
	Free State	**246 994**	238 373
	Gauteng	**91 270**	105 384
	KwaZulu-Natal	**23 020**	39 586
	Limpopo	**144 446**	138 033
	Mpumalanga	**50 001**	62 334
	North West	**253 326**	293 586
	Northern Cape	**86 992**	27 191
	Western Cape	**71 313**	83 953
	SADC (excluding South Africa)	**601 937**	620 379
		1 619 468	1 656 045
	SADC (excluding South Africa)		
	Botswana	**59 479**	65 897
	Lesotho	**–**	1 336
	Malawi	**122 316**	135 645
	Mauritius	**1 757**	–
	Mozambique	**36 078**	37 371
	Swaziland	**124 098**	111 780
	Zambia	**136 839**	143 006
	Multi-regional	**121 370**	125 344
		601 937	620 379
25.7.3	Client classification on total development loans		
	Development finance institutions	**128 456**	110 449
	Educational institutions	**5 939**	22 862
	Local government	**371 299**	331 829
	National government	**4 438**	–
	Private sector intermediaries	**838 069**	870 200
	Public utilities	**271 267**	320 705
		1 619 468	1 656 045
25.8	**Client concentration of total development loans**		
	One client as percentage of total loan portfolio (%)	**13,1**	15,8
	Seven clients as percentage of total loan portfolio (%)	**35,8**	40,3
25.9	**Impairment against development loans**		
	Balance at 1 April	**731 566**	753 435
	Impairment of current year interest	**57 604**	46 072
	Loans written off during the year	**(111 667)**	(281 438)
	Impairment charge:	**231 198**	213 497
	Non-performing book	**165 131**	204 841
	Performing book	**66 067**	8 656
	Balance at 31 March	**908 701**	731 566

Notes to the annual financial statements continued
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26. Property and equipment

	2011			Restated 2010		
	Cost/ valuation	Accumulated depreciation and impairment losses	Carrying value	Cost/ valuation	Accumulated depreciation and impairment losses	Carrying value
Revalued land	60 200	–	60 200	60 000	–	60 000
Revalued buildings	392 951	(6 923)	386 028	328 973	(3 738)	325 235
Computer equipment	23 114	(19 475)	3 639	22 184	(15 293)	6 891
Furniture and fittings	16 848	(5 896)	10 952	16 278	(4 987)	11 291
Motor vehicles	1 606	(477)	1 129	1 606	(455)	1 151
Office equipment	14 403	(6 514)	7 889	12 294	(4 723)	7 571
Total	509 122	(39 285)	469 837	441 335	(29 196)	412 139

Reconciliation of property and equipment – 2011

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Revalued land	60 000	–	–	200	–	60 200
Revalued buildings	325 235	24 594	–	39 385	(3 186)	386 028
Computer equipment	6 891	930	–	–	(4 182)	3 639
Furniture and fittings	11 291	585	(15)	–	(909)	10 952
Motor vehicles	1 151	–	–	–	(22)	1 129
Office equipment	7 571	2 219	(110)	–	(1 791)	7 889
Net carrying amount	412 139	28 328	(125)	39 585	(10 090)	469 837

Reconciliation of property and equipment – 2010

	Opening balance	Additions	Disposals	Revaluations	Depreciation	Closing balance
Revalued land	60 000	–	–	–	–	60 000
Revalued buildings	284 579	34 229	–	7 744	(1 317)	325 235
Computer equipment	8 326	2 942	–	–	(4 377)	6 891
Furniture and fittings	9 574	3 162	–	–	(1 445)	11 291
Motor vehicles	868	381	(60)	–	(38)	1 151
Office equipment	7 422	1 902	–	–	(1 753)	7 571
Net carrying amount	370 769	42 616	(60)	7 744	(8 930)	412 139

Valuations

Land

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

The land was valued at a fair value of R60,2 million by De Leeuw Group, independent quantity surveyors, on 31 March 2011, using the income capitalisation approach (March 2010: R60,0 million). The land is carried at the revalued amount, in accordance with the Bank's revaluation accounting policy for land.

Buildings

The existing buildings were erected in 1987 at a cost of R35,2 million. Improvements to the value of R24,6 million were effected during the 2011 financial year (2010: R34,2 million).

The buildings were valued at a fair value of R383,27 million by De Leeuw Group, independent quantity surveyors, on 31 March 2011, using the income capitalisation approach (March 2010: R312 million).

The historical book value of the existing buildings is R197,0 million (2010: R173,7 million).

27. Intangible assets

	2011			Restated 2010		
	Cost	Accumulated amortisation and impairment losses	Carrying value	Cost	Accumulated amortisation and impairment losses	Carrying value
Computer software	**98 296**	**(21 516)**	**76 780**	75 164	(16 081)	59 083

Reconciliation of intangible assets – 2011

	Opening balance	Additions	Amortisation	Closing balance
Computer software	**59 083**	**23 132**	**(5 435)**	**76 780**

Reconciliation of intangible assets – 2010

	Opening balance	Additions	Amortisation	Closing balance
Computer software	18 192	48 951	(8 060)	59 083

in thousands of rand	2011	Restated 2010
28. Other payables		
Sundry payables	**263 254**	231 253
DBSA Development Fund	**52 061**	16 125
Sundry accruals	**1 612**	22 731
Accrued interest	**311 493**	418 942
	628 420	689 051

The Bank's exposure to currency and liquidity risk related to other payables is disclosed in note 46.

in thousands of rand	2011	Restated 2010
29. Employee benefits		
29.1 Liability for funeral benefits		
This benefit is for all current and retired employees of the Bank. In respect of these employees, a gross amount of R33 000 is paid to the family upon the death of the employee or retired employee. The obligation was actuarially valued on 31 March 2011.		
The principal assumptions in determining the funeral benefits obligation are as follows:		
Discount rate (before taxation) (%)	9,50	9,00
The projected unit credit method has been used to determine the actuarial valuation.		
Movement in liability for funeral benefits recognised in the statement of financial position		
Balance at 1 April	4 036	3 630
Increase in the liability	622	538
Company contributions	(132)	(132)
Balance at 31 March	4 526	4 036
29.2 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 pensioners who qualify.		
Pensioners include retired employees and their widow(er)s. The liability is in respect of pensioners who continue to belong to the medical aid after retirement.		
The investment in Medipref, as specified in note 21, has been set aside to fund this obligation.		
The amount recognised in the statement of financial position in respect of the Bank's post-retirement medical benefit is detailed below:		
Present value of unfunded obligation		
Present value of unfunded obligation at 1 April	233 913	226 648
Interest cost	20 717	20 118
Current service cost (includes interest to year-end)	8 798	9 897
Expected employer benefit payments	(7 146)	(5 959)
Actuarial loss/(gain) for the year	6 506	(16 791)
Present value of unfunded obligation at 31 March	262 788	233 913

in thousands of rand	2011	Restated 2010
The projected unit credit method has been used to determine the actuarial valuation.		
The amount recognised as an expense in the profit or loss in respect of the defined benefit plan is as follows:		
Interest cost	**20 717**	20 118
Current service cost	**8 798**	9 897
Actuarial loss/(gain) for the year	**6 506**	(16 791)
Total charge for the year (included in personnel expenses – refer to note 12)	**36 021**	13 224
Market value of post-retirement medical benefit investment		
Market value of Medipref at 1 April	**68 724**	63 246
(Decrease)/increase in market value for the year	**(658)**	5 478
Market value of Medipref at 31 March	**68 066**	68 724
The principal assumptions in determining the post-retirement medical benefits obligation are as follows:		
Discount rate (before taxation) (%)	**9,50**	9,00
Medical aid inflation rate (%)	**7,75**	7,25

Sensitivity analysis

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

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

	Central assumption	% point decrease	% point increase
Medical aid inflation rate (%)	7,75	(1,00)	1,00
Accrued liability 31 March 2011 (R'000)	262 788	225 842	309 092
% change		(14,10)	17,60
Current service cost + interest cost 2011/12 (R'000)	33 811	28 438	40 679
% change		(15,90)	20,30
Sensitivity results from previous valuation: Medical aid inflation rate 2010 (%)	7,25	(1,00)	1,00
Current service + interest cost 2010/11 (R'000)	29 515	24 711	35 684
% change		(16,30)	20,90

The obligation for the four years prior to March 2010 is as follows:	R'000
March 2009	226 648
March 2008	195 769
March 2007	172 204
March 2006	130 902

	in thousands of rand	2011	Restated 2010
29.	**Employee benefits (continued)**		
29.3	**Defined contribution plan**		
	Total amount expensed during the year (including group life assurance and income continuity benefits)	52 200	44 331
	The Development Bank of Southern Africa Provident Fund (The Fund) was established on 1 June 1994. As a condition of employment, all eligible employees are required to join as members.		
	The Fund, which is governed by the Pension Funds Act, No. 24 of 1956, is a defined contribution plan for permanent employees of the Bank.		
	The number of employees covered by the plan: 742 (2010: 730)		
30.	**Medium- to long-term funding debt securities**		
30.1	**At fair value through profit or loss**		
	Debt securities	**7 558 405**	7 464 853
30.2	**Held at amortised cost**		
	Debt securities	**15 786 374**	13 869 577
		23 344 779	21 334 430
	Debt securities designated at fair value through profit or loss consists of DV bonds and Private Placements listed and unlisted.		
	Debt securities carried at amortised cost consists of Eurorand bond issues, Money Market Issuance (bridging bonds) and DV bonds.		
	Other debt is held at amortised cost.		
31.	**Medium- to long-term funding lines of credit**		
	Held at amortised cost		
	Other funding	**4 952 475**	4 539 441
32.	**Funding under repurchase agreements**		
	Funding under repurchase agreements	**219 422**	370 674

Refer to note 19, investments under resale agreements.

In the ordinary course of business, the Bank places additional funds or raises short-term funding through the repurchase market. This entails the transfer of financial assets in such a way that all or part of the assets do not qualify for derecognition. The essence of such a transaction is either to place additional cash or raise short-term funding through the repo market.

The stock thus transferred includes government bonds and the Bank's own stock. The Bank retains substantially all of the credit risks and rewards associated with the transferred assets, and continues to recognise this stock within investment and debt securities, whilst the corresponding financial liability considerations are recognised in funding under repurchase agreements.

At 31 March 2011, the fair value of these financial assets was R219 million (2010: R371 million).

in thousands of rand	2011	Restated 2010
33. Share capital		
Authorised		
500 000 ordinary shares (2010: 500 000) at a par value of R10 000 each	**5 000 000**	5 000 000
Issued capital		
20 000 ordinary shares (2010: 20 000) at a par value of R10 000 each	**200 000**	200 000
All issued capital is fully paid for.		
Callable capital		
480 000 ordinary shares (2010: 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 monies to be paid to the Bank.

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

It should be noted that the Minister of Finance has agreed to recommend to Parliament an amendment to the DBSA Act No. 13 of 1997 to increase the callable capital of the Bank from the current R4,8 billion to R20 billion.

The Minister of Finance has also agreed to issue an interim Letter of Undertaking amounting to R15,2 billion in favour of the DBSA which may be accessed as at the reporting date. This Letter of Undertaking will lapse when the Minister gives final approval for the increase in callable capital to R20 billion.

While the government of the Republic is the sole shareholder of shares in the Bank, any resolution signed by the representative of the government shall be deemed to be a resolution taken at a duly constituted meeting of the shareholders.

	2011	Restated 2010
34. Permanent government funding		
Received to date	**3 792 344**	3 792 344

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

There are no repayment terms and this funding is interest free. To date no cash repayments have been made and the full amount initially received is equal to the residual amount and is thus allocated to equity.

	2011	Restated 2010
35. Revaluation reserve on land and buildings		
Balance at 1 April	**206 145**	198 401
Fair value adjustment to revaluation reserve on land and buildings	**39 585**	7 744
Balance at 31 March	**245 730**	206 145

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

Notes to the annual financial statements continued
for the year ended 31 March 2011

in thousands of rand	2011	Restated 2010
36. Hedging reserve		
Balance at 1 April	32 249	17 529
Fair value adjustments of cash flow hedges	(16 931)	14 720
Balance at 31 March	15 318	32 249
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedge instruments where the hedged transaction has not yet occurred.		
37. Reserve for general loan risks		
Balance at 1 April	1 022 146	935 083
Transfer to general loan reserve	97 681	87 063
Balance at 31 March	1 119 827	1 022 146
The reserve is maintained based on the risk grading of the borrowers as detailed in accounting policy note 1.7.5 and movements are recognised directly between the reserve for general loan risk and retained earnings.		
38. Fair value reserve		
Balance at 1 April	(15 144)	(25 165)
Fair value adjustments of available-for-sale financial instruments	12 939	10 021
Balance at 31 March	(2 205)	(15 144)
The reserve comprises all fair value adjustments for available-for-sale financial market instruments.		
39. Contingencies		
39.1 Employee loans		
Loan balances secured	243	258
The Bank has entered into agreements with financial institutions whereby it stands surety for housing and micro loans of its employees.		
39.2 Guarantees		
39.2.1 The Bank has approved and issued guarantees on behalf of borrowers amounting to	317 051	330 187
It is the opinion of management that these borrowers are unlikely to default, and therefore these guarantees were not recognised in the statement of financial position as a liability.		
The total book debt to the credit provider is:	317 051	330 187

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

39.3 Contingent liabilities

39.3.1 There are two pending legal claims against the Bank. However, the probable loss relating to these claims has been provided for in the impairment provision on Development loans.

39.3.2 Rates and taxes

The Bank is currently being rated as vacant land on certain categories of property, hence no value has been assessed against improvements for rates and taxes purposes. The Bank has for the last two years communicated with the relevant authorities to rectify the situation, and hence are of the view that the possible liability will be negotiated. The potential liability amounts to R14,04 million.

40. Related parties

The DBSA is one of 21 schedule 2 major public entities in terms of the Public Finance Management Act and therefore falls within the national sphere of government. As a consequence, the Bank has a significant number of related parties that fall within the national sphere of government.

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

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

40.1 Transactions with related parties

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

40.2 Major public entities

40.2.1 National public entities

The total book debt for loans extended to national public entities amounts to R4 118 348 412 (2010: R3 296 979 844).

None of these loans are non-performing.

40.2.2 Development Fund

In order for the Fund to carry out its functions, it utilises the offices, staff, services and facilities of the Bank, for which it pays a management fee. This fee is charged at a market rate of 4% of operating costs of the Fund. At year-end, net balance owed (to)/by the DBSA Development Fund was R44,2 million (2010: R5,1 million).

The transaction costs for management fee income were R15,9 million (2010: R21,8 million).

The grant paid to the DBSA Development Fund was R257,0 million (2010: R340,9 million).

40.3 There were no related party transactions with Directors for the year ended 31 March 2011 except as disclosed in note 44 (2010: Nil).

in thousands of rand	2011	Restated 2010
41. Commitments		
At the date of the statement of financial position, the Bank had the following commitments:		
• Loan commitments	**6 837 902**	4 775 494
• Grants	**80 672**	76 359
• Capital commitments	**149 350**	169 400
	7 067 924	5 021 253

41.1 Loan commitments

As the disbursement pattern for loans committed but not disbursed is a primary function of individual borrowers' implementation and administrative capacities, this pattern is not quantifiable. Loan commitments are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

41.2 Grants

Grant commitments signed but not yet disbursed are to be financed from funds generated from operations and funds raised from local financial markets and foreign sources.

41.3 Capital commitments

Capital expenditure is in respect of property and equipment authorised but not contracted for.

These commitments will be financed from available cash resources, funds generated from operations and available borrowing capacity. These commitments are expected to be settled in the following financial year.

Notes to the annual financial statements continued
for the year ended 31 March 2011

in thousands of rand	2011	Restated 2010
42. Funds administered on behalf of third parties		
Balance at 1 April	**756 970**	469 217
Funds received	**617 925**	603 420
Funds disbursed	**(275 114)**	(315 667)
Balance at 31 March	**1 099 781**	756 970

43. Taxation

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

44. Schedule of Directors' and Executive emoluments

44.1 Executive members' remuneration

	Basic salaries/ fees R	Medical aid, group life and provident fund contribution R	Other allowances and benefits R	Total 2011 R	Total 2010 R
Chief Executive Officer and Managing Director					
Mr P Baloyi	2 399 934	223 454	108 646	**2 732 034**	2 544 559
Executive managers					
Mr PA Currie[1]	1 490 663	47 916	200 621	**1 739 200**	–
Mr P de la Rey	1 342 586	232 703	108 000	**1 683 289**	1 643 866
Mr E Dietrich	1 163 048	306 986	72 560	**1 542 594**	1 434 450
Dr SJ Khoza[2]	736 757	141 765	124 041	**1 002 563**	1 824 128
Mr L Mashaba	1 446 019	282 712	220 957	**1 949 688**	1 789 223
Mr R Naidoo	1 471 406	–	9 502	**1 480 908**	1 413 960
Mrs L Ndlovu[3]	374 354	69 204	221 026	**664 584**	1 357 799
Mr TP Nchocho[4]	1 139 738	253 072	145 387	**1 538 197**	–
Mr A Tadesse[5]	1 822 577	–	–	**1 822 577**	1 491 047
Mrs L van Lelyveld	1 358 406	233 169	56 400	**1 647 975**	1 533 280
Mr H Weilert[6]	719 123	–	–	**719 123**	2 174 094
Total	15 464 611	1 790 981	1 267 140	**18 522 732**	17 206 406

1. *Appointed 17 May 2010.*
2. *Resigned 30 September 2010.*
3. *Terminated 31 July 2010.*
4. *Appointed 1 April 2010.*
5. *Amounts paid to third party.*
6. *Amounts paid to third party – contract ended 31 July 2010.*

		Total 2011 R*	2010 Performance incentives paid**
44.2	**Executive members' performance incentives**		
	Chief Executive Officer and Managing Director		
	Mr P Baloyi	–	1 900 000
	Executive managers		
	Mr PA Currie	–	–
	Mr P de la Rey	–	990 000
	Mr E Dietrich	–	900 000
	Dr SJ Khoza	–	850 000
	Mr L Mashaba	–	1 000 000
	Mr R Naidoo	–	890 000
	Mrs L Ndlovu	–	–
	Mr TP Nchocho	–	–
	Mr A Tadesse	–	850 000
	Mrs L van Lelyveld	–	950 000
	Mr H Weilert	–	850 000
	Total	–	9 180 000

* *The process of finalising the 2011 executive performance incentives has not yet been completed. The performance incentives, when paid, will be disclosed in the subsequent period.*

** *The 2010 executive performance incentives were included in the provision for 2010, but were paid in the 2011 financial year.*

44. Schedule of Directors' and Executive emoluments (continued)

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

	Fees for services as Directors R	Subsistence and travel R	Total 2011 R	Total 2010 R
Mr J Moleketi (Chairperson)[1]	526 667	3 535	530 202	52 500
Mr J Naidoo[2]	203 833	210	204 043	577 260
Mr FM Baleni	282 000	3 550	285 550	52 500
Mr A Boraine	371 000	–	371 000	331 415
Mrs T Dingaan[3]	610 000	–	610 000	528 210
Prof. B Figaji	172 000	–	172 000	337 500
Ms N Gasa[5]	–	–	–	251 725
Dr L Gwagwa[4]	272 500	1 190	273 690	428 764
Dr D Konar[5]	–	–	–	427 816
Mr O Latiff[3]	435 835	–	435 835	515 855
Mrs W Lucas-Bull	520 000	3 098	523 098	519 150
Dr C Manning	358 000	3 465	361 465	415 170
Mr I Mzimela[6]	329 000	1 050	330 050	428 475
Ms T Ramano[7]	12 500	–	12 500	381 730
Prof. E Webster[6]	160 000	525	160 525	250 660
Co-opted members				
Prof. D Everatt	48 000	882	48 882	–
Dr R Kfir	36 000	224	36 224	12 000
Ms M Matsabu	–	–	–	30 420
Mr S Mehlomakhulu	–	–	–	30 000
Mr O Mlaba	–	–	–	12 000
Mr S Mohamed	–	–	–	42 710
Mr M Silinga	–	–	–	24 000
Prof. V Taylor	36 000	–	36 000	–
	4 373 335	17 729	4 391 064	5 649 860

1. Appointed as Chairperson of the Board with effect from 1 September 2010.
2. Retired as Chairperson of the Board with effect from 31 August 2010.
3. Contract ended 31 July 2010, but it is common practice to continue as Director until the Minister has appointed the replacement Director.
4. Resigned as Director with effect from 31 October 2010.
5. Contract ended during the 2009/10 financial year.
6. End of contract and resigned as Director on 31 January 2011.
7. Resigned on 21 April 2010.

45. Non-current assets held-for-sale

The Bank acquired a 100% shareholding in a property investment company with a view to sell. This investment has been classified as a non-current asset held-for-sale, as it is the Bank's intention to dispose of the investment within the next 12 months. No impairment loss was recognised on reclassification of the investment as at 31 March 2011.

46. Financial risk management

46.1 Market risk

Market risk is the risk that the Bank's earnings and capital will be adversely affected by movements in the level or volatility of market rates or prices such as interest rates and foreign exchange rates. The overarching objective of market risk management in the Bank is to protect the Bank's net earnings against adverse market movements through containing the innate interest rate and foreign currency risks within acceptable parameters.

Market risk management in the Bank is centralised in the Treasury Division and is governed by the asset and liability management (ALM) policy, incorporating interest rate, currency and liquidity risk parameters. As with all risk management policies of the Bank, the ALM policy resides under the authority of the Board of Directors. Whilst the ultimate responsibility for prudent and effective asset-liability management rests with the Board, the authority for policy formulation, revision, strategic management and administration is assigned to the Asset/Liability Committee (ALCO). ALCO, under the oversight of the Finance Committee of the Board, is responsible for assessing and monitoring the Bank's market risk exposures and is supported in these functions by the Group Risk Assurance (GRA) Division.

46.1.1 Interest rate risk

Interest rate risk refers to the susceptibility of the Bank's financial position to adverse fluctuations in market interest rates. Variations in market interest rates impact on the cash flows and income stream of the Bank through their net effect on interest-rate-sensitive assets and liabilities. At the same time, movements in interest rates impact on the Bank's capital through their net effect on the market value of assets and liabilities. Interest rate risk in the Bank arises naturally as a result of its funding and lending operations, and occurs primarily in the form of repricing risk caused by mismatches in the amount of assets and liabilities repricing at any one time, and to a lesser extent, basis risk, the risk of spread compression between assets and liabilities priced off different reference rates.

The Treasury Division, under oversight of the ALCO, is charged with managing and containing the Bank's interest rate risk exposures within Board approved limits. To this end, the Bank makes use of derivative instruments to achieve its desired interest rate risk profile.

The Bank's primary interest rate risk management objective is to protect its net interest income (NII) from adverse fluctuations in market interest rates. To achieve this objective, it is the policy of the Bank to measure and manage its interest rate risk exposure both over the short and long term in order to protect the Bank's earnings stream and ensure its continued financial sustainability. Limits are set both with respect to short-term NII sensitivity, using the 12-month cumulative repricing gap to total earning assets ratio, and in the longer term, with respect to the duration range of the Bank's net assets. As at 31 March 2011, the 12-month cumulative repricing gap amounted to 8,39% (2010: 12,3%) of total earning assets, well within the approved limit of 22,5%.

The management of interest rate risk against these limits is supplemented by scenario analysis, which measures the sensitivity of the Bank's net interest income and market value of equity to extreme interest rate movements. At a minimum, scenarios include hypothetical interest rate shocks, both up and down, of at least 100 basis points.

The repricing profile as at financial year-end is encapsulated in the table 46.1.1.2 below. As reflected in the 12-month cumulative repricing gap, the Bank is asset-sensitive, with an immediate 100 basis points parallel upward (downward) shift in the yield curve expected to result in an increase (decrease) in net interest income over the projected 12-month period of approximately R24 million (2010: R41 million).

46.1.1.1 Hedging of interest rate risk exposure

Desired changes to the Bank's interest rate risk profile are achieved primarily through the use of derivative instruments, particularly interest rate swaps, in line with the Bank's hedging guidelines.

As at 31 March 2011, the Bank had a combined ZAR interest rate and USD interest rate swaps portfolio with a total notional contract amount of R6 billion (2010: R6,4 billion). The Bank classifies interest rate swaps as fair value hedges and states them at fair value (refer to note 20). The net fair value of swaps as at 31 March 2011 was R517 million (2010: R584 million), comprising assets of R543 million (2010: R614 million) and liabilities of R26 million (2010: R30 million). These amounts are recognised as fair value derivatives.

46. Financial risk management (continued)

46.1 Market risk (continued)

The table below reflects the current and long-term expected repricing profile at the statement of financial position date.

46.1.1.2 Contractual repricing gap

in millions of rand	Currency	<1 month	1-3 months	3-12 months
Cash and cash equivalents	ZAR	1 331	–	–
Overnight funding	USD	(151)	–	–
Money market instruments	ZAR	169	200	–
Repurchase assets	ZAR	218	–	–
Investment: Government bonds	ZAR	–	–	–
Investment: Municipal bonds	ZAR	–	–	–
Investment: Corporate bonds	ZAR	100	–	–
Development loans	EUR	–	–	2
	TZS	–	126	–
	USD	–	2 254	2 033
	ZAR	2 097	5 592	4 019
Derivatives: Development loans	TZS	–	(144)	–
	USD	(698)	(725)	(81)
	ZAR	718	1 236	23
IRS : Investment bonds	ZAR	–	180	–
Total financial market assets		3 784	8 719	5 996
Cross-currency swaps: Lines of credit	EUR	18	40	92
Cross-currency swaps: Lines of credit	USD	–	–	(50)
Cross-currency swaps: Lines of credit	ZAR	(21)	(546)	(37)
Funding bonds	ZAR	(2 214)	–	–
Funding: Lines of credit	EUR	(18)	(41)	(92)
Funding: Lines of credit	USD	–	(1 607)	(1 104)
Funding: Lines of credit	ZAR	–	(200)	(332)
IRS: Funding bonds	ZAR	(215)	(4 550)	(1 000)
IRS: Lines of credit	ZAR	–	–	–
Funding: Money market debt	ZAR	–	(788)	(2 092)
Repurchase liability	ZAR	(220)	–	–
Total financial market liabilities		(2 670)	(7 692)	(4 615)
Repricing gap		1 114	1 027	1 381
Cumulative repricing gap		1 114	2 141	3 522

These are principal amounts only and therefore exclude interest. Spot exchange rates used:
EUR/USD 1,4165 USD/ZAR 6,7656 USD/TZS 1 498,0.

Note that the repricing gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually towards a maturity value of R7,5 billion.

1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Grand total
–	–	–	–	–	1 331
–	–	–	–	–	(151)
–	–	12	–	–	381
–	–	–	–	–	218
–	–	–	937	106	1 043
–	33	67	167	517	784
30	–	–	60	150	340
1	1	1	1	6	12
–	–	–	–	–	126
20	34	34	34	233	4 642
1 638	2 318	1 886	2 039	13 353	32 942
–	–	–	–	–	(144)
(35)	(15)	(15)	(15)	(23)	(1 607)
45	20	21	21	33	2 117
–	–	–	–	(180)	–
1 699	2 391	2 006	3 244	14 195	42 034
129	114	147	120	691	1 351
4	11	20	7	21	13
(72)	(71)	(73)	(77)	(276)	(1 173)
–	(1 800)	–	(215)	(16 458)	(20 687)
(130)	(115)	(148)	(121)	(696)	(1 361)
(4)	(4)	–	–	–	(2 719)
–	–	–	–	–	(532)
–	1 200	–	215	4 350	–
–	–	–	–	–	–
–	–	–	–	–	(2 880)
–	–	–	–	–	(220)
(73)	(665)	(54)	(71)	(12 368)	(28 208)
1 626	1 726	1 952	3 173	1 827	13 826
5 148	6 874	8 826	11 999	13 826	

46. Financial risk management (continued)

46.1 Market risk (continued)

46.1.2 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 as a result of foreign currency denominated borrowings, foreign currency lending, and foreign currency denominated equity investments within the SADC region.

The Bank's primary currency risk management objective is to protect its net earnings against the impact of adverse exchange rate movements. Hedging of currency exposures is effected either naturally through offsetting assets and liabilities of substantially similar size, maturities, currency, and repricing bases, or in the absence thereof, through the use of approved derivative instruments transacted with approved financial institutions.

As at 31 March 2011, the Bank's net open foreign currency positions amounted to asset positions of EUR 33,4 million (2010: EUR 27,2 million) and USD 133,9 million (2010: USD 55 million). Foreign currency denominated equity positions of EUR 32,1 million (2010: EUR 26 million) and USD 157,6 million (2010: USD 113,2 million) constituted the bulk of the Bank's net open foreign currency exposure as at end March 2011.

46.1.2.1 Hedging of foreign currency risk exposure

The Bank uses cross-currency swaps (CCS) and forward exchange contracts (FECs) to hedge its foreign currency risk. The principal terms of these swaps and FECs are substantially similar to those of the hedged items with regard to maturity dates, interest reset dates, nominal values, and amortisation profile. As at 31 March 2011, the Bank had cross-currency swaps and FECs with a notional amount of R3,3 billion (2010: R3,3 billion).

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

46.1.2.2 Foreign currency sensitivity analysis

Potential impact of rand sensitivity on profit/loss based on current net open position/currency exposures.

	Currency	
in thousands	**EUR**	**USD**
Cash at bank	5	–
Loan assets	1 233	686 310
Equity investments	32 128	157 637
Cross-currency swaps	140 946	(121 845)
Derivatives FECs	–	(113 655)
Liabilities	(140 946)	(452 080)
Overnight funding	–	(22 393)
Net open positions	**33 366**	**133 974**

Foreign currency exchange rate (FX) sensitivity analysis

in thousands of rand

FX sensitivity combined	ZAR sensitivity (%)	EUR potential impact	EUR/ZAR	USD potential impact	USD/ZAR
–	–	9,583472	–	6,765600	–
(183 927)	(15,00)	(47 965)	8,14595	(135 962)	5,75076
(122 618)	(10,00)	(31 977)	8,62513	(90 642)	6,08904
(61 309)	(5,00)	(15 988)	9,10430	(45 321)	6,42732
–	–	–	9,58347	–	6,76560
61 309	5,00	15 988	10,06265	45 321	7,10388
122 618	10,00	31 977	10,54182	90 642	7,44216
183 927	15,00	47 965	11,02099	135 962	7,78044

Spot exchange rate used: EUR/USD 1,4165 USD/ZAR 6,7656

46.1.3 Liquidity risk

Liquidity risk is defined as the risk of failure to meet all financial obligations on a timely basis, when due, and in the currency due without incurring above normal costs. In the case of the DBSA, this risk specifically arises from the inability to honour obligations with respect to commitments to borrowers, lenders and investors and operational expenditure. In order to shield the Bank against the risk of a liquidity shortfall, the Bank's liquidity risk management policy requires the maintenance of prudential liquidity levels conservatively based on the level of liabilities from time to time.

In order to balance the prudential requirement for sufficient levels of liquidity against the potentially adverse impact of negative carry cost from time to time, the liquidity portfolio consists of two pools, namely, the Operational Liquidity Pool, which is aimed at ensuring that there is sufficient cash to meet the Bank's near-term requirements, and the Strategic Liquidity Pool, which, in a normal yield curve environment, is aimed at reducing the cost of liquidity through investment in longer duration, liquid assets.

Liquidity is held primarily in the form of money market instruments such as call deposits, negotiable certificates of deposit, banker's acceptance as well as liquid debt issues from government, municipalities and other approved issuers. It also includes bonds designated as "held-to-maturity" if the remaining maturity is less than three months. Investments are guided by instrument, tenor and duration limits aimed at ensuring sufficient liquidity, consistent with the Bank's liquidity requirements from time to time.

Total liquidity gross of funds raised on the bond repo market averaged R4,8 billion (2010: R4,7 billion), with a year-end figure of R3,8 billion (2010: R6,4 billion). This includes cash and cash equivalents of R1,18 billion, corporate and municipal bonds of R1,02 billion, and government bonds amounting to R1,24 billion.

In addition to holding a minimum level of liquidity in the form of cash and near cash equivalents (tradable market securities) as described above, the Bank has at its disposal a variety of funding sources, should the need arise. These include uncommitted credit lines with reputable financial institutions, committed loan facilities with multilateral, bilateral and other development finance institutions, money and capital securities issuance under the Bank's domestic medium-term programme and capital market repurchase transactions.

The Bank uses cash flow forecasts and cumulative maturity gap analysis to assess and monitor its liquidity requirements and risk levels. A maturity gap profile report forms part of the asset and liability report which is reviewed and analysed by the ALCO on a periodic basis. Calculated on a nominal maturity basis, the 12-month cumulative liquidity gap as at 31 March 2011 was approximately R1,777 million (31 March 2010: R1,596 million).

46. Financial risk management (continued)

46.1 Market risk (continued)

46.1.3 Liquidity risk (continued)

The table below reflects the current and long-term profile of cash flows under contractual maturities.

Contractual liquidity gap

in millions of rand	Currency	<1 month	1-3 months	3-12 months
Cash and cash equivalents	ZAR	1 331	–	–
Overnight funding	USD	(151)	–	–
Money market instruments	ZAR	50	200	119
Repurchase assets	ZAR	218	–	–
Investment: Government bonds	ZAR	–	–	–
Investment: Municipal bonds	ZAR	–	–	–
Investment: Corporate bonds	ZAR	–	–	–
Development loans	EUR	–	–	2
	TZS	–	21	21
	USD	–	99	380
	ZAR	3	568	2 241
Derivatives: Development loans	TZS	–	(24)	(24)
	USD	(664)	(29)	(186)
	ZAR	681	81	294
Total financial market assets		1 468	916	2 847
Cross-currency swaps: Lines of credit	EUR	18	40	92
Cross-currency swaps: Lines of credit	USD	–	–	5
Cross-currency swaps: Lines of credit	ZAR	(11)	(39)	(83)
Funding bonds	ZAR	–	–	–
Funding: Lines of credit	EUR	(18)	(41)	(92)
Funding: Lines of credit	USD	–	(69)	(365)
Funding: Lines of credit	ZAR	–	(7)	(56)
IRS: Funding bonds	ZAR	–	–	–
IRS: Lines of credit	ZAR	–	–	–
Funding: Money market debt	ZAR	–	(466)	(2 142)
Repurchase liability	ZAR	(220)	–	–
Total financial market liabilities		(231)	(582)	(2 641)
Liquidity gap		1 237	334	206
Cumulative liquidity gap		1 237	1 571	1 777

These are principal amounts only and therefore exclude interest. Spot exchange rates used: EUR/USD 1,4165 USD/ZAR 6,7656 USD/TZS 1 498,0.

Note that the contractual liquidity gap has been adjusted to include the Bank's 2027 zero coupon liability at current book value. This bond contractually matures in 2027 and accrues interest semi-annually towards a maturity value of R7,5 billion.

1-2 years	2-3 years	3-4 years	4-5 years	>5 years	Grand total
–	–	–	–	–	1 331
–	–	–	–	–	(151)
–	–	12	–	–	381
–	–	–	–	–	218
–	–	–	937	106	1 043
–	33	67	167	517	784
30	100	–	60	150	340
1	1	1	1	6	12
42	42	–	–	–	126
815	997	563	457	1 331	4 642
2 400	3 240	3 123	2 834	18 533	32 942
(48)	(48)	–	–	–	(144)
(502)	(139)	(25)	(25)	(37)	(1 607)
678	274	31	31	47	2 117
3 416	4 500	3 772	4 462	20 653	42 034
129	114	147	120	691	1 351
4	4	–	–	–	13
(114)	(100)	(130)	(105)	(591)	(1 173)
(2 213)	(1 800)	–	(215)	(16 459)	(20 687)
(130)	(115)	(148)	(121)	(696)	(1 361)
(403)	(367)	(325)	(326)	(864)	(2 719)
(67)	(72)	(30)	(30)	(270)	(532)
–	–	–	–	–	–
–	–	–	–	–	–
(68)	(51)	(85)	(51)	(17)	(2 880)
–	–	–	–	–	(220)
(2 862)	(2 387)	(571)	(728)	(18 206)	(28 208)
554	2 113	3 201	3 734	2 447	13 826
2 331	4 444	7 645	11 379	13 826	

46. Financial risk management (continued)

46.1 Market risk (continued)

46.1.3 Liquidity risk (continued)

As per the table above, the DBSA has a positive liquidity gap where the contractual inflows exceed outflows across all maturities. This profile is anticipated due to the nature of the business, where the Bank has raised long-dated stable funding and generated short-term amortising assets.

There are no behavioural assumptions made on the liquidity gap and all assets and liabilities are disclosed with the underlying contractual maturity as determined by the cash flow profile for each record.

46.2 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's clients or market counterparties fail to fulfill their contractual obligations to the Bank. The credit risk that the Bank faces arises mainly from its development finance loans. However, credit risk may also arise where the downgrading of a client's rating causes the fair value of the Bank's investment in that entity's financial instrument to fall.

- Credit risk may also be manifested as country risk, where difficulties may arise in the SADC region in which an exposure or counterparty is domiciled, thus impeding or reducing the value of assets.
- Settlement risk is another form of credit risk. This is the risk of a counterparty failing to deliver cash (securities) due to be delivered at a particular moment in time, following release of the corresponding cash (securities) by the Bank in settlement of a transaction.

The Bank meets its credit risk management objectives through its framework and governance, its measurement, reporting and system of internal ratings, its mechanism for credit risk mitigation and its country risk methodology.

Framework and governance

The granting of credit is the Bank's major source of income and, as its most significant risk, the Bank dedicates considerable resources to controlling it. Credit risk is managed in accordance with the Bank's comprehensive Enterprise Risk Management framework and credit policies.

The Bank's credit policy sets out the conditions under which the Bank is prepared to assume credit risk. In managing credit risk, the DBSA applies the five-step risk management process and internal control framework. Specific credit risk management objectives are:

- To gain a clear and accurate understanding and assessment of credit risk across the business, from the level of individual facilities up to the total portfolio
- To control and plan the taking of credit risk, ensuring it is coherently priced across the business and avoiding undesirable concentrations
- To support the Bank's mandate of sustainable infrastructure growth with decision-making based on sound risk management principles and a proactive approach to identifying and measuring new risks
- To ensure a robust framework for the creation, use and ongoing monitoring of the Bank's credit risk measurement models
- To ensure that the Bank's statement of financial position reflects the value of our assets in accordance with accounting principles

Organisation and structure

Group Credit Risk, which has been divided into the Credit Risk Assessment Unit (South Africa Operations and International Division) and the Credit Analytics Unit (Assessment and Analytics), is responsible for assisting the Chief Risk Officer in the design, implementation, monitoring, measuring and enhancement of the credit risk management system across divisions. Group Credit Risk is also required to:

- Recommend and communicate credit risk strategies and policies
- Develop and deploy credit management tools and methodologies
- Evaluate and propose enhancements to credit risk management practices and standards
- Measure and report on aggregate credit risk exposures and management performance

The DBSA has structured the responsibilities of credit risk management so that decisions are taken as close as possible to the business, whilst ensuring robust reviews and challenging of performance. Credit Risk Analysts are deployed at divisional levels to enable responsible risk taking and effective risk management. For both business operations, Credit Risk assumes a divisionalised structure for the three main business areas, i.e. South Africa Operations, International Division and Investment Banking. The Credit Analyst's responsibilities include:

- Performing credit checks on privately owned companies and international finance operations as part of the credit review
- Presenting an objective view of the quality of all credits under consideration and making recommendations to the various Credit Committees
- Monitoring credit exposure limits
- Monitoring the asset quality of the performing assets on a continuous basis

The Credit Committees have clearly defined mandates, members and delegated authorities that are regularly reviewed. The Credit Committees' responsibilities include oversight of governance; risk appetite; model performance, development and validation; counterparty and portfolio risk limits and approvals; country, industry, market and maturity concentration risk; risk mitigation; impairments; stress testing and risk usage. The largest credit exposures above defined amounts are approved by the Board Credit Investment Committee.

The Board of Directors is responsible for the governance of credit risk management. The Board:

- Defines the strategy and significant risk policies for the management of credit risk
- Has oversight of the overall risk management capabilities and performance by ensuring that top management as well as individuals responsible for credit risk management possess sound expertise and knowledge to accomplish the risk management function
- Delineates the Bank's overall risk tolerance in relation to credit risk
- Ensures that the Bank implements sound fundamental principles that facilitate the identification, measurement, monitoring and control of credit risk
- Ensures that appropriate plans and procedures for credit risk management are in place
- Is accountable for challenging and disclosing results

Application of internal rating

The Bank is not regulated under the Banks Act and as such is not formally obligated to comply with Basel II Pillar 1 requirements. However, as a leveraged financial institution, prudence requires it to maintain the adequate levels of capital. The Bank has uniform and simplified guidelines with respect to the estimation of credit risk ratings for all its loan transactions.

The Bank has developed its own internal credit risk rating models for most of its asset classes, i.e. Municipal, Project finance, Corporate and Tertiary Education. These are bespoke models adopted for the Bank's specialised lending and development impact considerations. These models were all subjected to validation and independent reviews before being signed off for implementation. The validation exercise demonstrated that the models were fit for purpose and provided accurate estimates. The independent reviews by external auditors ensured that the model development has followed a robust process and that the model design meets internationally accepted standards.

These models are also subjected to performance monitoring and validation on an annual basis. The principal objectives of this are to ensure that assumptions used in model development are still appropriate; ensure that any deficiencies are identified early and remedial action is taken before the decision-making process is affected; and that these models produce the most accurate possible quantitative assessment of the credit risk to which the Bank is exposed, from the level of individual facilities up to the total portfolio.

46. Financial risk management (continued)

46.2 Credit risk (continued)

The key blocks in the Bank's quantitative assessment are:

- Probability of default (PD)
- Exposure at default (EAD)
- Loss given default (LGD)

These parameters, together with expert judgement, are used in a wide range of the Bank's credit risk measurement and management activities.

- Credit Approval: PDs are used to direct applications to different credit sanctioning levels, so that credit risks are reviewed at appropriate levels
- Credit Grading: The Bank employs a 17-point scale of default probabilities, which is in line with both Moody's and Standard and Poor
- Risk – Reward and Pricing: PD, EAD and LGD metrics are used to assess profitability of deals and portfolios in the private sector to allow for risk-adjusted pricing and development impact
- Risk Management Information: Group Credit Risk generates risk reports to inform senior management on issues such as portfolio performance and risk appetite

Calculations of internal ratings

To calculate probability of default (PD), the Bank assesses the credit quality of borrowers (municipalities and private sector clients) and assigns them an internal risk rating.

A key element of the Bank's internal risk rating model is the PD masterscale. This scale has been developed to distinguish meaningful differences in the probability of default risk throughout the risk range.

In the Bank's risk terminology, loss given default (LGD) estimates the likely credit economic loss on default claims. The part that is not recovered, the actual loss, together with the economic cost associated with the recovery process is expressed as a percentage of exposure at default (EAD). The Bank estimates an average LGD for each type of exposure using historical information. The level of LGD depends principally on: the seniority or subordination of the exposure; the length of time taken for the recovery process and the timing of all associated cash flows; and workout expenses.

Reporting

In order to achieve its mandate, the financial sustainability of the Bank is critical. The DBSA therefore dedicates considerable resources to gaining a clear and accurate understanding of credit risk across its portfolios so as to ensure that its statement of financial position accurately reflects the value of the assets in accordance with applicable accounting principles. This process can be summarised in the following broad stages:

- Measuring and quantifying exposures and concentrations
- Monitoring adverse and weakness within the portfolios
- Identifying potential problem loans (credit watch)
- Raising provisions for impaired loans
- Writing off assets when the whole or part of a debt is considered irrecoverable

Note that the contractual liquidity gap has been adjusted to include the current book value of the "zero coupon bond" which contractually matures in 2027 and accrues interest semi-annually.

Credit risk mitigation

The DBSA uses a wide range of techniques to reduce credit risk on its lending. Collateral and guarantees are widely used by the Bank for credit risk mitigations. The amount and type of credit risk mitigation depends on the asset quality of each transaction. The collateral policy ensures that credit risk mitigation techniques are used consistently, are acceptable types of mitigation and are valued appropriately and regularly, and meet operational management risk requirements for legal, practical and timely enforceability. The Bank ensures that the collateral held is sufficiently liquid, legally effective, enforceable and regularly valued.

The main types of collateral taken comprise mortgage bonds over commercial and industrial properties, bonds over plant and equipment, and the underlying moveable assets financed. The Bank also uses various forms of specialised legal agreements like guarantees and similar legal contracts in support of credit extension to private sector clients with weaker credits. Financial covenants are also an important tool for credit mitigation within the DBSA.

Country risk

DBSA country risk arises from its lending operations to other SADC countries. The Bank has implemented a reputable methodology of country risk classification, sovereign risk rating and risk pricing. In terms of the DBSA country risk policy, country risk is distinctively different from sovereign risk. While country risk is more generic and takes cognisance of political, economic, legal, tax, security and operational factors to determine the risk profile of individual SADC countries, sovereign risk has a clear credit, financial risk focus. The sovereign risk rating methodology considers solvency, liquidity, economic and political issues to risk-rate countries and generate a probability of default. The model inputs are continuously updated to reflect economic and political changes in individual countries.

The Bank's country risk limits are calculated using sovereign risk ratings in conjunction with debt absorption capacity of countries as measured by the gross domestic product. The limit exposure framework therefore considers the economic strength of the SADC countries, ensuring that country exposures are related to the degree of perceived risk as well as the country's debt absorption capacity. The exposure framework therefore ensures that the Bank's exposure limits are set on prudential grounds.

Country ratings are reviewed annually as well as when there is a report of a major risk within a SADC country and the limits are adjusted accordingly. In addition, aggregate investment in other SADC countries is limited to one-third of the Bank's maximum total investment portfolio.

Countries designated as higher risk are subject to increased monitoring.

46. Financial risk management (continued)

46.2 Credit risk (continued)

46.2.1 Credit risk exposure

46.2.1.1 Maximum exposure

(a) Development loans

in thousands of rand		2011 Gross amount	2011 Allowance for impairment	2011 Carrying amount	2010 Gross amount	2010 Allowance for impairment	2010 Carrying amount
Non-performing book							
Municipalities		**371 295**	**171 280**	**200 015**	331 828	154 949	176 879
Other		**1 248 173**	**525 212**	**722 961**	1 324 217	430 458	893 759
		1 619 468	**696 492**	**922 976**	1 656 045	585 407	1 070 638
Performing book							
Low risk	Municipal	**16 512 095**	**9 287**	**16 502 808**	15 437 364	3 395	15 433 969
	Other	**10 789 793**	**50 429**	**10 739 364**	6 832 730	22 995	6 809 735
Medium risk	Municipal	**662 313**	**7 579**	**654 734**	1 229 465	11 429	1 218 036
	Other	**8 620 820**	**98 784**	**8 522 036**	7 839 683	64 401	7 775 282
High risk	Municipal	**–**	**–**	**–**	–	–	–
	Other	**549 360**	**46 130**	**503 230**	704 821	43 939	660 882
		37 134 381	**212 209**	**36 922 172**	32 044 063	146 159	31 897 904
Total book debt		**38 753 849**	**908 701**	**37 845 148**	33 700 108	731 566	32 968 542
Rescheduled loans included in performing book		**133 013**	**3 289**	**129 724**	71 061	398	70 663

The following collaterals are held in respect of the above loans: guarantees, cession of debtors, cession of income streams, mortgages, investments, notarial bonds, sinking fund investments, promissory notes, insurance policies and treaty obligations.

(b) Other receivables

in thousands of rand		2011 Gross amount	2011 Allowance for impairment	2011 Carrying amount	2010 Gross amount	2010 Allowance for impairment	2010 Carrying amount
Debtors 90 days and over	Fees and sales invoiced	**9 557**	**1 399**	**8 158**	8 994	2 117	6 877
	Special programmes/ projects/miscellaneous	**1 850**	**1 105**	**745**	3 630	3 583	47
		11 407	**2 504**	**8 903**	12 624	5 700	6 924
Debtors current to 90 days							
Low risk	Fees and sales invoiced	**26 739**	**–**	**26 739**	30 382	–	30 382
Current – 30 days	Special programmes/ projects/miscellaneous	**–**	**–**	**–**	17 131	–	17 131
Medium risk	Fees and sales invoiced	**11 002**	**–**	**11 002**	8 634	–	8 634
30 days – 60 days	Special programmes/ projects/miscellaneous	**662**	**–**	**662**	282	–	282
High risk	Fees and sales invoiced	**5 733**	**–**	**5 733**	2 381	–	2 381
60 days – 90 days	Special programmes/ projects/miscellaneous	**1 850**	**–**	**1 850**	79	–	79
		45 986	**–**	**45 986**	58 889	–	58 889
Staff and study loans		**935**	**–**	**935**	794	–	794
Municipal deposits		**1 651**	**–**	**1 651**	3 195	–	3 195
Prepaid expenses		**691**	**–**	**691**	3 789	–	3 789
		3 277	**–**	**3 277**	7 778	–	7 778
Total book debt		**60 670**	**2 504**	**58 166**	79 291	5 700	73 591

46. Financial risk management (continued)

46.2 Credit risk (continued)

46.2.1 Credit risk exposure (continued)

46.2.1.1 Maximum exposure (continued)

(c) Commitments

(Loans signed, but not yet fully disbursed)

in thousands of rand			2011	2010
	Low risk	Municipal	1 009 487	1 042 918
		Other	2 016 005	833 222
	Medium risk	Municipal	521 691	321 521
		Other	2 981 880	2 440 089
	High risk	Municipal	–	5 725
		Other	308 839	132 019
Total fixed commitments			6 837 902	4 775 494
(d) Guarantees			317 051	330 187

46.2.1.2 Loans that are past due or individually impaired

(a) Loans past due but not individually impaired

in thousands of rand	2011 Total	2011 3 months	2011 3-6 months	2011 6-12 months	2011 >12 months	2010 Total	2010 3 months	2010 3-6 months	2010 6-12 months	2010 >12 months
Overdue amounts	378 296	323 042	45 173	10 081	–	146 400	139 173	127	6 360	740
Not yet due	11 573 722					4 436 660				
Total	11 952 018					4 583 060				

The fair value of collateral held in respect of the above amounted to R944 million (2010: R620 million).

For the purposes of calculating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments and insurance policies.

(b) Individually impaired loans (non-performing book)

in thousands of rand	2011 Gross amount	2011 Allowance for impairment	2011 Carrying amount	2010 Gross amount	2010 Allowance for impairment	2010 Carrying amount
0% to 10%	270 167	221 929	48 238	233 412	192 235	41 177
11% to 40%	222 476	142 245	80 231	169 624	98 254	71 370
41% to 60%	643 510	264 659	378 851	521 941	210 195	311 746
61% to 99%	483 315	67 659	415 656	731 068	84 722	646 346
	1 619 468	696 492	922 976	1 656 045	585 406	1 070 639

The fair value of collateral held in respect of the above amounted to R437 million (2010: R505 million).

For the purposes of calulating this aggregated total, the fair value of each collateral is limited to the carrying value for each individual loan.

The above collaterals consist of guarantees, cession of debtors, mortgages, investments, notarial bonds, sinking fund investments, insurance policies and promissory notes.

46.2.1.3 Financial counterparty exposure

Credit exposure

Risk category	2011 Utilised amount	2010 Utilised amount
Bonds	**1 013 704**	845 866
Derivatives	**1 074 164**	1 181 143
Cash and money markets	**1 684 532**	3 468 788
Repurchase agreements	**226**	3 124

46.3 Capital management

During the period under review, the Bank complied with its regulatory leverage ratio requirement, as set out in the regulations made under section 17 of the Development Bank of Southern Africa Act (No.13 of 1997).

The Bank's objectives when managing capital are:

- To safeguard the Bank's ability to continue as a going concern, through ensuring a sufficient cushion against unexpected losses, and to provide for an acceptable growth rate in the Bank's development finance activities
- To maintain an adequate credit rating to ensure the Bank continued access to funds at optimal rates, in support of its mission to provide affordable development finance solutions

The Bank monitors and manages its capital adequacy within the regulatory leverage constraint and in line with the capital adequacy framework approved by the Board. Whereas the Bank has adopted a self-imposed capital adequacy framework that differentiates between the risks assumed on different asset classes and provides for market and operational risk, the overarching regulatory capital requirement applicable to the institution is derived from the debt-equity maximum of 250%. Implicit in this is a minimum unweighted capital requirement of 28,6%.

The leverage ratio is calculated as total debt divided by shareholders' capital, where total debt comprises total liabilities excluding other creditors (as shown on the statement of financial position). Capital comprises share capital, permanent government funding, retained earnings, and reserves. As at 31 March 2011, the debt to equity ratio stood at 161,1% (2010: 148,5%). The capital ratio is calculated as shareholders' capital divided by unweighted assets, where unweighted assets comprise total assets (as shown on the statement of financial position). Shareholders' capital comprises share capital, permanent government funding, retained earnings, general provisions and the fair value reserve. As at 31 March 2011, the capital ratio stood at 37,2% (2010: 39,1%).

Vision

The vision of the DBSA Development Fund is to be a leading catalyst in capacity building in order to maximise the impact of development finance in South Africa.

BACKLOGS

Implementer

DEVELOPMENT FUND ANNUAL REPORT

DBSA

Development Fund

DEVELOPMENT FUND ANNUAL REPORT

2010/11

Contents

Abbreviations

AATSA	Association of Accounting Technicians South Africa
AFD	Agence Française de Développement
BSC	Balanced Scorecard
DBSA	Development Bank of Southern Africa Ltd
GRAP	Generally Recognised Accounting Practice
HIV/Aids	human immunodeficiency virus/acquired immune deficiency syndrome
IDC	Industrial Development Corporation
IDIP	Infrastructure Delivery Improvement Programme
KfW	Kreditanstalt für Wiederaufbau
LGSETA	Local Government Sector Education and Training Authority
MIG	Municipal Infrastructure Grant
MSIG	Municipal Systems Improvement Grant
MTEF	Medium-Term Expenditure Framework
NQF	National Qualifications Framework
SADC	Southern African Development Community
SAFCOL	South African Forestry Company Ltd
SAICA	South African Institute of Chartered Accountants
SALGA	South African Local Government Association
SMME	small, medium and microenterprise

The financial year of the DBSA Development Fund is from 1 April to 31 March. Unless otherwise indicated, references to a combined year, for instance 2010/11, are to the financial year ended 31 March.

What is the DBSA Development Fund about?

Vision

The vision of the DBSA Development Fund is to be a leading catalyst in capacity building in order to maximise the impact of development finance in South Africa.

Mission

The mission of the DBSA Development Fund is to promote and facilitate capacity building within municipalities and local communities for effective and sustainable service delivery and economic development in order to improve the quality of life.

Products and services

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

- **Expertise:** The Fund's core programme, Siyenza Manje, mobilises and deploys engineering, planning and financial experts to implement technical and non-technical infrastructure projects
- **Grant funding:** The Fund provides grants to development projects that build sustainable capacity in people, processes and systems at municipal or community level, and through these initiatives seeks to unlock or crowd in other sources of funding
- **Development facilitation:** The Fund promotes technical support and sharing of knowledge through leveraging and deploying internal and external resources
- **Rural development:** The Fund identifies, prepares and implements catalytic rural social and economic infrastructure in addition to institutional and economic turnaround strategies

Guiding principles

The Fund pursues the following guiding principles during implementation:

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

Business and financial overview
as at 31 March 2011

Financial results (R million)	2010/11	2009/10	2008/09	2007/08
Income				
Grants received from the DBSA	257,0	340,9	120,0	–
Grants recognised from the National Treasury	288,4	319,6	219,3	85,0
Expenditure				
Siyenza Manje costs	412,1	456,6	313,3	121,3
Grants	69,8	120,1	101,0	59,8
Other operating expenditure	90,4	86,9	19,5	9,6
Funding reserve	20,9	10,2	10,1	104,2
Approvals for the year	33,6	109,3	61,8	49,3
Grant commitments at year-end	92,4	111,5	97,6	102,3

The DBSA Development Fund exceeded its operational targets for 2010/11 and maintained its costs within the approved allocation.

Siyenza Manje costs

At year-end, the Siyenza Manje programme of the DBSA Development Fund employed 163 engineers, 72 finance experts, 26 planners, 135 young professionals and 430 apprentices (301 section 13 and 129 section 28 officials).

The Siyenza Manje resources are deployed in 186 municipalities (126 direct and 60 shared-services municipalities) and 20 national and provincial departments, and facilitated 2 984 Municipal Infrastructure Grant (MIG) and capital expenditure projects to the value of R8,7 billion. The projects created 105 276 jobs, and provided 152 772 households with access to sanitation services and 432 432 households with access to bulk sanitation systems. In addition, 129 858 households were connected to water reticulation networks and 616 906 households to bulk water supply systems. The deployees facilitated the development of 1 927 systems, policies and plans. They offered on-the-job training to 772 municipal officials in the field of planning, 1 037 in technical services and 870 in financial management.

The decrease in the costs of the Siyenza Manje programme can be ascribed to three main factors:

- Changes in the structure and frequency of deployee report-back sessions resulted in lower subsistence and travel costs.
- Expenditure was reduced through increased efficiencies and a decrease in the number of deployments, mainly in Gauteng province.
- Reduced expenditure on the training of municipal officials through the Vulindlela Academy, as the Academy mobilised its own funds.

Grants

The Fund disbursed capacity building grants of R69,8 million (2009/10: R120,1 million) to support training, capacity building and sustainable development projects. Grant disbursements were lower because the Fund leveraged funding from the Municipal Systems Improvement Grant (MSIG) to support its activities.

The Vulindlela Academy disbursed training grants of R21,8 million in 2010/11, which funded the training of 9 772 municipal officials, 322 public and private sector delegates, and 1 287 delegates from countries in the rest of the Southern African Development Community (SADC).

Rural Development

The Rural Development Division made progress in finalising the integrated divisional MIG leverage framework, resulting in the leveraging of MIGs worth R278 million in collaboration with the South Africa Operations Division of the DBSA. The Division supported 47 rural municipalities in identifying and packaging socio-economic infrastructure projects. It tailor-made economic development models for these municipalities and facilitated their implementation with a view to diversifying economic development. Seventeen turnaround strategies were developed and approved by municipal councils.

Community Development Facilitation

During the year, the Community Development Facilitation Division provided technical and financial support for the compilation of Development Charters and Sustainable Development Plans. The Division facilitated the signing of three Development Charters and brought three sites (Ba-Phalaborwa, Diepsloot and Jozini) into implementation. A total of R267 million was leveraged for projects through partnerships. The Division also established several important relationships in the public sector, with the Department of Rural Development and Land Reform, the Department of Human Settlements, and the Eastern Cape Departments of Finance, Economic Development and Environmental Affairs, and Education. A partnership with the Eastern Cape Department of Human Settlements resulted in a funding agreement of R16,1 million for implementing the first phase of the rural housing project in Elliotdale which will be managed on an agency basis. This agreement will result in the contribution of the first 200 out of a total of 1 000 housing units.

Other operating expenditure

Other operating expenditure refers to the operational expenditure incurred in the following units and divisions: Agencies, the Vulindlela Academy, the Rural Development Division and the Community Development Facilitation Division.

During the year under review, the Agencies Unit attracted 11 new agencies and supported 35 agencies in total. The Unit also signed agreements to manage funds to the value of R315 million on behalf of development partners in the SADC region. This brought the overall agency portfolio to R1,1 billion.

The Development Fund entered into a Memorandum of Understanding with the Department of Rural Development and Land Reform, in terms of which it supported three wards and municipalities under the Comprehensive Rural Development Programme: Muyexe, Riemvasmaak and Maluti a Phofung. The Rural Development Division assisted the three sites with stakeholder management plans; this resulted in the identification of catalytic socio-economic infrastructure needs based on Integrated Development Plans, Comprehensive Infrastructure Plans and Local Economic Development plans.

Funding from the National Treasury

The National Treasury contributed R282,6 million to the DBSA Development Fund in 2010/11. An amount of R288,4 million is recognised in the statement of comprehensive income as a grant received. The R5,8 million difference between the National Treasury contribution and the amount recognised was transferred from deferred income, representing the unutilised portion of National Treasury funding from the prior year. This is done in terms of the accounting statement on government grants, which requires that such grants be recognised as income over a period that matches the costs they are intended to compensate.

Funding from the DBSA

The DBSA contributed R257 million to the Development Fund, in line with its commitment to the strategic objectives of the Fund. The value of the funding was lower this year owing to the decrease in expenditure, primarily on grants and the Siyenza Manje programme.

Chairman's report

The DBSA Development Fund is the capacity building arm of the Development Bank of Southern Africa (DBSA). The Fund's mission is to build capacity in municipalities, communities and local economies and thereby contribute to effective and sustainable service delivery and economic development in these communities.

The 2010/11 financial year has been both exciting and challenging for the Fund. In cooperation with the Department of Cooperative Governance and Traditional Affairs, the Fund was able to scale up assistance to municipalities in support of the Local Government Turnaround Strategy and the national goal of restoring integrity to the local government system.

The Fund's targeted programmes deal with human capacity constraints and institutional weaknesses that affect socio-economic development. These programmes, the Fund's main capacity building offerings, are executed through three divisions: Capacity Development and Deployment, Community Development Facilitation and Rural Development. These divisions support the implementation of developmental initiatives and programmes that are based on the principles and values of sustainable economic, ecological and social development. The programmes are implemented in partnership with external stakeholders, including communities and private and public sector role players in the development environment.

During 2010/11, the Fund facilitated 261 deployments for capacity and competency development in 20 provincial departments and 186 local and district municipalities. In addition, 135 young professionals in the fields of engineering, finance, and town and regional planning were provided with a structured training programme to prepare them for employment in municipalities. A total of 430 apprentices received training, with 41 passing their trade tests. The Fund had a cumulative total of R1,1 billion of funds under management in its agency portfolio at year-end.

In keeping with its mandate of facilitating capacity building in municipalities and local communities, the Fund remains responsive to strategic changes in its environment. The Siyenza Manje programme is a partnership initiative between the DBSA, the National Treasury and the Department of Cooperative Governance and Traditional Affairs. Following discussions between the three parties, it was decided to revise the funding and implementation mandate of the programme to ensure clarity on the roles and responsibilities of the departments and alignment with their constitutional mandates. The National Treasury assumes direct responsibility for the financial management of the programme as from 1 April 2011. The Fund has been appointed to manage the deployment of finance experts on an agency basis. Furthermore, the government decided to transfer the budget for the infrastructure capacity component of the Siyenza Manje programme to the Department of Cooperative Governance and Traditional Affairs, thereby beginning the process of integrating the technical and planning elements of the programme into the Department.

In the wake of the global economic downturn, the Fund pursued a strategy of fund-raising to enable it to deliver on its mandate in full. It formed partnerships at a programme level and approached the international donor community for funds. It also identified existing local opportunities to harness funding for programmes, such as leveraging the MIGs to accelerate the provision of services by municipalities.

Many private sector banks, both in South Africa and the rest of the SADC region, are seeking opportunities in the municipal finance space. The Fund has started to engage them as potential partners in capacity building initiatives.

The Comprehensive Rural Development Programme of the Department of Rural Development and Land Reform focuses on enabling economic activities and infrastructure development. In support of this programme, the Fund is providing assistance to 47 rural municipalities and three presidential rural pilot sites. The Fund will join forces with other development finance institutions, such as the Land Bank, to explore ways of contributing to the government's rural development priorities of agrarian transformation and land reform.

In an effort to make service delivery more effective, the National Treasury and other government departments prioritised the following infrastructure and service delivery sectors: water and sanitation, green energy, hospitals and public-private partnerships in health, housing and sustainable human settlements, schools, public transport, and operations and maintenance. In response to these priorities, the Fund is realigning its services by expanding several of its programmes, including the rollout of the Operations and Maintenance programme, support for the implementation of provincial and national infrastructure mandates, the implementation of the Pan-African Capacity Building Programme, support to the Comprehensive Rural Development Programme, and the establishment and operationalisation of the Jobs Fund.

The government seeks to achieve 10% real annual growth in investment in public infrastructure for the South African economy as a whole. As the DBSA continues to play a leading role as a national development finance institution and a centre of excellence, the Fund will align its operations to support the Bank's expanded roles of implementer and integrator.

The Development Fund remains indebted to the DBSA Board for their unwavering support and cooperation. As the Board, we express our gratitude to our development partners who have supported us in the achievement of our goals. On behalf of the DBSA Development Fund Board, I would also like to commend the staff of the Development Fund for their commitment and dedication to capacity building and the development of the public sector and underprivileged communities in South Africa.

I would like to extend my appreciation to the members of the Development Fund Board for their continued support, dedication and hard work. I look forward to an exciting year in which we recommit ourselves to restoring the dignity of the poor in our country and the region.

Prof. Brian Figaji

"The Fund's targeted programmes deal with human capacity constraints and institutional weaknesses that affect socio-economic development."

Brian Figaji
Chairman

Board of Directors

1. PROF. BRIAN DE LACY FIGAJI (66)
Company Director

DBSA Development Fund Director as from: 24 November 2005

Chairman of the DBSA Development Fund as from: 21 February 2006

Academic qualifications:

- DEd, Coventry University, UK (2002)
- DLitt, Hayward, Cal State, USA (2001)
- 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)

Other directorships:

- Bovidae Investments: Non-executive Director
- Cape Lime: Non-executive Director
- Dormell: Chairman of the Board (non-executive)
- I&J Holdings: Chairman of the Board (non-executive)
- Marib Holdings: Chairman of the Board (non-executive)
- Nedbank Ltd: Non-executive Director

2. MR PAUL CAMBO BALOYI (55)
Chief Executive Officer: DBSA Development Fund

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

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)

Other directorships:

- African Capacity Building Foundation: Chairman (non-executive)
- Block II Waterford (Pty) Ltd: Executive Director and Shareholder
- Business Ventures: Non-executive Director
- Chrometco Ltd: Non-executive Director
- Development Bank of Southern Africa Ltd: Chief Executive Officer and Managing Director
- Harith Fund Managers (Pty) Ltd: Non-executive Director (DBSA Nominee)
- Nulane Investment Holdings (Pty) Ltd: Non-executive Director
- Old Mutual Life Assurance Company (SA) Ltd: Non-executive Director
- Old Mutual Life Holdings (SA) Ltd: Non-executive Director
- Pan-African Investment Fund: Non-executive Director (DBSA Nominee)
- Platinum Hi Tech Park Development (Pty) Ltd: Non-executive Director
- TCX Investment Management Company: Non-executive Director (DBSA Nominee)

3. DR PAUL KIYINGI KIBUUKA (50)
Managing Director: DBSA Development Fund

DBSA Development Fund Managing Director as from: 1 July 2009

DBSA staff member as from: 1 August 1994

Academic qualifications:

- DPhil (Demography), University of Pretoria (1999)
- MA (Demography) (cum laude), University of Pretoria (1996)
- BA Hons (Demography), University of Pretoria (1994)
- BStat, Makerere University, Kampala (1984)

Other directorships:

- Headway Investment Club: Non-executive Director
- Lincoln Consultants Ltd: Non-executive Director

4. MR ELROY AFRICA (46)
Director-General: Department of Cooperative Governance and Traditional Affairs

DBSA Development Fund Director as from: 14 February 2008

Academic qualifications:

- MSc (Town and Regional Planning), University of Natal (1993)
- BSocSc (African Politics; Industrial Sociology), University of Cape Town (1986)

5. MR FRANS MSOKOLI BALENI (51)
General Secretary: National Union of Mineworkers

DBSA Development Fund Director as from: 1 April 2010

Academic qualifications:

- BA (Social Science Development Studies), University of Johannesburg (2006)
- Diploma in Political Science and Trade Unionism, Whitehall College, Dublin (1990)

Other directorships:

- Development Bank of Southern Africa Ltd: Deputy Chairman (non-executive)
- Elijah Barayi Memorial Training Centre: Non-executive Director
- Eskom: Non-executive Director and Chairman of the Tender Committee
- International Federation of Chemical, Energy, Mine and General Workers' Unions: Executive Member
- JB Marks Bursary Trust Fund: Trustee
- Mineworkers Investment Trust: Chairman (non-executive)
- Rand Mutual Assurance: Non-executive Director
- University of Johannesburg: Deputy Chairman of Council (non-executive)

1. Prof. Brian de Lacy Figaji 2. Mr Paul Cambo Baloyi 3. Dr Paul Kiyingi Kibuuka 4. Mr Elroy Africa 5. Mr Frans Msokoli Baleni

6. MR ANDREW BORAINE (52)
Chief Executive: Cape Town Partnership

DBSA Development Fund Director as from: 21 February 2006

Academic qualifications:
- Adjunct Professor, African Centre for Cities: University of Cape Town
- BA Hons (Economic History), University of Cape Town (1987)
- BA (History), University of Cape Town (1983)

Other directorships:
- Accelerate Cape Town: Non-executive Director
- Cape Town City Hall Redevelopment and Management Company: Non-executive Director
- Cape Town International Convention Centre Company (Pty) Ltd (Convenco): Chairman of the Board (non-executive)
- Development Bank of Southern Africa Ltd: Non-executive Director
- International Downtown Association: Non-executive Director

7. MR KENNETH BROWN (49)
Deputy Director-General: Intergovernmental Relations, National Treasury

DBSA Development Fund Director as from: 1 April 2010

Academic qualifications:
- MSc (Economics), University of Illinois at Urbana-Champaign (2000)
- BA Hons (Economics), University of the Western Cape (1997)
- BA, University of the Western Cape (1995)
- Primary Teacher's Diploma, Perseverance Training College (1982)

Other directorships:
- Development Bank of Southern Africa Ltd: Non-executive Director

8. MR OMAR ABOOBAKER LATIFF (57)
Director and Partner: PricewaterhouseCoopers

DBSA Development Fund Director as from: 1 November 2010

Academic qualifications:
- Financing Infrastructure in a Market Economy, Harvard Kennedy School, Harvard University (2000)
- H Dip Tax, University of Natal (1992)
- CA(SA) (1981)
- BCompt (Hons), University of South Africa (1979)
- BCom (Accounting), University of Durban-Westville (1976)

Other directorships:
- Bellewan (Pty) Ltd: Non-executive Director
- Development Bank of Southern Africa Ltd: Non-executive Director
- HASMA Investments (Pty) Ltd: Non-executive Director
- Jodya cc: Member
- LMD Africa Chartered Accountants Inc: Non-executive Director
- LMD Africa Forensics (Pty) Ltd: Non-executive Director
- Mlando Investments (Pty) Ltd: Non-executive Director
- Omar Aboobaker Latiff Family Trust: Trustee
- PricewaterhouseCoopers Advisory Services (Pty) Ltd: Director
- PricewaterhouseCoopers Incorporated: Director
- PricewaterhouseCoopers Partnership: Partner
- Project Preparation Trust: Trustee

9. DR CLAUDIA MANNING (44)
Executive Director: Sangena Investments

DBSA Development Fund Director as from: 26 March 2009

Academic qualifications:
- DPhil, University of Sussex (1996)
- MPhil, University of Sussex (1992)
- BA Hons (Economic History), University of Natal (1988)
- BA (Economic History; English), University of Natal (1987)

Other directorships:
- Development Bank of Southern Africa Ltd: Non-executive Director
- ECIAfrica: Managing Director
- Roadcrete Africa (Pty) Ltd: Non-executive Director

10. MS MAMPITI MATSABU (48)
Executive Director: Savannah Environmental (Pty) Ltd

DBSA Development Fund Director as from: 26 March 2009

Academic qualifications:
- Management Advancement Programme (MAP 47), Wits Business School (2001)
- Diploma in Project Management, School of Project Management, Midrand (1999)
- MSc (Civil Engineering), Drexel University, Philadelphia (1992)
- BSc (Civil Engineering), Howard University, Washington DC (1986)

Other directorships:
- LA Crushers (Pty) Ltd: Chairperson of the Board (non-executive)
- Patlong Investment Holdings (Pty) Ltd: Non-executive Director
- Vox Consulting (Pty) Ltd: Non-executive Director

6. Mr Andrew Boraine   7. Mr Kenneth Brown   8. Mr Omar Aboobaker Latiff   9. Dr Claudia Manning   10. Ms Mampiti Matsabu

11. MR SIMPHIWE MEHLOMAKHULU (41)
Executive Chairman: Reatile Resources

DBSA Development Fund Director as from: 26 March 2009

Academic qualifications:
- Executive MBA Programme, Stanford University (2004)
- MBA, University of the Witwatersrand (1998)
- Postgraduate Diploma in Marketing Management, University of South Africa (1995)
- BSc (Chemical Engineering), University of Cape Town (1992)

Other directorships:
- Clotan Steel (Pty) Ltd: Non-executive Director
- Reatile Gas: Executive Director
- Reatile Timrite: Non-executive Director

12. MR SEERAJ MOHAMED (43)
Director: Corporate Strategy and Industrial Development Research Programme, School of Economic and Business Sciences, University of the Witwatersrand

DBSA Development Fund Director as from: 19 May 2009

Academic qualifications:
- MA (Development Economics), Williams College, Williamstown, Massachusetts (1997)
- GDE (Mining Engineering), University of the Witwatersrand (1996)
- BCom Hons (Economics), University of the Witwatersrand (1995)
- BA Hons (Economic History), University of Cape Town (1990)
- BSocSc, University of Cape Town (1989)

13. MR IVAN MZIMELA (49)
Chairman: Hollard Risk Capital
Executive Director: Capricorn Ventures International

DBSA Development Fund Director as from: 26 March 2009

Academic qualifications:
- Leadership Development Programme for Senior Executives, Ashridge Business School, London (2000)
- Leadership for Change, Directors Diploma in Corporate Governance, Wits Business School (1999)
- Project Management Certificate, IBM (1998)
- Strategic Planning Certificate for Chief Executives, National University of Singapore (1997)
- MA (Counselling and Educational Psychology), University of Canada (1992)
- BA Hons (Psychology), University of the North (1985)
- BA (Social Work), University of the North (1984)

Other directorships:
- Development Bank of Southern Africa Ltd: Non-executive Director
- Hollard Life and Hollard Insurance Company: Non-executive Director
- Hollard Risk Capital: Chairman of the Board (non-executive)
- Insurance Institute of South Africa: Non-executive Director
- Insurance Sector Education and Training Authority: Deputy Chairperson (non-executive)

14. DR BALDWIN BEN SIPHO NGUBANE (70)

DBSA Development Fund Director as from: 26 March 2009

Academic qualifications:
- Medical doctor
- Postgraduate Diploma in Economic Principles, University of London (2003)
- M Prax Med (Master of Family Medicine and Primary Health), Natal Medical School (1986)
- Diploma in Public Health, University of the Witwatersrand (1983)
- Diploma in Tropical Medicine, University of the Witwatersrand (1982)
- MB ChB, Durban Medical School (1971)

Other directorships:
- Blue Horizon Investments 41: Non-executive Director

15. PROF. EDWARD CHARLES WEBSTER (68)

DBSA Development Fund Director as from: 1 August 2007

Academic qualifications:
- PhD, University of the Witwatersrand (1983)
- BPhil, University of York (1972)
- MA (Politics, Philosophy and Economics), Oxford University (1971)
- University Education Diploma, Rhodes University (1964)
- BA Hons (History), Rhodes University (1964)

Other directorships:
- Chris Hani Institute: Non-executive Director
- Human Sciences Research Council: Member of Council
- Labour Job Creation Trust: Trustee

DBSA CORPORATE SECRETARY
Mrs Bathobile Sowazi

Company Secretary, DBSA, PO Box 1234, Halfway House, 1685

DEVELOPMENT FUND BOARD MEMBER DURING THE YEAR UNDER REVIEW

16. MR JABULANI MOLEKETI
Director of Companies

DBSA Development Fund Director between: 1 April 2010 and 31 October 2010

11. Mr Simphiwe Mehlomakhulu 12. Mr Seeraj Mohamed 13. Mr Ivan Mzimela 14. Dr Baldwin Ben Sipho Ngubane 15. Prof. Edward Charles Webster

Managing Director's report

The South African socio-political landscape has shifted significantly in the last three to four years. This period has been marked by the commitment to building a developmental state and, more recently, by the challenges flowing from the global economic meltdown.

The government has committed over R780 billion in funds for infrastructure development, the eradication of infrastructure backlogs and the operation and maintenance of existing and new infrastructure. It has reaffirmed its focus on improving service delivery, supporting rural development and creating decent jobs within a framework of spatial and human settlements development. In addition, the government has committed itself to strengthening long-term strategic planning, improving interdepartmental collaboration and ensuring more effective monitoring and evaluation of its own delivery and that of state-owned agencies and enterprises. Development finance institutions are expected to play a major role in supporting these priorities.

In view of these developments, the Fund has identified the need to refine its business model and reposition itself to support the requirements of the DBSA as a centre of excellence for infrastructure delivery. During this refinement process, the Fund will strengthen its capacity to contribute to the shareholder's priorities of job creation, better service delivery, rural development and economic stimulation. The refinement will also ensure better integration and collaboration with government departments and other development finance institutions to enhance performance.

The mandated role of the Fund is to address human and institutional capacity failure. In 2010/11, the Fund implemented a number of capacity building interventions, extending services to 186 municipalities and 20 provincial departments. Its primary focus for the year was to continue rolling out the programmes listed below.

Capacity Development and Deployment

This Division comprises the Siyenza Manje programme, the Vulindlela Academy, the Pan-African Capacity Building Programme and the Agencies Unit.

Siyenza Manje

Siyenza Manje provides hands-on capacity support to the government in order to accelerate service delivery at municipal level. By year-end, a cumulative total of 163 engineers and technicians, 72 finance experts, 26 planners, 135 young professionals and 430 apprentices had been employed on a contract basis and deployed in low-capacity municipalities across the country.

The deployees assisted 186 municipalities and 20 government departments, and facilitated almost 2 984 MIG and capital expenditure projects to the value of R8,7 billion. This year, 1 114 projects were completed, a 10% decrease from 2009/10. This decrease was due to the fall in the number of deployments and municipalities supported, which was attributable in turn to the reduction in allocations to the programme under the Medium-Term Expenditure Framework (MTEF). These projects provided over 152 772 households with access to sanitation and 432 432 with access to bulk sanitation services. Another 129 858 households gained access to reticulation services and 616 906 to bulk water services. Over 105 276 job opportunities were created. The deployees also facilitated the development and review of 1 927 systems, policies and plans, a 60% increase on the 2009/10 figure.

Vulindlela Academy

The DBSA Vulindlela Academy is a platform for capacity building, knowledge sharing and skills transfer at the local government level. The Academy is accredited by the Local Government Sector Education and Training Authority (LGSETA) and has a suite of eight accredited qualifications and training programmes. It has established strategic partnerships with a range of national and international partners, as set out elsewhere in this Annual Report.

During 2010/11, the Academy trained 11 381 external learners in the priority skills areas of planning, finance, management and leadership. Of these, 9 772 delegates were from local municipalities identified by Siyenza Manje deployees.

Pan-African Capacity Building Programme

This programme is a partnership between the DBSA, Agence Française de Développement (AFD) and the Industrial Development Corporation (IDC). It seeks to improve the quality of professional skills in infrastructure development on the continent. The programme has three pillars: an Executive Masters degree in Infrastructure Management, short courses and the Young Professionals internship programme.

In the year under review, the programme delivered short courses to 154 participants in East and West Africa. Its experiential learning initiative placed 15 young professionals in medium-sized municipalities in France for three months. The Executive Masters Water-for-All pilot initiative commenced with the enrolment of four officials as students from Johannesburg Water, Bushbuckridge Water and Polokwane Municipality.

Agency Services

The Agencies Unit was established in October 2002 to help alleviate the development implementation and management constraints in the SADC region. The DBSA acts as an agent for government and donor organisations that do not have an institutional presence in the region. The Unit attracted 11 new agencies this year and supported a total of 35 agencies, with R1,1 billion cumulative funds under management.

Community Development Facilitation

This Division consists of the Sustainable Communities programme and the Project Development and Project Management Units.

". . . the Fund has identified the need to refine its business model and reposition itself to support the requirements of the DBSA as a centre of excellence for infrastructure delivery."

Paul Kibuuka
Managing Director

Sustainable Communities

The Sustainable Communities Programme brings together different stakeholders to design a comprehensive plan to address the short-, medium- and long-term development needs of an area. In the process of establishing a Development Charter or Social Compact, a contract is created between the community and other stakeholders, which articulates a common development vision, rules of engagement and priorities for future development. This is translated into a community-based, integrated development planning process that deals with issues of space, the built environment, infrastructure, the economy, social assets and human capital assets.

During the year, the programme leveraged funding amounting to R267 million and concluded Development Charters in three sites. It also established partnerships with public and private sector entities to support the development of sustainable communities.

Project Development Unit

The Project Development Unit focuses on the conceptualisation, pre-feasibility, feasibility and structuring stages of project development. It also raises funds for qualifying projects. During the year, the Unit conceptualised and structured six development projects, and referred projects to the value of R481 million to the investment divisions of the DBSA.

Project Management Unit

The Project Management Unit provides project management support to the different programmes in the Division. It focuses on developing systems, plans and frameworks. During the year, the Unit prepared 25 project management plans for projects and programmes at the Sustainable Communities sites. It also undertook five planning interventions on behalf of other divisions of the DBSA.

Rural Development

This Division aims to integrate development interventions in poor regions and municipalities to catalyse and diversify economic growth through improved infrastructure and service delivery. In collaboration with the South Africa Operations Division of the DBSA, it has leveraged MIGs to the value of R278 million for project implementation. The Division supported 47 rural municipalities in identifying and packaging socio-economic infrastructure projects. In addition, 17 turnaround strategies were developed and approved by municipal councils.

The year ahead

The government has prioritised the delivery of water and sanitation, green energy, hospitals, housing and sustainable human settlements, schools, public transport, and operations and maintenance. In response to the challenges posed by the external environment, the Fund will realign its services to support the emerging provincial and national infrastructure delivery mandates. It will also roll out solutions for infrastructure management at the national, provincial and local government levels.

The Siyenza Manje programme will be unbundled, following a decision by the DBSA, the National Treasury and the Department of Cooperative Governance and Traditional Affairs to revise its funding and implementation mandate. The National Treasury assumes direct responsibility for the financial management of the programme as from 1 April 2011. The Fund has been appointed to manage the deployment of finance experts on an agency basis. The government has also transferred the budget for infrastructure capacity to the Department of Cooperative Governance and Traditional Affairs, as it is integrating the technical and planning components of the programme into the activities of the Department.

During the State of the Nation address on 13 February 2011, President Jacob Zuma announced the establishment of a R9 billion Jobs Fund. The Minister of Finance has subsequently entrusted the DBSA with the responsibility of operationalising the Fund. The DBSA Development Fund will provide both technical and administrative support to the Jobs Fund.

I would like to express my sincere gratitude to the Board of the DBSA Development Fund for their wise guidance during the year. I am also grateful to the management and staff of the Fund for their hard work and dedication in achieving the objectives set out in the Balanced Scorecard.

Dr Paul Kibuuka


Limpadi game reserve, Botswana

Divisional executive management

1. MR DAWIE MOCKE (50)
Chief Operating Officer

DBSA staff member as from:
1 May 2006

DBSA Development Fund Chief Operating Officer as from:
1 April 2010

Academic qualifications:
- BCom, Potchefstroom University (1997)

Other directorships:
- Astrolink cc: Member

2. MR MLULAMI HLOMBE MANJEZI (55)
Divisional Executive: Rural Development

DBSA staff member as from:
6 August 1990

Divisional Executive as from:
1 July 2008

Academic qualifications:
- Accelerated Directorship Programme (ADP), Institute of Directors (2010)
- Programme for Sustainable Leadership, Cambridge University (2010)
- MBL, University of South Africa (2004)
- Management Development Programme, University of South Africa (1996)
- BCom, University of Fort Hare (1979)

Other directorships:
- Agriculture and Rural Development Institute of Fort Hare: Chairman of the Board (non-executive; DBSA Nominee)

3. MR REUBEN MATLALA (37)
Divisional Executive: Capacity Development and Deployment

DBSA staff member as from:
1 February 1996

Divisional Executive as from:
1 July 2009

Academic qualifications:
- BANKSETA International Executive Development Programme, CASS Business School, London (2008)
- Masters in Public and Development Management, University of the Witwatersrand (2000)
- Diploma in Project Management, Damelin (1998)
- Higher Diploma in Development Planning, University of the Witwatersrand (1995)
- Higher Education Diploma, University of the North (1994)
- BA, University of the North (1993)

Other directorships:
- African World Heritage Fund: DBSA Nominee
- Batlaboa cc: Member
- Bolabola Telecommunications (Pty) Ltd: Non-executive Director
- Candela cc: Member
- Dreamworld (Pty) Ltd: Director
- HVC Drilling (Pty) Ltd: Non-executive Director
- Matlala Brothers Properties cc: Member
- Matlala & Mdluli Transport cc: Member
- Mphato Investment (Pty) Ltd: Director

4. MS VUYELWA MATSILIZA (44)
Divisional Executive: Community Development Facilitation

DBSA staff member and Divisional Executive as from:
1 December 2009

Academic qualifications:
- MBL, University of South Africa (2000)
- BA Hons (Economics) (cum laude), University of the Western Cape (1993)
- BA, University of the Western Cape (1992)

Other directorships:
- AsgiSA EC (Pty) Ltd: Non-executive Director and Member of the Audit Committee (DBSA Nominee)

1. Mr Dawie Mocke 2. Mr Mlulami Hlombe Manjezi 3. Mr Reuben Matlala 4. Ms Vuyelwa Matsiliza

Organisational structure

- Paul Baloyi
  Chief Executive Officer
  - Paul Kibuuka
    Managing Director
    - Dawie Mocke
      Chief Operating Officer
    - Reuben Matlala
      Divisional Executive: Capacity Development and Deployment
    - Vuyelwa Matsiliza
      Divisional Executive: Community Development Facilitation
    - Mlulami Manjezi
      Divisional Executive: Rural Development

Operations overview

The DBSA Development Fund continued to deliver hands-on support to low-capacity municipalities in 2010/11. It also responded to calls for support from other spheres of government. This report outlines the achievements of the Fund in terms of its three Divisions, namely:

- Capacity Development and Deployment: This Division comprises the Siyenza Manje programme, the Vulindlela Academy, the Pan-African Capacity Building Programme and the Agencies Unit. Its focus is to develop and deploy capacity in the public sector, mainly in low-capacity municipalities. The Division also manages funds and implements programmes on behalf of development partners.
- Community Development Facilitation: This Division builds capacity within communities to ensure that they participate effectively in the formulation of a shared vision for their development. It consists of three units: Sustainable Communities, Project Management and Project Development.
- Rural Development: This Division facilitates catalytic infrastructure programmes that improve living standards and increase socio-economic activity in rural communities. It comprises three units: Rural Infrastructure Development, Institutional Turnaround and Rural Development Solutions.

Grant funding

The Fund continued to use its grant funding to support the training, capacity building and sustainable development interventions offered by the Siyenza Manje, Vulindlela, Sustainable Communities and Rural Development programmes. This year, grant disbursements only reached R69,8 million (2009/10: R120,1 million), a decline of 42%, owing to the new funds mobilisation strategy of leveraging funding to support operations. Through the deployees, the Fund leveraged R53,9 million from the MSIG for its activities. Deployees assisted municipalities in writing quality business plans, developing terms of reference for consultants, monitoring the implementation of grants, and reporting expenditure and progress on implementation to the Department of Cooperative Governance and Traditional Affairs. Despite the lower grant disbursements, the leveraging of the MSIG allowed the Fund to exceed its targets. In the year under review, it developed and reviewed 1 927 systems, policies and plans, a 60% increase on the previous year.

The DBSA Vulindlela Academy disbursed grants of R21,8 million for the training of municipal officials and councillors referred by the Siyenza Manje deployees. Another R48 million was made available to municipalities to assist them in the compilation of valuation rolls, the conversion of financial systems to comply with Generally Recognised Accounting Practice (GRAP), and activities such as the development of Social Compacts and local economic strategies in support of rural development initiatives.

Funding mobilisation

The DBSA Development Fund aims to maximise the impact of its development resources and therefore leverages contributions by clients and third parties as far as possible. During the year, the Fund aggressively implemented its funds mobilisation strategy to leverage funding in support of its operations.

The National Treasury provided funding of R286,6 million for Siyenza Manje. Another R53,9 million was leveraged from the MSIG to support under-resourced municipalities in developing plans, systems and policies. Funding of R282 million was leveraged from other parties for two Limpopo municipalities: the Community Development Facilitation Division was responsible for the bulk of this, mobilising R267 million for community development programmes from government departments, the Community Work Programme and the private sector. The DBSA Vulindlela Academy leveraged R6,2 million from public and private sector partners to support training and capacity building interventions.

The operational growth of the Fund over the last three years has increased its funding requirements. In future, support to new programmes and mandates will be on the basis of full cost recovery. This will be achieved by mobilising multi-year funding through partnership development and funds mobilisation campaigns.

Capacity Development and Deployment

Vulindlela Academy

The DBSA Vulindlela Academy, which is accredited by the LGSETA, is the Bank's platform for capacity building, knowledge sharing and skills transfer. The Academy offers accredited capacity building and training to development intermediaries in the southern African region, including municipalities in South Africa, government departments, parastatals, utilities, non-governmental organisations and development finance institutions. It addresses human and institutional capacity failure, specifically in the technical, finance, management, planning and governance fields, which are critical to improving service delivery in South Africa and the region.

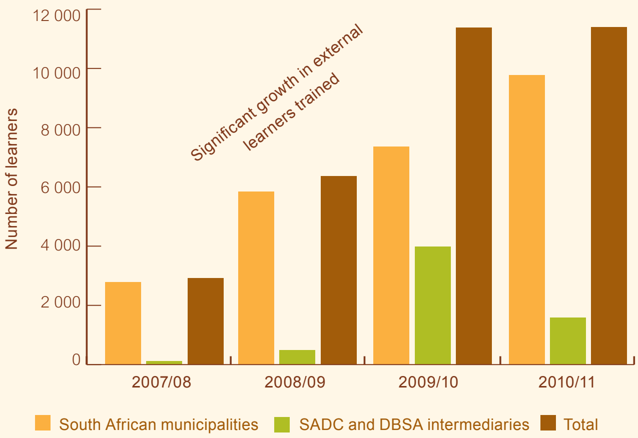
Institute of Sectoral or Occupational Excellence accreditation

In 2010/11, the LGSETA identified the Academy as a centre of excellence under the Institute of Sectoral or Occupational Excellence initiative. This accreditation came with a R1 million grant to integrate the Academy's e-learning platforms, such as the Local Government Resource Centre and the Global Development Learning Network platform of the World Bank.

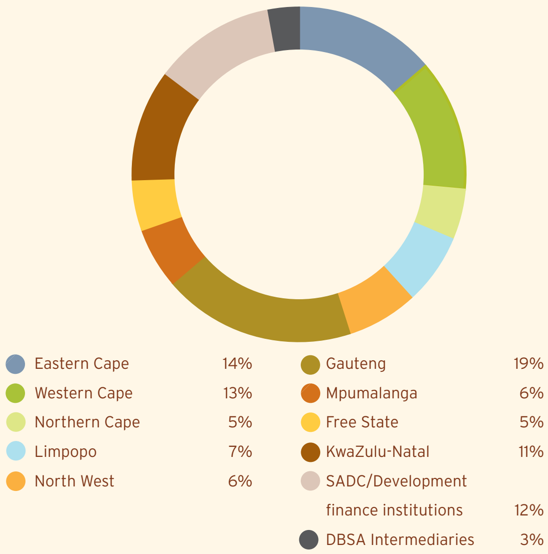
Training in priority skills

In the year under review, the Academy trained 11 381 learners in the priority skills areas of planning, finance, management and leadership. This represents a significant increase from the 2 944 learners trained in 2007/08, as shown in the figure below. The Academy also provided training to 322 delegates from the rest of the SADC region and to 1 287 delegates from other private and public intermediaries.

Vulindlela market coverage, 2007/08 to 2010/11



Vulindlela training by province, 2010/11



In support of the Fund's strategy, 9 772 of the 11 381 trained delegates were drawn from local municipalities identified by Siyenza Manje deployees. This meant that 81% of Siyenza Manje municipalities benefited from Vulindlela training programmes during 2010/11. The training was spread across the different provinces, with the highest proportions in Gauteng, Eastern Cape and Western Cape due to the concentration of Siyenza Manje deployees in these provinces.

Impact of Vulindlela training

A total of 2 809 learners were certified competent, a 26% increase from 2009/10 when the figure stood at 2 223 learners. Vulindlela training programmes received a 90% satisfaction rating from learners. The Academy has developed a tool to measure the impact of its programmes, based on best practice models for measuring the return on investment in a training environment. These models recognise dimensions such as client satisfaction, pre- and post-training evaluation, the portfolio of evidence and performance evaluation. The impact evaluation model will be implemented in 2011/12.

Prospects for the year ahead

In 2011/12, the Vulindlela Academy will focus on councillor induction, post-induction training, and management and leadership development for municipal managers. In support of the Fund's Operations and Maintenance Programme, the Academy will provide technical training across the DBSA. Vulindlela has developed a sustainability framework and pricing model aimed at ensuring that it becomes fully sustainable over the next five years.

Measuring the impact of Vulindlela Academy training courses

The Vulindlela Academy offers practical, customised and accredited training programmes in the broad areas of finance, planning, management and leadership. These programmes target development intermediaries who are clients of the Bank across the SADC region.

The Academy has introduced a Quality Management System, which resulted in its institutional accreditation by the LGSETA, in addition to the accreditation of all training manuals granted in 2005. The LGSETA regularly assesses the Academy to ensure full compliance with minimum quality requirements. This independent evaluation by the LGSETA ensures the quality of Vulindlela training and the impact of its interventions. The overall impact of its training programmes is measured annually, using a range of instruments based on Donald Kirkpatrick's Return on Investment model. The model recognises four dimensions, including client satisfaction, pre- and post-training evaluation, the portfolio of evidence and performance evaluation.

The diagram below demonstrates how the performance and impact of Vulindlela training were measured in 2010/11:

Level 4
Performance improvement evaluation

This level measures the impact of training on the job.

Level 3
Use of portfolio of evidence

This assessment is used to measure learners' ability to apply the acquired skills. During 2010/11, 2 809 external learners received certificates of competence based on their portfolios of evidence, which demonstrated their ability to apply the acquired skills in their work environment.

Level 2
Pre- and post-training evaluation

At this level, the knowledge of learners is assessed before and after the training to determine the level of skills acquired through the training intervention. During 2010/11, 4 246 external learners were assessed.

Level 1
User satisfaction

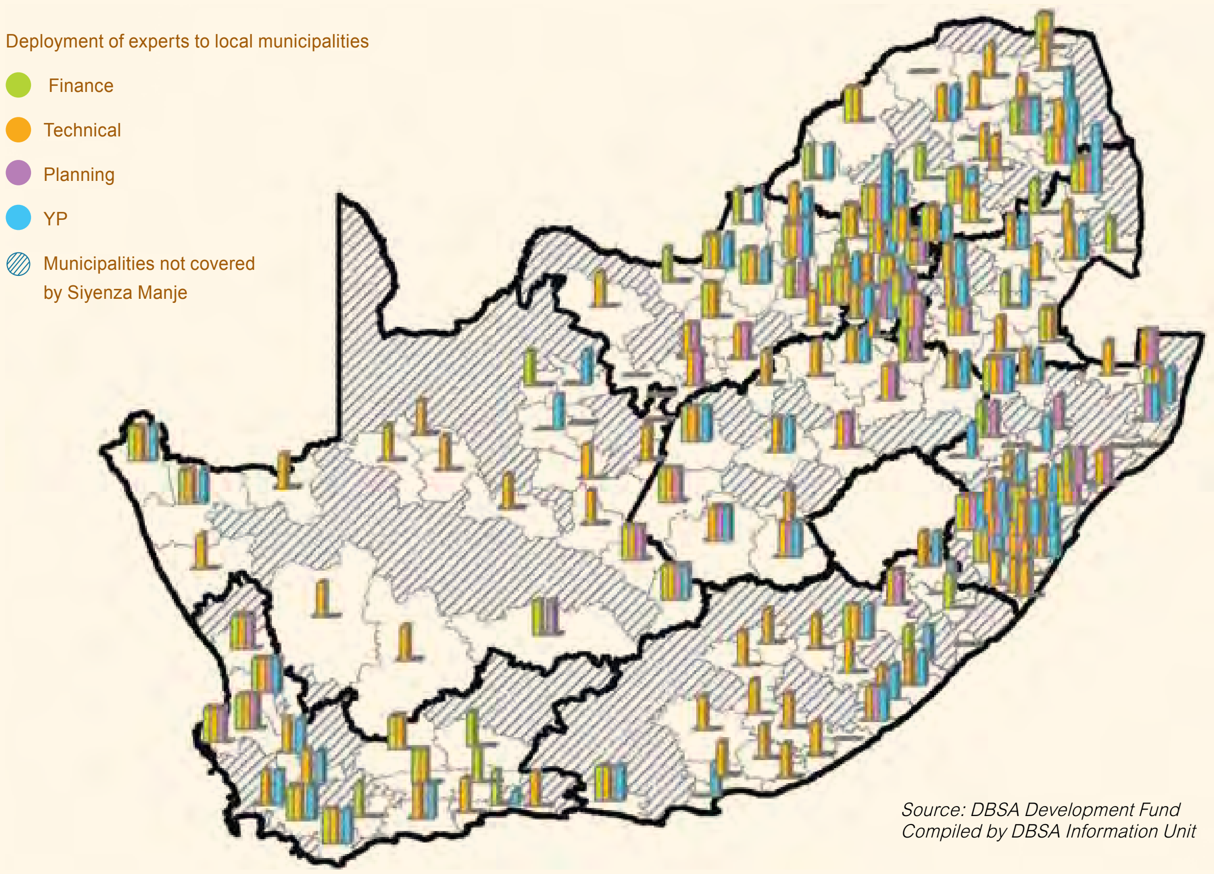
This measures the satisfaction of delegates to determine if their expectations and needs have been met regarding the skills they meant to acquire from the training intervention. Participants complete evaluation forms with questions on the quality of the manual, the knowledge of the facilitator and the quality of the training venue. During 2010/11, the Academy achieved a 90% satisfaction level from 11 381 respondents who benefited from training courses.

Several municipalities benefiting from the Municipal Finance Management Programme offered by the Academy, in partnership with the National Treasury, are already exhibiting better financial management, as evidenced by audit outcomes. The improved performance is also attributable to the support provided by the Siyenza Manje finance deployees. Improvements were reported in 31% of the 83 municipalities with Siyenza Manje finance deployees, and compliance with section 71 of the Municipal Finance Management Act improved in 88% of these municipalities. In the year ahead, Vulindlela will appoint an external service provider to conduct an independent evaluation of the impact of its training programmes.

Siyenza Manje

The Siyenza Manje programme was conceptualised in 2006 in support of the government's capacity building initiatives. It addressed several problems: the lack of expenditure of MIG allocations, limited disbursement of the Fund's technical assistance grants, and municipal non-compliance with 16 priority areas of the Municipal Finance Management Act. The programme has deployed well-qualified human resources in the finance, engineering and technical fields in 186 municipalities (126 direct and 60 on a shared-services basis) and 20 provincial departments. This is 5% less than the previous year, owing to the decrease in the MTEF allocation to the programme. The map below illustrates the geographic spread of Siyenza Manje deployees.

Siyenza Manje deployees in local municipalities, 2010/11



Source: DBSA Development Fund
Compiled by DBSA Information Unit

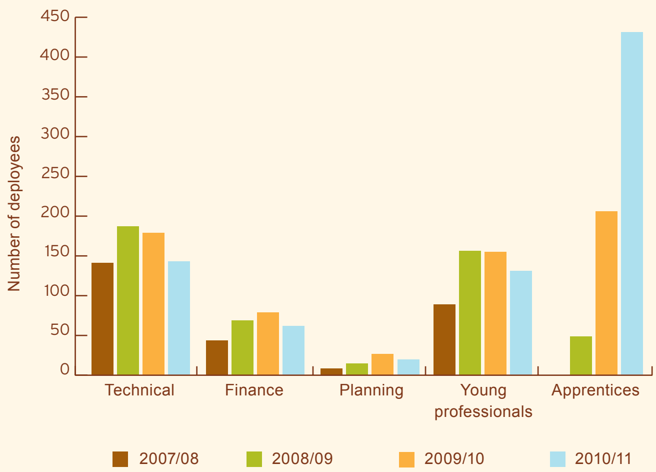
Deployment trends

In 2010/11, Siyenza Manje deployed 163 engineers, 72 finance experts, 26 development and town planners, 135 young professionals and 430 apprentices (301 section 13 young graduates and 129 section 28 municipal workers). The programme created a pool of qualified artisans for deployment in municipalities with critical operations and maintenance skills shortages, thus building skills for sustainable infrastructure maintenance in low-capacity municipalities. The figures overleaf illustrate the deployment trends in municipalities supported through the Siyenza Manje programme.

Operations overview continued

Number of municipalities supported, 2007/08 to 2010/11

Siyenza Manje deployment trends, 2007/08 to 2010/11

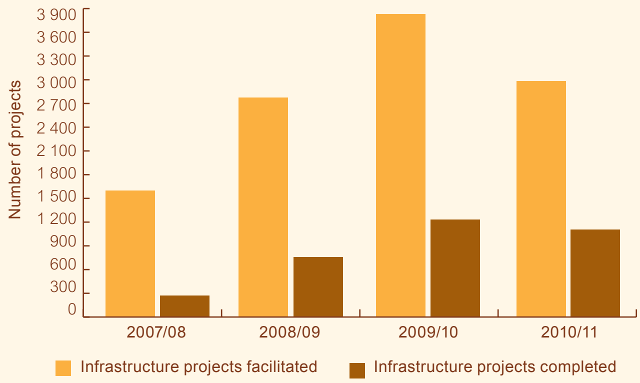


Development impact

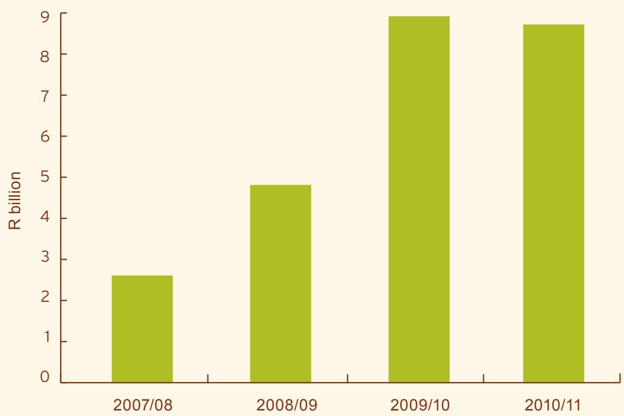
Siyenza Manje deployees facilitated 2 984 technical infrastructure projects during 2010/11, which made up 51% of the total project portfolio of 5 896 projects and initiatives. The decline in project numbers is the result of municipalities clustering technical projects into bigger packages for ease of administration. The number of technical experts also fell. By the end of March 2011, 1 114 technical infrastructure projects had been completed, a 10% decrease from 2009/10, as depicted in the following figure.

The R8 billion target for the release of capital expenditure (through MIGs) was exceeded by 100%, reaching R16,0 billion. This significant increase is attributed to the shared-services approach adopted in response to the growing need for municipal support. Deployees facilitated capital/MIG expenditure of R8,7 billion during 2010/11, compared to R8,9 billion in 2009/10.

Technical infrastructure projects, 2007/08 to 2010/11

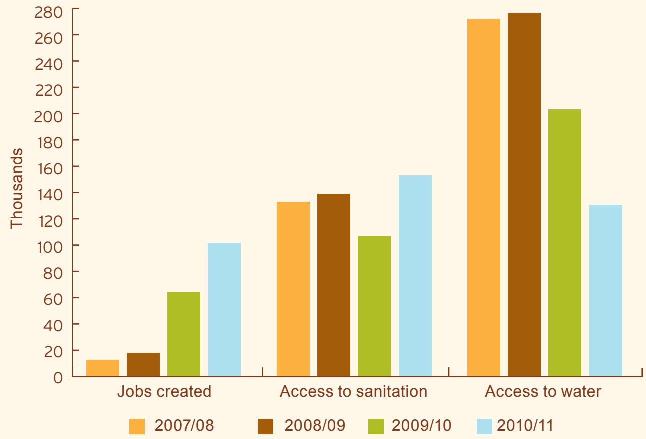


Capital/MIG expenditure released, 2007/08 to 2010/11



The number of households that benefited from access to water within 200 metres is 129 858, 36% lower than in 2009/10. The decrease is mainly due to the reduction in national backlogs of water connections, which the Department of Water Affairs estimates at 8%. Another 616 906 households were connected to new or upgraded bulk water systems. As for sanitation, 152 772 households received basic sanitation (a 43% increase on 2009/10), while 432 432 households benefited from upgrades in bulk sanitation infrastructure.

Development impact of Siyenza Manje programme, 2007/08 to 2010/11



In line with the government's employment creation priorities, technical infrastructure projects promoted the use of labour-intensive construction methods and created 102 092 temporary job opportunities during 2010/11.

Technical deployees supported the regional offices of the Department of Water Affairs by facilitating and approving 288 technical reports on water and sanitation. Planning and technical deployees provided capacity support to the provincial Departments of Human Settlements in the Eastern Cape, Free State, Gauteng and Western Cape, by facilitating integrated housing planning, project management, the eradication of informal settlements and programmes to develop hostels.

Schools Water and Sanitation programme in KwaZulu-Natal

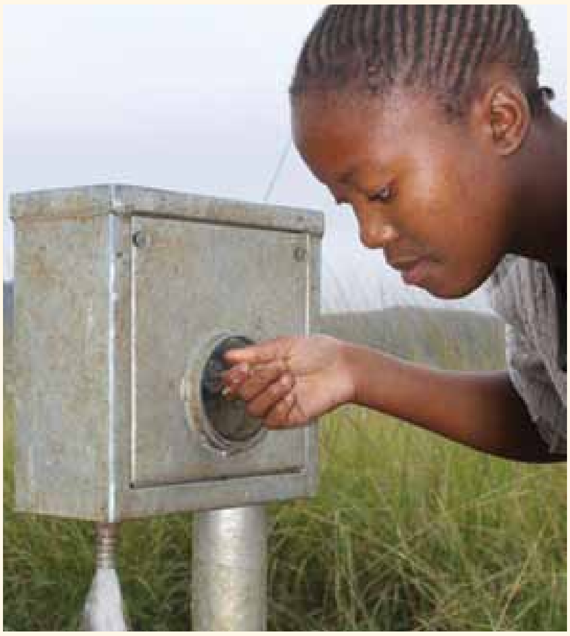
The Schools Water and Sanitation programme was funded by the Department of Education, and the funds for managing and implementing the programme were allocated to the Department of Water Affairs. The regional office of the Department of Water Affairs in KwaZulu-Natal appointed two Water Boards to serve as implementing agents. The immediate goal of the programme was to eradicate water and sanitation backlogs in priority schools. The programme focused on schools with no access to water services or insufficient facilities, and schools where water services were unacceptable or inadequate with regard to technical services, technology, functionality (operations and maintenance), sustainability, conditions, health and hygiene practices, and management.

The Development Fund provided technical capacity support through a Siyenza Manje technical deployee at the regional office. The support included technical and project management, performance evaluation, project site visits, inputs on the operations and maintenance manual for the programme, quality control, the facilitation of water quality testing and registration of boreholes, and skills transfer to officials.

In the period from 2008 to 2010, a total of 437 schools water and sanitation projects were completed. The R120 million spent resulted in the creation of 905 jobs for 520 youth, 376 adults and nine people with disabilities.

The implementing agents conducted health and hygiene education during the handover of the project. This benefited learners, teachers and members of the school governing bodies. The Department of Health conducted further follow-up training in this regard.

Implementing agent	Sector	Number of projects	Budget allocation
Umgeni Water Board	Water	211	R52 million
	Sanitation	37	
Mhlathuze Water Board	Water	105	R68 million
	Sanitation	84	
Total		437	R120 million



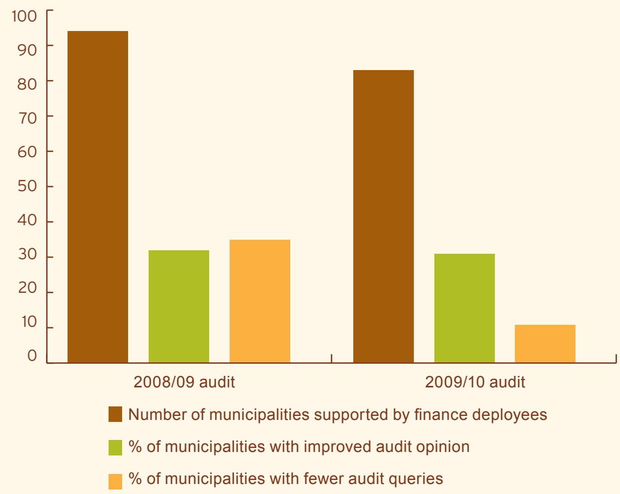
Operations overview continued

Financial management impact

Finance deployees supported municipalities in addressing audit queries and submitting all the necessary financial reports to the National Treasury. A 31% improvement on the 2009/10 audit outcomes was recorded among the 83 municipalities with finance deployees. In addition, 11% of the municipalities reported a reduction in the number of audit queries.

Compliance with section 71 of the Municipal Finance Management Act improved in 88% of municipalities with finance deployees. The worsening financial standing in many municipalities required an increased focus on cash flow management to improve short- to medium-term liquidity and viability. To address this concern, the Siyenza Manje programme developed a cash flow management model that was piloted in all Gauteng municipalities during 2010/11. The pilot has been successful, with a significant improvement in net cash recorded in several municipalities.

Siyenza Manje municipalities with improved audit opinions, 2008/09 and 2009/10



Association of Accounting Technicians South Africa: Gauteng learners

The DBSA, through the Siyenza Manje programme, entered into a partnership with the Association of Accounting Technicians South Africa (AATSA) and the South African Institute of Chartered Accountants (SAICA) to fund the training of municipal personnel in accounting. The aim of this training is to impart knowledge and develop critical skills needed to fulfil day-to-day local government accounting and finance functions. Successful participants are awarded a Local Government Accounting Certificate by AATSA. The training is accredited by the South African Qualifications Authority at National Qualifications Framework (NQF) level 3 and has the support of all the main role players in local government and government finance, including the LGSETA.

The training programme was piloted in Gauteng, with 326 learners acquiring the qualification and a further 108 still undergoing training in 2010/11. The programme is currently being rolled out on a national scale. The Siyenza Manje Gauteng finance experts provided mentoring services to the learners. The Fund is proud to be associated with the training of competent staff, thus building capacity for the effective running of municipal finances.

Human skills and institutional development

Despite the high turnover in municipalities, deployees continued to conduct skills transfer initiatives in 2010/11. They facilitated the on-the-job training and coaching of 2 679 municipal officials in finance (870), planning (772) and technical (1 037) skills. The increase in the number of planning officials trained was due to the adoption of the shared-services approach. With regard to institutional capacity building, deployees developed and reviewed 1 927 systems, policies and plans, a 60% increase on the 2009/10 figure. This includes 104 systems and 33 plans to the value of R53,8 million funded through the MSIG.

Young Professionals programme

The Young Professionals programme provides both professional and personal development training for unemployed graduates in civil engineering, town planning and municipal finance. The young professionals in the municipal finance programme achieved an 88% competency rate and completed 20 modules of training. In 2010/11, 57 finance young professionals attained full competence in municipal finance, while 16 technical and planning young professionals submitted applications for registration with their respective professional councils.

In the year ahead, at least 30 young professionals will be registered with the Engineering Council of South Africa and the South African Council for Planners, and a further 20 young professionals will qualify in municipal finance.

Operations and Maintenance programme

The Operations and Maintenance programme was piloted in four municipalities: Dipaleseng, Kannaland, Hessequa and Eden District. The programme conducted four workload assessments and developed 19 operations and maintenance plans during the year. Seventeen contractors from small, medium and microenterprises (SMMEs) were trained in project management and labour-intensive technology as part of the programme in Eden District Municipality.

Through this initiative, the Siyenza Manje programme provided technical support to the Department of Water Affairs for the improvement of water and wastewater treatment works in three provinces. The wastewater treatment works initiative supported 57 municipalities, and 288 technical reports were completed by 31 March 2011.

In the year under review, 301 section 13 young graduates and 129 section 28 municipal workers were deployed in 60 municipalities to assist with operations and maintenance while undergoing training towards trade certification. Trade certificates were conferred on 41 apprentices and 64 are ready for testing in 2011/12.

DBSA Operations and Maintenance programme: Pilot in Eden District Municipality

The DBSA Development Fund conceptualised the Operations and Maintenance programme in municipal infrastructure in 2007/08. The objective of the programme is to support municipalities in planning and executing infrastructure maintenance, using resources procured in the local environment, including small contractors and community-based works cooperatives. The use of small contractors is promoted in order to contribute to the development of the local maintenance industry while fast-tracking the achievement of national service delivery goals. It ensures that infrastructure maintenance is done in a labour-intensive way, leading to high levels of job creation and enterprise development. The main goals of the programme are to:

- Improve the condition of municipal infrastructure and enhance service delivery
- Create employment
- Develop local enterprises
- Reduce poverty

The SMME development element of the programme is supported by a number of stakeholders, including Khula Enterprise, the Small Enterprise Development Agency and the National Empowerment Fund. The programme integrates the apprentice development programme and the upgrading of wastewater treatment works. The role of the Fund is to initiate the programme design, and provide programme management and capacity building. The programme is expected to:

- Enhance service delivery in communities
- Reduce the occurrence of disasters and waterborne diseases caused by infrastructure failures
- Transfer operations and maintenance skills to municipal personnel and communities
- Promote small contractors and SMMEs
- Create employment and reduce poverty through short- and long-term job opportunities

The programme was piloted initially in Eden District Municipality, and later extended to Dipaleseng, Hessequa and Kannaland Local Municipalities. The Fund and Eden District Municipality signed a Memorandum of Understanding to implement the programme in October 2010. The Municipality maintains provincial roads in the district on an agency basis for the provincial Department of Roads and Public Works. The Fund deployed a programme manager to provide technical and management support to the Municipality's Road Maintenance Programme, which has an annual budget of R100 million.

Development impact

A Project Working Committee was established to oversee the programme and 10 operations and maintenance plans and workload assessments were developed for Hessequa and Kannaland Municipalities. This work will make it possible to prioritise maintenance projects for inclusion in the MTEF and the Integrated Development Plans of the municipalities. In Eden District Municipality, 17 SMMEs have been trained in labour-intensive construction technology and project management.

The road maintenance resurfacing project in Eden District Municipality.

The DBSA Artisan Programme: Aims and impacts

The Development Fund piloted the deployment of apprentices to local municipalities in North West in 2008. The Fund's Artisan Programme aims to recruit and train suitable apprentices to a level of competence that will qualify them as artisans, thereby helping to alleviate the national skills shortage. The Programme is aligned with the government's drive to improve service delivery at the local level and contributes to the success of the National Skills Development Strategy III.

The Artisan Programme grew from 50 apprentices in 2008/09 to 430 apprentices in 2010/11. The apprentices are deployed in 60 local municipalities, and comprise 301 section 13 young graduates and 129 section 28 municipal workers.

The first apprentices registered on the programme were recruited from seven municipalities in North West: Moses Kotane, Mafikeng, Merafong, Rustenburg, Ramotshere Moiloa, Mamusa and Tlokwe. In partnership with the North West Department of Education and Training, the DBSA deployed and trained 50 young apprentices as electricians, bricklayers, motor mechanics and plumbers. During the on-the-job training component of the programme, apprentices join the operations and maintenance teams in municipalities, thus making an immediate impact. Apprentices are partnered with qualified artisans for job shadowing and mentorship. At this stage, they fill critical gaps in municipal technical departments and contribute to service delivery.

Lessons learnt

Proper workplace assessments must be made to determine the suitability of training. The programme needs to ensure that there are sufficient qualified artisans to mentor the apprentices at the municipalities and that mentors are trained in the requirements of the programme. The focus should be on the skills required in a particular municipality, so that apprentices have a better chance of finding employment there after the trade testing.

Qualified artisans in North West province.

Apprentice diesel mechanics and electricians in training at Durnacol training centre, KwaZulu-Natal.

The DBSA municipal cash flow model: Mogale City pilot phase

The ability to manage cash flow effectively is vital for managing scarce resources efficiently and taking strategic actions to keep an entity out of danger. The worsening liquidity position in many municipalities requires an increased focus on cash flow management to improve short- to medium-term liquidity and viability. This project aims to provide municipalities with an effective cash flow monitoring tool and thereby enhance their financial sustainability.

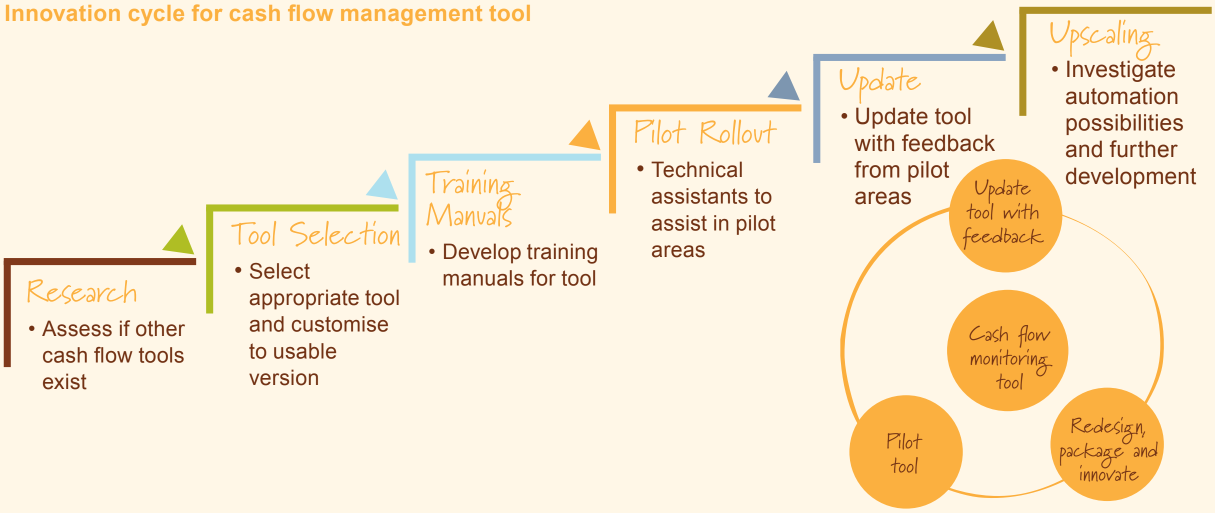
Mogale City pilot

Mogale City Local Municipality piloted a rudimentary in-house cash flow monitoring tool in 2004. During the economic downturn of 2008/09, the tool was integral to monitoring the effect of the liquidity crunch that the municipality faced. It provided management with strategic information about the status of operating, investing and financing activities, as well as projections (based on historical information) of the future cash flow requirements (amount, timing and certainty). The tool allowed users to assess, in real time, whether the municipality was able to generate sufficient cash to provide services, meet its current and future obligations, and repay loans on maturity. It was instrumental in ensuring a paradigm shift in the way treasury officials draw up budgets, collect and collate information, and administer the different functions of the financial services departments.

Extension of the tool to Lesedi, Nokeng Tsa Taemane and Ekurhuleni

The Fund, through the Siyenza Manje partnership with SAICA, extended the use of the cash flow tool to other municipalities in Gauteng in 2010/11. The Siyenza Manje/ SAICA project team applied the tool at the Lesedi and Nokeng Tsa Taemane Local Municipalities and the Ekurhuleni Metropolitan Municipality, using it to manage the innovation cycle outlined in the figure below. The essence of the project is to manage this innovation and develop a "take-to-market" strategy that includes pilots, redesign, packaging and, most importantly, generating buy-in from stakeholders in priority sectors.

Innovation cycle for cash flow management tool



The pilot of the cash flow management tool recorded considerable success, including significant improvements in municipal net cash positions. The model has been effective in strengthening the institutional capacity of municipalities and shifting the focus to monitoring important areas of financial management. Municipalities can now map a path of interventions that help to achieve net positive cash positions, enhance revenues, improve rates collection and manage expenditures. This indicates that municipalities have been empowered with quality, reliable and real-time information. The tool introduced an added layer of rigour and discipline to municipal administration and management capabilities. Officials have commended and welcomed the innovation that the tool has brought about.

Benefits and lessons learnt

The main benefit of the tool is that it ensures that the municipal budgeting and reporting framework is congruent with that of the National Treasury and meets its requirements. Municipal budgets and cash flow forecasts are aligned and realistic, and the time and effort needed to collate and analyse information for reporting have been reduced.

Among the lessons learnt is the need for senior management to use the tool consistently and regularly. Municipal officials must take timely decisions based on the information from the tool and be disciplined about enforcing them. Staff responsible for implementing the model should be well trained on the system and knowledgeable about basic financial management.

Operations overview continued

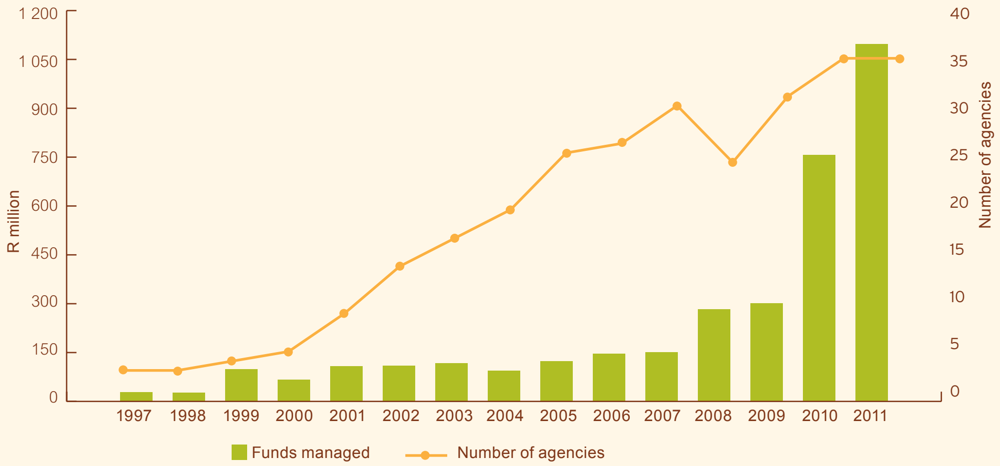
Agencies Unit

The DBSA established its agency function in response to the acute lack of capacity to implement and manage development programmes in the SADC region. The Agencies Unit acts on behalf of local and international development and funding agencies that do not have an institutional presence or sufficient permanent capacity to implement their development programmes. Its objectives are aligned with and complement the capacity building initiatives of the Development Fund.

Funds under management

At the beginning of 2010/11, the Unit had 35 agencies, of which 22 were active and 13 dormant; in the course of the year, seven of the dormant agencies were closed and two were reactivated, while 11 new agencies were attracted. At year-end, there were 35 active agencies with R1,1 billion cumulative funds under management, as depicted in the figure below.

Agency funds under management, 1996/97 to 2010/11



Development impact of agency programmes

The development programmes managed by the Unit contributed significantly to development in the region, as described below.

Infrastructure programmes

In its facilitative role, the Agencies Unit delivered infrastructure worth R2,92 billion during the year through the following programmes.

The *Voluntary Counselling and Testing programme* works to combat HIV/Aids. The programme to provide voluntary counselling and testing facilities in KwaZulu-Natal, Mpumalanga and the Eastern Cape has been running since 2003, and 175 clinics have been completed. The DBSA has served as the implementing partner and conduit for €9 million in funding from the German government. The national and provincial Departments of Health help to make sufficient numbers of counsellors and nurses available for patients to have access to testing equipment and referral services.

The *Water Demand Management programme* is targeted at municipalities and water utilities in the SADC region to enhance awareness of water conservation and demand management. In 2010/11, the programme supported 12 initiatives with a total value of R11,5 million to implement projects on water leakages and losses, the analysis of water infrastructure needs, and feasibility studies for capital investment in water infrastructure development and maintenance.

The *Renewable Energy Market Transformation programme* is funded by the Global Environment Facility Fund of the World Bank, in partnership with the Department of Energy. The programme has a value of US$6 million, of which 83% is contributed by the Fund and 17% by the Department. It supports the South African government's drive to meet the renewable energy target of 10 000 GWh and offset greenhouse gas emissions by 2013. In 2010/11, the programme assisted the government in developing a strategic framework for the Solar Water Heater programme and established a database of service providers and beneficiary organisations.

Funded by the Finnish government, the *Energy and Environment Partnership programme* supports the development of the renewable energy sector in SADC through grant funding for feasibility studies and demonstration projects to prove the sustainability of long-term investments. During 2010/11, the programme supported 46 projects to the value of R50 million in the region.

The *Independent Power Producers programme* is a National Treasury initiative funded by DKK500 000 from the Danish government. During 2010/11, a sector study on independent power producers in South Africa was conducted. The findings of the study will benefit the government and the private sector with regard to good governance, effective legislation, increased possibilities for independent power producers and incentives for the private sector to invest in energy. For the country as a whole, the successful implementation of the programme will improve access to a consistent energy supply and so lead to a better quality of life.

The *Infrastructure Delivery Improvement Programme* (IDIP) is a partnership initiative between the National Treasury and the Departments of Health and Education, which assists the education and health sectors in improving and aligning infrastructure planning and budgeting.

Infrastructure Delivery Improvement Programme

What IDIP is about

In 2001, the National Treasury commissioned a review of provincial service delivery systems with a view to enhancing infrastructure delivery. IDIP was first piloted and tested in the provincial education, transport and health sectors in 2004. Based on the programme's success in improving infrastructure planning, which led to increased infrastructure spending in provincial health and education, the Minister's Committee on the Budget approved its extension until 2013. Phase 3, which is currently being implemented, builds on the lessons learnt during the previous two phases.

The overall goal of IDIP is to enhance infrastructure delivery. It supports more effective and efficient delivery of public sector infrastructure by institutionalising best practice tools and building sustainable capacity.

The DBSA has various responsibilities in relation to IDIP. The Bank:

- Manages the programme
- Manages and administers the IDIP Training and Development Fund on behalf of the National Treasury
- Mobilises and deploys short-term expertise for the programme
- Contributes R1,6 million in grant funding towards the IDIP Fund

Benefits to health and education infrastructure

The rollout of IDIP in the health and education sectors has had many benefits. Among other things, the programme has:

- Identified the primary causes of poor infrastructure delivery and opportunities for addressing them
- Established and strengthened infrastructure management capacity in the national and provincial Departments of Health and Education and the provincial treasuries
- Strengthened cooperative governance and established a good working relationship between the National Treasury, the Construction Industry Development Board, the DBSA and the national and provincial Departments of Health
- Broken down the silo approaches that departments used to follow and promoted joined-up government
- Developed and implemented a management system for infrastructure delivery and an electronic toolkit for infrastructure planning, management and procurement
- Improved infrastructure planning, leading to higher spending on infrastructure by the provincial Departments of Health and Education
- Developed norms and standards for school infrastructure

Operations overview continued

Infrastructure Delivery Improvement Programme (continued)

Signs of success

When IDIP has been implemented effectively, the planning and management capacities of departments are strengthened in various ways. The signs of successful implementation include:

- The appointment of technical experts to promote the institutionalisation of system changes and transfer skills to officials
- An ongoing commitment to guiding and supporting the improvement process
- A functioning coordinating governance structure to steer change at the technical and leadership levels
- An assessment of capacity deficiencies and the development and implementation of plans
- The establishment of an infrastructure reporting model and a system to monitor the effectiveness of the programme
- The generation of readily available project information on a monthly basis
- The institutionalisation of IDIP as a reporting template
- The ability to inform clients upfront about how progress will be measured
- Improvements in infrastructure planning and spending

In the year ahead, the Agencies Unit will focus on building sustainable relationships to enhance development impact in the priority sectors of the DBSA.

Pan-African Capacity Building Programme

The Pan-African Capacity Building Programme is a partnership between the DBSA, the AFD and the IDC. The aim is to make a positive and lasting contribution to the human, institutional and operational infrastructure capacity of the African continent in the field of project management for infrastructure development. The programme has a particular focus on professional skills in the energy, water, sanitation and transportation sectors. It has three pillars: an Executive Masters in Infrastructure Management, short courses and the Young Professionals internship programme.

Executive Masters programme

The Water for All Executive Masters pilot initiative started this year with the enrolment of four officials as students from Johannesburg Water, Bushbuckridge Water and Polokwane Municipality. The officials began their academic programme at AgroParisTech in September 2010, specialising in water resources management.

In the year ahead, the Masters in Infrastructure Management programme will be rolled out in four regional institutions of higher learning:

- University of Pretoria (South Africa)
- Makerere University (Uganda)
- International Institute for Water and Environmental Engineering (2iE) (Burkina Faso)
- ParisTech University (France)

Short courses

The short courses aim to address critical skills gaps in development finance institutions and government subsidiaries on the continent. In 2010/11, the programme delivered short courses to 152 participants in East and West Africa. Through a partnership with the Rwanda Local Government Association, 32 delegates were trained in public-private partnerships and 30 delegates in project finance. The DBSA collaborated with the IDC and the National Treasury in delivering the two courses in Rwanda. The programme also offered a financial modelling course in partnership with the Rwanda Development Bank to 40 of its employees. In West Africa, 52 delegates from the Urban Development Bank of Nigeria were trained in financial modelling.

Young Professionals internship

The Young Professionals Internship Recruitment Plan, Communications Plan and Project Implementation Plan were approved by the Advisory Board, which comprises representatives from the DBSA, the IDC and Agence Française de Développement (AFD). This experiential learning initiative has seen 15 young professionals being placed in medium-sized municipalities in France for three months. These young professionals returned to South African municipalities in June 2010. The second group will be deployed in French municipalities in September 2011.

Young professional with engineers from the Nantes Metropole, France.

The year ahead

In 2011/12, the Pan-African Capacity Building Programme will train professionals from local and regional development finance institutions, sector utilities and government departments across the continent in the following critical skills:

- Project finance and financial management
- Fundamentals of public-private partnerships
- Financial modelling
- Leadership skills development for management effectiveness
- Contracts management and ethics for the public sector
- Critical energy issues in Africa
- Fundamentals of water and sanitation management in the public service

Plans for 2011/12 programmes

In addition to providing the implementary agency role for the Siyenza Manje programme to the National Treasury and the Department of Cooperative Governance and Traditional Affairs, the Division's planning centres on support for the infrastructure mandates the DBSA will be implementing and managing.

National and provincial mandates

The Fund has positioned itself to support government mandates for infrastructure delivery, as well as the DBSA's accelerated investment in national infrastructure programmes in the education, health, water and sanitation, transport and energy sectors. Progress in three of these sectors is discussed below.

Human settlements

During 2010/11, 11 technical and planning experts were deployed in the provincial Departments of Human Settlements in Gauteng, the Eastern Cape and the Western Cape to facilitate integrated housing planning, project management, the eradication of informal settlements and the development of hostels. The Fund is finalising a Memorandum of Understanding with the KwaZulu-Natal Department of Human Settlements to establish a Programme Implementation Unit that will drive the delivery of human settlements in the province. Discussions are under way with the Free State and Eastern Cape Departments of Human Settlements to secure new mandates for establishing Programme Implementation Units in these two departments.

Education

The DBSA is finalising a Memorandum of Understanding and Programme of Activities with the national Department of Basic Education. A draft governance structure setting out the roles and responsibilities of each of the parties has been prepared and is awaiting agreement. The Fund will provide project management capacity in relation to the education mandate.

Health

The Fund is working with the KwaZulu-Natal Department of Health on establishing a Programme/Project Management Office with the required expertise. A Memorandum of Agreement is being concluded with the Department for the deployment of technical experts to assist with implementing the Hospital Revitalisation Programme. Health technologists, quantity surveyors, civil engineers and architects will be deployed in 2011/12.

Support to other DBSA divisions

The Development Fund has been working with the South Africa Operations Division and the Development Planning Division of the DBSA on several initiatives.

Education (provincial)

The Fund is providing technical support to South Africa Operations on the project preparation for the Gauteng Schools Programme. The Programme involves 91 new schools and 273 existing schools that need refurbishment. The project preparation exercise will be completed in 2011/12.

Health

In relation to the Gauteng Hospital Revitalisation Programme, the Fund provided South Africa Operations with technical support for compiling scoping reports on six hospitals that are earmarked for revitalisation. The Fund also provides technical support on engagements with provincial stakeholders in Gauteng and the National Treasury for the approval of the proposed funding models. In 2011/12, the Fund expects to support South Africa Operations on the Hospital Revitalisation Programme in the Free State.

Water and sanitation

The DBSA has signed a Memorandum of Agreement with the Department of Water Affairs to address challenges in the water sector. In addition to skills transfer and capacity building, the Fund will provide technical support for initiatives to plan and implement water infrastructure, operate and maintain national water infrastructure, reduce water loss in municipalities, and turn around the Water Trading Entity.

Programme implementation and management

The Development Fund will be the hub for the provision of implementation capacity support to the infrastructure mandates. Eight programme managers and experts have been allocated across the sector streams to provide technical support to the teams working on the mandates.

Jobs Fund

Cabinet has approved the establishment of a R9 billion Jobs Fund. This Fund will support the expansion of existing programmes and pilot innovative approaches to employment creation, with a special focus on opportunities for young people to learn skills while in productive employment. The Minister of Finance has appointed the Development Fund to provide administrative and technical support to the new body.

The objective of the Jobs Fund is to co-finance public and private sector projects with the potential to contribute significantly to sustainable job creation. For the initial round of project requests, the National Treasury proposes that the Jobs Fund support the following initiatives:

- Enterprise development: Investments in product development, local procurement, marketing support, equipment upgrading or enterprise franchising

- **Infrastructure investment:** Local infrastructure projects such as light manufacturing enterprise zones, local market and business hub facilities, critical transport and communication links, and upgrading of infrastructure services
- **Support for work seekers:** Support programmes with a particular focus on unemployed young people, such as job search projects, training activities and support for career guidance and placement services
- **Institutional capacity building:** Projects aimed at strengthening institutions through which jobs are created, including internship and mentorship programmes, producer cooperatives, the organisation of linkages between small enterprises and large firms, purchasing networks and the enhancement of community works projects

The proposed institutional arrangements for the Jobs Fund will include an Advisory Committee made up of representatives from relevant government departments, the business sector, organised local government, organised labour and civil society. The DBSA will provide programme management services. The National Treasury has set aside R50 million for the initial planning, administration and technical support in the first year of operation.

The Development Fund is currently designing programme management and governance structures for the Jobs Fund, which will then need to be approved by the National Treasury.

Community Development Facilitation Division

Community Development Facilitation sets the basis for integrated sustainable development by supporting the structuring and implementation of projects through facilitation, coordination and negotiation processes. The Division achieves its strategic objectives through the services offered by its three units.

Sustainable Communities

The Sustainable Communities Unit is anchored in the establishment of a Development Charter between various community stakeholders, which outlines their shared vision, mission and values, roles and functions, and a mechanism of communication and coordination. The Unit acts as a development facilitator: it brings stakeholders and communities together and builds a common language, vision and values, as well as a realistic, sustainable development plan that acknowledges that government must be based on "the needs of the people". The Unit provides technical and financial support and facilitates partnerships and the crowding in of funds.

During 2010/11, the Unit leveraged funding of approximately R267 million and disbursed R6,4 million in capacity building grants to municipal and community-based programmes. It established partnerships with both the public and the private sector to support the creation of sustainable communities.

The Unit focused on the following areas:

- *Urban areas:* Grabouw, Ba-Phalaborwa, King Sabata Dalindyebo, Diepsloot and Duncan Village
- *Rural areas:* Elliotdale and uMkhanyakude
- *Partnership programmes:* Keiskammahoek, Richmond Park, South African Forestry Company Ltd (SAFCOL) Beekeeping Enterprise Development, AsgiSA Eastern Cape and Dreamfields, and Eastern Cape Small Town Revitalisation

Project Management Unit

The Project Management Unit is an internal resource centre for project management, which provides capacity to other units in the Development Fund and the DBSA. Many of the Unit's activities are in support of the Sustainable Communities Unit. It provides services related to selected projects and applies technical project management knowledge and expertise throughout their life cycles. The Unit also develops project models for replication based on lessons learnt. Where client capacity is lacking, the Unit takes responsibility for implementing projects, and uses these opportunities to transfer project management skills to clients.

The Unit facilitated the completion of 25 project management plans and 25 monitoring mechanisms for the three Sustainable Communities pilot programmes during 2010/11. It also undertook five planning interventions on behalf of other divisions within the DBSA.

Project Development Unit

The Project Development Unit supports the sustainable development of the social and economic potential of communities. The Unit prepares projects from previously disadvantaged communities and the public sector for bankability. During the year, it conceptualised and structured six development projects, and referred four projects worth R481 million to the investment divisions of the DBSA and to other financial institutions.

Supporting national priorities

In line with its strategy, the Division supported the implementation of important government strategies and programmes to ensure the development of sustainable human settlements. During 2010/11, the Division focused on several of government's priority areas.

National education programmes

The Division facilitated the implementation of a programme to eradicate unhealthy and unsafe school structures in the Eastern Cape. This strategic initiative seeks to address the existing backlog of 539 unsafe schools in one programme. The Division will also resuscitate the Winter School programme during 2011/12. This was a pilot programme implemented jointly by the DBSA, BHP Billiton, Eskom Limited Holdings and Sasol through the KwaZulu-Natal Foundation. The programme operated between 2007 and 2009, providing winter school tuition for two-week periods to learners from rural schools in Limpopo, KwaZulu-Natal and the Eastern Cape.

Eradication of unsafe and unhealthy schools in the Eastern Cape using alternative technologies

The DBSA, together with the Eastern Cape Department of Education and in partnership with ArcelorMittal, is developing alternative construction models as part of the Eradication of Unsafe and Unhealthy Schools and Structures programme. These models employ a steel frame technology, which is suitable for areas that face a high risk of tornadoes or have limited access to water for construction. The prefabricated materials make for ease of construction, and so local unskilled labour can be used to build schools. The cost of building a classroom using this technology is also considerably lower than more conventional construction methods.

In keeping with the Development Fund's role as a facilitator, the Division is working with various partners to develop more comprehensive implementation models. These models seek to involve the community in both the construction and subsequent operation and maintenance of the schools. The models also consider their overall sustainability. In this regard, integrated planning is essential to ensure that schools have all the amenities needed for a quality education.

In the year ahead, the Division will initiate a development facilitation process to formulate and sign a project charter for each school or cluster of schools. This will ensure that all the relevant stakeholders participate in all the development phases concerning their schools.

Madiba Senior Secondary School before and after the reconstruction.

National rural development programmes

The Division plays a critical catalytic role in rural development. By creating, sharing and applying cutting-edge knowledge for social and economic development it enhances rural livelihoods through agricultural projects. Typical projects focus on job creation, skills development and community beneficiation in different agricultural environments. The projects are characterised by components that generate and enhance sustainable socio-economic development.

Coastal cashew production in KwaZulu-Natal

The Fund provided a grant of R900 000 to the Coastal Cashews project in KwaZulu-Natal. The funding was for rehabilitating the current operations, and for conducting a feasibility study to assess the project's status and recommend possible interventions to turn it around. Both the rehabilitation process and the feasibility study have been concluded.

The first step in the rehabilitation process was an analysis of current machinery, equipment and soil conditions to determine appropriate interventions. This was followed by the actual rehabilitation, which included replacing and upgrading machinery, pruning and hedging, and spraying to curb diseases and pests.

The feasibility study took three months and focused on technical aspects affecting productivity. The study assessed the following areas: natural resources (soil, weather data and water); physical infrastructure (water reticulation systems, including boreholes and dams, as well as roads, fencing and warehouses); current land-use (cashew, mango, pineapple and cassava plantations); movable and immovable assets; yield data for individual blocks; and the impact of diseases and pests. The recommendations flowing from the study included depopulating the trees for proper spacing, improving soil fertility, improving the water reticulation system and developing detailed business plans and financial models.

Parallel to the rehabilitation, an institutional assessment was conducted and a turnaround strategy developed for the project Board to implement. The turnaround strategy recommended that the Board be restructured; that financial, record management, asset management and maintenance systems be developed; and that an agricultural expert be appointed to provide technical support.

Despite many institutional and financial challenges, the project's operations have improved since the DBSA's intervention. The harvesting of fruit has commenced and continues on a small scale: 14 tonnes of cashew nuts have been harvested to date, more than triple last year's yield of 4 tonnes. A development facilitation process is now under way to draw in different role players who can commit further resources to the project and thus ensure its continuity and sustainability.

Overcrowding before rehabilitation.

Rehabilitation: mechanical hedging.

Rehabilitation: removing every second row.

Beekeeping in Limpopo

The Mphephu Community Beekeeping project (phase 1) covers the Hanglip and Roodewal areas in the Vhembe district of Limpopo. These areas are ideal for beekeeping because of the prevalence of eucalyptus trees, which are a rich source of nectar for the production of honey. The initiative was started as a pilot cooperative enterprise, aimed at enhancing the skills and livelihood of the Vhembe community. It was implemented as a joint venture through a partnership between the DBSA and SAFCOL.

The project successfully trained 16 members of the community as apicultural specialists, while seven people acquired entrepreneurial and financial management qualifications. The project resulted in permanent income opportunities for the households of the 16 participants. This created spin-off opportunities for more than 50 other households. The project has harvested over 150 kilograms of honey to date and established a formal cooperative on each project site. Assets related to beekeeping worth R1,5 million have been transferred to the community and the project has utilised 200 queen hives and 600 honey production hives (supers) on the production side. The cooperatives are now involved in pollination services for the community-owned farm project in the Levubu area.

The second phase of the beekeeping project is planned for the coming year. Phase 2 will replicate phase 1 in four provinces, namely KwaZulu-Natal, Limpopo, Mpumalanga and North West, and is expected to run for three to five years.

Mphephu community members who were trained as apicultural specialists.

Trained apicultural specialists at work on beehives in Mphephu.

Grabouw River Cleaning Project

This multi-year project forms part of the Grabouw Midtown Renewal Plan and entails the cleaning of the Palmiet River that runs through the town. It is important not only for aesthetic and safety reasons, but to improve the quality of the river, which is a critical water source in the area.

The Fund provided technical assistance to facilitate the establishment of the River Cleaning Working Group, determined the scope of work for the rollout of the programme and ensured compliance with legislation. The River Cleaning Working Group includes representatives from the private sector, the Theewaterskloof Local Municipality, the Groenland Water Users Association and the community. The project is currently being implemented using both private sector and Community Work Programme funding. The cleaning of the river banks and the midtown sections of the river is expected to be finished by the end of March 2012.

The Palmiet River, showing the poor state it was in before the clearing and cleaning projects.

Another section of the Palmiet River after alien vegetation has been eradicated but before silt has been removed.

Operations overview continued

Integrated human settlement programmes

The Elliotdale rural housing project demonstrates the Division's support for the government's Breaking New Ground policy and sustainable rural housing in general. The Division will pilot a similar urban project in the King Sabata Dalindyebo and Kokstad Municipalities. The Elliotdale project is well progressed, with 90 units currently under construction.

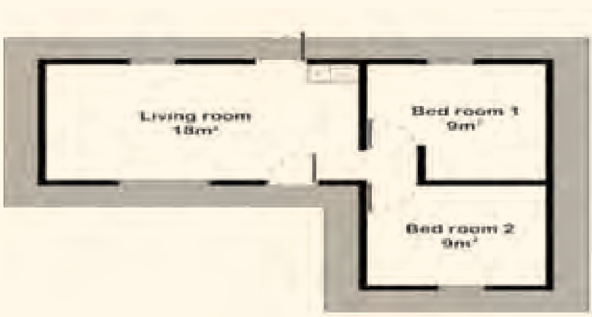
Elliotdale Rural Sustainable Human Settlement pilot project: Piloting alternative and sustainable shelter delivery models among the rural poor

The Elliotdale Rural Sustainable Human Settlement pilot project is a three-year initiative to construct 1 000 housing units. The project is a strategic partnership between the Fund, the national Department of Human Settlements and the Eastern Cape Department of Human Settlements. Similar projects have been facilitated at Rooidakke in Grabouw, Extension 7 in Ba-Phalaborwa and Mthatha in the King Sabata Dalindyebo Municipality.

The Development Fund is mandated to pilot appropriate alternative models for delivering shelter in sustainable human settlements, both rural and urban. The immediate objective is to model innovative strategic approaches that address the overwhelming lack of adequate shelter in Elliotdale in the Eastern Cape, one of the poorest administrative areas in the country. The project is located in Wards 17 and 26 of Mbhashe Municipality in the Amathole District.

The Elliotdale project is a milestone in relation to the Enhanced People's Housing Process (EPHP), which is the policy framework of the national Department of Human Settlements. For the first time, a project is allowed to use the subsidy budget from the EPHP for housing products required by a rural homestead. A mixture of housing typologies bearing a range of products has been developed, together with a cost breakdown of each typology that fits the budget for a housing subsidy. The qualifying Elliotdale community members are able to choose their preferred housing type from a catalogue before construction starts.

The housing typologies include plans of various shapes and sizes, and a range of products, such as water harvesting tanks, cooking stoves, solar panels, fridges and homestead fencing works. Depending on the house type, building materials and size selected, the beneficiary may be able to fit these optional housing products into the budget. Of course, the selection is also determined by the most pressing needs. The more popular typologies are shown below.



Another important feature of the delivery strategy is to retain the rural character of the area. This is a departure from the Reconstruction and Development Programme, in which a "township" architectural style was imposed on rural residents. Following the new sustainable approach, development can build on individual homesteads, allowing vegetable gardens and livestock kraals to be preserved.

An existing homestead in Elliotdale.

New house under construction at roofing level.

Vocational training on the project: local builders learn modern methods.

Reinforced concrete foundations under construction.

The Division has enriched the project through its development facilitation skills, which led to the signing of a Development Charter and a Sustainable Development Plan for Elliotdale. The plan uses assets in the area to promote economic, environmental and social development and growth in a sustainable way.

Empowerment is central to this development approach. The Elliotdale community must drive its own development process by mobilising existing natural, physical and economic assets to create local economic opportunities. While individual capabilities and skills are recognised, social relationships are also harnessed, as they nurture local associations and informal networks. It is envisaged that the project will lead to other sustainable development initiatives related to food security; public health, including water security and sanitation; renewable energy; and local economic development, which will generate local incomes and sustainable livelihoods.

There are currently 130 units at various stages of construction on the site. The project is on track to complete all 200 phase 1 units in the coming financial year.

Ngangelizwe Breaking New Ground pilot housing project

The Breaking New Ground pilot housing project in King Sabata Dalindyebo Municipality made use of alternative construction technologies for six dwelling units. The project supported the government's Breaking New Ground policy and sought to showcase the viable use of alternative, sustainable building materials in house construction.

The six completed houses showed that larger structures can be built with the government subsidy and demonstrated sustainability principles. Four houses used Hydraform interlocking blocks, while one used the e-brick system; in both cases, the blocks are made from a mixture of soil and cement. The sixth house used Imison, a more environmentally friendly method based on prefabricated wall plates.

The project supported the local economy by procuring construction materials in the Ngangelizwe area. A local emerging contractor was appointed to supervise the construction and 45 unskilled labourers from the area were trained to make and lay the interlocking blocks.

The lessons learnt in this pilot project will be applied during the broader Breaking New Ground initiative in the King Sabata Dalindyebo Municipality, which will deliver some 17 000 units.

Community workers reinforce foundations with steel during the construction process.

A completed house on Ngozi Street constructed from Hydraform interlocking low-cement blocks.

Driving sustainable development through innovation

The Division actively seeks to incorporate alternative technologies into the projects it supports.

Construction using timber frames

The multi-purpose community centre constructed using timber frames.

A multi-purpose community centre was constructed in Grabouw using timber frames donated by SAFCOL rather than conventional bricks and cement. This structure was used to showcase the possibilities of building housing or other social infrastructure from these materials. Grabouw was chosen because it is located in a forestry area where there is easy access to timber. The community centre has now been handed over to the people of Grabouw.

Duncan Village Waste Management project

When the Development Fund Board visited Duncan Village in 2009, they were struck by the amount of household refuse strewn in the area. The Board subsequently asked the Fund to assist the municipality and the community in developing a solution to this problem. Rather than a one-off clean-up, the Fund and the municipality developed a waste management model that involves community members. The project was pursued on a partnership basis: TEBA Development provided the project management and training, the Community Work Programme provided funding for wages and the Development Fund provided funding for equipment and operations. Cooperatives run by women were established, trained and contracted to collect, sort and recycle waste in the area. The cooperatives are now fully operational and providing these services. They also provide other services on behalf of the municipality, such as delivering plastic bags for waste and educating people on how to handle and dispose of household waste.

The project has succeeded in linking waste management to job creation and poverty alleviation in Duncan Village. The long-term objective is to ensure that the cooperatives are skilled enough and properly accredited to provide waste management services to the municipality and the surrounding areas. The project exemplifies how the Fund is promoting the use of community-based entities to deliver services and undertake operations and maintenance in their areas. Currently a total of 99 people are employed in the project.

Waste collection in Duncan Village.

Waste sorting facility and wet waste being carted off to feed pigs.

Handing out plastic bags.

Operations overview continued

Development through partnerships

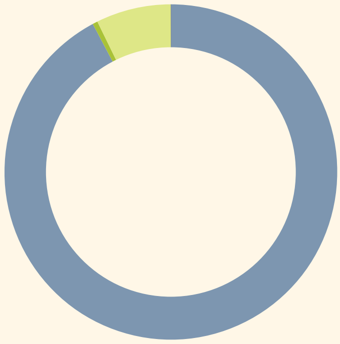
In the past year, the Division established several important relationships through the signing of Memoranda of Understanding with the public sector. The development of smart partnerships has enabled it to crowd in the resources required for community development. The Division used policy frameworks in consultation with sector departments in support of their constitutional mandates, and this led to the establishment of the following relationships.

- Government and parastatal institutions: The Division established relationships with the national Departments of Human Settlements and Rural Development and Land Reform, and the Eastern Cape Departments of Finance, Education, and Economic Development and Environmental Affairs. The partnership with the Eastern Cape Department of Human Settlements resulted in a funding agreement of R16,1 million. The funds will be managed on an agency basis and used to implement phase 1 of the rural housing project in Elliotdale (200 of 1 000 units). The section 42(c) grant application that the Division drafted in collaboration with the City of Cape Town resulted in the release of R8,4 million from the Land Claims Commissioner for the development of the Tramways community. The partnership with the Eastern Cape Departments of Education and of Economic Development and Environmental Affairs allowed for the incorporation of alternative technologies regarding building materials, solar energy, and so forth.
- Private sector companies: Private sector partnerships are designed to enhance entrepreneurial development and create employment where possible. The partnership with Unilever in the Keiskammahoek paprika-farming project yielded positive results. Drawing on the valuable lessons learnt, the model was extended to Nongoma, where the Division is involved in an advisory role. The Division also explored opportunities presented through the DBSA/SAFCOL partnership. The Mphephu Community Beekeeping project in the Vhembe District Municipality is an outcome of this partnership.
- Non-governmental organisations: The Division is working with organisations that contribute to sustainable community development, such as TEBA Development, the Elgin Learning Foundation, the Overberg Training Centre, the Water Amenities Sanitation Services Upgrading Programme and the Phalaborwa Foundation.

Leveraging funding for development

In 2010/11, the Division aimed to leverage R100 million in funding, and it comfortably exceeded this target by leveraging approximately R267 million, as shown in the following figure.

Funding leveraged by the Community Development Facilitation Division, 2010/11



Government departments	92%
Parastatals	0,4%
Community Work Programme	7,2%
Private sector	0,01%

Leveraging Neighbourhood Development Partnership Grant funding

The primary focus of the Neighbourhood Development Partnership Grant is to accelerate investment in poor and underserved residential neighbourhoods. It achieves this by providing technical assistance and capital grant financing for municipal projects that either have a distinct private sector element or aim to achieve this. The Division assisted the Ba-Phalaborwa Municipality in accessing funds from the Neighbourhood Development Partnership Grant and provided technical support for several projects. Two of these projects are briefly profiled below:

- Paving bricks: This project aims to manufacture paving bricks of high quality to pave all municipal streets in Ba-Phalaborwa. A workers' cooperative has been established and the production facilities are in the final stages of construction. The municipality identified the need for a local entity to manufacture affordable paving bricks of high quality to avoid having to buy bricks from outside the Ba-Phalaborwa area. Foskor invested R5 million to fund the establishment of the project. The DBSA is a strategic partner and is represented in the monthly steering committee meetings. It also facilitated the involvement of Grinaker-LTA in the training of the cooperative.

The paving brick factory under construction in Ba-Phalaborwa.

The new facilities.

- **Maphutha hawker stalls:** This project aims to provide trading infrastructure for hawkers operating next to the Maphutha Malatji Hospital. It was conceptualised during public participation processes in 2008. Members of the community approached the municipality to provide infrastructure for the hawkers to match the standard of the hospital.

Rural Development Division

The Rural Development Division comprises the following units:

- **Rural Infrastructure Unit:** The primary objective of the Unit is to facilitate the identification and implementation of catalytic infrastructure in rural municipalities.
- **Rural Development Solutions Unit:** The Unit develops tailor-made economic development models for selected municipalities and facilitates their implementation, with a view to diversifying economic development in the region.
- **Institutional Turnaround Unit:** The Unit prepares and facilitates the implementation of institutional turnaround strategies and plans for selected municipalities.

Highlights of 2010/11

The Rural Development Division aims to integrate development interventions in poor regions and municipalities to catalyse and diversify economic growth through improved infrastructure and service delivery. The development interventions identified for implementation relate to institutional development, infrastructure and economic growth. The Division spent most of 2010/11 conceptualising its service offering and developing its strategy. Its progress with the implementation of the programme resulted in the leveraging of MIGs to the value of R278 million, in collaboration with the South Africa Operations Division. The Division supported 55 rural municipalities in identifying and packaging socio-economic infrastructure projects. It tailor-made economic development models for these municipalities and facilitated their implementation. Seventeen turnaround strategies were developed and approved by municipal councils.

Progress in the three legacy Local Economic Development Initiative sites (Theewaterskloof Local Municipality and the Cacadu and Ugu District Municipalities) is at an advanced stage, as 37 catalytic projects for socio-economic development are in implementation. A further 89 projects were identified for execution in 2011/12. Theewaterskloof has been recognised through various awards and has seen a substantial increase in building plans approved for tourism-related facilities, valued at over R60 million.

Under a Memorandum of Understanding with the Department of Rural Development and Land Reform, the Division supported three Comprehensive Rural Development Programme wards and municipalities: Muyexe, Riemvasmaak and Maluti a Phofung. The Division assisted the sites with stakeholder management plans that resulted in the identification of catalytic socio-economic infrastructure needs, using Integrated Development Plans, Comprehensive Infrastructure Plans and Local Economic Development plans.

Operations overview continued

As a result, the Department is working with the Fund to refine its innovative and revolutionary job creation initiative, known as the National Rural Youth Service Corps. The Division is collaborating with other divisions in the DBSA on the design and implementation of this multifaceted programme. The programme will focus on interventions such as household profiling, skills and employment (in construction, agriculture, emergency services and artisan trades) and community service. A collaborative approach will be adopted in implementing the programme. This will include the transfer of computer skills by the Vulindlela Academy, the transfer of artisan skills and the provision of technical support by the Community Development Facilitation Division. The Rural Development Division will play a leading role in programme management and the monitoring of the countrywide programme.

The Division has identified a number of initiatives aimed at supporting rural development. These relate to expanding institutional capacity support to include civil society, exploring the potential of conservation as a means for rural development, developing a common rural green economy strategy, and defining the role of rural economic development in rural development. The Division supported one of the three biodiversity hotspots in South Africa, the Succulent Karoo (the SKEPPIES initiative). It facilitated the expansion of the SKEPPIES Small Grant Fund to include two other hotspots, namely Maputaland-Pondoland-Albany and the Cape Floristic Kingdom. This enabled more funders to participate in this groundbreaking initiative. Four projects to the value of R600 000 were approved. Apart from the contribution to conservation and environmental sustainability, these projects will also create 11 permanent and 39 short-term jobs.

The implementation initiatives of the Division are aligned with the DBSA's rural development strategy. The Division participated in the formulation of the Development Planning Division's roundtable discussion, commented on papers and shared experiences during the development of this strategy.

Succulent Karoo Ecosystem Programme: SKEP Fund

The succulent Karoo is a biodiversity hotspot of international significance. Geographically, the area includes Namaqualand and a large part of the Boland and Klein Karoo. The SKEP Fund was established in 2006 as a joint initiative between the DBSA and Conservation International (now Conservation South Africa). The initiative aimed to support rural projects with both a developmental and a conservation impact. It gave way to the creation of SKEPPIES ("small projects"), which focuses on support to individuals, local organisations and non-governmental organisations to combine environmental conservation with local economic development and job creation. The principal objective is to empower women and young people, in line with the Millennium Development Goals.

Through nature conservation, SKEPPIES projects promote the socio-economic upliftment of rural people, add value to existing businesses and create new business opportunities. SKEPPIES targets employment creation and capacitates people through skills development while raising environmental awareness. It promotes the idea of "emerging conservationists" by working closely with land reform beneficiaries to find sustainable land management solutions and unlock development resources.

Initially, the DBSA contributed R2,55 million towards the pilot and first phase of the programme, as did the Ford Foundation. During these early phases, 51 projects were funded, directly or indirectly contributing to the start-up of 62 new businesses, creating approximately 452 new jobs, increasing the skills of 1 065 people and raising the environmental awareness of over 159 000 people. The programme empowered 527 women to start their own enterprises, including projects such as the Anatolian Dog, the Namaqualand Kookskerm, the Khâi-Ma Hiking Trail and the Garden of Hope Fresh Produce Project.

Wetland restoration training at Leliefontein.

Namaqualand Kookskerm with traditional food.

The Cornellskop project, which aims to protect the sensitive baster quiver tree, aloe pillansii.

The alien kraalbos plant, now being harvested for soap production.

Following these successes, the DBSA approved a further R850 000 in June 2010 to co-fund phase 2 on a 50/50 basis with the Ford Foundation. Phase 2 of the SKEPPIES Fund has three themes: greening economic development, food security and land reform, and building resilience to climate change. In this phase, 49 projects were identified and four applications prepared for approval. A total of R150 000 was approved in February 2011 for each of the projects, namely, the rehabilitation of fallow croplands through the establishment of seed islands in the Leliefontein communal area, the production of kraalbos soap, the Steinkopf keerdam (weir) restoration and the safeguarding and upgrading of Wondergat.

The projects that are currently being implemented will create around 20 permanent and 30 temporary job opportunities. Over the next five years, SKEPPIES intends to build on its achievements and the lessons learnt from the conservation development processes. It will further extend its partnership base and increase the value for its partners and beneficiaries. An important step will be to consolidate and refine indicators for measuring impact and development effectiveness. The focus will expand, and projects concerning food security and land reform areas will be targeted to promote the notion of a green economy. The programme's focus will also shift to projects driven by women.

Corporate governance

The DBSA Development Fund adheres to high standards in its corporate governance principles and practices, and complies with all applicable legislation. The Fund shares its corporate governance framework with the DBSA; however, it has its own Board and management, which are responsible for executing tasks in accordance with the Fund's mandate. Given the major changes in the governance arena, the Fund has been gearing up its systems and processes to ensure that it complies in substance with the King III Code and the Companies Act, No. 71 of 2008. The Board was satisfied with the level of compliance in 2010/11.

Board of Directors

The conduct and business of the Development Fund Board are governed by the Articles of Association and relevant principles of the Companies Act. In terms of these Articles, the DBSA appoints Board members for a term of three years. Upon appointment, Board members enter into a service contract in line with the Companies Act and applicable tenets, which sets out the details of their fiduciary responsibilities. New Board members attend an induction session aimed at exposing them to the business model of the Fund.

The Board is responsible for approving the Corporate Plan for submission to the National Treasury in accordance with the Public Finance Management Act, No. 1 of 1999. Management ensures that the strategy of the Board is executed and reports periodically on the implementation of the Corporate Plan and other initiatives agreed upon with the Board. The Board monitors the performance of the Fund against the Corporate Plan. In order to facilitate reporting and ensure that the Fund's activities are in line with the strategy of its shareholder, the Chairman of the Fund reports on significant resolutions of the Fund Board on a biannual basis to the DBSA Board for notification.

In June 2010, the Board undertook a project oversight visit to Mpumalanga province. The visit was an opportunity for Board members to verify the development impact of the Fund's programmes and interact with members of the communities who benefit from the services they provide.

The majority of Board members are independent and non-executive. They have a high degree of integrity and credibility, and extensive experience in their areas of speciality. Board members come from diverse backgrounds and have different skills that enhance the effectiveness of the Board. The strong and independent composition of the Board provides for independent and objective input into the decision-making process.

Appointments to the DBSA Development Fund Board are done in consultation with the DBSA Board, on the understanding that the Board should reflect a diverse range of skills, knowledge and expertise. The Board is cognisant of the fact that Directors need to remain relevant and maintain a degree of independence; it therefore avoids having them serve for an inordinately long period. Directors are given fixed-term contracts and are eligible for reappointment. Equally important is the Board evaluation process undertaken by the whole Board at the direction of the Chairman. The evaluation is conducted in a formal and transparent manner.

The Fund, like the DBSA, has a unitary Board structure as per the recommendations of the King III Code. As at 31 March 2011, the Board had a complement of 14 Directors, of whom 11 were independent and non-executive. In line with best practice, the roles of the Chairman and the Chief Executive Officer are separate to ensure a balance of authority and power in the distinctive roles of the Board and management. The Board and management work together closely to determine the strategic objectives of the Fund.

Board committees

As noted, the DBSA Development Fund shares its governance structures with the DBSA Group. Accordingly, the Fund Board directs and controls the operations of the Fund through the Board committees that it shares with the DBSA. The Committees have formal terms of reference, which are reviewed annually. The Fund Board has also established the following three committees:

Development Fund Risk Committee

The Risk Committee assists the Board in ensuring the continued sustainability of the Fund and its interventions through effective risk management. The Committee is responsible for the approval of interventions delegated by the Board; the review of intervention strategies and related policies, standards and controls; performance evaluation of individual interventions; and the consideration of management reports. The Development Fund Risk Committee is chaired by Dr Claudia Manning, an independent non-executive Director, and has four other independent non-executive members. The Committee has formal terms of reference, which are reviewed every year.

Siyenza Manje Working Committee

The National Treasury and the DBSA entered into an agreement on the management and implementation of the Siyenza Manje programme. The agreement culminated in the establishment of the national Siyenza Manje Working Committee. The Committee is a stakeholder subcommittee of the DBSA Development Fund Board. It gives input to improve the quality of operations, while accountability remains with executive management and oversight remains with the Board. The Committee provides insight into stakeholder recommendations to the Board. Its main objectives are to:

- Facilitate the effective implementation of the programme
- Ensure continuous sharing of information on the programme
- Assist with the practical issues around the implementation of the agreement

The Committee comprises the Chief Executives and Directors-General of the DBSA, the South African Local Government Association (SALGA), the National Treasury, the Departments of Cooperative Governance and Traditional Affairs and Water Affairs, and other sector departments such as Transport and Housing.

The Committee, chaired by Prof. Brian Figaji, met four times during the year under review, pending a decision by the partners on the future of the programme.

Pan-African Capacity Building Programme Advisory Board

The DBSA signed a Memorandum of Understanding with the AFD and the IDC to create the Pan-African Capacity Building Programme. The Programme aims to address gaps in the education and professional training landscape that hamper the efficient delivery of adequate infrastructure throughout the African continent. It is delivered through the academies of the respective partner organisations, with the DBSA serving as implementing agent.

The Advisory Board comprises one member and an alternate from each of the partner organisations (DBSA, AFD and IDC). It is chaired by the Chairman of the DBSA Development Fund Board, Prof. Brian Figaji. Among the functions of the Committee are to:

- Approve strategic and core orientations, and shape the development and approval of the strategic plans
- Approve annual implementation plans and their respective budgets
- Provide strategic leadership
- Provide programme oversight
- Oversee fund mobilisation
- Oversee risk management

Further details on the Board's committee structure and governance system are provided in the corporate governance report on pages 60 to 65 of the DBSA Annual Report.

Corporate Secretary

The DBSA Corporate Secretary provides guidance and advice to the DBSA Development Fund Board on matters of corporate governance and legislation. The functions of the Corporate Secretary are in line with the provisions of the Companies Act. Board and subcommittee agendas, minutes and other relevant documents are prepared and made available to all members. There is ongoing Director development to keep members of the Board and its committees up to date with local and international industry developments, technology issues, risk management and corporate governance best practice.

Board composition and record of attendance, 2010/11

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

	Development Fund Board	Risk Committee	Siyenza Manje Working Committee	Pan-African Capacity Building Programme Advisory Board
Number of meetings	5	5	4	8
Prof. Brian Figaji (Chairperson)	5/5	–	4/4	8/8
Mr Paul Baloyi	4/5	4/5	–	–
Dr Paul Kibuuka	5/5	3/5	4/4	7/8
Mr Elroy Africa[1]	1/5	–	–	–
Mr Frans Baleni[2]	4/5	–	–	–
Mr Andrew Boraine	4/5	3/5	–	–
Mr Kenneth Brown[3]	1/5	–	1/4	–
Mrs Thembisa Dingaan	–	5/5	–	–
Mr Omar Latiff[4]	2/5	–	–	–
Dr Claudia Manning	3/5	4/5	–	–
Ms Mampiti Matsabu	5/5	5/5	–	–
Mr Simphiwe Mehlomakhulu	4/5	–	–	–
Mr Seeraj Mohamed	4/5	–	–	–
Mr Jabu Moleketi[5]	0/5	–	–	–
Mr Ivan Mzimela	3/5	–	–	–
Dr Ben Sipho Ngubane	4/5	–	–	–
Prof. Eddie Webster	2/5	2/5	–	–

1. *Resigned from the Board on 29 April 2011.*
2. *Appointed as non-executive Director on 1 April 2010.*
3. *Treasury representative.*
4. *Appointed as non-executive Director on 1 November 2010.*
5. *Resigned from the Board on 31 October 2010.*

Risk management

The DBSA Development Fund is incorporated in terms of section 21 of the Companies Act. As a section 21 company, the Fund has to comply with all the relevant provisions of the Act. Risk management is a strategic priority for the DBSA Development Fund. The Fund has adopted the DBSA's risk management frameworks with two main objectives: to ensure that it can manage risks effectively and efficiently, and to inculcate a culture of risk management that will become ingrained in the operations of the Fund.

Risk management aims to assist an organisation in dealing effectively with potentially negative events, which can create uncertainty. It should enable the organisation to respond in a way that reduces both the likelihood of such negative events and the severity of their consequences.

During the year, the effects of the global economic crisis continued to play out. While the potential sources of finance for the Fund were affected, it has continued to access government finance for capacity building, using MIG funding as a mitigation strategy. The crisis also eroded confidence in financial systems and institutions, and exposed weaknesses in governance systems. However, the strong governance system of the DBSA Development Fund has withstood these testing times.

Many of the risks faced by the Fund are external, which means that they are not under the direct control of its management. Such external risks include changes in the political environment and insufficient external funding. Other risks are internal in nature and can be controlled by management, such as the risk of non-compliance with internal governance processes. The Fund has instituted sound measures to mitigate these risks.

Development impact

One of the significant developmental risks facing the country is the risk of dysfunctional municipalities. The government is addressing this risk through the Local Government Turnaround Strategy, which aims to turn municipalities into centres of excellence that provide efficient, effective service delivery and local development. There is considerable congruence between this strategy and the mandate of the Fund. The Fund uses the Vulindlela Academy, the Siyenza Manje programme and external service providers to build capacity and close skills gaps in municipalities. It has become a preferred partner for municipalities, particularly as a facilitator of development.

Stakeholder risk

The Fund works across the spectrum of stakeholders in many areas of South Africa, and engages with stakeholders at all levels. These stakeholders include (but are not limited to) the government, the public sector, municipalities, the private sector and informal communities. The Fund is keenly aware that such interaction with stakeholders requires a variety of skills and competencies. To this end, the Fund used its stakeholder management plan to give ongoing guidance to management and employees who deal with stakeholders at any level.

Financial risk or sustainability

The Fund uses a risk management framework similar to that of the DBSA Group to mitigate the financial and market risk aspects of its financial sustainability. The Fund depends on the DBSA and the National Treasury for the ongoing support of its mandate. It continues to pursue other potential sources of funding to broaden its funding base. Funding for the activities of the Development Fund remains a high priority and management has established a specific initiative to mobilise funds from appropriate resources.

Reputational risk

The risk management framework of the Fund views reputational risk as a consequence of other primary risks. The management of these primary risks is therefore of the utmost importance. The Fund manages reputational risk by aiming to prevent actions that tarnish the reputation of the organisation and its initiatives. Accordingly, it ensures that staff members are grounded in the Fund's value-based principles. During the year, risk exposures through misconduct or ethical concerns relating to the deployees in various municipalities posed a potential threat to the reputation of the Fund, but these risks were managed appropriately.

Institutional risk

During this tough economic period, the DBSA has played an important role in creating financial capacity for infrastructure development and investment. It has provided funds where the private financial sector has been unwilling or unable to assist. However, the lack of appropriate skills and capacity, among its clients and within the Fund itself, remains a fundamental and ongoing business risk. The rapid growth of the Fund has brought considerable pressure to bear on its systems, processes and capacity. This is being relieved by imparting skills through the joint efforts of the Siyenza Manje staff and various deployment programmes.

Human capital risk

The Development Fund paid particular attention to this aspect of risk during the year. The employees of the Fund work largely within communities rather than at the head office. Siyenza Manje deployees in particular spend extended periods in municipalities, interacting with and transferring skills to municipal employees. In these circumstances, it is vital that the Fund maintains ongoing contact with its employees to ensure good communication and high staff morale. The Fund has allocated specific human capital resources to deal with these challenges.

Legal and compliance risk

Failure to comply with applicable laws and regulations may have regulatory, financial and reputational consequences for the Fund. Therefore, the Board of the Fund fosters a culture of compliance with relevant laws, not only as a legal requirement but also as a good business practice. In developing its compliance framework, the Fund consulted international best practice and other leading corporate governance frameworks. It also maintains an ongoing engagement with regulators and assurance providers to ensure compliance with all relevant statutory requirements. The legal and compliance functions of the DBSA Group provide the Fund with efficient, effective professional services on day-to-day matters. The Fund believes that its legal and compliance risks are within acceptable levels.

Bothaville water treatment plant

Annual financial statements

Contents

Directors' responsibility for financial reporting
for the year ended 31 March 2011

The Directors are responsible for overseeing the preparation, integrity and objectivity of the annual financial statements that fairly present the state of affairs of the DBSA Development Fund, its business and its transactions, as well as the financial position of its trade or business presented in this report.

In preparing the annual financial statements:
- The Companies Act, No. 61 of 1973, as amended, has been adhered to.
- The Public Finance Management Act, No. 1 of 1999, has been adhered to.
- International Financial Reporting Standards have been adhered to.

In order to fulfil this responsibility and to enable the Directors to meet their financial reporting responsibilities:
- Management has designed and implemented standards and systems of internal control to provide reasonable assurance as to the integrity and reliability of the annual financial statements and to safeguard, verify and maintain the accountability of the Fund's assets.
- Appropriate accounting policies, supported by reasonable and prudent judgements and estimates, have been applied on a consistent and going-concern basis.
- The Audit Committee of the Development Bank of Southern Africa and internal and external auditors review the financial and internal control systems, accounting policies, reporting and disclosure.

The Audit Committee of the Board of Directors, chaired by an independent non-executive Director, meets periodically with the auditors and management to discuss internal accounting controls, and auditing and financial reporting matters. The external auditors have unrestricted access to the Audit Committee.

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

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

The annual financial statements that appear on pages 200 to 219 were approved by the Board of Directors on 22 June 2011 and signed on its behalf by:

Brian de Lacy Figaji
Chairman of the Board

Paul Cambo Baloyi
Chief Executive Officer

Report of the Audit Committee
for the year ended 31 March 2011

We are pleased to present our report for the financial year ended 31 March 2011.

The Audit Committee members and attendance are reflected on page 64 in the Governance and management overview of the DBSA Annual Report.

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a) of the Public Finance Management Act and Treasury Regulations 27.1.7 and 27.1.10(b) and (c).

Section 51(1)(a)(ii) of the Public Finance Management Act states the following:

(a) The Accounting Authority must ensure that the public entity has and maintains:

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

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

The effectiveness of internal control

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

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

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

The Audit Committee is satisfied with the content and quality of monthly and quarterly reports prepared and issued by the Board of Directors and the DBSA Development Fund during the year under review.

Evaluation of financial statements

The Audit Committee has:

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

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

Omar Aboobaker Latiff
Chairman of the DBSA Audit Committee

Independent auditors' report to Parliament
for the year ended 31 March 2011

Report on the annual financial statements

Introduction

We have audited the accompanying annual financial statements of the DBSA Development Fund, which comprise the statement of financial position at 31 March 2011, the statement of comprehensive income, changes in funding reserve and cash flows for the year then ended, and the notes to the annual financial statements which include a summary of significant accounting policies and other explanatory notes and the Directors' report as set out on pages 200 to 219.

Accounting Authority's responsibility for the annual financial statements

The Accounting Authority is responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Public Finance Management Act, and the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of annual financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of the DBSA Development Fund at 31 March 2011 and its financial performance and 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, and the Companies Act of South Africa.

Report on other legal and regulatory requirements

In terms of the Public Audit Act of South Africa (PAA) and *General Notice 1111 of 2010, issued in Government Gazette No. 33872 of 15 December 2010*, we include below our findings on the annual performance report as set out on page 202 and material non-compliance with laws and regulations applicable to the company.

Predetermined objectives

There are no material findings on the annual performance report concerning the presentation, usefulness and reliability of the information.

Compliance with laws and regulations

We report that there were no material findings on non-compliance with laws and regulations applicable to the company.

Internal control

In accordance with the PAA and in terms of *General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010*, we considered internal control relevant to our audit but not for the purpose of expressing an opinion on the effectiveness of internal control. We report that there were no significant deficiencies in internal control that resulted in a modification of the auditors' opinion on the annual financial statements and findings on predetermined objectives and material non-compliance with laws and regulations.

Gobodo Incorporated
Registered Auditors

Per: L Govender
Chartered Accountant (SA)
Registered Auditor
Director
22 June 2011

41 West Street
Houghton
Johannesburg

Directors' report
for the year ended 31 March 2011

The Directors hereby present their report, which forms part of the annual financial statements of the DBSA Development Fund for the year ended 31 March 2011. The report reviews the performance of the three divisions of the Development Fund and reflects significant progress with the Siyenza Manje programme in the fifth year of its implementation. The Operations Evaluation Division of the DBSA, working through an external provider, conducted an independent three-year review of the programme's inputs, outputs, outcomes and processes.

During the year under review, the funding and implementation framework of the Siyenza Manje programme was reviewed to align with the constitutional mandates of relevant government departments. A Memorandum of Understanding was signed with the National Treasury whereby they would take over the management of the financial programme as from 1 April 2011. The Fund will manage the deployment of finance experts for the National Treasury on an agency basis.

The Directors of the Fund subscribe to the principles of good corporate governance. With the exception of its Board, the Fund and the DBSA share governance systems and internal control frameworks as permitted in terms of the Public Finance Management Act. The Fund has adopted the risk management frameworks of the DBSA Group. A fully mandated Risk Committee, constituted as a subcommittee of the Fund's Board, supports the Board in fulfilling its oversight role and ensuring that risks are managed efficiently and effectively. Further details on the Fund's corporate governance structures and practices are provided on pages 192 and 193 of this Annual Report.

The functions of the Fund and the nature of the business

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

- Mobilisation and deployment of municipal expertise
- Grant funding for targeted capacity building interventions
- Development facilitation
- Rural development

Mobilisation and deployment of municipal expertise

The DBSA Development Fund provides hands-on support primarily to municipalities but also to selected service delivery departments. The Fund's flagship intervention is the Siyenza Manje programme, which assists municipalities in implementing infrastructure projects as part of the national drive to accelerate the delivery of basic services to communities. At the heart of the initiative is the deployment of skilled expertise to municipalities, particularly in the areas of planning, engineering and technical services, as well as project and financial management. These experts are paired with officials within the municipalities to promote the transfer of skills. To ensure sustainability, young professionals are assigned to these experts to be mentored and coached, with the objective of retaining them within the municipalities. The Siyenza Manje programme intends leaving a legacy not only of completed projects but also of capable officials within the technical, finance and planning departments of targeted municipalities, to operate and maintain assets once the deployment programme has been completed. In line with this objective, the Fund rolled out the Artisan Programme to all provinces during the year. Currently, 301 section 13 apprentices and 129 section 28 municipal workers are deployed in 43 municipalities, doing operations and maintenance work while training for trade certification as plumbers, electricians, bricklayers, motor mechanics, and fitters and turners for water works. (Section 13 apprentices are young graduates without experience and section 28 workers are experienced municipal workers without qualifications.)

In addition, the Fund made significant progress on the following initiatives during the year:

- The Operations and Maintenance programme was successfully piloted in three local municipalities and one district municipality: Dipaleseng, Kannaland and Hessequa Local Municipalities and the Eden District Municipality, in which Kannaland and Hessequa are situated. The programme conducted four workload assessments and developed 19 operations and maintenance plans during the year. In Eden District Municipality, 17 SMME contractors were trained in project management and labour-intensive technology. The contractors are currently undergoing on-the-job experiential learning on road construction projects.
- The Fund finalised a divisional integration framework for the front-loading of MIGs in line with National Treasury Circular 51. This resulted in proposals to leverage MIGs of R270 million to shorten the infrastructure project cycle in three municipalities, in collaboration with the South Africa Operations Division of the DBSA.
- The Fund entered into a Memorandum of Understanding with the Department of Rural Development and Land Reform to support three Comprehensive Rural Development Programme wards and municipalities.
- In partnership with the AFD, 15 young professionals were placed in municipalities in France. They successfully completed a three-month internship, returning to South Africa in June 2010. Given the success of the first intake and drawing on the lessons learnt, the second group of nine young professionals will be placed in

municipalities in France in September 2011. This intake will accommodate young professionals from the rest of Africa, in line with the objectives of the Pan-African Capacity Building Programme.

Grant funding for targeted capacity building interventions

The DBSA Development Fund provides technical assistance grant funding to municipalities through the Siyenza Manje programme and in support of that programme's deployment activities. This is part of the drive to prioritise support for interventions that will ensure the long-term sustainability of the Siyenza Manje, Sustainable Communities and Rural Development programmes. Such support includes improving service delivery by helping to develop critical municipal systems, plans, policies and procedures; conducting project feasibility studies; and facilitating community-based sustainable development plans and community Development Charters. The Fund still provides support directly to needy municipalities that are not covered by these programmes.

Development facilitation

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

Development of sustainable communities

This programme channels resources directly to communities to empower them to engage in equal partnerships with the government, civil society and business, thus enabling them to formulate development agendas and access the resources needed for their implementation. This year, the Fund facilitated the adoption of Development Charters for the Ba-Phalaborwa, Diepsloot and Jozini (uMkhanyakude) sites. As a result, the development priorities of the local communities will now be incorporated into each municipality's Integrated Development Plans.

Rural development

The Rural Development Division of the Fund aims to integrate development interventions in poor regions and municipalities, leading to better social and economic infrastructure and service delivery, and thus catalysing and diversifying economic growth. The development interventions identified for implementation are those that promote institutional, infrastructural and economic growth.

High-level performance overview

The Fund operates on a three-year business cycle for corporate strategy and business planning. It uses the Balanced Scorecard (BSC) methodology to set objectives and targets under the strategic guidance of the Board. The strategic objectives for 2010/11 were set in terms of high-level targets for the different divisions of the Fund. The Board approved the 2010/11 objectives and the BSC was used as the basis for the performance management of the entire staff. Each division also had its own BSC, which determined its share of the composite objectives. The management of the divisions was measured against these objectives.

The Directors are pleased to report that the Development Fund achieved most of its strategic objectives for 2010/11. After five successful years of implementing the Siyenza Manje programme, the Fund extended its capacity building support to 186 municipalities and 20 national and provincial departments through the shared-services model. The Fund also facilitated MIG expenditure of R8,7 billion, exceeding the annual target by 24%, and completed 1 114 technical projects. This significant achievement was due in part to the project and programme implementation support offered by experts deployed in the regional offices of the Department of Water Affairs, and in part to the shared-services model rolled out during the year. The projects were generally large, as municipalities continued to cluster smaller projects into bigger ones to realise procurement efficiencies. Many of the projects were in bulk infrastructure, which increased water pressure in under-resourced municipalities and allowed households to benefit from water and sanitation projects.

The Fund disbursed R48,04 million (2009/10: R101 million) in capacity building grants to municipalities for the development of systems, policies and plans. Although the disbursements of grants decreased, the Fund leveraged fiscal funding from the MSIG to develop and review 1 927 systems, policies and plans in 2010/11, an increase of 60% over the previous year. Deployees supported this work by developing quality activity and business plans and terms of reference for consultants, monitoring the implementation of MSIG funding, and reporting expenditure and progress to the Department of Cooperative Governance and Traditional Affairs.

Through the Agencies Unit, the Fund provides project implementation capacity to various agencies aimed at facilitating infrastructure delivery. Key among these is the Infrastructure Delivery Improvement Programme (IDIP), a government capacity building programme that works to improve the planning and management of public sector infrastructure delivery by refurbishing education and health facilities across the country. IDIP is a partnership between the National Treasury, the national Departments of Public Works, Education and Health, the DBSA and the Construction Industry Development Board. Through the programme, the Unit facilitated the delivery of infrastructure worth R2,63 billion, exceeding the target of R115 million significantly. In total, the Unit supported 35 agencies with cumulative funds of R1,1 billion under management at year-end.

Directors' report continued
for the year ended 31 March 2011

High-level performance, 2010/11: Balanced Scorecard perspectives

Development impact

Strategic goal:

Co-deliver social and economic infrastructure and promote broad-based economic growth, job creation, regional integration and prosperity

Key performance indicator	Target	Results
MIG and other infrastructure grant expenditure	R7 billion	R8,7 billion
Number of people trained on the job (finance and technical)	1 300	2 679
Number of projects completed[1]	1 000	3 108
Number of households benefiting from water projects[2]	125 000	746 764
Number of households benefiting from sanitation projects[3]	100 000	585 204
Outputs of grant funding unlocked and disbursed (number of systems, policies and plans developed)	669	1 927
Number of employment opportunities created	45 000	105 276
Number of external learners trained by intervention offered	10 000	11 381
Percentage of Siyenza Manje municipalities supported	70%	81%
Effective compliance with Agencies Programme life cycle	90%	99%
Value of infrastructure delivered[4]	R115 million	R2,63 billion
Rand value of MIGs and other grants released for rural municipalities	R1 billion	R1,179 billion
Number of rural municipalities supported	55	47
Value of projects referred for funding	R900 million	R2,920 billion
Number of operations and maintenance plans developed and implemented	12	19
Number of SMMEs benefiting from operations and maintenance	15	17

1. *Projects completed: this number comprises 1 114 technical and 1 994 non-technical projects.*
2. *Households benefiting from water projects: 129 858 households were given access to water within a 200 m radius as per the Reconstruction and Development Programme Guidelines, and 616 906 households were connected to bulk water systems.*
3. *Households benefiting from sanitation projects: 152 772 households were given access to sanitation based on the standards of the Department of Water Affairs, and 432 432 households were connected to bulk sanitation systems.*
4. *Overachievement on "value of infrastructure delivered" as a result of support provided to IDIP. This is a capacity building programme of the South African government designed to improve the planning and management of infrastructure delivery in the public sector, especially the refurbishing of education and health facilities. When the Development Fund set targets for the year, it did not include the impact of support for provincial and national programmes of this kind.*

Sustainability

Strategic goal:

Engender internal financial sustainability

Key performance indicator	Target	Results
Funding leveraged or crowded in	R170 million	R555,2 million
Funding mobilised from external sources to support Development Fund activities	R120 million	R113,45 million

Environmental report

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

Social report

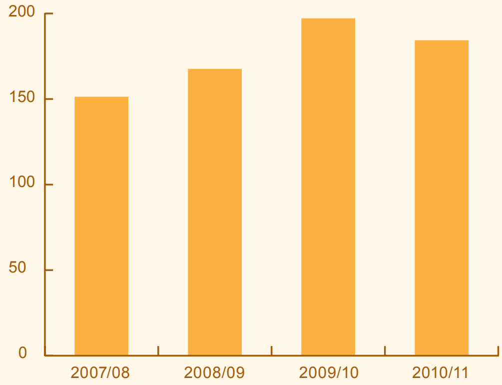
Capacity building support

The Fund's capacity building support to municipalities aims to sustain the thrust of the Local Government Turnaround Strategy. Selected local municipalities receive hands-on support to accelerate service delivery. In the year under review, the Fund assisted 186 municipalities and 20 national and provincial government departments. The Siyenza Manje programme deployed 163 engineers, 72 finance experts, 26 development and town planners, and 430 apprentices (301 section 13 and 129 section 28 apprentices). The Young Professionals programme was expanded to 135 young professionals in various municipalities. Coaches and mentors have been assigned to all the young professionals to offer support during the training period. Training is provided for graduates in civil engineering, town planning and municipal finance.

The demand for training through the Vulindlela Academy remained significant: 11 381 external learners were trained in the priority skills areas of planning, finance, management and leadership. During the year, the Academy spread its training across the different provinces in South Africa and the countries in the SADC region. A total of 2 809 learners were certified competent.

In addition, the Fund committed R92,4 million in grant funding to poorly resourced municipalities and disbursed R48,04 million.

Number of municipalities supported, 2007/08 to 2010/11



During the year, the Fund provided a technical assistance grant to the Elgin Community College for the establishment of a new technical facility in Grabouw as part of the Grabouw Sustainable Development Initiative. The funding aimed to strengthen the capacity of the College and had a positive impact on the 1 448 learners and project participants who benefited from the institution's training.

Innovation

The Fund constantly seeks to develop innovative programmes to address the capacity needs of poor municipalities. The demand for new infrastructure is still substantial, but the need to operate and maintain municipal infrastructure adequately is growing as well. During the year, the Operations and Maintenance programme was successfully piloted in four low- and medium-capacity municipalities. The programme aims to support the maintenance of municipal infrastructure by small to medium-sized contractors, and contribute to the development of the local maintenance industry.

Following the release of Circular 51 by the National Treasury, the Fund developed a divisional integration framework to support South Africa Operations in leveraging MIGs of R270 million to benefit low-capacity municipalities. The instrument was designed to provide bridging finance to poorly resourced priority regions for the implementation of catalytic infrastructure projects.

In partnership with the Department of Human Settlements in the Eastern Cape, the Fund piloted the implementation of a rural housing model in Elliotdale, based on the principles of the Breaking New Ground policy. It is envisaged that this model will be replicated in other provinces to roll out similar rural housing developments.

The Diepsloot sanitation project is based on an innovative community-driven developmental approach, in terms of which a cooperative will be trained to maintain sanitation facilities in the Diepsloot Reception Area. The aim is to provide a model that can be replicated in other areas, not only for sanitation but also for road maintenance, refuse collection and other services. The initiative is unique in that it is driven by the community: once the community structure has been established and capacitated, the community will be able to contract directly with the municipality.

In Duncan Village, the Fund employed a similar approach of using community structures to deliver services. In this project, the Fund worked with the municipality to design an integrated solution for employment creation, poverty alleviation and waste collection. The project established local cooperatives (run by women) to solve the waste collection challenge facing the municipality. The women were trained in waste collection, sorting and recycling.

The DBSA, together with the Eastern Cape Department of Education and in partnership with ArcelorMittal, is developing alternative construction models as part of the Eradication of Unsafe and Unhealthy Schools and Structures programme. These models employ a steel frame technology, which is suitable for areas that face a high risk of tornadoes or have limited access to water for construction. The prefabricated materials make for ease of construction, and so local unskilled labour can be used to build schools. The cost of building a classroom using this technology is also considerably lower than more conventional construction methods.

SAFCOL donated timber frames for constructing a multi-purpose community centre in Grabouw. This structure was used to showcase the possibilities of building housing or other social infrastructure using these materials.

Human resources and employment equity

The personnel of the Fund are its main asset and the Fund is committed to ensuring the wellbeing of its employees. In terms of the management agreement with the DBSA, full-time employees of the Fund have access to the Bank's Employee Assistance Programme. The Fund also operates within the employment equity framework set by the Bank. The Fund's full-time staff complement comprises 83% previously disadvantaged individuals and 59% women. The deployment staff complement comprises 81% previously disadvantaged individuals and 30% women. Due to the scarcity of skills for programme implementation in the South African labour market, the various programmes have acquired foreign experts in the fields of engineering, finance and planning.

Staff composition, 31 March 2011

	Black	Coloured	Asian	White	Other	Total	% female	% male
Permanent staff								
Male	27	–	2	5	2	36		
Female	41	1	1	8	–	51		
Total	68	1	3	13	2	87		
% race	78	1	4	15	2	100	59	41
Deployment staff								
Male	317	24	18	76	45	480		
Female	180	9	2	8	3	202		
Total	497	33	20	84	48	682		
% race	73	5	3	12	7	100	30	70

Financial report

The DBSA established the Development Fund specifically to maximise the provision of development assistance and finance to under-capacitated communities with high levels of poverty and service delivery backlogs. To date, the Bank has provided the Fund with a total of R1,350 billion for its capacity building and development initiatives. The Bank is committed to capitalising the Fund periodically for continued operations. It is also committed to providing continued management support for the Fund's financial, accounting and governance systems.

The financial results of the Fund are fully disclosed on pages 208 to 219. The financial highlights for the year under review are:

- Of the R69,8 million in grants disbursed during the year, R48,03 million was for capacity building initiatives (2009/10: R101 million). Grant disbursements are lower because the Fund leveraged funding from the MSIG to support its activities.
- The costs of the Siyenza Manje programme fell from R456,6 million to R412,05 million in line with the revised MTEF allocation. This resulted in a 20% decrease in the number of overall deployments, mainly owing to the 42% reduction of deployments in Gauteng.
- Other operating expenditure grew by 4% to R90,4 million (2009/10: R86,9 million), mainly because of inflation.
- The Fund's overall expenditure for the period was R572,2 million, against a budget of R679,7 million; this represents a budget utilisation of 84%. Savings were achieved through cost rationalisation measures, improved integration with the DBSA, and building on efficiencies that were created in the Siyenza Manje programme over the previous four years.

Funding mobilisation

The DBSA Development Fund aims to maximise the impact of its development resources and therefore leverages contributions by clients and third parties as far as possible. During the year, the Fund aggressively implemented its funds mobilisation strategy to leverage funding in support of its operations.

The National Treasury provided funding support for the Siyenza Manje programme worth R282,6 million this year. In addition, R53,9 million was leveraged from the MSIG to support under-resourced municipalities in developing plans, systems and policies, and R282 million was leveraged from other parties for two Limpopo municipalities. The Community Development Facilitation Division mobilised R267 million for community development programmes from government departments, the Community Work Programme and the private sector. Likewise, the DBSA Vulindlela Academy leveraged R6,2 million from its public and private sector partners to support training and capacity building. The operational growth of the Fund over the last three years has increased its funding requirements. In future, its support for new programmes and mandates will be on the basis of full cost recovery. This will be achieved by mobilising multi-year funding through its campaign to build partnerships and mobilise funds.

Strategic partnerships

Strategic partnerships are an important element of the long-term sustainability of the Fund's initiatives and contribute to the leveraging of funding and expertise. Partnerships at strategic and project levels include the Siyenza Manje National Working Committee. Representatives from the Departments of Water Affairs, Environmental Affairs, and Cooperative Governance and Traditional Affairs, SALGA, the National Treasury and selected local government practitioners provide guidance on the implementation of Siyenza Manje through the Committee.

The Fund entered into a partnership with Anglo American South Africa Ltd in order to build the capacity of municipalities in and around the areas where the group has mining operations and those from which it draws labour.

Following the signing of a partnership agreement, the Fund is supporting the Department of Rural Development and Land Reform in three of the nine Comprehensive Rural Development pilot sites by providing social facilitation and identifying catalytic infrastructure. It is also working with the Department to structure the implementation of the National Rural Youth Service Corps initiative nationally. This entails organisation and skills transfer in the fields of computer literacy and the built environment.

The Pan-African Capacity Building Programme is a partnership between the DBSA, the AFD and the IDC to address the training and skills gaps that prevent the continent from meeting its infrastructure objectives. The Programme is a virtual academy that aims to produce qualified and skilled public sector employees by providing short courses, mid-career development and a Masters degree. The Water for All Masters pilot initiative commenced in 2010/11 with the enrolment of four students from three provinces, namely Gauteng, Limpopo and Mpumalanga. The Fund collaborated with the IDC and the National Treasury in delivering courses in Rwanda and Nigeria, benefiting 152 participants. Under the Young Professionals internship programme, 15 young professionals were placed in municipalities in France for a period of three months.

Client service excellence

The Fund deployed technical professionals to key national and provincial government departments to streamline the approval process for municipal infrastructure grants and improve the service delivery chain for local government. As a result, the regional offices of the Department of Water Affairs accelerated the approval of technical projects, such as MIG-funded water and sanitation projects.

In the previous year, the Fund observed that most municipalities were not adequately operating and maintaining their infrastructure, whether existing or new. The unintended consequence of building new infrastructure without addressing maintenance needs was that the operations and maintenance backlogs in low-capacity municipalities increased. This year, the municipal infrastructure maintenance programme was successfully piloted in three municipalities. The programme will be rolled out to other municipalities in 2011/12.

Efficient and effective operating systems

The DBSA and the Fund revised the management agreement on the services to be rendered by the Bank's operational and support units; the revised agreement has been implemented successfully. The Fund maintained the Siyenza Manje portfolio office and management continued to fine-tune the system to improve the integrity and completeness of data.

In consultation with other divisions of the DBSA, the Fund developed and refined the Sustainable Municipal Reporting Assessment Tool to assess the need for support in each targeted municipality. The tool is currently being applied to guide the deployment process by determining capacity and resource gaps, in addition to the baseline information required by the Bank.

Directorate

Details pertaining to the Board members appear on pages 156 to 158 of this Annual Report.

Name	Position	From
Prof. B Figaji	Non-executive Director	24 November 2005
	Chairman	21 February 2006
Mr P Baloyi	Chief Executive Officer	1 July 2006
Dr P Kibuuka	Managing Director	1 July 2009
Mr E Africa	Non-executive Director	14 February 2008
Mr F Baleni	Non-executive Director	1 April 2010
Mr A Boraine	Non-executive Director	21 February 2006
Mr K Brown	Non-executive Director	1 April 2010
Mr O Latiff	Non-executive Director	1 November 2010
Dr C Manning	Non-executive Director	26 February 2009
Ms M Matsabu	Non-executive Director	26 March 2009
Mr S Mehlomakhulu	Non-executive Director	26 March 2009
Mr S Mohamed	Non-executive Director	19 May 2009
Mr I Mzimela	Non-executive Director	26 March 2009
Dr S Ngubane	Non-executive Director	26 March 2009
Prof. E Webster	Non-executive Director	1 August 2007

The details of the Directors' emoluments are set out in note 9 of the financial statements.

Business and registered address

The Fund's business and registered address are:

Company registration number	2001/030153/08
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 3993

Events after the reporting period

Subsequent to the finalisation of the statement of financial position, the DBSA, the National Treasury and the Department of Cooperative Governance and Traditional Affairs agreed to revise the funding and implementation mandate of the Siyenza Manje programme. In terms of this agreement, the programme will be unbundled, with part of its budget and human resources (experts) being transferred to the National Treasury and the Department. This presents new opportunities for the Fund.

The National Treasury assumed direct responsibility for the financial management aspect of the programme as from 1 April 2011 and the Fund has been appointed to manage the deployment of finance experts on an agency basis. Furthermore, the government decided to transfer the budget for infrastructure capacity to the Department of Cooperative Governance and Traditional Affairs, thereby beginning the process of integrating the technical and planning components of the programme into the Department. Discussions regarding future programme funding, operations and collaboration with the Department are currently under way.

The Fund has sufficient financial resources to cater for the remaining Siyenza Manje business. The prevailing programme environment presents an opportunity for the Fund to expand on its agency service offering. In response to the challenges posed by the external environment, the Fund will realign its services to support the emerging provincial and national infrastructure delivery mandates. The Fund will also roll out the implementation of solutions for infrastructure management at national, provincial and local government levels. The Minister of Finance has entrusted the DBSA with the responsibility of operationalising the Jobs Fund through the DBSA Development Fund.

While continuing to evolve as a centre of excellence, the Fund will focus increasingly on its roles as partner, integrator and implementer in the delivery of infrastructure in support of national priorities. It will provide expertise for designing, managing and executing the DBSA's national mandates. The Fund will also pursue capacity building, skills development, job creation and enterprise development, and will roll out the infrastructure Operations and Maintenance programme.

Information presented in terms of section 55(2)(b) of the PFMA

I. Particulars of material losses through criminal conduct and any irregular expenditure and fruitless and wasteful expenditure that occurred during the year: there were no instances where the Fund sustained material losses as a result of its activities.

II. Particulars of any criminal or disciplinary steps taken as a consequence of such losses or irregular expenditure or fruitless and wasteful expenditure: there were no instances where the Fund sustained material losses.

III. Particulars of any losses recovered or written off: no losses were recovered or written off other than in the ordinary course of business, none of which was material.

IV. Particulars of any financial assistance received from the state and commitments made by the state on behalf of the Fund: the DBSA and the National Treasury provided financial support to Siyenza Manje. The National Treasury provided R282,6 million during the year under review and its contribution for 2011/12 will depend on the funding requirements of the repositioned programme.

Statement of financial position
as at 31 March 2011

in rands	Notes	2011	2010
Assets			
Current assets			
Accounts receivable	1	83 592 307	30 035 804
Cash and cash equivalents	2	121 690 439	160 907 702
Total assets		205 282 746	190 943 506
Funds and liabilities			
Funds			
Funding reserve		20 854 565	10 175 341
Liabilities			
Current liabilities			
Accounts payable	3	95 905 511	92 544 863
Deferred income	4	88 522 670	88 223 302
Total funds and liabilities		205 282 746	190 943 506

Statement of comprehensive income
for the year ended 31 March 2011

in rands	Notes	2011	2010
Gross funding			
National Treasury contribution recognised	4 & 8	288 435 465	319 620 639
Development Bank of Southern Africa funding		257 000 000	340 900 000
		545 435 465	660 520 639
Other income			
Sundry income	5	37 129 135	2 795 018
Interest received	6	329 350	352 163
		37 458 485	3 147 181
Operating expenses and grants			
General and administration expenses	7.1	(214 375 319)	(266 386 835)
Grants	7.2	(69 799 221)	(120 122 253)
Personnel expenses	7.3	(288 040 186)	(277 115 711)
		(572 214 726)	(663 624 799)
Surplus for the year		10 679 224	43 021
Transfer to funding reserve		(10 679 224)	(43 021)
		–	–

Statement of changes in funding reserve
for the year ended 31 March 2011

in rands	Total funds
Balance at 1 April 2009	10 132 320
Transfer to funding reserve	43 021
Balance at 1 April 2010	10 175 341
Transfer to funding reserve	10 679 224
Balance at 31 March 2011	20 854 565

Statement of cash flows
for the year ended 31 March 2011

in rands	Notes	2011	2010
Cash flows from operating activities			
Cash receipts		526 118 028	650 084 223
Cash payments		(568 854 078)	(614 401 586)
Cash (used in) generated from operations	10	(42 736 050)	35 682 637
Interest income		329 350	352 163
Interest received included in deferred income		3 189 437	11 523 057
Net cash from operating activities		(39 217 263)	47 557 857
Cash and cash equivalents movement for the year		(39 217 263)	47 557 857
Cash and cash equivalents at the beginning of the year		160 907 702	113 349 845
Cash and cash equivalents at the end of the year	2	121 690 439	160 907 702

Accounting policies
for the year ended 31 March 2011

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, the Public Finance Management Act and the Companies Act of South Africa. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below.

These accounting policies are consistent with the previous period.

1.1 Basis of preparation

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

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

1.2 Financial instruments

Initial recognition and measurement

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the company's statement of financial position when the company becomes party to the contractual provisions of the instrument.

Accounts receivable

Trade and other receivables are classified as loans and receivables and are stated at amortised cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Accounts payable

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Provisions

A provision is recognised in the statement of financial position when the Fund has a present legal or constructive obligation as a result of a past event, from which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligations.

1.3 Grants received

Grants received from the Development Bank of Southern Africa Limited (DBSA) are recorded as income when the grant has been received and approved by the Board of Directors of the DBSA. Costs relating to these grants are charged to expenses. Grants received from National Treasury are recognised to the extent that they have been expended on Siyenza Manje; any unexpended funds received are recognised as deferred income in the statement of financial position.

1.4 Grants disbursed

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

Notes to the annual financial statements
for the year ended 31 March 2011

	in rands	2011	2010
1.	**Accounts receivable**		
	Advances to deployees	860 191	956 001
	Development Bank of Southern Africa Limited	52 060 754	16 124 684
	Interest receivable - Current account	32 394	48 877
	Interest receivable - Siyenza Manje deferred income	232 397	909 101
	South African Revenue Services (VAT)	15 971 523	10 964 026
	Trade receivables	14 435 048	1 033 115
		83 592 307	30 035 804
2.	**Cash and cash equivalents**		
	Cash and cash equivalents consist of:		
	Bank balances	4 127 739	9 576 242
	Call account	117 562 700	151 331 460
		121 690 439	160 907 702
3.	**Accounts payable**		
	Bonus provision	34 572 189	45 284 939
	Development Bank of Southern Africa Limited	7 833 444	21 176 241
	Leave pay provision	14 017 688	14 255 131
	Trade payables	39 482 190	11 828 552
		95 905 511	92 544 863
4.	**Deferred income**		
	National Treasury		
	Opening balance	86 344 801	70 840 075
	Funds received from National Treasury	282 595 000	323 711 918
	Plus: Interest on bank call account	3 079 102	11 413 447
	Less: National Treasury portion recognised	(288 435 465)	(319 620 639)
		83 583 438	86 344 801
	Industrial Development Corporation		
	Opening balance	1 878 501	1 768 891
	Plus: Interest on bank call account	110 335	109 610
		1 988 836	1 878 501
	Other deferred income		
	Deferred income – Department of Local Government – Western Cape	308 796	–
	Deferred income – Department of Water Affairs	300 000	–
	Deferred income – Local Government SETA	2 341 600	–
		2 950 396	–
	Total deferred income	88 522 670	88 223 302

Notes to the annual financial statements continued
for the year ended 31 March 2011

	in rands	Note	2011	2010
5.	**Other income**			
	Artisan training - SETA		18 360 000	–
	MFMA training - KfW		6 556 227	–
	MFMA training - Recovery		10 566 032	2 345 656
	Prior years additional VAT refund received		1 592 878	–
	Sundry income		53 998	449 362
			37 129 135	2 795 018
6.	**Interest received**			
	Bank		329 350	352 163
7.	**Operating expenses and grants**			
7.1	**General and administration costs**			
	Administration costs		22 861 298	16 314 359
	Audit fees		343 004	286 143
	Communication costs		4 227 584	5 888 332
	Professional service providers		108 828 279	139 140 332
	Management fees		15 867 302	21 792 319
	Subsistence and travel		49 184 772	55 167 693
	Training		13 063 080	27 797 657
			214 375 319	266 386 835
7.2	**Grants**			
	Grants for capacity building		48 035 985	101 040 517
	Grants for Vulindlela Academy		21 763 236	19 081 736
			69 799 221	120 122 253
7.3	**Personnel expenses**			
	Remuneration – Executive and Non-executive Directors' emoluments	9	3 587 113	3 750 905
	Remuneration – staff and deployees		284 453 073	273 364 806
			288 040 186	277 115 711
8.	**Siyenza Manje costs included in the operating expenses above are as follows:**			
	Administration costs		13 674 487	12 506 368
	Communication costs		3 252 335	5 548 559
	Professional service providers		103 834 526	136 606 476
	Remuneration		240 113 042	230 823 109
	Subsistence and travel		39 008 384	45 105 145
	Training		12 167 889	26 011 256
			412 050 663	456 600 913
	Siyenza Manje costs are shared as follows:			
	Development Bank of Southern Africa – 30%		123 615 198	136 980 274
	National Treasury – 70%		288 435 465	319 620 639
			412 050 663	456 600 913

9. Directors' emoluments

Executive

2011	Basic salaries/ fees	Medical aid, group life and provident fund contribution	Other allowances and benefits	Performance bonus*	Total 2010*
Dr Paul Kibuuka	1 074 711	300 781	156 383	–	1 531 875
2010					
Dr Paul Kibuuka	810 192	201 933	200 635	800 000	2 012 760

* *The process of finalising 2010/11 executive incentives has not yet been completed. The performance incentives, when paid, will be disclosed in the subsequent period.*

Non-executive

2011	Salaries/ fees	Subsistence and travel	Attendance fees	Retainer fees	Total
Mr E Africa[1]	–	–	–	–	–
Mr FM Baleni[2]	–	525	52 000	56 195	108 720
Mr A Boraine	–	–	91 000	46 194	137 194
Mr K Brown[2/6]	–	–	–	–	–
Mrs T Dingaan[3]	–	–	65 000	–	65 000
Prof. BD Figaji	480 000	–	234 000	–	714 000
Mr O Latiff[4]	–	–	13 000	23 414	36 414
Dr C Manning	120 000	1 260	78 000	56 194	255 454
Ms M Matsabu	–	2 286	130 000	56 194	188 480
Mr S Mehlomakhulu	–	–	65 000	56 194	121 194
Mr S Mohamed	–	630	39 000	56 194	95 824
Mr J Moleketi[2/5]	–	–	–	32 780	32 780
Mr I Mzimela	–	630	39 000	56 194	95 824
Dr S Ngubane	–	420	52 000	56 194	108 614
Prof. EC Webster	–	546	39 000	56 194	95 740
	600 000	6 297	897 000	551 941	2 055 238

1. *Representative of Department of Cooperative Governance and Traditional Affairs; does not receive emoluments.*
2. *Appointed as non-executive Director on 1 April 2010.*
3. *Not a Director but a member of the Risk Committee.*
4. *Appointed as non-executive Director on 1 November 2010.*
5. *Tenure ended on 31 October 2010.*
6. *Representative of National Treasury; does not receive emoluments.*

9. Directors' emoluments (continued)

2010	Salaries/ fees	Subsistence and travel	Attendance fees	Retainer fees	Total
Mr E Africa	–	–	–	–	–
Mr A Boraine	–	16 940	65 000	56 194	138 134
Prof. BD Figaji	346 000	2 005	117 000	–	465 005
Ms N Gasa	–	875	52 000	42 145	95 020
Dr C Manning	90 000	630	104 000	56 194	250 824
Ms M Matsabu	–	700	104 000	56 194	160 894
Mr S Mehlomakhulu	–	–	104 000	56 194	160 194
Mr S Mohamed	–	665	26 000	46 828	73 493
Mr I Mzimela	–	630	78 000	56 194	134 824
Ms M Ngqaleni	–	–	–	–	–
Dr S Ngubane	–	315	78 000	46 828	125 143
Prof. EC Webster	–	420	78 000	56 194	134 614
	436 000	23 180	806 000	472 965	1 738 145

Other executive Directors

Mr P Baloyi (CEO) is the other executive Director and does not receive Directors' emoluments.

in rands	2011	2010
10. Cash (used in)/generated from operations		
Surplus for the year	10 679 224	43 021
Adjustments for:		
Interest received	(329 350)	(352 163)
Interest received included in deferred income	(3 189 437)	(11 523 057)
Changes in working capital:		
Accounts receivable	(53 556 503)	(17 322 713)
Accounts payable	3 360 648	49 223 213
Deferred income	299 368	15 614 336
	(42 736 050)	35 682 637
11. Approvals and commitments		
Grant approvals for the period	33 646 000	109 310 000
Total outstanding grant commitments at the end of the period	92 418 000	111 520 000
Contractual commitments entered into with the Siyenza Manje programme		
Due in one year	166 810 000	166 162 000
Thereafter	21 369 000	96 400 000
	188 179 000	262 562 000

in rands	2011	2010
12. Taxation		
The DBSA Development Fund is exempt from Income Tax in terms of section 10 (1) (cN) of the Income Tax Act (No. 58 of 1962).		
13. Related parties		
Related party transactions		
Management fees paid to:		
Development Bank of Southern Africa	15 867 302	21 792 319
Grant received from:		
Development Bank of Southern Africa	257 000 000	340 900 000
Related party balances		
Amounts included in accounts receivable regarding related parties		
Development Bank of Southern Africa	52 060 754	16 124 684
Amounts included in accounts payable regarding related parties		
Development Bank of Southern Africa	7 833 444	21 176 241
The Development Bank of Southern Africa has undertaken to underwrite the commitments of the DBSA Development Fund to the extent that is not covered by external funders.		

14. Risk management

Enhanced development investment despite tough economic conditions in 2010/11 Financial year

The DBSA Development Fund is incorporated in terms of section 21 of the Companies Act. As a section 21 company of the DBSA, the Fund has to comply with all the relevant provisions of the Act. Risk management is a strategic priority for the DBSA and the DBSA Development Fund. The Fund has adopted the DBSA's risk management frameworks with two main objectives: to ensure that it can manage risks effectively and efficiently, and to inculcate a culture of risk management that will eventually become ingrained in the operations of the Fund.

Risk management aims to assist an organisation in dealing effectively with potentially negative events, which can create uncertainty. It aims to enable the organisation to respond in a way that reduces both the likelihood of such negative events and the severity of their consequences.

During the year, the effects of the global economic crisis continued to play out. Access to finance remained tight in most developing countries. While the potential sources of finance for the Fund were equally affected, the Fund has continued to access government finance for capacity building, using MIG funding as a mitigation strategy. The crisis also eroded confidence in financial systems and institutions, and exposed weaknesses in governance systems. However, the strong governance system of the DBSA Development Fund has withstood these testing times.

Many of the risks faced by the Fund are external, which means that they are not under the direct control of its management. Such external risks include changes in the political environment and insufficient external funding. Other risks are internal in nature and can be controlled by management, such as the risk of non-compliance with internal governance processes. The Fund has instituted sound measures to mitigate these risks.

14. Risk management (continued)

Development impact

One of the significant developmental risks facing the country is the risk of dysfunctional municipalities. The government is addressing this risk through the Local Government Turnaround Strategy, which aims to turn municipalities into centres of excellence that provide efficient and effective service delivery and local development. There is considerable congruence between this strategy and the mandate of the Fund. The Fund uses the Vulindlela Academy, the Siyenza Manje programme and external service providers to build capacity and close skills gaps in municipalities. It has become a preferred partner for municipalities, particularly as a facilitator of development.

Financial risk or sustainability

The Fund uses a risk management framework similar to that of the DBSA Group to mitigate the financial and market risk aspects of its financial sustainability. The Fund depends on the DBSA and the National Treasury for the ongoing support of its mandate. It continues to pursue other potential sources of funding to broaden its funding base. Funding for the Development Fund remains a high priority and management have established a specific initiative to mobilise funds from appropriate resources.

Reputational risk

The risk management framework of the Fund views reputational risk as a consequence of other primary risks. The management of these primary risks is therefore of utmost importance. The Fund manages reputational risk by aiming to prevent actions that tarnish the reputation of the organisation and its initiatives. Accordingly, it ensures that staff are grounded in the Fund's value-based principles. During the year, risk exposures through misconduct or ethical concerns relating to the deployees in various municipalities posed a potential threat to the reputation of the Fund, but these risks were managed appropriately.

Stakeholder risk

The Fund works across the spectrum of stakeholders in many areas of South Africa, and engages with stakeholders at all levels. These stakeholders include (but are not limited to) the government, the public sector, municipalities, the private sector and informal communities. The Fund is keenly aware that such interaction requires a variety of skills and competencies. To this end, the Fund adopted a stakeholder management plan during the year to give ongoing guidance to management and employees who deal with stakeholders at any level.

Human capital risk

The Development Fund paid particular attention to this aspect of risk during the year. The employees of the Fund work largely within communities rather than at the head office. Siyenza Manje deployees in particular spend extended periods in municipalities, interacting with and transferring skills to municipal employees. In these circumstances, it is vital that the Fund maintain ongoing contact with its employees to ensure good communication and high staff morale. The Fund has dedicated specific Human Capital resources to deal with these challenges.

Institutional risk

During this tough economic period, the DBSA has played an important role in creating financial capacity for infrastructure development and investment. It has provided funds where the private financial sector has been unwilling or unable to assist. However, the lack of appropriate skills and capacity, among its clients and within the Fund itself, remains a fundamental and ongoing business risk.

The rapid growth of the Fund has brought considerable pressure to bear on its systems, processes and capacity. This is being relieved by imparting skills through the joint efforts of the Siyenza Manje staff and various deployment programmes.

Legal and compliance risk

Failure to comply with applicable laws and regulations may have regulatory, financial and reputational consequences for the Fund. Therefore, the Board of the Fund fosters a culture of compliance with relevant laws, not only as a legal requirement but as a good business practice. In developing its compliance framework, the Fund consulted international best practice and other leading corporate governance frameworks. It also maintains an ongoing engagement with regulators and assurance providers to ensure compliance with all relevant statutory requirements.

The Legal and Compliance functions of the DBSA Group provide the Fund with efficient and effective professional services on day-to-day matters. The Fund believes that its legal and compliance risks are within acceptable levels.

The goal of sustainable development is to meet the needs of the future without compromising the ability of future generations to meet their own needs. As an integral part of society, the DBSA has an important role to play in achieving this goal.

CONSTRAINTS

Contributor

SUSTAINABILITY REPORT

SUSTAINABILITY REPORT

2010/11


Keiskammahoek

Sustainability report

Chief Executive Officer's report

(GRI 1.1) The DBSA Chief Executive Officer's report appears on pages 18 to 21 of this Annual Report.

Organisational profile

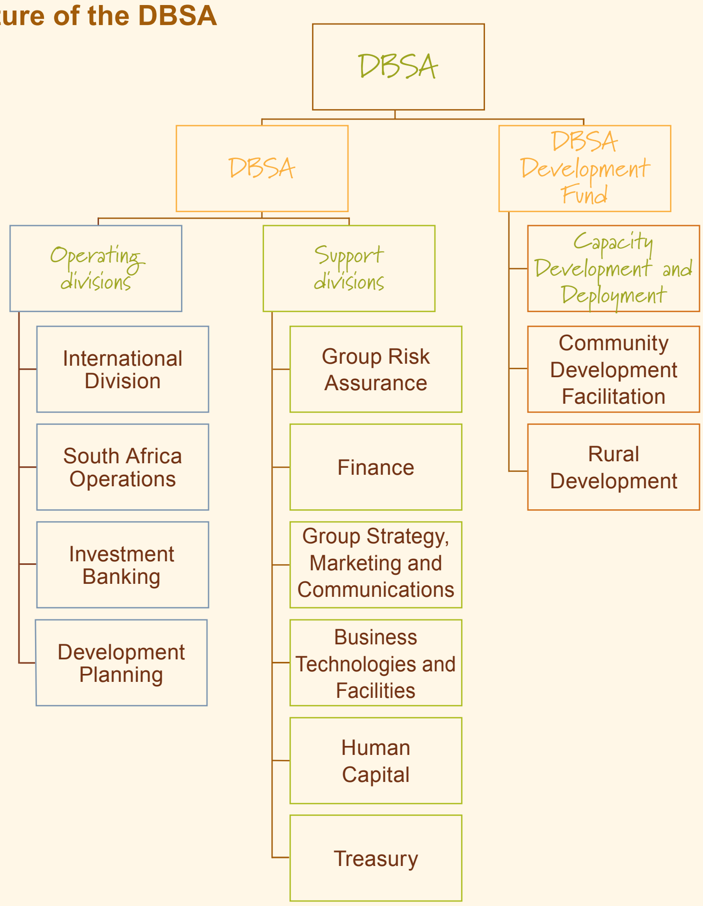
The DBSA (GRI 2.1) is a state-owned development finance institution constituted in terms of the Development Bank of Southern Africa Act, No. 13 of 1997, supplemented by regulations made by the Minister of Finance. The Bank is exempt from the Companies Act, No. 61 of 1973 and the Banks Act, No. 94 of 1990, except for those provisions that the Minister may apply or modify, as deemed fit, by notice in the Government Gazette. The promulgation of the DBSA Act (GRI 2.6) by Parliament in April 1997 put the legal stamp on the transformation of the Bank from an apartheid government agency, focused on the economic development of the so-called homelands, to a self-financing development finance institution, tasked with developing infrastructure, providing basic services, enhancing institutional and human capacity, and improving the quality of life of people in South Africa and the broader southern African region.

The DBSA's primary products and services (GRI 2.2) may be grouped according to its five roles:

- Financier: To contribute to the delivery of basic services and promote economic growth through infrastructure and development funding
- Advisor: To build institutional, financial, technical and knowledge capacity for development
- Partner: To leverage private, public and community players in the development process
- Integrator: To originate, facilitate and participate in key initiatives for building capacity and providing development solutions
- Implementer: To mobilise and link stakeholders, initiatives and resources for sustainable development outcomes

(GRI 2.2) The Bank is mandated to provide financial, technical and other assistance in pursuit of the objectives set out in section 3 of the DBSA Act. In its investment activities, the Bank focuses on infrastructure funding, broadly defined, and acts as a catalyst to maximise private sector access to opportunities in the provision of public funding. The Bank's main objectives are to promote economic development and growth, develop human resources, build institutional capacity and support development projects in the region. Its ancillary objectives are to support other international, national, regional and provincial initiatives in order to achieve an integrated financial system for development, and to assist national, international and private sector bodies with managing specific funds.

(GRI 2.3) Operational structure of the DBSA



Sustainability report continued

(GRI 2.4) The DBSA, which is located in Midrand, South Africa, operates throughout SADC. The 15 member states of SADC are Angola, Botswana, the Democratic Republic of Congo, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe (GRI 2.5).

(GRI 2.8) The DBSA reported interest income of R3,58 billion for 2010/11 (2009/10: R3,60 billion). At the end of the year, the Bank's permanent staff complement was 1 474. The impacts of the DBSA's various products and services are highlighted below.

Financier

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

- Loans
- Equity investments
- Co-funding
- Grants
- Development expenditure

Advisor

To build institutional, financial and knowledge capacity for development:

- External training
- Subsidised lending
- Technical assistance grants

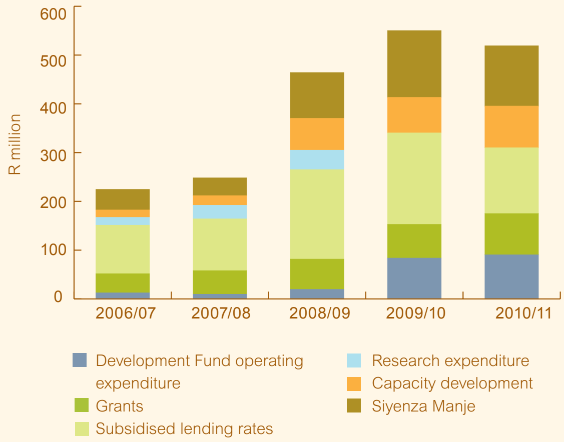
• Partner

To leverage private, public and community stakeholders in the development process:

- Co-funding
- Mobilise funding for clients

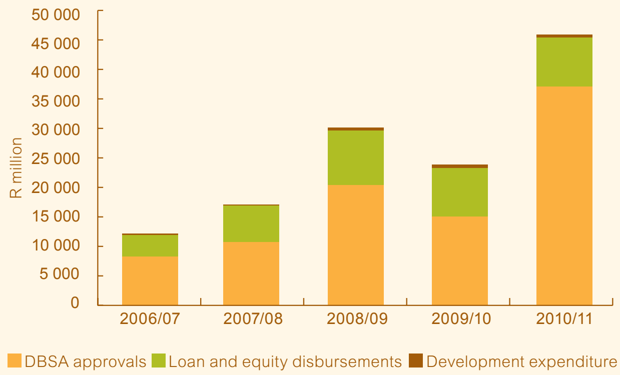
Integrator

To originate and facilitate key interventions for building capacity and providing development solutions.



Implementer

To mobilise and link stakeholders, resources and initiatives for sustainable development outcomes.



(GRI 2.9) During the year under review, there were no significant changes in the DBSA's size, structure or ownership, including its location, and no changes in operations, including the opening, closing or expansion of facilities.

No changes were made to the authorised and issued share capital of the Bank. However, the Minister of Finance has agreed to recommend to Parliament that the DBSA Act be amended to increase the callable capital of the Bank from the current R4,8 billion to R20 billion. The Minister also issued an interim Letter of Undertaking amounting to R15,2 billion in favour of the DBSA, which may be accessed as at the reporting date. This Letter of Undertaking will lapse when the Minister gives final approval for the increase in callable capital.

(GRI 2.10) The Bank received several awards during the year.

The prestigious African Banker Awards take place during the annual meetings of the International Monetary Fund and the World Bank. They honour organisations and individuals who have contributed significantly to reforming, modernising and expanding the continent's banking and financial system, thus contributing to sustained economic growth. In the year under review, the DBSA received two awards, Best Development Bank in Africa and Best Regional Project of the Year 2010.

The Bureau of Market Research at Unisa marked its 50th anniversary with a gala dinner and award ceremony. The DBSA has been a member of the Bureau for 26 years and has consistently purchased its data and publications. In recognition of this support, the Bank received a Bronze Loyalty Award.

Scope of the report

This annual (GRI 3.3) report relates to the financial year from 1 April 2010 to 31 March 2011 (GRI 3.1) and covers the activities of the DBSA and the DBSA Development Fund (GRI 3.6). Matters relating to sustainability were also included in the Annual Report for the previous financial year (GRI 3.2). As the bulk of the DBSA's financing efforts are based in South Africa, the sustainability report focuses mainly on activities in this country. It was prepared in accordance with the Global Reporting Initiative's G3 Sustainability Reporting Guidelines, which provide a globally recognised framework for reporting on a company's economic, ethical, governance, social and environmental performance. The DBSA is reporting at Level C, which is the entry level in terms of the GRI G3 guidelines.

This report is intended for stakeholders with an interest in the DBSA's performance with regard to sustainability. Engaging with stakeholders is an important, ongoing activity that helps the Bank to identify material issues.

The report is not externally assured: the DBSA is currently implementing internal sustainability management processes and protocols in line with the GRI, following which it will be able to report fully on the required information (GRI 3.13).[1]

(GRI 3.5) The report deals with aspects that were identified by stakeholders, and assessed using the materiality test recommended in the GRI G3 guidelines. The materiality of performance indicators was assessed according to whether they:

- Are mentioned as important by stakeholders
- Constitute a future challenge for the sector
- Are connected to relevant laws, regulations and international agreements with strategic significance for the Bank and its stakeholders
- Constitute an opportunity for the Bank
- Contribute to the likelihood of significant risk to the Bank
- Are recognised by experts as a risk to sustainability
- Relate to a particular area in which the Bank has specialised knowledge or competencies that contribute to sustainability
- Contribute to the successful implementation of the Bank's strategy or reinforce its values

The identified aspects were ranked according to their materiality and the priority assigned to the stakeholders. The DBSA identified relevant topics and related indicators through an iterative process, using the principles of materiality, stakeholder inclusiveness and sustainability context. The relevance of all indicators was considered. The tests listed for each principle were used to assess which of the relevant topics and indicators were material and should therefore be reported. The principles were used to prioritise selected topics. The information reported and the report boundary are appropriate in terms of the principle of completeness.

There were no specific limitations on the scope or boundary of the report (GRI 3.7). No changes occurred during the reporting period that can significantly affect comparability from period to period (GRI 3.8) and no information included in previous reports was restated (GRI 3.10). There were no significant changes from previous reporting periods in the scope, boundary or measurement methods applied in the report (GRI 3.11).

For the GRI Content Index refer to pages 231 to 233. (GRI 3.12)

[1]Feedback on this report is welcomed and the Office of the Chief Financial Officer may be contacted in this regard (GRI 3.4).

Governance, commitments and engagement

The governance arrangements of the DBSA are discussed on pages 60 to 65 of this Annual Report.

(GRI 4.15) The DBSA and its stakeholders are in an interdependent relationship. The Bank's stakeholders are defined as parties that can affect or be affected by the actions of the institution. Stakeholder management is strongly integrated with the Bank's organisational strategy and vision, and matters of importance to stakeholders are identified, addressed and monitored on a regular basis.

Communicating with the main stakeholders

(GRI 4.14) The DBSA publishes annual reports, including sustainability reports and other publications, for important groups of stakeholders. The Bank engaged with its stakeholders in the following ways:

Clients and prospective clients	The DBSA communicates with its clients through various channels, including telephonically and by email. The Bank engages with different business forums in the relevant sectors. Its engagement with clients during the past year included signing memoranda of understanding with the Local Government Sector Education and Training Authority, the South African Post Office and Microsoft (SA) aimed at raising the capacity of local government to use technology more effectively and efficiently. The DBSA, AFD and the IDC signed a funding agreement of R55 million for the Pan-African Capacity Building Programme, which addresses the challenge of scarce skills in the infrastructure arena in Africa. Another milestone was a partnership agreement with the South African Forestry Company Limited (SAFCOL), which promotes socio-economic upliftment in areas with high poverty and underdeveloped infrastructure. The DBSA, Microsoft (SA) and HR Computek signed a tripartite agreement to collaborate on the implementation of technology solutions to improve service delivery in local government. The initiative supports seven municipalities in North West and one in Mpumalanga.
Government and other public sector partners	As a state-owned entity, the DBSA frequently reports to the National Treasury. Other engagements with public sector stakeholders include the following: the Partnership Forum, where the Bank engaged with stakeholders on matters of concern; the annual report; the DBSA Corporate Plan; strategic documents for targeted stakeholders; the Development Fund Board's oversight visit to municipalities in Mpumalanga to evaluate the development impact of its projects; and hosting stakeholders at certain FIFA World Cup games.
Employees	Formal opportunities for interaction between management and staff are created on a regular basis. Examples of formal meetings include staff engagement sessions, where the Chief Executive Officer and executive management provide feedback on strategic and other initiatives, and report-back sessions for Siyenza Manje deployees. More informal sessions occur regularly in the form of divisional and unit meetings. The Bank also communicates with staff through internal newsletters, such as the Debansa, and daily email bulletins. An Employee Value Proposition survey was conducted during the year under review.
Communities (including non-governmental organisations and civil society)	The DBSA engaged with communities on the following occasions: the Macufe Mangaung African Cultural Festivals school visits to the Bank, involvement with the Schools Education Fund, the Development Fund Board visit to Mpumalanga, FIFA World Cup hospitality events and Vodaworld golf lessons for business students affiliated to the Black Management Forum.
Investors and lenders	The Bank engages with domestic investors mainly through the monthly bond auctions. Most of the major state-owned enterprises in the country issue bonds on a monthly basis, according to a schedule planned in coordination with the National Treasury. Before each auction, the Bank canvasses the views of domestic investors through its appointed commercial bank arrangers. For the last four years, the Bank has also participated in the annual BJM Public Sector Funding Workshop. This forum brings together state-owned enterprises, commercial banks, asset managers and pension fund administrators and advisors to discuss the funding landscape for the major public entities. The Bank uses this platform to showcase its business activities and achievements of the preceding 12-month period.

Material sustainability matters

This section covers the main material issues that the Bank identified through feedback from stakeholders and its internal risk assessment processes. Each issue is of particular interest to one or more important stakeholders and has a direct bearing on the sustainability of the organisation and its context.

Greening the DBSA campus

Materials

Paper is the main material consumed at the DBSA. Paper usage during the year under review is detailed in the table below.

Paper usage by the DBSA

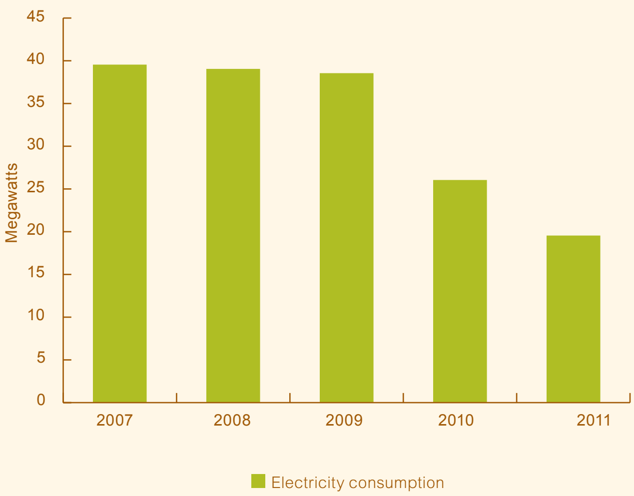
	2011
(GRI EN1) Paper used during the year (kg)	**54 310**
Paper recycled during the year (kg)	**8 220**
(GRI EN2) Percentage recycled (%)	**15,1**

The targeted percentage of recycled materials for 2011/12 is 25%.

Energy

(GRI EN4) In recent years, the Bank has implemented specific measures to conserve energy, resulting in a substantial decrease in electricity consumption, as shown in the figure below.

Electricity consumption by the DBSA, 2007 to 2011



Water

In the short term, the Bank aims to reduce water consumption marginally or at least maintain current levels, until measures aimed at reducing consumption take effect.

Water consumption by the DBSA, 2010 and 2011

	2011	2010
(GRI EN8) Water consumption (kilolitre)	**11 829**	18 206

Environmental initiatives for the year ahead

The DBSA's strategy is to reduce energy demand where possible and introduce renewable energy technologies to lower its base load. The Bank has already installed solar geysers for water heating, timing devices to control air conditioning and energy-efficient light bulbs. The planned introduction of motion sensors for office lights should contribute to reducing energy consumption by a further 20%.

Concerning renewable energy, two new buildings are already off-grid and self-sufficient. The DBSA is planning to retrofit the old buildings with renewable energy plants, namely a 1 MW photovoltaic plant for the main building and a concentrating solar plant for the Vulindlela Academy. Spare energy will be fed back into the grid.

The Bank is about to implement a waste management programme with two main thrusts in the short term. The first is the separation and recycling of office waste, i.e. tins, glass, plastics and biohazard waste, over and above the established paper recycling. The second is the processing of its biowaste via biogas digesters, which will reduce the landfill and methane gas directly and indirectly generated by the campus. The methane generated by the biogas digesters will be used in the kitchens for cooking.

People development, employment equity and black economic empowerment

(GRI EC6) The DBSA is fully committed to the government's aim of encouraging and supporting economic transformation in South Africa. It has established a governance model for procuring goods and services, to ensure that employees and suppliers alike adhere to appropriate business practices. This includes the following requirements:

- Employees who procure goods and services must obtain competitive bids from suppliers
- Suppliers must ensure compliance with all legislative and regulatory requirements, as well as with service level agreements
- Suppliers must furnish a compliant tax invoice, including a valid purchase order number, to ensure prompt payment

The Bank has aligned its policies and procedures with the Department of Trade and Industry's code of good practice for BBBEE. The proportion of total procurement spent on black economic empowerment is 63,1%. The DBSA intends to uphold its status as a Level 3 Contributor during the following reporting period.

The table below shows the composition of the workforce.

Total workforce by employment type, gender and designated group

(GRI LA1) (GRI LA13)	Indian (1)		African (2)		Coloured (3)		Black (1+2+3)		White (4)		Total (5)		Total (6)
Employees	F	M	F	M	F	M	F	M	F	M	F	M	F + M
Management	7	5	21	32	–	2	28	39	6	17	34	56	90
Non-managerial	20	41	423	550	30	37	473	628	98	185	571	813	1 384
Total	27	46	444	582	30	39	501	667	104	202	605	869	1 474[2]
%	1,8	3,1	30,1	39,5	2,0	2,6	34,0	45,3	7,1	13,7	41,0	59,0	100,0

2 *Figure includes Development Fund employees and fixed-term contractors.*

(GRI LA6) Under section 16.2 of the Occupational Health and Safety Act, No. 85 of 1993, the Occupational Health and Safety Oversight Committee is responsible for making suggestions on any matter affecting the health or safety of persons at the workplace according to the requirements of the Act. Where the matter is not resolved, the Oversight Committee may approach the Audit Committee. The Oversight Committee considers all health and safety hazards identified in the workplace and ensures that corrective action is taken. The Strategic Health and Safety Committee meets quarterly. All DBSA employees are represented in the formal joint management-worker health and safety committee.

(GRI LA8) The DBSA uses ICAS Southern Africa to provide employees and their relatives with education, training and counselling on health and wellbeing matters. The Bank's medical aid scheme, Discovery Health, helps employees and their relatives to manage serious diseases. The health and wellness assistance offered to employees is outlined in the table below.

Type of service	Description
Counselling and trauma services	The DBSA offers confidential, professional consultations on any personal problems at no cost to the employee. Trained professionals located across South Africa provide counselling telephonically or face to face.
Alcohol and substance abuse	The Bank assists employees who seek help in overcoming dependency on or problems with alcohol or drugs by referring them to appropriate organisations.
HIV/Aids programme	This programme aims to mitigate the impact of the HIV/Aids pandemic on the Bank by offering care and support to its employees. The programme also seeks to minimise the impact of HIV/Aids on the Bank's operations.
Funeral benefit	The organisation offers employees peace of mind by ensuring that they and their families are adequately covered for funeral expenses. The DBSA provides a net benefit of R20 000 should an employee pass away in service (this applies to permanent and fixed-term employees, as well as retired alumni). The Bank's insured benefit policy provides additional funeral benefits for employees and their families (permanent employees only).
Health programme	The DBSA sets aside a dedicated week for employees to assess their physical health through testing of glucose and cholesterol levels and testing for HIV/Aids. Financial fitness advice is also provided.
Employees living with disability	The Bank provides a safe and healthy working environment for persons with disabilities, and takes effective measures to include such persons in its development activities through its policies and projects.
Occupational health and safety	The DBSA ensures the health and safety of its employees and clients by enforcing compliance with the Occupational Health and Safety Act. The Bank provides training and education, and establishes partnerships with workers in accordance with the provisions of the Act.
On-site nursing facility	A qualified nurse is available to administer first aid. An on-site medical claims administrator assists with the speedy submission of claims.

Type of service	Description
Wellness Forum	The DBSA has established a Wellness Forum made up of representatives from all business clusters. It aims to manage the wellbeing and counselling requirements of employees, and to initiate proactive strategies targeted at employees who are not performing optimally. The Forum also plans the Bank's Wellness Calendar, which includes specific and regular initiatives such as Breast Cancer Week and World Aids Day.
Work-life balance	Employees may request a work-from-home arrangement, which is subject to approval by management.

Initiatives for the year ahead

In 2012, the Human Capital Division will focus its initiatives on sustainability. In contrast to the broad-ranging approach of the past, efforts will be channelled to those interventions that help to realise the Bank's strategy in this regard. Productive employees will be managed effectively, with the assistance of the Human Capital Division. The objectives for the year are to build the Bank's capacity to deliver by leveraging human capital; to implement efficient, effective human capital processes; and to improve decision-making through monitoring and reporting.

Policy development: Influencing national policy on sustainability

(GRI SO5) The DBSA is a signatory to the GRI and subscribes to triple bottom line reporting. It therefore reports on its corporate compliance and achievements with regard to sustainability.

In addition, the mandate of the Bank directs it to support the state in achieving its development vision and goals. These goals are encapsulated in the 1955 Freedom Charter, the Constitution and the Bill of Rights. The government has also committed the country to the UN's Millennium Development Goals, which include overcoming poverty, inequality and inequity.

The Bank's investments are aimed at meeting these challenges. Likewise, its policy advice is aimed at reducing policy deficiencies and ensuring sustained improvements in developmental outcomes. To borrow from Amartya Sen, its interventions seek to reduce the "unfreedoms" that entrench poverty and exclusion.

In this context, sustainability goes far beyond questions of the environment and resources to encompass the economic, social, fiscal, financial, political, administrative and other dimensions of development. It also rests on the fundamental principles of democratic practice, including transparency and accountability.

Ongoing transformation is central to the attainment of a democratic developmental state, and the government continues to restructure and reorganise to achieve better outcomes. The recent establishment of the Department of Performance Monitoring and Evaluation in the Presidency is part of this refined focus. The purpose of the Department is to improve delivery in all areas of government with regard to both the quantity and, more importantly, the quality of outcomes. Oversight is imperative: the nation needs to hold government accountable for what it does and what it spends. The Money Bills Amendment Procedure and Related Matters Act, No. 9 of 2009, which facilitates parliamentary oversight, came into effect in April 2009, and a Parliamentary Budget Office has since been established.

The DBSA is playing an important role in these interventions, as set out in the Development planning overview. In terms of a Memorandum of Understanding, the Bank is collaborating with the Department of Performance Monitoring and Evaluation, bringing to bear its skill as a convener and its knowledge and capabilities regarding infrastructure and services. In particular, it is concerned with Outcome 6, namely effective and efficient network infrastructure. The initial output will be a report on the current state of all network infrastructure. Providing stakeholders with a situational assessment and a single source of agreed data and information will make it easier to align policy planning across government, and over time this will improve sustainability.

The DBSA has also been supporting the Office of the Speaker in Parliament in establishing the Budget Office. The Bank's research-based advice highlighted the benefits and challenges of such an office, and helped to determine its form and structure.

Other important interventions also affect the national policy arena with regard to sustainability.

- Greening the economy: The DBSA is working with the Department of Economic Development to analyse the policy that will lead to "green" outcomes in relation to cities, transport and the like.
- Health and education: The DBSA is working with the respective ministries to strengthen the underlying conditions for better infrastructure and facilities, and thus improve service delivery.
- DFI Forum: The Bank proactively leads the engagement between development finance institutions to ensure greater effectiveness and efficiency in the system, thus doing more with scarce resources.

Sustainability report continued

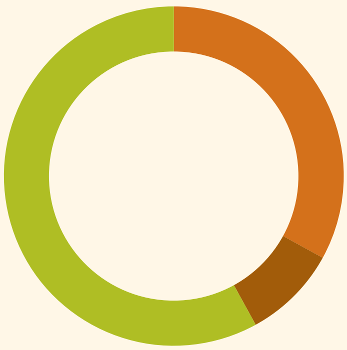
Economic value creation and development impact

The data presented below shows the flow of capital amongst the DBSA's different stakeholders and the major economic impacts of the Bank throughout society. It highlights the DBSA's contribution to the sustainability of the economic systems in which it operates.

(GRI EC1)

R million	2011	2010
Operating income	3 785,4	3 738,0
Less: Interest expense and bought-in materials and services	2 806,5	2 285,3
Value added	978,9	1 452,7
Distribution:		
To employees	566,1	493,0
To Development Fund and grants	322,2	408,4
To provide for maintenance and expansion of assets	90,6	551,3
Value added	978,9	1 452,7

Distribution of value, 2011



To employees	58%
To Development Fund and grants	33%
To provide for maintenance and expansion of assets	9%

(GRI EC8) For the development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement, refer to the Development impact section on pages 26 to 28 of this Annual Report.

G3 content index

	Application level C	Assured by Internal Audit	
Standard disclosure			
1.	Strategy and analysis		
Profile disclosure	**Description**	**Reported**	**Page**
1.1	Statement from the most senior decision-maker of the organisation	✓	18
2.	Organisational profile		
2.1	Name of the organisation	✓	223
2.2	Primary brands, products and/or services	✓	223
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries and joint ventures	✓	223
2.4	Location of organisation's headquarters	✓	224
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	✓	224
2.6	Nature of ownership and legal form	✓	223
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	✓	43, 48, 54
2.8	Scale of the reporting organisation	✓	224
2.9	Significant changes during the reporting period regarding size, structure or ownership	✓	225
2.10	Awards received in the reporting period	✓	225
3.	Report parameters		
3.1	Reporting period (e.g. fiscal/calendar year) for information provided	✓	225
3.2	Date of most recent previous report (if any)	✓	225
3.3	Reporting cycle (annual, biennial, etc.)	✓	225
3.4	Contact point for questions regarding the report or its contents	✓	225
3.5	Process for defining report content	✓	225
3.6	Boundary of the report (e.g. countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	✓	225
3.7	State any specific limitations on the scope or boundary of the report (see completeness principle for explanation of scope)	✓	225
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations	✓	225
3.10	Explanation of the effect of any restatements of information provided in earlier reports, and the reasons for such restatement (e.g. mergers/acquisitions, change of base years/periods, nature of business, measurement methods)	✓	225

Sustainability report continued

Profile disclosure	Description	Reported	Page
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	✓	225
3.12	Table identifying the location of the Standard Disclosures in the report	✓	225
4.	Governance, commitments and engagement		
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	✓	61
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	✓	61
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	✓	61, 62
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	✓	65
4.14	List of stakeholder groups engaged by the organisation	✓	226
4.15	Basis for identification and selection of stakeholders with whom to engage	✓	226
Performance indicators			
Economic			
Economic performance			
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	✓	230
Market presence			
EC6	Policy, practices and proportion of spending on locally based suppliers at significant locations of operation	✓	227
Indirect economic impacts			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or pro bono engagement	✓	230
Environmental			
Materials			
EN1	Materials used by weight or volume	✓	227
EN2	Percentage of materials used that are recycled input materials	✓	227
Energy			
EN4	Direct energy consumption by primary energy source	✓	227
Emissions, effluents and waste			
EN8	Total water withdrawal by source	✓	227

Profile disclosure	Description	Reported	Page
Social: Labour practices and decent work			
Employment			
LA1	Total workforce by employment type, employment contract and region	✓	228
Occupational health and safety			
LA6	Percentage of total workforce represented in formal joint management–worker health and safety committees that help monitor and advise on occupational health and safety programmes	✓	228
LA8	Education, training, counselling, prevention and risk-control programmes in place to assist workforce members, their families or community members regarding serious diseases	✓	228
Diversity and equal opportunity			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership and other indicators of diversity	✓	228
Social: Society			
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying	✓	229

Notes

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